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PROBLEMS CAUSED BY CHRONIC DEFICIT OF FOREIGN TRADE OF GEORGIA AND WAYS TO SOLVE THEM IN THE CONDITIONS OF OPEN ECONOMY

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ABSTRACT. The article discusses the problems caused by the chronic deficit of foreign trade in Georgia, which hinders the process of managing the open economy of our country. The state of import-export coverage in Georgia is analyzed, taking into account the peculiarities of the trade conditions of our country. The negative consequences of the excessive dependence of the Georgian economy on the economies of other countries have been identified.

Based on bibliographic studies and statistical materials, the foreign sources from which the chronic foreign trade deficit is covered at the expense of foreign exchange earnings are identified. Based on the study of the experience of other countries and the analysis of statistical data of our country, it is substantiated that foreign trade will contribute to the economic growth of Georgia only if the export balances the import or exceeds it. The experience of those countries which, by conducting the correct foreign trade policy, were able to overcome the economic crisis and achieve rapid economic growth are studied. Relevant conclusions and recommendations are made based on the analysis of the problems caused by the chronic deficit of foreign trade of Georgia.

JEL Classification:

Keywords: Foreign trade, chronic trade deficit, export-import coverage ratio, excessive dependence on imports, food security, food self-sufficiency.

Introduction

The management of Georgia's open economy is significantly hampered by the chronic deficit in foreign trade. Although many works on the chronic trade deficit have been developed in the world (Professors Westfall P., Bellucco-Chatham A., Boyle M, J., Robert E. Scott and others), this problem in Georgia is complex, taking into account the peculiarities of the trade conditions of our country. It is considered an even less studied field. Conducting the present research is an attempt to fill the deficit in the field of economic science of Georgia. Foreign trade is a specific technology of covering imports with exports. It is logical that foreign trade contributes to the economic growth of a country, but only when exports balance or exceed imports. Imports in Georgia have always exceeded exports since gaining national independence (in the 1990s), and in 2021, imports will exceed exports by 2.38 times.

Over the last 5 years, the ratio of import to export coverage in Georgia has been characterized by an increasing trend. If in 2016 this figure was 34%, in 2018 - 36.1%, in 2019 - 39.9%, in 2020 - 41.5%, and in 2021 - 42% (www.geostat.ge foreign trade). The figures are calculated by the authors based on the data of the National Statistical Service of Georgia). Although the process of covering imports with exports is characterized by a tendency to improve, it is not enough to balance import costs through the export of goods, i.e. to independently balance the trade balance, without the effective use of foreign financial, currency, credit, scientific-technical, migration and other instruments.

The chronic deficit of Georgia's foreign trade shows that, on the one hand, our country is unilaterally trying to join the world economy, and on the other hand, it is too dependent on the economy of other

countries, on external shocks, because our country consumes much more than it produces, that is, Georgia is predominantly a country focused on consumption and not on production. Over the years, the growth of the import-oriented economy has been facilitated by the stimulation of consumption and not production, which is mostly ensured by the export of labor force, attraction of foreign direct investments, money spent by foreign tourists in our country, foreign grants, aid, artificial strengthening of the GEL exchange rate and other means to increase the purchasing power of the population. It increases much more than the country would be able to do only by its own capabilities - by collecting the foreign exchange earnings received from the export of local goods.

Thus, in the world market, Georgia is a country with a more consumer purpose than a productive one, that is, in the international division of labor, our country has become a key sales market for products made by other countries (Dolidze, 2019).

