

Scenarios of the Foreign Investments in the Sectors and Areas Promoting Development of the Tourism Sector

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Abstract

The role of direct investments is important for the development of the fields promoting the tourism sector. The aim of the article is to assess, based on the examples of other countries, what field of the tourism sector needs development and what methods could be applied in Georgia for its promotion. How can tax liberalism promote such a hotel direction as “apart -hotel” status which is growing despite the COVID situation. By investing in apart-hotel, a person receives not only a highly profitable investment asset, but also a flexible financial instrument. The analyses of various investment scenarios will reveal the model of efficient use of the country’s investment and resource potential which will be aimed at the development of the sector via investment in the field development promoting the tourist sector development.

Keywords: Investment, Tourism, Tourism Enterprise, Apart-Hotel, Tax Liberalism

1. Introduction

The influence of foreign investors on the economy of the host country depends on its economic potential, the nature of the functioning of the economy, the degree of development of the market mechanism, legislative norms and various other parameters. On the other hand, the investor characteristics, the forms and areas of investment are equally important. The impact of investments in the recipient country is as follows: a positive impact on the economic growth rate; strengthening the overall investment activity in the country; they play an important role in technological processes and enhance the efficient use of labor and natural resources in the country; Also, they facilitate the progressive territorial and sectoral structuring of the recipient country's economy, and ultimately foreign investment, affect the country's international economic situation, which is reflected in its export potential, trade and tax balance. In case of lack of domestic investment resources, the import of capital becomes the source to fill it. However, the investment deficit is relative, as the investment requirements are determined by the economic system and its level of development. Investments are characterized by the effect of a multiplier, i.e., Investments in certain industries lead to the development of neighboring industries (Gabriela Carmen Pascariu, Bogdan-Constantin Ibanescu, 2018). One of the important aspects of the impact of foreign investment is employment and the use of national resources. The quality of the workforce used by foreign investors is of particular importance. A worker hired by a foreign investor feel only the influence of capital, which recognizes only a buy-sell relationship with the workforce. It should be

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noted that the investor himself takes the main part of the "direct" effect from the use of national resources, but the whole "indirect" effect remains in the recipient country like developed deposits, labor force working with modern technologies, tax revenues, saturation of the consumer market. In addition, the workers themselves are interested in working with foreign investors as the pay is higher pay and social conditions are better in their enterprises. The government of any country is interested in developing promising industries such as service sector, banking and insurance, high technology fields. The government of any country is interested in developing promising industries such as service sector, banking and insurance, high technology fields. Among the positive results of investments are the country's integration into the international economic space, sharing foreign experience in management and marketing, increasing export potential and foreign exchange earnings of the country, improvement of trade and tax balance, introduction of new technologies, increasing employment and income. Such an active impact of foreign investment on the country's economy is reflected in the conditions of international relations. The impact of foreign investment on the country's balance of payment and its structure is different. For example, capital imports are reflected in the balance sheet of asset and may contribute to the improvement of the latter. At the same time, investments are accompanied by a return on earnings, which is reflected in the expenditure part of the balance sheet. In addition, the investment of foreign investment is accompanied by the import of equipment, patents and licenses, which leads to the outflow of funds from the country. At the same time foreign investors invest large sums in the form of taxation, customs duties and other fees, which helps to improve the balance of payments ([Josep A. Ivars-Baidal](#), [J. Fernando Vera-Rebollo](#), [José Perles-Ribes](#), [Francisco Femenia-Serra](#) & [Marco A. Celdrán-Bernabeu](#), 2021). The government of the recipient country creates favourable conditions for foreign investment, as well as opportunities for reinvestment of profits and reduces the outflow of capital from the country. In a market economy, both financial and direct investments are made on the basis of fundamental principles.

2. Area Under Study

It is of special importance for Georgia to attract foreign direct investments. The liberal investment environment in the country and equal conditions for local and foreign investment make it attractive for foreign investors.

