

Analysis and Assessment of Current Industrial Policy in Georgia

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(Presented by Academy Member Avtandil Silagadze)

Industrial policy is the branch receiving particular attention of the world scientists and politicians, because success of a country heavily depends on it. It is no coincidence that, particularly after the 2008 global financial crisis, governments in many countries actively started to implement industrial policy in order to reduce unemployment and save industries and institutions. The market globalization necessitated the protection of domestic industries and stimulation of regional development. The COVID-19 pandemic demonstrated once again that making effective use of rich economic potential of a country gives a country competitive advantage. Many countries imposed protectionist measures during the Pandemic and those able to better develop their national industries fared better. Based on the first EquIP Tool (Enhancing the Quality of Industrial Policies), the paper gives the analysis of the condition, positioning, and competitiveness of industry, specifically manufacturing industry. According to the findings of the study the economy of Georgia is underdeveloped and the opportunities are scarce. The potential of the industry is therefore underutilized. GDP growth and indices of the added value produced in industry show that the pace of industrialization of the country is low. With production index, industry is leading among other economic activities, but foreign direct investments (FDI) in manufacturing have declined in recent years, especially during the pandemic. Current structure of manufacturing is attractive in terms of employment what means that the sector supports job generation. Labor productivity is comparable in five leading manufacturing industries. Position of Georgia in terms of quality and impact of integration with the global market and the EU market is not very favorable. Georgia is still at the stage of deindustrialization and it is therefore critical for it to develop and implement purposeful industrial strategy.

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industrial policy, industrialization, EquIP methodology

In view of ongoing events in recent years, industrial policy has been the focus of special attention of scholars and policy makers, as it is viewed emphasizing the central component of the development strategies of countries. Following the 2008 global financial crisis, governments in many

countries actively began to implement industrial policies in order to reduce unemployment and save industries and institutions. At the same time, market globalization made it necessary to protect domestic industries and stimulate regional development.

The COVID-19 pandemic made it clear that utilizing rich economic potential of a country is viewed as competitive advantage. During the Pandemic, many countries imposed protectionist measures disrupting supply chains. The countries with high domestic production shares found themselves in a better position [1, 2]. It was also clear that highly industrialized countries easily met the challenges of post-pandemic economic recovery at the expense of increased trade in goods [3].

In today's globally competitive economy, relying solely on local market forces to improve the situation proved completely futile. It became critical to thoroughly understand past experience meaning designing and implementing comprehensive policy centered on the new type of development [4].

Industrial sector is the primary source of innovations and productivity growth. Research and development at industrial enterprises have positive effects of mastery and development, as well as subsequent "flow" of new technologies. The industrial sector is closely linked to finances, transportation and communication services, etc. [5].

The industrial sector in developing countries is small-scale and underdeveloped, and the production of manufactured goods is limited. This necessitates long-term industrial growth. Industry development brings better incomes and well-being of industrial enterprises and their employees what becomes the primary means to overcome poverty. Development of industrial opportunities can reduce dependence on import of finished goods [5].

The relevance of the study problem stems from the ninth goal of sustainable development as well as it obliges our country to create a solid infrastructure, promote inclusive and sustainable industrialization and innovations [3, 6]. The relevance of the issue stems from the importance of Georgia's integration with the EU, what in turn, requires our country to move closer to the economic policy of the European Union. Article 313 of Chapter 5 (Industrial and enterprise policy and mining) of the Association Agreement [7] refers to the coopera-

tion of the parties in the industrial policy, thereby improving the business environment for all economic operators, but with particular emphasis on small and medium-sized enterprises (SMEs) as they are defined in the EU and Georgian legislative acts, respectively.

By considering the aforementioned factors, the question of the study is as follows: Is the restructuring of the economy of Georgia necessary in the context of new industrial policy? The goal of industrial policy should be revealing a clear vision of the role of industry in the economic development of the country.

