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BENCHMARKING ANALYSIS OF ARMENIA'S TOURISM INDUSTRY

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Executive Summary

The global travel and tourism industry is robust, relatively stable in terms of growth and projected to grow at around 4.2% per year. The growth will result in increased income for destinations, increased employment and higher levels of investment. Increased travel can be attributed to cheaper air travel, higher disposable incomes of travelers, improved technology and increased leisure time.

Although more than half the world's tourist arrivals are concentrated within Europe (54%), the highest levels of arrivals growth have been seen and furthermore, are predicted in Asia and the Pacific, Africa and the Middle East confirming the trends for growth in new destinations, niche travel products, and cheaper and more long-haul air travel. The result will be a decline in Europe's market share in favor of Asia and the Pacific in the long term.

Similarly, more than half the world's tourist incomes are concentrated within Europe (51%). Income for the Americas, and Asia and the Pacific are each less than half that of Europe.

More than half the world's international travelers originate from just ten countries. Within these, Russia and China have the highest level of growth, although neither are in the top five in terms of absolute numbers of travelers.

Currently, most travel and tourism expenditure (domestic and outbound), originates from North America, with the European Union in a close second place. Although these proportions are not expected to significantly change in the next ten years, there will certainly be growth in expenditure share from Asia and the Pacific, largely as a result of Chinese travel. The highest spenders in per capita terms are North Americans, Australasians and those from the EU.

Source market and expenditure trends are mirrored by data and forecasts provided by the International Air Transport Association. The highest increases in passenger numbers are predicted within Asia along with the highest number of airline orders. Low cost carriers have impacted significantly on travel destinations giving rise to Europe's position in second place in terms of forecasted passenger number increases and airline orders.

In order to analyze Armenia's performance in tourism, analysis was undertaken amongst 12 countries that were deemed to offer similar products and services to those tourists that may consider traveling to Armenia. In comparison to this sample group of countries, Armenia demonstrated a poor performance in terms of absolute arrival numbers and arrivals in relation to population and territory size, despite its significant arrivals growth. Similarly, it performs poorly in terms of absolute income, income per capita and income in relation to territorial size, despite its significant growth rate in income. As a result, the contribution of tourism to Armenia's economy remains low. The percentage of those employed in the tourism industry is also low.

Although data was not available on country tourism promotional spending for all the countries in our sample, it was possible to note, with a slightly adjusted sample of countries, that Armenia's spending on tourism promotion is very low in absolute terms and in relation to the size of population.

The World Economic Forum's Travel & Tourism Competitiveness Index clearly correlates well with the success of countries, in terms of arrivals as a percentage of population, within the sample. Factors that appear to be particularly important amongst all benchmarks include the quality of higher education and training, market efficiency, innovation, investment freedom, property rights, infrastructure, policy, regulations and legal environment, and environmental protection. Within the sample, Estonia, Hungary and Israel consistently appeared in the top positions of the various benchmark studies indicating that they would be

good best practice examples for Armenia's tourism industry to focus upon. The Corruption Perceptions Index also appears to have a strong correlation with success in terms of tourism arrivals in relation to population size. However, rather than corruption being a major factor in this correlation, it is more likely that the emphasis is on the 'perception' of particular destinations; their overall image amongst travelers; and parallel conditions that may exist in countries with perceived high corruption.

The fact that Armenia requires tourists from the major top ten source markets to have visas in order to enter the country puts it at a disadvantage compared to many of the other countries in the sample.

Assuming the top ten global tourism source markets are those from which Armenia should choose its source markets, Russia, the UK, China and Canada are most appealing in terms of their growth to our sample group of countries. Germany and Japan demonstrate the lowest levels of growth and Germany has actually demonstrated a decrease in arrivals to Armenia. Strongest arrivals growth increases to Armenia are shown from the UK, Japan, Italy, China and Russia. By looking at their current dominance within each country in the sample, Russia, Germany, the UK, USA and France all appear strong.

Constructing an index that takes into account the growth trend of tourists from the major source markets to the sample group and Armenia, and the share of the major source markets within the sample group and Armenia, the result suggests that Russia, USA, Italy, the UK and France demonstrate the highest potential. Russia's and the USA's position are largely as a result of the Diasporan connection to Armenia.

Examining the market share of the top ten markets within the sample group, it is likely that success would come from source markets that are not heavily dependent upon particular destinations within our sample. In this case the UK, Japan, Italy, China, Canada and the Netherlands would be good candidates.

Given Armenia's current level of tourism infrastructure and arrivals it will be difficult to impact the market to decrease flight costs and hotel prices, thereby enabling Armenia to be more cost competitive. This will require changes in aviation policy and investment promotion over the longer term. Therefore, if it is not possible to decrease prices, an alternative is to look at attracting those source markets that are currently showing an interest in the destinations that are more expensive to travel to or stay in than Armenia. For example, hotel prices appear to be higher in Romania, Syria and Azerbaijan so it may be appropriate to look at targeting the source markets for these countries.

Romania relies heavily on the Italian and German markets so, given that arrivals from Germany to Armenia have decreased, Italy would remain as an important source market. Syria has an equal spread of arrivals from Germany, USA, the UK, France, Italy and Russia; therefore all represent possible good source markets for Armenia. Azerbaijan is receiving the majority of tourists from Russia, although the UK is in second position; again, both are possible targets for Armenia.

According to the information collected on flight costs, those destinations that tend to be more expensive to reach from the top ten source markets are Azerbaijan, Syria, Lebanon and Jordan. Therefore, it would appear to be prudent to target the dominant source markets for those countries, namely Russia, the UK, USA, France, Canada and Italy.

The source markets that appear dominantly in each of the analyses are Italy, UK, Russia, France and the USA; therefore, these are the markets that Armenia should consider focusing on. However, before making any final decisions, other considerations must also be taken into account, such as the suitability of Armenia's tourism products to each of the major source markets, the capacity of tour operators to cater to tourists from

different markets, and the relative costs and methods of promotion required in each source market. Other research recently undertaken should help to clarify some of these issues.

Certainly, some of the countries, with which Armenia has been compared for the purpose of this study, are well known for the attractions they can offer to tourists. Turkey has a range of cultural and natural sites (Cappadocia and Pamukkale) as well as a long coastline, Jordan has the archaeological site of Petra, Poland has the architecture of Krakow and Warsaw and the heritage associated with the Second World War, Hungary has a world-renowned capital city on the Danube River. Armenia must therefore clearly define and promote its unique selling points and attractions. And, with these attractions in mind, Armenia must attempt to offer a unique tourism experience, focusing on customer satisfaction, safety and service quality.

A number of recommendations can be made from the results and conclusions of this report.

- 1) Armenia should look at focusing its marketing efforts on five target source markets: Russia, USA, France, Italy & UK
- 2) In developing the industry, Armenia should use Estonia, Hungary and Israel as case study examples
- 3) The tourism industry should lobby for changes to immigration policy; relaxing the visa regime for tourists from the world's and its own major source markets
- 4) Armenia should implement an open sky policy with the EU countries and other major source markets and reduce aviation taxes. Encouraging low cost carriers to Armenia (like Air Arabia) would bring significant results
- 5) There is a need for lobbying to increase the low level of promotional funding significantly
- 6) With a relatively low level of budget, Armenia can focus significantly more funding on internet promotion, providing a greater range of information in an accessible format to those countries listed above. This includes increasing the range of accommodation available for online booking.
- 7) The tourism industry, through a Strategic Action Plan, should concentrate efforts to improve tourism education; the professionalism and effectiveness of tourism enterprises; innovation; the regulatory, investment and business environment; and environmental protection
- 8) The image of Armenia is crucial. The tourism industry must work collectively to develop a powerful and appealing image with which to promote the industry.
- 9) Because of the relatively high hotel prices, particularly during the peak season when occupancy is high, the tourism industry should work to promote tourism activity during off peak seasons and attract higher value clients willing to pay more for accommodation

Introduction

With more than 842 million international trips taken in 2006, revenue for 2007 expected to be more than \$7 trillion and employment reaching 231 million people, the global tourism industry is one of the world's largest and most competitive service industries. Worldwide there are more than 240 countries and territories, the majority of which are consciously attempting to get more arrivals and more income from the global market.

Twenty years ago, the picture was very different. Destinations required little in the way of infrastructure, investment or a well-qualified workforce. The comparative advantages of a rich history, environment or culture were simply enough to attract visitors. With the growth of international standards of living and technology, the relative decrease in international transportation costs and the increasing desire for niche travel, new destinations have emerged creating new competitors for the more well-established destinations. Tourism has become globally competitive and in order to develop successfully, destinations have had to start looking beyond their own borders

At first sight, with annual arrivals increases of around 20% per year, Armenia appears to be doing well. In fact the World Tourism Organization (UNWTO) lists Armenia as one of the world's emerging destinations. However, high arrivals growth can be commonplace in countries that have relatively low absolute arrival numbers. Also a five year trend in Armenia is for this rate of growth to decline from one year to the next. The fact is that currently Armenia receives less than 0.04% of global tourism arrivals but has the potential to increase its market share.

To be competitive in tourism, destinations must understand that they need to be different or better or both. They need to start looking at their competitors (neighboring countries or countries within the region that offer similar products and services) and decide how they can outperform them in terms of quality and promotion. Competitiveness also requires innovation and new ideas, collaboration and cooperation, and the productive and efficient use of resources. Tourists will tend to prefer destinations that are cheaper and easier to get to, that do not require lengthy or bureaucratic visa procedures, that have high quality information easily accessible, and that appear to offer high value memorable experiences. Clearly one way to provide what is needed is to examine what other countries are doing, undertake benchmarking with competitor and comparator countries and attempt to out-compete them.

By assessing where Armenia's weaknesses are, not subjectively by looking around the country, but objectively by analyzing the performance of other similar and competing destinations, it can identify new opportunities, market gaps and obstacles to overcome. This report aims to analyze a wide variety of statistics and benchmarks to identify those source markets that demonstrate the greatest potential for Armenia's tourism growth. Additionally, it will highlight the important factors that will catalyze this growth.

The first chapter of this report highlights the major trends and forecasts within the global tourism industry from both a quantitative and qualitative perspective in order to gain a basic understanding of the direction in which the industry is heading and the opportunities that will provide.

The second chapter then benchmarks Armenia's tourism arrivals against those of selected competitor and comparator countries using two specific methods. This benchmark is then analyzed against other benchmarking studies to draw some possible determinants for destination success amongst the selected countries.

The third chapter compares Armenia and its competitor and comparator countries in terms of revenue generated, contribution to GDP and employment.

The fourth chapter benchmarks Armenia's tourism arrivals, arrivals growth rate and market share from the world's top ten tourism source markets against its competitor and comparator countries to identify trends in destination choice and popularity.

The fifth chapter looks very briefly at visa regimes amongst the competitor and comparator countries for the world's top ten source markets since this can be considered to be an important determinant to tourist arrivals growth.

Finally, the sixth chapter looks at the cost competitiveness of accommodation and air transportation in and to each of the competitor and comparator countries from the world's top ten source markets to better understand why some destinations may be more popular than others.

The last part of the report draws together some conclusions from all the information presented. The authors wish to highlight that the analyses undertaken here are limited. There are countless ways to examine the success of a tourism industry and its potential for growth. This report is considered to be a start in the process.

Methodology and Constraints

The majority of data used for this study has been taken from the World Tourism Organization (UNWTO) and World Travel and Tourism Council (WTTC). Unfortunately, the reliability of tourism arrivals and expenditure data can be questionable and therefore the results should be read with some caution. Firstly, countries use different methods of data collection: some focus on visitors rather than tourists, some collect data from overnight stays rather than at borders, recent data is sometimes lacking for some countries and methods of data collection change over time. Secondly, it is widely accepted that the collection methods used by some countries and the assembling of the statistics does not necessarily comply with international standards.

The authors suggest that the results be accepted as indicative of the current situation and trends for the future rather than fact.

The choice of the competitor and comparator countries with which Armenia has been benchmarked was decided collectively by the authors in the belief that they offered similar tourism products and would possibly be considered by tourists as an alternative to those intending to come to Armenia. An initial group of 18 countries, including Armenia was chosen and after some initial analysis was reduced to 12. The list of competitor and comparator countries comprise: Armenia, Azerbaijan, Estonia, Hungary, Israel, Jordan, Lebanon, Poland, Romania, Syria, Turkey and Ukraine.

The information for visa regimes was obtained from the OAG.com website (a global flight information and data solutions company) and is deemed correct as of 24th May 2007. Of course the information is subject to change over time.

The information on hotel and airline costs was obtained from Expedia.com in mid March 2007 for real flights and accommodation anticipated for 6th to 20th September 2007. For hotel costs, the minimum and maximum costs were ascertained from all the costs listed on the website for a standard room in the capital city of each country analyzed. The flight costs were based on all the economy class options made available by the website for the pre-chosen dates.

It is accepted that by changing the dates slightly the results and costs could be very different. Furthermore, we accept that Expedia.com may not list all the hotels in a city or all the possible flights available to consumers. However, as mentioned above, the study results should be taken as an indication rather than fact.

1. Global Tourism Trends & Forecasts

The world's Travel and Tourism (T&T) industry has grown by an average 4.6% per year during the past ten years, despite a drop in arrival numbers in 2001. The annual growth rate between 2005 and 2006 at 4.3% continues this trend. The World Tourism Organization (UNWTO) predicts that tourism growth will continue at a rate of 4.1% until the year 2020. Their latest prediction (made at the end of 2006) was that tourism would increase by 4% in 2007. The World Travel and Tourism Council (WTTC) predict that total tourism demand will rise at a rate of 4.3% per year until 2017.

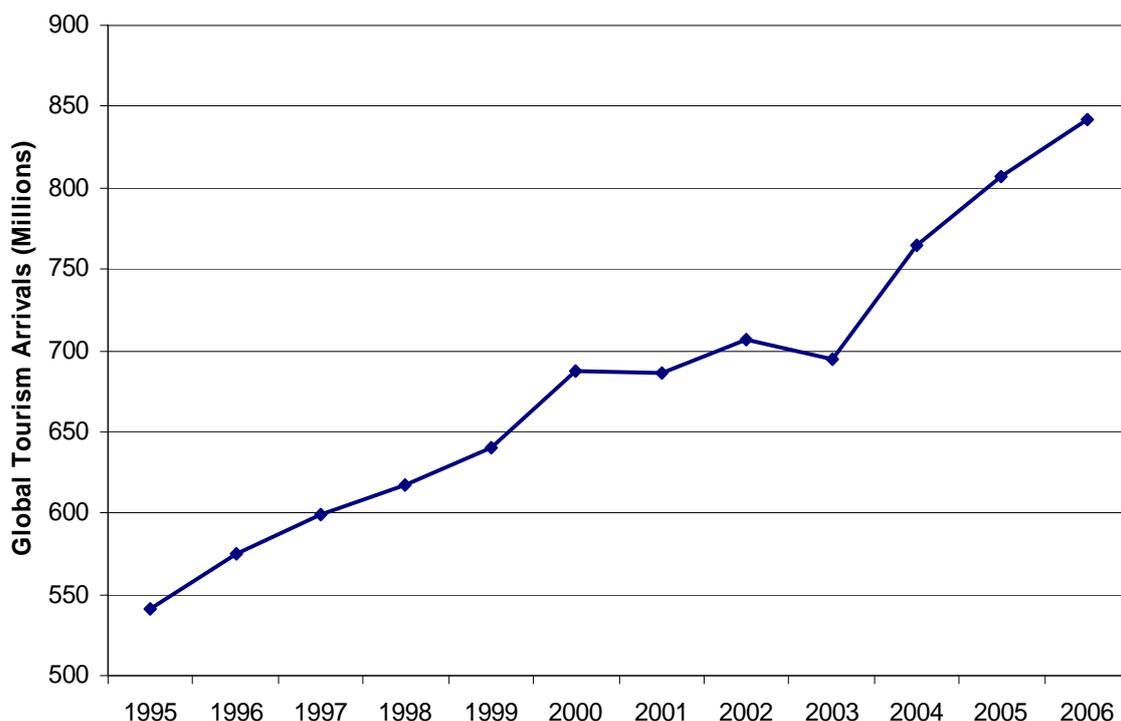


Figure 1: International arrivals between 1995 and 2006

Source: UNWTO

UNWTO long term forecasts suggest that tourism arrivals will total 1.56 billion by the year 2020. Of these arrivals 1.2 billion are expected to be intraregional and 0.4 billion will be long haul.

WTTC forecasts that the global T&T Industry is expected to generate US\$7,060.3 bn of economic activity (Total Demand) in 2007 (growth of 3.9% from 2006), growing to US\$13,231.6 bn by 2017 (growth of 4.3% per annum between 2008 and 2017) (WTTC, 2007)

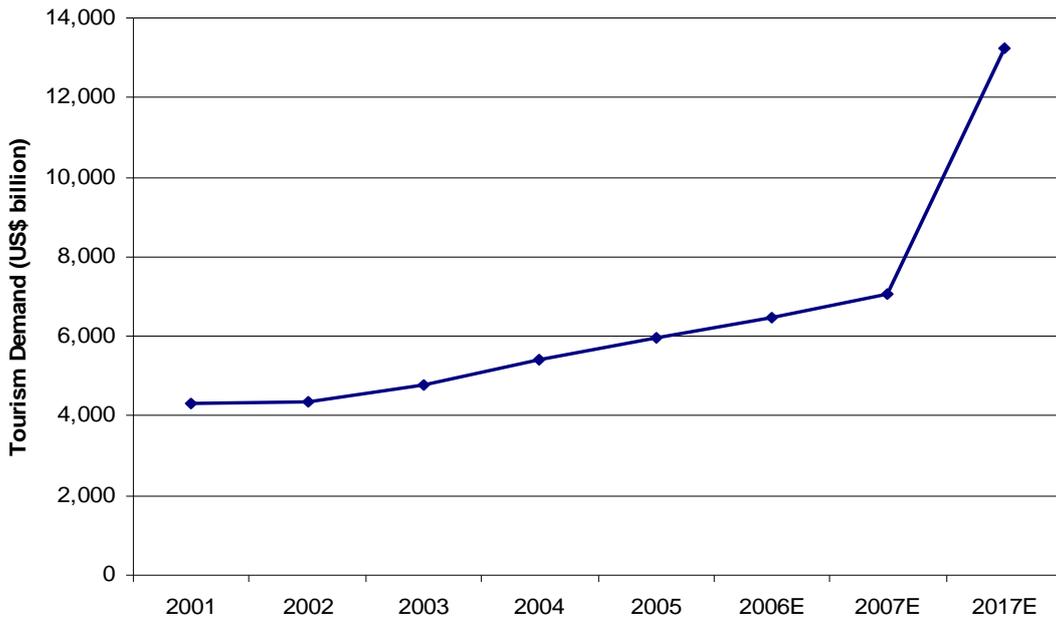


Figure 2: Total Tourism Demand (US\$ bn)

Source: WTTC

Note: E=Estimated

The world's T&T Industry is expected to contribute 3.6% to Gross Domestic Product (GDP) in 2007 (US\$1,851.2 bn), rising in nominal terms to US\$3,121.7 bn (3.4% in total) by 2017. The world's T&T Economy is expected to contribute 10.4% to GDP in 2007 (US\$ 5,390.9 bn), rising to 10.7% in 2017 (US\$ 9,781.3 bn).¹ (WTTC, 2007)

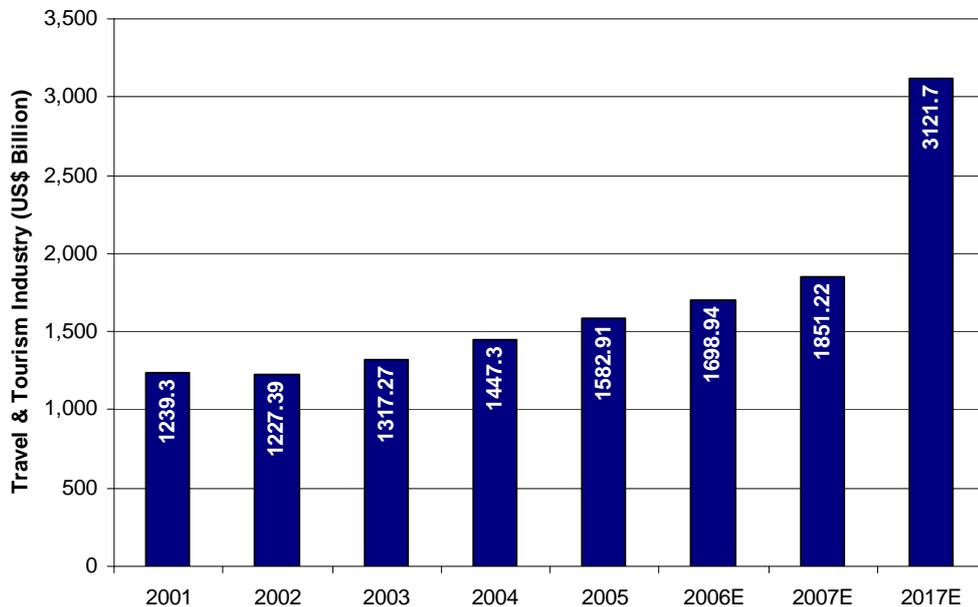


Figure 3: World T&T Industry contribution to GDP (US\$ bn)

Source: WTTC

Note: E=Estimated

¹ **T&T industry GDP** - Direct and indirect contribution to GDP associated with T&T establishments including airlines, hotels, car rental companies, etc. (direct establishments) and fuel and catering companies, laundry services, accounting firms, etc. (indirect establishments).

T&T economy GDP - Broadest measure of T&T's contribution to the resident economy. Establishments in this category include those described above as well as manufacturing, construction, government, etc., that are associated with Capital Investment, Government Services and Non-Visitor Exports.

The world's T&T employment is estimated at 231,222,000 jobs in 2007, 8.3% of total employment or 1 in every 12 jobs. By 2017, this is expected to reach 262,634,000 jobs. The 76,084,000 T&T industry jobs account for 2.7% of total employment in 2007 and are forecast to total 86,637,000 jobs by 2017². (WTTC,2007)

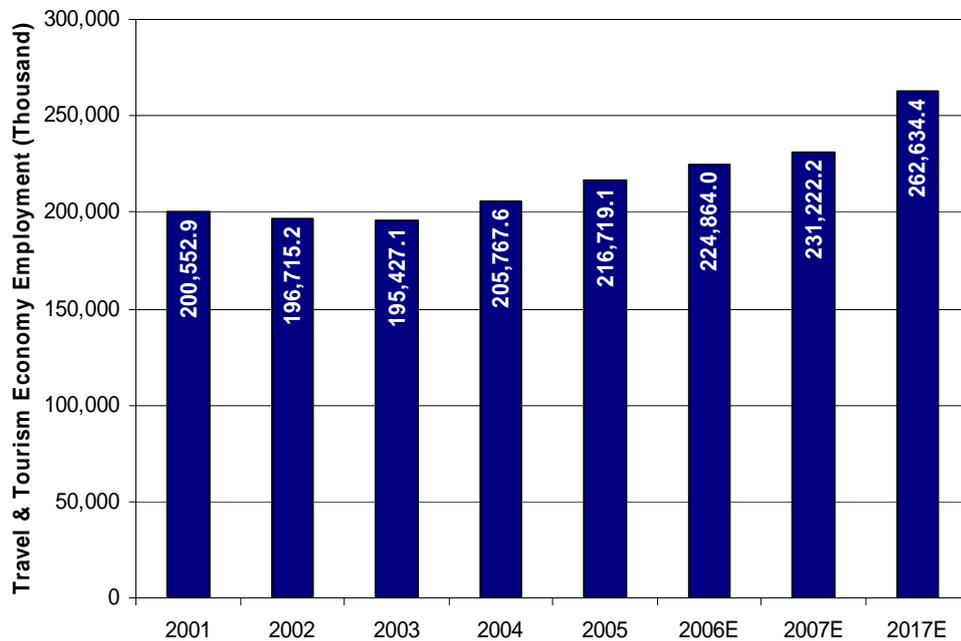


Figure 4: World T&T Economy Employment.

Source: WTTC

Note: E=Estimated

World T&T Capital Investment is estimated at US\$1,155.4 bn or 9.5% of total investment in 2007. This is expected to rise to US\$2,392.8 bn or 9.9% in 2017³. (WTTC, 2007)

² **T&T industry employment** - Direct and indirect contribution to employment associated with T&T establishments including airlines, hotels, car rental companies, etc. (direct establishments) and fuel and catering companies, laundry services, accounting firms, etc.(indirect establishments).

T&T economy employment - Broadest measure of T&T's contribution to employment. Establishments in this category include those described above as well as manufacturing, construction, government, etc that are associated with Capital Investment, Government Services and Non-Visitor Exports.

³ **T&T capital investment** - Capital expenditures by direct T&T industry service providers and government agencies to provide facilities, equipment and infrastructure to visitors.

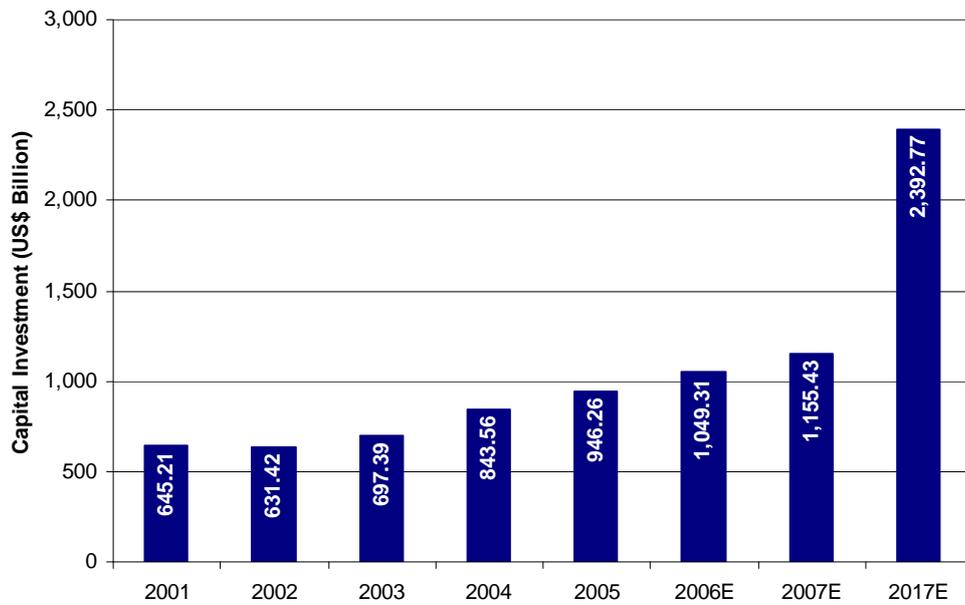


Figure 5: Capital Investment in T&T Industry (US\$ bn).

