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ECONOMIC POLICY TO STIMULATE INDUSTRIAL DEVELOPMENT IN GEORGIA

Abstract. *The article analyzes the modern level of industrial production in Georgia, shows the export-import of industrial products and evaluates the results of the activities of institutions implementing industrial policy. The research showed us that the level of development of industry in the country and its export potential are quite low. The article concludes that in the modern phase of industrial development, the country should choose a model focused on technological development and maximum growth of export potential.*

It is noted that industrial policy is a strategy that supports the structural change and development of the country's industry. Accordingly, the aim of the research is to develop an economic policy that promotes the development of industry and to look for ways to implement it effectively.

Based on the identified challenges in the area of industry, recommendations for the implementation of an active industrial policy in short and long term periods were developed.

Keywords: *Industry, sectoral structure of industry, export-import of industrial products, industrial policy.*

JEL classification: *L26, L53, L78, L88*

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მრეწველობის განვითარების მასტიმულირებელი ეკონომიკური პოლიტიკა საქართველოში

აბსტრაქტი. *სტატიაში გაანალიზებულია სამრეწველო წარმოების თანამედროვე მდგომარეობა საქართველოში, ნაჩვენებია სამრეწველო პროდუქციის ექსპორტ-იმპორტი და შეფასებულია სამრეწველო პოლიტიკის განმახორციელებელი ინსტიტუტების საქმიანობის შედეგები. კვლევამ გვიჩვენა, რომ ქვეყანაში მრეწველობის განვითარების დონე და მისი საექსპორტო პოტენციალი საკმაოდ დაბალია.*

სტატიაში გაკეთებულია დასკვნა, რომ ინდუსტრიული განვითარების თანამედროვე ეტაპზე ქვეყანამ უნდა აირჩიოს ტექნოლოგიურ განვითარებაზე და საექსპორტო პოტენციალის მაქსიმალურ

ზრდაზე ორიენტირებული მოდელი. სახელმწიფოში უნდა შემუშავდეს სამრეწველო პოლიტიკა, რომელიც საშუალებას მოგვცემს გამოყენებული იქნეს ინოვაციური მიდგომები მრეწველობის პრიორიტეტული დარგებისადმი. შესაბამისად, კვლევის მიზანია მრეწველობის განვითარების მასტიმულირებელი ეკონომიკური პოლიტიკის შემუშავება და მისი ეფექტიანი განხორციელების გზების ძიება.

მრეწველობის დარგში გამოვლენილი გამოწვევების საფუძველზე შემუშავებულია აქტიური სამრეწველო პოლიტიკის განხორციელების რეკომენდაციები მოკლევადიან და გრძელვადიან პერიოდებში.

საკვანძო სიტყვები: *მრეწველობა, მრეწველობის დარგობრივი სტრუქტურა, სამრეწველო პროდუქციის ექსპორტ-იმპორტი, სამრეწველო პოლიტიკა.*

JEL კლასიფიკაცია: *L26, L53, L78, L88*

Introduction and review of literature

Industry is a key driver of innovation, productivity and export growth and has been identified as a leading sector. Industry is one of the important branches of the national economy that contributes to the country's economic and political security, employment of the labor force, alleviation of poverty and increasing the prosperity of the population. World experience has shown that without its effective functioning it is impossible to move the country forward. Industry is a key driver of innovation, productivity and export growth and is identified as a leading sector in the process of manufacturing transformation [1]. Industry creates highly qualified jobs both through direct and indirect effects, through links with other sectors and through income-generating effects [2]. Industry plays an important role in modernizing the economy, the companies engaged in industry are prone to innovation and research, and therefore productivity growth here is higher than in other sectors of the economy [3].

The industry consists of many sectors that differ greatly in terms of the end product. Along with the traditional directions of industry (mechanical engineering, aircraft manufacturing, metallurgy, energy, oil industry, mining and extraction, chemical industry, food industry, light industry, textile, leather goods and sewing industry, etc.), the world has recently seen a rapid growth of new ones Industries and a significant increase in their specific share in total domestic production and employment. These industries are: computer equipment and control devices, communication equipment, tool manufacturing, including the new medicine, plastic and synthetic rubber industries.

