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Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/>

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Global Think-Tank

Azerbaijan's Tourism Sector – Opportunities and Obstacles

Madina Hashimli

CESD Press

Center for Economic and Social Development (CESD)

Jafar Jabbarli 44,

Baku, Az 1065,

Azerbaijan

Phone; (99412) 597-06-91

Email; info@cesd.az

URL; www.cesd.az

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Abstract

This research paper is a comprehensive study of the Azerbaijani government's strategies for the tourism sector. It will gauge the government's policy in affecting tourist patterns and explore whether the existing capacity of tourist infrastructure is aligned with the government's goals. It will be suggested that several issues, such as targeted visa regimes, high prices in air transportation, and lack of adequate accommodations, detract from the sustainable development of the tourism sector in Azerbaijan and, as such, must be addressed by the government in order to make full use of the potential of this sector.

List of Abbreviations

ATI- Azerbaijan Tourism Institute

GDP- Gross Domestic Product

UTTA- Union of Turkish Travel Agencies

SACD- Sweden Agency of Development and Corporation

VFR- Visiting Friends and Relatives

UN WTO- United Nations World Tourism Organization

1. INTRODUCTION

The travel and tourism industry is one of the world's largest industries – in 2018, the sector contributed \$8.8 trillion USD to the global economy and supported 319 million jobs. These amounts were equal to 10.4% of the world's GDP and approximately 1 in 10 of all jobs. The direct economic impact of the industry to GDP in 2018, was approximately 2.75 trillion USD, up from 2.57 trillion USD in 2017.¹ The tourism sector has been one of the fastest-growing fields of the economy of Azerbaijan and is viewed as a way to further develop the non-oil industries of the country. Considering the great potential of the country, many local and international companies and organizations have focused on new projects and programs to promote Azerbaijan as a tourist destination.

In the fall of 2014, the acute fall of crude oil prices in world markets negatively affected the Azerbaijani economy. It caused two subsequent devaluations of the Azerbaijani national currency, the manat, in global markets, pushing it to fall to half of its previous value. Additionally, in January 2015, declining oil income, which was 35% lower compared to the previous month and 16.6 % lower than 2014 year's total, wreaked havoc for the Azerbaijani national income.² As a result, the Azerbaijani government declared new strategies including: decreasing dependence on the oil industry, developing modern industries based on inexhaustible resources, and increasing foreign currency in the market through increasing exports of domestic products. As such, the development of the tourism sector was and remains an attractive and effective option for economic recovery and for the greater sustainability of the Azerbaijani economy.

The fall of oil prices and the need to gain additional income by attracting a greater volume of visitors to the country in turn affected the state strategy on migration. As based on primary data of the State Statistical Committee, tourist flows have been increasing rapidly in recent years. In 2018 alone, 2.605 million foreign tourists visited Azerbaijan, a 23% increase compared to 2016.³ The significant growth in the number of tourists over the last years shows that the tourism sector has an important place among the fields leading the

¹ World Travel & Tourism Council, 2019, "Travel & Tourism, Global Economic Impact and Issues 2019", <https://www.wttc.org/-/media/files/reports/economic-impact-research/regions-2019/world2019.pdf>

² State Oil Company of Azerbaijan Republic (SOCAR), "Financial Reports Consolidated to the International Financial Reporting Standards", Baku, 2015, <http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyy%C9%99%20hesabat%C4%B1%202015.pdf>

³ The Department of the Information Technologies of the State Statistical Committee of Azerbaijan, 2019, "The main indicators of tourism industries", at: <https://www.stat.gov.az/source/tourism/?lang=en>

greater development of non-oil industries. However, the sudden expansion of the sector has brought to the forefront problems in terms of the organization and management of tourist infrastructure to adequately accommodate the volume of visitors.

The oil price shock has affected the Azerbaijani state strategy on migration by shifting focus from elite to targeted tourism; however, physical tourist infrastructure has been little changed. Changes in the regulations structuring the tourist sector and the management system of tourism by the government – annulling the Ministry of Culture and Tourism and establishing the Tourism Board and the State Tourism Agency – are significant legislative and executive steps towards affecting the tourism policy of Azerbaijan. Nevertheless, shortcomings and weak points negatively affect the development of the industry and even disrupt growth in the sector.

This paper will explore whether the government's new strategies are successful in changing tourist behavior and whether the existing capacity of tourist infrastructure is aligned with the government's goals. It will be suggested that several issues, such as targeted visa regimes, high prices in air transportation, and lack of adequate accommodations, detract from the sustainable development of the tourism sector in Azerbaijan and, as such, must be addressed by the Azerbaijani government.

To begin, the following section explores the tourism environment before the 2014 fall in oil prices so as to provide the framework of the tourism sector in order to better understand and analyze changes which occurred after that point. The subsequent section describes the situation of the tourism sector after devaluation, exploring how tourist flows changed, specifying the main points of new tourism strategies created by the government and analyzing how these strategies affected the development of the tourism sector in the country. After that, the current capacity of the tourism sector is investigated in order to ascertain whether physical tourist accommodations in the capital and regions of the country are capable of accommodating the volumes of tourists targeted by the corresponding government strategies. In the last section, recommendations are offered to strengthen targeted growth in the tourism sector and achieve the greater diversification of the economy.

2. Background

This section will look at Azerbaijani laws and government strategies structuring the tourism sector from the early-2000s until present day. The first sub-section will cover

government strategies from the initial establishment of the Azerbaijani tourism sector until the 2014 oil price shock. The main aim is to provide information about the structure of the tourism sector, including statistics regarding visitors to the country, and the policies, strategies, and institutions which formed it.

In the subsequent section, governmental policies and strategies from 2014 until present-day are explored and analyzed, along with the major objectives of adopting those policies. The main features and points of the newest Strategic Road Map that has been adopted to further develop the tourism sector of Azerbaijan until 2025 and the goals and expectations for the future are described. At that point, shortcomings of the accepted strategy are also identified. Lastly, statistical and quantitative data for the period after 2014 is presented. The major aim of the second part of this section is to define weak points of the current strategy and analyze the effects of the policies based on available statistics.

2.1.Situation Pre-2014

The experiences of developed countries show that tourism wields great economic power which can positively support a country's development. The tourism sector plays a major role in the formalization of state budgets and the stabilization of trade balances. In order to harness this power, the legal base of the tourism sector in Azerbaijan was formed on 27 June 1999 through the approval of the law 'about Tourism'.⁴ This law defined the essentials of state policy and aimed to identify principles guiding the use of tourism resources to provide effective socio-economic development for the Republic of Azerbaijan.⁵

The modern era is one characterized by mass air travel, which comprised the largest share of international tourism in Azerbaijan.⁶ As such, on the 17th of August 1992, Azerbaijani Airlines (AZAL) was officially established. AZAL began with a route to Dubai, later adding Istanbul, Tehran, Saint Petersburg, London, Tel Aviv and China in November 1994. In the fall of 2000, the first Boeing 757s were delivered to Azerbaijan. These planes offered comfort for long distance flights. Later, in order to expand flight routes to various destinations and increase flexibility and its long-haul passenger fleet, Boeing and

⁴ Elshan Mammadov, Baku, 2013, "Regional features of formation and management of tourism market in Azerbaijan" p. 3

⁵ Law of the Republic of Azerbaijan No. 607-IIQD of 19 March 2004, Legislative Journal of Azerbaijan, 2004, No. 4, Article 203, at: <http://e-qanun.az/framework/4759>

⁶ Statista, International Inbound tourism by mode of transport in 2017, <https://www.statista.com/statistics/305515/international-inbound-tourism-by-mode-of-transport/>

Azerbaijani Airlines signed an agreement to substitute two Next-Generation 737 airplanes on 22 July 2010.⁷ Hereupon AZAL had a total of eight Boeing airplanes.