Source: WTTC

Note: E=Estimated

Worldwide government T&T operating expenditures in 2007 are expected to total US\$334.2 bn or 3.8% of total government spending. This is expected to rise to US\$545.9 bn or 3.9% of total government spending in 2017⁴. (WTTC, 2007)

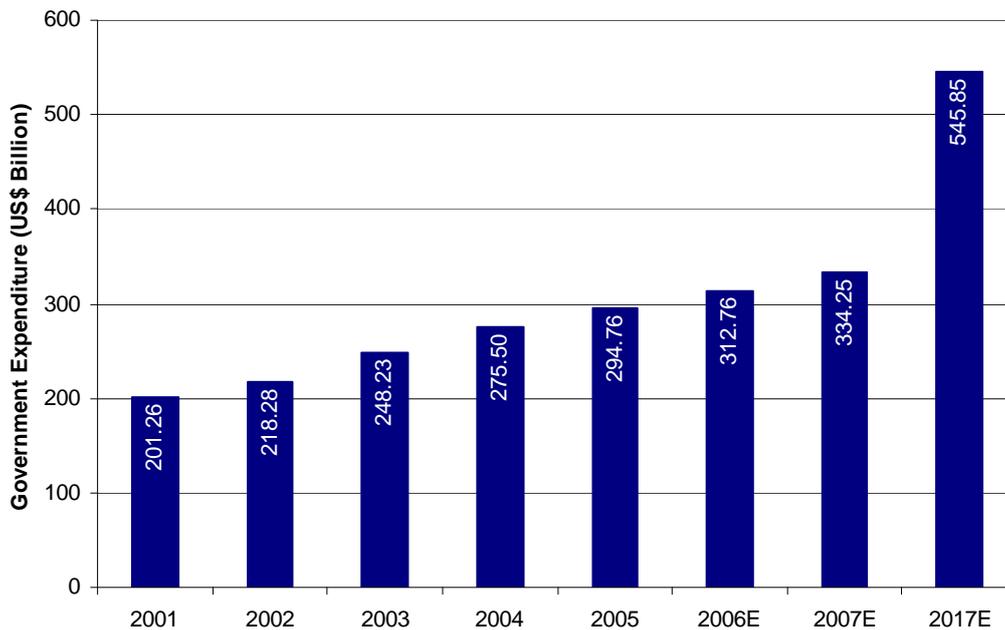


Figure 6: Government Expenditures in T&T Industry (US\$ bn)

Source: WTTC

Note: E=Estimated

⁴ **T&T Government expenditures** - Operating expenditures made by government agencies on services associated with Travel & Tourism, but not directly linked to any individual visitor, instead these expenditures are generally made on behalf of the 'community at large', such as tourism promotion, aviation administration, security services and resort area sanitation services, etc.

Worldwide, the principal tourism destination region is Europe with 441 mn arrivals in 2005. According to estimations by the UNWTO, this and all other regions will have seen increased arrivals in 2006 (full data not currently available). Although Africa and the Middle East have the smallest number of arrivals, they do, however, have high levels of annual growth; 8% for example in the Middle East. By 2020 the top three destination regions are expected to be Europe (717 million tourists), East Asia and the Pacific (397 million) and Americas (282 million). The UNWTO classifies Armenia as a European destination.

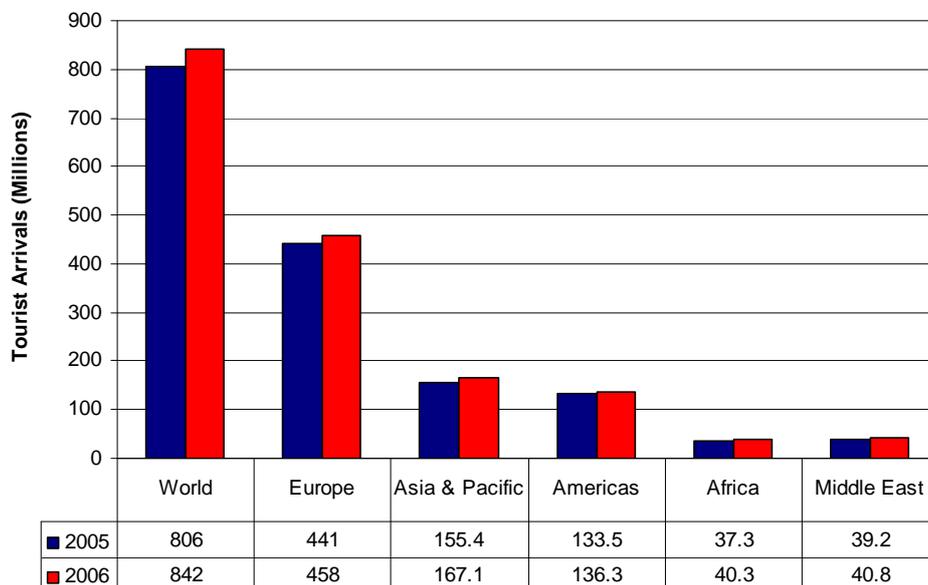


Figure 7: 2005-2006⁵ World & Main Regions Arrivals (millions)
Source: UNWTO

In terms of sub-regions, tourism arrivals are highest to Southern and Mediterranean Europe, followed closely behind by Western Europe.

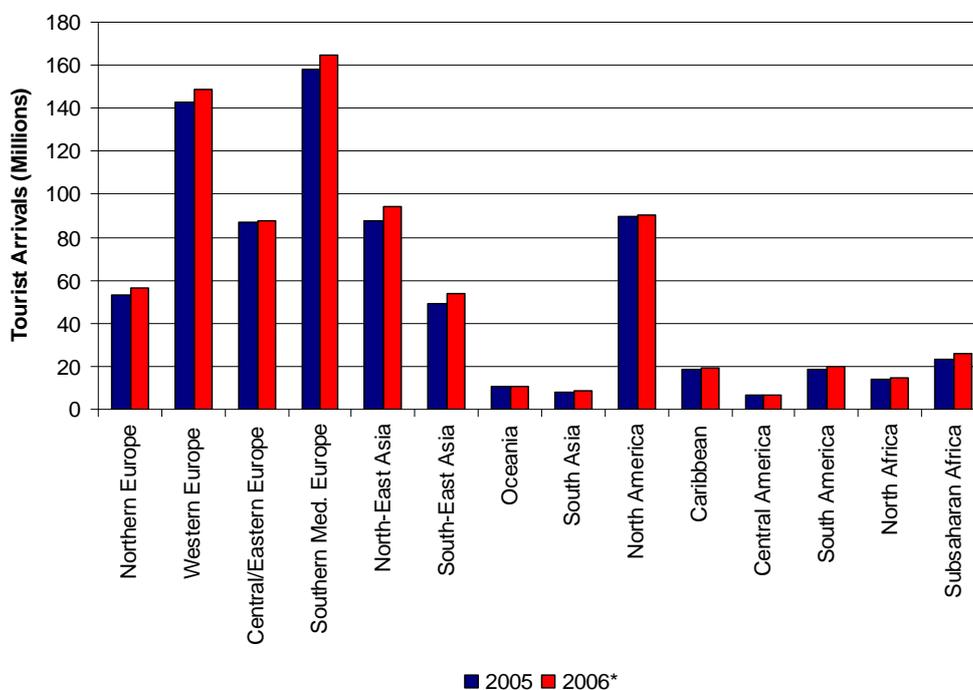


Figure 8: 2005-2006* Sub Regional Arrivals (millions)
Source: UNWTO

⁵ Data for 2006 is estimated by UNWTO.

The highest level of growth in arrivals to subregions for 2006 is expected to be evidenced in South Asia, Sub-Saharan Africa and South East Asia with rates in excess of 8%.

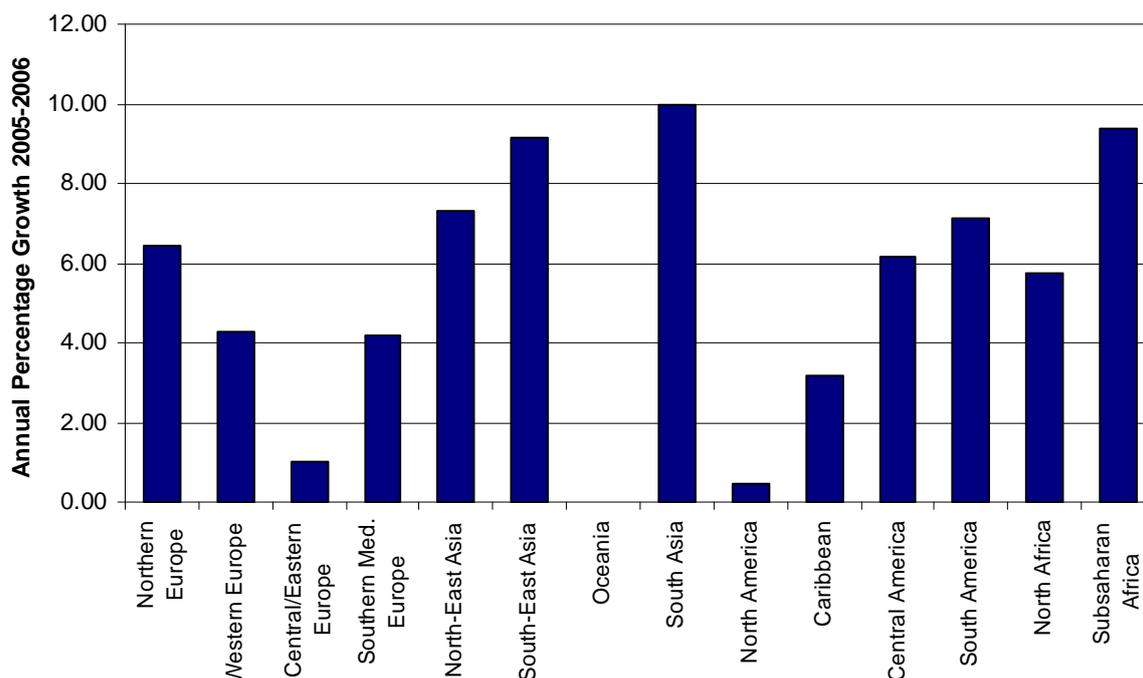


Figure 9: Anticipated Annual Growth Rates in Arrivals, 2005-2006 (%)
Source: UNWTO

In terms of overall market share, Europe takes the lead spot with 54% of the world's international tourism arrivals. The second largest tourism region is Asia and the Pacific with 20% followed by the Americas with 16%. Europe's share is expected to decline to 46% of the total in 2020 with Asia & the Pacific increasing to 27% and the Americas increasing to 18%.

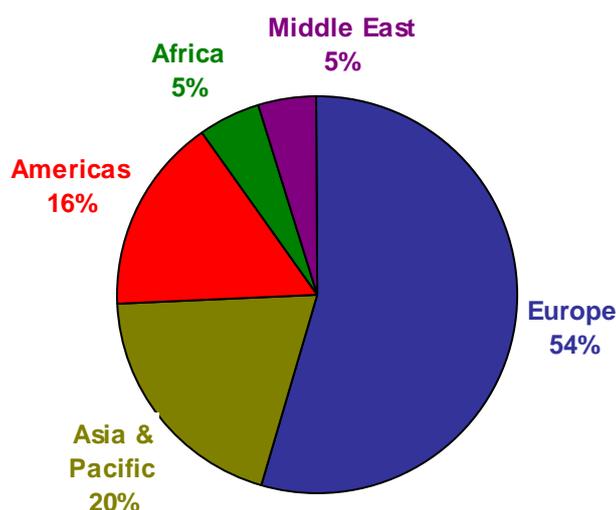


Figure 10: Main Regions Volume Market Share, 2006
Source: UNWTO

The majority of T&T economic activity takes place within North America, followed closely by the European Union and Northeast Asia. Forecasts suggest that the proportions will change little by 2017.

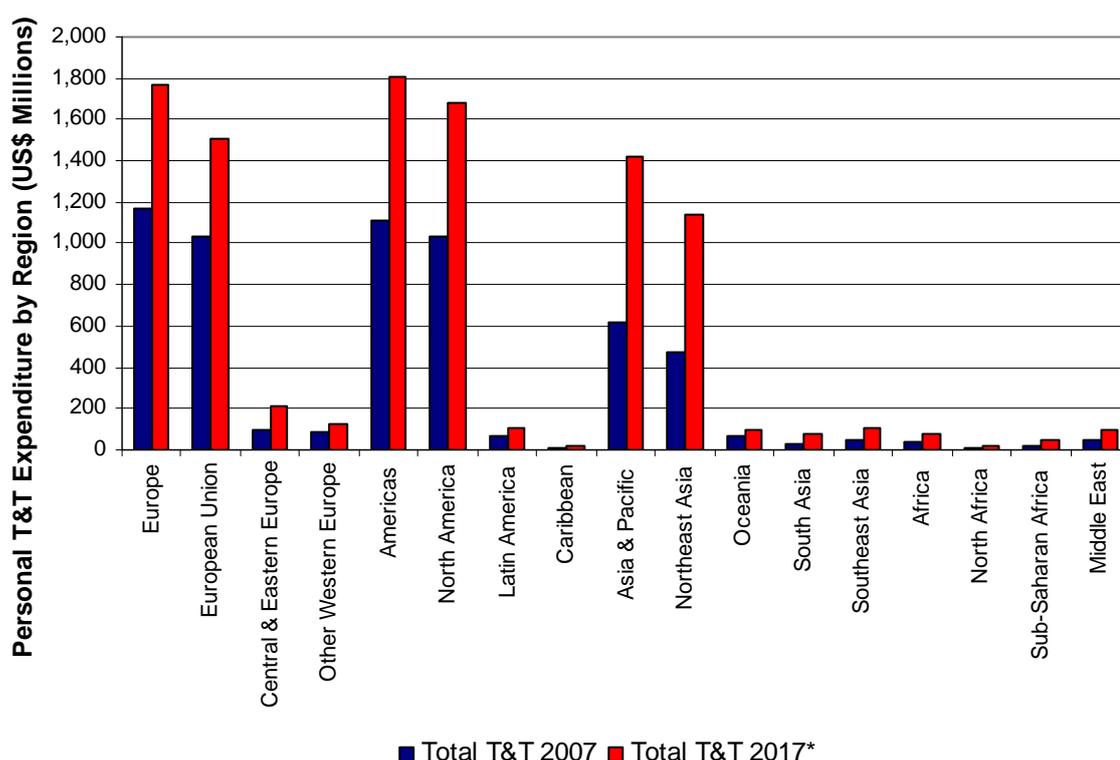


Figure 11: International Tourist Expenditures – Personal T&T (amounts spent on T&T by residents of each region traveling domestically and overseas).

Source: WTTC

Regions	Personal T&T (US\$ Billion)		Business Travel (US\$ Billion)		Total T&T (US\$ Billion)	Total T&T (US\$ Billion)	Total T&T per Capita (US\$)
	2007	2017*	2007	2017*	2007	2017*	2007
World	<u>2977</u>	<u>5169</u>	<u>743</u>	<u>1314</u>	<u>3720</u>	<u>6483.7</u>	<u>575.58</u>
Europe	<u>1169</u>	<u>1771</u>	<u>290.1</u>	<u>433.7</u>	<u>1459.1</u>	<u>2204.7</u>	<u>1786.64</u>
European Union	1031.6	1503.5	252.1	358.1	1283.7	1861.6	2592.25
Central & Eastern Europe	94.5	213.2	27.7	63.7	122.2	276.9	522.14
Other Western Europe	83.8	130.1	22.5	33.0	106.3	163.1	1215.80
Americas	<u>1107.6</u>	<u>1805.4</u>	<u>240.5</u>	<u>397.8</u>	<u>1348.1</u>	<u>2203.2</u>	<u>1506.39</u>
North America	1033.6	1683.1	205.8	344.2	1239.4	2027.3	2828.11
Latin America	63.9	103.1	31.9	48.4	95.8	151.5	230.60
Caribbean	10.1	19.2	2.8	5.2	12.9	24.4	312.80
Asia & Pacific	<u>617.5</u>	<u>1424.7</u>	<u>179.8</u>	<u>419.4</u>	<u>797.3</u>	<u>1844.1</u>	<u>217.28</u>
Northeast Asia	472.6	1143.6	133.1	327.1	605.7	1470.7	397.04
Oceania	64.9	98.2	10.6	16.1	75.5	114.3	2813.39
South Asia	29.6	73.9	11.2	28.3	40.8	102.2	26.51
Southeast Asia	50.5	109.0	25.0	47.9	75.5	156.9	130.64
Africa	<u>35.6</u>	<u>74.3</u>	<u>17.1</u>	<u>33.1</u>	<u>52.7</u>	<u>107.4</u>	<u>57.58</u>
North Africa	11.8	22.5	6.0	10.3	17.8	32.8	113.33
Sub-Saharan Africa	23.7	51.8	11.1	22.8	34.8	74.6	45.90
Middle East	<u>46.9</u>	<u>93.8</u>	<u>15.9</u>	<u>30.5</u>	<u>62.8</u>	<u>124.30</u>	<u>376.38</u>

Figure 12: International Tourist Expenditures – Personal T&T (amounts spent on T&T by residents of each region traveling domestically and overseas).

Source: WTTC

Note: The discrepancy in the total for the Americas and Europe is noted but not explained.

Analyzing travel and tourism spending per capita, the world average is around \$550 per person per year. The highest spenders, by region, are North Americans (\$2828 per person

per year), followed by Australians and New Zealanders (\$2813) and those in the European Union (\$2592).

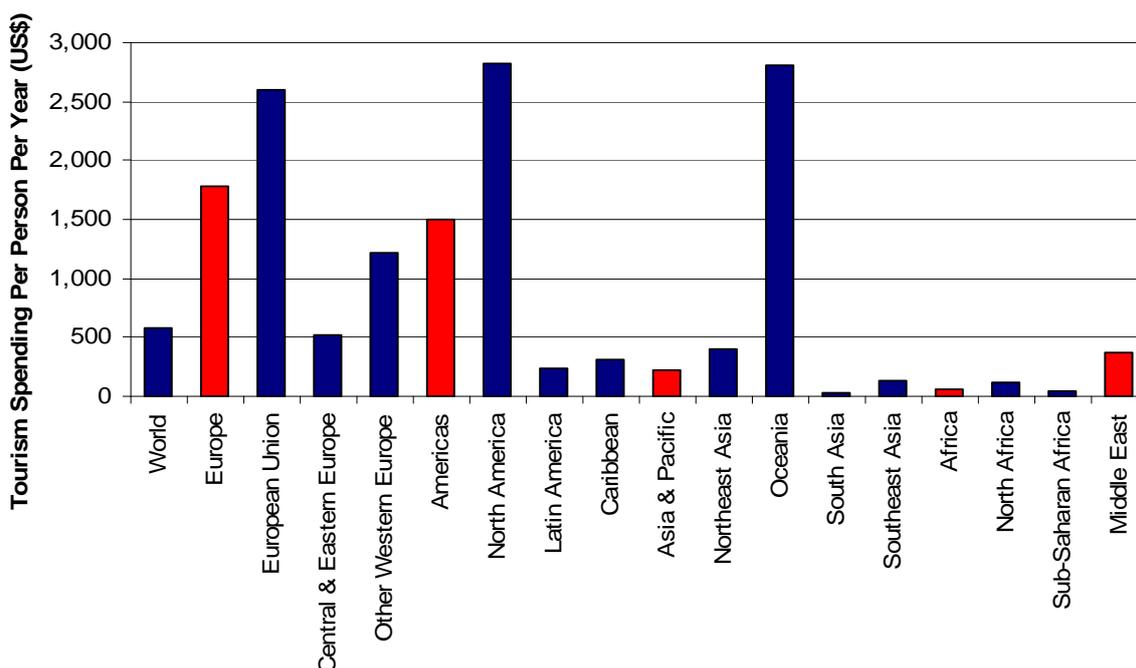


Figure 13: International Tourist Spending – Average Personal T&T (amounts spent on T&T by residents of each region traveling domestically and overseas) per capita, 2007
Source: WTTC

Although the Americas occupy only 16% of the world tourism market arrivals share and are only the third largest tourism destination region, they almost equal Europe, as a region, in terms of personal T&T expenditure; meaning that they spend almost as much as Europe on their leisure travel domestically and overseas. Asia and the Pacific are in third place with the Middle East and Africa far behind in total expenditure.

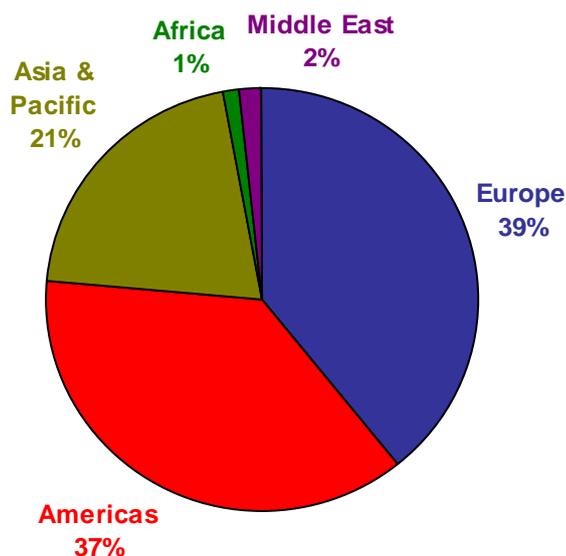


Figure 14: Personal T&T Expenditure by Region, 2006
Source: WTTC

According to the WTTC, by 2017, the share of personal T&T expenditure will have changed; Europe will lose 5% of its share, Americas will lose 2%, and Asia and the Pacific will gain 7%, meaning that the countries of Asia and the Pacific will increase in importance as source markets.

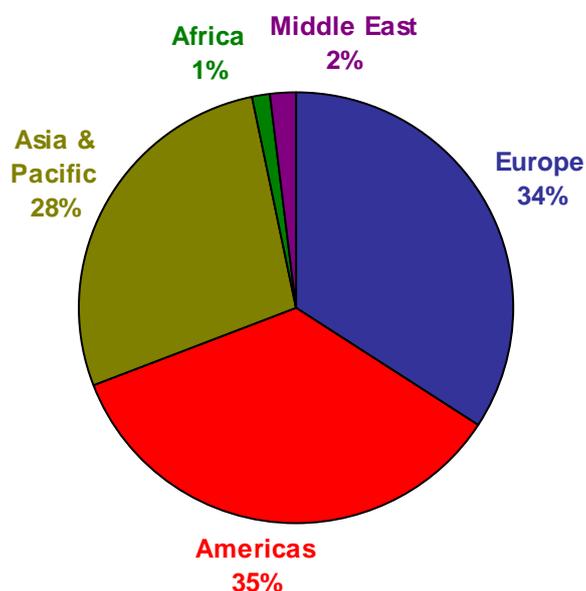


Figure 15: 2017 Forecast for Personal T&T Expenditure by Region.
Source: WTTC

In terms of income for the regions from visitors, Europe receives 51% of all tourism expenditure, followed by Asia & the Pacific and the Americas with 21% each.

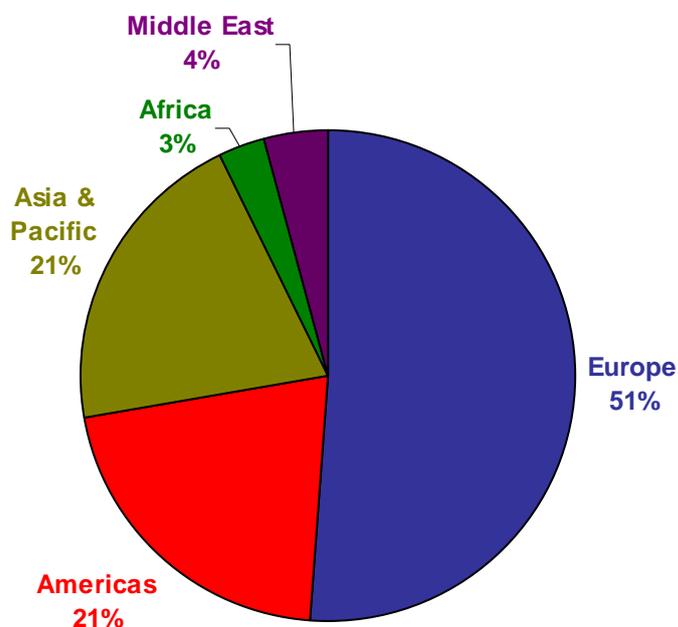


Figure 16: International Tourism Receipts by Regions, 2005 (Estimated)
Source: UNWTO

Of the total International Tourism Receipts (expenditure received from tourists visiting their country and from domestic tourists) (US\$ 683 billion in 2005), the vast majority is received by the European Market (US\$ 349 billion); more than twice that of the Americas or Asia and the Pacific.

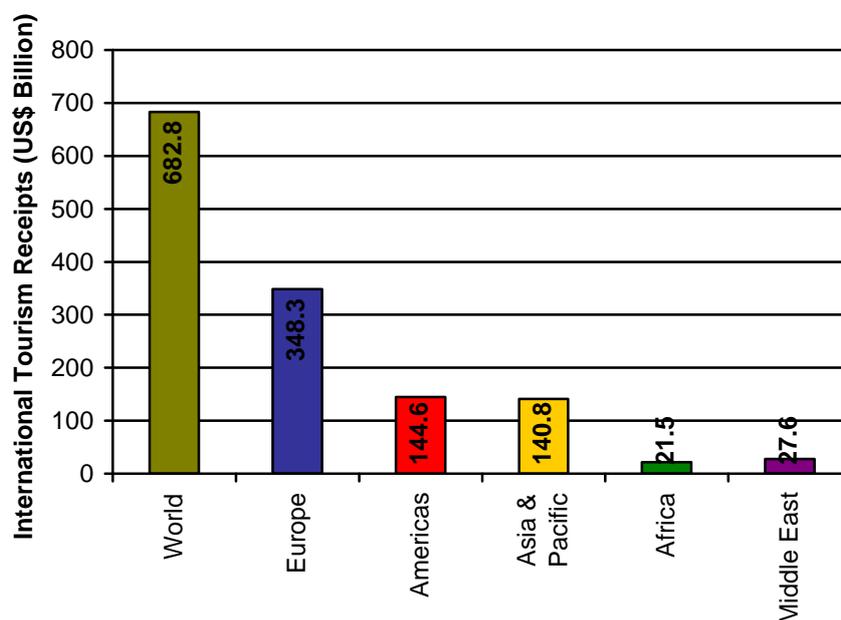


Figure 17: International Tourism Receipts by Regions, 2005 (Estimated)
Source: UNWTO

Reviewing historical data for tourism receipts, the global tourism industry has seen relatively constant growth, despite a small decline in the early part of this decade. Growth between 1990 and 2000 was around 8.7% per year. Between 2000 and 2005 (estimate) the growth rate was around 8.4%.