Literature review

The term "chronic foreign trade deficit" and the evolution of its theory are related to different scientists. However, the trade deficit as a reason for the deterioration of the country's economic situation was first discussed by Adam Hayes, according to whose opinion, a trade deficit occurs when the value of a country's imports exceeds the value of its exports. In this regard, it is interesting that Mikheil J. Boyle's opinion on the effect of chronic trade deficits on a country's economy, the negative effects of which countries have tried to neutralize throughout history. Jiwon Ma Jiwon M. (2022) claims that the existence of feedback between the chronic deficit of the trade balance and the economic situation of the country is confirmed by the practice of almost all countries of the world (Kramer L. 2022), who was one of the first to prove that the economic success or failure of the country was largely depending on the chronicity and extent of its foreign trade deficit. When a country imports more than it exports, it can distort the country's trade balance and depreciate its currency. The deepening of the country's trade balance deficit, as a result of the devaluation of the national currency, worsens the economic well-being of its population, because the value of the currency is one of the important indicators determining the country's economic situation and its gross domestic product (GDP). It is crucial for the country to maintain a balance between imports and exports. A country's imports and exports have a significant impact on its GDP, exchange rate, inflation and interest rates. (Robert C. Kelly, 2011; PETE Ratburn P., 2010; Kramer L, 2009; Jiwon M., 2005; Hayes A. 2016).

In other words, a chronic trade deficit increases a country's dependence on external shocks because it buys more goods and services than it sells. This generally hurts job creation and economic growth in the deficit country. (Jiwon M., 2005; Michael J. Boyle 2017; Hayes A., 2005). A similar view of the chronic trade deficit is common among the majority of US economists due to the deepening US chronic trade deficit, especially with China, a country with which the US has a chronic trade deficit. Eliminating this deficit is the main concern of US economists. In 2016, they started a trade war against China. US scientists argued that reducing the trade deficit will create jobs in the US and strengthen the economy (Howard C. Petiten, 2016).

However, for many scientists in the economic world, a trade deficit is an imbalance between a country's savings and investment, because a country spends more money on imports than it receives from exports. According to the rules of economic accounting, the country must compensate for this deficit. For example, the US can do this by borrowing money from foreign creditors or allowing foreign investment in US assets. (Hayes A. 2016).

Methodological approach

The methodological basis of the article is the official data of the National Statistical Service of Georgia and the results of the research conducted by the authors of this article. In addition, the methods of

data collection, grouping, analysis and synthesis were used as a statistical research method. The data obtained as a result of the research are generalized by the deduction method.

Conducting research and results

The chronic deficit of Georgia's foreign trade shows that, on the one hand, our country is unilaterally trying to join the world economy, and on the other hand, it is too dependent on the economy of other countries, on external shocks, because our country consumes much more than it produces, that is, Georgia is predominantly A country focused on consumption and not on production. Over the years, the growth of the import-oriented economy has been facilitated by the stimulation of consumption and not production, which is mostly ensured by the export of labor force, attraction of foreign direct investments, money spent by foreign tourists in our country, foreign grants, aid, artificial strengthening of the GEL exchange rate and other means to increase the purchasing power of the population. „It increases much more than the country would be able to do only by its own capabilities - by collecting the foreign exchange earnings received from the export of local goods“ (Berishvili, Kh., Ghugunishvili, M.: (2020). As can be seen from Table No. 1, during the last 5 years, Georgia had a continuous trade deficit, which reached its maximum value during this period in 2018 (-5,982.1 million US dollars), and its minimum value in 2020 (-4,709.4 million US dollars). In 2021, the trade deficit began to grow again and reached -5,862.5 million USD, which, although it is behind the figure of 2018, exceeds the data available before the start of the pandemic in 2019 (-5,720.8 million USD), which is an expression that the population spends more on imports than , than the economically active entities of our country produce and export (www.geostat.ge foreign trade).

Table No. 1. Foreign trade in goods of Georgia

(million USD)

	2017	2018	2019	2020	2021
trade turnover	10 802.7	12 741.1	13 317.9	11 398.3	14 342.4
Export of Goods (FOB)	2 745.7	3 379.7	3 798.4	3 344.5	4 242.7
Import of goods (CIF)	8 057.1	9 361.4	9 519.5	8 053.8	10 099.8
trade balance	-5 311.4	-5 982.1	-5 720.8	-4 709.4	-5 862.5
Import-export coverage ratio, (%)	34.0	36,1	39,9	41,5	42.0

Source: www.geostat.ge. foreign trade.

