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Georgia's Economy in a "Tourist Trap"

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For contemporary Georgia, economic development based upon inclusive economic growth has special importance. In the recent period, Georgia has experienced a high economic growth rate. Specifically, in May 2018, its real GDP growth was 7.5% as compared to the same period of 2017 while the average real growth in the first five months of 2018 was 6.1%.

Despite this, there is clear public discontent in the country with the existing economic and social difficulties. More specifically, according to the data of the World Bank, one in two people in Georgian regions lives in extreme poverty, while Tbilisi enjoys a relatively better situation in this regard, with only one in five people on the brink of starvation. According to UNICEF, one in five children in Georgia lives under the poverty line and one in six consumes less than the subsistence minimum. At the same time, about 33.4% of families with three or more children and 24.1% of the families with one or two children were living in absolute poverty in 2017.

A logical question arises: if the country has a high economic growth rate, then why the public dissatisfaction? Could this be caused by Georgia's economy developing in the wrong direction?

In order to answer this question, we will need to characterize the economic model cultivated in Georgia.

Based on the respective statistical data about Georgia's economy, we can assume that the consumer economic model has been formed in Georgia. In order to prove this, it would be enough to point out that imports, unfortunately, have been exceeding exports by 3.5 times for a number of years now while the share of imported goods in the consumer basket, as well as the food basket, consistently reaches about 80%. In other words, we consume more than we produce. And if this is so, the natural question is – how do we manage to consume more than we produce?

The answer is definitely not a difficult one. Specifically, we have two sources of such consumption – remittances from abroad and bank loans.

After the restoration of independence, numerous of our compatriots left Georgia in various periods and for various reasons. Establishing their more-or-less precise number is quite difficult; however, it must be pointed out that for a number of years, Georgia has been consistently receiving about USD 1-1.5 billion annually through various banking channels – the information about this is recorded by the National Bank of Georgia. This is part of the money earned by our compatriots abroad and sent to their relatives for subsistence here in Georgia. As it turns out, our compatriots who left the country work for the economic development of other countries and through parts of income generated there they feed their relatives in their homeland. This is an important source where our citizens are facilitating consumption.

As for bank loans, this is a separate phenomenon. Important credit resources for Georgian banks are low-interest loans taken on the European financial market and placed in Georgia with a relatively high interest rate. Back in the period of the governance of the United National Movement, the system of an almost coercive distribution of consumer loans was being utilized when almost all household appliances shops (TV, fridge, mobile phone, etc.) offered loans to every potential customer in order to help them buy their appliances. Given the fact that household appliances are not being produced in Georgia and are wholly imported, Georgia has practically turned into a "financial pipe" where the credit resources brought from abroad are used by our citizens to consume imported goods. Consequently, the financial resources attracted from abroad are going to third countries that produce the household appliances. Hence, Georgia intensively consumes things that it does not produce, using the money that was not generated in our country.

This has been complemented by the debts easily taken by our citizens for various purposes – debts that they have turned out to be unable to service.

Prime Minister of Georgia, Mamuka Bakhtadze, publicly stated that too much indebtedness is suffocating the country as about 630,000 people (which is almost 32% of the active labor force of our country) are on the so-called blacklist, meaning they have problems with servicing/repaying their loans.

It is also worth noting that foreign direct investments entering Georgia are mostly concentrated on the purchases of real estate and are seldom used in the development of the real sector of the economy.

All of this creates the predicament when the real sector of the Georgian economy, due to underdevelopment, is not the main generator of the population's income. Unfortunately, as already pointed out earlier, its function is taken over by remittances from abroad and loans.

In such a situation, the vision of the government for the economic development of the country and the economic policies exercised by the state are of utmost importance. Unfortunately, beginning from the period of the United National Movement, the government was mostly focused on the development of tourism in our country. Equally regrettably, the Georgian Dream government does not seem to have a different vision either and it also puts special emphasis on increasing Georgia's fame and attractiveness among tourists.

It is well known that tourism is a driving force of the real sector of the economy. However, this premise needs clarification in the Georgian case as tourism in Georgia fails to serve as a development force for the country's underdeveloped economy. In reality, tourism in Georgia develops the real sectors of the economies of the countries from where it gets most of its imports. And this is not very surprising if we remember that no more than 20% of the consumer basket in Georgia is actually produced in the country while the remaining 80% is imported. Tourists visiting Georgia utilize the same consumer basket, of course. Consequently, as more tourists visit Georgia, the country has to import (in absolute dimensions) more.

It would not be correct to give the reader an impression that I am principally opposed to the facilitation of tourism development. In reality, tourism is a very important part of the economies of countries where the fields of the real sector of the economy are well-developed. The best instances of this are Switzerland, France, the UK and the USA which are not just touristic countries but also boast various highly developed sectors of the economy.

Hence, pronouncing tourism as a main priority for the development of our country creates an illusion that the economy is growing while the economic and social situation of the population does not improve. While growing in this way, the Georgian economy not only cannot develop but is, in some sense, being degraded as this kind of economy does not need highly qualified, creative people occupied with intellectual work – hence, such people are forced to seek the opportunities for utilizing their talents in other countries.

As unfortunate as it is, it is a fact that for a number of years Georgia finds itself in a "tourist trap" – with the economy growing but not developing.

In order to free the country from this "tourist trap," it is important for the Government of Georgia to amend the main priority of our country's economy. Specifically, a knowledge-based economy must be declared a priority. This will only become possible if the government makes the fields of education and science the real priorities of development. It is also compulsory for the government's vision to focus on developing the real sector of the economy through its industrialization. For this, it is necessary to renew and enrich the socio-economic development strategy confirmed by the Government of Georgia in 2014, entitled Georgia 2020. It is regrettable that the government forgot about this document immediately after confirming it – it has not been implemented but it has not been abolished either. According to the renewed document, each governmental structure must formulate an annual action plan and implement it to achieve inclusive economic growth with the ultimate goal of creating a knowledge-based economy.