It may be assumed that a successful cycle of industrial policy starts with diagnosing industrial opportunities that allows identifying the potential and characteristics of the country on domestic and global industrial scales by considering the current trends. The goal of our study is therefore to determine the status quo by diagnosing the industrial profile of our country, as well as to analyze, summarize and evaluate the obtained results.

Theoretical and Methodological Aspects of the Study

To assess the quality of the industrial policy of a country, the UN Industrial Development Organization (UNIDO) has developed the initiative "EQuIP – Enhancing the Quality of Industrial Policies", which aims to help the politicians of developing countries to assess and develop effective industrial policy packages aligned with developmental goals and structurally transform their economies. The given initiative is based on certain methodologies and policy instruments classified from the phase of policy diagnosis through monitoring.

EQuIP Toolbox assists countries in defining their visions of industrial policy and transformation goals. The goals of industrial policy are diverse: increasing productivity, strengthening integration with the global market, increasing employment in productive areas and improving its quality, etc. [5,8].

In the present study, the diagnostics of industrial policy must be hypothetically based on national development goals focusing on the primary development priorities of the country as well as the needs and desires of the society. In turn, industrial policy diagnostics can be valuable resource to create evidence-based development strategies.

Nine diagnostic tools to study inclusive and sustainable industrial development were developed according to EquiP design. The given study used only the first tool to diagnose industrial growth and opportunities, both in domestic and export values [3]. It also used Competitive Industrial Performance (CIP) Index, which is a tool to determine industrial competitiveness strategy and shows the industrial and export potential of the country, industrial added value and export [3]. The index will aid in determining the scale and capacity of the industrial system of the country. Accordingly, these tools are used for macro level and sectoral analysis.

The following materials were used for the study: the materials of the National Statistics Office of Georgia, the World Economic Forum, the United

Nations Industrial Development Organization, the United Nations Development Program, the works of foreign and Georgian science economists [1, 2; 9-13], as well as the data “benchmarking” method.

Results and Discussion

In 2022, GDP of Georgia in 2015 prices is \$16.6 billion making \$4,177 per capita. Real annual GDP growth is 10.36% caused by post-Pandemic circumstances (it was 4.5% and 5% in 2018 and 2019, respectively). Fig. 1 shows that the share (%) of added value created in manufacturing industry does not change much with GDP growth indicating the low rate of industrialization.

Added value per capita (MVA.PC) in manufacturing industry declined from \$449 in 2019 to \$370 in 2020. Despite the fact that in 2002-2019, GDP share in manufacturing industry remained essentially the same, MVA per capita showed an increasing trend, with the exceptions in 2008-2009 and 2014-2015. The data shows that the industrial capacity of the country is increasing, and the needs of the population are met consequently better.