As can be seen from the analysis of the data in Table No. 1, the reduction of the chronic trade deficit was possible only during the period of the mass spread of the COVID 19 pandemic, when due to the covid-regulations introduced in trade between countries, the flow of international cargo flows was hindered (drivers were infected, tested for covid infection, and cargo flows underwent disinfection). This applied to both the import and export of products, but the import of goods was restricted to a greater extent than the export, which was not achieved either before the spread of the pandemic or after the restriction of the spread of the pandemic (in the post-pandemic period) (Dolidze, Kh. 2019).

This is due to the fact that the population of Georgia allows themselves to reach the level of well-being that the economic, entrepreneurial and, therefore, export capabilities of our country do not allow to meet. As a result, the country imports more products than it can balance with its exports. This annual trade deficit is covered by emigrant remittances, foreign investment attraction and foreign exchange earnings from tourism (Berishvili, Kh., 2014).

Over the last five years, Georgia's foreign trade has seen continuous, dynamic growth at a pace ahead of imports, which is mainly due to the renewed, joint demand and supply commodity structure in the post-

covid world, the lag behind the joint world production, and the increase in world prices. The sectoral structure of the world economy has changed. Countries have moved to a new strategy of national security, food self-sufficiency growth. The development of sectors providing food security has come to the fore. In order to increase the level of food security and national self-sufficiency, Georgia should follow the same path (Shengelia T., Berishvili Kh., 2014).

As a result of hostilities between Russia and Ukraine, the COVID 19 pandemic and external shocks caused by them, the world's joint demand has shifted from luxury items to consumer goods, which are traditional export products of Georgia, such as wine, spirits, mineral waters, non-alcoholic drinks and Nuts, which caused exports to grow at a faster rate than imports.

Georgia's trade deficit is covered by external debt. The latter services are provided at the expense of the budget, which increases the budget deficit. In addition, our country mainly imports finished products, not production raw materials or resources. Along with medicine and cars, even many common consumer goods are imported, while half the population is employed in agriculture (Shengelia, T., 2020).

Georgia, despite being an agrarian country, can't even meet local demand for wheat, meat and meat products, milk and dairy products, vegetables and other products, let alone export them. Georgian agricultural products are rarely exported to Turkey. Instead, a large amount of agricultural products are imported from this country (according to our calculations, it is the equivalent of about 40,000 employed people, if this amount of products were produced in Georgia). (Shengelia T., Berishvili Kh., 2014).

This is because the Turkish government subsidizes agriculture, therefore, the agricultural crops grown there are so cheap that Georgian products cannot compete with them. In the form of exports, not finished products, but natural-industrial raw materials and resources (copper ores and concentrates, nuts, ferroalloys, nitrogen fertilizers, mineral waters, unprocessed or semi-processed gold, wine), which are subjected to further processing abroad, are exported.

The difference between the export of resources and the finished product is in the prices, in the creation of added value, enterprises, additional jobs, in more remuneration, for example, instead of apples, export of apple compote, jam and dried fruit, export of hazelnut chocolate instead of nuts, because by processing resources on the spot, jobs will be created in Georgia, here People who will be paid additional wages will be employed, added value will be created here, related industries and businesses will develop. That is, instead of exporting raw materials, by processing them on site, the next stage of our country's development will begin.

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We should approach imports with a similar position. Instead of importing finished products, it is better to import raw materials, because processing them in Georgia will create additional jobs, additional wages and income in our country. For example, instead of importing flour, it is better to import wheat, and to process it in the mill-combinates of Georgia, where people will be employed, their salaries will be paid, livestock will be supplied as a by-product (bran) and so on.

A similar approach to both exports and imports will contribute to the multiplier effect of creating new jobs and increasing incomes in our country. Import substitution policies will create national goods, jobs, incomes and save foreign exchange.

Thus, it is not the volume of foreign trade turnover that is important, but what the country's trade turnover mainly consists of. If there is a significant excess of imports in the trade balance (as is the case in Georgia), this is a serious problem, and if - exports, this is very good. Unfortunately, Georgia has a chronically negative trade balance with all the largest trade partner countries (Turkey, Russia, Ukraine, Azerbaijan, EU countries, USA, etc.). Against this background, a logical question arises: how should we

approach the issue of the import of critical goods of Georgia, the negative trade balance with both common and main trade partners of our country? There is rich world experience in this regard. For example, the Japanese, who have a pretty good vision of the future, started to implement a national slogan in 1946, the essence of which is "either export or die." To realize this slogan, they studied the secret of successful countries and found that it is the navy.