In 2001, Azerbaijan was accepted as a member of the UN's World Tourism Organization (UN WTO), which was the first stage regarding Azerbaijan's entrance to the global tourism arena. Being a member of the UN WTO was of great importance to promote Azerbaijan as a major tourist destination. To this end, in 2002, an international tourism exhibition called Azerbaijan International Travel and Tourism Fair (AITF) was organized with the participation of international tourism companies under the support of the UN WTO. AITF has become the region's largest exhibition in the tourism sector and even now, every year professional representatives of the industry participate in this event and find new partners and customers. In order to further promote Azerbaijan to international markets, beginning in 2005, bilateral agreements were signed between Azerbaijan and Moldova, Belarus, Qatar, Greece, Kazakhstan, Pakistan, Jordan, France, Tajikistan, Egypt and Lithuania.

2.1.1. Government Strategies before 2014

Regarding the legal base of the tourism sector the formative document was the State Program on Tourism Development for 2002-2005 and its corresponding Action Plan, affirmed according to the Decree #1029S of the President of Azerbaijan on August 27, 2002, for the implementation of the State Program on Tourism Development.⁸ The main purpose of the State Program was to implement state policy in the field of tourism and to ensure the socio-economic development of the country in accordance with the provisions of the Action Plan.

In order to implement the 2002-2005 State Program, its Action Plan was divided into 7 parts:

⁷ Boeing, Azerbaijan Airlines orders Boeing 767-300 Passenger and Freighter Models, 22 July 2010, <https://boeing.mediaroom.com/2010-07-22-Azerbaijan-Airlines-Orders-Boeing-767-300-Passenger-and-Freighter-Models>

⁸ State Program on Development of Tourism in the Republic of Azerbaijan 2002-2005, Legislative Assembly of the Republic of Azerbaijan, 2005, No. 2, Article 69, at: <http://www.e-qanun.az/framework/1615>

1. Upgrading the legal-normative base of the sector regarding migration, including preparation of proposals for improving procedures for travel (visa, customs, etc.), and other legal and administrative actions.

2. Organization of tourism activity and management of tourism development in which management strategies for the tourism sector were considered; namely, certification of tourism services and participation in global tourism conferences and exhibitions.

3. Marketing strategies were explored; mainly, the government sought to develop draws for new types of tourism, including categories such as historic, ecologic, exotic, nature, sports, and cultural, and to promote them in the international sphere.

4. Increasing tourism services to international standards and the development of tourism infrastructure were prioritized. The main purpose of the regulation was to establish tourism kiosks in cultural-historical places in order for visitors to be able to purchase folk arts and crafts and to organize souvenir production based on samples of museums' collections.

5. Staffing was seen as a major priority – the main objectives were to make proposals on establishing a unit educational system in the field of tourism and to prepare appropriate methodologies for training specialists in the tourism sector.

6. Research and scientific data were the most highlighted points of this regulation, ensuring that comprehensive analyses and forecasts of the tourist market of Azerbaijan were established to more efficiently use the natural and cultural-historical potential of the country. Based on this data, programs were to be prepared for establishing special types of tourism in Azerbaijan (ecologic, social, cultural, children-youth, sport-health, etc.).

7. Measures for the development of inbound tourism were included, with the organization of excursions to cultural-historical and natural monuments, arranging tourist routes in the regions of the country and establishing national parks. Studies were conducted in order to find the most used inbound routes to the country and according to these, seven main routes were approved for further development: Baku-Khachmaz, Baku-Balaken, Baku-Astara, Baku-Gazakh, Baku-Shusha, Baku-Nakhchivan and Baku-Absheron-Gobustan.⁹

⁹ Gunay Tahirli, "Xalq" Journal, Baku, 2009, "New Stage of the development of tourism in Azerbaijan" p-5, at: http://www.anl.az/download/meqale/xalqqazeti/xalqqazeti_iyul2009/85103.htm

As a result of the implementation of the State Program on Tourism Development, favorable conditions for the further development of the sector were established and the basis for ensuring integration into the international tourism market was laid. Some weak points, however, may be observed. For example, considering the statistical data available for the types of tourism declared by visitors who came to Azerbaijan in the 2002-2005 period, the development of some new types of tourism (exotic, ecological) could not be noticed. Additionally, it was not until after this strategy's close that efforts to train specialized staff for the tourism sector took hold. For example, it was not until 2006 that the Azerbaijan Tourism Institute, tasked with training specialized staff for the industry, was created.¹⁰

In 2006, significant regulations were signed into law by the government based on its experience with the preceding 2002-2005 State Program. First and foremost, the Ministry of Culture of the Republic of Azerbaijan and the Ministry of Youth, Sport and Tourism of the Republic of Azerbaijan were abolished by Presidential Decree No. 359 dated January 30, 2006. The Ministry of Culture and Tourism was established on the basis of the Ministry of Culture of the Republic of Azerbaijan.¹¹ The Regulation on the Ministry of Culture and Tourism was approved by Decree No. 393 of the President of the Republic of Azerbaijan dated April 18, 2006, and was tasked with overseeing all aspects of tourist affairs for the country. The aim of the Ministry of Culture and Tourism was to market the tourism potential of the country all over the world and to formulate its image as a tourist country.

Since the day of its establishment, the Ministry of Culture and Tourism was preoccupied with the problem of cadres training that occupy a particular place in the development of tourism policy. To this end, it has signed multiple partnership agreements with various institutions in order to further develop and jointly train personnel for this field. According to one such agreement, the mutual agreement between the Ministry of Culture and Tourism and the Union of Turkish Travel Agencies (UTTA), 18 students educated in Azerbaijan in the tourism sphere completed internship programs in selected hotels and tourist agencies in Antalya, Turkey during June-August of 2003. This program aimed to

¹⁰ Eldar Aslanov, Baku, 2011, *Tourism and Hospitality Studies*, No1, "Tourism sector in Azerbaijan: history, modern situation and development prospects", p. 24

¹¹ Decree of the President of the Republic of Azerbaijan on the establishment of the Ministry of Culture and Tourism of the Republic of Azerbaijan and the Ministry of Youth and Sports of the Republic of Azerbaijan, Baku, 2006, at: <http://www.e-qanun.az/framework/11946>

encourage students to seek employment in the tourism sphere and to provide them with international experience. Unfortunately, this program was not enforced in following years.