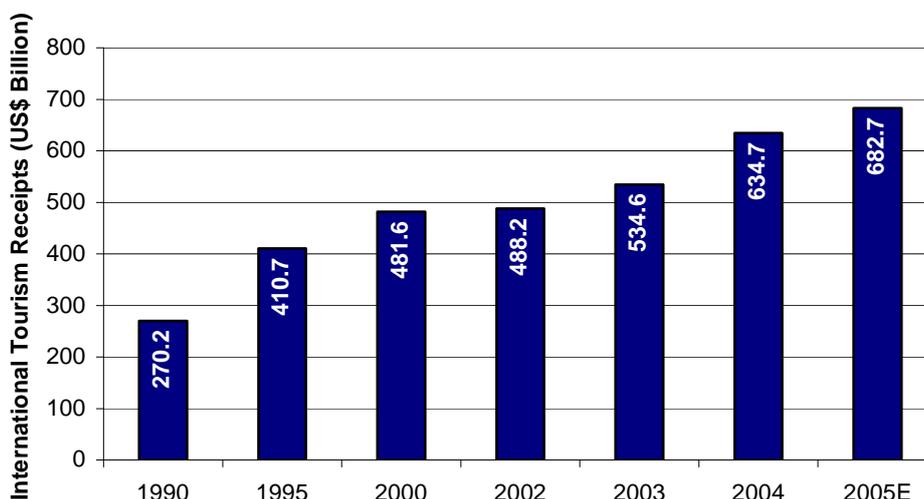


Figure 18: International Tourism Receipts, 1990-2005
Source: UNWTO

An indication of tourism trends and forecasts can be understood by examining data from the International Air Transport Association (IATA). Since 2000 there has been a distinct increase in economy air traffic passengers versus those in premium classes. This is an indication of the importance of low-cost carriers in the market

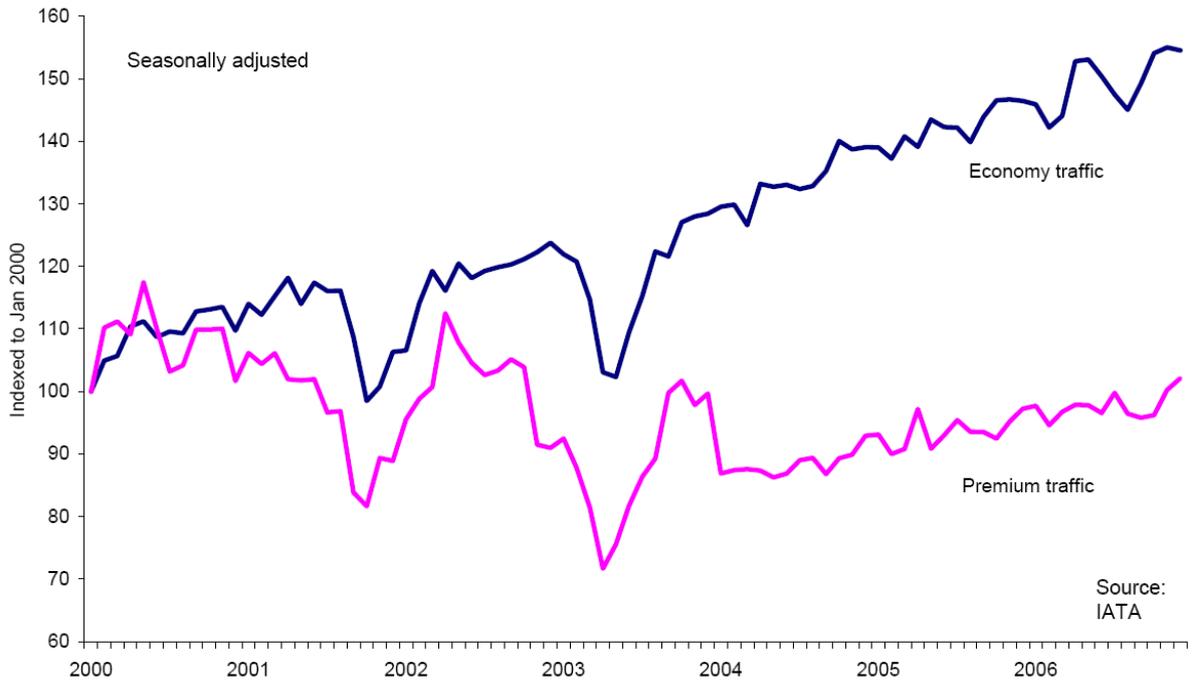


Figure 19: Growth of Premium and Economy Air Passenger Transportation
Source: International Air Transport Association (IATA)

However, despite this, premium class travel has grown particularly on long haul routes between Europe and Asia. Understandably, with the highest level of growth in low-cost carriers in Europe, the importance of Premium Class accommodation in Europe has decreased.

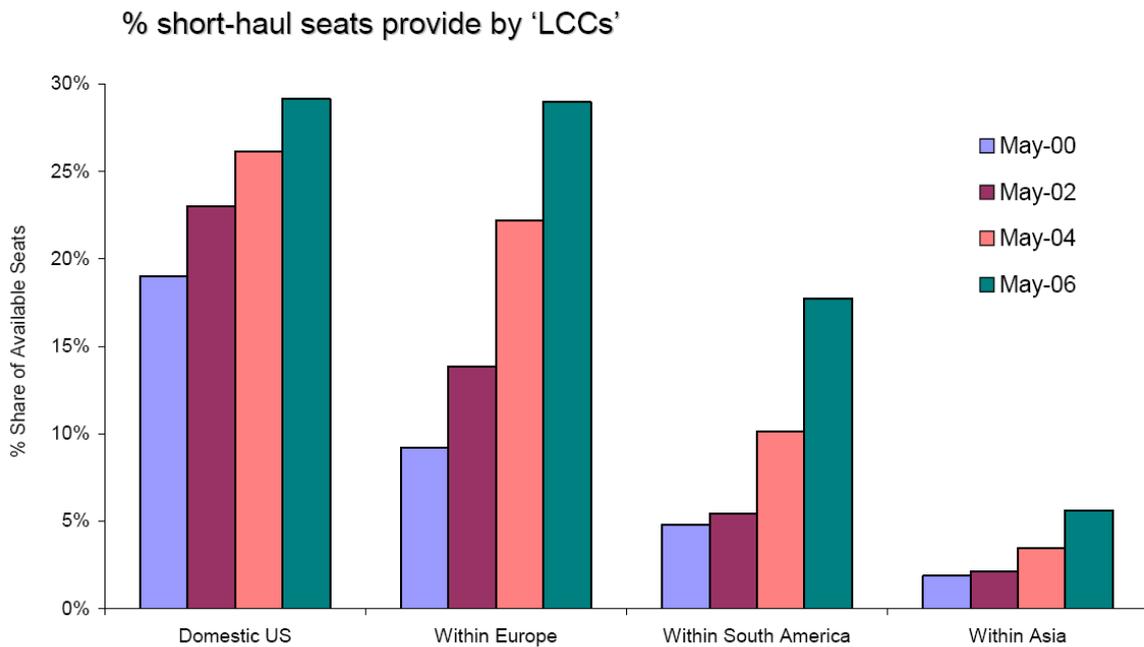


Figure 20: Growth in % of Short-Haul Seats provided by Low Cost Carriers
Source: International Air Transport Association (IATA)

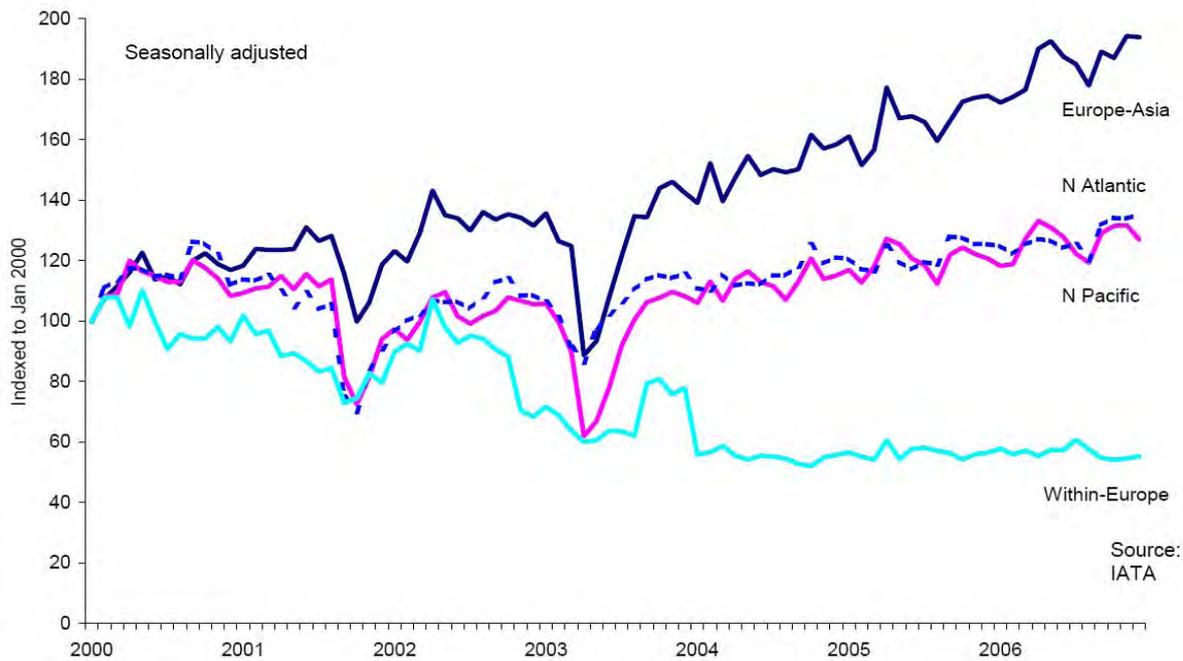
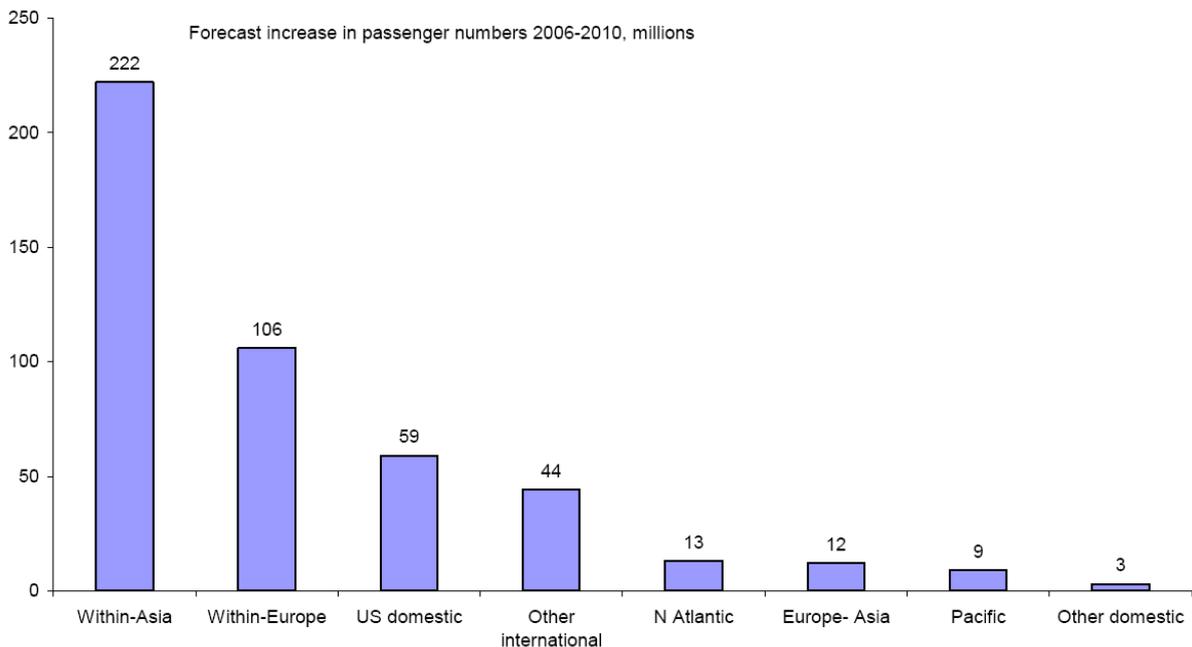


Figure 21: Growth of Premium Air Passenger Transportation on Selected Routes
Source: International Air Transport Association (IATA)

Forecasts suggest that between 2006 and 2010, the largest increase in air passengers (222 million) will be seen within Asia (perhaps notably with the boom in travel within and from China as evidenced by the fact that 15% of all airline orders in 2006 came from China – 30% of all orders from the Asia Pacific region). Though not quite so dramatic, Europe will also see an increase in passenger numbers (106 million between 2006 and 2010). This is also reflected by the proportion of airline orders in 2006 going to low cost carriers – 28%).



Source: IATA BIS Passenger Forecasts 2006-2010

Figure 22: Forecasted Increase in Passenger Numbers (2006-2010) on selected routes (Millions)

Source: International Air Transport Association (IATA)

Despite seasonally adjusted decreases in passenger traffic in 2001 (as a direct result of 9/11) and in 2003 (largely attributed to SARS) the long term trend in air transportation has been upward and is forecasted to continue this growth in 2007 to almost 200 billion Revenue Passenger Kilometers (RPKs).

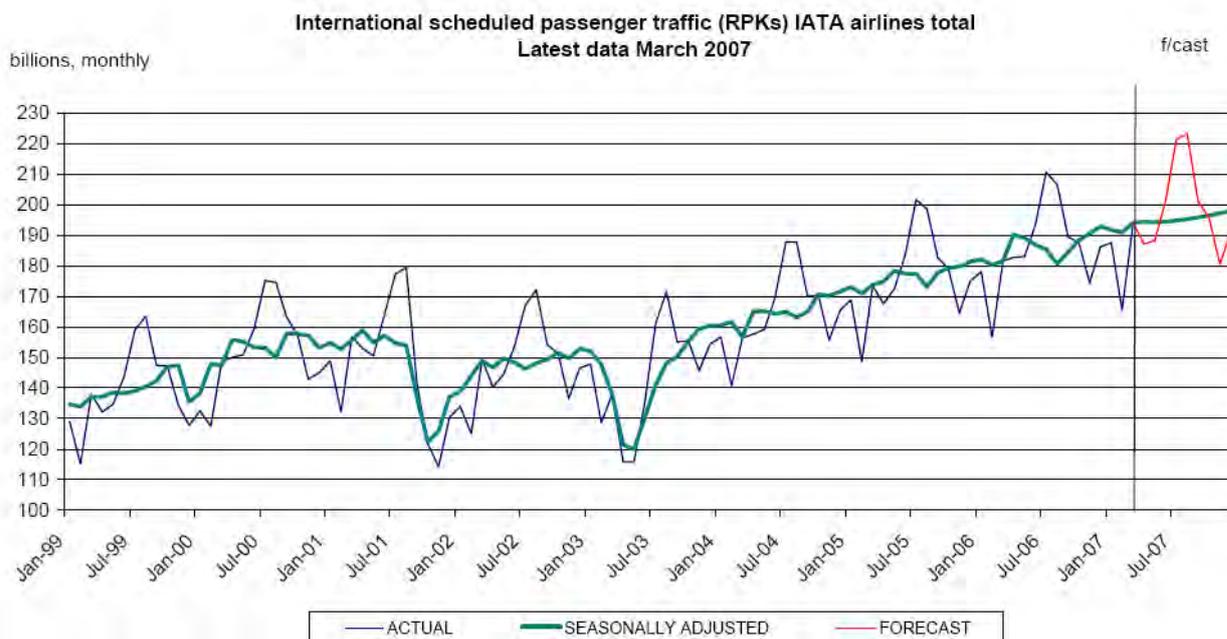


Figure 23: Actual and Forecasted Growth in Revenue Passenger Kilometers Worldwide
Source: International Air Transport Association (IATA)

The majority of these RPKs will be seen in Europe (38%), Asia & the Pacific (30%) and North America (20%). Forecasted growth in RPKs is suggested for Europe and the Middle East.

The following represent a summary of documented additional recent trends in the global tourism industry:

1. Increased frequency of travel due to increased leisure time, cheaper air travel and higher disposable incomes
2. Higher growth in long-haul travel than short-haul
3. Increased reliance on technology with expansion of online travel purchasing options and use, and increased use of Global Distribution Systems and Central Reservation Systems
4. Increased desire for niche tourism products as consumers start to demand higher standards of service and destinations that offer more of an experience rather than a vacation
5. Increased use of tailor made and small group travel compared to mass tourism packages.
6. Tourism enterprises and destinations focusing more on customer satisfaction, safety and service quality
7. Increased demand for MICE (meetings, incentives, conferences, exhibitions) travel

2. Benchmarking of Competitiveness & Other Indicators

In order to benchmark Armenia's Tourism Competitiveness, the authors have chosen a sample of Competitor and Comparator countries based on their location or similarity in the type of products that are offered to tourists in Armenia. Some countries may have a higher degree of tourism maturity; others are more on a par with Armenia.

Within the initial sample of 18 countries, Armenia is clearly seen to have a low number of total tourist arrivals. The highest is Turkey with more 20 million arrivals and the lowest is Macedonia with less than 200,000 arrivals.

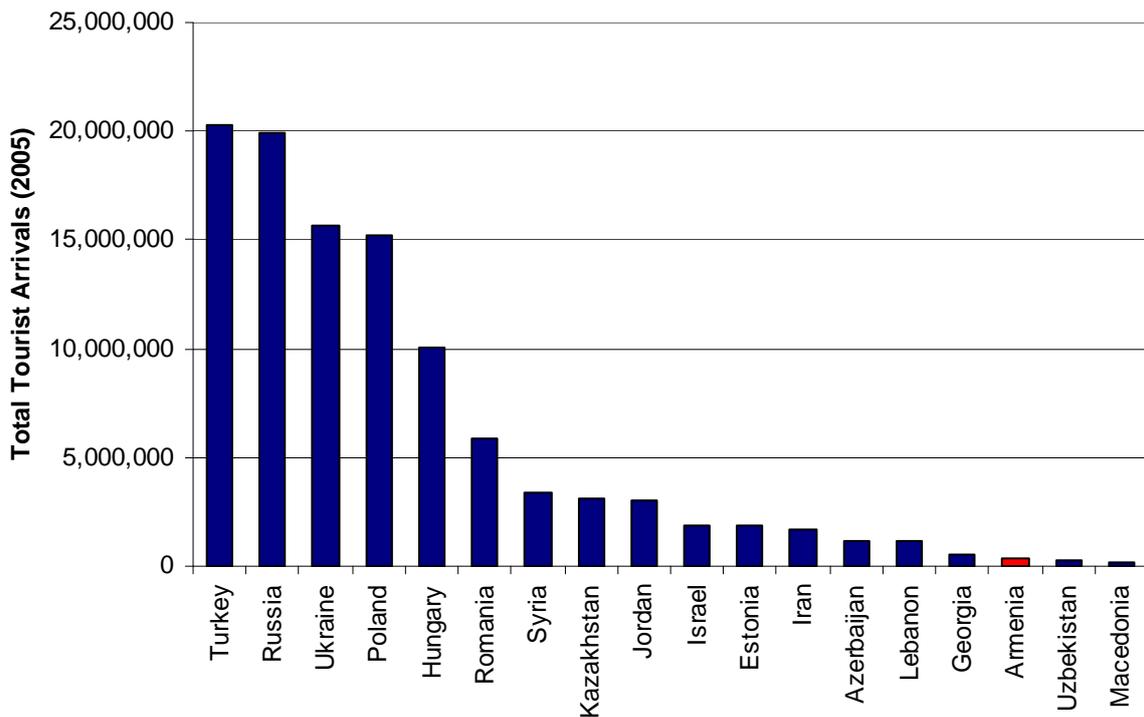


Figure 24: Actual Tourist Arrivals for Competitor & Comparator Countries, 2005

Source: UNWTO

Note: Data for Iran, Kazakhstan & Ukraine for 2004 – Data for Romania based on Visitors not Tourists

However, as well as the top performing countries having high levels of tourism arrivals, they also tend to lead within the sample in terms of population size and territorial area. Therefore, to take this into account, two further charts are provided below.

By analyzing tourist arrivals as a percentage of the total population, we can observe that the top three places change and are given to Estonia, Hungary and Jordan. Armenia's ranking increases by one place.

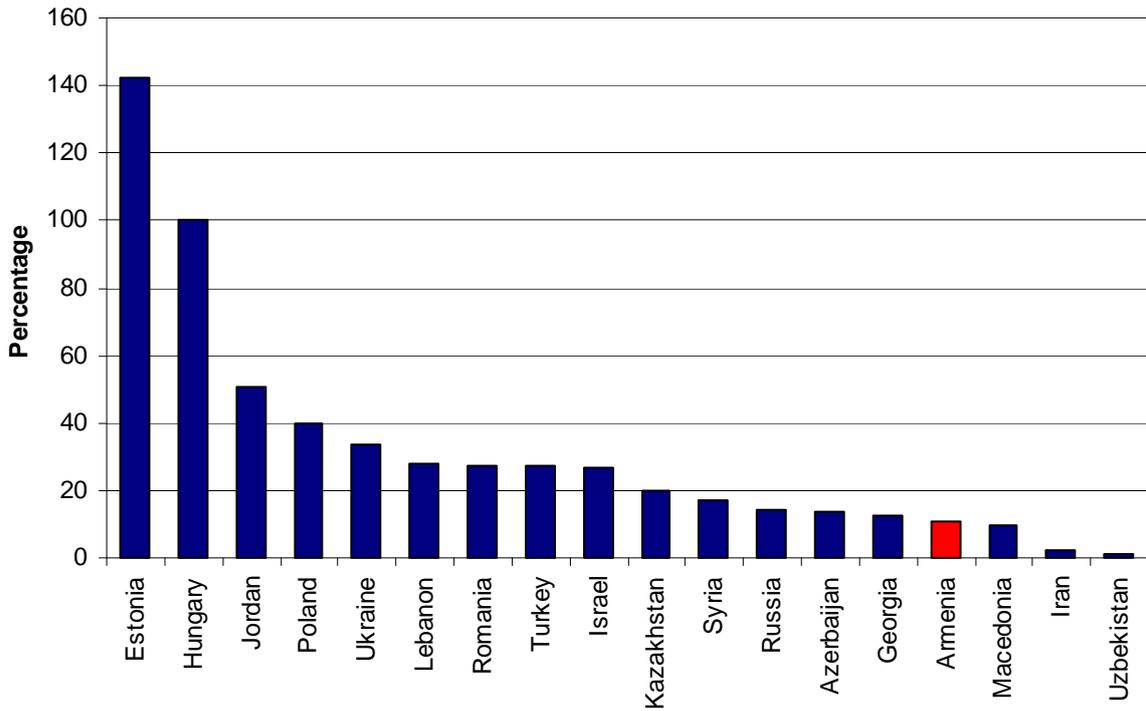


Figure 25: Actual Tourist Arrivals as a Percentage of Population for Competitor & Comparator Countries, 2005

Source: UNWTO

Note: Data for Iran, Kazakhstan & Ukraine for 2004 – Data for Romania based on Visitors not Tourists

Now, by focusing on the number of tourists per square kilometer of territorial area, we can observe that the top three positions are given to Hungary, Israel and Poland. Armenia's position now increases from 16th to 12th position.

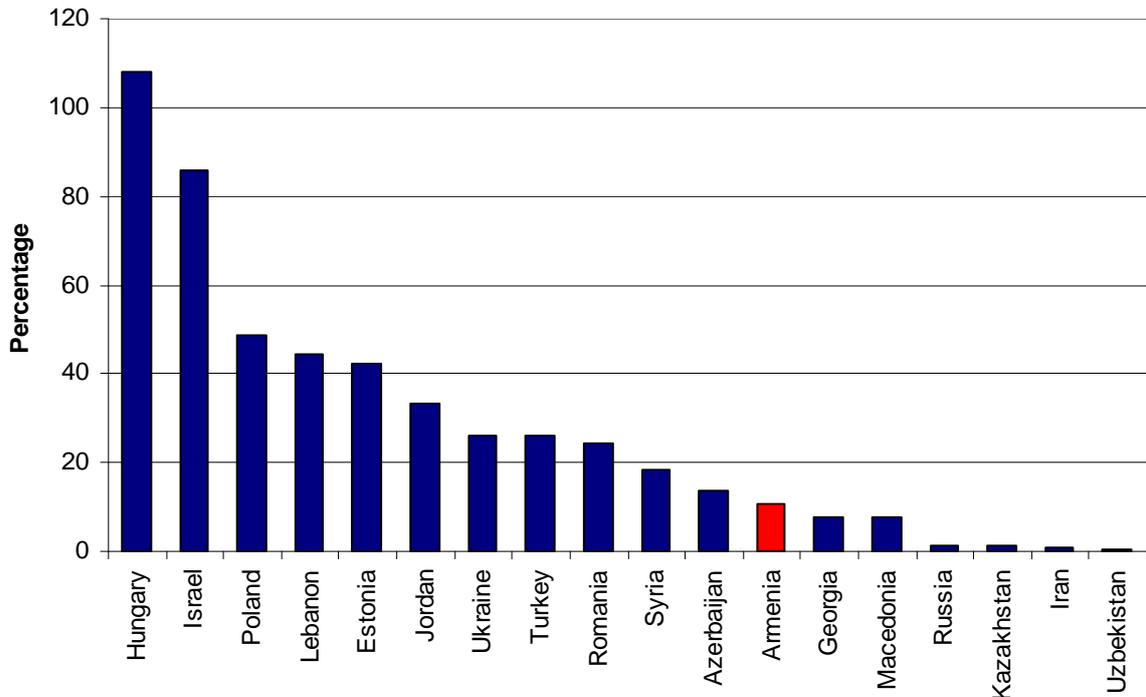


Figure 26: Actual Tourist Arrivals per Square Kilometer for Competitor & Comparator Countries, 2005

Source: UNWTO

Note: Data for Iran, Kazakhstan & Ukraine for 2004 – Data for Romania based on Visitors not Tourists

In terms of overall tourism growth over a recent five-year period, Armenia has performed best.

