

TOURISM AS ONE OF THE MOST VULNERABLE SECTORS IN TERMS OF PANDEMIC PERIOD IN GEORGIA, AUTONOMOUS REPUBLIC OF AJARA

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Abstract

In the modern world, tourism has become a term that is gaining wider meaning day by day. Years ago, in Georgia, tourism was considered as just a journey, but today tourism has acquired various meanings, including: cultural tourism, gambling tourism, maritime tourism, mountain resort, gastronomic tourism, wine tourism, eco-tourism, adventure, agritourism and others.

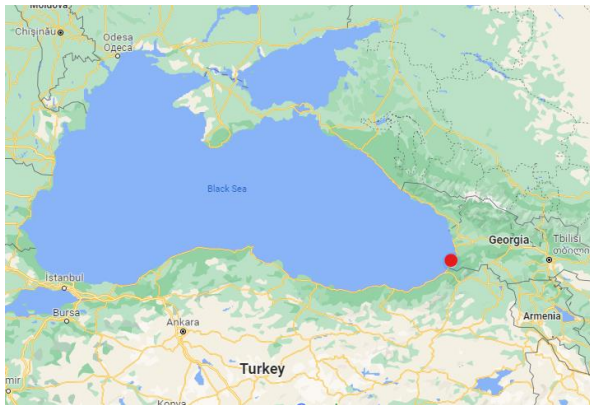
Despite these many directions in the country, other types of tourism are developing and their individual aspects are also improving. The pandemic had a significant impact on the economic development of those countries, the significant part of the income of which was depended on tourism, and especially affected the coastal region of Ajara AR, where the main economic activity is related to tourism and the tourism season. The article is dedicated to considering the actual problems of tourism during the pandemic as a stress test for the economy and to analyze the positive aspects of this process.

The results of the study will be significant for the business entities, as well as for governmental and non-governmental organizations, and for the scientific community and researchers.

Key words: Tourism, economic processes, stress test, crisis

JEL Classification: Z3 Tourism Economics; Z32 Tourism and Development

I. INTRODUCTION



Ajara is the Autonomous Republic within Georgia.

It is located in the south-west of Georgia. As of today, population of Georgia is about 3.723,500 people. It is located in the South Caucasus region and borders Turkey, the Black Sea, Armenia, Azerbaijan and the Republic of Russia. The area is 69,700 square kilometers and consists mostly of hills and mountainous landscapes. The climate Georgia is diverse and includes both humid subtropical and continental climate zones. Population: over 400 thousand people (82% Georgians), Borders with Turkey to the south. Total border length: 270km including 57km marine, administrative center: Batumi. The total

area of the administrative territory of the Autonomous Republic of Ajara is 290 000 hectares, out of which the forest fund is 149 536 hectares. Including State Reserve 14 663 hectares, National Park 24 432 hectares, 2 646 hectares of green zone forests, 170 hectares of drinking water collecting area, 2 677 hectares protected forest areas in the vicinity of populated territory, 14 314 hectares of subalpine forests, coats protection lines of water bodies 1 091 hectares. The area covered by forests is 141 496 hectares as of the latest (2017) forest fund accounting, which is 66% of the total area.

Areas of autonomous republic of Ajara are distinguished by different types of urban development. The region is characterized by both the Black Sea coastline, the inland and highland landscapes and the relevant nature settlements.

One of the most important issues to ensure sustainable and harmonious development of the region is the creation, maintenance and development of well-tuned infrastructure. Supporting the creation of road, coastal, melioration, engineering, communal and energy providing infrastructure is an important priority of public policy.

II. METHODOLOGY OF THE RESEARCH

The research methodology is interdisciplinary. It relies on both quantitative and qualitative research. Qualitative research is based directly on interviews with business entities, quantitative research is based on the Ministry of Finance, Ministry Economy and Sustainable Development, National Statistics Office of Georgia, Tourism Department and government reports. In total 25 hotels and restaurants in Ajara A.R. participated in the research, via in person interviews and online interviews.

III. PRE AND POST PANDEMIC AND MAJOR ECONOMIC INDICATORS OF THE COUNTRY- INFLATION, GDP-ECONOMIC GROWTH, INVESTMENTS

The pandemic has dramatically affected the world countries and Georgia among them. Brief Summary of 2020 from Ministry of Finance of Georgia, Quarterly Economic Outlook, III Quarter, 2020

- Average economic growth of the third quarter of 2020 equals to -3.8 percent
- Renewed economic growth forecast for Georgia in 2020 equals to -5 percent
- Annual inflation equals to 4.8 percent, while core inflation equals to 5.2 percent
- Export annually decreased 5 percent
- Import annually decreased by 12.8 percent
- Reduction of revenue from tourism by 96.2 percent
- Reduction of the refinancing rate by 25 basis points to 8 percent

At the beginning of the year, the main driver of GDP growth was consumption, with an annual growth of 8.5 percent, while its contribution to overall growth was 6.4 percent. While export growth in 2019 significantly outpaced import growth and had a positive impact on economic growth, due to the negative impact caused by the pandemic, the share of net exports contributed negatively to overall growth in the second quarter of 2020, -6.4 percent. The contribution of consumption and investment components to growth also decreased to -3.5 and -2.6 percent, respectively (Ministry of Finance of Georgia, 2020).