In addition to Turkish organizations, tourism development programs were jointly developed with ministries and organizations from Austria, Sweden, Egypt, Japan, and others. 20 representatives from Azerbaijan participated in such courses during 2002-2003. The major purpose of these joint programs was not only to train Azerbaijani specialists and expose them to international best practices, but also to strengthen international relationships within this sphere. Such programs even got so far that in 2007, an educational agreement between Azerbaijan and Austria provided joint degrees in the tourism sector. According to the conditions of the "Educational Exchange in the Field of Tourism" signed with IMC Krems (ATMU) University of Applied Sciences in Austria, students from the Azerbaijan Tourism and Management University could apply for a program and be awarded diplomas of both ATMU (national) and IMC Krems (international) after their 4 years' bachelor graduation.¹²

In order to develop Azerbaijan's tourism sector and prepare the country for domestic and international tourists, tourism development maps were created for Lankaran, Tovuz, Gadabay, Oguz, Masalli, and Astara regions. Additionally, a master plan based on the sustainable development of the entire sector was established with specialists from Azerbaijan, the USA, and Turkey. Towards these ends, in 2008, the government accepted the regulation related with tourism and the formalization of specialized recreational zones.¹³ This regulation aimed to provide the presence of recreational zones in the sustainable tourism development actions for the regions of Azerbaijan, to achieve economic development and to expand existing tourism opportunities of the country.¹⁴ According to the regulation, recreational zones are natural and cultural complexes that have special ecological, recreational, historical, or cultural importance, as well as provide entertainment, recreation, or health treatment for people. The achievement of further socio-economic development was

¹² Azerbaijan Tourism and Management University, 13 September, 2018, First experience inside the country, at: <http://atmu.edu.az/index.php/en/component/k2/itemlist/search?searchword=double+degree&categories=&format=html&t=1560747017627&tpl=search>

¹³ Exemplary Statute on Tourism and Recreation Areas, Baku, 20 June, 2008, at: <http://www.e-qanun.az/framework/14919>

¹⁴ Exemplary Statute on Tourism and Recreation Areas, Baku, 2008 at: <http://www.e-qanun.az/framework/14919>

a staple of this regulation – it included the protection of the environment and national-cultural heritage and the preservation of an ecological balance.

A new State Program related to the development of tourism was created for 2010-2014. It was designed to eliminate shortcomings of the previous legislation and to ensure further development of the tourism sector.¹⁵ The Program aimed to form a modern tourism industry that meets the highest economic, social and environmental requirements and to ensure the tourism sector became one of the key pillars on which the country's economy was further developed. The main actions during the implementation process of the Program were improving legislation covering tourism and its management systems, developing legislative framework in order to increase the efficiency of the field, implementing incentives for the creation of tourism facilities and recreation zones, further developing various types of tourism, and encouraging investments, including carrying out measures in order to promote entrepreneurship in the tourism sector.

A major change that took place in order to promote the 2010-2014 State Program was the change in visa procedures. Decree #343 of the President of the Republic of Azerbaijan dated October 19, 2010, adjusted visa procedures for foreigners arriving in the Republic of Azerbaijan.¹⁶ According to the changes, tourism companies could apply online to obtain a visa for tourists, making the visa procedure much easier and more convenient for tourists. In order to further capitalize on such changes, 2011 was named the “Year of Tourism” in Azerbaijan. Additionally, in 2013, the resolution on the approval of administrative regulations on electronic services provided by the Ministry of Culture and Tourism of the Republic of Azerbaijan was declared.¹⁷ Thus, according to the resolution, implementation of e-services- online classification of hotels and other tourist accommodations, online submission of tourism projects and programs, online registration of applications and documents for granting licenses to hotel and other tourist accommodations – were approved.

¹⁵ Gunel Ibrahimova, Baku, 2013, “Challenges to the development of tourism in Azerbaijan”, p. 63; 65

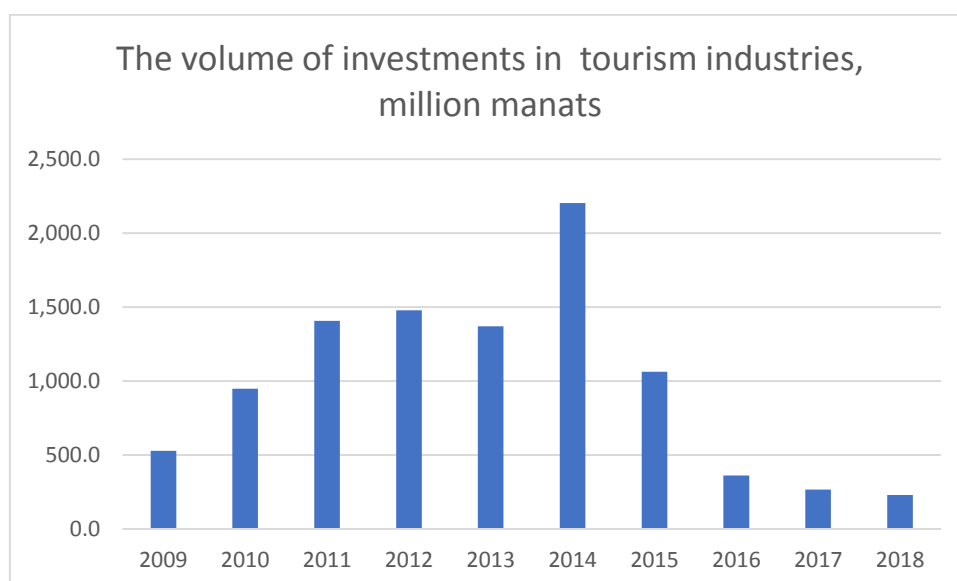
¹⁶ Decree of the President of the Republic of Azerbaijan dated October 19, 2010 No 343, Legislative Journal of Azerbaijan, 2010, № 10, Article 855

¹⁷ Collegium of the Ministry of Culture and Tourism of Republic of Azerbaijan, Baku, 2013, “On approval of administrative regulations on electronic services provided by the Ministry of Culture and Tourism of the Republic of Azerbaijan, dated February 26, 2016, No. 1824, <http://www.e-qanun.az/framework/27097>

2.1.2. Structure of the Sector - How many tourists and what kind of tourism?

During the late-2000s with rising oil revenue, investments in the country's economy increased from internal sources. Mainly, the government decided to invest income from the oil industry in the development of the non-oil industry.¹⁸ One of the sectors signaled out for investment and greater development was tourism. Figure 1 found below shows the volume of investment in the tourism industry from 2009-2018. Especially, the volume of investment in the tourism sector markedly increased between 2009 and 2012. So, while investments in the tourism sector were 527, 8 million AZN in 2009, they increased sharply to 1478, 2 million AZN by 2012. In accordance with the State Program for 2010-2014, local investments in the tourism sector caused growth in the volume of the investment in the industry. However, according to the statistics, growth the employment rate in the industry did not keep up with that of investment - 11.8% between 2009 and 2013.¹⁹