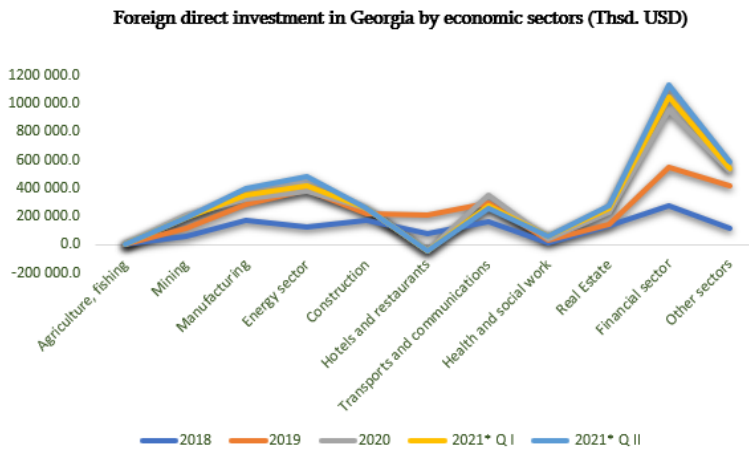
Stable economic development, liberal and free market economic policy, only six taxes and reduced tax rates, small number of licenses and permits, simplicity of administrative procedures, preferential trade regimes with many countries around the world, convenient geographical location, well-developed and integrated transport system, competitive workforce and many other factors are a solid foundation to start a business and develop it successfully development in Georgia.

3. Outcomes

In the face of permanent shortage of national capital and lack of capital in the world market, the recipient country faces the following problem in determining its attitude to foreign investment: how to attract foreign investment to the country? How to achieve

the maximum result with the attracted investment, the goal that corresponds to the national interests. If unreasonable or wrong policy is pursued in the attraction of the foreign investments, it can cause many negative consequences, which, of course, undermines the economic interests of the recipient country. Strict The state control is needed as well as investment support in the sectors and regions with which the economic development prospects are associated.

On the one hand, the inflow of foreign direct investment in the country aids to reduce the deficit of domestic resources, supports the introduction of new technologies and new standards of business. On the other hand, foreign investors, often transnational companies, actively interfere in the country's legislative processes, ignoring the country's environment or labor Legislation and if necessary do not refuse corrupt deals with local officials (Asif Khan, Sughra Bibi, Ardito Lorenzo, Jiaying Lyu, and Zaheer Udden Babar, Sustainability 2020, 12).



The Source: <https://www.geostat.ge/ka/modules/categories/191/pirdapiri-utskhouri-investitsiebi>

The diagram illustrates that foreign investment declined most in the tourism sector between 2020-2021. Tourism, as one of the largest industries in the world, has been growing rapidly and continuously for more than half a century, becoming an important source of global employment and economic output.

The WTTC publishes reports on the economic and employment impact of travel and tourism for 185 countries / economies and 25 geographical or economic regions of the world. These reports, together with Oxford Economics, are the vital tools to enrich public and private sector bodies with evidences of tremendous value that travel and tourism bring the economy in order to support our sector with their policies and investment decisions. According to the WTTC, before the pandemic, international tourism, including its direct and indirect impacts, accounted for the fourth largest employment in the world and 10.6% (334 million) of all employment, that is 10.4% of global GDP (US \$ 9.2 trillion). Meanwhile, international visitors' spending totaled \$ 1.7 trillion in 2019 (6.8% of total exports, 27.4% of global service exports).

The latest WTTC annual survey shows: the travel and tourism sector suffered a loss of

nearly 4.5 trillion USD and reached \$ 4.7 trillion in 2020, while the contribution of GDP decreased by 49.1% compared to 2019; Global economy GDP faces decline by 3.7% in 2020. In 2019, the travel and tourism sector accounted for 10.4% of global GDP, decreased to 5.5% in 2020 due to mobility constraints. In 2020, 62 million jobs were lost which means a drop of 18.5%, while globally only 272 million are employed in the sector, in comparison with 334 million in 2019. The risk of unemployment still remains, as many jobs are currently supported by government maintenance schemes and reduced hours, which can be lost without a full recovery from travel and tourism. Domestic visitor spending fell by 45%, while international visitor spending fell extraordinarily by 69.4%. Globalization, digitization, resilience, and the coronavirus pandemic have been major drivers of the travel and tourism industry in recent years. Ease of mobility, increase awareness of the new directions and the Internet as a source of information and commerce stipulate the exponential growth of the industry (Mina Angelova, Teofana Dimitrova, Daniela Pastarmadzhieva, 2021). However, this growth has also led to growing public concern about the environmental impact of the industry which has led to consumer demand for green travel options. As has been mentioned the environmental impact of the industry was significantly reduced during the Coronavirus pandemic, while travel bans and social distance measures had a devastating impact on travel and tourism around the world. Tourism, in general, contributes to the diversified development of infrastructure, including hotels, resorts and restaurants, transport infrastructure (aviation, roads, transportation and railways) and medical facilities.

