

Main Challenges for Georgia's Social-Economic Policy

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Abstract

The article shows the economic situation in Georgia and the perspectives the country has. The main problems that concern the population today, as well as the challenges that Georgia faces today and the tasks to be resolved are described in the paper. Along with the economic situation in Georgia, labour market conditions, foreign direct investments, foreign trade and competitiveness of the country are assessed. Paper concludes with the picture of the economic situation in Georgia and setting the ways of economic development.

Keywords: Georgia; Economic policy; Economic development; FDI; External trade

Introduction

During the last 5 years Georgia's economic growth does not exceed 5%, which is very low figure for the developing country. In spite of the low economic growth in the recent years relatively high growth of the economy in 2017 can be observed compared to the previous years, that was mainly conditioned by the inflow of foreign direct investments, growing exports, increased revenues from tourism, large volumes of foreign remittances and increased external debt. Economic growth is reflected in the growth of the well-being of the population in a few years after the sectors of economy are considerably developed and create additional jobs. At the same time, we should note that Georgia is still a developing country where natural resources and economic assets are not involved in the economic sector, which would further lead to double-digit growth of economy, development of the country and increase of the living standards of the population. In abovementioned period, significant number of jobs have not been created, high levels of poverty and low income still remain as one of the main challenges of the country. Level of competition is low in Georgia, monopoly and oligopoly companies dominate in determining the prices and quality of the goods and services, hence poor quality products and high prices can often be observed on the market.

The important task of Georgia's economic advancement is to develop relevant economic models and approaches that will be based on the synthesis of past experiences and future oriented models [1]. Today we need a new, future oriented growth model that will be supported by international methodology and experience.

The development of economic models should be based on the realization of short-term and long-term objectives, which implies the implementation of a policy that will simultaneously respond to the challenges facing the country and at the same time give considerable attention to the maintaining stable and sustainable economic environment for the future generations.

Economic development should be considered not as end in itself but a mechanism for creating welfare for the population, ensuring high standards of living for each citizen and the dignified conditions of development. The main focus of economic policy is the citizen of the country whose economic well-being and social security should be ensured. While integrity of such individuals will create a strong society where everyone's rights are protected.

Overview of Major Macroeconomic Indicators

For the development of the private sector relevant financial

resources, expanding private property in Georgia and the capitalization of existing assets are needed. For attracting additional financial resources and for economic development of the country it is necessary to attract investments (Table 1).

According to the National Statistics Office of Georgia in the third quarter of 2017 foreign direct investments in the country amounted to 595 million dollars, which is 17.6% more than that of the third quarter in 2016. In the first 9 months of 2017 (January-September) foreign direct investments to the country amounted to 1346 million USD, which is 3% more than that in the corresponding period of the previous year. The largest investor countries in the third quarter of 2017 were Azerbaijan (154 million USD), Turkey (139 million USD), United Kingdom 63.4 million USD) and the Netherlands (62 million USD). As for the sectors of economy, the largest investments were made in transport and communications (178 million USD), construction (116 million USD) and energy (72 million USD).

It should be noted that investments are mainly made in infrastructure sector, which is obviously positive, but not enough, because for the economic development of the country it is essential to attract more finances in the manufacturing sector. Such fields that are reproductive, create economic wealth and employ economically active people. In addition, the private sector should attract foreign direct investments and the state intervention in it should be minimal. Participation in the investment project should be based on the market principles and activities be in line with the country's economic development priorities (Table 2).

Georgia has a very high negative foreign trade balance, with dynamics not characterized by decreasing tendency. The share of imports in the total turnover is 75% and the country is almost entirely depended on imported goods. Not only the finished products but also the semi-processed products are imported, which clearly indicate on Georgia's low economic development. Therefore, it is necessary to develop national production in order to satisfy the local market first of all, then to achieve export growth and economic development of the country. The main export commodity groups from Georgia are as

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Years	Total	Quarter I	Quarter II	Quarter III	Quarter IV
2013	949.9	252.2	208.8	254.8	234.0
2014	1 763.0	312.6	191.2	729.4	530.0
2015	1 576.0	294.6	465.6	486.0	329.8
2016	1 583.8	394.0	408.6	505.5	275.8
2017	1 346.5	404.5	347.5	594.5	-

Source: http://geostat.ge/index.php?action=page&p_id=2231&lang=eng

Table 1: Foreign direct investments in georgia, 2013-2017 (million usd).