Figure 1. Main Indicators of the Tourism Industry



Source: The State Statistical Committee of Republic of Azerbaijan 2002-2019

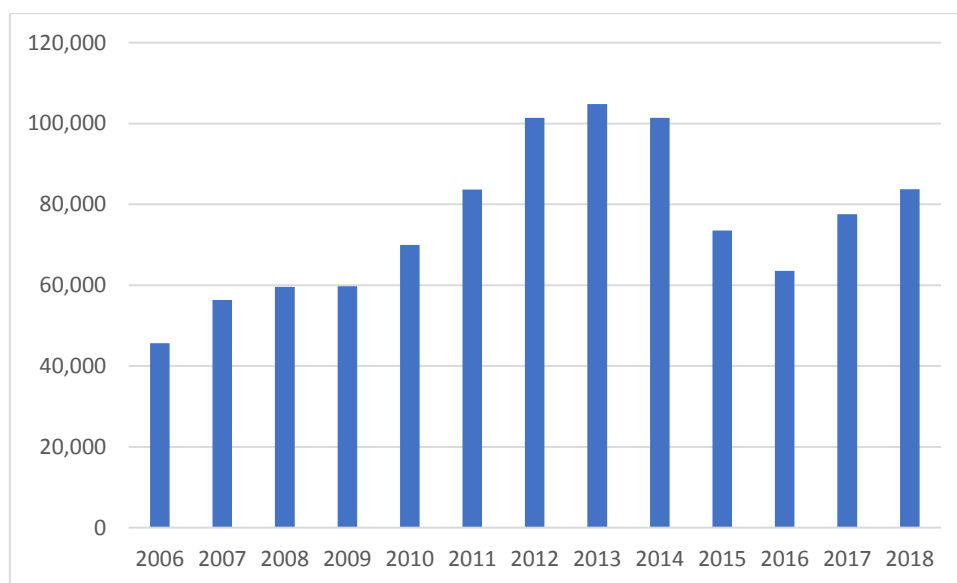
According to data published by the State Statistical Committee, volumes of tourist flows increased steadily between 2006 and 2012; overall, the number of tourists increased 2.5 times, as seen in Figure 2. However, it should be noted that the growth was not of a significant scale but merely from a small base. In order to promote tourism to Azerbaijan,

¹⁸ Ahmadov B.S. Baku 2010, Mechanisms of making investment decisions in the national economy and factors affecting it / Journal of Economic Sciences: Theory and Practice, No. 2

¹⁹ The Department of Information Technologies of The State Statistical Committee of the Republic of Azerbaijan, 2019, The main indicators in tourism industry <https://www.stat.gov.az/source/tourism/?lang=en>

the government engaged in image-making campaigns to host major international events. For example, the 10th Azerbaijan International Tourism and Travel Fair (AITF-2011) was organized in Baku with the participation of more than 150 companies from 23 countries.²⁰ Additionally, Azerbaijan hosted the 2012 Eurovision Song Contest in Baku, where more than 2,000 tourists visited Azerbaijan. The comprehensive State Program for Tourism 2010-2014, declaring 2011 as the "Year of Tourism", and organizing large-scale global events as AITF and Eurovision Song Contest all combined to cause an increase in the number of tourists.

Figure 2. Number of arrived and dispatched tourists, per person

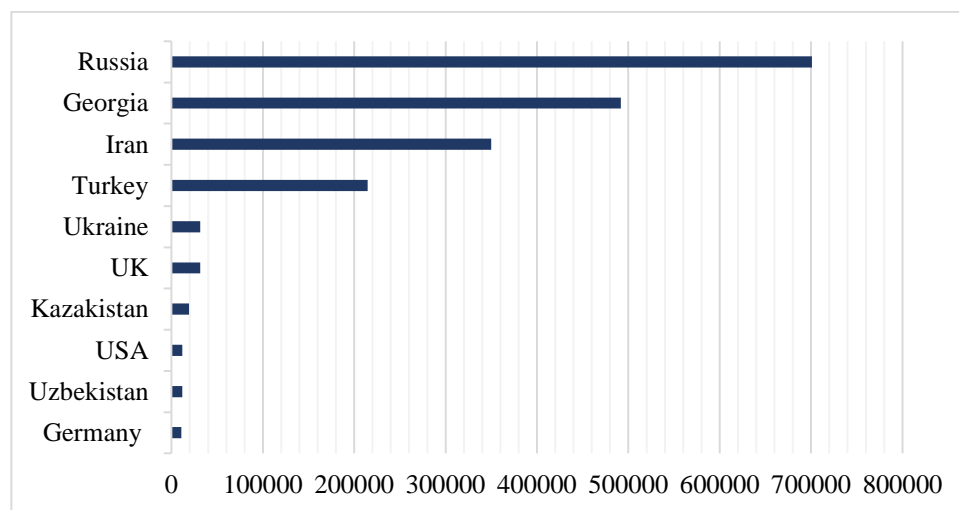


Source: The State Statistical Committee of Republic of Azerbaijan

Figure 3 selects the year 2010 to more deeply explore who it was that was visiting Azerbaijan. In the figure, visitors' arrivals based on origin countries are detailed. Accordingly, it can be mentioned that during this period Azerbaijan was mostly visited by persons from neighboring countries, with notable numbers of visitors also from Ukraine, UK, USA, and Germany.²¹

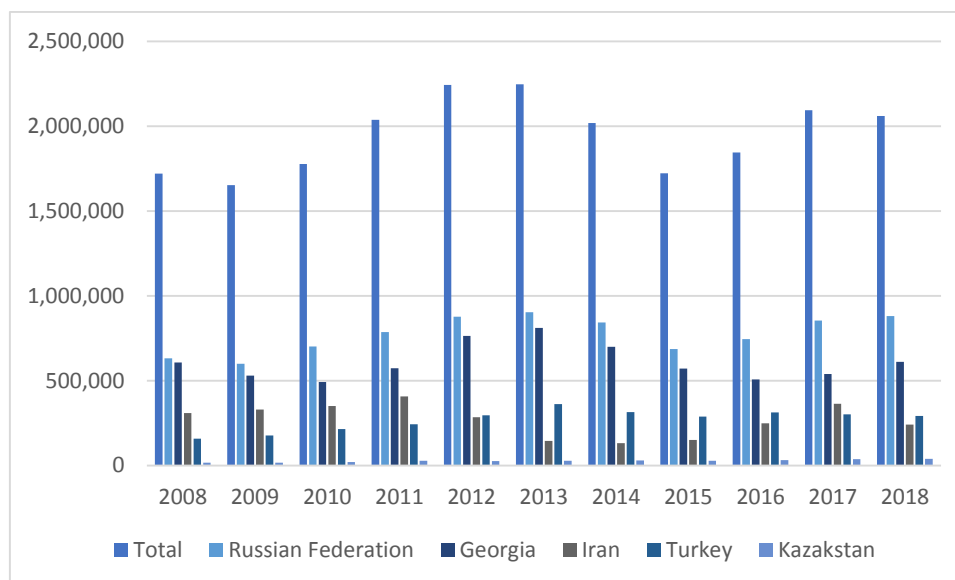
²⁰ A. Abdullaeva, Baku, 2011, Tourism of Azerbaijan and the role of libraries in its popularization