Attracting investments in hotels and tourism-related infrastructure stands out from other identified priority sectors, considering the fact that tourism is an established trend in the country and is characterized by a growing tendency. Meanwhile, according to the Georgia Tourism Strategy, 11 million international travelers are expected to visit Georgia in 2025, and the revenue from tourism to reach \$ 6.6 billion. Therefore, it is important to attract foreign direct investment in new hotels and tourism infrastructure. The country has already had a number of investment projects in the hotel sector with foreign direct investment, which further strengthens the attractiveness of the sector in the eyes of international companies.

Both the number of visitors and the income from tourism have significantly decreased from the second quarter of 2020. The decline continued in the first quarter of 2021 when the total number of visitors decreased by 88% per year, while revenues from tourism decreased by 87.5% per year during the period. As for the second quarter, it is noteworthy that the recovery of tourism has already been observed. The total number of visitors was 391 thousand, while in the second quarter of last year the same figure was 105 thousand and an annual increase was \$ 271 thousand. Revenues from tourism increased by 753.3 percent year on year to \$ 246.1 million.

It is important to note that in many cases, investments from the private sector are hampered not so much by the insufficient potential of the region, but by general uncertainty during a period of economic fall. In such a situation, the main task of the state is to act as a catalyst to gain confidence of investors.

Thus, public investment leads to an increase in private sector investment. Demonstrating the state interest in the development of tourism makes it possible to realize the potential of the market.

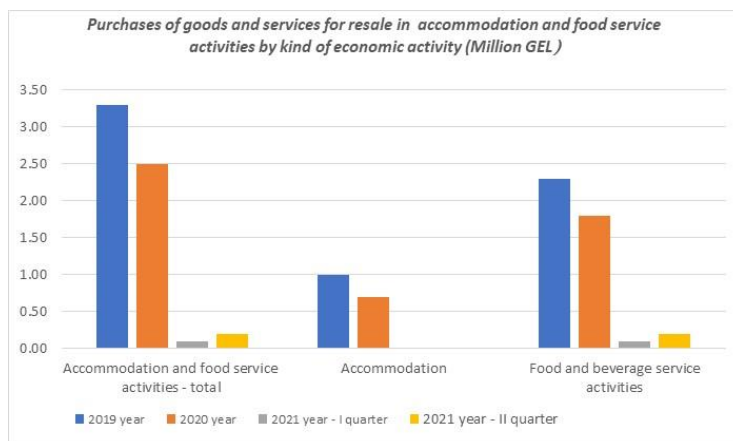
The state can support capital expenditures reduction through subsidies, "soft" loan terms, participation in the company's authorized capital, providing infrastructure, land concessions, and tax exemptions on construction materials. Investors usually prefer the capital subsidy method as it is a one-time transaction that does not involve further liabilities and therefore, risks. In terms of management, their implementation is relatively simple.

The tourism sector, more than any other sector of the economy, seems to relate to real estate. In many countries, significant areas of land are state-owned, providing land on preferential terms attracts the largest number of investors to pursue tourism development policy goals. Investors' interest in such plots can be increased by carrying out road construction, water and electricity infrastructure works.

To improve production, the government uses direct and indirect tax exemptions, wage or staff training subsidies, subsidized tariffs on basic resources (for example, electricity), a special amortization deduction procedure, and double (mutually agreed or unilateral) taxation (Godfrey Harris, Kenneth M. Katz, 2000).

Another financial tool to stimulate investment is tax privileges on equity investments, which not only provide for tax postpone, but also reduction the amount of tax.