Industrial policy is a strategy that supports the structural change and development of a country's industry. Industrial policy covers a wide range of measures. For example, Di Mario [4] considers the following industrial policy instruments: innovation and technology, education and skills, trade, development of support mechanisms for target industries, competitiveness and protection of competition. Dani Rodrik [5] distinguishes between policies aimed at the development of free markets - market-oriented policies and enterprise-oriented policies. The authors define enterprise-oriented policies as policies that support the development of existing industries. In addition, the authors identify market-oriented strategies aimed at stimulating competition and bringing benefits to new players and consumers. According to researchers, the first stage of industrial policy implementation should focus on supporting existing industry, and the second stage should promote competition.

Accordingly, in October 2006, the European Union decided to change the statistical classification system. Its revision was due to the development and changes in technologies and international standards in the world.

In connection with the transition to a market economy, the industrial industry inherited from the Soviet economy was almost completely dismantled. In 1990-1994, compared to the Soviet era, the production of

industrial products decreased fivefold and the number of jobs fourfold [6]. Industrial products became uncompetitive in both domestic and foreign markets. The production of machines, devices, tools, electric machines, vehicles, products of light and partly food industry was stopped. Accordingly, the level of industrial production fell, the specific share of industry in the total national product decreased, and industrial ties were dissolved. All this led to the deindustrialization of the country.

During the Soviet period, the sectoral structure of industry, development priorities and scale were determined based on the interests of developing the Union's unified public economic complex. Therefore, there was no industrial policy of the country [7].

The aim of the study is to assess the current status of industrial production in Georgia and identify effective ways for the development and implementation of economic policies that support it.

Methodology

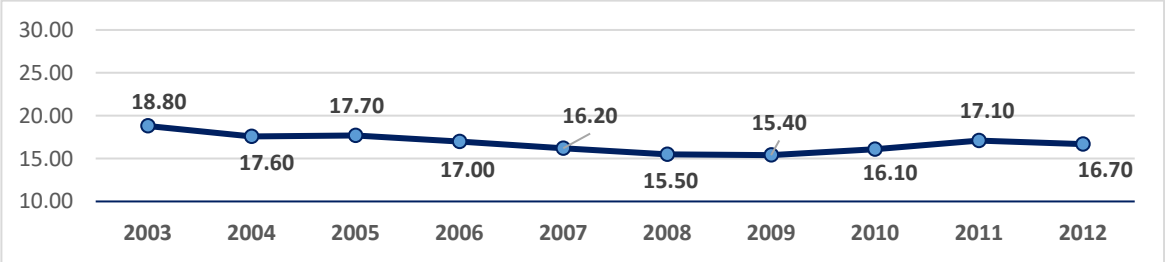
The research is based on the works of Georgian and foreign scientists published in local and international scientific publications. Reports and statistical data from the National Statistical Service of Georgia, the Ministry of Economy and Sustainable Development and other organizations. In the research process, the methods of analysis and synthesis, quantitative and qualitative, generalization, graphic and data analysis are used.

1.The modern level of industrial production in Georgia

In 1999, the Ministry of Industry of Georgia developed: The Industrial Concept of Georgia and "Strategic Programs for the Development of Industrial Enterprises of Georgia in 2000-2005" in order to solve the extremely important tasks facing the industry of Georgia in the period of transition to a market economy and its advancement. However, they did not have a major impact on the revitalization of the industrial sector.

In the years 2003-2012, the share of industry in the gross domestic product decreased. (See Figure 1).

Figure 1 The share of industry in GDP 2003-2012 (%)



Source: National Statistical Service of Georgia (2021).

