SOME ASPECTS OF THE GEORGIAN ECONOMY AT THE CONTEMPORARY STAGE

Tamaz ZUBIASHVILI
Ivane Javakhishvili Tbilisi State University, Georgia
zubtamaz@yahoo.com
Levan SILAGADZE
Doctoral student, Ivane Javakhishvili Tbilisi State University, Georgia
silagadzelevan@yahoo.com

Abstract
In the former Soviet Union the economy of the Georgian Republic occupied advanced positions. At the very first stage of the restoration of independence the post-Soviet Georgia's economy declined 3-times; in the following years, the situation improved, but it reached the 1990 level only after 15 years. In spite of difficult problems of development it should be singled out the middle period progress of the 90-ies when the country introduced a new currency - Lari, created conditions for attracting foreign investments, economic growth was expressed in double-digit figures; it created an independent banking system, rapidly implemented the program of privatization, strengthened the links with international financial organizations and others. By this time, the private sector's share in the state budget revenues was already 80%. After the end of the 90-ies, in a few years, economic reforms stalled. After the "Rose Revolution" - until 2012, the development of economy was greatly influenced by tightened administrative methods, foreign loans, foreign investment, and so forth. Unfortunately, at this stage of development, a property encroachment for the government became common practice in such a way as pressure on business. In recent four years, more attention was paid to the actual development, deepening of integration with European Union, the governmental pressure on business was removed. However, because of the lack of jobs, labour force continues to flow abroad.

Key words: *post-Soviet economy, the Georgian economy, macroeconomics, foreign direct investment*

JEL Classification: *F21, F43, O40, O47*

I. INTRODUCTION

Among the former Soviet republics Georgia's economy held leading positions. At the initial stage of the restoration of independence the volume of Georgia's economy decreased about 3-times. It reached the 1990 level after 15 years. Despite the most difficult problems of development, in the mid-period of the 90-ies the country was able: to introduce a new national currency – Lari, to create conditions for attracting foreign investments, to fix economic growth rates in double-digit figures, to create a banking system (Silagadze, N, 2011), to implement the privatization program, to strengthen the links with international financial organizations and so forth. By this time, the private sector's share in the state budget revenues had already reached 80% (Atanelishvili, 2006, 2013; Basilia, Silagadze, A. and Chikvaidze, 2001; Papava, 2013; Silagadze, A, Zubiashvili and Atanelishvili, 2016).

After the end of the 90-ies the economic reforms stalled. After the "Rose Revolution" - until 2012, the development of economy was greatly influenced by tightened administrative methods, foreign loans, foreign investment, and so forth. (Silagadze, A, 2010-2015; Silagadze, A. and Atanelishvili, 2010, 2011, 2014; Silagadze, A. and Gelashvili, 2008, 2009; Silagadze, A. and Zubiashvili, 2015; Silagadze, A. and Tokmazishvili, 2008, 2009). Unfortunately, at this stage of development, a property encroachment for the government became common practice. In the following period the government's pressure on business was removed, more attention was paid to the real sector and the acceleration of integration with the European Union. The aspects of this problem were investigated by many scientists in their works (see References).

II. GENERAL ANALYSIS

Construction of the models of market economy in the majority of post-Soviet countries was somewhat similar. Among them, the pace of economic development was more visible in energy-rich and fuel-exporting countries. In 2014, compared to 1990, the gross domestic product increased in Turkmenistan - 14.4 times, in Azerbaijan - 8.5 times, Kazakhstan - 7.8 times, and in Russia - 3.6 times. The export of energy products performed the main role in the economic growth of these countries (Tvalchrelidze and Silagadze, A., 2011, 2013; Silagadze L, 2015; Силагадзе, А., 1991, 2013; Силагадзе, А. и Атанелишвили, 2010). Nevertheless, innovative changes in the above-mentioned countries economy is less observed, which creates threats of unstable development. (Tvalchrelidze, Silagadze, A., Keshelashvili and Gegia, 2011).

Of the post-Soviet countries, the economies of the new associated member-countries of the European Union (Moldova, Georgia, Ukraine) (Silagadze, A., Tokmazishvili and Atanelishvili, 2014; Silagadze, A., 2010, 2015), were faced with a difficult problem because of encroachment on territorial integrity. The volume of Ukraine's GDP and the GDP per capita in 2014, compared to previous year, decreased by 28% and 23% respectively. (Worldbank.org/indicator). It's already obvious that after 5-6 years it will be difficult for the country (and for other countries too) to achieve the EU integration economic parameters. Some aspects of the study of this problem are given in the works of various scientists.

