

*Economics*

# Economic Development and Economic Growth in Georgia at Modern Stage

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(Presented by Academy Member Vladimer Papava)

The main purpose of this paper is to convey the views on patterns of economic development and economic growth at the modern stage. The methods of systematic analysis and abstraction were used in this research. To improve human well-being becomes more and more dependent on economic development, progressive qualitative changes in the economy and not only on the economic growth. Even in the presence of low or even zero rates of economic growth, it is possible to increase the comfort of society. It is positive that the government of Georgia recognizes the need to build an innovative economy and nowadays are taking the real steps in this direction. But, it is necessary to strengthen the systematicity and continuity of this process. First of all, it is necessary to develop "The Strategy for Innovative Development of Georgian Economy", implementation of which will assist to solve other acute economic problems at the present stage, such as: the increase of the country's competitiveness, reduction of unemployment and poverty, sustainable development of the real sector, development of small and medium business, stability of national currency exchange rate, overcoming negative trade balance, etc. The main directions of Georgia's innovation development strategy are proposed: Strengthening scientific potential; improving the field of education; establishing a close and permanent connection between science, business and government bodies; Improving the system of scientific research service; formation of knowledgable economy; innovative infrastructure (universities; scientific research institutes; techno-parks; business incubators; clusters, small innovative enterprises; innovation technology centers; consulting firms; telecommunication networks; financial instruments, including venture capital, etc.) Development: Revival and development of regional innovation activities; creating an encouraging environment for innovation (benefits, tax breaks, risk insurance, etc.); establishment of mechanisms to support the implementation of the results of projects implemented by donors; formation of a real system of application in the field of production of foreign credits and aid; founding the mechanisms for support development of competitive entrepreneurship; increasing the usage of high technology (hi-tech) capabilities, etc. © 2021 Bull. Georg. Natl. Acad. Sci.

Economic development, economic growth, innovation, development strategy, innovative economy

Although the categories of "economic development" and "economic growth" are considered as distinct terms in the literature (starting with Joseph Schumpeter), they are often used interchangeably

both in practice and in scientific works. It is believed that when economic growth occurs, the economic development also takes place, and vice versa, if economic downturn happens, then any talk about economic development is superfluous. Such a view is incorrect, because economic growth means only a quantitative increase in the scale of the economy, while economic development means its transition to a qualitatively new, more perfect state. For example, the increase in number of mobile phones corresponds to economic growth, while the usage of new technological generations of mobile phones refers to the economic development. Despite the significant differences, there is a great interrelationship between these two processes – economic development creates not only qualitative improvement of economics, but also its quantitative growth. Economic growth, in turn, is one of the main factors of economic development, since, as is well known, quantitative change eventually translates into qualitative change. But, it is also possible that "economic development" and "economic growth" may exist without each other, separately. Good examples of such situation are traditional economic system and the post-communist transformation. In the first case, the economic growth, during the thousands of years, has been realized almost without any qualitative changes in economy. In the latter case, in the majority of the post-communist countries, economic development took place even in conditions of economic decrease, because their current economic system was changing to a more progressive (market economy), the new institutions were entering into their reality like the physical and human capital, technologies, information, new forms of ownership, etc.

Historically, in the process of growing well-being of the mankind, the economic growth played a crucial role, but after the beginning of significant changes in economy, the role of economic growth diminished and the role of economic development increased, especially at the modern stage. It is

possible to formulate the following regularity: the increasing well-being of people depends on economic development that is based on the progressive changes in economy rather than on economic growth. During the low level of economic growth, and even in case of growth of zero level, it is still possible to enhance the comfort and welfare of society. At the modern stage, economic development becomes more important than economic growth. The following regularity is established: the products of the same value (GDP) can bring more prosperity in the current year, than in the previous ones. All these issues are due to increasing improvement of quality of existing products, the removal of obsolete production and technologies and introduction of new, previously unknown types.

Therefore, in July 2011, the UN General Assembly adopted resolution 65/309 Happiness: Towards a Holistic Definition of Development inviting member countries to measure the happiness of their people and to use the data to help guide public policy. On April 2, 2012, this was followed by the first UN High Level Meeting called Wellbeing and Happiness: Defining a New Economic Paradigm, which was chaired by UN Secretary General Ban Ki-moon and Prime Minister Jigmi Thinley of Bhutan, a nation that adopted gross national happiness instead of gross domestic product as their main development indicator [1].

The first World Happiness Report was released on April 1, 2012 as a foundational text for the UN High Level Meeting: Well-being and Happiness: Defining a New Economic Paradigm [1], drawing international attention [2]. The first report outlined the state of world happiness, causes of happiness and misery, and policy implications highlighted by case studies. In 2013, the second World Happiness Report was issued, and in 2015 the third. Since 2016, it is issued on an annual basis on the 20<sup>th</sup> of March to coincide with the UN's International Day of Happiness [3].

