

THE CHALLENGES OF GEORGIA'S ECONOMIC POLICY IN ACHIEVING SUSTAINABLE DEVELOPMENT GOAL 9 IN THE COVID-19 PANDEMIC PERIOD

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Abstract The increased number of financial crises and ecological catastrophes, as well as expanding inequality in the context of globalisation, have raised questions on the assumptions of mainstream economic theory and its fairness. In the context of the COVID-19 pandemic, national economies have had to face up to the new reality, which has placed great importance on the context of economic stability, security and sustainable development policies. This paper analyses the issues that need to be considered by national economic bodies in the process of achieving Sustainable Development Goal 9 (SDG 9) and transforming the economy. These issues are based on the experience gained during the COVID-19 pandemic. It is advisable to transform the economy in a way that focuses on the development of the manufacturing industry, including high-tech industries. However, these sectors should be mainly export-oriented. The development of export production should not only be based on the natural comparative advantage, but also, for the sake of expediency, on the acquired comparative advantage.

Keywords:
economic policy,
Georgia,
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development

1 Introduction

The increased number of financial crises and ecological catastrophes, as well as expanding inequality in the context of globalisation, have raised questions in relation to the assumptions of economic theory and its fairness. However, it was very difficult to escape the influence of mainstream economic views and the prevailing theoretical economic recipes based on the Washington Consensus, although this process was clearly accelerated by the outbreak of the COVID-19 pandemic in late 2019. The results of the pandemic showed that non-economic factors can have a primary impact on economic processes and policies, and can completely change the content of the economic model. As a result, countries are facing a complex new reality in the context of economic stability, security and sustainable development policies. The purpose of the paper is to analyse the issues that need to be considered by national economic bodies in the process of achieving Sustainable Development Goal 9 (SDG 9) and transforming the economy. The recommendations are based on the experience gained during the COVID-19 pandemic.

The comparative analysis and analytical methods were used in this paper. While researching the issues, as primary sources, the author analysed Georgia's economic policy documents (Social-Economic Strategy of Georgia 2020; SDG Report 2020;), scholarly papers (Gvelesiani, 2015; Lukas & Kyughoon, 2021; Soboleva & Lazarenko, 2019; Lekashvili, 2020; Lekashvili & Bitsadze, 2021; Vasperi & Gagnidze, 2020; William & Gaurav, 2017; Sjöholm, 2021; and etc.), and other publications. The study examines and summarises scientific papers and reports by international organisations, both in Georgia and further afield (Council of Competitiveness, 2020, 2021; General Principles of EU Industrial Policy, 2021; Taxonomy of Industrial Policy, 2015; European Round Table for Industry, 2020) relating to the impact of the pandemic impact on national economies.

2 Impact of the COVID-19 pandemic on national economies

The conditions resulting from the COVID-19 pandemic have once again exposed the face of the globalised world economy, and the list of difficulties that national economies face that cannot be solved within a mainstream agenda. The market mechanism crashed as national economies were closed. The pandemic dealt a severe blow to the manufacturing and transportation industries, causing disruptions in

global value chains and product deliveries, as well as reduced working hours and job losses in these sectors.

According to the Sustainable Development Goals Report (2020), the effects of COVID-19 were so destabilising that it threatened the achievement process of the Sustainable Development Goals (SDGs), including Goal 9 (building sustainable infrastructure, promoting inclusive and sustainable industrialisation, and developing innovation). In the first quarter of 2020, global industrial output growth fell sharply (by 6%) due to the shutting down of national economies. During the same period in China, i.e., the world's largest industrial country, COVID-19 led to an unprecedented drop of 14.1% in industrial production. The manufacturing industry is considered as a driving force of overall economic growth, hence the recent global COVID-19 crisis has had a serious impact on the world economy's industrial production.