From an economic point of view, the attractiveness of tourism as a service industry is in the quick return on investment and the adoption of profits in freely convertible currencies. In addition to the direct impact of tourism revenues on the development of the region, there is also its indirect impact, or "multiplier effect", which shows the deviation ratio of the main economic indicator (production - employment, income) to changes in tourism expenditures. The tourism sector plays an important role in the country's economy, but the effect achieved by developing the production sectors needed for the development of the tourism sector is very weak. The positive effect is the construction of hotels, restaurants, arrangement of various entertainment facilities, regulation of the country's tourist attractions, which is reflected in the growth of employment, but the opportunity to offer national food products and dishes to tourists is very low. Therefore, the paper analyzes the dynamics of investments in the tourism sector, the level of production growth and revenues from tourism in GDP, the the multiplication effect of revenues and expenditures on investment and the conclusions are drawn.



The source: <https://www.geostat.ge/ka/modules/categories/391/sastumroebi-da-restornebi304>

A study of all indicators of the tourism sector confirmed that before the pandemic its role in the economic development of the country was steadily growing, except in 2013, when the investments outflow.

Tourism is an important driving force of the country's economic growth and the Government of Georgia plans to implement the following measures for its further development as a priority sector: a) development of the road infrastructure; Improving access roads to cultural monuments and other sights, which will help stimulate tourism; b) Activation of marketing activities in the target and potential markets, which would help attract more foreign tourists and, consequently, more revenue to the country; c) Expansion of protected areas and promotion of ecotourism, which is one of the main treasures of our country; d) Promoting the development of various types of tourism (including medical, sports, wine, etc.); e) In order to develop business tourism, more-spending tourists will be attracted to Georgia through the Convention Bureau, as well as investments in this direction will be encouraged and promoted; f) Special emphasis will be put on the training of service personnel in order to increase the quality of service to international standards; g) One of the strategic directions in tourism policy will be the transformation of Georgia into a four-season tourist country, which will ensure new revenues from tourism and their stable distribution throughout the year.

Tourism is one of the most affected industries as a result of the COVID-19 pandemic. To make a country more attractive to tourists, different countries use many different ways. However, while these ways were mostly framed just 30 years ago, today we are dealing with a different reality ((Bogdan-Constantin Ibanescu, Mihail Eva and Alexandra Gheorghiu, *Sustainability* 2020, 12 (14)).

The development of tourism implies that after certain operations the country should expect long-term economic benefits at the national, regional or local level ([Sheereen Fauzel](#), [Boopen Seetana](#), [Raja Vinesh Sannassee](#), 2016). This will happen not only at the expense of foreign tourists, but also with the other economic benefits that tourism brings. One of the most important benefits is job creation and helping the country tackle unemployment. At the same time, it should be noted that despite the fact that there are other ways to eradicate poverty, tourism is distinguished by the fact that it creates an opportunity for the socially vulnerable population to get engaged in economic activity with the self-employment incentives. Thus, creating jobs in the tourism sector is one of the best ways to tackle unemployment and poverty at the same time.

The development of tourism has certain effects for the state by improving the protection of cultural heritage and tourist sites. In not a single country, including Georgia, has this become the reason why so much attention is paid to protecting medical resources from their contamination and destruction. Also, in general, a large motivator is the growing flow of tourists in order for the country to better take care of its ecological situation, which provides not only ecological but also economic benefits.

With all this in mind, today every country tries to present itself as the most attractive tourist destination and develop this sector spending millions of dollars on it. This, of course, guarantees only one result. The result is to attract more tourists who will make a small contribution to the development of the country's economy, which, in the end, is the biggest profit.

The latest and most pressing challenge tourism facing today is Covid-19. There is no

industry or business that has not been affected by the coronavirus. However, while the effects of Kovid-19 are unevenly distributed in other sectors, the tourism sector as a whole has faced a major obstacle. There is a decline in the number of tourists in all countries and continents, which has put many of them in an economic crisis.

The crisis, according to the factors, has been redistributed in the areas related to the tourism sector. In particular, airlines suffered the biggest losses, which experienced the largest percentage drop in customers - a 66% drop in global passenger mileage (PRKs). The reason is that most of the countries have closed their borders and tourists are no longer physically able to travel. Due to these and many other factors, the number of airlines facing bankruptcy is increasing daily. While some of them still continue to function, many of them will not be able to move through this period. In 2022, IATA predicts a sharp decline in airline losses: The latest information from the financial results for the second quarter of 2021 confirms that the total net loss of airlines has decreased significantly compared to the first quarter of 2021. Net income levels of the North American Airlines became positive bases on restoration of the of U.S. domestic travel. The airline's financial performance is expected to improve further in 2022, with easing travel restrictions, but it will vary by region. North America will continue to be a leader among all regions.

