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STRATEGIES FOR MITIGATING FINANCIAL LEAKAGE: MAIN DIRECTIONS OF GEORGIA'S TOURISM INDUSTRY

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Abstract. Tourism is a vital economic driver for countries worldwide, fostering growth and diversification across various sectors. However, the issue of financial leakage poses a significant challenge, particularly for countries heavily reliant on imports. This article delves into the strategic direction required to mitigate financial leakage in the Georgian tourism industry. The study identifies rural and gastronomic tourism as promising avenues for addressing this challenge through a comprehensive methodology encompassing in-depth interviews, statistical analysis, and literature review. By leveraging Georgia's diverse culinary heritage and distinctive cuisine, these alternative tourism forms promote local products and services and offer tourists authentic experiences. The research underscores the growing global preference for authentic and unique tourism experiences, aligning with the shift towards locally sourced, high-quality offerings. Through strategic initiatives focused on rural and gastronomic tourism, Georgia can differentiate itself as a leading destination while ensuring equitable distribution of tourism benefits within local communities. This study contributes to the broader discourse on sustainable tourism development, emphasizing the importance of local resources, traditions, and community involvement in shaping the tourism landscape.

KEYWORDS: TOURISM VALUE CHAIN, FOOD TOURISM, RURAL TOURISM

1. INTRODUCTION

The tourism industry is important for a country's economy as a significant revenue generator and a catalyst for broader economic development. The tourism sector has the potential to stimulate growth and diversification across various economic fields. Tourism is a diverse industry that connects hospitality, transportation, entertainment, and local services. It contributes to job creation, infrastructure development, and economic

prosperity through collaborations with other sectors. Tourism provides employment and boosts the market for locally sourced goods, fostering economic diversification and rural advancement in developing countries and mountainous regions (Sharia, 2019:98) [1]. That's why tourism is considered a tool to address poverty in developing countries. Nevertheless, doubts and criticisms have been raised about the supposed link between tourism growth and poverty reduction (Giampiccoli, 2014:1667) [2].

The tourism industry's effort to cater to visitors' requirements leads to an increased demand for various products and services in the market, ultimately driving the growth of various economic sectors. This is expected to positively impact the country's overall economic strength. However, in countries reliant on imports with undiversified economies highly dependent on tourism, where the industry heavily relies on imported goods, it gives rise to the issue of financial outflow (Sharia, 2023:208) [3].

International researchers consider financial leakage a major issue for developing countries. UNEP references a report conducted in Thailand and other countries, which reveals that approximately 70% of tourist expenditures exited Thailand via foreign-owned establishments such as airlines, hotels, tour operators, and imported food and beverages. Leakage estimates for similar developing countries are around 80% for the Caribbean region and 40% for India (Giampiccoli...2017:3) [4].

As a state reliant on imports, rather than the tourism sector energising different sectors of the economy within the country and being reinvested in various activities domestically, a significant portion of the funds garnered from tourism exit Georgia and are utilised in the economies of importing countries (Sharia, 2023:218). This financial leakage significantly challenges Georgia's tourism industry's sustainability and economic growth.

Lately, there has been a shift in tourist preferences towards alternative forms of tourism. This may have been influenced by discovering novel, previously unexplored destinations and interest in destinations prioritising local customs, history, ethics, and unique culture. Consequently, cultural diversity is seen as a way to enhance the experiences of increasingly adventurous tourists seeking fresh encounters (López-Guzmán...2011:69) [5]. From the viewpoint of developing nations, sustainable tourism can be considered as encouraging a more inclusive, fair, culturally and environmentally suitable approach to tourism growth. By adopting strategies that prioritise community participation, poverty alleviation, and the conservation of natural and cultural heritage, developing countries can ensure that the benefits of tourism are distributed equitably among the local com-

munities and that negative impacts are minimised (Giampiccoli, 2014:1668).

The Georgian tourism industry has the potential to contribute significantly to economic development and sustainable tourism. By implementing rational strategies to mitigate financial leakage, the industry can retain a larger share of tourist spending within the country and ensure that local communities and the economy benefit from tourism-related activities. Therefore, the article's main question is: What should be the strategic direction of the Georgian tourism industry to reduce/mitigate financial leakage?

2. METHODOLOGY

This article is based on several stages of research conducted as part of a doctoral thesis, "Main Directions of Special-Territorial Planning of Sustainable Development of Tourism Value Chain on the Example of Georgia".