²¹ World Tourism Organization, 2019, Tourism Statistics in Azerbaijan, http://statistics.unwto.org/sites/all/files/pdf/azerbaijan_inbound.pdf

Figure 3. Top 10 visitor Arrivals in Azerbaijan, 2010

Source: UN WTO Statistics, 2010

As, generally, the most numerous visitors are observed to be from neighbors, the number of foreign citizens from border countries who visited Azerbaijan from 2008-2018 is described in Figure 4. Easy access and the relatively cheaper price in transport make Azerbaijan more suitable in terms of tourism for visitors from neighbor countries.

Figure 4. Number of foreign citizens arrived to Azerbaijan by border countries, per person

Source: The State Statistical Committee of Republic of Azerbaijan 2002-2019.

In the following Figure 5, the declared purpose of travel of foreign citizens visiting Azerbaijan between 2006 and 2018 is illustrated. Before 2014, the major portion of tourists

who travelled to Azerbaijan came for leisure and recreation tourism purposes. Even though implementing promotion of various kinds of tourism in Azerbaijan has been noted in tourism policy for 2002-2005, diversity in the tourism product of the country cannot be mentioned for these years.

Figure 5. Breakdown of foreign citizens arriving to Azerbaijan by purpose of trip (per thousand persons)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Leisure, Recreation	398,2	427,3	608,8	587,2	661,7	519,8	687,8	705,2	709,9	668,8	697,1	839,3	1 042,4
Business	257,7	276,6	394,1	380,0	547,6	591,9	595,3	648,9	670,5	632,3	691,7	834,4	787,4
Medical Tourism	7,5	8,0	11,5	11,1	14,1	33,3	43,0	46,2	46,3	36,5	41,5	49,1	63,1
Religious	4,1	4,4	6,3	6,0	10,2	10,5	13,2	13,7	13,7	11,5	12,6	14,7	15,3
Visiting Friends and Relatives	...	...	...	...	...	374,7	607,8	673,7	677,1	542,0	562,0	674,9	651,6
other tourism purpose	14,3	15,4	21,8	21,1	46,2	31,7	38,8	41,8	42,2	30,8	39,8	41,6	45,5

Source: The Statistical Committee of Republic of Azerbaijan, 2002-2019

Based on the statistics above, both the leisure and business tourism categories are the two major types of tourism for Azerbaijan, with the newly created category “Visiting friends and relatives” coming up to take third place. Another interesting development observed is the increasing number of tourism for medical purposes. Particularly the establishment of tourist infrastructure in the recreation zones of Azerbaijan affect to the raising of tourists’ numbers based on treatment purposes.

2.2.Changes after the 2014 Oil Price Shock

In 2014, the sharp drop of oil prices in world markets followed by the devaluation of the Azerbaijani manat forced the government to focus on the development of the non-oil sector. As such, the development of the tourism sector was one of the effective ways to strengthen the Azerbaijani macro economy. In that case, the oil price shock has affected the tourism strategy of Azerbaijan so tourist infrastructure has been established and migration and visa regimes have been developed. In order to achieve the rapid development of the non-oil sector, to improve the efficiency, competitiveness and innovation-based development of the economy Azerbaijani government has taken significant measure in terms of tourism.

Accordingly, the volume of investment in the tourism industry increased sharply- 38% - in 2014, according to the government strategies on the development of non-oil industries. However, after the drop of oil prices in 2014, the value of manat decreased acutely so investment of the government in the tourism industry declined double – from 2,2040 billion manat to 1,0639 billion manat between 2014-2015. Thus, this process continued in 2016: investments in the tourism sector decreased 66% through an 11% drop in the revenues of the state budget (2014-2017). It should be noted that investments in tourism are falling in the same direction year by year since 2014.

2.2.1. Institutional Changes

In 2014, an article was added to the Law of the Republic of Azerbaijan "On Tourism" in the content of tourist visas increased the duration of stay for a tourist visa up to 30 days.²² Moreover, a new resolution aimed to expand touristic zones and develop new infrastructure in regions targeted as having great recreational potential in terms of tourism. On the 10th of September 2015, the Decree of the President of the Republic of Azerbaijan on the establishment of Shahdag Tourism Center Closed Joint Stock Company under the Ministry of Culture and Tourism of the Republic of Azerbaijan was ordered.²³ Before this Shahdag Winter and Summer Tourism Complex was opened to public in 2012. Shahdag is a mountain at elevation of 4243 m in the north east of Azerbaijan in the Guba-Gusar district. It is located in the Azerbaijan's Greater Caucasus range- near Shahdag National Park, which has suitable natural conditions for winter tourism. After the decree, new infrastructure was built in the region – 3 tourist hotels with capacity for 500 persons, 7 cable paths with a length of more than 6,000 meters, and 11 ski areas with 13,000 meters of slopes were established.²⁴ The creation of the Shahdag Tourism Center Closed Joint Stock Company (CJSC) was enacted in order to promote Azerbaijan as a winter tourism destination, boosting marketing to targeted tourists. As a follow-up to the establishment of the CJSC, on 01 August 2016, the

²² Law of the Republic of Azerbaijan On Amendments to the Law of the Republic of Azerbaijan "On Tourism", Baku, October 17, 2014, No. 1061-IVQD, <http://www.e-qanun.az/framework/28823>

²³ Order of the President of the Republic of Azerbaijan, dated February 26, 2016, No. 1824, "Respublika" journal, 27 February 2016, № 45; Journal of Legislation of the Republic of Azerbaijan, 2016, No. 02, II, Article 344, <http://www.e-qanun.az/framework/30637>+

²⁴ Culture Journal, "Shahdag Tourism Center Closed Joint-Stock Company was established", 11 September 2015, <http://medeniyyet.az/page/news/8353/Sahdag-Turizm-Merkezi-Qapali-Sehmdar-Cemiyyeti-yaradildi.html?lang=ru>

Cabinet of Ministers of the Republic of Azerbaijan approved the decision to establish the Khizi-Khachmaz and Guba-Gusar tourism and recreational zones.²⁵