The Gross National Happiness Index is a single number index developed from the 33 indicators categorized under nine domains (Psychological well-being; Health; Education; Time use; Cultural diversity and resilience; Good governance; Community vitality; Ecological diversity and resilience; Living standards) [4]. The Centre for Bhutan Studies constructed the GNH Index using robust multidimensional methodology known as Alkire-Foster method.

As per the 2019 Happiness Index, Finland is the happiest country in the world. Denmark, Norway, Iceland and Netherlands hold the next top positions. In 2020 the happiest country again was Finland, followed by Denmark, Switzerland, Iceland, and Norway [5].

There is also another important process of economic development: the concomitant process of economic development is economic decline. Originally, it is expressed primarily in the elimination of obsolete equipment and consumer products (outdated wood-working, stone and metal tools, equipment, and etc.). At the modern stage, this process is also conditioned by the following factors: competition that forces entrepreneurs to increase productivity and reduce the prices; in the process of producing production as well as the physical characteristics of them are changed, the mass of the manufactured product becomes "lighter" (for example, changing of metal details to plastics, and etc.); there is also a quantitative decrease in production line of some kinds (for example, combining a copier, a scanner and a printer into one tool, and many other); the limitation of resource requires the rational usage of non-renewable natural resources, in order to sustain them as long as possible; sustainable economic development, interconnection between nature and society requires that economic growth being actively online with processes of re-production in nature; the World's over-population and the empowerment of women, result in a decline in birth rates and consequently in a decrease in population

growth rates, etc. All these processes lead to economic decline which in turn reduces economic growth rates. In particular, computer usage in economy leads to a significant reduction of resources per unit of production. Of course, economic downturn does not mean that economic growth will eventually stop. Economic development gives rise to the new opportunities for economic growth. In future, relationship between these two processes of economic development will depend on the emergence of new opportunities in nature and their technology usage. Economic development, finally, should increase public welfare which is reflected not only in income per capita growth, but also in the gradual equalization of income among population that really increases the comfort of mankind.

### **Main Direction of Economic Development of Georgia**

The process of economic transformation in Georgia started 30 years ago, but the a perfect market economy is not yet achieved. The reasons of this are both, objective circumstances and subjective errors. The following current issues are worth mentioning: underdeveloped market infrastructure (commodity, stock and labor exchanges, insurance services, investment institutions, marketing, engineering, consulting and information services, etc.); underdeveloped industrial and agricultural production; the low level of small business development, huge trade deficit, as well as the social stance (a strong middle class is not yet formed, the level of unemployment and poverty is quite high, etc.) [6-13].

As already mentioned, at the modern stage, increasing the well-being of people is more dependent on economic development rather than on economic growth. However, the economic growth also plays an important role, especially in the developing countries. However, it should be noted that for the developing countries, it will take less time, than it took in developed countries, for

reaching the well-being that nowadays exists in these countries. The matter is that developing countries can use the existing production, technics and technologies which are created in developed world and save a lot of efforts and time necessary for their invention. The main issue is that the concrete country should use these possibilities and focus them on the own path of economic development. The real world evidence suggests that those countries are successful which managed to attain qualitative changes and to create the innovative economies, while those countries which failed in this respect have a low living standards. Unfortunately, Georgia is among the latter ones.

The progress of community is inextricably linked to innovation, which made unprecedented progress in all areas of human activities and living circumstances. It can be said that the process of economic development is the process of innovation in all elements of the economic system. Innovative economics is based on knowledge, innovation flows, technologies, information, institutions, human capital, manufactures, products, and etc. The process of development enhancement should be focused on the intellectual work of scientists and innovators and not only just onto capital bases.

None of the previous governments in Georgia saw innovation as a priority area of economic development [14], that is why the formation of the legal basis for innovation dates back to 2013, when the country recognized the path of innovative economic development.

Eradication of deficiencies in Georgian economy cannot be achieved only through inertia. As the experience of developed and advanced post-communist countries shows, after the restoration of independence, the main focus should be made on the qualitative improvement of economy that is based on the establishment of innovative economy.

On the positive side, the current government recognizes the need to build an innovative economy and is taking steps in that direction, for example: the Law on Innovation was adopted; the Georgian

Agency for Innovation and Technology was established at the Ministry of Economy and Sustainable Development; the Research and Innovation Council was established. Georgia is the first country in the South Caucasus where Fablabs appeared; the first technology park was opened; an international university built; in line with modern achievements innovations are introduced in various fields of production and so on.

Despite some success, Georgian economy so far can be described mainly as non-innovative. Therefore, the main direction of economic development in Georgia should be the establishment of an innovative economy.