Moreover, the air transport industry, which has been the driving force of economic development in recent years, experienced the sharpest decline in its history (SDG Report, 2020). The COVID-19 pandemic has had devastating consequences for the aviation industry. By April 2020, severe travel restrictions imposed by governments led to a 90% suspension of air travel, with travel demand falling to zero. In the first five months of 2020, the number of passengers decreased by 51.1% compared to the same period in 2019. The International Civil Aviation Organization (ICAO) estimated that the pandemic could cause a reduction of 2.29 billion to 3.06 billion passengers, which equates to USD 302 to USD 400 billion in annual gross operating income for airlines (Sustainable Development Report, 2020). Patents, trademarks, copyrights, brands, research and software have thus become the leading assets in corporate and government portfolios. COVID-19 further accelerated this trend (GFCC, 2021).

As for the Georgian economy, according to the Statistics Service of Georgia, for the opening phase of the economy, based on data from 20 May 2021, the unemployment rate in Georgia reached 21.9%, which is 3.7% higher than in the previous quarter. However, unemployment growth is higher in urban areas (40.1%) than in rural areas (34.7%). In 2020, real GDP growth was -6.8%, which is 12.3% less than the previous year.

In May 2021, the annual inflation rate was 7.7%. The groups with the largest contributions are: transport, housing, water, electricity, gas, healthcare (in April), food and non-alcoholic beverages (basic products and services). In February 2021, the industrial price index increased by 16.9% compared to the same period of the previous year. The export price index was 16.9%, while the import price index was 19.4%.

The Georgian economy has historically been service-based, with the services sector accounting for around 70% of gross domestic product (GDP) in 2019 and absorbing 47% of the labour. The industrial sector (including mining and quarrying and manufacturing) was the second source of income generation, with a 14% share of GDP, followed by construction (8.6%) (UNECE, p.48).

The Industrial Production Index for Georgia (see Chart 1) shows real output in the manufacturing, mining, electric and gas industries relative to 2015. During the COVID-19 pandemic period, the supply of electricity, gas, steam and air conditioning increased rapidly. In addition, water supply, sewerage and waste management activities were essential in terms of the curfew. These data show that during the pandemic, it became essential for humans to produce the basic products that are essential to their lives and health. The industrial price index with seasonal adjustment compared to the base year 2015 (Figure 1) shows the sectors that experienced sharp ups and downs during the closure of the economy caused by the pandemic. It is clear that the changes relate to the modified structure of gross demand.

During the pandemic, it became clear that the government's non-interference policy in the economy had failed and there was a need for the state to take responsibility for managing the crisis situation. It has been proven once again that market forces are ineffective, especially in developing long-term opportunities. This has not only become vital as a simple response to the crisis and what the market dictates, but also how the government will manage such an unpredictable situation.

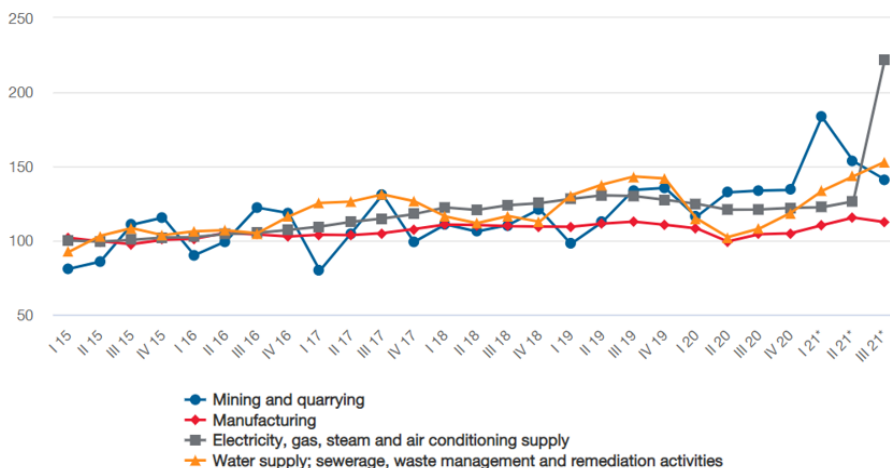


Chart 1: Industrial Production Index with Seasonal Adjustments, 2015=100

Source: <https://www.geostat.ge/ka/modules/categories/23/mtliani-shida-produkti-mshp> (Accessed 3.12 2022)