From 2016, the share of industry in the gross domestic product will increase, albeit less than in previous years . Every year, depending on the type of economic activity, the share of products released by industry increases. In 2018, the share of products released in the industry was 28.4%, in 2019 -27.9% and in 2020 -30%. Industry employed 17.9% of the workforce in 2018, -17.2% in 2019 and 18.5% in 2020 [9]

Table 1.The main indicators of the industry 2014-2022 years.

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Rotation *billion GEL*	9.0	9.6	10.6	12.4	13.5	15.0	15.9	6.3	6.2

Released products *billion GEL*	8.2	8.6	9.2	10.8	11.9	13.2	13.9	5.1	4.7
Number of employees *thousand men*	115.5	123.4	125.9	130.7	131.0	130.0	129.8	129.3	129.0
Average monthly salary of employed employees *GEL*	794.9	861.1	876.4	960.4	1030.1	1121.6	1196.4	1535.5	1397

Source: National Statistical Service of Georgia (2021).

By 2020, sales of industrial products and released products increased significantly (see Table 1). The pandemic had a serious impact on both indicators. In 2022, compared to 2020, sales decreased by 2.6 times and output by 2.9 times. The number of employees has increased slightly in recent years; there were no major changes during the pandemic. Wages increased 1.9x in 2022 compared to 2014, with a slight increase in the post-pandemic era.

Heavy industry occupies an important place in the sectoral structure of industry. Including: production of steel, manganese, ferro-alloys, cement, wagons, aircraft parts and other metal-based products. The main reason for the preservation of these industries is the country's relevant natural resources and the technical-infrastructural legacy of the Soviet Union. All of the products listed above are manufactured by factories established during the Soviet Union. The factories have a well-organized infrastructure and some are also
connected to each other in a cluster (e.g. in the case of Chiaturi Manganese, Zestafon Ferroalloy and Rustavi Hüttenwerk). In addition, existing industrial plants enjoy a comparative advantage due to their reliance on cheap electricity and local mineral resources.

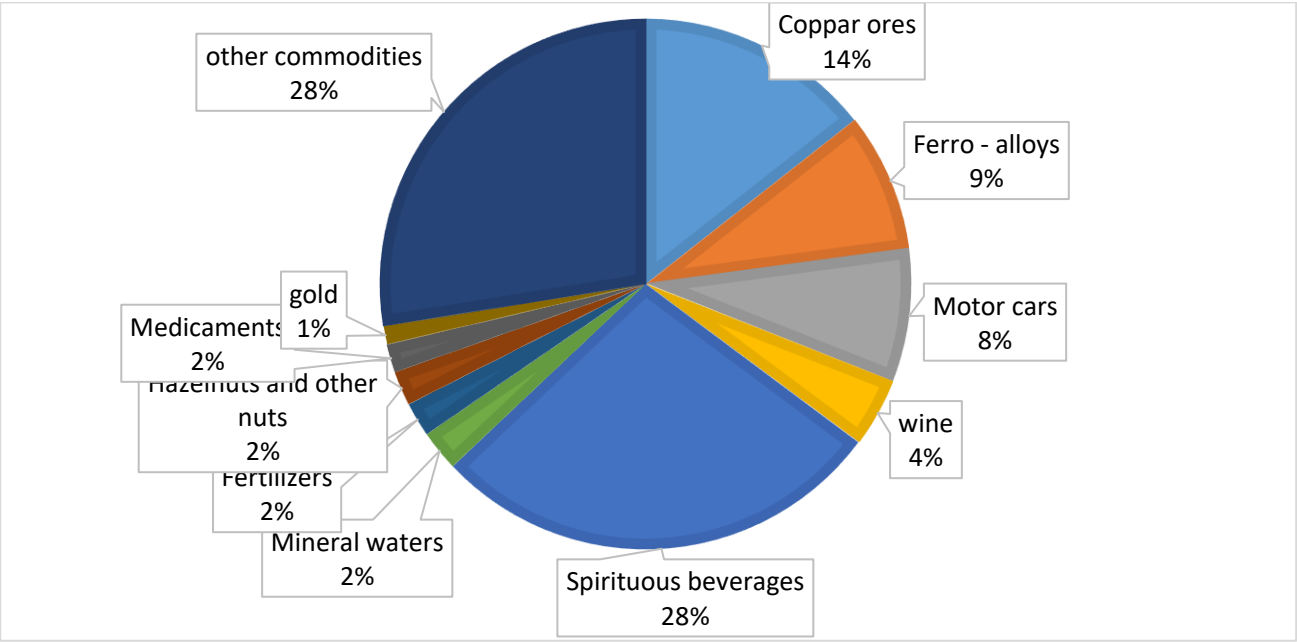
The largest sub-sector of the industry is manufacturing, the share of which has increased compared to previous years (2018 - 18.4%, 2019 - 18.4%, 2020 - 20%). The share of the mining industry has also increased slightly (2018 - 1.2%, 2019 - 1.4%, 2020 - 1.9%). This is followed by the supply of electricity, gas, steam and air conditioning, the share of which is characterized by a downward trend (2018 - 2.3%, 2019 - 2.1%, 2020 - 2.1%). The water supply is also characterized by a decreasing trend; Sewage, waste management and decontamination works (2018 - 0.7%, 2019 - 0.7%, 2020 - 0.6%) [10]

