

FRAGILE DEVELOPMENT OF GEORGIA

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ABSTRACT

The paper examines the features of the development of the Georgian economy over the 30 years of the transition period, the main factors of the stability of its economic growth, which has been preserved over the past decade. The exceptional severity of the crisis at the beginning of the transformation period in the Georgian economy in the 1980s and 1990s, as well as the success of market reforms, are noted. The consequences of the transformation period both for the citizens of the country and for its economy, for the development of human capital in the face of acute socio-economic problems, are shown. In addition, changes in the structure and drivers of economic growth, the dependence of the Georgian economy on external financing (both investments and foreign aid, and personal transfers of migrants) are considered.

Key Words: *The social development, population growth, social inequality.*

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After the collapse of the USSR, Georgia found itself among the countries of the post-Soviet space that experienced the most profound crisis. The reforms carried out at the beginning of the 21st century, along with external financial assistance, contributed to the achievement of positive rates of economic growth.

The Georgian economy is characterized by significant demographic and social problems: population decline and aging, negative migration balance, high levels of poverty and unemployment (especially youth).

The country has limited fossil natural resources, but at the same time significant opportunities for the development of tourism, which has practically become the main driver of the economy in recent years. Over the years of transformation, a favorable business climate has been restored in Georgia - one of the best among the countries with economies in transition. This allows for a gradual increase in the level of development, although the remaining negative trade balance necessitates the attraction of additional financing.

The change of government in Georgia at the end of 2012 was followed by some changes in the economy. Economic policy has not changed significantly, it was like the economic policy since 2009: an officially open economy focused on ease of doing business, where the priority is tourism and attracting foreign direct investment. However, since 2013, in economic terms,

relations with Russia have changed significantly. In 2014-2015 Georgia went through a regional crisis and in 2020 the second term of the "Georgian Dream" was "crowned" with a pandemic.

The estimate for 2013-2020 should be divided into two parts, before the pandemic or 2019 and separately for 2020. The result achieved by 2019 was clearly related to government policy, which we cannot say about 2020, the crisis affected all countries of the world. However, even during a pandemic, government action significantly determines the level of economic decline.

In 2012, the average annual income of per person in Georgia was 8,162 GEL. Despite the slowdown in economic growth since 2013, per capita income has been growing and amounted to GEL 10,835 in 2019. The numbers are taken in real GEL (2015 prices) or considering the decrease in GEL purchasing power (this is the most accurate comparison when observing changes in revenue within the country). In 2020, per capita income will decrease by about 5% and will be up to 10,300 GEL.

The increase in household income is determined by economic growth, which averaged 6.9% in 2011-2012 and an average of 4.1% in 2013-2019. If the economic growth rate of 2012 was maintained until 2019, the income per capita in 2019 would be 12,600 GEL, 41% higher than the current one. In the fourth year since the Georgian Dream came to power, which should have been a "very good year", the economy has grown by only 2.9%, which is the minimum rate for 2013-2019.

Georgia consists of many international organizations. In 1992, she was a member of the United Nations, and as a result, she became involved in many specialized organizations, including JNIDO, MAGAT, the World Bank and the International Monetary Fund. Georgia is also a member of the WTO and Interpol. In all cases, domestic assistance, such as World Bank, is a joint venture with the Asian Bank for Development, the European Bank for Reconstruction and Development, the European Investment Bank.

Since the collapse of the USSR, the foreign policy of independent Georgia has been aimed at the country's accession to the EU and NATO, which is enshrined in the National Security Concept adopted in 2011¹. On July 1, 2016, the Association Agreement between Georgia and the EU entered into force, including the creation of a deep and comprehensive free trade zone, because of which Georgia became an associated member of the Union and strengthened trade ties with European countries. The country also participates in NATO's Partnership for Peace program and is a member of the

1 National Security Concept of Georgia // URL: http://www.parliament.ge/files/292_880_927746_concept_en.pdf.

Euro-Atlantic Partnership Council, which is one of the institutions of the organization. In addition, China, Turkey, as well as member countries of the Commonwealth of Independent States (hereinafter - the CIS), the EU and the European Free Trade Association participate in agreements on free trade and economic cooperation with Georgia. According to the WTO, Georgia has 13 such agreements both with individual countries and with integration associations.