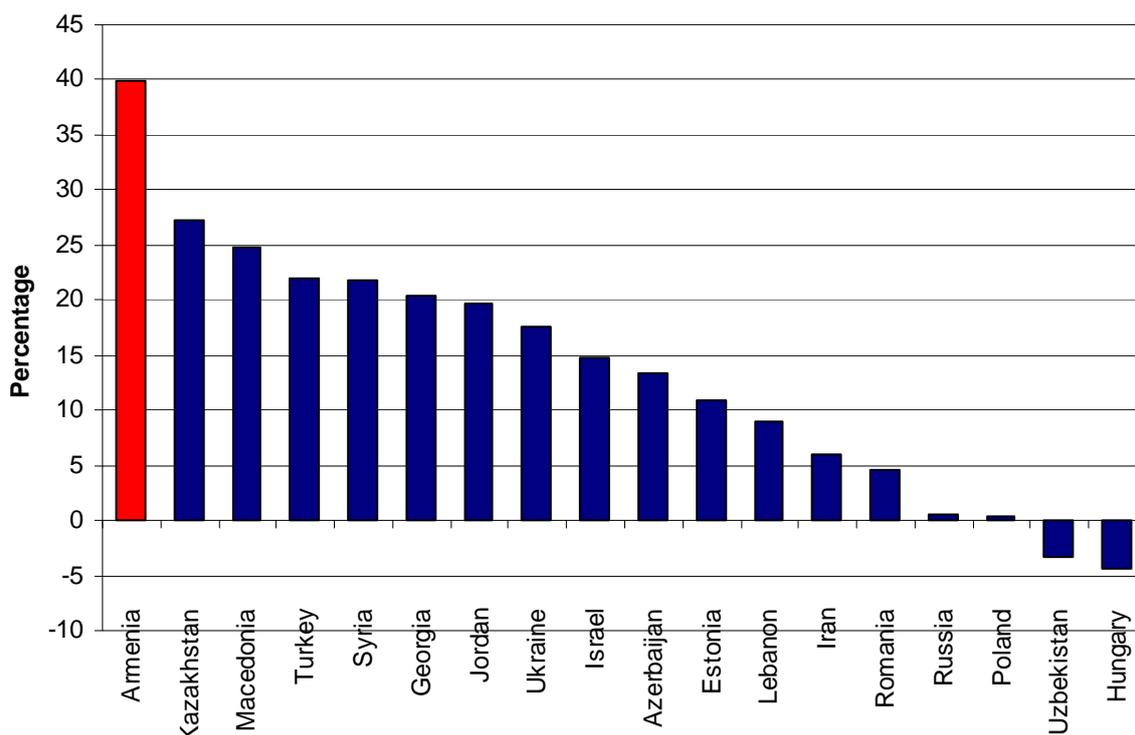


Figure 27: Tourist Arrivals Growth 2001-2005 for Competitor & Comparator Countries
Source: UNWTO

Note: Data for Iran, Kazakhstan & Ukraine for period 2000-2004 – Data for Hungary for period 2004-2005 - Data for Romania based on Visitors not Tourists

Noting Armenia's position in the charts above, further analysis of competitive position is undertaken with those countries that are consistently placed higher than Armenia in terms of absolute tourist numbers, tourists as a percentage of population and tourists per square kilometer of territory. These comprise Azerbaijan, Estonia, Hungary, Israel, Jordan, Lebanon, Poland, Romania, Syria, Turkey and Ukraine.

2.1. Global Competitiveness Report

Examining the Global Competitiveness Report (GCR) for 2006, there is a correlation between the GCR scores and tourists as a percentage of the population of 0.55 and between the GCR scores and tourists per square kilometer of 0.67. Within the GCR, which comprise of a large number of indicators, elements that have a high correlation with tourists as a percentage of the population or tourists per square kilometer include: Higher Education & Training, Market Efficiency & Innovation.

The GCR shows that for those countries within our sample, for which data is available, Israel is the most competitive, followed by Estonia and Hungary, and with Armenia in last place.

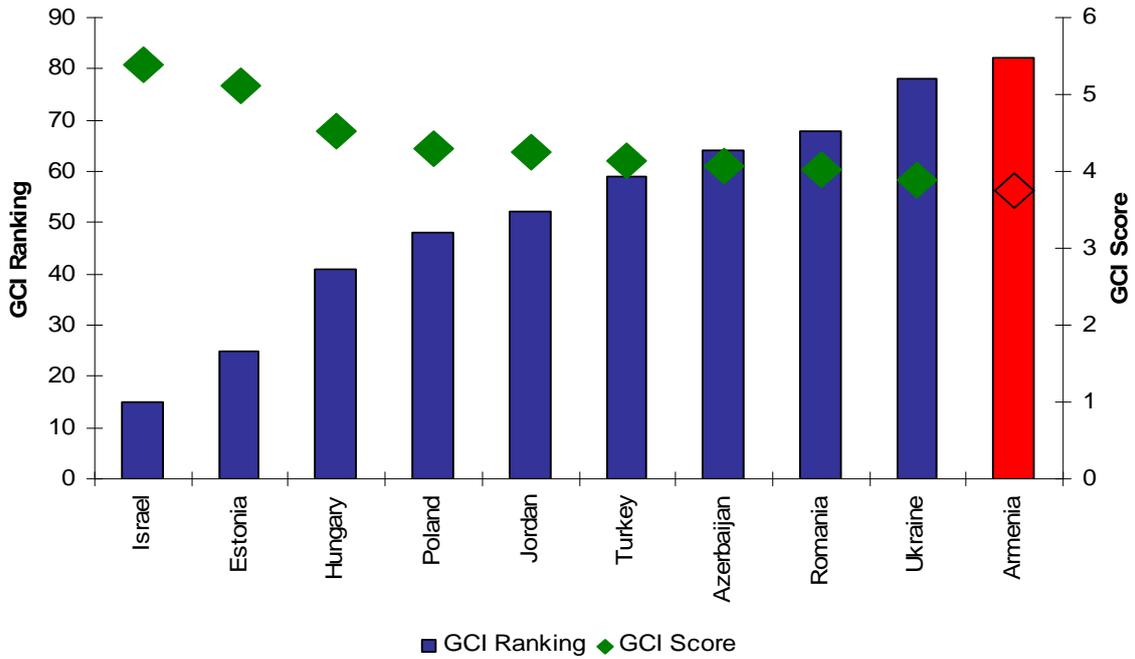


Figure 28: Rankings and Scores of Competitor Countries in the Global Competitiveness Index, 2006
Source: World Economic Forum

2.2. Corruption Perceptions Index

Examining Transparency International's Corruption Perceptions Index (CPI) for 2006, we see that there is a correlation between the CPI scores and tourists as a percentage of the population of 0.82 and between the CPI scores and tourists per square kilometer of 0.76.

The CPI shows that for those countries within our sample, Estonia is perceived to be the least corrupt followed by Israel and Jordan. Armenia is 9th position out of the 12 countries.

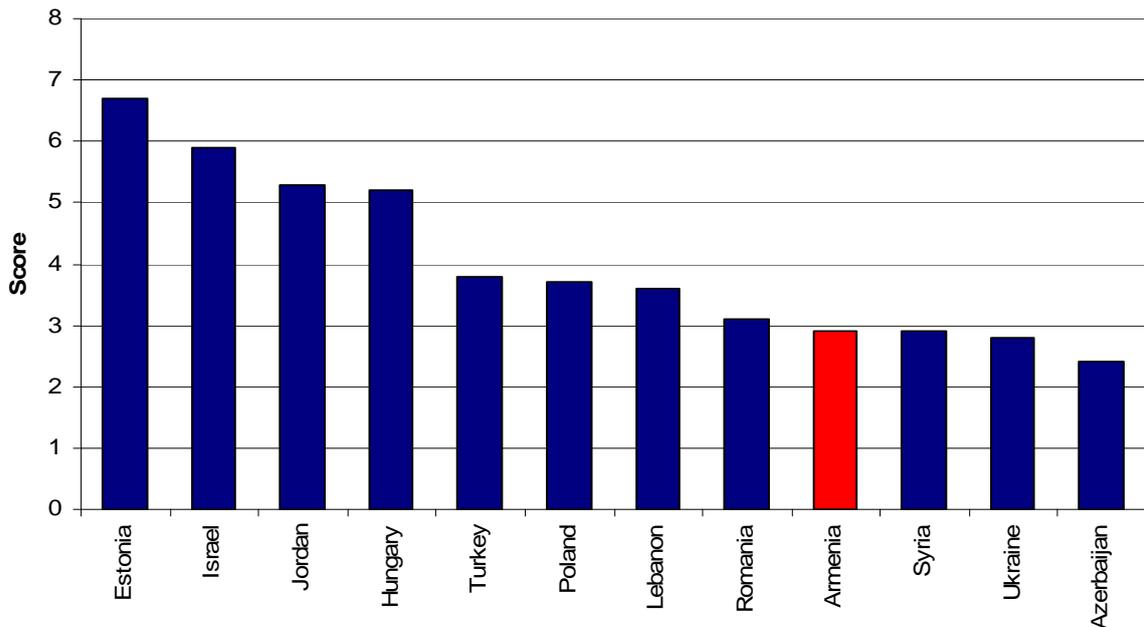


Figure 29: Scores in Transparency International's Corruption Perception Index, 2006
Source: Transparency International

2.3. Index of Economic Freedom

Examining the Heritage Foundations Index of Economic Freedom for 2007, we see that there is a correlation between the Economic Freedom scores and tourists as a percentage of the population of 0.65 and between the Economic Freedom scores and tourists per square kilometer of 0.38.

The full index consists of a number of other indicators including business freedom, trade freedom, fiscal freedom, freedom from government, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption and labor freedom. Within the Economic Freedom Index indicators that have a high correlation with tourists as a percentage of the population or tourists per square kilometer include: Investment Freedom, Freedom from Government and Property Rights.

The Index of Economic Freedom shows for those countries within our sample, that Estonia has the highest level of Economic Freedom, followed by Armenia.

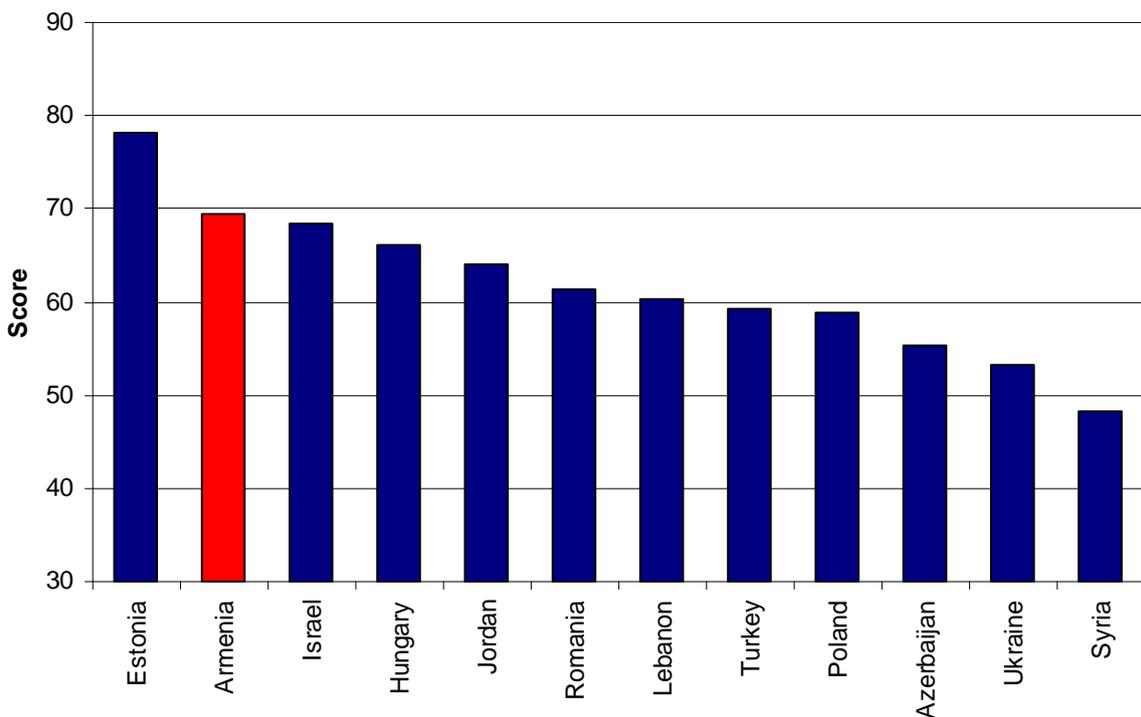


Figure 30: Economic Freedom Scores in Heritage Foundation's Index of Economic Freedom, 2007

Source: Heritage Foundation

2.4. Freedom Analysis

Examining Freedom House's Freedom in the World Report for 2006, we see that there is a correlation between the Political Rights scores and tourists as a percentage of the population of 0.54 and between the Political Rights scores and tourists per square kilometer of 0.64. There is also a correlation between the Civil Liberties scores and tourists as a percentage of the population of 0.64 and between the Civil Liberties scores and tourists per square kilometer of 0.58.

The Freedom in the World Report shows clearly that Hungary, Israel, Poland and Estonia take the lead, amongst the sample countries, in terms of political rights and civil liberties. Armenia ranks in 11th position in the sample.

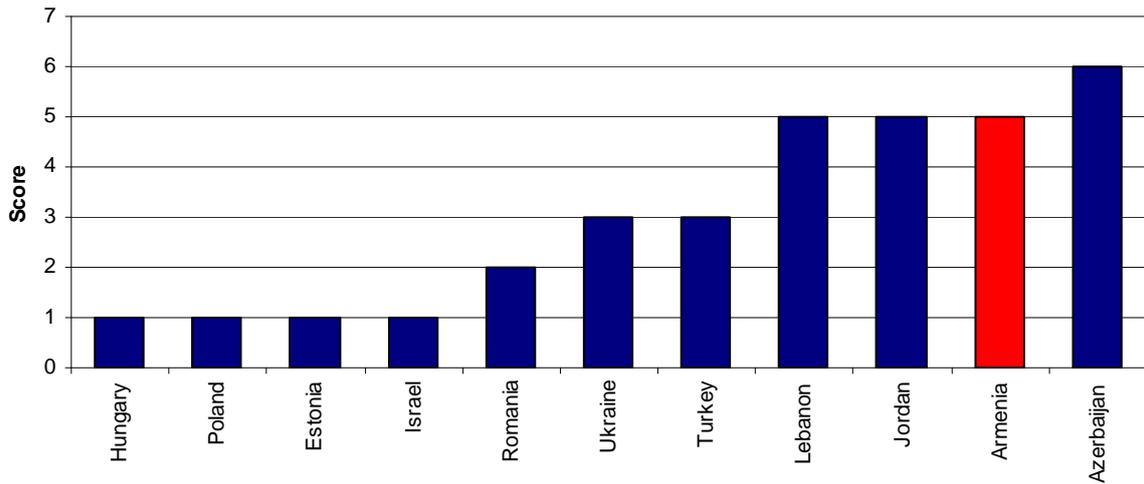


Figure 31: Political Rights Scores in Freedom House's Freedom in the World Report, 2006
Source: Freedom House

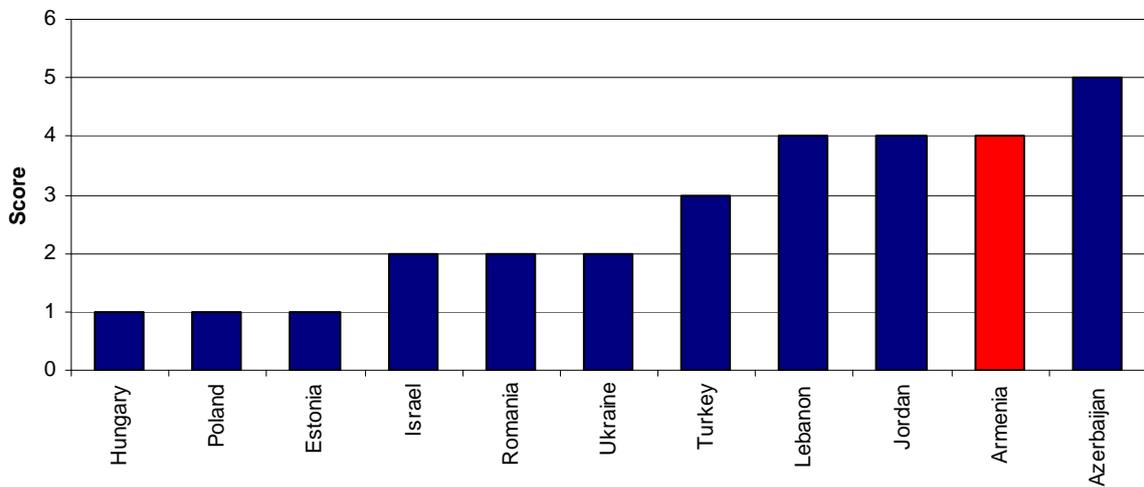


Figure 32: Civil Liberties Scores in Freedom House's Freedom in the World Report, 2006
Source: Freedom House

2.5. World Bank's Doing Business Indicators

Examining the World Bank's Doing Business Rankings for 2006, we note that there is little correlation between the overall rank and tourists as a percentage of the population or between the overall rank and tourists per square kilometer.

The overall rank is broken down according to rankings for other factors which comprise; Starting a Business, Dealing with Licenses, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading across Borders, Enforcing a Contract and Closing a Business.

The World Bank's Indicators suggest that Estonia and Israel are the top two countries in which business is easiest to conduct. Armenia is in third place.

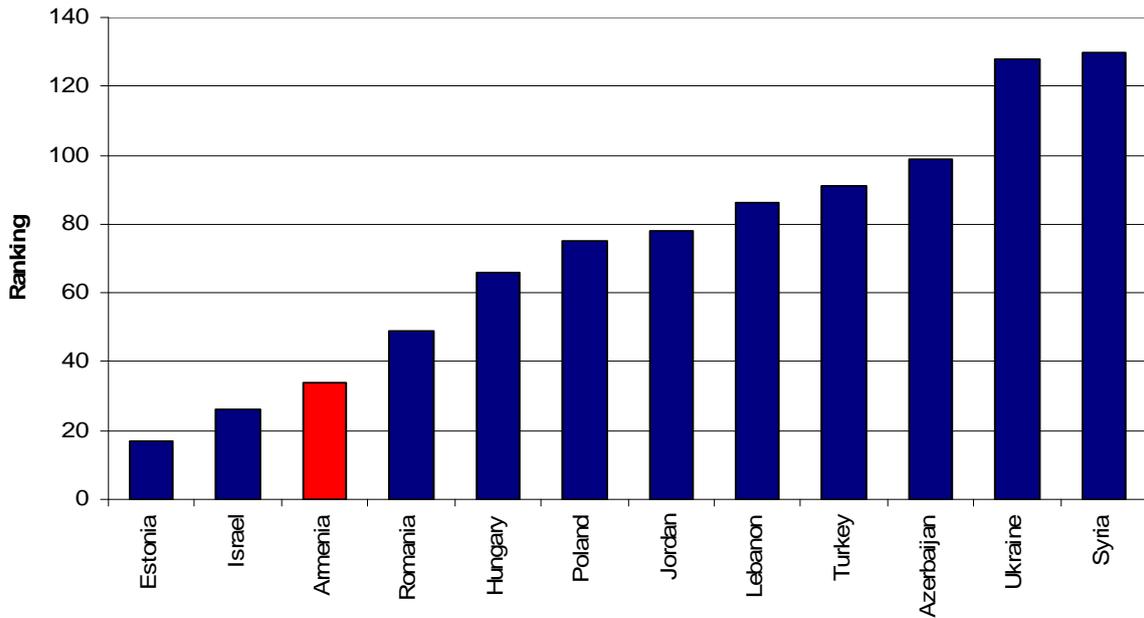
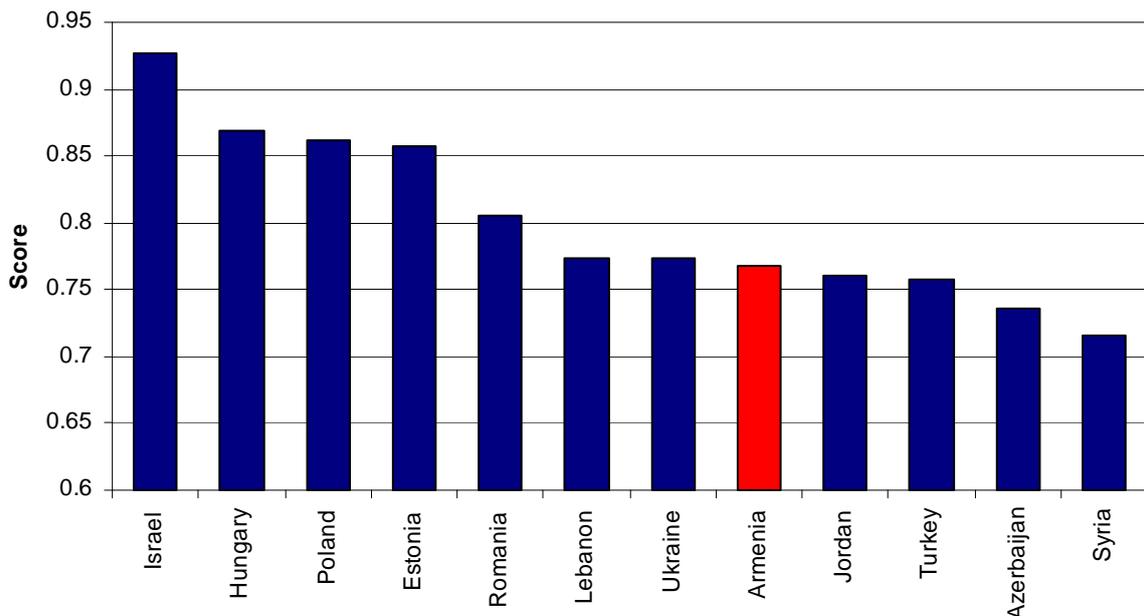


Figure 33: World Bank's Doing Business Indicators, 2006
Source: World Bank

2.6. Human Development Index

Examining the UN Human Development Report for 2006, we see that there is a correlation between the Human Development Index scores and tourists as a percentage of the population of 0.56 and between the Human Development Index scores and tourists per square kilometer of 0.77.

The Human Development index shows, for those countries within our sample, that Israel, Hungary, Poland and Estonia have the highest level of human development. Armenia is in 8th position



.Figure 34: Human Development Index Scores, 2006
Source: UN

2.7. Travel & Tourism Competitiveness Index

In March 2007, the first Travel & Tourism Competitiveness Index (TTCI) was released by the World Economic Forum. The Index comprises of three sub-indexes – T&T Regulatory Framework, T&T Business Environment and T&T Human, Cultural & Natural Resources.

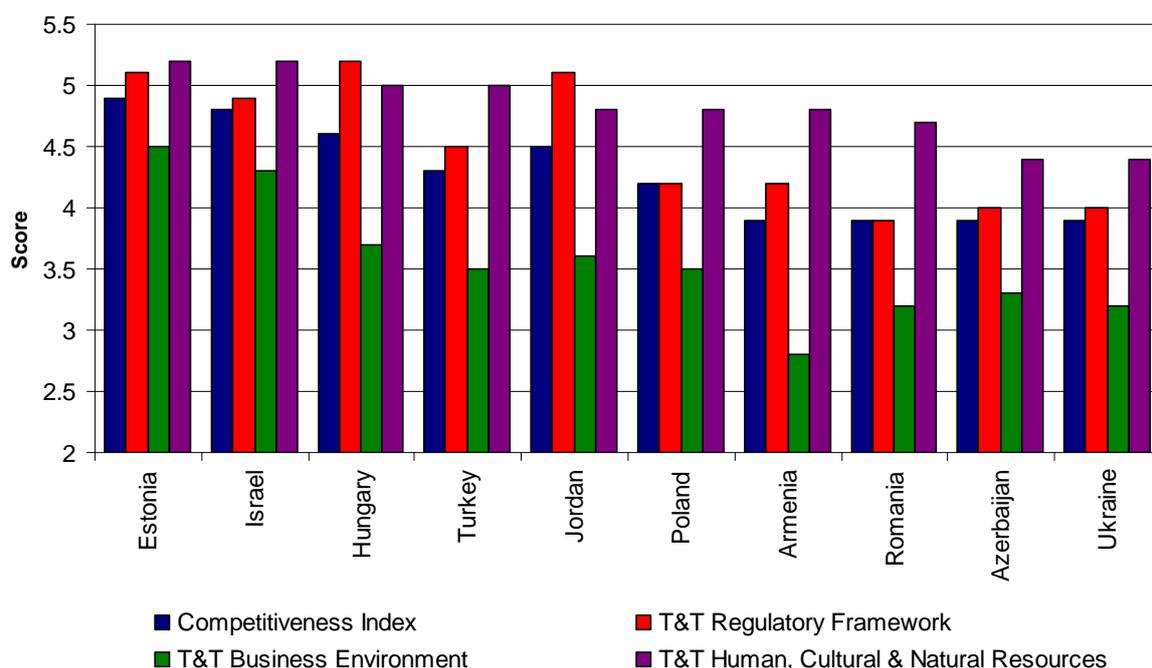


Figure 35: World Economic Forum's T&T Competitiveness Index and Sub-Indexes, 2007
Source: World Economic Forum

For the countries within our sample and for those that have data available, the leading countries in our sample in terms of overall T&T competitiveness are Estonia, Israel and Hungary. Armenia is positioned in 7th position.

Hungary, Estonia and Jordan fill the top three positions, respectively, in the T&T Regulatory Framework Index with Armenia again in 7th position. Estonia, Israel and Hungary fill the top three positions, respectively, in the T&T Business Environment Index with Armenia in last place. Estonia, Israel and Hungary also fill the same top three positions in the T&T Human, Cultural and Natural Resources Index with Armenia in 7th position.

Examining the TTCI for those countries within our sample and for which information is available, we see that there is a correlation between the overall scores and tourists as a percentage of the population of 0.71 and between the overall scores and tourists per square kilometer of 0.69.

The correlations for the individual sub-indexes are as follows:

	Overall Index	T&T Regulatory Framework	T&T Business Environment	T&T Human, Cultural & Natural Resources
Tourists as % of Population	0.71	0.70	0.68	0.53
Tourists per Square Kilometer	0.69	0.68	0.58	0.59

Figure 36: Correlations between the TTCI scores for Main index and Sub indexes and Tourist Data for Sample Countries

The Sub-Indexes are comprised of a number of smaller indicators. Those indicators that have a high correlation with tourists as a percentage of the population or tourists per square

kilometer include: tourism infrastructure, policy rules and regulations, and environmental regulation.

2.8. Review of all Benchmarking Indicators

The reports and analyses listed above all attempt to benchmark countries according to specific indicators in order to understand strengths in relevant fields. To some extent all of these analyses could be argued to be of relevance to the tourism industry – particularly the TTCI. The purpose of this benchmarking analysis was to identify which of the analyses is most relevant to the countries within our sample in order to understand what is perhaps the most important aspect of Armenia’s tourism industry to concentrate on and which countries within our sample of competitor and comparator countries would be worth examining in more detail or to learn from.

