Modern Economic Aspects of Georgia

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პროფესორ ავთანდილ სილაგაძის ნაშრომში „საქართველოს ეკონომიკის თანამედროვე ასპექტები” განხილულია საქართველოს ეკონომიკის განვითარებაზე ზემოქმედი საგარეო - ეკონომიკური ფაქტორები და გაკეთებულია დასკვნა, რომ: პოსტსაბჭოურ ქვეყნებს შორის, არათანამიმდევრული რეფორმების, შიდა კონფლიქტების გამო, საქართველოს ეკონომიკა განვითარების მასშტაბების მიხედვით ერთ-ერთ ბოლო ადგილზე აღმოჩნდა; 2004 -12 წლებში საქართველოს ეკონომიკის მასშტაბებისა და სახელმწიფო ბიუჯეტის შემოსავლების ზრდა ძირითადად განაპირობა - ადმინისტრაციული მეთოდების გამკაცრებამ, საგარეო ვალების და პირდაპირი უცხოური ინვესტიციების ზრდამ, რომელსაც თან ახლდა საკუთრების დაუცველობა, რეალური სექტორის, უმუშევრობის, სავაჭრო და სხვ. მაჩვენებლების გაუარესება.

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At the initial stage of building a market economy in the post-Soviet Georgia, the main question was how the country could transform into a state with a democratic market economy. Economic reforms in Georgia were often characterized by the same errors that were, in general, inherent in post-Soviet reforms in other countries at the early stage [2;4-6; 8-9]. The situation was also complicated by severe internal political conflicts. Despite obstacles, in the mid-90›s, the country managed to introduce a strong national currency and achieve double-digit growth rate of the economy. Unfortunately, compared to the economies of other post-Soviet countries, the economy of Georgia (and Moldavia) were last to reach the level of 1990 in 2006 [2; 4-6; 12]. However, the highest level of GDP per capita in the post-Soviet countries was recorded in the Baltic countries (Estonia, Latvia, and Lithuania) and Russia. According to this index, Georgia ranked in the sixth place in 1990, but in 2011 it took eleventh place [4-6; 12]. These results were attributed to the following factors: inconsistent reforms and internal conflicts in Georgia; high level of economic development in the Baltic States until the collapse of the Soviet Union, reasonable reforms and European integration; exploiting globally important natural resources in Russia and some other countries.

In the last years of the government of Eduard Shevardnadze (1998-2003), economic reforms stalled. In 2003, despite a high rate of economic growth (11.3%), acute poverty issues still remained unsolved. After the “Rose Revolution”, the power (November 2003) passed into the hands of Saakashvili’s government, which set a target to ensure sustainable economic development and to reduce poverty in Georgia. Were the promises kept? In order to answer this question, let us analyze the current conditions in several sectors of the Georgian economy.

In 2004-2012 period, the growth rate of the Georgian economy peaked in 2007 (12.3%), although, as in other countries, it declined in 2009 (-3.9%) [11-12] as a result of the financial crisis and military conflict with Russia (2008). Extent of the fall would have been much deeper without financial assistance of international financial institutions, the United States and the European Union (4.5 billion U.S. dollars).

After the “Rose Revolution”, economic and revenue growth was mainly due to the following circumstances:

- Toughening of administrative methods (requisitioning of debts accumulated during the rule of the previous government, realization of confiscated property, privatization);
- Unprecedented international assistance;
- Growth of external debt and foreign direct investment.

Economic methods used by the Government of Georgia (change in tax policy, simplification of business registration, financial and property amnesty) did not play a decisive role in the economic growth of the country.

Despite reforms, the country failed to significantly reduce poverty and ensure stable growth of foreign direct investment. The volume of external debt and unemployment increased and performance of the real sector and foreign trade deteriorated [1-7].

The government, on the one hand, failed to develop a strategic program of long-term economic development, on the other hand, did not use a program created on the non-governmental level, which emphasizes the use of national resources. In particular, according to the „Georgia’s Social Economic Development Program, 2011-2030“ model [9], in case of efficient use of national resources in the nearest 20 years, Georgia will be able to reach average European economic indicators with no significant increase of external debt.

Products manufactured in the real sector do not even meet existing domestic demand. Low economic efficiency is particularly evident in the main branch of the Georgian economy - agriculture. Georgia was unprepared for expected rise in world food prices at the beginning of this century, and it was unable to use the favorable conditions for the growth of national agricultural (including eco-friendly) production. Production of main agricultural products per capita decreased to a critical level, only half of the acreage was treated with chemical fertilizers [7]. In 2011 compared to 2003 the number of pigs (77.8%), cattle (12.5%), sheep and goats (12.7%) decreased. National production does not satisfy most of the demand on agricultural products and food industry also fails to provide even 20% of the demand of the population [6;11]. The government's failure to encourage attracting of investments in the sector has resulted in an increased scale of imports of agricultural products: meat (by 2.2 times), potatoes (2.1 times) and vegetables (46.2%), etc. [11].