For real formation of innovative economy, first of all, it is necessary to elaborate the “Strategy for Innovative Development of Georgian Economy”, and on this basis should be prepared Innovation development action plans according to priority directions.

The strategy should define the country's innovation policy and development directions of the national innovation system. The following main directions of the development of the Georgian National Innovation System can be distinguished: 1. Enhancing the scientific potential; 2. Improvement of educational system; 3. Establishment of a close and permanent relationships between science, business and government; 4. Improvement of scientific research service system; 5. The formation of a knowledge economy; 6. Development of innovative infrastructure (universities, research institutes; techno-parks; business incubators; clusters, small innovation enterprises, innovative technology centers; consulting firms; telecommunications networks; financial instruments, including venture capital, and etc.); 7. Revitalization and development of regional innovation activities; 8. Creating an environmental conductivity to innovation (benefits, tax benefits, risk insurance, etc.); 9. Creating the support mechanisms for implementing donor project outcomes. 10. Formation of a system for better

usage of foreign credits and aid; 11. Creation of supportive mechanisms for development competitive entrepreneurship; 12. Maximizing usage of high-tech capabilities and other directions that will be highlighted while working on the strategy.

The country's innovation system must be able to generate and/or import innovations. First, the priority should be given to importing innovations and then innovative system must function based on their own research, otherwise, the competitiveness of our country will always be at a low level. This in turn leads to a negative trade balance and endangers the national currency.

The strategy should not be prepared and developed by one or more individuals, but should involve the full potential of the country: central and local governmental bodies, universities, research institutes, business representatives. The development of the strategy should be led by the Prime Minister of the country.

Naturally, the strategy should be based on firm adherence to market principles, further refinement of the market mechanism, and reflect the modern processes of the world economy. Above all, it should be based on sustainable development, a "green" and "circular" economies.

Innovation development action plans should be developed according to separate priority areas, with a definite time and indication of performers and instruments. At the present stage, the following can be developed: "Education and Science Innovation Development Action Plan", "Real Sector Innovation Development Action Plan"; "Rural Economy Innovation Development Action Plan", "Small and Medium Business Innovation Development Action Plan", "Innovation System Infrastructure Innovation Development Action Plan", etc.

The decision of the Government of Georgia to increase funding for education (including science) is very important. However, it should be noted that science is not a field of education, it is an

independent field and represents a foundation for progress. It is true that education increases the human capital of a country, but it does not create new knowledge. Science creates new knowledge. Discoveries are made in science, the results of which are used in any field of human activity, including education, and which contributes to the unprecedented progress of the whole society. Thus, priority must be given to science, otherwise the basis of the economic development process will be lost, and the result will not be obtained. Also, any increase in the funding will not work smoothly. Many developing countries have a bitter experience of wasting billions on education which only increased the number of diplomas, with no affect their economy, as funding for the educational sector grew without considering the state of economy and its development prospects. Therefore, education must be funded according to the priorities outlined in the Strategy and action plans Economic Innovative Development.

It is necessary for the process of innovative development of the economy to be permanent and complex and not fragmentary. Otherwise, the result will not be achieved.

## Conclusion

The terms "economic development" and "economic growth" are different categories. Economic growth means only the expansion of economy, and economic development means the transition of economy to a qualitatively new, more perfect level. At the present stage, special importance is attached to economic development which determines the nature and pace of economic growth itself. Even in the case of low economic growth rates and even zero growth, it is possible to increase the welfare and comfort of the population as a result of qualitative changes in economy which is conditioned by the following regularities: products of the same value can bring more prosperity in this year than in previous years; The accompanying process of economic development with economic

growth is economic decline (action aimed at reducing the rate of economic growth) which is due to: competition; change in the physical characteristics of the product during the production process; often combining the several tools into one; the preservation of natural capital of resources, the destruction of which threatens humanity with destruction; reducing the rate of population growth on Earth, etc. Economic decline is a positive process associated with progressive changes in economy and it's increase the human well-being. The role of computerization of economy at the modern stage is especially noteworthy which leads to huge savings of both natural and labor resources. Therefore, at the present stage, the improvement of human well-being becomes more and more dependent on economic development, progressive qualitative changes in economy and not only on economic growth.

That is why today many countries in the world use indicators of economic development, not "economic growth" which is called the "happiness" indicator. This figure is developed and published annually by the United Nations.

It has passed more than 30 years since the beginning of transformation of economy in Georgia, but the establishment of a perfect market economy has failed, the reason for which, along with objective circumstances, are some subjective mistakes. As the experience of developed countries (as well as of the advanced post-communist countries) shows, as soon as Georgia regained its independence, the government's attention shifted, first of all, to the qualitative improvement of economy and economic development, but not to an innovative economy. Instead, this way of development was completely ignored. On the positive side, the current government recognizes the need to build an innovative economy and nowadays is taking effective steps in this direction.