In further effort to encourage greater tourism to Azerbaijan, on 29 November 2016, the “ASAN Visa” system was approved, whereby foreigners could obtain an electronic visa by entering their personal information in the electronic application form placed on the “ASAN Visa” system.²⁶ This system was a clear innovation in tourism policy, as foreigners could easily and quickly apply, receive, and print their visas. The development of the “ASAN Visa” system was one of the biggest steps in the development of tourism policy for the country. As an additional step, tourists from the Persian Gulf countries were especially signaled out to be able to receive visas on arrival at Heydar Aliyev Airport. Such visa facilitation was the cause for the increase of tourists from this region, a targeted goal of the Azerbaijani government which will be further explored in the following sections. However, only 9 countries - Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkey (30 days, starting from 2019)²⁷, Ukraine and Uzbekistan citizens can visit Azerbaijan without a visa for up to 90 days. Applying visa regimes to many countries restricts tourist flows from various destinations.²⁸

Besides, on 23 and 24 December 2014, 2 Boeing 787 Dreamliners were delivered to Azerbaijan. With the introduction of new airplanes, AZAL also launched its premium economy products. Regardless, growth in international passenger conveyance in air transport barely rose between 2014 and 2015 – according to statistics, passenger conveyance increased by only 48,000 people between 2014 and 2015.²⁹ The total route network of AZAL includes 40 destinations in 25 countries and codeshares with Air Arabia, Air France, airBaltic, Etihad airlines, Lufthansa, Qatar Airways, S7 Airlines, Turkish Airlines, SCAT and Ukraine International Airlines. Moreover, AZAL formed Azerbaijan’s first low-cost airline, Buta Airways, in December 2016 and began operations in 2017. The main goal of the establishment of the low-cost airline was to offer relatively cheaper tickets for low budget

²⁵ Resolution of the Cabinet of Ministers of the Republic of Azerbaijan on establishment of Khizi-Khachmaz, Guba, Gusar tourism and recreation zones, Baku, 1 august 2016, № 286, <http://www.e-qanun.az/framework/33511>

²⁶ Decree of the President of the Republic of Azerbaijan, No 1482 of June 21, 2017, “Xalq” newspaper June 23, 2017, No.134, Legislative Assembly of the Republic of Azerbaijan, 2017, No.6, Article 1098, <http://e-qanun.az/framework/33948>

²⁷ BBC news, Visa regime are canceled to Turkish citizens, 25 July, 2019, <https://www.bbc.com/azeri/azerbaijan-49109278>

²⁸ IATA TimaticWeb, 2019, Visa Information https://www.timaticweb.com/cgi-bin/tim_client_post.cgi

²⁹ The Department of the Information Technologies of the State Statistical Committee of Azerbaijan, 2019, Air Transport, <https://www.stat.gov.az/source/transport/>

consumers. Currently, Buta organizes flights to international destinations in Russia, Turkey, Ukraine, Georgia, Iran and Bulgaria.³⁰ However, in 2018, only 1785 thousand foreign passengers used air transport in Azerbaijan.³¹ High ticket prices, insufficient frequency of flights, lack of the codeshares with low cost airlines, and not having direct flights to various destinations restrict using air transport for international passengers.

On 21 September 2018, the “Decree of the President of the Republic of Azerbaijan on ensuring activity of State Tourism Agency of Republic of Azerbaijan” was issued. The Ministry of Culture and Tourism of the Republic of Azerbaijan was disbanded and the State Tourism Agency of the Republic of Azerbaijan and the Ministry of Culture replaced it in order to improve public administration in the field of culture and tourism.³² The major goal of the regulation was to focus on the tourism and cultural spheres separately and individually within the state framework. The State Tourism Agency is responsible for measures on administration and management in the tourism sector. The main activities of the State Tourism Agency are to participate in the formation of state policy in the relevant area and to ensure the implementation of this policy, to prepare targeted programs for the development of incoming tourism and domestic tourism in the Republic of Azerbaijan, and, finally, to take appropriate measures to attract investment in tourism infrastructure and industry in the country. One of the major goals of this regulation is to focus on the tourism industry individually, to boost foreign expertise in the development of tourism strategies and to create a new tourism brand for Azerbaijan.

Strategic Road Map

The Strategic Road Map on the development of specialized tourism industry in the Republic of Azerbaijan was approved by Decree of the President of the Republic of Azerbaijan dated December 6, 2016.³³ As a long term goal, the Strategic Road Map unites items such as supporting the development of tourism, providing high quality and competitive tourism services in local and global market, forming tourism experience with local values,

³⁰ Buta Airways, 2019, About Buta Airways, <https://www.butaairways.az/en/company/about>

³¹ The Department of the Information Technologies of the State Statistical Committee of Azerbaijan, 2019, Air Transport, <https://www.stat.gov.az/source/transport/>

³² Decree of the President of the Republic of Azerbaijan on ensuring activity of State Tourism Agency of Republic of Azerbaijan, 21 September of 2018, No.278, <http://www.e-qanun.az/framework/40087>

³³ Strategic Road Map on the development of of specialized tourism industry in the Republic of Azerbaijan, at: https://mida.gov.az/documents/Turizm_s%C9%99naysinin_ink%C5%9Faf%C4%B1na_dair_strateji_yol_xeritesi.pdf

boosting new investment projects based on modern ideas and innovation, and coordination of responsible bodies related with the development of tourism. This document comprises combined measures and legislations in order to minimize the objectionable effects of the global economic slowdown. It allows for the establishment of new development models for the short-term (from 2016 until 2020), medium-term (from 2020 until 2025) and long-term (post 2025). The Strategic Roadmap contains support the development of the tourism sector within the stipulated time, providing high quality and competitive tourism services in international and local markets, the formation of tourism experience in line with national values, boosting of new investment projects based on modern ideas and innovations, and the cooperation of relevant authorities in the development of tourism.

In order to attain success in the sustainable development of tourism in Azerbaijan, 4 main goals were established:

1. To take advantage of the tourism potential of Baku city. Developments such as promoting various kinds of tourism activities and the committed development of tourism infrastructure within the city were ensured.
2. To better organize the tourism management system at a national level by establishing additional tourism and recreation zones, along with making progress in air transportation, and simplifying Visa procedures.
3. To develop tourism in Azerbaijan while enforcing defined regional tourism projects. Thus, investments would aim to development the health, winter, eco and other special kinds of tourism in order to achieve a more integrated tourism sector and eliminate tourism seasonality.
4. To invest in educational programs in the tourism sector and to upgrade the standardization and certification systems in order to increase tourist satisfaction.³⁴

According to the Strategic Road Map, 5 main tourist sources were identified in order to target them specially and directly:

³⁴ Strategic Road map on the development of specialized tourism industry in the Republic of Azerbaijan, Baku, 2016,
https://mida.gov.az/documents/Turizm_s%C9%99nayesinin_inki%C5%9Faf%C4%B1na_dair_strateji_yol_xeritesi.pdf

Azerbaijan (for domestic tourism) – according to the Strategic Road Map, the government is focusing not only on the development of foreign tourism but also on domestic tourism, in order to establish the micro-economy of the country.

Neighbor countries including Turkey, Iran, Georgia and Russia – as these countries have traditionally been the most numerous source countries for tourism to Azerbaijan, the Strategic Road Map aims expand the number of tourists from these countries are.

