

The Role of Economic Policy of Cluster Development in the Transformation of Georgia's Post-Communist Economy

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(Presented by Academy Member Vladimer Papava)

Abstract. This paper is devoted to exploring the importance of the economic policy of cluster development in the transformation of Georgia's post-communist economy. Specifically, it examines how limited access to the innovation ecosystem in the capital city and other regions of Georgia affects the ongoing sectoral transformation and represents a major constraint on strengthening the country's innovation- and knowledge-driven economic sectors. Accordingly, the role of the economic policy of cluster development in Georgia is closely linked to addressing this limitation and enhancing access to the innovation ecosystem.
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Keywords: public-private partnership, innovation ecosystem, post-communist economy, R&D

Introduction

The exploration of pathways for transforming Georgia's post-communist economy has a long and fundamental tradition, encompassing the evaluation of various reform stages. Initially, it involves changes implemented under conditions of economic crisis, military conflicts, and state institutional disruption following the collapse of the Soviet Union (Papava, 2013). Subsequently, it examines the large-scale structural, institutional and market reforms carried out after the Rose Revolution, which significantly influenced the directions of economic development and the political priorities of the country (Papava, 2013).

Attempts to encompass the transformation process of Georgia's post-communist economy began after the military conflicts and institutional disruption following the collapse of the Soviet Union, in a period often referred to as "Shock Therapy." This approach involved the rapid liberalization of prices and trade, large-scale privatization of state-owned enterprises, and macroeconomic stabilization measures (Papava, 2005), all aimed at rapidly transforming centrally planned economies into market-based systems (Papava, 1996). However, under conditions of state institutional collapse, Shock Therapy became a harmful policy instrument, contributing to the deindustrialization of the country's economy (Papava, 1996). Furthermore, the state

Table. State-supported SMEs and households

Specialization	Number of Participants	Grants and Investment Volume
Agricultural sector: 1. Fruit and vegetable production and processing (Shida Kartli, Imereti); 2. Winemaking and dairy production (Kakheti); 3. Hazelnut production and export (Samegrelo); 4. Tea leaf production and packaging (Guria); 5. Mineral water marketing, potato and honey production (Samtskhe-Javakheti); 6. Berry and ornamental plant production (horticulture) (Imereti).	More than 9,000 farmers and households, including the Akhalkalaki Potato Association, Imereti Agro-zone (2021), the Kakheti Wine Cellars Association, and others.	1 billion GEL
Food manufacturing industry	More than 200 enterprises, including: 1. Kareli Fruit (2016) and the Gori Fruit and Vegetable Processing Plant (2016); 2. Wine companies “Khareba”, “Schuchmann Wines”, “Teliani Valley”, and “Kakhetian Traditional Winemaking”; 3. Shuamta (2019); 4. “Kartuli Aromati”; 5. “Ninotsminda Honey” (2020).	500 million GEL
Tourism	Members of Georgian Tourism Association (GTA) – 139 hotels	474 million GEL
ICT	1. Georgian Innovation and Technology Association (GITA); 2. Pulsar AI and Lemondo	–
Furniture and wooden toys	100 SMEs, among them: “Gogora”	1,7 million GEL
Textile	15 factories and 13 design ateliers, among them: “Tiflis Textile”	1,3 million GEL
Packing materials	PMAG packing materials cluster; integrates 7 companies, among them: 1. “Green Pack”; 2. “Caucas Pack.	1,8 million GEL
Wind Power	Gori Wind Power Plant	32 million GEL
Defence sector	The State Military Scientific-Technical Center “Delta”	330 million GEL annually

Source: The table is compiled by the author according to the official web-sites of the listed SMEs, ministries and agencies.

institutional disruption also undermined the reforms following the Rose Revolution (Papava, 2009), as reflected in the deterioration of the education system and the decline of scientific and research activities. As a result, the process of

geographically concentrating state institutions and scientific-research centers was interrupted for several decades, both in the capital and across the regions of Georgia.

Strengthening the economic policy of cluster development can help finalize the transformation of Georgia's post-communist economy.