Benchmarking Index	Tourists as % of Population	Tourists per Square Kilometer
Global Competitiveness Report 2006	0.55	0.67
<i>Corruption Perceptions Index</i>	0.82	0.76
<i>Index of Economic Freedom</i>	0.65	0.38
Freedom Analysis – Political Rights	0.54	0.64
Freedom Analysis – Civil Liberties	0.64	0.58
<i>UN Human Development Index</i>	0.56	0.77
<i>TTCI Index</i>	0.71	0.69
TTCI Regulatory Framework Index	0.70	0.68
TTCI Business Environment Index	0.68	0.58
TTCI Human, Cultural & Natural Resources Index	0.53	0.59

Figure 37: Correlations between Various Benchmarking Studies and Tourist Data for Sample Countries

The overall results suggest strong correlations exist between several of the indexes above. The Corruption Perceptions Index and the TTCI Index, in particular, appear strongest. However, the former needs to be viewed with some caution. Whilst there appears to be a strong correlation with the Corruption Perceptions Index, that correlation is most likely due to the parallel factors and conditions that occur in countries with corruption rather than corruption itself. These could include such things as lack of transparent policy, burdening regulation or poor market efficiency. It is likely the World Economic Forum’s Travel & Tourism Competitiveness Index is more directly relevant and correlated to tourism success. Within this index, the sub-index relating to the Regulatory Framework appears to have most relevance to our sample group of competitor and comparator countries.

Benchmarking Index	1 st Place Country	2 nd Place Country	3 rd Place Country
Global Competitiveness Report 2006	Israel	Estonia	Hungary
Corruption Perceptions Index	Estonia	Israel	Jordan
Index of Economic Freedom	Estonia	Armenia	Israel
Freedom Analysis – Political Rights	Hungary	Israel	Poland
Freedom Analysis – Civil Liberties	Hungary	Poland	Estonia

UN Human Development Index	Israel	Hungary	Poland
TTCI Index	Estonia	Israel	Hungary
TTCI Regulatory Framework Index	Hungary	Estonia	Jordan
TTCI Business Environment Index	Estonia	Israel	Hungary
TTCI Human, Cultural & Natural Resources Index	Estonia	Israel	Hungary

Figure 38: Leading Countries within Sample for various Benchmarking Studies

Analyzing the countries that consistently come highest within our sample in each of the benchmarks, we notice that Estonia performs best, followed by Hungary and Israel. This would suggest that these countries would be ideal best practice examples for Armenia.

3. Analysis of Projected Growth, Economic Importance and Employment in Armenia and its Competitor & Comparator Countries

As mentioned above in the introduction, Armenia's annual percentage growth rate in arrivals has been exemplary in the past decade, at around 20% per year; although this growth rate is on the decline. In terms of income that our sample countries have received through international visitors, Ukraine takes the lead with around 110% expenditure increases per year followed by Romania and Armenia in 3rd place with expenditure increases of around 30% per year.

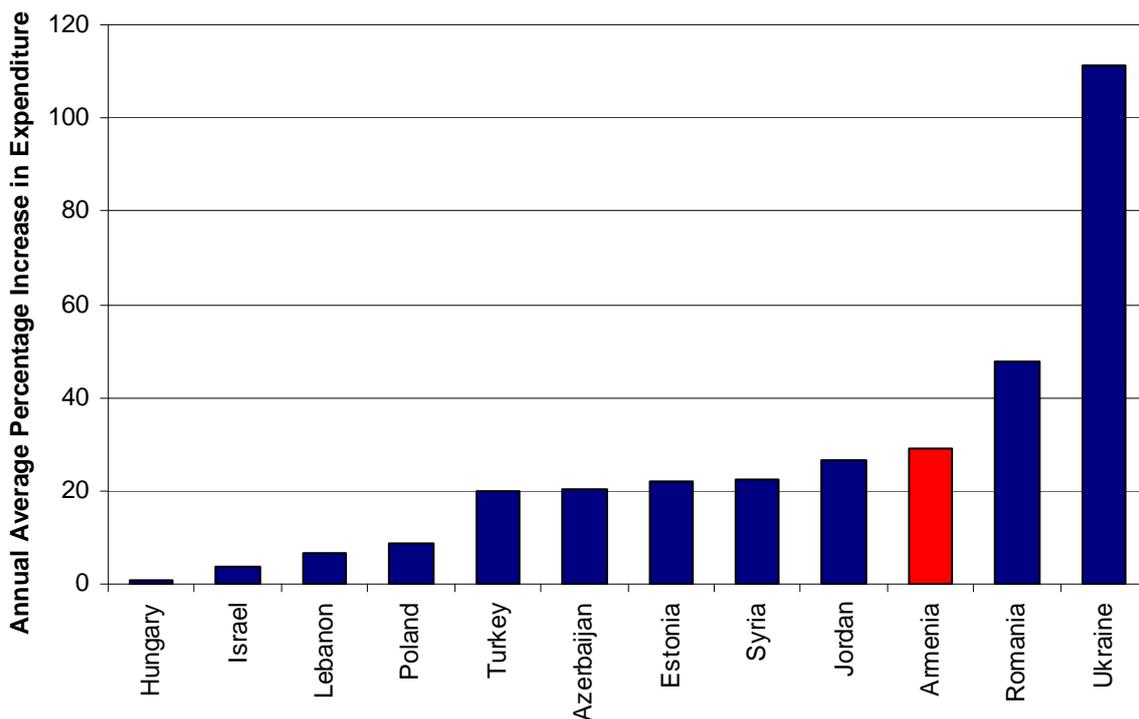


Figure 39: Average Annual Percentage Increase in Tourism Expenditure (2001-2005)
Source: UNWTO

In terms of tourism income per capita, Lebanon receives the most with around \$1300 per person per year. Armenia's income is second from bottom with less than \$100 per person. Armenia performs only slightly better in its ranking in terms of tourism income per square kilometer; Lebanon again topping the list.

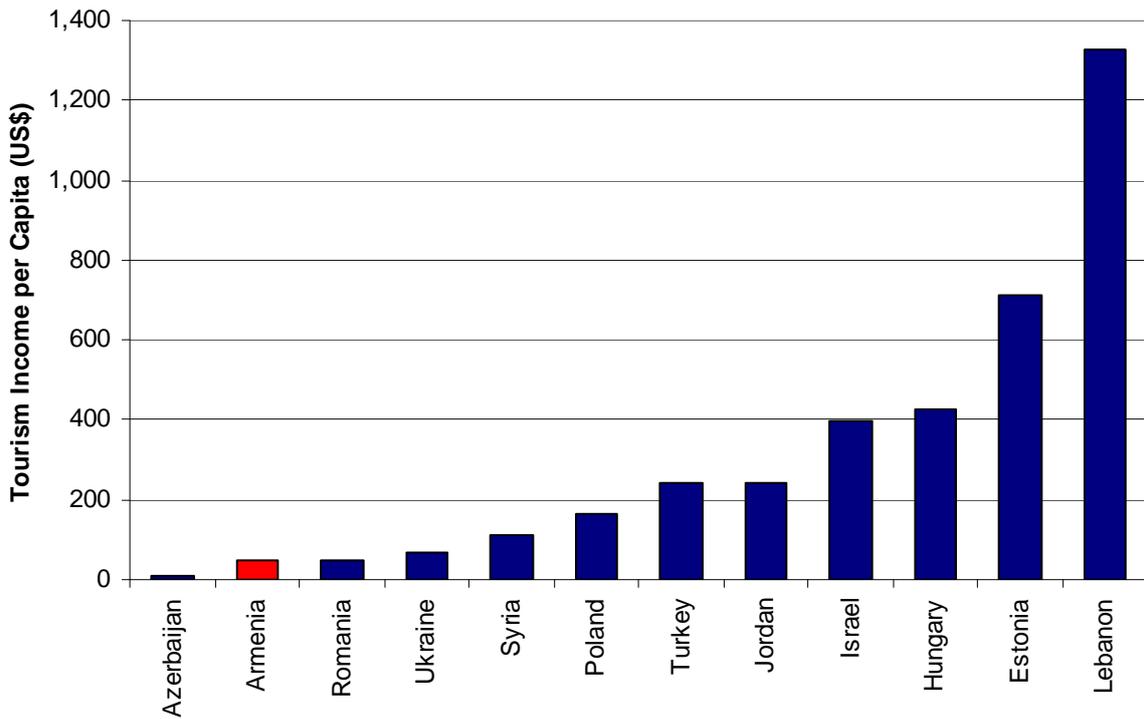


Figure 40: Tourism Income per Capita (US\$), 2005
Source: UNWTO

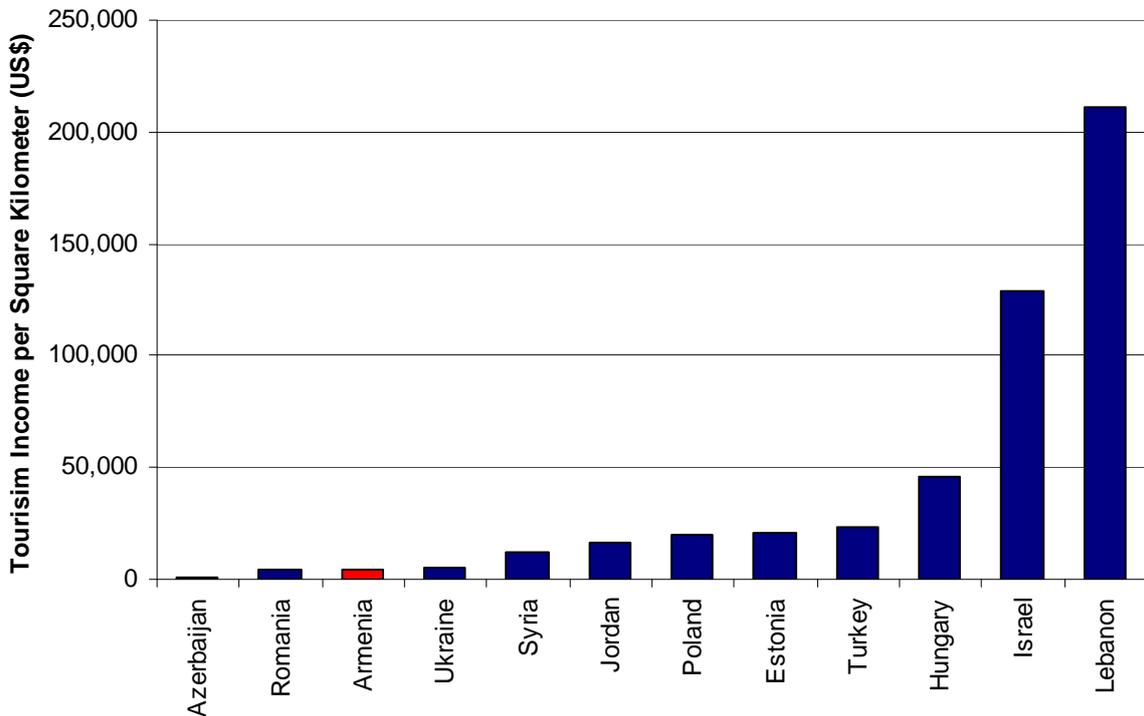


Figure 41: Tourism Income per Square Kilometer (US\$), 2005
Source: UNWTO

In terms of the contribution that our competitor and comparator countries make to their respective national economies, Armenia is positioned 9th out of 12 countries. Jordan's T&T industry and T&T economy contributes most to their GDP followed by Syria and Turkey.

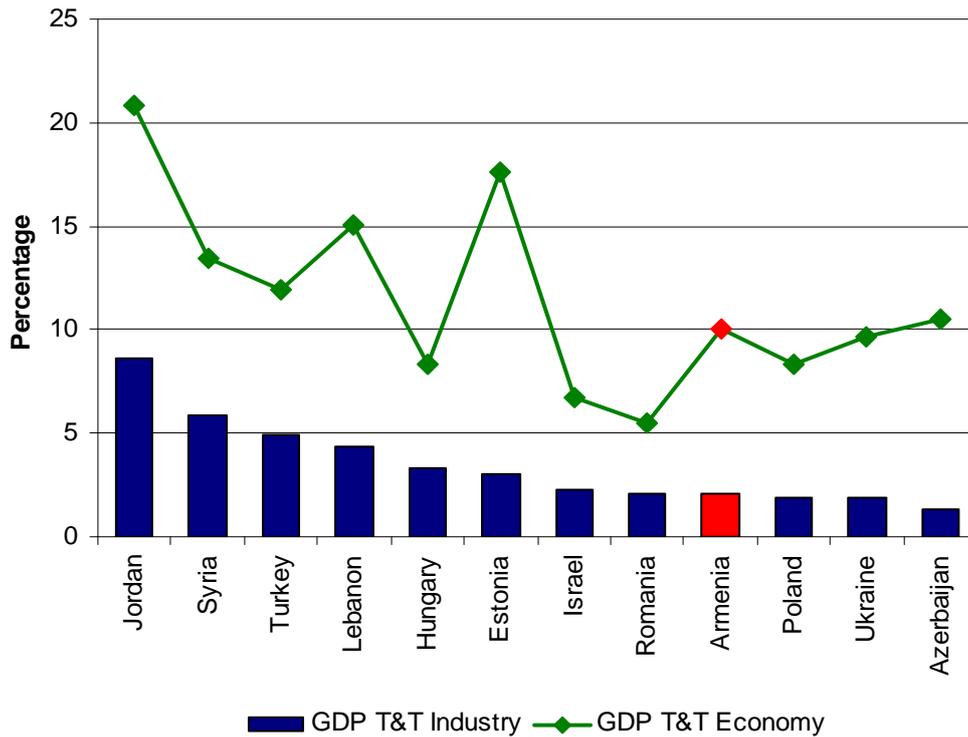


Figure 42: Percentage Contribution of Travel & Tourism to GDP from T&T Industry and T&T Economy, 2007
Source: WTTC

Perhaps unsurprisingly given the relative importance T&T has to the GDP in Jordan and Syria, both countries also have a significant proportion of their employment in the industry (more than 7% for Jordan). Armenia is in 10th position in terms of the percentage of the population employed in the industry, just ahead of Ukraine and Azerbaijan.

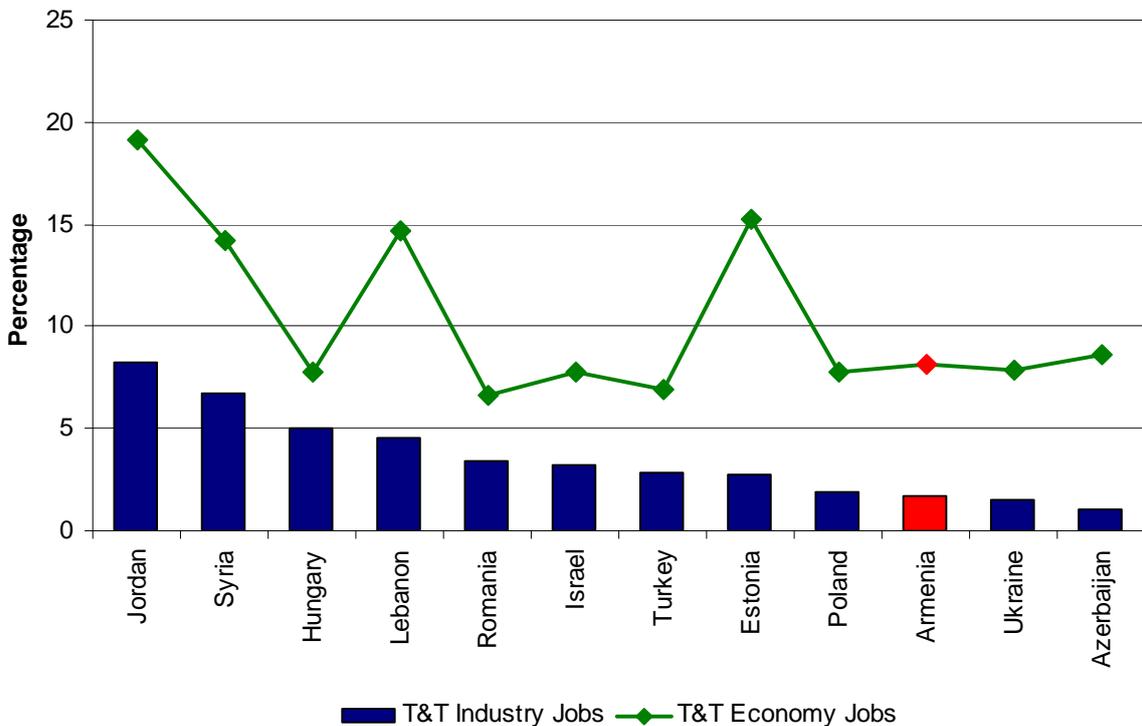


Figure 43: Percentage Contribution of Travel & Tourism to Employment within T&T Industry and T&T Economy, 2007
Source: WTTC

The WTTC ranks countries according to the absolute size of their T&T industry, their long term projected growth and the contribution that each T&T industry makes to their economy. A total of 176 countries have been ranked. Within our set of competitor and comparator countries we see that Jordan, Estonia and Lebanon’s tourism industries have the greatest relative contribution to their national economies. Armenia is in 7th position. In terms of overall growth within the industry, Romania, Azerbaijan and Estonia fill the top three positions with Armenia in 7th position, just behind Syria.

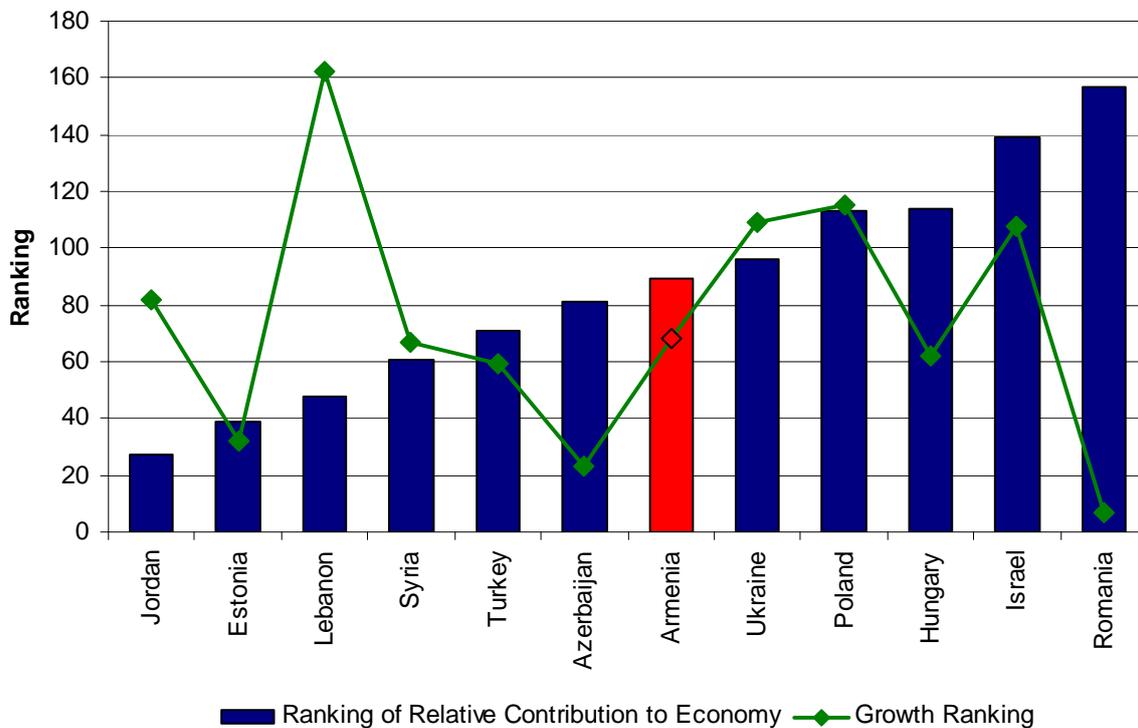


Figure 44: Ranking of Relative Contribution of Travel & Tourism to National Economy and Ranking of Projected Growth to 2017
Source: WTTC

Unfortunately, detailed expenditures on tourism promotion are not easily available for our group of competitor and comparator countries. For countries within Central and Eastern Europe, for which data is available, the promotional budgets of National Tourism Organizations vary between €1 million and almost €18 million. Figures provided in the chart below are for 2005, although Armenia’s spending is shown for 2006 and includes the promotional advertising on CNN and Euronews. However, even with this considerable spending, Armenia remains in last place within our sample. The majority of promotional funds (in excess of 80%) come from government, with the remainder from the private sector.

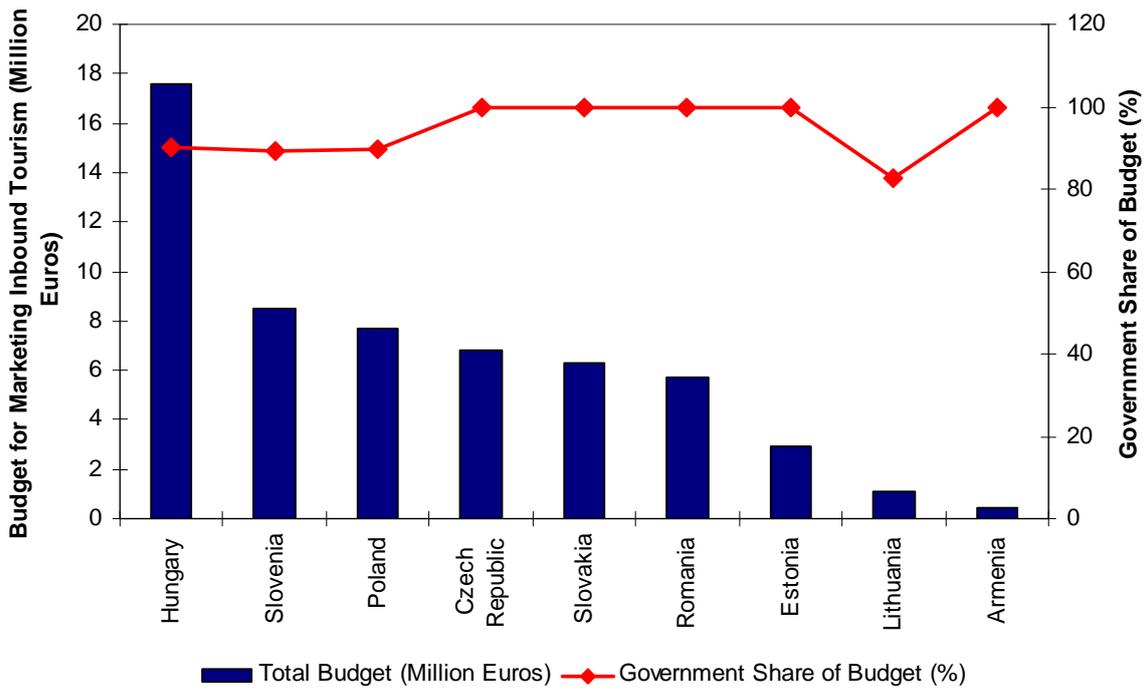


Figure 45: National Tourism Organization Marketing Spending by Select Group of Countries, 2005 (€ million)
Source: UNWTO

Note: Budget for Armenia shown for 2006

Examining the same data on a per capita basis, we can see that Armenia again comes in last place, spending around only €0.14 per person per year on tourism promotion. Slovenia spends by far the most per capita; more than €4 per person.

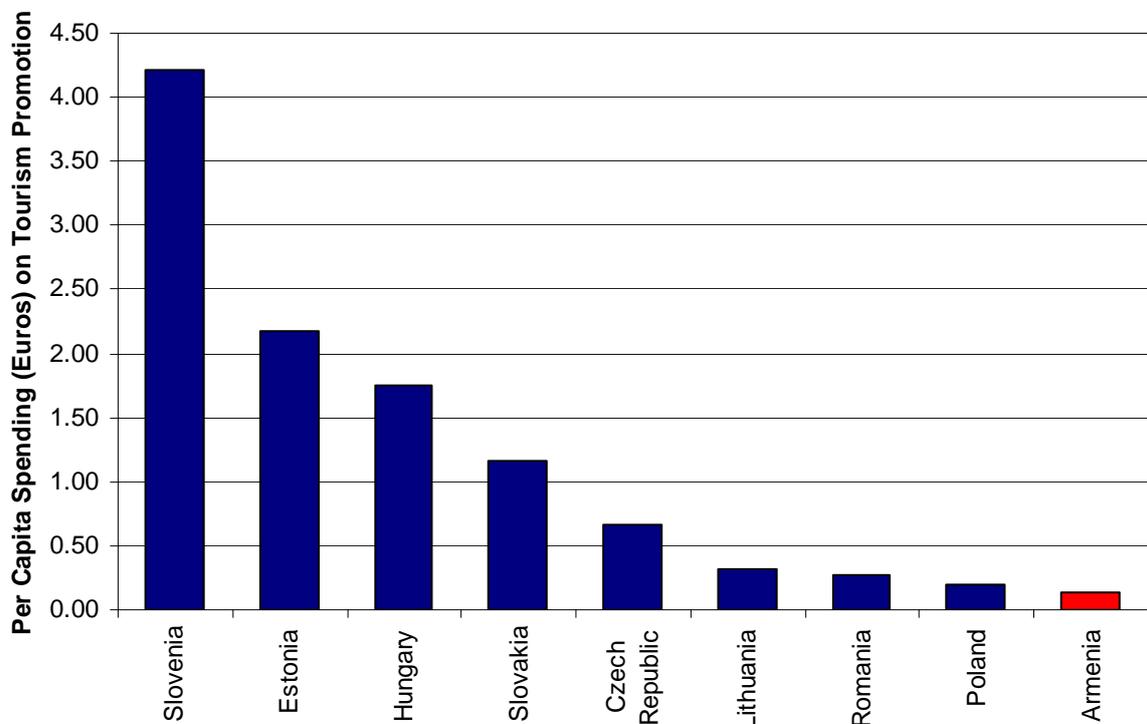


Figure 46: National Tourism Organization Marketing Spending per Capita by Select Group of Countries, 2005 (€ million)
Source: UNWTO

Note: Budget for Armenia shown for 2006

4. Analysis of Current & Historic Tourism Data from Top Ten Global Tourism Source Markets to Armenia and its Competitor and Comparator Countries

According to the World Tourism Organization, the top ten tourism source markets by International Tourism Expenditure are as follows:

Country	International Tourism Expenditure (US\$ Billion) 2005 (estimate)	Market share (%)
1. Germany	72.7	10.7
2. United States	69.2	10.2
3. United Kingdom	59.6	8.8
4. Japan	37.5	5.5
5. France	31.2	4.6
6. Italy	22.4	3.3
7. China	21.8	3.2
8. Canada	18.4	2.7
9. Russia	17.8	2.6
10. Netherlands	16.2	2.4

The size of these markets and the fact that together they make up 54% of all international tourism expenditure give basis for further analysis in terms of their importance to Armenia and its competitor and comparator countries. Analysis of visitor arrival proportions, changes in arrival numbers and market share produce some valuable findings.