Foreign Direct Investments In the second quarter of 2020 in Georgia amounted to 238 million US dollars, which is equal to FDI of the same period of last year. Foreign direct investment in the second quarter of

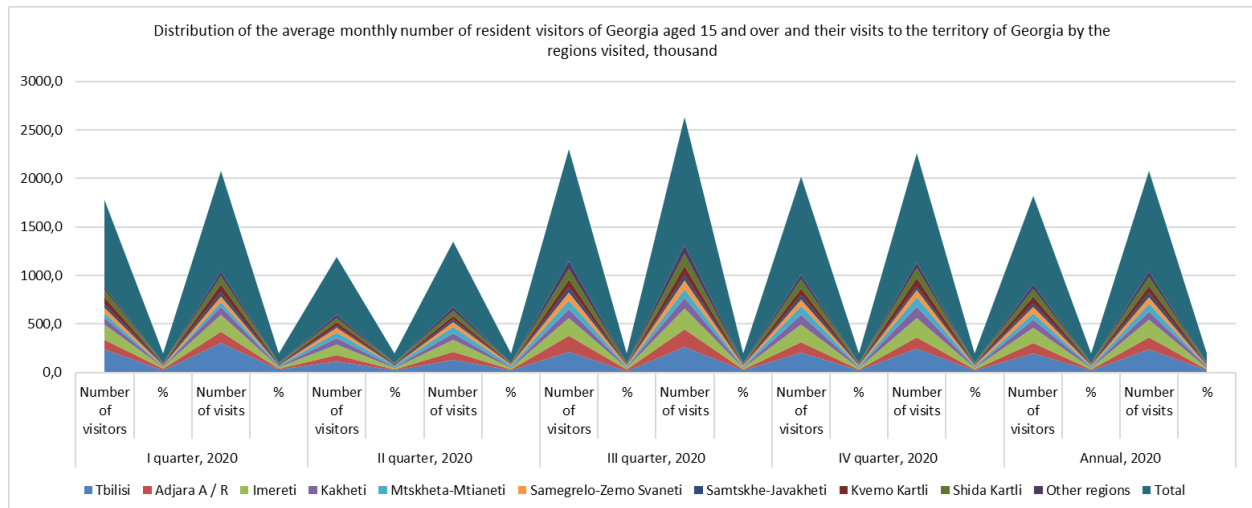
2020 was mainly mobilized from the United Kingdom (24.8 percent), the Netherlands (22.4 percent), Turkey (13.3 percent), the United States (8.4 percent) and Slovakia (6.8 percent). As for the sectors, 39.2 percent of FDI was allocated in the financial sector, 12.5 percent in energy, 11.7 percent in construction, 11.6 percent in mining and 8.8 percent in manufacturing (Ministry of Finance of Georgia, 2020).

Revenue from tourism increased by 1.4 percent in 2019. The relatively small increase is due to the ban on flights from Russia to Georgia in July. However, at the same time, increased revenue from other countries has managed to mitigate the impact of this negative shock. Moreover, the number of visitors increased by 8.4 percent annually in 2019.

Due to the rapid spread of the virus, a number of restrictive measures were taken to stop COVID-19. The government closed borders, canceled flights canceled of international travels in Georgia (Order of the President of Georgia, 2020). Due to this restriction measures, there was a sharp decrease in international visits and tourism stopped. The report of the Ministry shows that, the number of visitors, as well as revenue from international tourism, have decreased significantly during the third quarter of 2020. Total visitors amounted to 52 thousand in September 2020, while the same indicator in September of the last year was 839 thousand (Ministry of Finance of Georgia, 2020).

The same report states that revenue from international tourism decreased by 95.1 percent and amounted to USD 15.7 million for the same period. As for the third quarter, revenue from tourism decreased by 96.2 percent annually and amounted to USD 42.5 million, while the number of visitors has decreased by 96.4 and was 148 thousands (Ministry of Finance of Georgia, 2020). During the pre-pandemic period, a significant crisis in business was caused by the devaluation of the national currency and the rise in consumer loans, and then it had a particularly direct impact on the population (Katamadze, 2020), however, the program of conversion of loans into state currency by the state played a great role in alleviating this problem (Katamadze, 2017). The main document regulating tourism in Georgia is the Law of Georgia on Tourism and Resorts, 06/03/1997, which has included 11 changes since 1997. In general, there are 142 legislative effective documents in Georgia to regulate various areas related to tourism (Parliament of Georgia, n.d.).

The final annual tourism statistics were published in the official document of the Statistics Office, given below:



IV. CHALLENGES OF THE BUSINESS SECTOR IN THE POST-PANDEMIC PERIOD

Prior to providing the details of business subjects' analysis in the post-pandemic period, it is necessary to mention the working/activity opportunities of hotels and restaurants during the very period of pandemics.