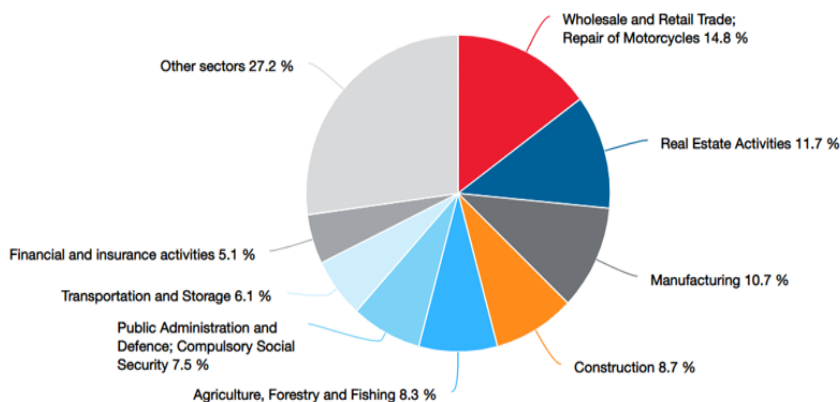


Figure 1: Percentage of the GDP structure of the current process, 2020

Source: <https://www.geostat.ge/ka/modules/categories/23/mtliani-shida-produkti-mshp> (Accessed 3.12 2022)

The pandemic has demonstrated that the situation has increasingly complicated the terms of administration and management as it has become impossible to plan and define development strategies. The uncertainties have added to the complexity of developing and implementing a sustainable development strategy, which led from

the global spread of the virus to its unmanageable situations. This indicates that people who are responsible for economic policy are required to have high qualifications and competencies that lead to crisis management and the development and implementation of effective policies by the government. At the same time, the model of development should be based on the common spirit and consent of society and the government, which will ensure the reduction of obstacles and unforeseen risks.

Many economists-scientists have started studying issues related to the impact of the pandemic on the world economy as well as national economies. This paper summarises some of the general findings, which, of course, also apply to Georgia.

It is noteworthy that the pandemic dealt a major blow to small industrial enterprises, which are the main source of employment in both developed and developing economies. They play an important role in income generation and poverty alleviation and will play a crucial role in the further recovery of the global economy. However, due to their small size and resources, small industrial enterprises are vulnerable to these types of challenges, as they do not have the ability to cope with sudden shocks, even the pandemic crisis, without the help of governments.

Access to credit is especially important for small firms to increase their competitiveness and integrate them into local and global value chains. According to the Sustainable Development Report (2020), 34.7% of small businesses in developing countries benefit from loans or credit lines. Providing fiscal stimulus and access to financial services to assist small- and medium-sized enterprises (SMEs) is essential for their survival and development during and after the crisis. UNECE recommended that the Georgia government address emergency and capacity-building requirements for structural transformation and the achievement of the 2030 sustainable development goals (SDGs) (p.40).

Dealing with COVID-19 is unthinkable without extending investment in research and development (R&D). More investment is needed in the pharmaceutical industry and in the latest technologies, such as artificial intelligence, which can facilitate the development of drugs and vaccines and the management of related services and resources.

In the conditions of the modern technological revolution, the development of mobile communications plays an important role, however, half of the global population – mostly in low-income countries – is offline. COVID-19 has forced people to work, study, seek healthcare and socialise at, or from, home. Digital technologies and the internet have never been such a major part of everyday life as during the pandemic. However, there has been a major setback in this area, the main reason being the cost of using the internet and the lack of necessary skills.

The pandemic has clearly shown that the existence of resistant infrastructure is extremely important, not only for the functioning of economic but also social and ecological systems. Roads, railways, pipelines, electricity, gas and water supply, communication lines and bridges – paralysis of these systems could have caused information technology, the internet, software and platforms to malfunction as the entire world was forced to move to a mixed form of remote operation (GFCC, 2021). Much work needs to be done in this direction, especially in developing countries.