Georgia's GDP in 2014 amounted to 16.5 billion US dollars; the GDP growth rate was 4.6% and the GDP per capita amounted to 3676 US dollars. (Http://geostat.ge/?action=page&pid=118&lang=geo). These figures are not sufficient for the country desiring to join the European Union in the medium term.

Unfortunately, in recent years, in Georgia, less attention was paid to agriculture having the unique capabilities for development and the focus was shifted to the import of these products. In 2010, the share of agriculture in GDP fell to the critical 8.4% and in this light, the increase of the share of agricultural products in GDP should be considered as a positive moment. (Figure 1). However, this figure is clearly insufficient for the sector, which employs more than half of the total employed. The main problem in this sector is the calculation of the employed categories, according to which all those who owns a plot of land are considered as employed.

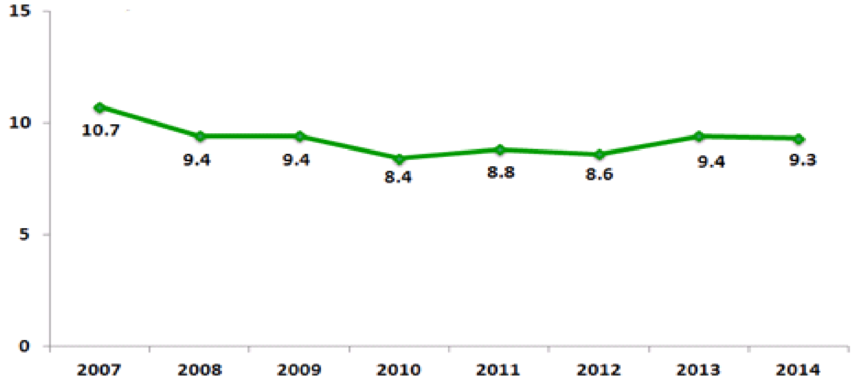

Figure 1. The share of agriculture in GDP (%)
Source: http://geostat.ge/?action=page&p_id=118&lang=geo

The Georgia's government, with the goal of external positions sustainability, provides for the promotion of such long-term capital inflows as foreign direct investment. This will be promoted by the Government's recent proposal for tax exemption from the profit of refinanced funds in production.

Direct investments made in Georgia in 2014 exceeded 1.7 billion US dollars. (Geostat.ge; Silagadze L., 2015). Currently, the biggest major investors are: Azerbaijan, the Netherlands, Turkey, United Kingdom, China and others. Most of the FDI flows in sectors such as: Transport and communications, financial sector, construction, manufacturing industry and others. (Http://geostat.ge/?action=page&p_id=139&lang=geo). FDI plays an important role in GDP growth. (Figure 2).

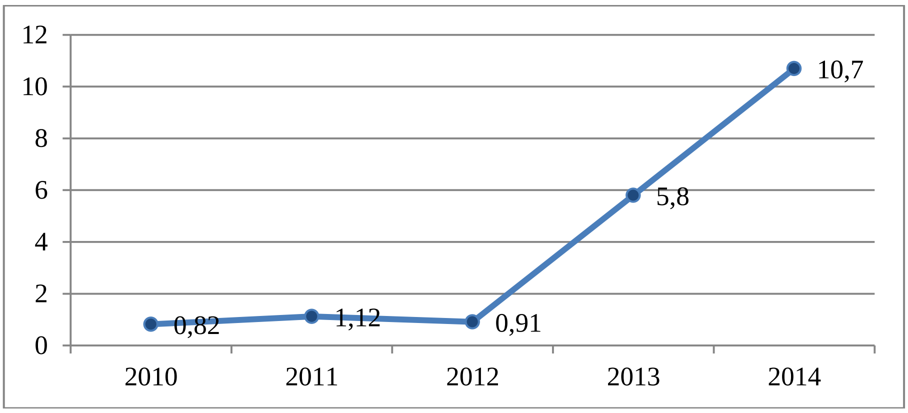

Figure 2. The Ratio of FDI to GDP in Georgia, 2010-2014. (%)
http://data.worldbank.org/indicator/NY.GDP.MKTP.CD;
http://geostat.ge/?action=page&p_id=139&lang=geo

In previous years, the FDI didn't encourage the introduction of innovations in economy for long-term growth, sharp decrease of unemployment rate that is the precondition for export growth and diversification and creating new jobs. (Figure 3).