1) The State has offered the hotels to transform into COVID-hotels to "host" infected people for isolation, or use the hotel spaces as quarantine spaces. A big part of hotels throughout Georgia and Batumi as well, used the chance. It should be noticed that it was an indispensable measure taken by the State as it became impossible to manage the patients at their homes while the hospitals were overcrowded. According to the research participants (representatives of hotel business sphere) the measure appeared to be the only way to avoid termination of business activity for the hotels. Such decision of the state was mutually effective measure and therefore might be considered state assistance to business.

2) As for the restaurants and other food facilities, they faced a bit different reality. When the State permitted online sales and food deliveries, many

of them did not have online platforms, or any experience in food delivery, being quite serious challenge for the restaurant business. According to the interviewed representatives of the sphere, it took some of them two or more months to set up online and food delivery services. Since the food facilities managed to start online sales and delivery services, their situation significantly improved.

In addition to all the above-mentioned problems, the sphere of services had one more problem of keeping and saving the employees – cooks and waiters – those people who ensured success of restaurants. Therefore, those companies that could not manage to adapt rapidly to the new reality, had to pay salaries from their reserve resources for some period of time, but particularly service staff (waiters and barmen) appeared not to be so needed staff in terms of online service and major part of them suffered especially during the lockdown.

In general, in the process of assessment the pandemic and post-pandemic business conditions/situation, specific data analysis is important. The table below – prepared based on the official GEOSTAT data - can be used for an analysis.

	2015	2016	2017	2018	2019	2020 I	2020 II	2020 III	2020 IV	2021 I	2021 II
Turnover, Billion Gel	57.0	64.1	71.7	86.6	109.0	26.0	22.3	29.2	32.0	28.9	35.0
Production Value, Billion Gel	30.0	34.2	38.2	41.6	47.5	10.3	9.2	11.6	12.4	10.3	13.2
Number of Employed, Thousand Person	626.7	666.8	708.2	734.2	756.9	684.4	631.8	645.6	641.6	622.7	659.7
Average Monthly Remuneration of Employees, Gel	896.8	938.3	1019.7	1101.3	1161.7	1227.0	1175.6	1305.9	1417.0	1283.5	1389.6

<https://www.geostat.ge/en/modules/categories/121/methodologia-business-statistics#> (National Statistics Office of Georgia, 2021)

As shown in the table, the year 2019 was the highest with GEL 109 billion in recent five years (2015-2019), while the indicator decreased by 68% for the second quarter of 2021 and totaled GEL 35 billion. The indicator of the employment is also significant – if in 2019 756,900 people was employed, this number decreases to 659,700 people for the second quarter of 2021, meaning that 97,200 people lost their jobs and

respective incomes. The figures signify people, their families, as well as the figures reflect the general economic situation in the country.

Herewith, for final conclusions it is very important to analyze one more component – the trends of new companies' registrations, shown in the Table 2 given below:

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of registered organizations by year - total cumulative, thousand	497.9	533.5	570.6	595.7	633.2	678.6	722.4	765.0	802.0
of which: number of active organizations, thousand	127.6	131.0	134.9	164.5	167.6	165.3	165.5	174.3	171.6
Number of newly registered organizations by year, thousand	42.2	46.5	46.9	45.7	48.2	52.6	51.7	50.8	41.5

<https://www.geostat.ge/en/modules/categories/121/methodologia-business-statistics#>

As shown in in the table, the number of newly registered companies has significantly decreased, particularly, for the year 2020 the number of new companies decreased by 9300, while the number of active companies also decreased by 3300. The data undoubtedly, is the direct reflection of the economic processes in the country.

V. CONCLUSIONS:

Based on official reports provided by the state institutions, as well as the interviewing of the representatives of the sphere, it was revealed that:

- Touristic companies were dramatically impacted by COVID 19 pandemics, especially the hotels – being majorly depended on the international tourists flows – incoming tourism;

- In terms of such force-majeure and critical situations, it is very difficult for companies to adapt,

since the hotel business is totally depended on people accommodation. The only way out was to transform into “COVID Hotel”, that was done by a part of hotels to partially cover their operation costs.

- It should also noted that restrictions of flights from Russia directly affected the tourism sector. This fact shall serve as a basis for market diversification for hotel business and tourism sector in general. And it should be highlighted that travel agency seem to have activated in this direction recently, that I believe will significantly improve the probability of their successful risk management.

- As seen from the official data the decreased number new companies directly results in the decreased number of employees. Therefore, all the resources shall be mobilized to this sphere by the State, in order to encourage non-registered companies with various benefits, tax benefits among them, as well as different financial subsidies – subsidizing bank loans interests, cheap credits and etc.

• It is also very important to develop domestic tourism, which will be oriented on tourist of all seasons. In this direction, it is also important the State to initiate, establish and organize various activities like traditional festivals, concerts, events, exhibitions and other cultural events. In parallel to all the above mentioned, it is required to carry out an intensive work on incoming tourism market diversification, aiming at avoiding national tourism market dependence on foreign tourists.

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