Today, Japan's navy is the third largest in the world after the US and Russia; They foresaw that a crisis of heating and energy resources was expected in the future. Therefore, unlike the USA, they created small cars and thus conquered the world car market. The US administration came to this conclusion a little later. The Japanese saw as early as the 1960s that knowledge was key to the economy of the future, so back in the 1980s they sent 5,000 young students to advanced higher education institutions in the US and Western Europe. These youth returned to their homeland with new knowledge and skills and increased exports, replaced unreasonable imports, improved trade balance and developed the economy. (Kemp, Murray C. 1962).

Georgia is also a maritime country, which is one of its advantages in Transcaucasia and Central Asia, but not a single marine liner or tanker has survived in our maritime infrastructure, which exceeded 80 in the past. Some of our ships have been cut and sold, and some are sailing in the sea under the flag of other countries. The Batumi port was given a 49-year lease to a Kazakh investor, who determines the strategy of the port and disposes of the received income according to his wishes, and not in accordance with the state interests of our country (Michael J Boyle., & Jiwon M., 2022).

South Korea also encouraged exports and thus achieved much higher economic growth than the Philippines and South American countries (Argentina, Brazil, Chile), which resorted to import substitution industrialization until the 1980s. We note that the strategy of replacing imports with domestic products implies temporary protection of the local market and economic growth with local production capabilities. The export-stimulated growth strategy tries to use world markets to promote economic development (Westfall P., Bellucco-Chatham A., 2020).

Export-promoted economic growth is the opposite of the import substitution strategy that was popular in the 1960s. The rapid growth of exports is also one of the main external factors of China's economic growth. Chinese goods have many competitive advantages, however, the state additionally stimulates an export-oriented entrepreneurship economy. The state provides loans with low interest rate, preferential tax system and other preferences to enterprises directed to foreign markets (Robert C. Kelly. & P. Rathburn., 2022).

Export-promoted economic growth is the opposite of the import substitution strategy that was popular in the 1960s. The rapid growth of exports is also one of the main external factors of China's economic growth. Chinese goods have many competitive advantages, however, the state additionally stimulates an export-oriented entrepreneurship economy. The state provides loans with low interest rate, preferential tax system and other preferences to enterprises directed to foreign markets.

It should be noted that the trade turnover at the expense of import and re-export in Singapore and Hong Kong even reaches 200-400% of GDP. These Asian city-states are totally dependent on trade. Their wide and deep harbors are much busier than others in terms of cargo turnover, because these countries are trade and financial centers.

Based on the international experience discussed above, it is appropriate to raise the domestic and international competitiveness of domestic products by attracting investments and encourage exports by informing exporters, low taxes, credits and preferences. At the same time, it is necessary to optimize export, i.e. to prioritize export of finished products compared to resources. Also, diversification of trade partners and export products should be implemented.

The growth of the export of products made in our country was negatively affected by the military actions in the Black Sea region, but this does not mean that the Georgian government should not have a national risk management plan to avoid threats in the region.

At the same time, it is advisable to replace unreasonable imports by promoting local production (especially since during the devaluation of the GEL, imports are more expensive than local production of import-substituting products). Reasonable import substitution can bring a lot of good to Georgia: new businesses will be created, the number of jobs and export opportunities will increase, imports and demand for foreign currency will decrease, the mentality of preferring domestic products over imported ones will be formed among the population, and innovative technologies will be encouraged.

Also, re-export should be used judiciously. In order to promote re-exports, it is necessary to make reasonable use of Georgia's favorable geographical location, transit conditions and legislative environment. Georgia, which has a chronic trade deficit, should also have international currency reserves, at least three times the amount of one month's imports, which will be used if necessary.