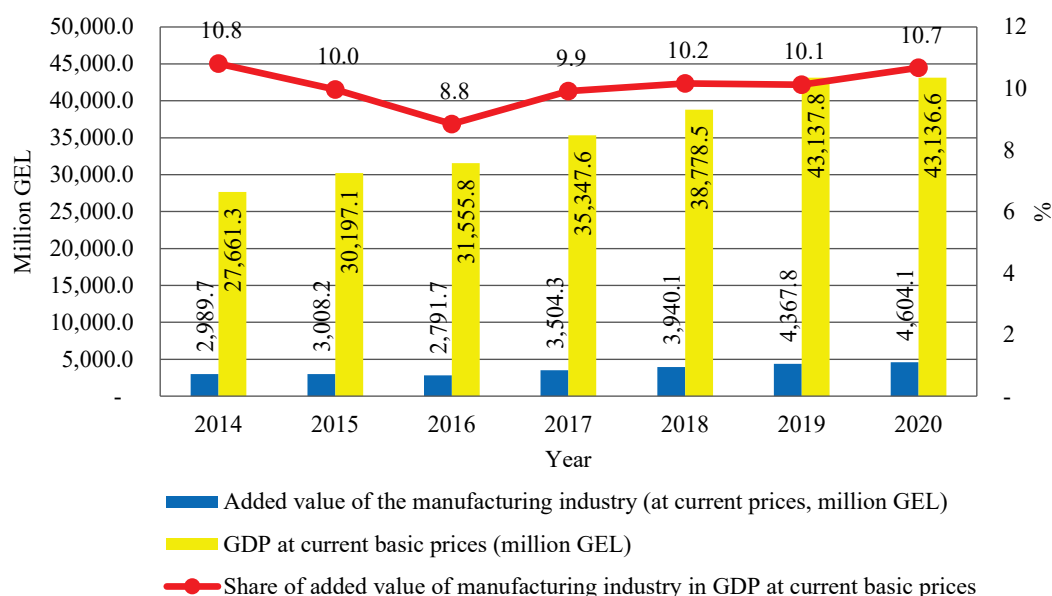


Fig. 1. Share of added value of manufacturing industry in total added value of economy (%).

The Figure was developed by the authors using UNIDO data.

Industry output in 2021 was nearly twice as much as in 2014, reaching 17,434.0 million GEL. In terms of output, industry was the leading economic activity in 2020, while the volumes of foreign direct investments (FDI) in the manufacturing industry fluctuated, reaching its maximum in 2014 (the year Georgia and the European Union signed the Association Agreement) and falling to minimum during the Pandemic.

The employee data show that by 2022, the number of the employees of manufacturing industry is nearly 20 times more the number of the employees of mining industry. In recent years, the number of people employed in manufacturing industry has been fluctuating between 85,000 and 90,000. There is evidence that the current structure of manufacturing industry is attractive in terms of employment what means that this sector provides sustainable job generation.

The analysis of the economic indicators of industry as a whole and particularly those of the manufacturing industry revealed that, with the exception of the production of coke and oil products, all industries have similar labor productivity indicators.

As for other EQUiP Tool data, Georgia was ahead of Azerbaijan, Uzbekistan, and Moldova in terms of manufacturing production as a percentage of gross domestic product (GDP) of the considered countries.

According to UNIDO [3], by 2020, the export of manufacturing production was \$2.009 million, or \$504 per capita. Manufacturing exports accounted for 0.8 percent of total exports. The study of export dynamics of the countries in question shows obvious impact of the 2008-2009 economic crisis on overall export dynamics. However, Georgian export, like that of other similar economies, were unaffected by the crisis what, among other factors, can be explained by the limited integration of the said countries with the global market and little influence on it.

Industrialization index fell from 0.26 in 2014 to 0.19 in 2020. The share of MVA of Georgia in the world and EU MVA is 0.00 indicating limited integration of the country with the global and EU markets.

The impact of manufacturing export of Georgia on the world manufacturing industry trade is nearly zero. The export index for medium- and high-tech manufacturing products is reduced to 0.26. Index of manufacturing export is 0.01 per capita, and the index of industrial export is 0.55 [3].

Competitive Industrial Performance (CIP) Index of Georgia was 0.013 in 2019 (the world average is 0.062). With this index, Georgia ranks the 100th among 154 countries. The following is the composition of industrial production: food and beverages: 44.95%; non-precious metals: 14.44%; non-metallic mineral products: 12.97%; chemical products: 7.17%; and recycled metal and plastic products: 3.89% [3].

Resource-based materials account for 72.2% of industrial exports, with low-tech products of 6.8%, medium-tech products of 19.5%, and high-tech products of 1.6%. The structure of industrial export of Georgia by technological complexity evidences that it relies on low-tech industrial production [10]. In terms of share of high-tech industrial export in total manufacturing export, this indicator fell after 2014 compared to 2010, with the Russian Federation, Armenia, and Azerbaijan of the countries in question lagging behind (Fig. 2).