Georgia's economy is expected to grow by 3.5% in 2021 at the expense of phasing out restrictions to curb the coronavirus (Covid-19) pandemic and reviving domestic demand, according to a new Asian Development Bank (ADB) report. ADB 2021 - According to the Bank's main annual economic report, ADB forecasts 6% GDP growth in Georgia in 2022, as the full opening of the economy and the expected recovery of tourism will stimulate travel and trade.

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"As a tourism-dependent economy, the phasing out of pandemic-related restrictions should resume the country's economic growth this year and accelerate it further in 2022," said Shane Rosenthal, ADB's Permanent Representative to Georgia. "Vaccination is the key to a speedy recovery of the economy. At the same time, facilitating access to finance for small and medium-sized enterprises, improving e-commerce and transforming agriculture to increase food exports are prerequisites for the long-term growth of Georgia's economy and the economic well-being of its population. "

ADB expects inflation to slow to 5.0% in 2021 and to 3.5% in 2022. The current account deficit will be reduced to 10 percent of GDP in 2021 and to 7 percent in 2022 as the commodity balance and tourism gradually increase.

As a result of measures taken by the government to ensure the continuous supply of food, ADB expects 3.2% growth in agriculture in 2021 and 3.9% in 2022. Investment will slow in 2021 as private investment will decline by 7.5%, although growth is expected next year.

Against the background of a strong trend in global health, exports will increase by 7.1% in 2021 and by 20.4% in 2022. Imports will increase moderately, by 3.6% in 2021 and by 8.9% in 2022.

Technological improvements in agricultural production, facilitating market access and attracting private investment will help strengthen competition and increase export potential.

The government should also continue to encourage investment in irrigation systems to increase productivity, improve the quality of agricultural exports, and meet

the requirements of standardization in the EU and other developed markets.

The geopolitical position of Georgia determines its role as a transit state in trade between the countries of Europe and Central Asia. For example, in the context of the political conflict between Armenia and Azerbaijan (the Karabakh conflict), both countries gain access to European markets through the territory of Georgia.

In the 2000s, Georgia underwent a series of institutional reforms aimed at modernizing the economy and improving the business environment. As a result of the transformations, the quality of institutions in Georgia has improved, moreover, the country occupies high positions in international ratings. For example, Georgia has ranked 7th among 190 countries in the World Bank Doing Business 2020 ranking, preceding the states like the UK, Norway, and Sweden (Table1).² Georgia shows the best indicators among the post-Soviet countries. Georgia shows high positions in the rating in such components of the index as registration of enterprises (2nd place), protection of minority investors (2), registration of property (4), enforcement of contracts (8), while in the rest of the components of the index, the country took 12 –60 places.

Note: The rankings are benchmarked to May 1, 2019, and based on the average of each economy's ease of doing business scores for the 10 topics included in the aggregate ranking. For the economies for which the data cover two cities, scores are a population-weighted average for the two cities. Rankings are calculated on the basis of the unrounded scores, while scores with only one digit are displayed in the table.

The key goal of the new economic reforms was to ensure sustainable economic growth, develop the private sector, further liberalize the market, and increase the country's investment attractiveness. The fight against corruption and crime has also become an important area of reform. The transformation of the country's economy has become possible thanks to external financial assistance. For example, in 2004 Georgia received 1 billion US dollars from donor countries (almost a quarter of the country's GDP at that time).

For the Georgian government, the priority task is to achieve an FTA with the EU as soon as possible and to use all the potential opportunities provided by economic integration with the EU. To this end, the economic policy of the Georgian government should focus on stimulating the development of production in the context of the implementation of European models of antimonopoly regulation, consumer protection and labor relations.