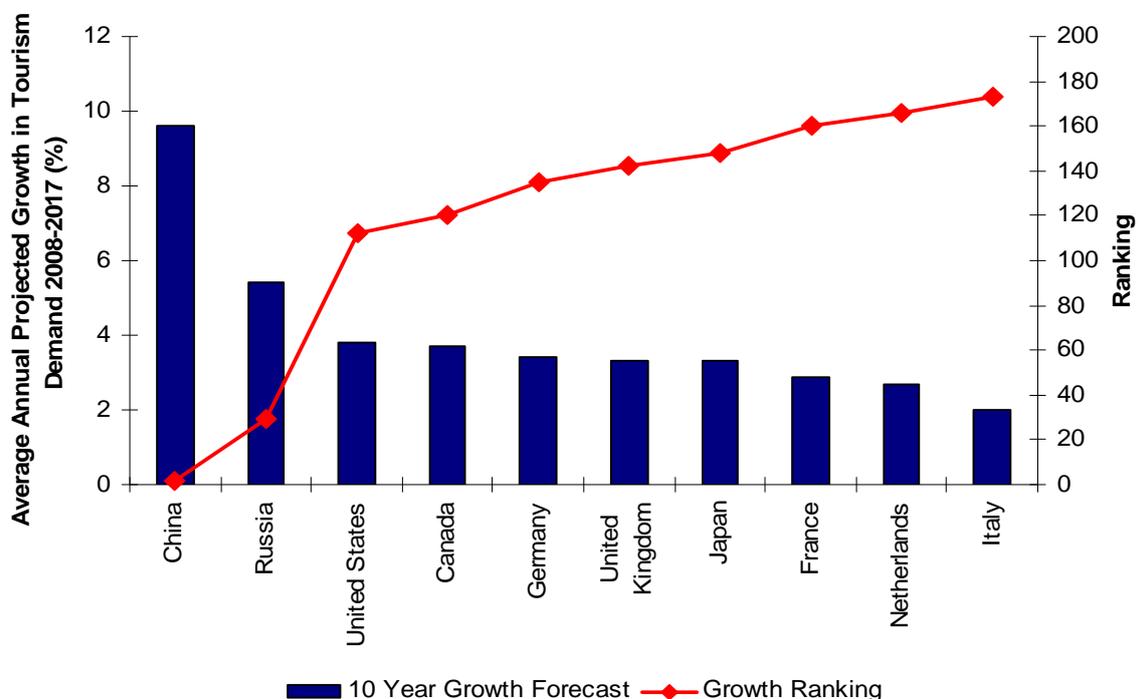


Figure 47: Projected Growth in T&T Demand for Major Source Markets 2008-2017
Source: WTTC

Firstly, projections by WTTC suggest that the largest growth in outbound and domestic travel will be from China and Russia with the other source markets managing less than the global average forecasted growth.

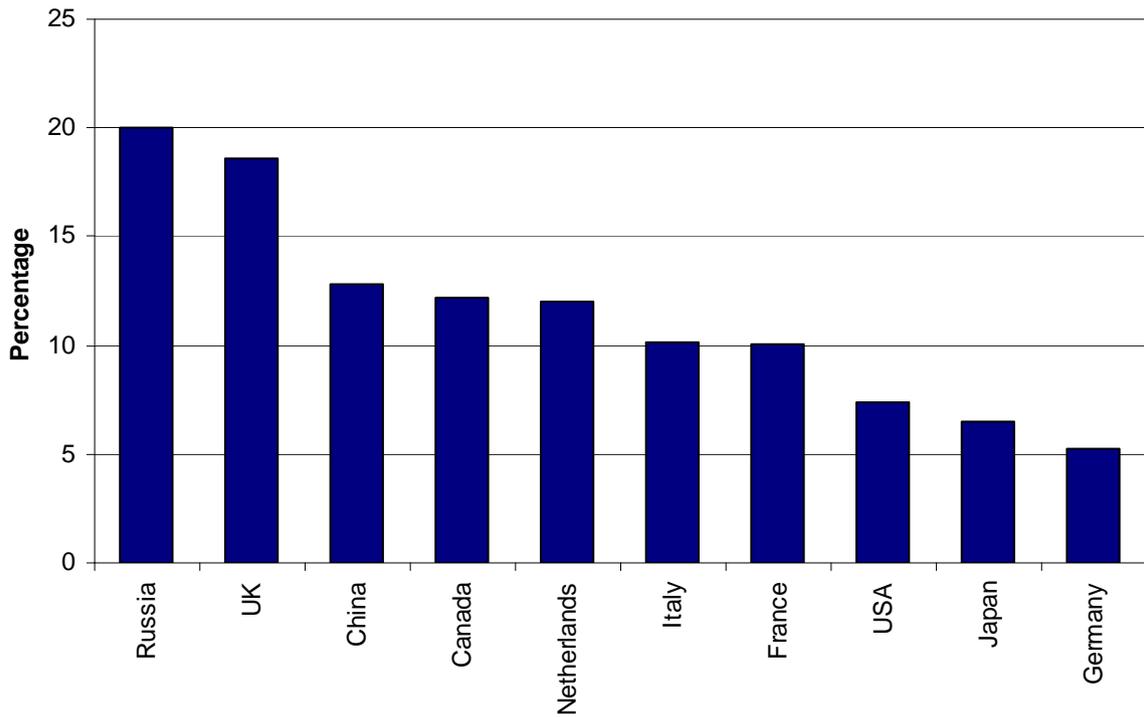


Figure 48: Annual Average Growth Rates in Arrivals (2001-2005) from the Major Global Source Markets to our group of Competitor & Comparator Countries.
Source: WTTC

However, by analyzing growth over the period 2001 to 2005 from the top ten source markets to our group of competitor and comparator countries, we can notice that the strongest increases in arrivals have been from Russia and the UK. The lowest increases in arrivals to the region are from Germany and Japan.

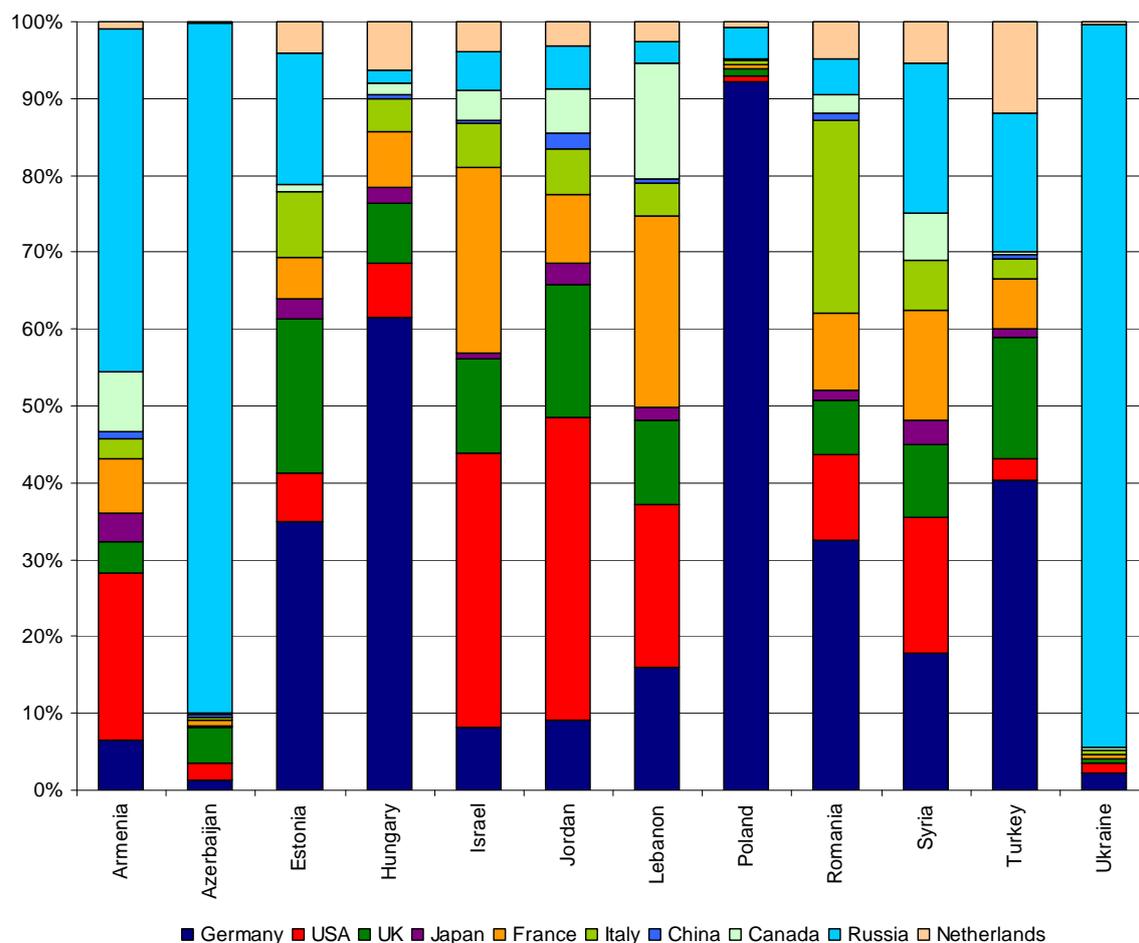


Figure 49: Proportions of Global Top Ten Source Markets within Sample Destinations, 2005
Source: UNWTO

Note: Data for Estonia based on Arrivals to All Accommodation Establishments not National Borders

Data for Hungary, Poland, Romania and Syria based on Visitors not Tourists

Data for Ukraine for 2003

Data for Russian Tourists to Armenia and Syria not segregated from rest of CIS

Data for Chinese Tourists to Estonia and Syria not segregated from North East Asia and therefore not included

Results from the study suggest that each of the sample markets is most dependent on the following three visitor/tourist source markets:

- Armenia – Russia (CIS), USA, Canada
- Azerbaijan – Russia, UK, USA
- Estonia – Germany, UK, Russia
- Hungary – Germany, UK, France
- Israel – USA, France, UK
- Jordan – USA, UK, France
- Lebanon – France, USA, Germany
- Poland – Germany, Russia, UK
- Romania – Germany, Italy, France
- Syria – Russia, Germany, USA
- Turkey – Germany, Russia, UK
- Ukraine – Russia, Germany, USA

Azerbaijan, Ukraine, Poland and Hungary rely to a large extent on one or two markets rather than having an even spread.

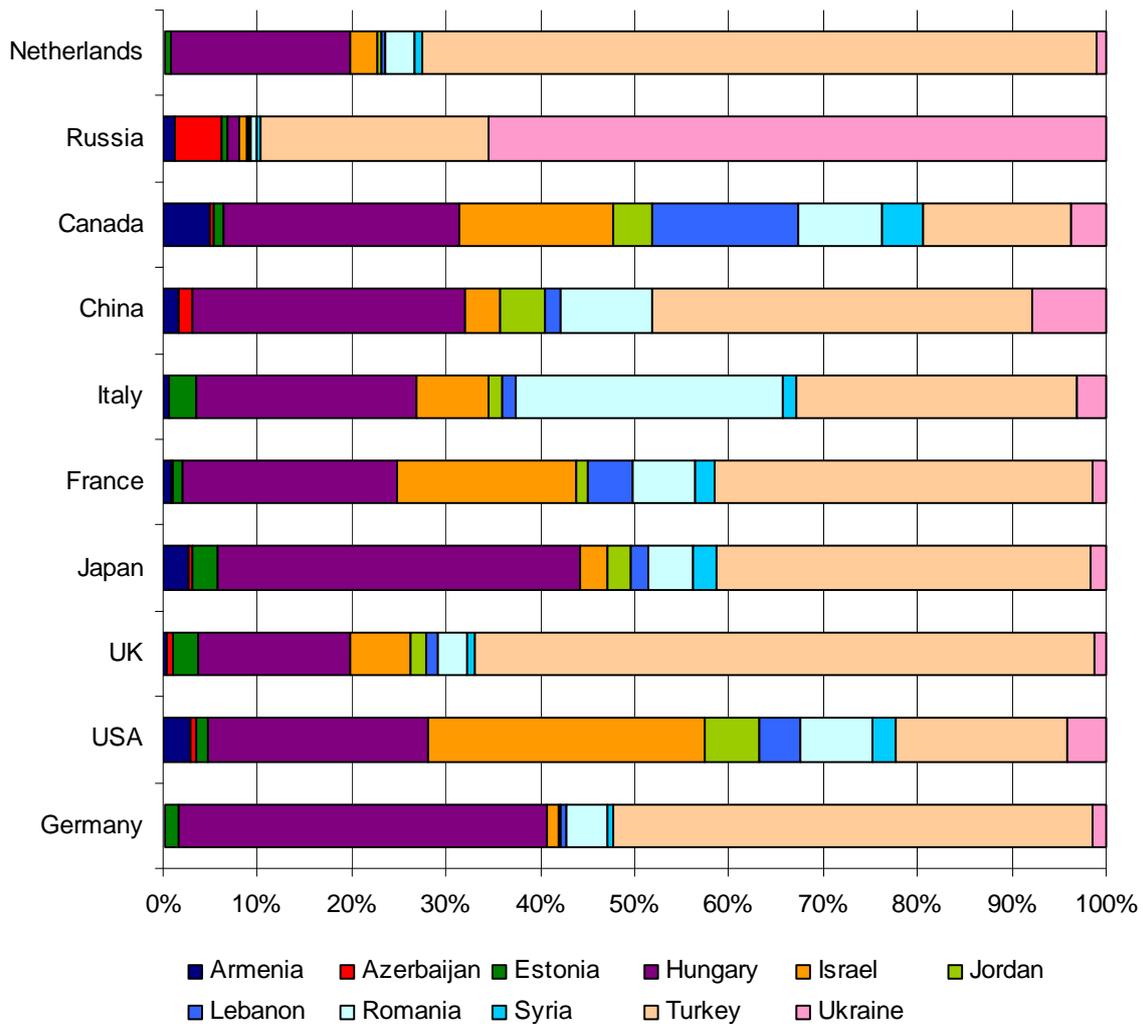


Figure 50: Popularity of Sample Destinations amongst Global Top Ten Source Markets, 2005

Source: UNWTO

Note: Data for Estonia based on Arrivals to All Accommodation Establishments not National Borders

Data for Hungary, Romania and Syria based on Visitors not Tourists

Data for Ukraine for 2003

Data for Russian Tourists to Armenia and Syria not segregated from rest of CIS

Data for Chinese Tourists to Estonia and Syria not segregated from North East Asia and therefore not included

Data for Poland not included as the data for all visitors distorts results

Examination of the spread of the sample countries amongst the ten source markets, demonstrates a strong preference by the top ten source markets for Hungary, Israel and Turkey within our sample countries.

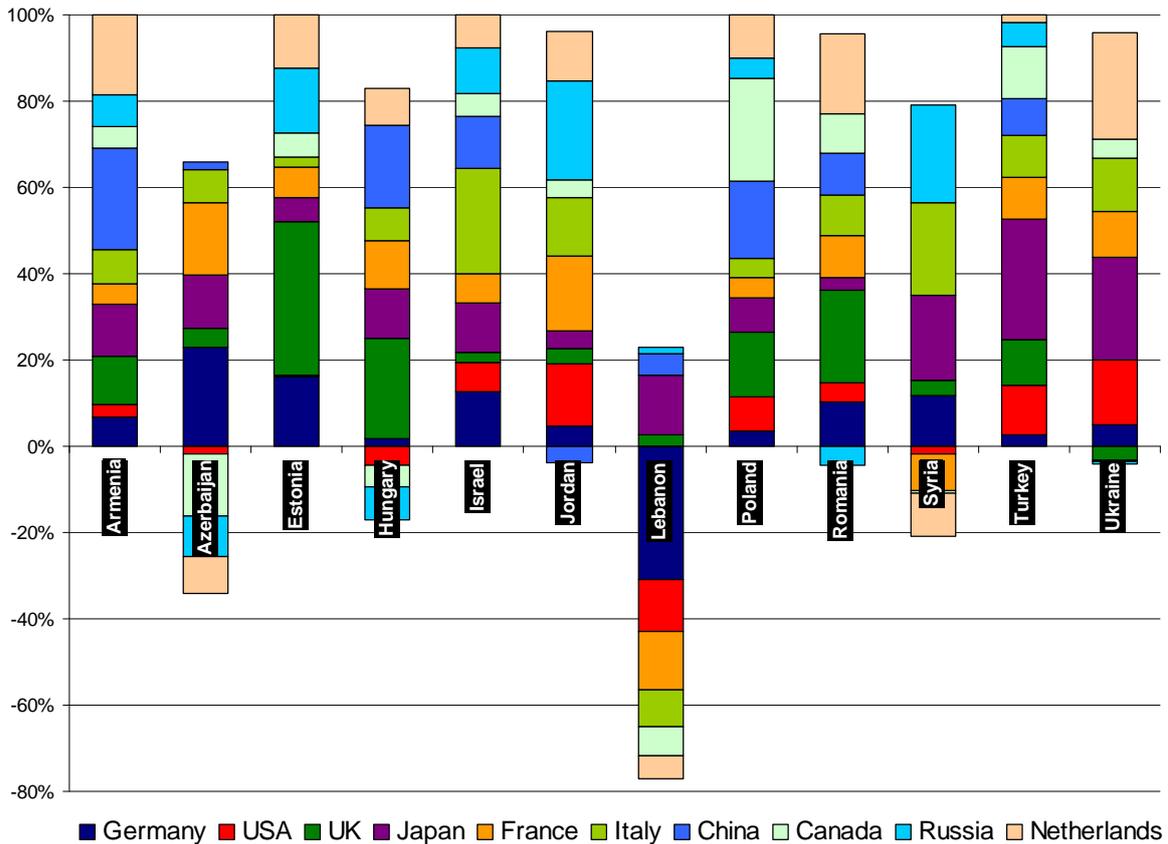


Figure 51: Percentage Change of Global Top Ten Source Market Arrivals to Sample Countries, 2004 – 2005

Source: UNWTO

Note: Data for Estonia based on Arrivals to All Accommodation Establishments not National Borders

Data for Hungary, Poland, Romania and Syria based on Visitors not Tourists

Data for Ukraine for 2002/3

Data for Russian Tourists to Armenia and Syria not segregated from rest of CIS

Data for Chinese Tourists to Estonia and Syria not segregated from North East Asia and therefore not included

Examining tourist arrival change within each of our sample countries for the period 2004-2005, we can clearly see a decrease in arrivals from the top ten source markets in Lebanon, Azerbaijan, Hungary and Syria. Ukraine, Romania and Jordan saw small decreases from one or two major source markets.

Whilst the chart above maybe indicative of some trends, it does only represent changes within one year and the arrivals from the top ten source markets to some of the sample countries are so low that even an additional 100 visitors could show impressive growth.

Interesting to note is that Japan has shown growth in all our sample countries. Also, for those countries that recorded positive growth from all the top ten source markets the spread of that growth was fairly even distributed.

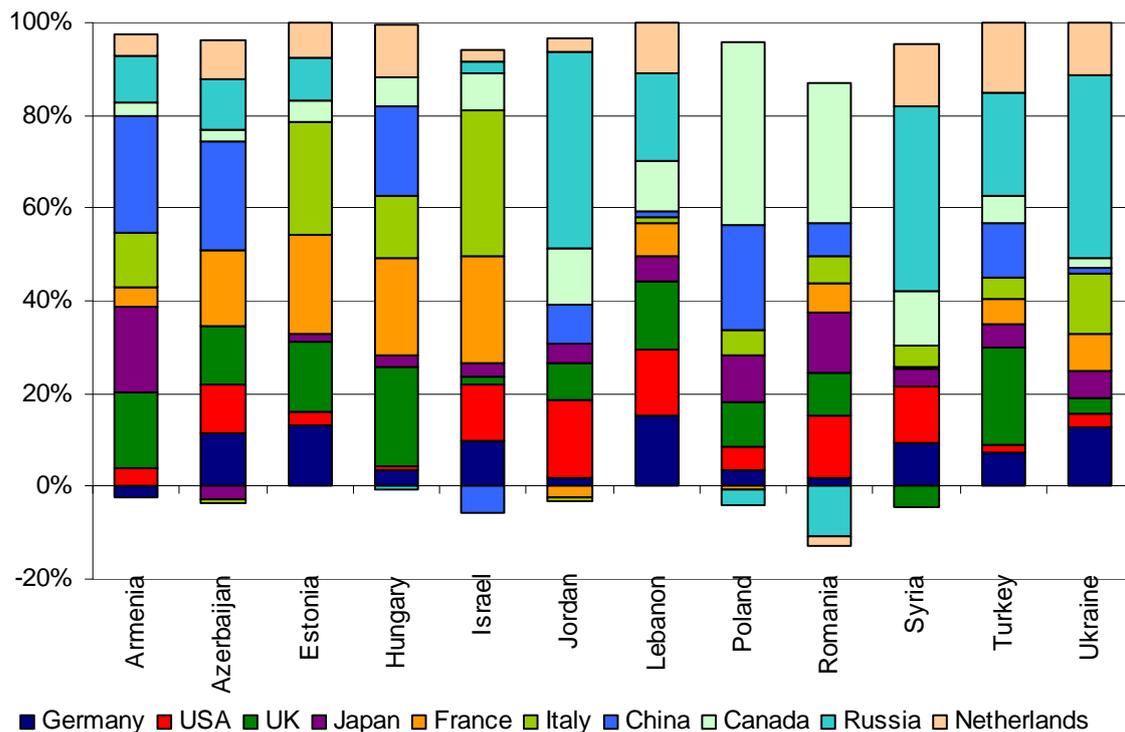


Figure 52: Percentage Change of Global Top Ten Source Market Arrivals to Sample Countries 2001 -2005

Source: UNWTO

Note: Data for Estonia based on Arrivals to All Accommodation Establishments not National Borders

Data for Hungary, Poland, Romania and Syria based on Visitors not Tourists

Data for Ukraine for 1999/2003

Data for Russian Tourists to Armenia and Syria not segregated from rest of CIS

Data for Chinese Tourists to Estonia and Syria not segregated from North East Asia and therefore not included

Examining changes in arrivals over a longer period (2001 to 2005) provides a more balanced picture and less dramatic shifts. Only Estonia, Lebanon, Turkey and Ukraine show positive growth amongst all top ten source markets. Romania sees the largest decrease from a particular source market – in this case, Russia.

Armenia's highest increases have been shown predominantly from UK, Japan and China, although again, this may be the result of relatively small numbers of visitors to start with – particularly with Japan and China.

German growth is most significant in Lebanon, US growth in Jordan, UK growth in Hungary and Turkey, Japanese growth in Armenia, French and Italian growth in Israel, Chinese growth in Armenia, Canadian growth in Poland, Russian growth in Jordan and Syria and Dutch growth in Turkey. These changes clearly show a shift away from traditional markets for the source countries

In deciding viable target markets, examination of each indicator suggests a different range of possible markets. Certainly two factors are important; the growth trend of tourists to the competitor and comparator countries and to Armenia; and the share of source markets in the regional tourist arrivals and in Armenian tourist arrivals

In order to have a quantitative estimate of the importance of the global top ten source markets for Armenia, an index has been developed which takes into account the above mentioned factors.

The Source Market Importance Index is calculated with following formula:

$$\text{Source Market Importance Index} = \text{RI}_{\text{Region}} + \text{RI}_{\text{Armenia}}$$

Where:

RI_{Region} = relative importance of the source market for the group of competitor and comparator countries

RI_{Armenia} = relative importance of the source market for Armenia

“Relative importance of the source market for the group of competitor and comparator countries” is formed from a 5-year compound annual growth rate (CAGR) for each top source market to our target destinations and their share within regional tourism arrivals.

“Relative importance of the source market for Armenia” is comprised from a 5-year CAGR of each top source market to Armenia and the share of each top source market within Armenian arrivals.

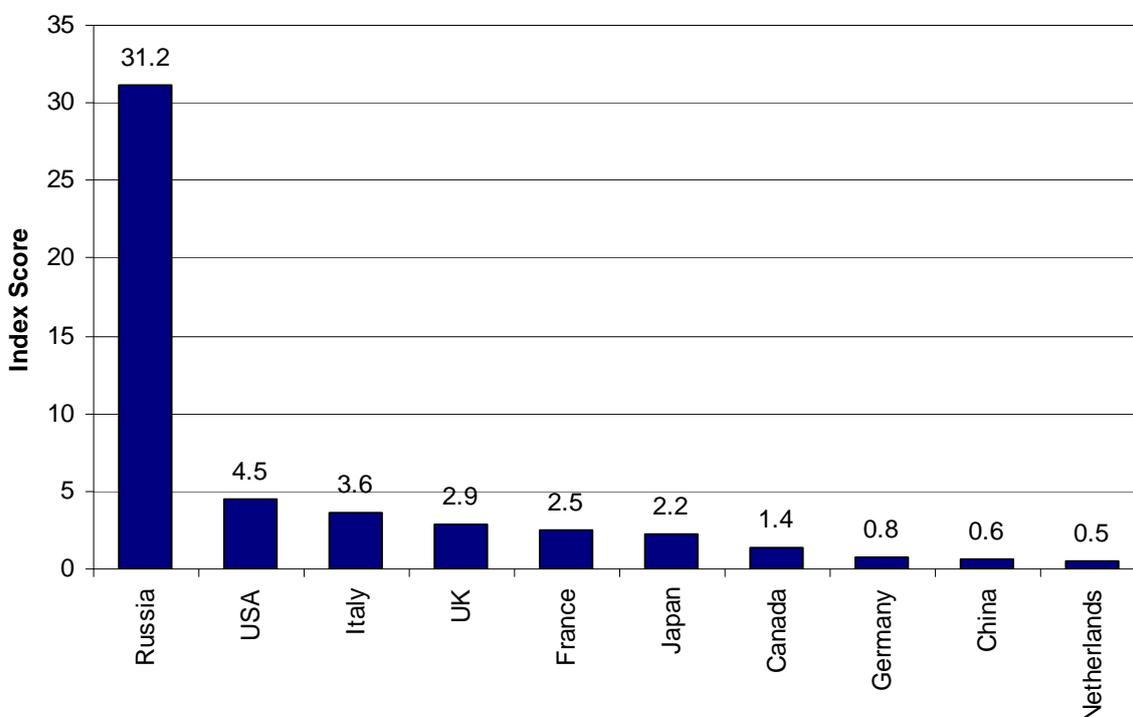


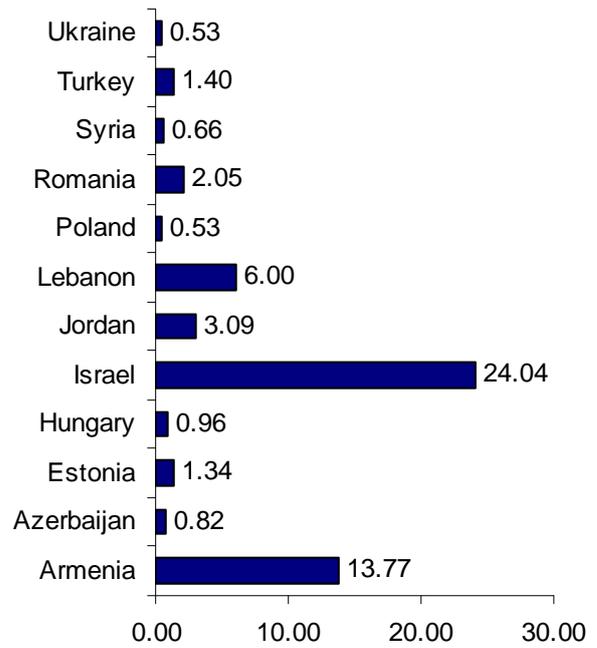
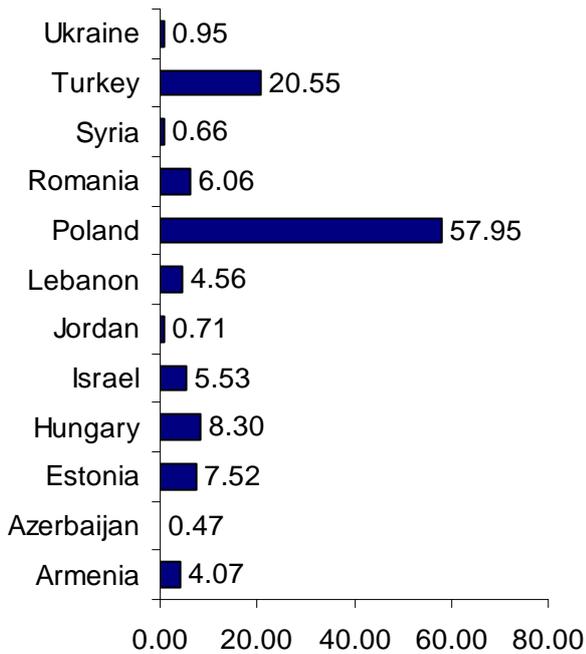
Figure 53: Source Market Importance Index for the Top Ten Global Source Markets

Source: CAPS calculations based on WTTC data

Note: Poland and Turkey were excluded from the list of Competitor and Comparator countries. The fact that Poland’s tourism data was based on visitors rather than tourists and that Turkey’s main product is based on seaside tourism affected the outcome significantly.