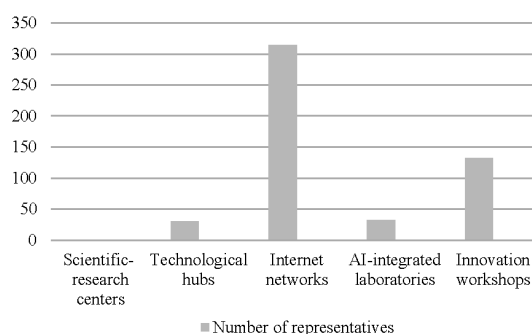
Economic policy of cluster development does not rely on direct state intervention in the economic action agenda of the private and public industrial sectors. Instead, it relies on rational, long-term and flexible public policy instruments (Feser & Bergman, 2000; Morosini, 2004). State institutions provide not only sustainable financial support, but also coordinated institutional and policy actions. The public sector sets strategic policy directions, provides consistent financial support, and promotes the integration of scientific-research centers within industries (Feldman et al., 2005). Moreover, all kinds of public and private organizations can be integrated into clusters, shaping stronger networks and innovation ecosystems across local regions (Delgado et al., 2014).

Joint public-private cluster initiatives enable the creation of an innovation environment that strengthens strategically significant areas that may be neither commercially viable nor technologically feasible for the private sector to pursue independently (Thomas et al., 2020; Chatzinikolaou & Vlado, 2024). To encourage private sector engagement, reinforce research and development (R&D) capacity, and promote geographically concentrated innovation ecosystems, targeted state support measures are implemented (Berry et al., 2012). These measures operate as policy levers for intervention in the sectoral specialization of local, regional, and national economies (Pidorycheva et al., 2020; Kumar et al., 2025). In Georgia, ministries employ joint public-private cluster initiatives, through state programs such as the "Enterprise Georgia" and "Plant the Future" programs. Additionally, the defense and renewable energy sectors operate under exclusive state authority.

As presented in the Table, traditional sectors of the economy, such as agriculture, tourism, food, and the manufacturing of plastic, wooden and textile materials, continue to dominate over innova-

tion-driven industrial sectors, including ICT, renewable energy, and defense. According to the latest data from the National Statistics Office of Georgia, the manufacturing sector holds a leading position, accounting for 17.2% of annual GDP. This imbalance represents one of the most pressing challenges for Georgia's post-communist economy.

An online survey was conducted with 322 respondents, including representatives from state-supported SMEs and households, to confirm that low productivity in innovation-driven sectors is caused by the restricted geographical concentration of the innovation ecosystem. This limitation affects access to scientific-research centers, technological hubs, AI-integrated laboratories, and innovation workshops, both in the capital and across other regions of Georgia.



Source: The graph is compiled by the author, according to the special survey conducted from August to December, 2025.

Fig. The accessibility of the innovation ecosystem.

As confirmed by the survey results in figure above, respondents lack geographical access to scientific-research centers and technological hubs, and that AI-integrated labs and innovation workshops are not fully accessible to them.

Conclusion

The paper **aimed to determine whether** the restricted geographical concentration of the innovation ecosystem is the primary factor interrupting the transformation of Georgia's post-communist economy: a severe problem in both the capital city and regional areas of the country. Limited access to the

innovation ecosystem constitutes a major barrier to strengthening Georgia's innovation sectors, a conclusion supported by empirical evidence. Within the framework of the study, quantitative research was conducted involving participants in cluster deve-

lopment programs. The findings highlight the significant role of economic policy of cluster development in advancing the transformation of Georgia's post-communist economy.

ეკონომიკა

კლასტერების განვითარების ეკონომიკური პოლიტიკის მნიშვნელობა საქართველოს პოსტკომუნისტური ეკონომიკის ტრანსფორმაციის პროცესში

თინათინ ლომსაძე

ივანე ჯავახიშვილის სახ. თბილისის სახელმწიფო უნივერსიტეტი, ეკონომიკისა და ბიზნესის ფაკულტეტი, საქართველო

(წარმოდგენილია აკადემიის წევრის ვლადიმერ პაპავას მიერ)

წინამდებარე კვლევა ეძღვნება კლასტერების განვითარების ეკონომიკური პოლიტიკის მნიშვნელობას საქართველოს პოსტკომუნისტური ეკონომიკის ტრანსფორმაციის პროცესში. შესაბამისად, კვლევის მიზანია დადასტურდეს, რომ ინოვაციურ ეკოსისტემაზე შეზღუდული ხელმისაწვდომობა, როგორც დედაქალაქში, ისე რეგიონებში, განაპირობებს საქართველოს პოსტკომუნისტური ეკონომიკის ტრადიციული სექტორული სტრუქტურის შენარჩუნებას და წარმოადგენს ინოვაციური და ცოდნაზე დაფუძნებული სექტორების გაძლიერების მთავარ ბარიერს. აქედან გამომდინარე, კლასტერების განვითარების ეკონომიკური პოლიტიკის მნიშვნელობა საქართველოში უკავშირდება არსებული შეზღუდვების აღმოფხვრასა და ინოვაციურ ეკოსისტემაზე ხელმისაწვდომობის გაფართოებას.

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