It is necessary, within the framework of the Charter on Strategic Partnership between the United States and Georgia, to begin a negotiation process on reaching an FTA with the United States. It is very important

2 Doing Business 2020 <https://agenda.ge/en/news/2019/2857>

Table 1. DOING BUSINESS 2020

EASE OF DOING BUSINESS RANKING								
Rank	Economy	DB score	Rank	Economy	DB score	Rank	Economy	DB score
1	New Zealand	86.8	65	Puerto Rico (U.S.)	70.1	128	Barbados	57.9
2	Singapore	86.2	66	Brunei Darussalam	70.1	129	Ecuador	57.7
3	Hong Kong SAR, China	85.3	67	Colombia	70.1	130	St. Vincent and the Grenadines	57.1
4	Denmark	85.3	68	Oman	70.0	131	Nigeria	56.9
5	Korea, Rep.	84.0	69	Uzbekistan	69.9	132	Niger	56.8
6	United States	84.0	70	Vietnam	69.8	133	Honduras	56.3
7	Georgia	83.7	71	Jamaica	69.7	134	Guyana	55.5
8	United Kingdom	83.5	72	Luxembourg	69.6	135	Belize	55.5
9	Norway	82.6	73	Indonesia	69.6	136	Solomon Islands	55.3
10	Sweden	82.0	74	Costa Rica	69.2	137	Cabo Verde	55.0
11	Lithuania	81.6	75	Jordan	69.0	138	Mozambique	55.0
12	Malaysia	81.5	76	Peru	68.7	139	St. Kitts and Nevis	54.6
13	Mauritius	81.5	77	Qatar	68.7	140	Zimbabwe	54.5
14	Australia	81.2	78	Tunisia	68.7	141	Tanzania	54.5
15	Taiwan, China	80.9	79	Greece	68.4	142	Nicaragua	54.4
16	United Arab Emirates	80.9	80	Kyrgyz Republic	67.8	143	Lebanon	54.3
17	North Macedonia	80.7	81	Mongolia	67.8	144	Cambodia	53.8
18	Estonia	80.6	82	Albania	67.7	145	Palau	53.7
19	Latvia	80.3	83	Kuwait	67.4	146	Grenada	53.4
20	Finland	80.2	84	South Africa	67.0	147	Maldives	53.3
21	Thailand	80.1	85	Zambia	66.9	148	Mali	52.9
22	Germany	79.7	86	Panama	66.6	149	Benin	52.4
23	Canada	79.6	87	Botswana	66.2	150	Bolivia	51.7
24	Ireland	79.6	88	Malta	66.1	151	Burkina Faso	51.4
25	Kazakhstan	79.6	89	Bhutan	66.0	152	Mauritania	51.1
26	Iceland	79.0	90	Bosnia and Herzegovina	65.4	153	Marshall Islands	50.9
27	Austria	78.7	91	El Salvador	65.3	154	Lao PDR	50.8
28	Russian Federation	78.2	92	San Marino	64.2	155	Gambia, The	50.3
29	Japan	78.0	93	St. Lucia	63.7	156	Guinea	49.4
30	Spain	77.9	94	Nepal	63.2	157	Algeria	48.6
31	China	77.9	95	Philippines	62.8	158	Micronesia, Fed. Sts.	48.1

Source: Doing Business database.

that the terms of the PCT with the US do not contradict the terms of the PCT with the EU. This will require appropriate coordination between Brussels and Washington with the active involvement of Tbilisi in this process.

The Georgian government should not discourage Georgian firms from returning to the Russian market. These firms themselves must provide the Service of the

Chief Sanitary Doctor of Russia with all the necessary documentation confirming the quality of their products, as well as certificates of the access of these products to the markets of various countries of the world (USA, EU countries, China, Japan, etc.). And with the next refusal to admit their products to the Russian market, the Georgian government must protect the interests of these companies already within the WTO.

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