In 2020-2021, in-depth interviews with experts and structural surveys of accommodation were conducted. A purposive sampling method was used for in-depth interviews with experts to determine the share of Georgian products in the total purchases made by accommodations. The study also explored changes in this share over recent years and assessed whether Georgian products meet quality standards, competitive pricing, quantity, stability, and safety. The accommodation survey primarily aimed to identify the key product categories within the accommodation value chain and assess the proportion of Georgian products in each category.

In 2022, statistical information was processed. To confirm the survey and in-depth interview findings, data on importing and exporting key products within the accommodation value chain was obtained from the National Statistics of Georgia. The analysis involved over 20,000 inputs using HS4 product codes.

In 2023, additional in-depth interviews were conducted with representatives of guest houses and small hotels to find strategies for mitigating financial leakage. These interviews aimed to gather insights and perspectives from tourism businesses in Georgia on how they address the issue

of financial leakage within the industry.

In 2023-2024, we use a comprehensive literature review approach. This method involved systematically gathering and analyzing existing scholarly works, research articles, reports, and other relevant sources about the subject matter. The review process entailed meticulous examination and synthesis of key findings, trends, theories, and methodologies from the selected literature. Efforts were also made to critically evaluate the sources' credibility, reliability, and relevance to ensure a robust review. This methodological approach enabled a thorough understanding of the current state of knowledge, gaps in research, and emerging themes related to the strategic direction of the Georgian tourism industry and its implications for mitigating financial leakage.

MAXQDA was used to process and analyze the qualitative information, and Excel for quantitative data.

3. RESULTS AND DISCUSSION

3.1. The result of empirical studies and statistical analysis

The country's tourism value chain is a very complex issue; therefore, within the scope of this study, the topic was narrowed down to the study of the value chain of accommodations. A quantitative survey and expert interviews identified 22 primary product categories within the accommodations value chain: 1. Accommodation appliances and furniture; 2. Cleaning products; 3. Disposable amenities and items; 4. Building materials; 5. Alcohol; 6. Mineral and freshwater; 7. Juices; 8. Sugar and confectionary additives; 9. Canned foods and jams; 10. Food oil and butterfat; 11. Flour; 12. Spices and pepper powder; 13. Coffee and tea; 14. Fruit and dried; 15. Nuts; 16. Potatoes; 17. Vegetable; 18. Cereals and legumes; 19. Fish and seafood; 20. Dairy products; 21. Egg; 22. Meat.

The combined trade balance for these 22 product categories stands at a deficit of – 468886 thousand U.S. dollars. Out of the total, only eight groups demonstrate a positive trade balance: alcohols, mineral and freshwater, juices, spices and pepper powder, fruit and dried, nuts, potatoes, and eggs (Sharia, 2023:2014).

A negative trade balance of the main product groups involved in the accommodation value chain indicates financial leakages received through tourism. It is essential to identify the strategic directions for tourism in the country. This will maximize the incorporation of local products and services into the tourism value chain, ultimately reducing financial leakage.

The in-depth interviews revealed that local small hotels, family-owned hotels, and concept hotels are more willing and able to integrate local products as much as possible than large branded and international hotels. Representatives of small local hotels understand that using local products enhances their prestige and helps them position themselves well in the market. For international brand hotels, the most important thing is that the purchased product is economically profitable in terms of price and quality, and the product's origin is of no less importance to them. Empirical studies have shown that Georgian products often cannot compete with imported products regarding price, quality, and supply stability.

Expanding and strengthening local production will undoubtedly increase the share of local products in the tourism value chain. In light of the current situation, exploring existing opportunities for reducing financial leakage within the tourism industry is intriguing. That is why we explore the types of tourism that imply and innovate the use of local products and services.

3.2. Literature Review – Alternative Types of Tourism

The increasing importance of mass tourism has come under examination and faced significant criticism. Meanwhile, alternative approaches to tourism development, which are believed to offer improved outcomes for development, particularly in developing countries, have been put forward. As a result, alternative types of tourism have garnered attention since the 1980s (Giampiccoli, 2014:1667). These alternative concepts emphasise sustainable development, community engagement, and minimising negative environmental and local cultural impacts. Various forms of alternative tourism have been evaluated in different ways. Alternative

approaches to tourism have been proposed, such as pro-poor tourism, responsible tourism, fair trade tourism, ecotourism, and community-based tourism. A notable distinction between CBT and other alternative forms of tourism is based on voluntary self-regulating frameworks adhering to a specific set of principles. In contrast, CBT is not a self-regulating voluntary process. Unlike mainstream tourism, which operates from outside the community, CBT originates within the community, with ownership and management vested within the residents (Giampiccoli...2016:3) [6].