Investment projects are based on the needs of a travel company. Their viability depends on compliance of the investment policy with the strategic goals of the tourism enterprise, which is mainly reflected in increasing the efficiency of its economic activities. Evaluating the effectiveness of investment projects is one of the main elements of investment analysis for choosing the most effective investment project correctly.

The methods of evaluating investment projects may not be the same in all cases, as investment tourism projects differ significantly in terms of the scale of costs, the conditions of their useful use, and also the beneficial results. The simple calculation methods can be used for small investment projects that do not require large capital investments and do not significantly affect the change in the production of tourism products (tourism services) having a relatively short lifespan.

At the same time, the implementation of large-scale investment projects in the field of tourism (construction of a new tourist facility, reconstruction of a tourist complex, development of a fundamentally new type of tourism services, etc.) requires large investment costs, a large number of factors and, therefore, more complex calculations, refining the methods efficiency evaluation. The larger the investment project is and the more significant the changes the economic activity of the tourism enterprise results in , the more accurate should be the calculation of cash flows and methods of evaluating the effectiveness of the investment project.

Investments in the tourism economy increase only when the return on investment exceeds the amount of the capital invested. When a tourism investment equals pay, the tourism investment return equals zero. This means that the tourism economy produces an amount of capital equal to the investment spent. In this case, capital and production in the tourism economy remain constant. If the profit is less than the tourism investment, e.g. the difference between invested and earned capital is negative, the tourism economy loses sources of capital renewal and reduces its production capacity.

Investment in a tourism economy depends on the profits that investors can make from the investment. Application of new methods in the production process in the tourism

business aims to reduce production costs and maximize profits. In addition, creating a new tourism product not only increases profits, but also helps to popularize the product in the tourism market. The development of new methods and technologies for the production of tourism products leads to the need for new investments.

4. Conclusions

According to the World Tourism Organization, sustainable tourism is defined as “tourism that takes responsibility for current and future economic, social and environmental impacts, taking into account the interests of visitors, industry, the environment and local society”.

Given all this, tourism development poses specific challenges for all sectors.

First of all, it should be noted that most companies operating in the tourism sector (both travel companies and hotels and restaurants) know little about the concept of "sustainable tourism" and, moreover, may not have the desire and ability to meet certain standards (especially small companies). There are many initiatives to develop sustainable tourism, however, in my opinion, there is a need for an economic reform that will focus on encouraging and strengthening the private sector as much as possible. In this context, the government must take a whole package of decisions that will make the business environment in the country more attractive and profitable. Significant tax incentives that, in the form of this reform, will allow the business sector to invest hundreds of millions of Lari in business to develop new business areas that will stimulate investment, accelerate economic growth and create tens of thousands of jobs. The tax environment will become even more business-friendly and encourage investment as much as possible; support programs for industry, business and innovation will be continued and expanded, which will provide additional jobs in the private sector; over the past 10 years, the government has made significant changes to tax laws.

There are no special taxes in Georgia that apply directly to the tourism industry, however, one of the important changes in the Tax Code is the introduction of the concept of "tourism enterprise", which regulates certain benefits for the further promotion and development of tourism.

In addition, the Tax Code exempts tour operators from paying VAT for organized bringing foreign tourists to tourist facilities and providing a package of tourist services on the territory of Georgia.

Investment projects are driven by the needs of travel companies. The condition for the viability of investment projects is their compliance with the investment policy and strategic goals of the tourism enterprise, which is mainly expressed in increasing the efficiency of its economic activities. Evaluation of the effectiveness of investment projects is one of the main elements of investment analysis and the main tool for choosing the most effective project from several investment projects.

Despite all the aforementioned advantages, certain achievements in the field of economic development and investment legislation of Georgia, which is in line with internationally recognized norms and principles, the investment environment in Georgia remains less attractive for foreign investors.

The support of the state, which, as mentioned above, should be expressed in the creation

of a flexible legal framework and tax system and the establishment of certain benefits, was reflected in the amendment to the Tax Code of Georgia dated March 13, 2012.