The food industry has always been a priority in the sectoral structure of the industry of Georgia in terms of manufactured products, which is due to the favorable diverse soil and natural conditions for the production of agricultural products in the country and ecological cleanliness. which is an important criterion for determining the competitiveness of products in the world. Georgia's agriculture and food industry, with due attention, can produce ecologically clean products - meat, dairy products, vegetables, fruits and many other products, which are produced together with traditional, unique alcoholic and non-alcoholic beverages, fresh and mineral water that help Georgia's economy strengthens. Among the economic sectors of Georgia, the food industry has the most opportunities and prospects for development [11].

The import share of industrial products was 14.4% in 2017, -15% in 2018, -13.2% in 2019, 13.4% in 2020, -12.5% in 2021. In the year In 2021, 9 items in the top ten largest import goods are industrial products, namely light vehicles (9.3%), oil and oil products (6.2%), copper ores (7.3%), medical products (3.8%), Petroleum gases (3.4%), telephones (2.2%), calculators (1.5%), vaccines (1.2%), trucks (1.0%), cigarettes (1.0%).

The share of export of industrial products in total export was 51.02% in 2017, 44.3% in 2018, 39.5% in 2019, 44.1% in 2020 and 42% in 2021. It should be noted that exports increased 1.2 times in 2021 compared to 2020. In 2021, 9 of the top ten exports are industrial products, namely copper ores (19.2%), ferroalloys (11.3%), cars (10.8%), wine (5.6%), alcoholic beverages (3.7%) , Mineral Waters (3.3%), Nitrogen Fertilizers (2.8%), Medicines (2.3%), Gold (1.5%) (See Figure 2).

Figure 2. Share of major commoditions by exports in 2021(%)



Source: https://www.geostat.ge/media/46988/External-Merchandise-Trade-2021_publication.pdf

It is well known that the development of the country's industrial potential often leads to an increase in the country's overall competitiveness.

Statistical data show that the level of development of the industry in Georgia and its export potential are still low. Exports are not diversified, their added value is low, indicators of penetration and establishment of new markets are weak. This leads to very low employment growth.

2. The results of the activities of the institutions implementing industrial policy in Georgia

The economic policy of the state plays an essential role in the development of industry. Institutes have been established in Georgia since 2012, the aim of which was, among other things, to promote the development of various branches of industry. To date, the Government of Georgia has implemented a number of programs in this direction. Specifically, Produce in Georgia, Partnership Fund, Industrial Development Group, Innovation and Technology Development Agency of Georgia, Startup Georgia.In 2002 the Law on "National Investment Agency of Georgia" was adopted, aimed at regulating state production and investment policies. National Investment Agency provides the investor with all the necessary licenses for investment activities, obtaining a permit or other representative authority.