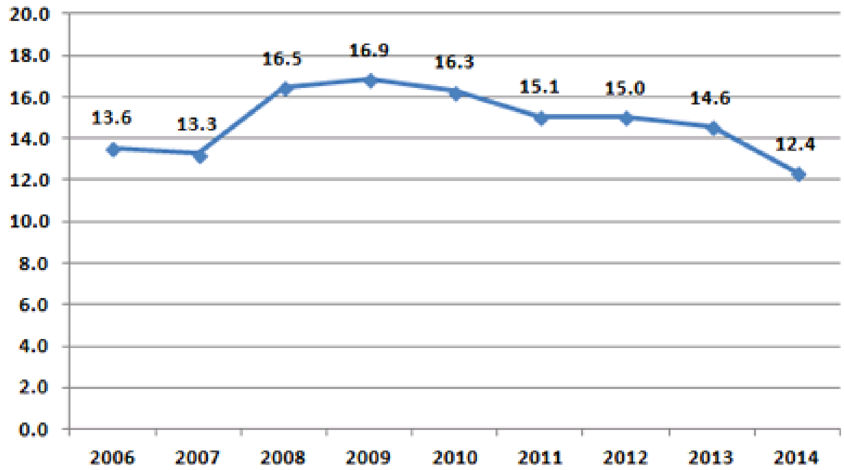

Figure 3. Unemployment Level in Georgia, %

Over the years, the policy which was carried out in Georgia didn't produce desired results in terms of the enhancement of export competitiveness: There is little scope for diversification of exports; in 2013-2014 the volume of export increased, however, the ratio of import to export and accordingly, the foreign trade negative balance is stably high, which is a serious macroeconomic risk for the country. (Table 1).

Table 1. Foreign trade dynamics in 2007-2012, mln USD

	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Foreign trade turnover	6444	7797	5634	6935	9225	10413	10921	11454	9932
Registered export of goods (FOB)	1232	1495	1134	1677	2187	2376	2910	2861	2204
Registered import of goods (CIF)	5212	6302	4500	5257	7038	8037	8012	8593	7728
Foreign trade balance	-3980	-4806	-3367	-3580	-4852	-5661	-5102	-5733	-5524

* Preliminary data.
http://geostat.ge/?action=page&p_id=136&lang=geo 15.04.2016.

III. CONCLUSION

- The Republic of Georgia was distinguished by economic indicators from the former Soviet republics, but in the very first years after the restoration of independence the volume of economy sharply declined and it reached the 1990 level after 15 years;
- In spite of the most difficult problems of development, in the mid-90-ies the country managed to introduce a new national currency – Lari, to create the conditions for attracting foreign investments, to fix economic growth rates in double-digit figures, to create an independent banking system, to implement privatization program, to strengthen the relations international financial organizations, etc.;
- The end of the economic reforms stalled;
- From the "Rose Revolution" - until 2012, the development of economy was greatly influenced by tightened administrative methods, foreign loans, foreign investments and others. Unfortunately, at this stage of development, a property encroachment for the government became common practice;
- In the last four years, the government's pressure on business was removed; more attention was paid to the real sector development, direct foreign investment incentives, foreign debt and foreign trade negative balance reduction, enhanced acceleration of integration with the EU, etc. But achieved macroeconomic indicators so far are not sufficient for aligning with the EU in the medium term.

IV. REFERENCES

1. Atanelishvili, T. (2013). Historical Foundations of Post-Soviet Georgian Banking System – Actual Problems of Economies of Post-Communist Countries at Current Stage. TSU, Paata Gugushvili Institute of Economics. Tbilisi, pp. 222-223.
2. Atanelishvili, T. (2006). Economical Reforms in the Georgian Democratic Republic (1918-1921). Tbilisi University publishing., Tbilisi.
3. Basilia, T., Silagadze, A., Chikvaidze, T. (2001). Post-Socialistic Transformation: Georgian Economy at the Threshold of the XXI Century. "Aradani", Tbilisi.

