

# The Strategy for Increasing the Competitiveness of Georgia

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**Abstract**—The paper discusses economic policy of Georgia aiming to increase national competitiveness as well as the tools and means which will help to improve the competitiveness of the country.

The sectors of the economy, in which the country can achieve the competitive advantage, are studied. It is noted that the country's economic policy plays an important role in obtaining and maintaining the competitive advantage - authority should take measures to ensure high level of education; scientific and research activities should be funded by the state; foreign direct investments should be attracted mainly in science-intensive industries; adaptation with the latest scientific achievements of the modern world and deepening of scientific and technical cooperation. Stable business environment and export oriented strategy is the basis for the country's economic growth.

As the outcome of the research, the paper suggests the strategy for improving competitiveness in Georgia; recommendations are provided based on relevant conclusions.

**Keywords**—Competitive advantage, competitiveness, competitiveness improvement strategy, competitiveness of Georgia.

## I. INTRODUCTION

INCREASING competitiveness of its economy is the most important task for the country. Economic policy plays the leading role in implementation of this task [1]. Economic policy is the tool for realization of economic interests [2].

The Global Competitiveness Report 2012-2013 of the World Economic Forum ranked Georgia 77<sup>th</sup> among 144 countries (88<sup>th</sup> place in 2011-2012 and 90<sup>th</sup> in 2009-2010). Switzerland has retained the leading position in the ranking for the fourth year followed by Singapore, Finland, Sweden, Netherlands, Germany, the United States, the United Kingdom, Hong Kong and Japan. Georgia had the following achievements: 53<sup>th</sup> place for the development of infrastructure, 61<sup>st</sup> place for institutions (the country took 72<sup>nd</sup> place for both pillars in 2009-2010), 76<sup>th</sup> place for technological readiness (100<sup>th</sup> place in 2009-2010), 99<sup>th</sup> place for market size (101<sup>st</sup> in 2009-2010), 93<sup>rd</sup> place for financial market development (95<sup>th</sup> in 2009-2010). As for the other pillars, Georgia's performance according to the ranking deteriorated. These pillars are higher education and vocational training, for which Georgia took 93<sup>rd</sup> place (84<sup>th</sup> in 2009-2010), goods market efficiency – 82<sup>nd</sup> place (74<sup>th</sup> in 2009-2010) and innovation – 126<sup>th</sup> place (119<sup>th</sup> in 2009-2010). Ranking of the business sophistication pillar remained unchanged – 113<sup>th</sup> place (113<sup>th</sup> in 2009-2010) [3].

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The above rankings have significant impact on the investors' approach to the country. Positive approach from the investors contributes to the increase of investments which is an important precondition for economic growth and reduction of unemployment. These are some of the most pressing issues in Georgia. Unemployment and poverty are the problems which still remain unresolved.

The aim of the research is to present competitive advantages of Georgia; to assess the role of competitiveness in sustainable development and improving welfare of population of the country; to reveal the gaps in the country's economy and determine the prospects of development, the activities for formation of competitive economy in Georgia are analyzed and relevant conclusions are made and recommendations are suggested.

## II. METHODOLOGY

Both general and specific research methods, such as analysis, synthesis, induction, deduction, scientific abstraction, comparison, statistical methods (selection, grouping, observation, dynamics, etc.), static methods and expert assessment are used in the research. In order to define the regularities between analytical and statistical evaluations, reports of the National Statistics Office of Georgia are used.

## III. DISCUSSION

For the formation of competitive economy, the state should carry out the economic policy, which will be oriented to dynamic transformation of industrial structures, especially in the direction of development of export-oriented sectors (investment and export subsidies, tax preferences, assistance in difficult economic situations, etc.). Export-oriented strategy has become a major factor in the economic development of many countries. Significant success achieved by new industrial countries of South Asia, which have chosen export-oriented strategy and gained competitive advantage in the international arena (Singapore, Hong Kong, South Korea, Taiwan) are clear examples of this.

Trade integration is an important stage in the process of economic integration among countries. Economic globalization promotes efficient distribution and use of international resources, optimal specialization of countries, and finally, increase of production capacity of the global economy.