In the scientific works, next to the types of alternative tourism, sustainable tourism types are also found; the following main ones are distinguished: ecological tourism, ecotourism or green tourism, soft tourism, rural tourism, equitable tourism, solidarity and responsible tourism (Juganaru...2008:798-801) [7].

International researchers widely discuss community-based tourism, but since we currently do not have the level of decentralisation in governance in Georgia that would facilitate this type of tourism, we will not discuss it in detail within the scope of this article. Instead, we will focus on other types of tourism that are more relevant to mitigating financial leakage in Georgia's tourism industry, namely agro-tourism and food tourism.

Gastronomy has not traditionally been seen as a key attraction for tourists in the past, but it is now increasingly recognised as an important aspect of tourism. It serves as a significant draw for visitors and can cultivate loyal travellers. Gastronomy tourism presents opportunities to integrate local food systems into tourism, fostering economic development and meeting the specific demands of customers or tourists. Furthermore, it can be regarded as a sustainable form of tourism that supports local producers and stimulates the local economy. The bond between tourism and gastronomy is substantial; while eating is a necessity for travellers, gastronomy enhances their overall travel experience by contributing to its quality (Kyriakaki... 2013:2) [8].

To mitigate financial leakage in the tourism industry, one main strategy is to focus on developing and promoting gastronomy tourism. This involves showcasing local cuisines, promoting food experiences, and highlighting the unique aspects

of gastronomy that can only be found in a particular destination. By embracing gastronomic tourism, destinations can attract visitors seeking authentic culinary experiences. To mitigate financial leakage in the tourism industry, one main strategy is to focus on developing and promoting gastronomy tourism.

Exploring the unique flavours of different regions has been attributed to various terms in literature, including food tourism, cuisine tourism, culinary tourism, gastronomy tourism, and taste tourism. Defining gastronomy as a form of travel is complex and has been approached by several authors. However, they generally agree on two main points: that gastronomic activities can be the primary reason for travel or support it, and that these activities must offer an exceptional and memorable experience. Recent research indicates a shift in tourist preferences over time. It appears that tourists are interested in visiting significant cultural, historical, and environmental sites and seeking out new elements, such as culinary resources, when exploring a destination (Kyriakaki...2013:3). In simple terms, gastronomy helps highlight what makes a place special by letting tourists experience its culture and connect with its history, traditions, and heritage.

Experiencing the local cuisine in a specific location is a significant activity for tourists and plays a key role in their choice of destination and intention to revisit (Nevin, 2019:1) [9]. In international scientific literature, there are many studies on the relationship between specific food characteristics of a region and food tourism or how a particular dish represents a tourist destination. For example, Dr. Francesc Fusté-Forné discusses in detail the development of cheese tourism in Valle de Roncal, Spain. According to him, cheese tourism has recently attracted growing attention from scholars and is considered a niche area within food tourism. Cheese landscapes are an emblem of rural identity and are key in attracting tourists to specific destinations. Food tourism involves exploring a location's distinctive cultural and natural aspects through its culinary traditions, particularly emphasising lesser-explored areas such as rural, natural, and mountainous settings that safeguard age-old customs. Food tourism involves exploring a culture through its cuisine. Gastron-

omy tourism focuses on understanding, experiencing, and savouring the culinary traditions of a specific region. The unique landscapes, cultural practices, local products, cooking techniques, and traditional dishes all contribute to the distinct gastronomic identity of a destination and form an essential part of the tourism experiences provided to guests (Fusté-Forné, 2020:1-2) [10].

In this context, some authors emphasise the importance of geographical indication. Local food and products play a significant role in tourism, with their registration under geographical indications being crucial for preserving them for future generations. Geographical indication safeguards the region's culture, traditions, customs, touristic assets, and cultural heritage while promoting sustainability. Therefore, items registered with geographical indications significantly contribute to tourism development (Pamukçu...2021:1) [11].

In the article "The Role of a High-quality Restaurant in Stimulating the Creation and Development of Gastronomy Tourism", the authors discuss the role of Michelin-star restaurants. Michelin-star restaurants attract a lot of media coverage and customers, contributing significantly to the local economy. For example, the three-star Michelin restaurant El Celler de Can Roca emphasises its principles and philosophy connected to the region, drawing in many tourists. Food and wine play a crucial role in modern-day living and have emerged as key contributors to the growth of tourism and a unique market segment (Meneguel...2018:220-221) [12].

Since cultural factors influence dietary patterns and traditions play a role in bolstering national identity, scholars consider traditional and regional cuisine integral to a nation's cultural heritage. They argue that local products are an essential part of the destination's cultural heritage for tourists and reflect the region's cultural traits (Gonda... 2021:94-95) [13].

