

How competitive is Azerbaijan's travel and tourism industry?



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Travel and tourism (T&T) continues to be one of the most critical sectors for economic development and for sustaining employment all over the world, and particularly in Azerbaijan. The role of tourism in economic development is indisputable. Many scholars, as well as those involved in hospitality, tourism and leisure business, agree that tourism has a positive impact on the country's production volume, average gross income and employment rate. With tourism becoming the world's fastest

growing economic sector, its geography and demography is also broadening and diversifying intensely.

Over the last couple of years, the World Tourism Organization (UNWTO) has reported a significant expansion of the tourism industry¹. According to an annual survey of economic impact, despite the very complex and tumultuous economic situation in 2012-2013, the global GDP of the travel and tourism sector saw a significant increase last year, which is projected to repeat itself in 2013². International travel, an integral part of the T&T sector, is forecast to continue to increase in 2013 and provide a boost to the overall development of the T&T industry. This trend is primarily driven by the increase in demand from developing countries and, to a lesser extent, developed economies, although most international travel and tourism reports forecast that the T&T figures for developed

¹ UNWTO Tourism Highlights, 2012 Edition.

² World Travel and Tourism Council (2013). Economic Impact of Travel & Tourism 2013 Annual Update

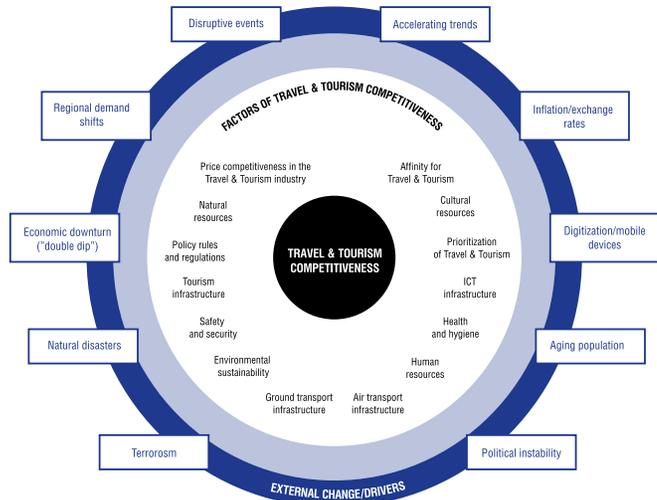
countries will become more resilient and sustainable in 2013 and beyond. Overall, tourism as a sector of the economy will remain a promising engine for greater economic development and sustainable growth across a broad geographic spectrum, with a particular focus on strengthening the position of the developing world.

This global trend is having a positive effect on the tourism profile of Azerbaijan, whose tourism industry has made significant developmental progress in recent years, experiencing considerable growth in 2007-2011, when the number of foreign tourists visiting Azerbaijan increased from about 600,000 to over 1.6 million. According to Nazim Samadov, Azerbaijan's Deputy Minister of Culture and Tourism, nearly 2.5 million tourists visited the country in 2012³. During the period of 2007-2011, the amount of income received by Azerbaijan from international tourism increased from around USD 200 million to USD 1.3 billion. The estimated direct contribution of T&T to the country's national GDP in 2012 was over USD 1.1 billion⁴. For the purposes of comparison, the World Bank estimated that Azerbaijan's total GDP in 2012 was USD 68.7 billion⁵. All of this data suggests that Azerbaijan has made considerable progress in terms of tourism development in recent years.

However, as everything is relative, the current state of tourism development in the country can be also analyzed from various standpoints to reflect the comparative advantages and disadvantages of the travel and tourism sector in Azerbaijan. In order to get a better understanding of the strengths and weaknesses of the T&T sector in the country, and to see where Azerbaijan stands in terms of global T&T rankings, this article will reflect on the key findings of the 2013 Travel & Tourism Competitiveness Report. This report is the result of the joint efforts of the World Economic Forum (WEF), Booz and Company, Deloitte, the International Air Transport Association (IATA), the International Union for Conservation of Nature (IUCN), the World Tourism Organization (UNWTO) and the World Travel & Tourism Council (WTTC). The report conveys insightful information on current attitudes from the T&T sector and provides an in-depth analysis of the T&T competitiveness of economies around the world. The findings of the report are based on the T&T Competitiveness Index ("the Index"). The Index is aimed at measuring the factors and policies that help boost the attractiveness of the T&T industry in different countries, making the hospitality sector more competitive and sustainable, both within the national markets and in what is perceived as the international image of national economies. The study of global T&T competitiveness was first introduced some seven years ago by the initiative of the WEF, and to this day serves as a useful platform for policy and practice dialogues on sustainable T&T development. This year's report is about reducing barriers to economic growth and job creation. It entails the collection of data on the current state of the T&T environment in 140 countries around the globe, and provides

global rankings of the 140 economies based on 75 different indicators across 14 key pillars of T&T competitiveness, which are listed in the chart below:

Figure 1: Travel & Tourism competitiveness and change drivers

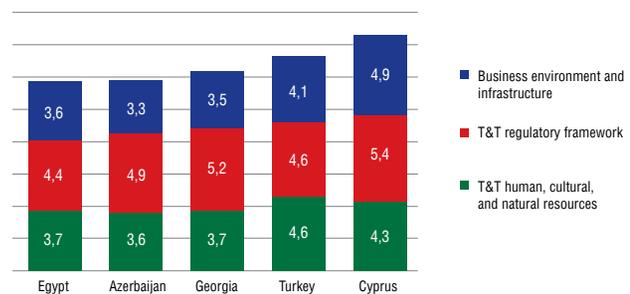


Source: Booz & Company.
1.2: How to Succeed as a Tourism Destination in a Volatile World
44 | The Travel & Tourism Competitiveness Report 2013

A combination of positive scores in each pillar creates a strong T&T profile for selected economies. However, in reality, the T&T profile of world economies is imperfect. In an ideal scenario, the T&T Competitiveness scores of the countries included in the survey should reach their peak in each of the fourteen pillars, as over the years each country should work to improve in the areas that appear weaker in the index while maintaining their competitiveness in areas that appear strong.

The 2013 Competitiveness Report details our findings regarding how well each country has succeeded in meeting this fourteen-pillar standard and where in general these countries stand in relation to each other.

Comparative view of Azerbaijan T&T competitiveness index to other countries, by score (1-7)



³ Tourist inflow to Azerbaijan from Europe and East Asia increases – Azernews (15 March 2013) <http://www.azernews.az/business/51007.html>
⁴ Tourism Satellite Accounting Research (2012). World Travel & Tourism Council (WTTC)
⁵ World Development Indicators database, World Bank. Retrieved from the database on 23 October 2013



The Report showed that Azerbaijan has improved its position in the overall ranking, moving up to 78th place (from 83rd in 2011). The report also indicated that Azerbaijan is one point ahead of Armenia and one point behind Albania. The relatively stronger T&T reputations of Turkey and Cyprus, as well as the attractive prices in neighboring Georgia, create quite complicated conditions for the T&T sector in Azerbaijan.

How attractive is Azerbaijan as a travel destination?

In terms of the key strengths of the Azerbaijani tourism environment, the document emphasized the country's good showing in some (but not all) categories under the following service groups:

- **Health and hygiene:** A strong position in this category is reached mainly through the relatively high number of hospital beds and employed medical graduates per capita in the country
- **High prioritization of T&T:** Positive results in this area are mainly based on the amount of government attention paid to it (availability and comprehensiveness of data) and the share of budgeted expenses allocated to it.
- **Ground transport infrastructure:** The relatively high coverage of roads by total area of the country is an advantage for Azerbaijan. We should note that assessment in this category does not take into account the availability of updated navigator maps, comprehensive road signs in English or maps of city transport networks.
- **Price competitiveness:** The effects of fuel prices and taxation place Azerbaijan in a good position, while airport charges and hotel prices negatively affect the country's profile in this category. The entry of international four-star hotels onto the Azerbaijani tourism market will have a strong impact on the improved price competitiveness of Azerbaijan. As hotels play a critical role in the overall

economic development at all levels, and with the emerging middle-class aspiring to travel, there is a growing need for more international two- and three-star hotels, which provide a decent level of security and trust to hotel networks with fewer facilities and a lower level of luxury.

- **High level of safety and security:** The relatively low number of road traffic accidents per capita makes Azerbaijan more attractive to tourists.
- **Policy rules and regulations:** The relatively low amounts of time and money required to start a business in Azerbaijan make the country an attractive proposition to T&T operators. On the other hand, there is an acute need to revise and simplify the visa requirements for foreign tourists, which could further improve the position of Azerbaijan on the global tourism and hospitality market.