4. Nedelea Alexandru, Comănescu Laura, Ielenicz Mihai. (2009) – Some Considerations on Climatic Geomorphology of the Romanian Territory, Caspian Journal of Environmental Sciences, Vol. 7. No.2 pp. 99 –106.
5. Papava, V. (2013). Economic Reforms in Post-Communist Georgia: Twenty Years After. New York: Nova Science Publishers.
6. Silagadze, A., Tvalchrelidze, A., Zubiashvili, T., Atanelishvili, T. (2016). Aspects of China's economic Development. J. Ecoforum. Vol. 5. №1, 2016, pp. 47-64.
7. Silagadze, A., Zubiashvili, T., Atanelishvili, T. (2016). The use of drinking water in the conditions of maintaining ecological balance. J. Ecoforum. Vol. 5. №1, 2016, pp. 66-69.
8. Silagadze, A. (2015). Failure of the Keynesian Multiplier Doctrine: Some Aspects of Interrelation Between Investments and Employment. "Topical Problems of Sustainable Development of National Economies." TSU, Paata Gugushvili Institute of Economics. Tbilisi, pp. 58-60.
9. Silagadze, A., Zubiashvili, T. (2015). The Post-Soviet Economy: The Concept of Drinking Water Business Development (co-authorship). Refereed International Journal of Business and Management Studies (IJBMS), Volume 4, No 1. USA. pp. 299-307.
10. Silagadze, A., Zubiashvili, T. (2015). Parameters of the European Union and the Post-Soviet Georgia's Economy. Refereed International Journal of Business and Management Studies (IJBMS), pp. 441–448.
11. Silagadze, A. (2014). Integration Economic Indicators of the EU and Some Issues of Development of Post-Soviet Countries – New Associate Members of the EU. Moldavian Journal of International Law and International Relations. Issue 3, Volume 33, pp. 78-83.
12. Silagadze, A., Atanelishvili, T. (2014). The main economic indicators of the EU and Georgia "Topical problems of the development of economy and economic science." Collection of scholarly works of Paata Gugushvili Institute of Economics TSU, pp. 50-52.
13. Silagadze, A., Tokmazishvili, M., Atanelishvili,T. (2014). Post-Communist Economic Development: Obstacles and Prospects (A Georgian Case Study). J. The Caucasus& Globalization. Vol. 7, Issue 3-4, pp. 72-81. CA&CC Press, Sweden. 2013. pp. 80-90.
14. Silagadze, A. (2013). Priorities for the Economy of Post-communist Georgia in the Context of the World Financial Crisis. J. Problems of Economic Transition (USA). Issue: Volume 56, Number 8 / December. 2013, pp. 3–16.
15. Silagadze, A. (2013). Post-Soviet Economy: Aspects of the Georgian economy.
16. http://georgiamonitor.org/upload/medialibrary/dbd/dbd913e338d8e77bc832bebe67ae8e18.pdf
17. Silagadze, A. (2013). Some of the external aspects of the Georgian economy in modern times. Moldavian Journal of International Law and International Relations. No. 4 (30), pp. 143–149.
18. Silagadze, A. (2012). Simplification of business registration and reality in Georgia - "National Economy and Globalization". TSU Paata Gugushvili Economic Institute. Vol. 2, Tbilisi, pp. 154–155.
19. Silagadze, A. (2012). Priority to the Use of Resources - journal. "Science and Life". 1 (5), Tbilisi, pp. 17–23.
20. Silagadze, A. (2011). Economic perspectives in Post-soviet Georgia – "Actual economic problems under Globalization." Collection of scholarly works of Paata Gugushvili Institute of Economics TSU. Tbilisi, pp. 89–91.
21. Silagadze, A. (2011). Development of Agriculture of Georgia - The World Economic Crisis and Georgia", journal. "Social Economy", № 1, pp. 69–71.
22. Silagadze, A., Atanelishvili,T. (2011). The Potential of the Agrarian Sector of Georgia – Priorities of the Sustainable Development of Agriculture. Tbilisi, TSU, pp. 418–419.