In 2020 the share of medium- and high-tech MVA in total MVA is declining. The share of medium- and high-tech manufacturing export in total manufacturing export also shows declining trend. Compared to 2014, the latter has decreased almost twice [3]. The given situation is not caused by COVID-19 pandemic only, as it was nearly the same in 2016. Maintaining the current composition and structure of industrial products cannot guarantee the development of high-tech production and, consequently, the accumulation of high incomes. That is why the current structure of

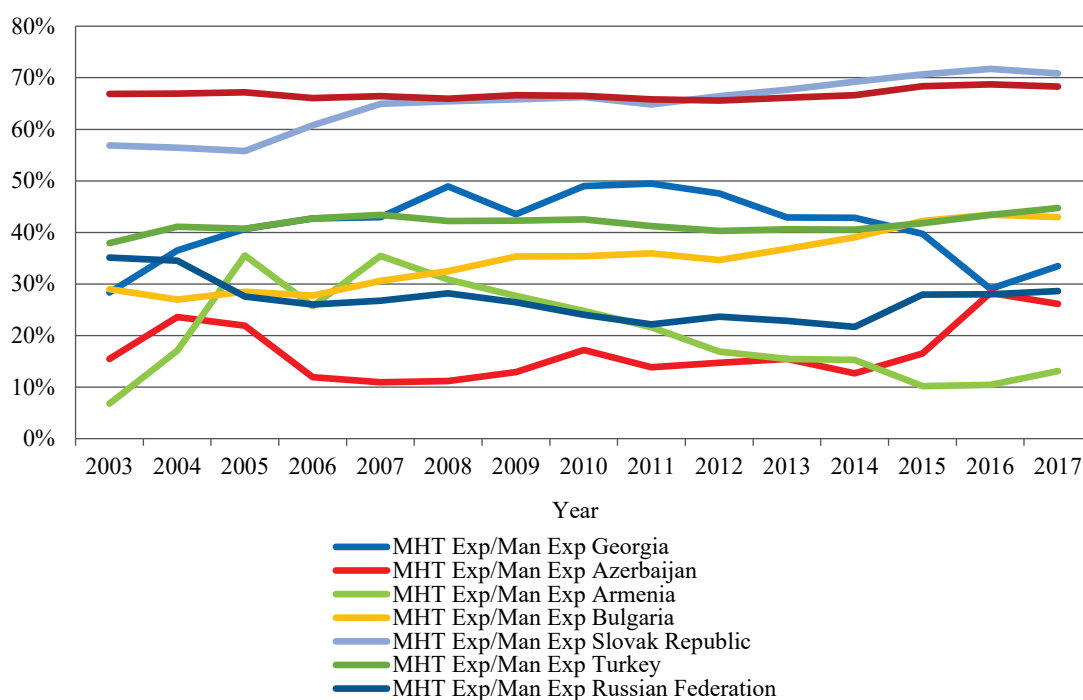


Fig. 2. Index of Proportion of medium and high-tech manufacturing export in total manufacturing export. The Figure was developed by the authors using UNIDO data.

industrial export may become an obstacle to the development of the country in the long run. Based on the data analysis, it can be concluded that the process of deindustrialization is still ongoing in Georgia and the situation can be advisably changed by developing the industrial policy focused on the goals and priorities of the socio-economic development.

Conclusion

Based on the indicators analyzed on the basis of the first EquIP Tool, the current state and competitiveness of industry and, in particular, the processing (manufacturing) industry was studied.

The results of the study showed that the economy of Georgia is underdeveloped and opportunities are limited; consequently, industrial potential of the country is underutilized; growth rates of GDP and added value created in manufacturing

show that the pace of industrialization in the country is slow; with output index, industry leads among other economic activities, but foreign direct investment in manufacturing has been decreasing since 2014; current structure of manufacturing industry is attractive in terms of employment what means that this sector provides sustainable job generation and the labor productivity is the same in top five manufacturing industries; position of Georgia in terms of quality and impact of integration with the global market and the EU market is not very favorable; the positions of the country in the EU market are similar; the data on the technological complexity of industrial competitiveness and export structure of Georgia evidence that it relies on the production of low-tech industrial products. Georgia is still in the process of deindustrialization and it is therefore critical for it to develop and implement purposeful industrial strategy.