Although developing the T&T sector provides many benefits, numerous obstacles at the national level continue to hinder further development in this sector of industry. Among major areas for development in the T&T sector of Azerbaijan mentioned in the report, we would like to highlight the following:

- **Poor tourism infrastructure:** The lack of seven major car rental companies that operate in many other countries⁶ and the low number of hotel rooms per capita⁷ create a disadvantage for Azerbaijan. The assessment of this category does not include such crucial criteria for the tourism industry as the availability of canteens, pedestrian areas, tourist information centers, English language signs, professional guides, etc.
- **The lack of attention paid to cultural and creative industry exports:** Additional focus on the souvenir industry and on strengthening cooperation between individual producers of cultural and creative goods and industrial businesses and service providers would help to promote the country's cultural values more effectively and attract more tourists to Azerbaijan. Authentic cultural artifacts and handicrafts, such as carpeting, weaving, smithing and jewellery-making could be promoted and internationalized by many means, including (but not limited

⁶ The Travel and Tourism Competitiveness Report 2013. World Economic Forum

⁷ The Travel and Tourism Competitiveness Report 2013. World Economic Forum

- to) open workshops and fairs, providing souvenirs for sale.
- **Lack of international fairs and exhibitions and limited capacity of sport stadiums per capita^{8,9}:** The overall number of international fairs, business, cultural, art and many different exhibitions held in Azerbaijan is significantly low. Azerbaijan ranks 119th in the WEF's report, one of the worst showings in this category of the T&T 2013 rankings.
 - **Policy rules and regulations:** Azerbaijan's issues here relate mainly to the existing entry barriers in terms of visa regulations and infrastructure and the need to facilitate investment and cross-border operations more effectively, shown by the low prevalence of foreign-owned companies in the country and the relatively poor protection of property rights, including financial assets¹⁰.
 - **Air transport infrastructure:** Azerbaijan has relatively high ticket taxes and airport charges, as well as poor coverage of international and domestic flights (in terms of the average number of scheduled flights per week)^{11,12}.

In early 2013 Azerbaijan began a new practice of issuing electronic visas to foreign visitors, attracted a number of international exhibitions and fairs, and initiated the construction of a number of sport stadiums. Most importantly, Azerbaijan has stepped forward in its legal reforms and began to introduce new legislation with a direct impact on the country's T&T sector. The government has involved the UNWTO in its efforts to modify the Law "On Tourism". The UNWTO has further elaborated a package of recommendations for Azerbaijan to improve its tourism legislation and address inadequacies in the area of tourism management. A new law on tourism is currently under consideration¹³. While these legislative initiatives are still in process, a new piece of legislation has recently come into effect.

On 9 July 2013 the President of Azerbaijan signed a brand new Migration Code, which entails a number of new measures. The extent to which these measures are progressive will be realized in the course of future assessments of the overall T&T industry, based on day-to-day practice.

The above actions, though somewhat detailed, are not all-encompassing and will require more consolidated efforts from both public and private players in order to bring measurable results and more positive changes. Despite increasing instability caused by global economic, political and environmental challenges, the T&T sector is expected to remain a significant driver of future economic growth, both worldwide and in Azerbaijan in particular. Policymakers who are most tuned in to their countries' most prominent assets and are able to leverage them most effectively are best positioned to turn risks of volatility into opportunities for long-term stability¹⁴. The extent to which these consolidated efforts will prove effective and result in tangible success will become clearer in the next WEF report. ■



Short bios of authors:

Yevgeniya Hajiyeva is an audit manager at Deloitte Azerbaijan. Yevgeniya has been with Deloitte since 2004, working for member firms in Kiev, Moscow and Baku and servicing a significant number of production, finance and service companies. She has extensive experience in the application of International Financial Reporting Standards (IFRS), US Generally Accepted Accounting Principles (GAAP), compliance frameworks and relevant legislation (Sarbox). She is a member of the Association of Chartered Certified Accountants (UK).

Her responsibilities include overall engagement management, identifying significant risks, advising on technical matters, and reviewing of audit documentation and financial statements.

Arzu Jafarli joined Deloitte in April 2013 as a business development specialist. Prior to her career with Deloitte, she worked as a project director at the Transparency International Azerbaijan Chapter and as an editor for IMPACT Azerbaijan magazine. Previously, she has worked for a number of international organizations, such as the International Rescue Committee Azerbaijan Program, the Organization for Security and Co-operation in Europe office in Baku, UNICEF Headquarters in New York, NY, USA, and the Sanctuary for Families in New York, NY, USA. Arzu received her MS degree from the Columbia University School of Social Work specializing in Policy Practice and International Social Welfare in 2012. She minored in Business Administration at the Columbia University School of Continuing Education. Arzu earned her Bachelor's degree in Political Sciences and International Relations from the Academy of Public Administration under the President of the Republic of Azerbaijan in 2001.

⁸ Creative Economy Report (2012). United Nations Conference on Trade and Development (UNCTAD), Creative industry database.

⁹ Booz and Company, based on statistics obtained from Worldstadiums.com on World Stadiums http://www.worldstadiums.com/middle_east/countries/azerbaijan.shtml

¹⁰ World Economic Forum, Executive Opinion Survey (2011-2012)

¹¹ International Air Transport Association, SRS Analyzer (January 2011 – July 2011)

¹² World Economic Forum, Executive Opinion Survey (2011-2012)