Conclusion

Thus, as a result of the conducted research, it can be concluded that in order to eliminate the problems caused by the chronic deficit of foreign trade of Georgia, the following measures should be taken:

- In order to overcome the chronic negative trade balance (deficit) of Georgia, it is appropriate to increase the domestic and international competitiveness of domestic products and thereby increase the domestic and foreign demand for it, i.e. more: export, diversification, optimization, re-export, reasonable import, as well as more: direct foreign investments, cash Shipments and foreign tourists.
- This "recipe" for improving the trade balance should be adjusted taking into account the specifics of each partner country. As a result, the chronic negative trade balance will gradually decrease and a positive trade balance will be established.
- The real way to first reduce and then eliminate Georgia's chronic trade deficit is to rationalize the commodity structure of imports and reveal and implement the export potential. It is possible to rationalize the import commodity structure by replacing imported products with local products, imposing such requirements on imports that are met by domestic products that replace them, as well as by revising the priorities in the personal consumption expenses of consumers - by bringing primary consumption products to the forefront and reducing the mentality of consumption of luxury items.
- The second direction of reducing and eliminating the chronic trade deficit of our country is the growth of export of goods, which can be achieved by diversifying export markets, importing new technologies, carrying out scientific and research work in export enterprises, raising the quality, reputation, and awareness of Georgian products in the world market (active advertising abroad). By establishing it as a brand, by perfecting the design of packaging material, by perfecting the web pages of Georgian companies, by providing state support in the organization of transport and logistics systems, by providing state insurance for the risks faced by export companies (for example, by state compensation for losses experienced by them as a result of rotting of perishable products during transportation abroad) and others.

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საქართველოს საგარეო ვაჭრობის ქრონიკული დეფიციტით გამოწვეული პრობლემები და მათი გადაჭრის გზები ღია ეკონომიკის პირობებში

აბსტრაქტი. სტატიაში განხილულია საქართველოს საგარეო ვაჭრობის ქრონიკული დეფიციტით გამოწვეული პრობლემები, რაც აფერხებს ჩვენი ქვეყნის ღია ეკონომიკის მართვის პროცესს. გაანალიზებულია საქართველოში იმპორტის ექსპორტით დაფარვის მდგომარეობა ჩვენი ქვეყნის სავაჭრო პირობების თავისებურებათა გათვალისწინებით. გამოვლენილია სხვა ქვეყნების ეკონომიკებზე საქართველოს ეკონომიკის ზედმეტი დამოკიდებულების უარყოფითი შედეგები.

ბიბლიოგრაფიულ კვლევებზე და სტატისტიკურ მასალებზე დაყრდნობით, გამოვლენილია ის საგარეო წყაროები, რომლებიდან მიღებული სავალუტო შემოსავლების ხარჯზე ხდება ქრონიკული საგარეო სავაჭრო დეფიციტის დაფარვა. სხვა ქვეყნების გამოცდილების შესწავლისა და ჩვენი ქვეყნის სტატისტიკურ მონაცემთა ანალიზის საფუძველზე დასაბუთებულია, რომ საგარეო ვაჭრობა ხელს შეუწყობს საქართველოს ეკონომიკურ ზრდას მხოლოდ იმ შემთხვევაში, თუ ექსპორტი აბალანსებს იმპორტს ან აღემატება მას. შესწავლილია იმ ქვეყნების გამოცდილება, რომელთაც სწორი საგარეო სავაჭრო პოლიტიკის გატარებით შეძლეს ეკონომიკური კრიზისის დაძლევა და სწრაფი ეკონომიკური აღმავლობა. საქართველოს საგარეო ვაჭრობის ქრონიკული დეფიციტით გამოწვეული პრობლემების ანალიზის საფუძველზე გაკეთებულია შესაბამისი დასკვნები და რეკომენდაციები.

საკვანძო სიტყვები: საგარეო ვაჭრობა, ქრონიკული სავაჭრო დეფიციტი, ექსპორტით იმპორტის დაფარვის კოეფიციენტი, იმპორტზე ზედმეტი დამოკიდებულება, სასურსათო უსაფრთხოება, სურსათით თვითუზრუნველყოფა.

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