	2012	2013	2014	2015	2016	2017 January-November
Foreign trade turnover	10433	10933	11463	9505	9408	9564
Registered exports of goods	2377	2910	2861	2205	2113	2440
Registered imports of goods	8056	8023	8602	7300	7295	7124
Foreign trade balance	-5680	-5112	-5741	-5096	-5181	-4684

Source: http://geostat.ge/index.php?action=page&p_id=134&lang=eng

Table 2: Georgia's foreign trade, 2012-2017 (million USD).

follows: 1. Copper ores and concentrates - \$379 million, ferroalloys - \$285 million, share in total exports - 12%; 2. Auto-export - \$197 million, 8% share in total exports; 3. Export of wine - \$155 million, 6% share in total exports; 4. Drugs - \$127 million, share in total exports - 5%; 5. Sprit drinks - \$108 million, share in total exports - 4%; 6. Mineral waters - \$87 million, share in total exports - 4%; 7. Nuts and walnuts - \$74 million, share in total exports - 3%; 8. Nitrogenous fertilizers - \$71 million, share in total export - 2.9%.

In Georgia, production levels are still very low and can't satisfy local market. The quality of export to the EU is often incompatible with the standards of the EU market. Therefore, Georgia exports to markets with relatively low demand on quality [2]. The major trade partner countries are land neighbours: Russia, Azerbaijan, Armenia, Turkey and only one country from the group of major trade partners that is not bordering Georgia, is China. In the industry only sector that has been developed is processing, which is aimed at obtaining natural resources and process local agriculture products. Products that we export are often re-exported and not produced in Georgia. Private sector in this field is also not developed, which could successfully implement innovations in this sector and increase productivity. Besides, it is important to increase workforce qualifications in the fields of industry. The academic and business sectors should be linked to each other. Labour market and business should define the demand for the workforce and professions it needs. The education system will be developed in this regard when it will be able to fully respond to the demands and challenges of the labour market [3].

From other branches of economy it is important for Georgia to develop agriculture as a traditional field for the country and at the same time it has great potential due to the geographical and climatic conditions. According to official data almost half of Georgian population lives in rural areas and this ratio has not been significantly violated during the last 20 years, which once again confirms that Georgia is traditionally in a group of agricultural countries and has great potential for developing this sector. It should also be noted that a large number of employable men have gone to work in the city or abroad. In case of encouraging agriculture, it is possible to attract back the workforce that has gone from the village who will play an important role in the development of agriculture [4]. For the rural development introduction of modern technology and knowledge, agricultural land and capital market development, reclamation and other basic infrastructure, substituting imported agricultural products with local products are needed. It is possible providing soil and climatic conditions of Georgia, which in turn can contribute to the development

of processing industry and implementation of the necessary measures for opening of foreign markets [5,6].

Labour Market and Employment Conditions

Unemployment is one of the main problems for Georgia today and the main priority of the country is to solve this problem. Although unemployment rate is 11.8% today, such a data is a source of public discontent. As part of the population as well as the experts believe that these figures do not reflect reality, given country's severe socio-economic situation (Figure 1). The main reason for this is the high share of self-employed in the total number of employees. Self-employed people do not consider themselves as actually employed as most of them are employed in rural areas and can't receive the amount of revenue that will put them in a group of actually employed. "Incomplete employment" problem should also be mentioned here, which means that the employee is considered to be employed if he/she has worked for at least 1 hour during the past seven days, as well as seasonally employed people, who are periodically employed without stable employment are also considered as employed.

In search of a labour market problem it is necessary to consistently carry out large-scale surveys of the labor market, in order to create a more or less complete picture of supply and demand on this market, which will also become the basis to meet market requirements, identify most needed specialties that aren't enough and strengthen educational establishment providing such specialists [7]. It is also important to strengthen the professional training system, connect with business, academic and public sector in order to meet the need for professional staff within the local labor market. In the process of employment, it is important that not only the workplace is provided, but also the labor rights of employees are secured. The employee must be paid the appropriate compensation, which will provide him/her with decent living conditions. In addition to the existing reality, it is important to create a labor inspection service in line with European experience that will protect the rights of employees in order to have safe and suitable working conditions.

In recent decades the state has not conducted any major reforms in the field of education and labor relations. All reform and initiative including creation of employment agency or bringing in other standardized methods in the educational sphere, wasn't socially oriented long-term policy, but short-term populist policies. On the labor market there is more workforce and less employment opportunities, i.e., excessive supply of labor on the market can be observed and at

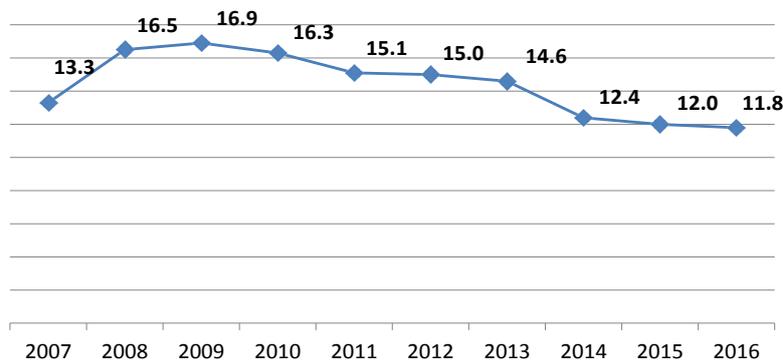


Figure 1: Unemployment level in Georgia, 2007-2016 (%).

the same time there is a deficit on qualified staff, accordingly, the labor market is characterized by excessive supply of low qualification workforce and excess demand on highly qualified workforce.