Georgia's export structure of the recent period to some extent reflects the fields with comparative advantages. In 2013, the share of major export commodities in total export

was as follows: motor cars - 24.2%, ferro-alloys - 7.9%, nuts - 5.7% , copper ore - 5.6% , fertilizers - 4.5%, wine - 4.4%, mineral waters – 3.7%; spirituous beverages -3.4%, gold - 2.5%, steel rods - 2.1 % , other products - 36.0 % (see Fig. 1).

Thus, the share of industrial goods in export is still important. This makes us think that the country may have a comparative advantage in the industrial sector, which will contribute to development of other sectors (agriculture, construction, trade). Foreign experts and Georgian specialists think that Georgia belongs to the group of countries, which have the highest potential for producing agricultural goods and food for export.

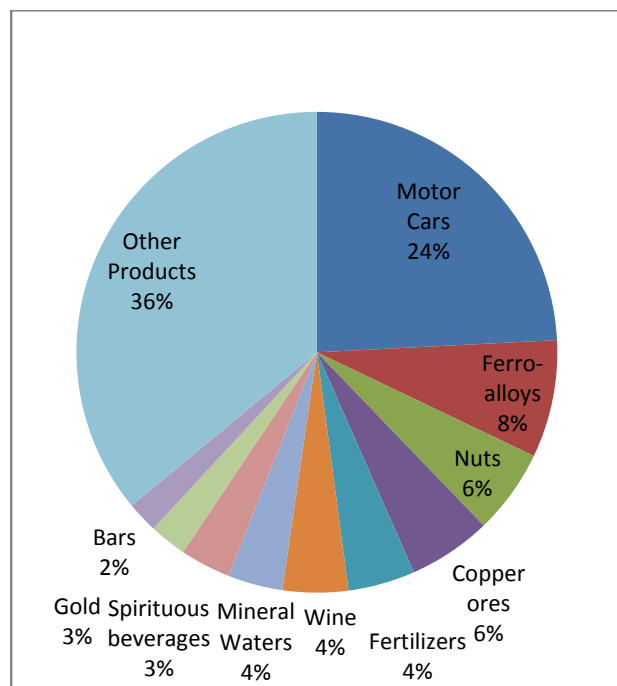


Fig. 1 Share of major commodity positions by exports in 2013 (%)

It should be noted that the country has had negative trade balance for years. In 2013 import exceeded export 2.7 times, for 2012 it was 3.3 times more and in previous years, the volume of import was 4 times higher than of exports. In 2013 top trading partners of Georgia by turnover were Turkey (14.2%), followed by Azerbaijan (12.5%), Ukraine (7.4%), Russia (7.2 %), China (5.5%), Germany (4.8%), Armenia (4.6%), the United States (3.6%), Bulgaria (3.3%) and Romania (3.0%). Stable development and raising competitiveness of the country would be impossible if the share of export in trade turnover doesn't increase.

In 2013, Georgia's top trading partners by exports were Azerbaijan (24.4%), Armenia (10.9 %), Ukraine (6.6%), Russia (6.5 %), Turkey (6.3%), Bulgaria (5.2%), the United States (4.7%), Germany (2.5%), China (1.2%) and Romania (0.2 %).

In 2013, Georgia's top trading partners by imports were Turkey (17.1%), Azerbaijan (8.1%), Ukraine (7.6%), Russia (7.5%), China (7.2%), Germany (5.7%), Romania (4.1%), the

United States (3.2%), Bulgaria (2.5%) and Armenia (2.3%) [4].

Increasing the share of export in Georgia's trade turnover is one of the important priority for overcoming the poverty in the country. Stable development of the country will be impossible if the share of export doesn't increase. From the growth perspective, five sectors of the country's economy have the highest potential. These are agriculture and processing industry, hydropower, tourism and financial institutions.

Georgia is capable to be successfully involved in international distribution of labor through development of traditional sectors like agricultural production and food processing.

From the traditional sectors of the country's economy, the goods, produced by local entrepreneurs in cooperation with their foreign partners, are more demanded on international market.

Franchising is another useful form for producing competitive goods. Use of franchising system will be especially useful in tea and canning industry.

Production of spring and mineral waters take the leading position in the economy of Georgia because of a number of advantages. These advantages are: richness, cheapness and stability of natural resources, no seasonality, high quality and most importantly, return on invested capital in a short period of time. From this perspective, it should be also taken into consideration that Georgia is situated in the middle of the countries that suffer from shortage of drinking water.