ეკონომიკა

საქართველოს სამრეწველო პოლიტიკის არსებული მდგომარეობის ანალიზი და შეფასება

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(წარმოდგენილია აკადემიის წევრის ა. სილაგაძის მიერ)

ინდუსტრიული პოლიტიკა მეცნიერებისა და პოლიტიკოსების მხრიდან განსაკუთრებული ყურადღების ცენტრშია, რადგან მასზე დიდადაა დამოკიდებული ქვეყნის წარმატება თუ წარუმატებლობა. შემთხვევითი როდია, რომ განსაკუთრებით 2008 წლის მსოფლიო ფინანსური კრიზისის შემდეგ, მრავალი ქვეყნის მთავრობამ აქტიურად დაიწყო ინდუსტრიული პოლიტიკის განხორციელება უმუშევრობის შესამცირებლად, დარგებისა და ინსტიტუციების გადასარჩენად. ამასთან, ბაზრების გლობალიზაციამ განაპირობა სამამულო დარგების დაცვისა და რეგიონული განვითარების სტიმულირების აუცილებლობა. თავის მხრივ, კოვიდ-19 პანდემიით კიდევ ერთხელ დადასტურდა, რომ ქვეყნის მდიდარი ეკონომიკური პოტენციალის ეფექტიანი გამოყენება მის კონკურენტულ უპირატესობას უზრუნველყოფს. პანდემიის პირობებში ბევრმა ქვეყანამ აამოქმედა პროტექციონისტული ღონისძიებები და ის ქვეყნები აღმოჩნდნენ უკეთეს მდგომარეობაში, რომლებმაც უკეთესად შეძლეს ეროვნული ინდუსტრიის განვითარება. ნაშრომში EquIP (Enhancing the Quality of Industrial Policies)-ის პირველი ინსტრუმენტის საფუძველზე გაანალიზებულია მრეწველობის და, კონკრეტულად, გადამამუშავებელი მრეწველობის მდგომარეობა, პოზიციონირება და კონკურენტუნარიანობა. კვლევის შედეგად მიღებული დასკვნის მიხედვით: საქართველოს ეკონომიკა დაბალგანვითარებულია, შესაძლებლობები კი – შეზღუდული, ამიტომ მრეწველობის პოტენციალი არასაკმარისადაა გამოყენებული; მთლიანი სამამულო პროდუქტის (მსპ-GDP) ზრდის ტემპის და გადამამუშავებელ მრეწველობაში შექმნილი დამატებული ღირებულების მაჩვენებლები გვიჩვენებს, რომ ქვეყნის ინდუსტრიალიზაციის მაჩვენებელი დაბალია; მრეწველობა ლიდერობს გამოშვების მაჩვენებლით სხვა ეკონომიკურ საქმიანობებთან შედარებით, თუმცა გადამამუშავებელ მრეწველობაში პირდაპირი უცხოური ინვესტიციების (FDI) მოცულობა ბოლო წლებში შემცირდა, განსაკუთრებით – პანდემიის დროს; გადამამუშავებელი მრეწველობის მოცემული სტრუქტურა დასაქმების თვალსაზრისით მიმზიდველია, რაც ნიშნავს იმას, რომ დარგი სამუშაო ადგილების შექმნას უზრუნველყოფს. შრომის პროდუქტიულობა გადამამუშავებელი მრეწველობის ტოპ-ხუთეულში ერთნაირია; მსოფლიო ბაზართან ინტეგრირების ხარისხის და გავლენის თვალსაზრისით, საქართველოს უმნიშვნელო პოზიცია უკავია. ანალოგიურია საქართველოს პოზიციონირება ევროკავშირის ბაზართან მიმართებითაც; საქართველოში

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