Tourism enterprise with its content is a privileged enterprise: article 26 of the Tax Code of Georgia “1. A tourism enterprise is a legal entity that builds a hotel, supplies hotel assets / part of them (with the right of redemption or not) and grants the buyer of this asset the right of the use of hotel assets / part of them as hotel rooms / apartments on the basis of a sale agreement (including rent , right to use, right to manage, trust, mediation and / or other similar agreement)

after the construction of the hotel is completed, the tourism enterprise is obliged to: have the specified area for hotel rooms / apartments;

Ensure that within no more than 10 calendar years after commissioning of the building (hotel) VAT taxable turnover from a specific facility (hotel) declared by a tourism company and / or a person / persons invited to operate the facility / part of it as a hotel (including, additionally accrued by the tax authority according to the specified object in the relevant period) (excluding transactions exempted from VAT) shall not be less than the turnover exempted from VAT” specified in sub-paragraph “w” of this Code as a result of delivery of hotel assets / part of them.

Georgia has the greatest tourism potential. Success requires two things - desire and a well thought out plan - the desire of the private sector and a strategic plan of the government. The aforementioned tax incentives or flexible legal framework is precisely the increase in the desire of the private sector to attract more investment and generate more profit.

What results can these changes bring to the country? Are these legal changes a tool for attracting business and, accordingly, investment for the state? - The establishment of a tourism enterprise is the promotion of several industries by the state, such as the development of the construction sector, hence the field of employment, hotel services and, most importantly, the development of tourism.

The preferential tax environment gives companies (private enterprises) to set up, operate and develop a hotel business for 10 years, so that with a 10-year preferential period, the country can develop tourism and create the necessary infrastructure.

In particular, in which taxes and who receives the mentioned benefit? How effective is this model in terms of investing in tourism?

As we have already mentioned, companies that create real estate for the hotel business, prepare it for sale, and a prerequisite is the return of the same asset to management under a lease agreement or another form, have the opportunity to grant the object the status of a tourism enterprise. The preferential VAT turnover base is applied for this.

article 1332 of the Tax Code of Georgia. Taxation of income of an individual who owns hotel assets / part of them by a tourism enterprise:

payment made by a tourist enterprise to an individual on the basis of a relevant contract shall be taxed at the rate of 5 percent of the amount payable at the source of payment.

In the case provided for in paragraph 1 of this Article, income received by an individual taxed at the source of payment shall not be included in the gross income of the recipient and shall not be subsequently taxed.

The creation of a tourism enterprise by the state as a preferential enterprise is a step forward that demonstrates a very great interest of both entrepreneurs and foreigners.

what is the content of my opinions and comments to this model of enterprise? How does

this relate to investing?

As far as I know, the real estate market in Georgia is very wide, and yet most of the real estate is sold to foreign investors. If this model works properly (the so-called "apart-hotel"), Georgia will have the opportunity to attract much more foreign investment. The positive aspects of this model are that the income of the buyer of real estate in an object that has the specified status is guaranteed by renting it out in various forms, has tax incentives (registration / declaration as a tax agent is not required, takes advantage of an income rate of 5%, etc.) and also operation and maintenance of the property is carried out by the enterprise.

In addition to offering the best conditions for the property owner, there is an opportunity to activate another sector - the hotel business; The hotel business cannot function if complex tours are not planned, including both acquaintance with the culture of Georgia and the creation of additional sources of income in different regions.

This enterprise has its disadvantages that I would like to draw your attention to. In the tourism sector, a hotel should be planned and promoted in such a way that it is attractive to tourists.

Against the background of the epidemic in the country, this issue has become more relevant and the state support is necessary for both the construction and tourism sectors in the fiscal and administrative fields.

Therefore, when considering successful models in the world or implementing them in practice, we must take into account the conditions that exist in a particular society.

Georgia will be at the forefront of tourism competition by making strategic investments in infrastructure, providing education, marketing and offering unique Georgian experiences to high solvent tourists around the world.

The role of tourism will significantly increase in the economic growth and development of Georgia as a result of the increase in the amount that visitors spend. More attention should be paid to the quality and variety of visitors than to the number of visitors.

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