The state program "Produce in Georgia" has been implemented since 2014. It envisages supporting entrepreneurial subjects in the direction of industry and agriculture, promoting the creation of new companies, expanding existing companies, retooling and increasing the competitiveness and export potential of the private sector through access to finance, real estate and technical assistance. Due to the spread of the COVID-19 pandemic, existing programs to promote entrepreneurship have been expanded. Notable is the industrial direction component, which involves the creation of new businesses and the expansion/re-equipment of existing businesses. A total of 539 new projects were funded under the component in 2014-2020. The total investment volume was 1.06 billion. Lari, 17,307 people were employed [13].

The state investment fund "Partnership Fund" is the second important state instrument of industrial policy development. Among the projects co-invested by the partnership fund, it is worth mentioning: the building materials factory, which the fund has entered with a co-investment of US$ 2.3 million (including land), this factory will mainly focus on import substitution; Aircraft parts manufacturing plant valued at US$85 million and the partnership fund's share of the investment is US$40 million, etc. [14].

The third major government institution is the Industrial Development Group, which was established in 2014 and is currently under the Ministry of Economy. Its objectives are the creation of industrial development projects, the identification of new economic activity projects and the preparation of business plans, as well as the elaboration of industrial policy proposals. To date, the total investment value of projects developed by the industrial group is US$80 million. At this stage, the Industrial Development Group is actively working on such content projects as: natural paving stone and ceramic tile production, milk powder production, sewing and textile industry, essential oil industry, cardboard box, square steel pipe industry and the creation of match factories [15].

The country's competitive advantage is determined by its success in producing scientific and innovative technologies. In 2014, the Innovation and Technology Agency was established in the country, the purpose of which is to form the necessary ecosystem for the development of innovations and technologies in Georgia. Funding is provided in two directions: 1. Co-financing grants for start-ups, with a maximum of 90% co-financing; 2. Co-financing grants towards innovations with at least 50% co-financing. [16].

The innovative component of the Startup Georgia program provides financial support for the introduction of a viable, new or significantly improved product, process or service (innovative idea) with economic or social value [17].

Following the implementation of programs to support the industrial sector, certain positive results have been recorded, both in terms of employment and enterprise development. The pandemic has presented industrial companies and thus the state with new challenges. In response to the pandemic, the government took a number of measures, such as tax subsidies, that allowed companies to maintain liquidity.

Results and Recommendations. At the present stage of industrial development, the country should choose a model aimed at technological development and maximum growth of export potential. Georgia really has the potential to do that [18].

An industrial policy should be developed in the country, which will allow us to apply innovative approaches in the priority branches of industry. In particular, the main instruments of industrial policy: innovation and technology, education and skills, trade, development of support mechanisms for specific sectors, competitiveness and protection of competition.

In the short and long term it is necessary to pursue an active industrial policy, namely:

- To be assigned by the government as a priority direction for the development of the industry;
- Pay particular attention to the processing industry sectors that Georgia has potential to produce;
- Support for the development of scientific areas;
- Establishing certain benefits for those investors who invest money in industrial production;

• State partnership with the private sector, manifested in the fight against bureaucracy, corruption and crime by creating favorable framework conditions for entrepreneurs;

• The coordination between education - science - production should be implemented in the country. Much attention should be paid to basic scientific research, which does not require purely commercial returns in the short term, science should become a real productive force;

• It is important to develop a strategy for entering international markets, build a wide marketing network, etc.;

• In order to gain and maintain a competitive advantage, it is necessary to ensure a continuous supply of high-quality products with modern design, open distribution networks to open up new markets, widely disseminate promotional activities and organize e-commerce;

• Particular importance should be attached to the formation of such an entrepreneurial ecosystem that contributes to the development of export-oriented production; Overcoming entry barriers in export markets.

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