Persian Gulf countries including UAE, Bahrain, Kuwait, Iraq, Oman, Qatar, and Saudi Arabia – recently, Azerbaijan has been a preferred tourism destination of tourists from the countries of the Persian Gulf, especially for leisure and religious tourism purposes, because of the visa facilitation they had. Thus, the government wants to capitalize on the trend even more and so, increasing the quantity of visitors from these countries is still a major aim according to the Road Map.

CIS countries including Kazakhstan, Ukraine, and Uzbekistan – based on location of these countries and their sharing common values, the mentioned countries are signaled out as a possible tourist source for Azerbaijan

Mass tourism countries including Canada, China, EU countries, India, Japan, South Korea and USA – according to the World Tourism Organization, the mentioned countries are the most popular tourist sources worldwide. Promoting Azerbaijan as a tourism destination among top spenders of international tourism is one of the most significant goals of the government in terms of gaining a better reputation in the international tourism market.

3. Analysis of Current Structure and Capacity of the Sector

In this section the current situation of the tourism capacity of Azerbaijan in terms of number of tourist accommodations, rooms, and beds is described and analyzed. Additionally, the aforementioned information is presented in a way to compare Baku to the other regions of Azerbaijan, as well as compare the origin of the persons occupying the accommodation, so as to draw conclusions about the success of the Azerbaijani government's strategies as detailed in the previous section.

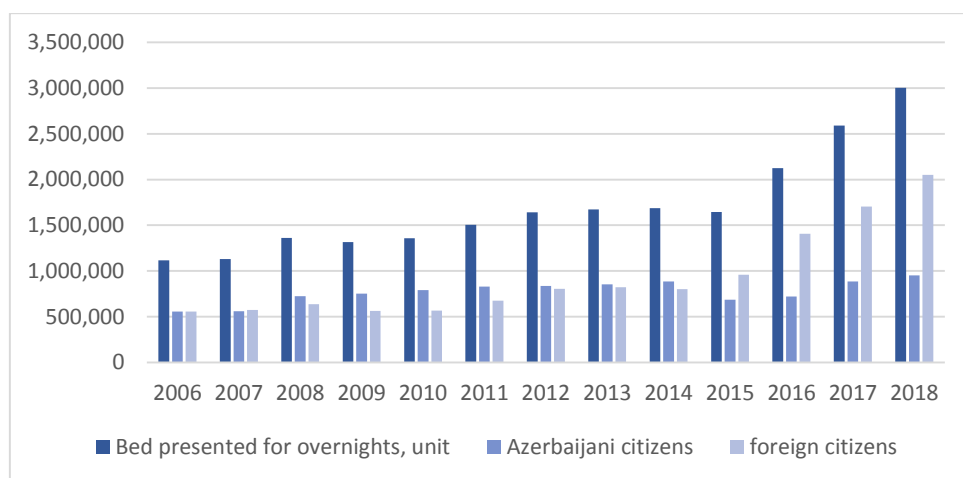
According to the State Statistical Committee of Azerbaijan the number of tourists received in 2018 was 2,849,592 which are 152,847 more than in 2017.³⁵ Additionally, the number of beds in officially designated tourist accommodations increased by 5,082 over the same years – from 41,611 in 2017 to 46,693 in 2018. That being said, the number of tourists received grew by about 5.4% between 2017 and 2018 years, and 21.1% last two years (2016-2018), far outpacing the growth of beds, which stood around 14% between 2016 and 2018. According to the State Statistical Committee the top tourism designations of visitors are formed by leisure, business and medical tourists – all categories which have been increasingly greatly over the last years, showing clearly that the tourism capacity of the industry needs to be expanded should all trends continue along their current growth patterns.³⁶

In Figure 6 below, overnight stays by guests in tourist accommodations between 2006 and 2018 are described. Based on the data, tourist establishments were occupied by both domestic and foreign tourists in almost in equal numbers in 2006, with domestic tourists outnumbering foreign ones until 2015 after which the growth in overnight stays by foreign tourists far outpaced domestic ones. The significant reasons for the growing number of stays by foreign citizens is the fall in prices in dollar terms due to the manat's devaluation and the adoption of more liberal tourism regulations by the government after the oil shock in order to develop the tourism industry, including visa liberalization and other trends.

³⁵ The Department of Information Technologies of The State Statistical Committee of the Republic of Azerbaijan, 2019, Number of foreign citizens arrived to Azerbaijan, <https://www.stat.gov.az/source/tourism/?lang=en>

³⁶ The Department of Information Technologies of The State Statistical Committee of the Republic of Azerbaijan, 2019, Main indicators of hotels and similar establishments, <https://www.stat.gov.az/source/tourism/?lang=en>

Figure 6. Overnight stays in tourist accommodations in Azerbaijan, per bed and per person



Source: The State Statistical Committee of the Republic of Azerbaijan, 2002-2019

Figure 7 shows a further breakdown of the numbers of hotels, beds, and rooms in Baku from 2006 – 2018. The figure shows that over the last 10 years all three indicators have approximately doubled. Such growth would be promising, except the growth is large as it's from a small base rather than in absolute terms. The growth observed in hotels, rooms and beds still will not be enough to accommodate current growth in tourists, if all trends are kept constant. Additionally, according to statistics, the capacity of tourist establishments in all the regions outside of Baku is 28,056 beds, just a little over half of total capacity, which will not be enough to accommodate future tourist growth in the sector given the government's focus on tourist and recreational zones.

Figure 7. Main indicators of hotels and similar establishments, per unit and bed

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total number of hotels and similar establishments, unit	285	320	370	452	499	508	514	530	535	536	548	563	596
Capacity, bed	24 706	25 483	28 286	30 571	30 793	31 979	32 834	33 951	35 652	37 278	40 042	41 611	46 693
Number of rooms, unit	11 403	11 829	12 789	13 964	14 158	14 815	15 898	16 559	17 363	17 953	19 919	20 778	22 192

Source: The State Statistical Committee of the Republic of Azerbaijan, 2002-2019

In terms of the number of hotels and their capacity, Baku City is first among all of Azerbaijan's 9 economic regions. Being the most developed economic region, the capital factor and its location on all the main transportation routes through the country makes Baku the most developed region in Azerbaijan for tourism infrastructure as well. 40% of the capacity of all tourist accommodations is in Baku. As a result, tourists mostly visit and stay in Baku, which can cause issues such as tourist density, leading to the city suffering "over tourism". 955,105 tourists were accommodated in Baku hotels in 2018, which was 77% of the total number of the tourists accommodated in hotels in all of Azerbaijan, presenting an under-utilization of regional infrastructure.

As assigning stars to hotels is voluntary in Azerbaijan, there exists a lack of structured classification of tourist establishments and corresponding data; therefore, it is not possible to analyze hotels by classification and their service/price balance. However, it should be noted that overall 1 234 392 foreign citizens were accommodated for 2 050 010 nights and a total of 200 221,8 thousand manat has been paid to hotels for accommodation and other services in 2018.³⁷ Comparing the total number of nights with money paid, it seems that there exist very high prices for tourist accommodations.