But, it is necessary to strengthen the systematicity and continuity of this process. First of all, it is necessary to develop "The Strategy for Innovative Development of Georgian Economy", the main directions of which should be: strengthening scientific potential; improving all fields of education; establishing a close and lasting connection between science, business and government agencies; improving the system of scientific research services; formation of knowledgable economy, focusing on the "green" and "circular" economy; development of innovative infrastructure; revitalization and development of regional innovation activities; creating an incentive environment for innovation; to establish the mechanisms for support implementation of results of the projects which are implemented by donors; formation of the new system of application in the field of production through foreign credits and aid; creating support mechanisms for development of competitive entrepreneurship; to increase the usage of high technology (hi-tech) capabilities, etc. The main goal of this strategy should be to move our country's economy on the rails of innovative development, and to perfect the national innovation system. The country's innovation system must be able to generate or import innovations. Preference should be given, at first, to importing innovations and then to implementing innovations based on our own research.

Implementation of the Innovative Economic Development Strategy will help to solve other acute economic problems in Georgian economy. Such as: increasing the country's competitiveness, to reduce unemployment and poverty, to be more focused on sustainable development of real sector and SME's, stabilization of the national currency exchange rate, to reduce negative trade balance, etc.

*ეკონომიკა*

## ეკონომიკური განვითარება და ეკონომიკური ზრდა საქართველოში თანამედროვე ეტაპზე

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ნაშრომში გამოთქმულია მოსაზრებები ეკონომიკური განვითარებისა და ეკონომიკური ზრდის კანონზომიერებათა შესახებ თანამედროვე ეტაპზე. ამ კონტექსტში შემოთავაზებულია საქართველოს ეკონომიკის შემდგომი განვითარების გენერალური მიმართულება. ყურადღება გამახვილებულია ეკონომიკური განვითარების ინოვაციურ გზაზე, რომლის განხორციელებაც ხელს შეუწყობს თანამედროვე ეტაპზე არსებულ სხვა მწვავე პრობლემათა გადაჭრას, როგორცაა: ქვეყნის კონკურენტუნარიანობის ამაღლება, უმუშევრობა და სიღარიბე, მდგრადი განვითარება, რეალური სექტორისა და მცირე და საშუალო ბიზნესის განვითარება, ეროვნული ვალუტის კურსის სტაბილურობა, უარყოფითი სავაჭრო სალდო და სხვ. აუცილებელია შემუშავდეს საქართველოს ეკონომიკის ინოვაციური განვითარების სტრატეგია. მან უნდა განსაზღვროს ქვეყნის ინოვაციური პოლიტიკა და ინოვაციური სისტემის განვითარების მიმართულებები. ეს მიმართულებები შეიძლება იყოს: სამეცნიერო პოტენციალის გაძლიერება; განათლების სფეროს სრულყოფა; მჭიდრო და მუდმივი კავშირის დამყარება მეცნიერებას, ბიზნესსა და სახელმწიფო ორგანოებს შორის; სამეცნიერო კვლევების მომსახურების სისტემის სრულყოფა; ცოდნის ეკონომიკის ფორმირება ინოვაციური ინფრასტრუქტურის (უნივერსიტეტები, სამეცნიერო-კვლევითი ინსტიტუტები, ტექნოპარკები, ბიზნეს-ინკუბატორები, კლასტერები, მცირე ინოვაციური საწარმოები, ინოვაციური ტექნოლოგიური ცენტრები, კონსალტინგური ფირმები, სატელეკომუნიკაციო ქსელები, ფინანსური ინსტრუმენტები, მათ შორის, ვენჩურული კაპიტალი და სხვ.) განვითარება; რეგიონული ინოვაციური საქმიანობის გამოცდხლება და განვითარება; ინოვაციების განხორციელებისათვის წამახალისებელი (შეღავათები, საგადასახადო შეღავათები, რისკების დაზღვევა და სხვ.) გარემოს შექმნა; დონორების მიერ განხორციელებული პროექტების შედეგების დანერგვის მხარდაჭერი მექანიზმების შექმნა; უცხოური კრედიტებისა და დახმარებების წარმოების სფეროში გამოყენების სისტემის ფორმირება; კონკურენტუნარიანი მეწარმეობის განვითარებისათვის ხელშეწყობის მექანიზმების შექმნა; მაღალი ტექნოლოგიების (hi-tech) შესაძლებლობათა მაქსიმალური გამოყენება და სხვა მიმართულებები, რომლებიც გამოიკვეთება სტრატეგიაზე მუშაობის დროს.

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