The new government brought to power after the "Rose Revolution", disregarded the possibility of priority development of national agriculture. [6-7]. The results were immediate. If, before the "Rose Revolution" in 2003, 10.3% growth in rural economy was recorded, it permanently decreased in the following years: 7.9% in 2004, 11.7% in 2006, 4.4% in 2008, 6.8% in 2009, 4.8% in 2010 and 3.3% in 2012. In the end, the share of agriculture in 2007-2012 Years dropped from 10.7% to 8.4% [11].

Following the resignation of Saakashvili government, economic policy has changed. The program of the coalition "Georgian Dream" that won the elections in 2012 will provide $ 1 billion in the first year for the development of agriculture and export of Georgian products in both the West and the Russian markets. First steps have already been taken in this direction.

In recent years, Georgia's industrial sector, especially mining industry, appeared in an unfavorable state. A decline by 19.9, 7.8 and 6.5%, was recorded in 2004, 2005 and 2011, respectively. In 2006-2012 the volume (in current prices) of output and investment in fixed assets (9.5%) increased [6;11], however, offered products of national industry lags far behind domestic demand on industrial products, the satisfaction of which comes from imports.

In the era of the "Rose Revolution", foreign trade was also characterized by economic fluctuations and the share of imports in the external trade turnover increased permanently: before the "Rose Revolution" (2002), it was 69.9% and in the last year of the "Rose Revolution" (2012) it reached its peak - 76.7%. However, in 2012 (compared to 2002) negative trade balance increased 12.2 times and amounted to -5.5 billion U.S. dollars. Currently, leading importers to Georgia are Turkey, Azerbaijan, China, and Ukraine [4-6;11].

In general, Georgia marked a dramatic increase of scales based on the import of the negative trade balance, lack of interest in national resources and capabilities to create new jobs, and encouragement of importing resources obtained through national economy. As a result of such policy, national production capabilities are unclaimed and in the future they will not be for the benefit of the country. It is clear that imports mainly consist of products, the country can not do without, but the growth of imported products that can be produced in Georgia with a certain advantage is absolutely unjustified.

Georgia's economy suffers from a lack of investment [4-6; 11]. Domestic investment resources of the country are inadequate, so it should be compensated with attracting of foreign investment. Until the last world financial crisis, an evident progress (in 2007 - more than 2 billion U.S. dollars) was recorded in this direction, but in the year of resignation of Saakashvili's government (2012) investments reduced sharply (865 million U.S. dollars) (9). The reduction of direct investments was due to several reasons: unstable political situation in the country, lack of protection of property, world financial crisis, August events in 2008, growing distrust of the judicial system, low level of capitalization of national economy, growing inflation, etc.

The largest foreign direct investments in 2003 came from the United States, Russia, the United Kingdom, Azerbaijan and Australia, but in 2012 Germany, Turkey, the Netherlands, Azerbaijan and the United Kingdom were leading donors. The largest influx of foreign investment was made in transport sector and telecommunications, energy, manufacturing and financial sectors, as well as in the sphere of hotels and restaurants. Minimal amount of investments were made in the sectors of agriculture and mining industry. These two sectors proved to be in a critical situation due to this policy.

Growth of external debt is much higher than the growth rate of the economy of Georgia [1; 4-8]. In 2012, the total external debt increased to $ 13, 4 billion (85% of GDP), i.e. debts of the government and National Bank - to $ 4.9 billion (31% of GDP). In 2006 similar indices were 3.8 billion (49% of GDP) and 1.8 billion (23% of GDP) [10]. From this perspective, in 2006-2011 total external debt increased by 3.6 times, i.e. debts of the government and National Bank - 2.8 times. It is clear that the sums received in the form of foreign debts were major source of growth for the economy and state budget of Georgia. However, the difficult period of debt payment came and the process appeared a heavy burden on the economy. Despite this, the new government has reduced the extent of obtaining external debts and has initiated the process of timely repayment of debts taken by the previous government.

In general, post-Soviet Georgia's economy has developed slowly: in the light of economic growth, it turned out to be in one of the last places (compared to 1990). These results were due to the inconsistency of reforms and internal conflicts in Georgia. In last years of the government of Eduard Shevardnadze (1998-2003), the process of economic reforms underwent numerous difficulties. In 2003, despite a high rate of economic growth (11.3%), acute poverty issues still remained unsolved. After the "Rose Revolution" Saakashvili government came to power, which in 2004 - 2012 years increased the scale of the Georgian economy and the level of revenue to the state budget mainly due to the tightening of administrative methods, an unprecedented international assistance, external debt and attracting foreign investments. However in terms of inconsistent reforms, insecurity of property, high level of unemployment, deterioration or rate of real sector dependence on imports, the process of achieving sustainable economic growth and significant lowering of poverty level proved difficult to implement.

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