33% of the total number of tourists who visited Azerbaijan are visiting friends and relatives (VFR) tourists who are mostly from neighbor countries, including Russia, Turkey, and Iran. Mostly, these kinds of tourists prefer to stay in private accommodations. Additionally, tourists from neighbor countries choose short-term or daily trips so it doesn't substantially affect the capacity of tourism in the country. Considering one of the main tourism goals of the government is to draw tourists from various countries, more tourist accommodations will be needed. However, leisure and other purposes tourist flows are increased constantly it can cause deficiency in the capacity of tourism in the regions of Azerbaijan.

4. Forecasts

According to forecasts, in the future a priori dropping of oil prices can cause pressure on the value of the Azerbaijani manat and, as a result, precipitate another devaluation. In order to compensate the threats of future devaluation and economic slowdown, focusing on

³⁷ The Department of the Information Technologies of the State Statistical Committee of Azerbaijan, 2019, Main indicators of hotels and similar establishments, <https://www.stat.gov.az/source/tourism/?lang=en>

non-oil industries and, particularly, on the tourism industry can mitigate the negative consequences of the single-commodity dependence of the country. Centering on the tourism industry will demand an increased capacity of tourist accommodation and the establishment of more advanced tourist infrastructure. Changes to the management structure of government bodies related to tourism and the establishment of a Tourism Board in Azerbaijan can mark a new stage of development in the Azerbaijani tourism sector. Additionally, further developing the image of Azerbaijan and its tourism brand can successfully increase the number of visitors to the country in the coming years.

One of the strategic goals of Azerbaijan's new marketing campaign "Take Another Look" is to double incoming tourist flows until 2023.³⁸ The new tourism brand is matched with increased exposure, including Azerbaijan's participation in the international exhibition "Excel London" hosted by England. For the future Germany, Russia, the UAE, Saudi Arabia, India, China, Great Britain, Korea, and France are all signaled out as foci for promoting the "Take Another Look" campaign. Exhibiting Azerbaijan's tourism brand in international for a will help to boost tourist flows from those countries and support the permanent establishment of the Azerbaijan's tourism brand.³⁹

The World Travel and Tourism Council produced a publication called Economic Impact of Travel, and Tourism to Economy of Azerbaijan in 2018. In it, they provided a review of recent years, as well as forecasts for the next 10 years (See Figure 8). According to the statistics of the World Travel & Tourism Council, the direct contribution of the tourism industry to Azerbaijan's GDP in 2017 was 4.2%. In addition, it is expected that this portion will rise to 5.6% for 2028. Based on the statistics, in 10 years Azerbaijan will be among the most highly demanded tourism countries, like Spain, Italy, and Sri-Lanka, in the list of countries in which the tourism industry has high direct contributions to the economy. This prediction supports the Azerbaijani government's own predictions that in the near future the tourism industry will play a major role in the economy of Azerbaijan.⁴⁰

³⁸ CBC.AZ (2013-2019), Baku, 2018 New Tourism Brand of Azerbaijan was introduced, http://cbc.az/az/az/v_story/azrbaycanin-yen-turzm-brend-beynlxalq-ctmayyt-tqdm-olundu

³⁹ Azerbaijan Radio and TV broadcasts, Baku, 2018, "Presentation of the new tourism brand of Azerbaijan in London", <http://www.aztv.az/readnews.php?lang=az&id=34062>

⁴⁰ World Travel and Tourism Council, "Travel and Tourism Economic Impact 2017 World", 2017, p.1, <https://www.wttc.org/-/media/files/reports/economic-impact-research/regions-2017/world2017.pdf>

Figure 8. Forecast in tourism indicators for Azerbaijan

AZERBAIJAN	2017, USD mlr.	2017, % of total	2018, growth	USD mn	2028 % of total	Growth
Direct contribution to GDP	1,596.8	4.2	6.3	3,089.1	5.6	6.2
Total contribution to GDP	5,601.0	14.6	5.9	10,602.1	19.3	6.0
Direct contribution to employment	173	3.8	4.7	246	5.3	3.1
Total contribution to employment	611	13.2	4.2	834	18.1	2.7
Visitor exports	3,238.9	16.5	9.0	6,391.3	19.6	6.1
Domestic spending	1,097.6	2.9	-1.9	1,940.1	3.5	6.1
Leisure spending	3,518.3	3.4	5.2	6,673.0	4.5	6.1
Business spending	818.1	0.8	10.6	1,658.5	1.1	6.2
Capital investment	281.8	2.9	5.0	448.2	3.2	4.2

Source: World Travel and Tourism Council, Economic Impact of Travel, and Tourism to Economy of Azerbaijan in 2018

According to the forecasts of World Travel and Tourism Council, leisure spending will approximately double. Moreover, doubled growth in business spending is also expected. However, sharp increases of the number of tourists in the short-term may cause a high tourism density and may be more than the sector's carrying capacity. Rapid growth of tourism can have a negative effect to the destinations, and create burden life of citizens and decrease the quality of visitors' experiences. The increase of capital investment in tourism will be expected in order to implement current tourism strategies and goals in the country and influence positive growth in the center for local residents and both domestic and foreign tourists.

5. Conclusion and Recommendations

According to the research, the weak points of the established strategies and developments in Azerbaijan's tourism sector are:

1. Concentration of tourism structures mainly in Baku – in the future, the over-use of the capital by tourists may cause crowding. The over-use of transport and accommodations can negatively affect locals.

2. Deficiency of the infrastructure in the country's regions – considering the double growth of tourist flows expected for the next 10 years, the lack of capacity of tourist establishments in the regions is expected. Dissatisfaction related with the low quality of services and infrastructure, especially considering accommodations, may cause overcrowding in the regions.
3. Lack of the flights to various international destinations and from different destinations and regions to Azerbaijan and low competitiveness in the air transportation system of Azerbaijan result in high prices for air tickets, which can affect tourist flows. For instance, not having direct flights to Azerbaijan limits the diversification of tourists by country of origin, also flights of tourists with different budgets are limited so it might result in inequality of tourist types based on their budget
4. Insufficiency of the accommodations and other types of tourist infrastructure, lack of the differentiation and diversification and not having structured classification system of hotels. Most tourist accommodations in the regions artificially inflate prices, pushing tourists away in the warm season.
5. Applying of Visa regimes to many countries

Based on the weak points in the sector following recommendations can be given:

1. Focusing on other regions of Azerbaijan in terms of tourism, implementing proper marketing strategies for each touristic region of the country;
2. Establishing new infrastructure in the regions, increasing the quality of the tourism products and services;
3. Collaborating with international low-budget airlines, making changes in the price policy of Azerbaijan Airlines;
4. Promoting Azerbaijan as a safe country, achieving peace in the region for the establishment of tourism;
5. Certification of the tourist establishments accurately, development of new tourist accommodations based on their budget;
6. Giving reduction on entering border of the country in order to make convenient of the pre-traveling process more convenient for tourists.

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