3.3. Discussion

On the one hand, we have a situation where the types of tourism that create an authentic and unique experience are becoming increasingly popular in the international tourism industry. Talking

about local products has become popular nowadays. There is increasing opposition, particularly within the food industry, to the negative economic, social, environmental and cultural impacts of globalisation and free trade. The food industry is undergoing significant changes with a shift towards mass-produced foods using industrial methods and high-quality premium category foods. Local and seasonal products are gaining renewed appreciation, and the traditional knowledge associated with their production has evolved into a valuable asset. As a result, creating local products and promoting their sales on a large scale could incentivise tourism, gastronomy, and rural development. Introducing local products to the market while emphasising their purchase and consumption has become fashionable (Gonda...2021:92).

On the other hand, we have a diverse and rich Georgian cuisine with a distinctive cultural identity and history. Also, from the groups of products involved in the tourism value chain of Georgia, the products representing the agriculture and food industries have a positive trade balance. In the in-depth interviews conducted for the study, representatives of local small hotels and guesthouses expressed awareness of the benefits of using locally sourced products. They believe that doing so makes their services more distinctive and attractive. By incorporating local products into their offerings, small hotels and guesthouses in Georgia's tourism industry can differentiate themselves and appeal to visitors seeking authentic experiences.

In light of the critical analysis of the literature review and Georgia's potential in alternative types of tourism, two strategic directions emerge: rural tourism and gastronomic tourism/food tourism. These incorporate local products and services into the value chain and help reduce financial leakage.

Both international and local researchers agree that food is one of the defining characteristics of tourism. They recognised that one-third of tourists' complete vacation expenditure and acknowledged that tourist preferences for food could even dictate entire destination choices (Li...2019:1) [14]. Georgian cuisine is a top attraction for international visitors to Georgia and reflects the country's unique features as the birthplace of wine and home to diverse ethnographic regions. Historically, each region expressed its authentic-

ty through dress, architecture, and food tradition, with modern times preserving gastronomy most effectively. The distinctive geography of Georgia—encompassing alpine and subtropical zones—has given rise to an impressive culinary tradition. Georgian cuisine features specific products found in the Caucasus region, leading to globally renowned dishes. It is a prominent expression of the country's ancient and rich culture, reflecting regional natural resources that have shaped distinct ethnic food traditions regarding ingredients used, cooking methods employed, and frequency of meals consumed (Meladze, 2015:222, 224) [15].

In various parts of the world, numerous successful examples of destinations and tourist services are developed around products unique to specific regions. For example, Spain and “oleo tourism” (olive oil tourism) encompass a range of experiences centred around the production and culture of olive oil. These activities may involve tours of olive groves, visits to historical and modern mills during the olive harvest, scenic routes like those found in wine tourism, and opportunities for tasting olive oils and local dishes where olive oil plays a prominent role. Thus, “oleo tourism” incorporates diverse cultural pursuits related to nature, heritage, environment, and regional traditions (Folgado-Fernandez... 2019:2) [16].

Because Georgia is a homeland of wine, Georgia's ancient tradition of winemaking is an Intangible Heritage of Humanity, and we have marvelous cuisine; the country can be a leading “brand destination” in the food tourism field worldwide.

Food tourism is very closely linked with rural tourism. Both of them allow tourists to experience the authentic flavours of a destination and feel the local atmosphere fully. Therefore, strength-

ening rural and food tourism in Georgia's tourism industry can play a crucial role in mitigating financial leakage by promoting local products and services involving local populations, resources, and customs.

4. CONCLUSION

In conclusion, the evolving landscape of the international tourism industry underscores a growing preference for authentic and unique experiences, particularly evident in the rising interest in local products. Simultaneously, there is a discernible shift within the food industry towards locally sourced, high-quality offerings, reflecting a broader opposition to the adverse impacts of globalization. Georgia's rich culinary heritage, with its diverse and distinctive cuisine, presents a valuable asset in this context, offering an authentic taste of the country's cultural identity and history. By integrating local products into the tourism value chain, particularly within rural and gastronomic tourism initiatives, Georgia can not only differentiate itself as a destination but also mitigate financial leakage by promoting local economies and preserving cultural traditions. Drawing parallels with successful examples from around the world, such as Spain's “oleo tourism,” underscores the potential for Georgia to position itself as a leading food tourism destination. Embracing food and rural tourism as strategic directions aligns with global trends and presents a promising avenue for sustainable development, emphasizing the importance of local resources, traditions, and community involvement in shaping the tourism experience.

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