It should be highlighted as well, that demand for drinking water is steadily increasing. As for Georgia, it's one of the richest countries in natural resources of drinking water. In this regard, Georgia's resources per person are 2.5 times more than those of the world, 2.4 times more than of Europe and 1.7 times more than of Asian countries. In addition, 30 % of Georgian water resources come from the highest quality sources of underground drinking water [5]. As for some mineral waters, such as Borjomi, Sairme, Lugela, Utsera and some others, with their chemical composition they are unique ones around the world. Georgia is capable to satisfy demand for water all around the world. The highest profit can be generated from water business. Promotional activities should be widely carried out in this direction and e-commerce should be developed and organized.

Georgia should gain competitive advantage not only in traditional industries, but also in high-quality, high-tech and highly productive manufacturing industries, as this is the only way for long-term and sustainable increase of competitiveness, growth of wages and revenues and substantial improvement of living standards. Such sectors include, for example, production of pharmaceutical products, telecommunications equipment, as well as tools and machine-tools. This means that more attention should be paid to production of high-technology and expensive goods.

In recent years, demand for herbal medicines has significantly increased all around the world. Respectively, demand for medicinal plants has also increased. Medicinal plants, which play one of the leading roles in pharmacological

researches and development of new medicines, are still widely spread. Such medicines present an important part of the total volume of drug trade. Georgia's flora has always been rich in medicinal plants. The country can gain an important share in the global market of production and realization of medicinal plants. The state should encourage the production of ecologically friendly drugs and attract foreign investors interested in this sector. Rational use of resources of medicinal plants will contribute to the recovery of the country's economy, growth of export revenues, creation of new jobs, and reduction of the share of the population living below the poverty line.

Competitiveness of Georgia on the global market considerably depends on the development of a competitive service sector, such as tourism. Development of resorts and tourism industry is an optimal way for the country's economic progress and success in the international market. Along with other advantages, geographical proximity of the country with Europe, its major tourism market, is very important.

Tourism development policy should be aimed at maintaining liberalization in the sector and promotion of investments. Creation of favorable investment environment by the state will attract both local and foreign investors.

Despite some measures taken in the country, according to the World Economic Forum, which determines the level of tourism development of the countries, Georgia holds 73<sup>rd</sup> place among 134 countries, Azerbaijan is ranked 83<sup>rd</sup> and Armenia is 90<sup>th</sup>. Among the neighboring countries Turkey has the best position (50<sup>th</sup> place).

Improvement of legislative and normative base is essential for successful development of resorts and tourism sector in Georgia. Nowadays, the country has the Law of Georgia on Tourism and Health Resorts (adopted in 1997, amendments made in 1999-2000) and the Law of Georgia on Protective Sanitary Zones of Health Resorts and Resort Localities, which ensures sanitary service and protection of appropriate conditions [6]. The above laws don't meet modern requirements. New trends in tourism have become popular in last decades and consequently, there are new requirements and need for new technologies. Therefore, amendments to the existing laws and their compliance with international requirements are essential for tourism development in Georgia.

According to statistics, there was a sharp rise in the number of foreign visitors in 2013 (see Fig. 2) [7]. In August, 770 608 international travelers visited Georgia which is 28% higher than the corresponding figure of the previous year. The number of visitors coming to Georgia from the neighboring countries amounted to 673 953 - 87% of the total international visitors.

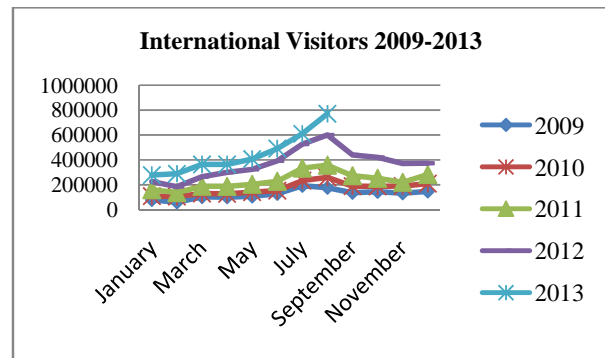


Fig. 2 International Visitors in Georgia

The growth in the number of travelers was driven by the following factors: development of tourism infrastructure; promotion of tourism opportunities of Georgia on the international market; launch of direct charter flights; various cultural events (festivals, concerts, etc.). Spending time in wild natural environment becomes more and more actual. Many such places can be still found in Georgia. There are various types of recreational resources and biodiversity of resources in the country.