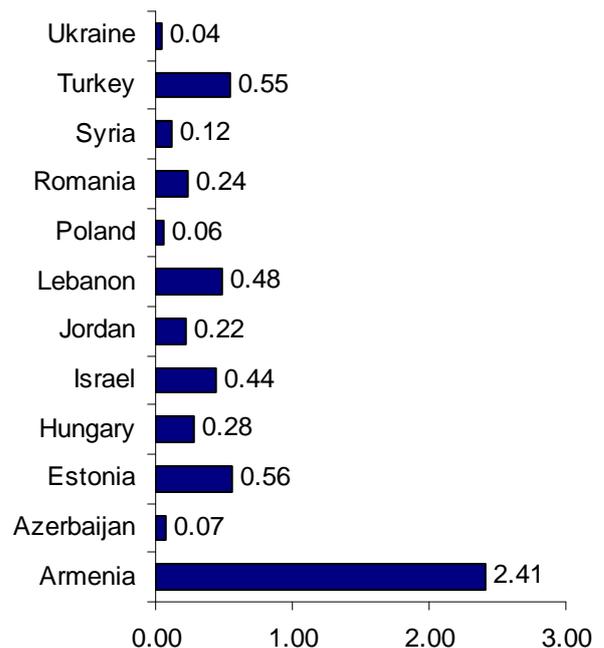
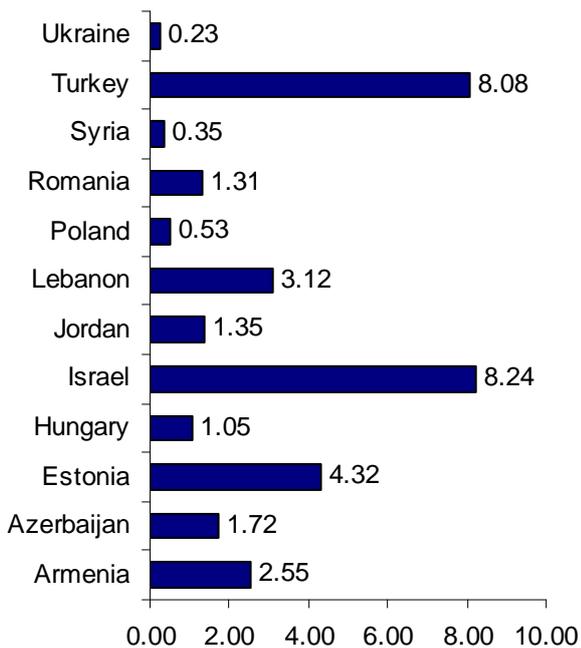
The results show that Russia, USA and Italy are the most promising source markets for Armenia. We should also consider that the high positions of Russia and USA are a result of the large Armenian Diaspora communities in those countries.

The following charts highlight the total market share for each of the top ten source markets in our sample of competitor and comparator countries.



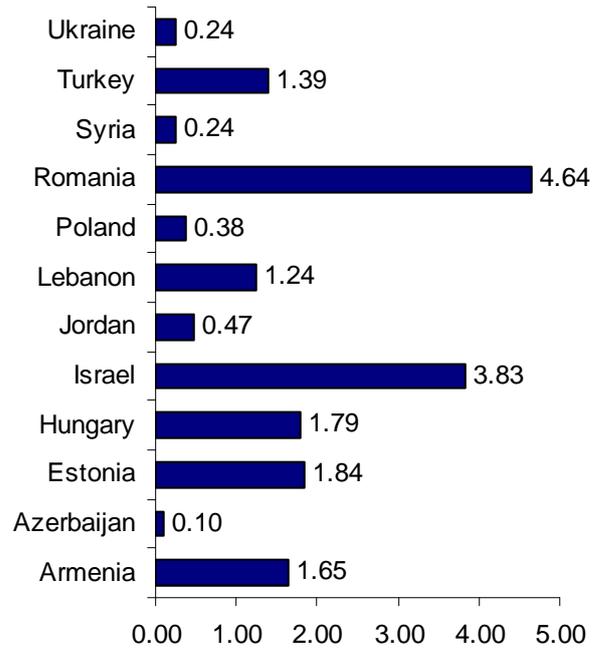
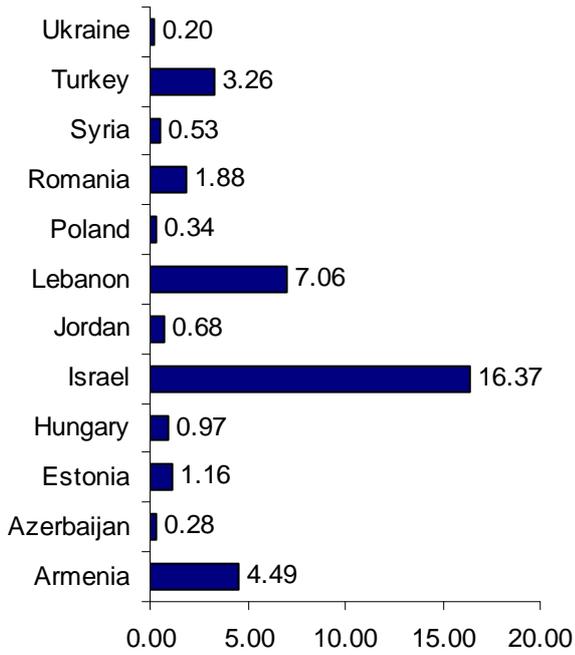
German Visitors – predominant in Polish & Turkish markets – Poland relying heavily on German Visitors

US Visitors – predominant in Israeli, Armenian and Lebanese markets (attributable to Diaspora connections)



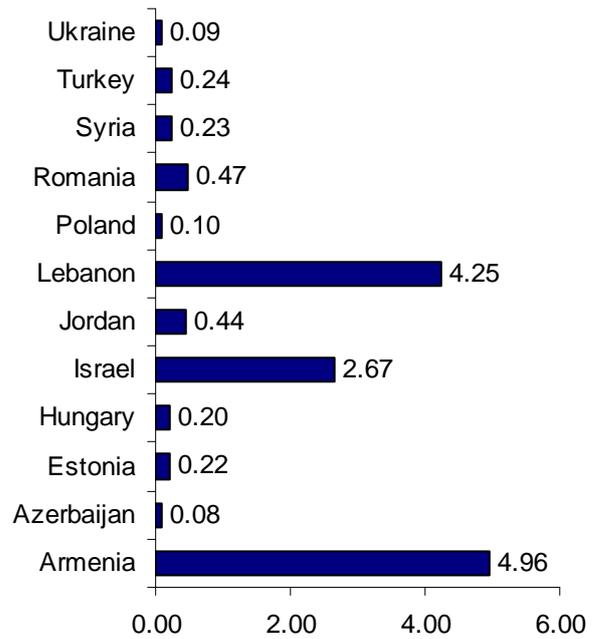
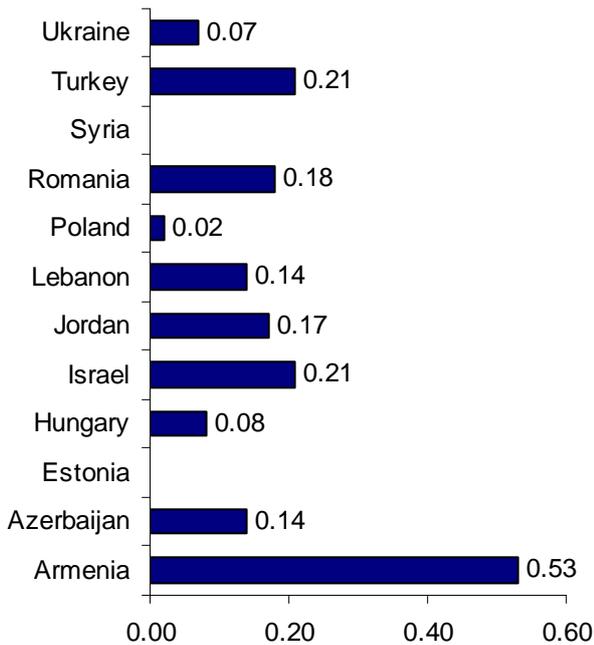
UK Visitors – predominant in Turkish, Israeli and Estonian Markets (the latter seeing recent growth due to low cost carriers)

Japanese Visitors – most predominant in the Armenian market



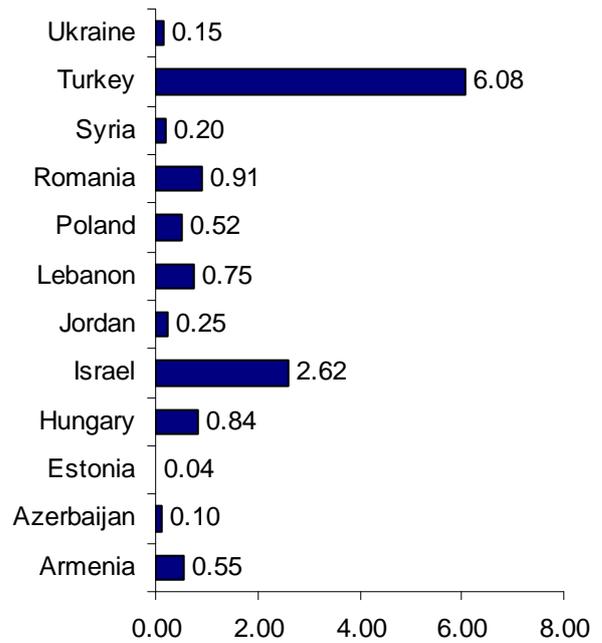
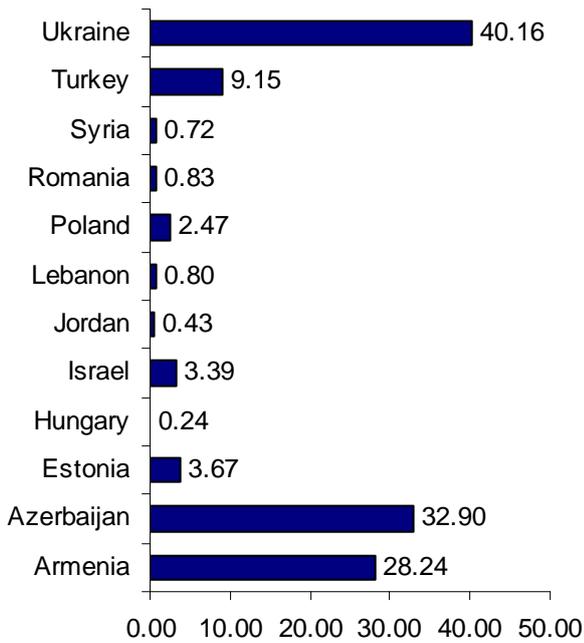
French Visitors – predominant in the Israeli and Lebanese markets

Italian Visitors – predominant in the Romanian and Israeli markets



Chinese Visitors – most predominant in the Armenian market

Canadian Visitors – predominant in the Lebanese, Israeli and Armenian markets



Russian Visitors – Predominant in the Ukrainian, Azeri and Armenian markets

Dutch Visitors – Predominant in the Turkish and Israeli markets.

Figure 54: Market Share of Each of the Top Ten Source Markets within our Sample of Competitor and Comparator Countries, 2005
Source: UNWTO

The market share charts (above) demonstrate firstly the reliance among some of the competitor and comparator countries on their traditional and neighboring countries, or those with which there are distinct ethnic ties. Secondly, Armenia has relatively high market shares of the top ten source markets suggesting that it is either successful in attracting these markets or alternatively unsuccessful in attracting other markets. Given its level of tourism development and its budget for overseas marketing, it is likely to be the latter.

5. Analysis of Visa Regimes in Armenia and its Competitor & Comparator Countries

	Armenia	Azerbaijan	Estonia	Hungary	Israel	Jordan	Lebanon	Poland	Romania	Syria	Turkey	Ukraine
Germany	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	NO	NO
USA	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	YES1	NO
UK	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	YES1	NO
Japan	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	NO	NO
France	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	NO	NO
Italy	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	YES1	NO
China	YES1	YES	YES	YES	YES	YES	YES1	YES	YES	YES	YES	YES
Canada	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	YES1	NO
Russia	NO	NO	YES	YES	YES	YES	YES1	YES	YES	YES	YES1	NO
Netherlands	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	YES1	NO
Iran	YES1	YES	YES	YES	YES	YES	YES	YES	YES	YES	NO	YES
Argentina	YES1	YES	NO	NO	NO	YES	YES1	NO	NO	YES	NO	YES
Lebanon	YES1	YES	YES	YES	YES	YES		YES	YES	NO	YES	YES
Syria	YES1	YES	YES	YES	YES	NO	NO	YES	YES		YES	YES
Number of Countries offering Visa-Free Travel	1	1	9	9	9	1	1	9	9	1	5	9

Figure 55: Requirements for Tourist Visas from the Global Top Ten Source Markets and Armenia's Top Ten Markets

Source: OAG.com

Note: YES1 = Visa required but available at the border

The table above clearly outlines which of the sample competitor and comparator countries require visas from the global top ten and Armenia's major source markets. Estonia, Hungary, Israel, Poland, Romania and Ukraine each have the most relaxed visa regime. However, we should point out that visas can be obtained at the border for many countries visiting Armenia and Turkey, easing accessibility.

It is also important to note that in addition to whether a visa is required or not, each country has different policies on whether a passport should have 3 or 6 months validity, on whether an invitation letter is needed or not, the duration of the visa, the processing time and the cost. Costs appear to vary between \$16 and \$60 for a standard tourist visa.

6. Analysis of Hotel Accommodation Prices and Flight Costs to Armenia and its Competitor and Comparator Countries

To analyze the typical costs associated with travel to each of the sample countries, research was undertaken on Expedia.com to analyze hotel costs for a stay between the period of 6th and 20th September 2007. Only hotels located in the capital cities of the sample countries were chosen. The minimum rate indicates the lowest standard room price per night in the cheapest hotel and maximum rate indicates the lowest average standard room price per night in the most expensive hotel.

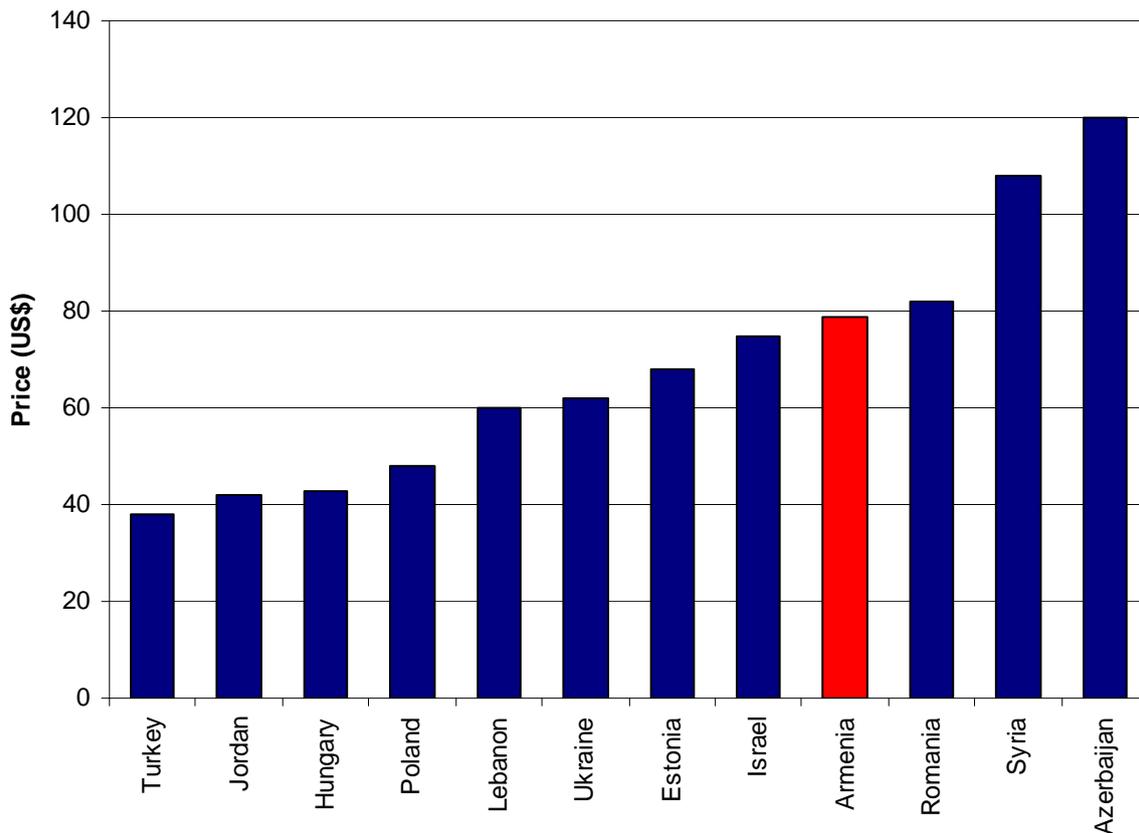


Figure 56: Minimum Room Cost per Night (US\$) for a Hotel Stay as advertised on Expedia.com

Source: Expedia.com

Note: for period 6th – 20th September 2007

Analyzing minimum room prices for the sample countries we notice that the most competitive destinations in terms of hotel accommodation prices are Turkey, Jordan and Hungary. Armenia is in 9th place with the lowest priced accommodation being \$79 per night. We acknowledge that not all hotels will be included on Expedia.com and additionally that some of the hotels may be fully booked at the time requested. However, we do believe that this crude methodology does give a simple insight into hotel price competitiveness.

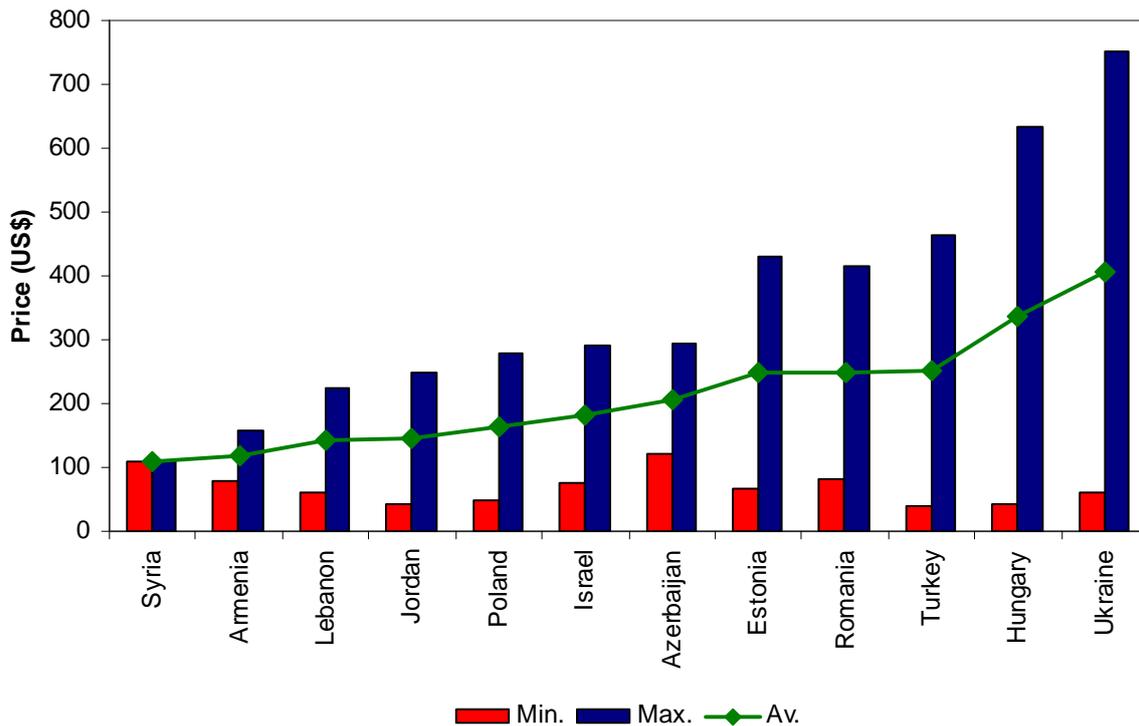


Figure 57: Minimum, Maximum and Average Room Cost per Night (US\$) for a Hotel Stay as advertised on Expedia.com

Source: Expedia.com

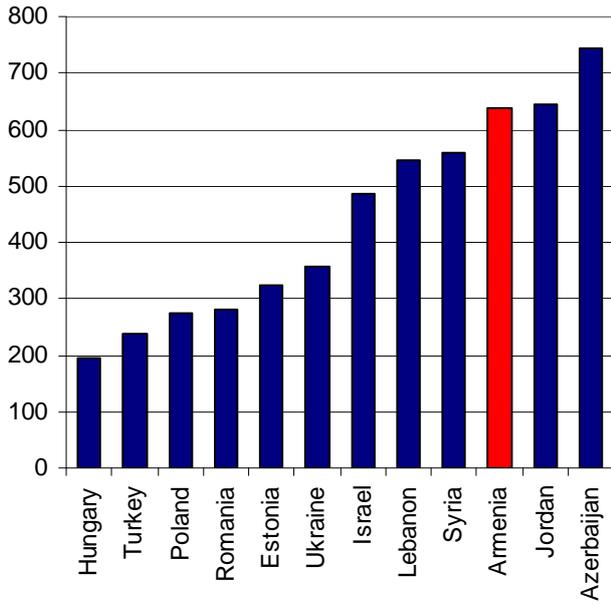
Note: for period 6th – 20th September 2007

However, when we also include analysis of the highest priced hotel and the average price between the two, we notice a very different picture. In this instance, Syria is in first place, followed by Armenia. This indicates that at lower prices, Armenia is not competitive, but at the same time, it lacks higher priced choices for tourists. Of course the figures are swayed here by the number of hotels on the Expedia.com website.

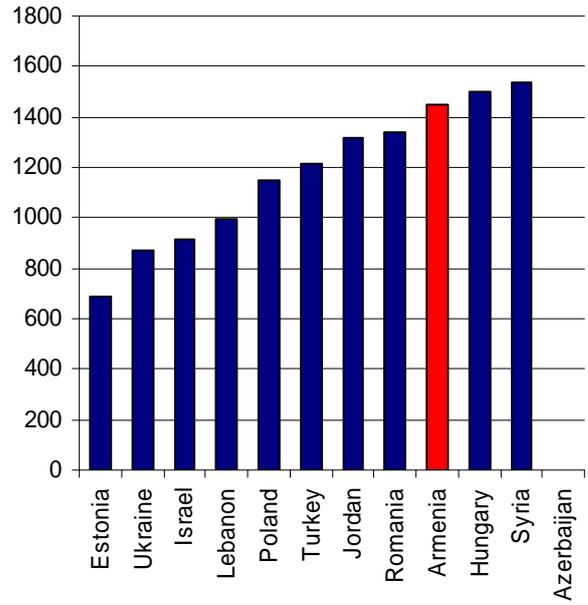
The lowest hotel prices were in Turkey (\$38) and Jordan (\$42), and the highest prices in Ukraine (\$751), Hungary (\$632) and Turkey (\$463)

Using the same advance dates, research was undertaken on the minimum and maximum economy flight costs from each capital city in the top ten global source markets. Expedia.com was again used as the source of information. Round trip ticket options were requested.

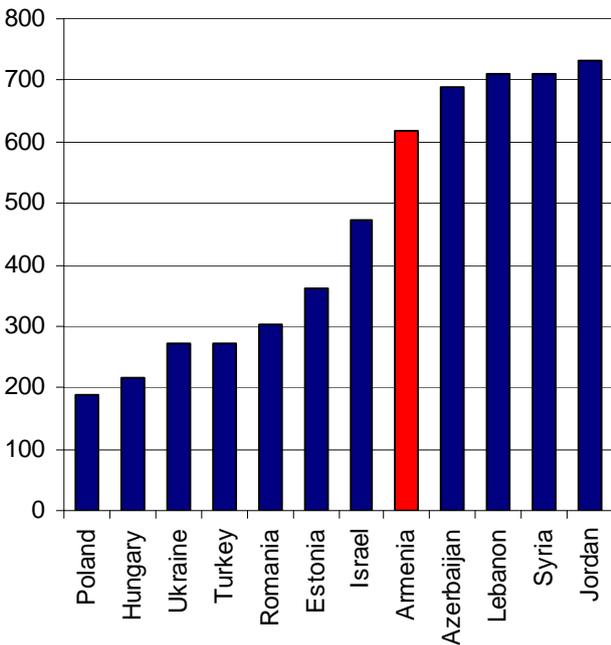
The first set of charts highlight the minimum flight costs for the dates chosen from the top ten source markets to our competitor and comparator countries.