23. Silagadze, A., Atanelishvili, T. (2010). Aspects of economic doctrines in Georgia. Peninsula University of Technology, Business and Informatics. San Francisco (USA).
24. Silagadze, A. (2010). Economic Doctrines. Georgian National Academy of Sciences, "Innovation", Tbilisi- 611 p. (C./A.: Atanelishvili, T., Silagadze, N.).
25. Silagadze, A., Atanelishvili, T. (2010). Modern state finances of Georgia. International Academy of Sciences, Education, Industry and Arts. San Francisco (USA).
26. Silagadze, A., Gelashvili, S. (2009). Gegenwärtige Finanz-und Monetäre Aspekte in Georgien (2009). Universität Potsdam (Deutschland). No. G-10, 26 s.
27. Silagadze, A., Tokmazishvili, M. (2009). Challenges of the Post-Communist Financial-Currency Policy. Nova publisher. New-York, USA, 78 p.
28. Silagadze, A., Tokmazishvili, M. (2008). Aspects of the development of the banking system in Georgia. "Works". Vol. VI. Academy of Economic Studies of Georgia. Tbilisi, Publisher "Siaxle", pp. 143–156.
29. Silagadze, A., Tokmazishvili, M. (2008). Post communist Financial Policy. "Innovation", Tbilisi, 111 p.
30. Silagadze, A., Gelashvili, S. (2008). Die Entviklung der Finanzpolitik in Georgien– Nachhaltige Finanz-und Sozialpolitik in Georgien." Universität Potsdam. SS. 69-78.
31. Silagadze, A. (2001). History of Economic Thought. Publication of Tbilisi University, Tbilisi, 610 p.
32. Silagadze, A.(2000). F. List - German Economist and Publicist. Journal: "The Economy", № 1, Tbilisi.
33. Silagadze, A. (1996). Some Aspects of the History of Economic Thought. Tb., 163 p.
34. Silagadze levani. (2015). The Aspects of Foreign Direct Investments Genesis. TSU, Paata Gugushvili Institute of Economics: J. Economisti, №5. Tbilisi.
35. Silagadze, Nodari. (2011). Stages of Development of Banking Sistem in Georgia – "Actual Ekonomic Problems under Globalization." Proceedings of Materials of International Scientific-Practical Conference Dedicated to the Foundation of Paata Gugushvili Institute of Economics. Tbilisi, pp. 262-264.
36. Georgia's socio-economic strategy 2000. http://static.mrdi.gov.ge/55101c4b0cf24147438b1700.pdf
37. Tvalchrelidze, A., Silagadze, A. (2013). The Macroeconomic Model for Oil Exporter Countries. J. Central Asia and the Caucasus. CA&CC Press, Vol.16. Issue 4. Sweden, pp. 118–144.
38. Tvalchrelidze, A., Silagadze, A. (2013). Capitalization of Mineral Commodities. (2012) - World and Georgia. Georgian National Academy of Sciences "Bulletin", vol.6, № 2, pp. 170–173.
39. Tvalchrelidze, A., Silagadze, A. (2011). Problems of European Commodity Security and Sustainable Development of the Central Asia-Caucasus Region. J. Central Asia and the Caucasus. Vol. 12, Issue 4, pp. 110-127. CA&CC Press, Sweden.
40. Tvalchrelidze, A., Silagadze, A. (2011). Georgia's Fresh Mineral Water for Europe. J. The Caucasus & Globalization. Vol. 5, Issue 3-4, pp. 43-54. CA&CC Press, Sweden.
41. Tvalchrelidze, A., Silagadze, A., Keshelashvili, G., Gegia, D. (2011). Georgia's Social Economic Development Program. (2011). "Nekeri," Tbilisi.
42. Силагадзе, А. (2013). Постсоветская экономика: аспекты экономики Грузии.
43. http://www.georgiamonitor.org/news/254/1287/
44. Силагадзе, А., Атанелишвили, Т. (2010). Некоторые вопросы экономических доктрин в Грузии. Москва, «Взфэи», 51с.
45. Силагадзе, А. (1991). Концепция "социального государства" в работах эападногерманских неоконсерваторов и либералов -Эволюция теории и практики «государства благосостояния» в 80-е годы. М., ИНИОН, сс. 141-160.
46. http://data.worldbank.org/indicator 10.04.2016.
47. http://geostat.ge/?action=page&p_id=133&lang=geo 10.04.2016.
48. https://www.nbg.gov.ge/index.php?m=348 10.04.2016.