Wellness industry, one of the medical tourism trends is becoming more and more popular in Georgia. The combination of unique nature of the country, diverse climatic zones, sea, mountains, rivers, forests, various mineral waters, healing mud, medicinal plants, wine therapy, magnetic sand and many other unique conditions creates the basis for this area to become the center of the world wellness industry. Ancient Georgian culture and traditions contribute to the strengthening of this code [8].

The most important priority of the economic policy should be accelerated development of the sectors, such as processing of agricultural raw materials and final product manufacturing of food industry. Growth of the share of export and exceeding the volume of import will be able only by expanding the competitive food production and export-oriented high-quality agricultural raw materials [9].

The country has high potential for production of bio products. Bio production in mountainous regions will solve ecological, economic and social problems and attract more tourists as well [10].

Business environment of the country influences attraction of foreign direct investments, as well as rationale usage of these investments.

In 2013, major economic sectors attracting foreign direct investments were as follows: process manufacturing - 22%; energy - 20%; financial sector - 18%; transportation and communications - 17%; real estate - 3%; agriculture - 3%; other sectors - 17% [11].

Forms and sectors investments are made in play a considerable role for the formation of competitiveness of the country's economy. Based on the survey of foreign investors, it can be said that the most perspective sectors in Georgia are tourism, transportation, communications and food industry. The sectors, like energy, trade and agriculture are less popular

among them. From their perspective, development of heavy industry and heavy machinery is not promising in Georgia.

In 2013, a large amount of money was invested in manufacturing industry, which is undoubtedly a positive point. Investments in other sectors increased only slightly compared to the previous years.

Investments were mainly used for infrastructure development and not for promotion such sectors as agricultural and textile production, for which Georgia has comparative advantage. Although these sectors aren't expected to create jobs and raise productivity, but they ensure growth and economic development in long-term period.

Direct investments from the European Union were mainly made in energy sector, mining industry, tourism, and construction industry.

Economic globalization processes impact banking system as well. Although, due to the active support from the World Bank and the International Monetary Fund, the banking system of Georgia is one of the modern and well functioning systems among other economic systems in Georgia, still their operations and liquidity levels do not meet the requirements of the age of globalization. At present, major part of the loans granted by commercial banks are used for trade, which shows a weak participation of commercial banks in financing real economy.

One of the competitive advantages of Georgia is its transit function, which, along with its natural and climatic conditions, intellectual resources and other factors should ensure development of business and improvement of economic competitiveness of the country.

#### IV. CONCLUSION AND RECOMMENDATIONS

***Based on the above analysis, we can make several conclusions:***

The studies have shown that institutional reforms in Georgia are not enough to improve the country's competitiveness significantly.

The following problems are considered to be the major ones:

- ✓ Political instability and conflict zones in the country;
- ✓ High interest rates for loans;
- ✓ Gaps in tax legislation;
- ✓ Lack of appropriate infrastructure;
- ✓ Irrelevance of qualification;
- ✓ Inflation.

Nevertheless, the World Economic Forum recognizes that Georgia has made progress in several sectors and directions, such as institutions, macroeconomic indicators, higher education, labor market efficiency and others.

***Based on the above analysis and conclusions, we have developed the following recommendations:***

- ✓ The state should support by taking the following measures: creating an attractive investment environment; access to preferential loans; developing an effective insurance system and infrastructure; etc.

- ✓ Local production should be encouraged to have more local products on the food market. In order to implement this task, goods should be produced not only by households, but also relatively large (small and medium) farms and agro food processing enterprises should be established and developed;
- ✓ There should be more advisory service centers for the employed and trainings should be organized for them;
- ✓ It's of great importance to develop international market penetration strategy, extensive marketing network, etc.;
- ✓ In order to prepare qualified and highly skilled workforce, it's recommended to develop a modern system of science and education, consulting and extension;
- ✓ It's indispensable for the investors to have a stable legal environment to ensure protection of their property;
- ✓ To create a database on investment projects and provide relevant information about Georgia to potential investors all around the world;
- ✓ Stable development and improvement of the competitiveness of the country would be impossible unless the share of export in total trade turnover increases.

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