Role of Free Competition in Economic Development

Historical experience has shown that an effective economic development is impossible in the conditions of the planned economy. Georgia must timely move to the market economy where the products of high quality or low price are achieved within the conditions of free market competition. The economic policy of the country must be determined by developing free market relations that will ensure the implementation of basic macroeconomic goals. The important task of the state economic policy is to support free and fair competition for all economic entities acting in Georgia.

Under conditions of free competition, business expansion will not be hindered artificially and block such innovative business initiatives that can bring significant positive effect. Business should be free from politics and the state should consider it as a major source of job creation. The private sector should be dismissed from state regulations and be able to accelerate economic activity, which will further increase business expansion and employment levels [8].

Free competition is the best way to achieve economic well-being. Competitiveness of goods means superiority of the goods on the market. Among commodities of similar purpose products one with the highest competitiveness has the highest effectiveness relative to the user's overall expenses. In terms of competition, the manufacturer is forced to carry out business activities in order to provide decent working conditions and produce high quality and at the same time low-cost products that will be competitive on the market. In the presence of free competition, the functioning of the market is only determined by the consumers. Consequently, the market manufactures products that the buyer needs and the goods are sold at the lowest possible price.

The economic policy of the government should be based on the principles of free market economy, which means protection of property rights, free market competition and private sector freedom, where there will be a small, effective and transparent government [9].

It is important that competition in the country is protected. For the distribution of resources effectively, the market should be "free". This means freedom of choice and the choice implies market diversity in terms of price and quality.

Currently the Competition Agency functioning in Georgia is an independent public law legal entity headed by the chairperson

appointed by the Prime Minister of Georgia. Competition Agency is accountable to the Prime Minister of Georgia and the society [10]. "The aim of the Agency is to promote market liberalization, free trade and competition". To protect competition in Georgia, the Competition Agency will have to ensure following:

- a) Inadmissibility of administrative, legal and discriminatory barriers to entry into the market from the side of the state and/or local self-government bodies of the state or autonomous republic;
- b) Ensure proper conditions for free access of the economic agents on the market;
- c) Inadmissibility of unlawful restriction of competition between economic agents;
- d) The principle of equality in the activity of economic agents;
- e) Not allowing dominant position to be misused;
- f) Not granting exclusive rights to economic agents by the state, autonomous republic's authority and/or local self-government body that causes unlawful limitations of competition;
- g) Ensure maximum publicity, objectivity, non-discrimination and transparency in decision making by the authorized body.

Conclusion

Economic development of the country should be based on the principles of free market, precondition of which is a strong private sector. The economic policy of the government should be based on the principles of free market, which will focus on the development of private sector and the problems existing there. Strengthening the private sector in the country will increase jobs and on the other hand, accelerate economic development of the country.

An important part of economic development of the country is foreign trade and economic relations. It is important that Georgia use its unique geographical location to effectively maintain and enhance its transit function as well as to develop the prospect of turning the country into a regional trading center.

It is important that the geo-economic location of the country be supported with a safe and stable business environment in order to implement important regional economic projects, including transport and communications as well as energy resources within investment policy, which is essential for strengthening the function of transit corridor.

In order to transform into a regional trading center, the state should ensure the improvement of the business environment, free market principles and healthy competition. It is also important for the development of human capital to achieve compliance with labor market requirements and promotion of innovative and high-tech sector, stimulating export and rehabilitation/development of infrastructure needed for doing business.

To ensure competitiveness and attractiveness across the region and also achieve the recognition and attractiveness of Georgia on the global level, it is important to ensure the leading positions in various international rankings (ease of doing business, human development index, etc.).

To enhance the competitiveness of the economy, it is important to expand the area of free trade agreements and in this regard particular attention should be paid to the consistent and effective implementation of the Deep and Comprehensive Free Trade Agreement with the EU.

The existence and development of the capital market is important for economic development of the country, which enables the company to attract long-term financial resources in parallel with bank lending. This means that the capital market creates a competitive environment not only for lending, but also for the redistribution of savings. The capital market's function is not only the supply of financial resources

for business but also the developed market is an additional instrument for placing the savings for the country's population. As a result, the developed and transparent capital market promotes stable economic growth and welfare of the population.

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