Developed countries agree to finance and implement innovative projects in infrastructure. Among them is the issue of proper use of water resources, especially in the use of drinking water, self-healing materials and the capacity of hydrogen.

The following types of problems have emerged as research issues in scientific circles: the task of maintaining the sustainability of the healthcare system; unemployment; assisting businesses in crisis-stricken businesses; reduction of budget funds due to reduction of tax contributions; reduction of aggregate supply and aggregate demand; problems in foreign trade related to the ban on food exports by importing countries; problems in the supply chain; transaction costs and uncertainties associated with switching to remote work; uncertain expectations about the duration of the pandemic, etc.

The conditions of the pandemic have raised many questions for Georgian economists, such as:

- Is it necessary to restructure the Georgian economy in the context of the new industrial policy?
- How safe is economic and food security?

- Which industries won and which lost?
- Which sectors should be mobilised for the development of resources and why?
- Why is job creation still a key issue and which industries should carry out this function?
- What is the role of Georgia in absorbing the results of the Fourth Industrial Revolution?
- Why are the views of mainstream economists being re-examined?
- What flaws appeared in the Georgian economy during the COVID-19 pandemic?

Georgia, like other countries, faced difficult problems in the tourism-related, aviation, transport, trade, entertainment and entertainment, etc. industries. The situation particularly affected the self-employed, those employed via informal or non-formal contracts (the homeless, debtors, the service sector, especially those employed in the tourism sector).

This crisis has allowed a rethink of the system of capitalism. It requires the transformation of the political, social and economic spheres. It is becoming increasingly necessary to create a model of economic structure that will be primarily responsible for a safe life as well as sustainable and inclusive development. A shared economy model should be put in place in all possible segments.

In the terms of a small market, it is not possible to bypass the world market, but the reliance must be significantly lower in subsistence and safety products and services, defence and healthcare. Therefore, attention should be paid to the recapitalisation of the healthcare and epidemiological system, the development of medical equipment manufacturing, pharmaceuticals, biotechnology products, the agriculture and food industry, hygiene products, and the energy, telecommunications and housing sectors. However, coordination of research and development within these fields is crucial.

Of secondary importance is the development of delivery service, digital manufacturing (which should be ensured by cyber security), digital equipment manufacturing, online education, sales, consulting, furniture manufacturing, and the creative industry.

The pandemic has led to the requirement for changes in manufacturing technologies and the need has arisen for the transition of labour and organisational issues due to informational management technologies. This will, of course, reduce the cost of labour, construction and other running costs, but will also increase the cost of digitising production, wherever possible.

3 Conclusions and Recommendations

As demonstrated by COVID-19, political, economic and social security issues become a priority during a pandemic, which poses a great challenge to governments. The lessons of the history of the world economy teach us that during and after the Great Depression, crises and wars, countries often resorted to protectionist policies to protect domestic production and create a favourable environment for rapid economic development. However, these strategies were based on the model of economic openness and the goal was to further integrate countries' economies into the world market (Gvelesiani 2015; Lekashvili, 2020).

The pandemic conditions have shown the need to develop an order, model and strategy different from the current one, as humanity faces the threat of a recurrence of similar pandemics. At the same time, increasing spending on healthcare means reducing spending on other areas of the economy and social life in the face of limited resources.

Continuing to invest in the promotion of inclusive and sustainable industries, as well as in material infrastructure, innovation and research, is vital for long-term economic development. To achieve these goals, it is important to develop advanced forward-looking curricula and programmes within higher-education institutions, which tailor both the content and approaches to industry needs. In addition, a national skills-matching strategy (or sectoral/field-specific matching strategies) should be established to guide the above. (UNECE, p.44)

Better access to financial services for small industries is urgently needed to resuscitate the global economy. It is advisable to transform the economy in a way that focuses on the development of the processing industry in order to ensure income growth and economic development, including high-tech industries. However, these sectors should be mainly export-oriented. However, the development of export production is necessary, which should not only be based on the natural relative advantage but, due to expediency, is also necessary for the state to take care of the acquired relative advantage.

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