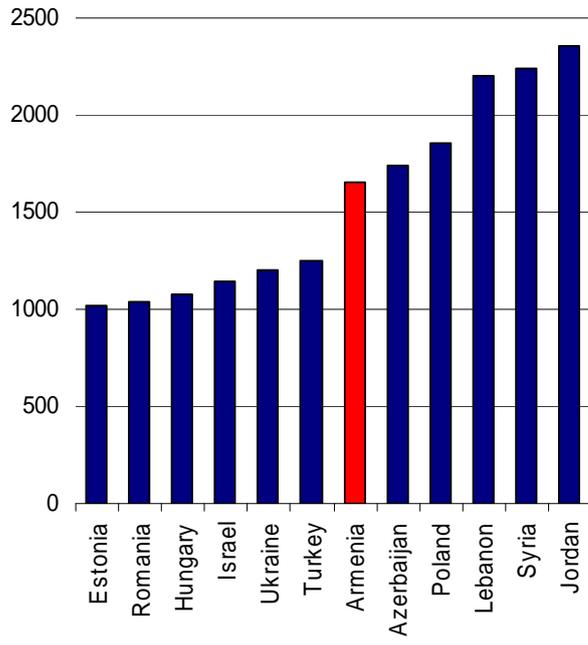
From Germany – Armenia 3rd most expensive flight from 12 countries (\$638)



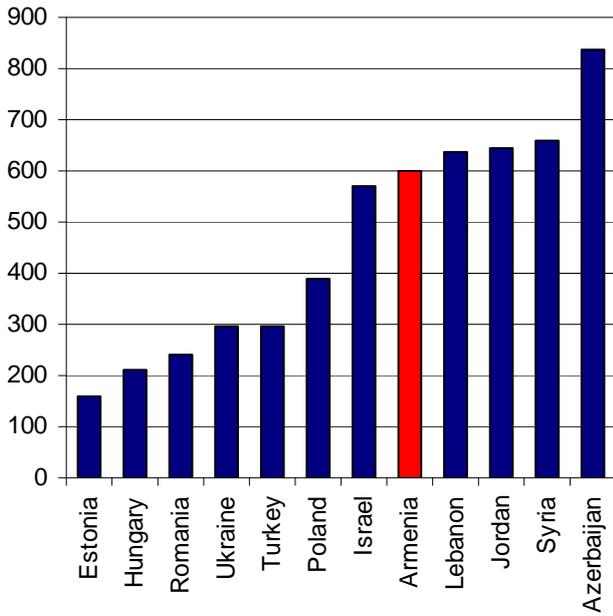
From USA – Armenia 3rd most expensive flight from 11 countries (\$1452)



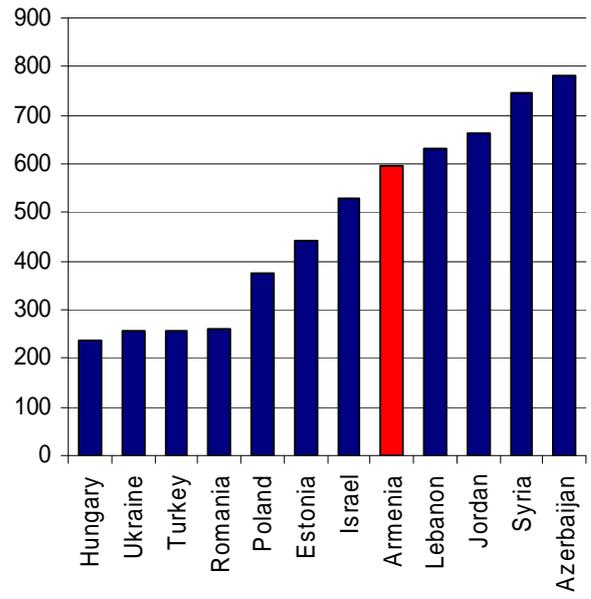
From UK – Armenia 5th most expensive flight from 12 countries (\$618)



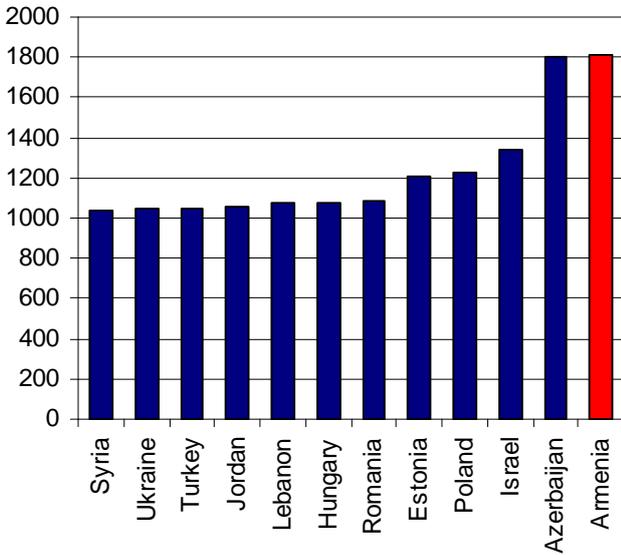
From Japan – Armenia 6th most expensive flight from 12 countries (\$1657)



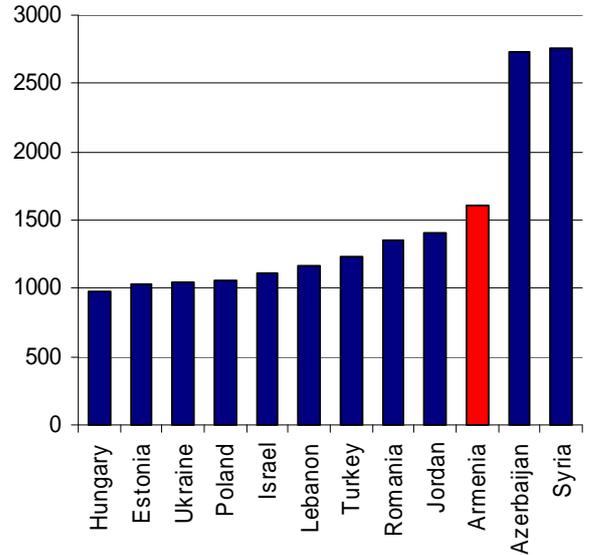
From France – Armenia 5th most expensive flight from 12 countries (\$599)



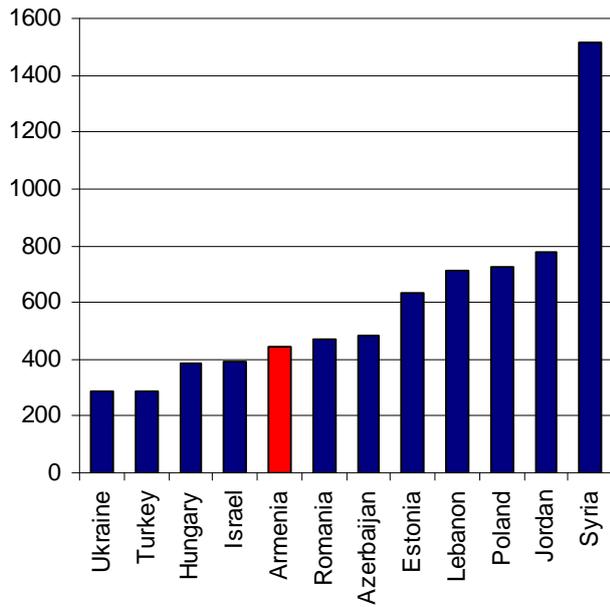
From Italy – Armenia 5th most expensive flight from 12 countries (\$598)



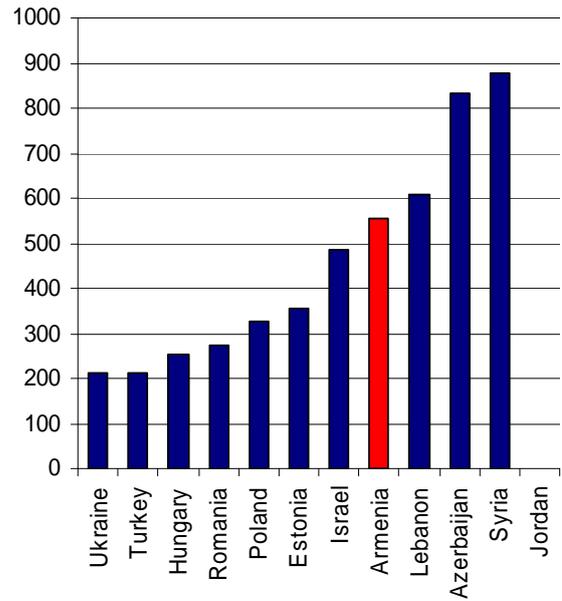
From China – Armenia most expensive flight from 12 countries (\$1814)



From Canada – Armenia 3rd most expensive flight from 12 countries (\$1604)



From Russia – Armenia 8th most expensive flight from 12 countries (\$445)



From Netherlands – Armenia 4th most expensive flight from 11 countries (\$557)

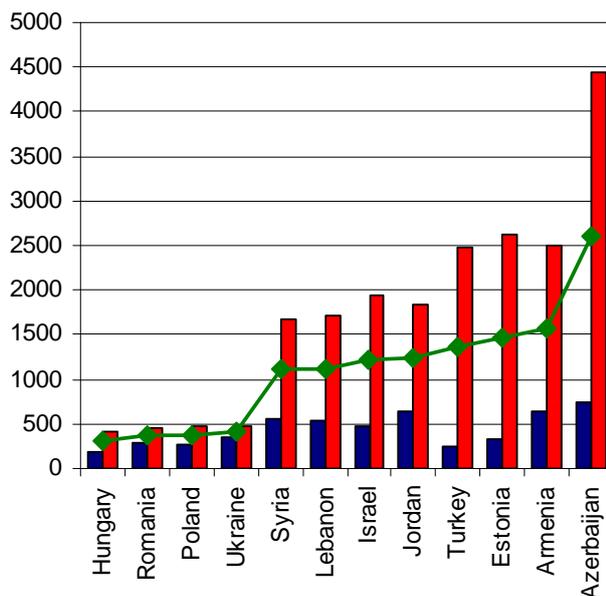
Figure 58: Cheapest Flight Costs (US\$) to Competitor & Comparator Countries from Top Ten Source Markets as advertised on Expedia.com

Source: Expedia.com

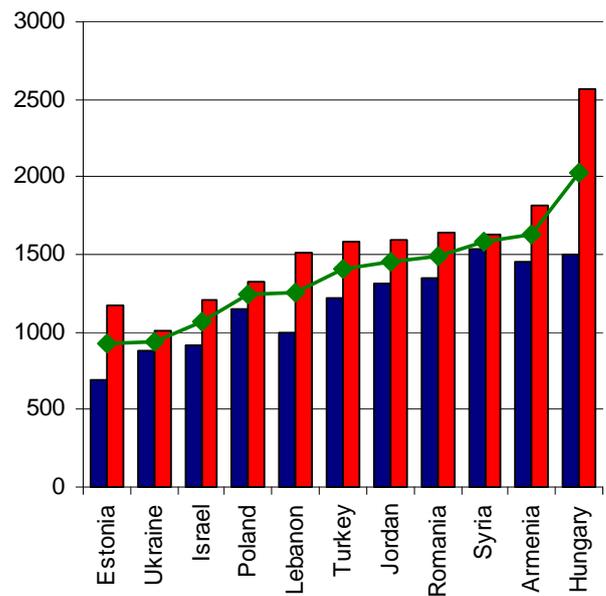
Note: for period 6th – 20th September 2007

The charts show that Armenia is not a cheap destination to fly to overall compared to the sample. Costs are most competitive in Russia, Japan, UK, Italy, and France. Although there are direct flights from France, clearly the prices can be very similar for destinations that require a stop on route, such as in the case with Italy.

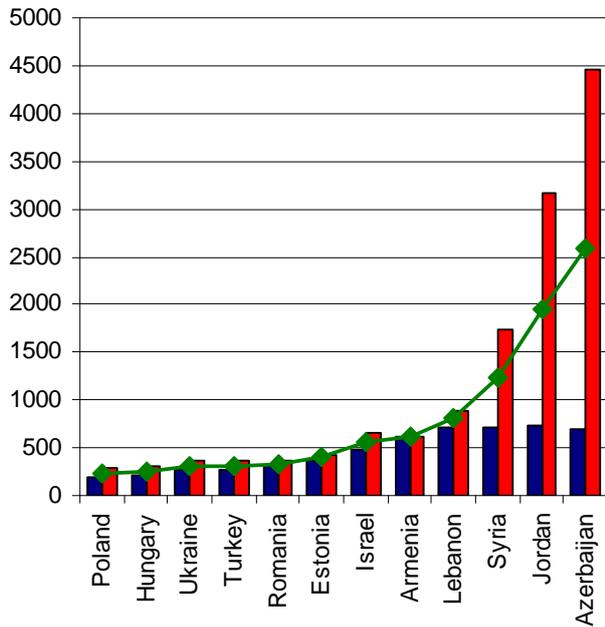
The next set of charts look at the minimum, maximum and average flight costs that were available and benchmarks countries according to the average flight cost.



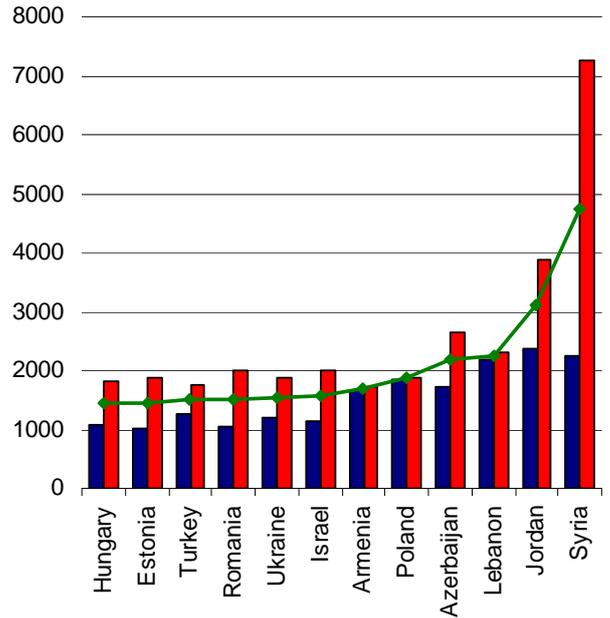
From Germany – Armenia 2nd most expensive flight from 12 countries (\$1570)



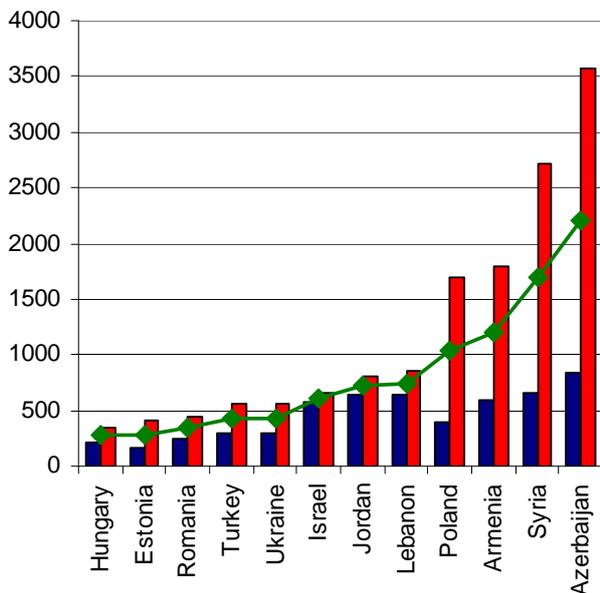
From USA – Armenia 2nd most expensive flight from 11 countries (\$1635)



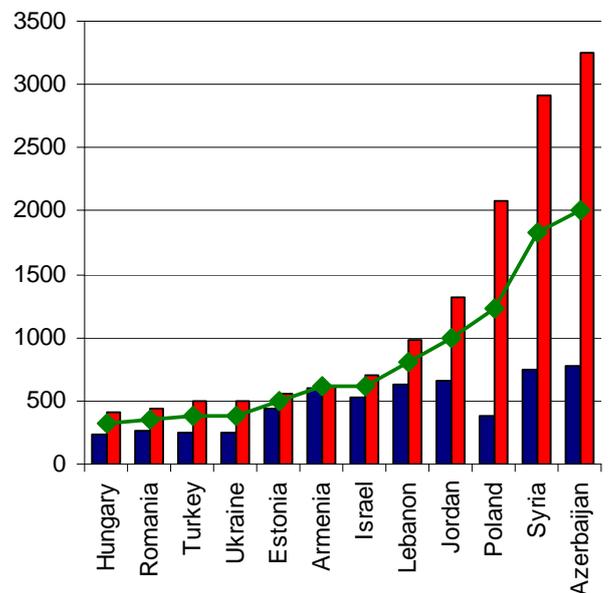
From UK – Armenia 5th most expensive flight from 12 countries (\$619)



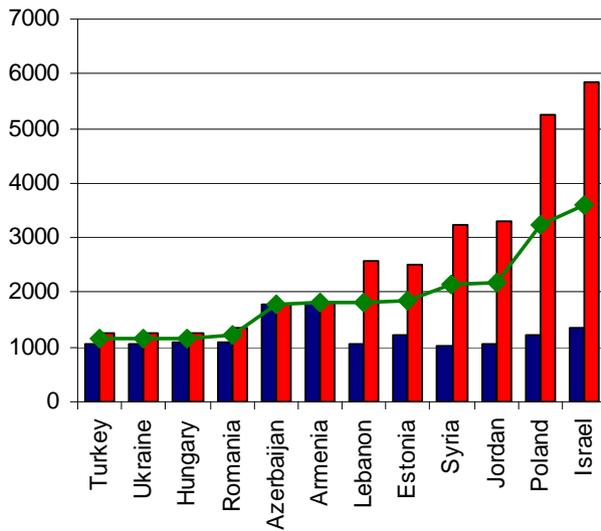
From Japan – Armenia 6th most expensive flight from 12 countries (\$1685)



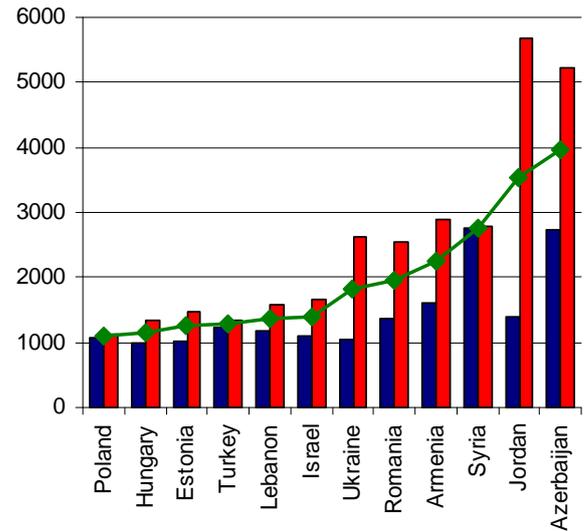
From France – Armenia 3rd most expensive flight from 12 countries (\$1195)



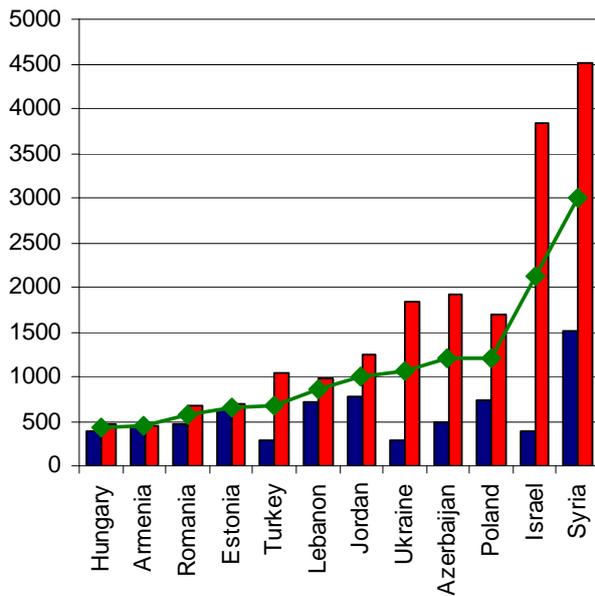
From Italy – Armenia 7th most expensive flight from 12 countries (\$609)



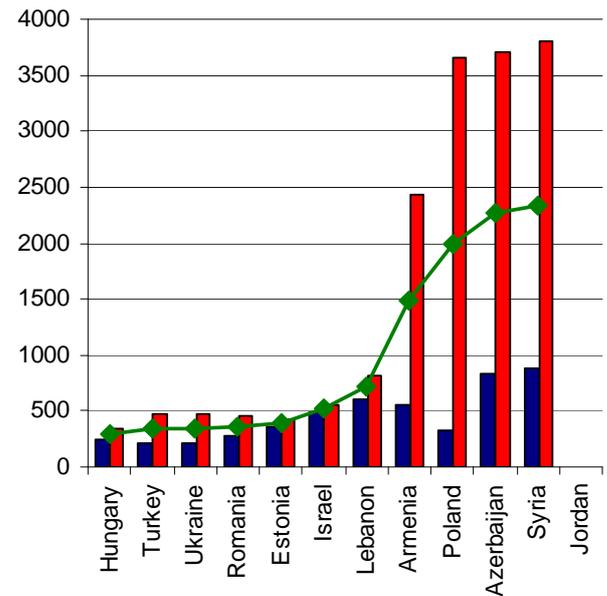
From China – Armenia 7th most expensive flight from 12 countries (\$1814)



From Canada – Armenia 4th most expensive flight from 12 countries (\$2250)



From Russia – Armenia 11th most expensive flight from 12 countries (\$445)



From Netherlands – Armenia 4th most expensive flight from 11 countries (\$1494)

Figure 59: Cheapest, Average and Most Expensive Flight Costs (US\$) to Competitor & Comparator Countries from Top Ten Source Markets as advertised on Expedia.com
Source: Expedia.com

By examining the average flight costs from each of the top ten source markets for the pre-determined dates, Armenia performs better for the Russian, Chinese, Italian and Japanese markets. Where the minimum costs are the same as the maximum costs, this suggests that there is only one route to Armenia on the dates selected and therefore limited variety of flights. From many of the source destinations, flights appear to be cheaper to Armenia than to Poland, Azerbaijan, Jordan, Lebanon and Syria.

Conclusions

The global travel and tourism industry is significant; contributing around 2.7% of total employment, 9.5% of capital investment and 3.6% of GDP. Furthermore, its historical stable growth is set to continue at around 4.2% for the next 13 years.

Projections for Armenia are favorable in that its tourism industry is expected to grow at 5.0% for the next ten years; 0.8% above the global average. This growth will surely give rise to increased employment, higher incomes and increased investment. This forecasted success is to some extent expected given the global trends in tourism; higher levels of long-haul travel, increased outbound travel growth from particular source markets, the increased desire for niche travel and new destinations particularly towards Asia, the growth in Low Cost Carriers (short and now medium and long-haul), anticipated growth in air travel in the Middle East and Europe and preference for tailor-made and small group travel, etc.

However, these trends will not only benefit Armenia. They will benefit more those countries that are able to take strong advantage of the trends. Despite high level tourist arrivals growth in the past few years, compared to similar countries within and around the region, Armenia continues to under-perform in arrivals; in absolute terms as well as per capita and relative to its territory. Its tourist arrivals growth rate is declining, it receives relatively little in income, its industry contributes relatively little to the national economy and employment, and its promotional spending on tourism is very low in absolute and per capita terms.

Despite its poor performance in some areas, Armenia has a number of strengths to be proud of. Firstly, it is not over-reliant on any particular source geographical market (although perhaps over-reliant on Diaspora markets). Secondly, it has achieved relatively good growth in each of the top ten source markets over the past five years (excluding Germany). These factors can also be considered to be weaknesses, however. A wide diversity of source markets and fairly equal growth in each of those markets can suggest a lack of market segmentation and targeted marketing, which has suppressed potential growth within key markets.

There is much that Armenia can do to position itself as a distinctive destination within the region. Firstly, it can look to Estonia, Hungary and Israel to understand how their tourism industries have been successful and how they consistently receive high rankings in a number of benchmarks that correlate with tourism success.

Secondly, Armenia should focus on those areas of the tourism industry that appear to be key competitiveness factors in countries that offer similar products to Armenia. These factors include destination image, higher education and training, market efficiency, innovation, investment, property rights, infrastructure, policy, environmental regulation and service quality. It should also aim to improve the accessibility of the country through changes to immigration and aviation policy.

Thirdly, it must focus on those source markets that show the greatest potential for arrivals and expenditure growth. In global and broad terms, North America, the European Union and Northeast Asia are the highest travel and tourism spenders in absolute terms. In per capita terms, North America, Australasia and the EU take the top spots. Certainly, Armenia must focus on countries within the top ten global source markets since they represent more than 50% of all outbound international travel. Even within these ten source markets further prioritization can be made based on growth trends in outbound travel, travel costs, the extent of competition within the region for particular source markets, the performance of competitor and comparator countries in attracting these source markets and the relative ease and cost effectiveness in targeting these markets.

Collective analysis undertaken here of the top ten source markets suggests that Armenia should focus its efforts on Russia, USA, Italy, UK and France. However, these source

markets must also be considered alongside other information such as the suitability of Armenia's tourism products to each of the major source markets, the capacity of tour operators to cater to tourists from different markets, and the relative costs of promotion and the methods of promotion required in each source market. The industry must also work on effectively defining its core tourism products so that its targeted promotion to specific markets becomes more effective.

A number of recommendations can be made from the results and conclusions of this report.

- 1) Armenia should focus its marketing efforts on five target source markets: Russia, USA, France, Italy & UK
- 2) In developing the industry, Armenia should use Estonia, Hungary and Israel as case study examples
- 3) The tourism industry should lobby for changes to immigration policy relaxing the visa regime for tourists from the world's and its own major source markets
- 4) Armenia should implement an open sky policy with the EU countries and other major source markets and reduce aviation taxes. Encouraging low cost carriers to Armenia (like Air Arabia) would bring significant results
- 5) There is a need for lobbying to increase the low level of promotional funding significantly
- 6) With a relatively low level of budget, Armenia can focus significantly more funding on internet promotion, providing a greater range of information in an accessible format to those countries listed above. This includes increasing the range of accommodation available for online booking.
- 7) The tourism industry, through a Strategic Action Plan, should concentrate efforts to improve tourism education; the professionalism and effectiveness of tourism enterprises; innovation; the regulatory, investment and business environment; and environmental protection
- 8) The image of Armenia is crucial. The tourism industry must work collectively to develop a powerful and appealing image with which to promote the industry.
- 9) Because of the relatively high hotel prices, particularly during the peak season when occupancy is high, the tourism industry should work to promote tourism activity during off peak seasons and attract higher value clients willing to pay more for accommodation

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