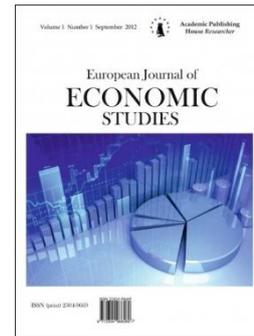


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Facing the Global Competitiveness Challenge and Quality of Business Freedom in Georgia

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Abstract

In this paper, we address the issue of the global competitiveness which is being launched at a time of rising income inequality, mounting social and political tensions, and a general feeling of uncertainty about the future. Growth remains persistently low: commodity prices have fallen, as has trade; external imbalances are increasing; and government finances are stressed. However, it also comes during one of the most prosperous and peaceful times in recorded history, with less disease, poverty, and violent conflict than ever before. Despite the difficult economic situation, the fundamental principles of competitiveness should not be forgotten and should not be sacrificed to short-term needs. The future is competitive economies that, given local factors, tend to increase productivity and build on present and future prosperity. The issue of competitiveness of individual regions and countries, as globalization processes deepen, remains relevant.

Keywords: global competitiveness, business freedom, economic sector, financial organizations.

1. Introduction

Since the 80s of the 20th century, the process of globalization has been determined by the development of the world economy, its main priorities and trends. At the same time, the current stage of world economic globalization is characterized by the role of international financial and economic organizations and the role of transnational companies in the functioning of the national economy by reducing the role of a sovereign state (Gechbaia, 2014). Consequently, economic globalization leads to both development opportunities and certain problems. Therefore, the responsibility of the government of any country is to find effective ways to maximize profits from the process of economic globalization

The study aims to:

- analyse the fundamental conditions for the effective functioning of business sector in Georgia;
- identify efficiency gains based on an assessment of the strengths and weaknesses of the business sector;
- improve methodological and methodical basis of business competitiveness, taking into account the current characteristics, trends, problems and opportunities of globalization;
- develop adequate recommendations and build roads for their practical implementation in Georgia.

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Identified objectives:

- Analyse existing methodologies and theoretical approaches in the field of competitiveness assessment;
- Assess the impact of the globalization process on the determinants of business competitiveness;
- Identify the factors determining business competitiveness in Georgia;

2, Literature Review

Various aspects of competitiveness of Georgian economy are assessed in Georgian economic science. The analysis of the determining factors of low competitiveness of domestic products both in the international arena and within the country is given, the priorities of economic competitiveness have been pointed out, cause-effect relations between economic competitiveness and sustainable development of the economy have been identified. In these work, considering the objectives of the research, different widely accepted methods and theoretical approaches have been used (Abralava, 2005, Baratashvili, Zarandia, 2007). Despite the considerable amount of research by Georgian scientists on the topic of competitiveness, it is necessary to continue an in-depth study of this area, help improve methodologies for assessing competitiveness, identify the factors that determine the competitive advantage of one side or another, establish the cause-effect relation between the level of competitiveness and the level of economic involvement of the country in international economic processes, find ways and carry out improving the competitiveness of business, etc. Based on the aforementioned, taking into account the current trends of globalization and prioritization of business efficiency to increase Georgia's competitiveness, the need to develop mechanisms and tools for effective regulation of business structures, necessity to define effective tools for their internal planning and control, analyse existing business risks in Georgia, etc., this attaches importance and significance to the discussed topic taking it an object of study (Abralava, 2001, Macagonov, 2007). At the present stage of economic development, the success of a company, industry, business, economy and the whole country is largely determined by the competitive advantage in the sphere of production.

Representatives of the classical economic school viewed the country's economic competitiveness in the context of the concepts of absolute advantage and/or comparative advantage. For example, the concept of absolute superiority belongs to A. Smith. According to this concept, a country exports goods if the expenses incurred in that country are small. D. Ricardo perfected this formulation as the concept of comparative advantage, according to which market forces address the resources of the country where they can be used more productively, which means that the country may be able to import goods even when it is able to produce these goods themselves and with less expenditure.

The World Competitiveness Index has been set by the World Economic Forum since 2005. This index measures the macroeconomic environment of the country, the state of the country's institutions and the level of technological readiness of the country. The rating is based on publicly available statistical data on the one hand, and, on the other hand, on the results of its own research conducted by the World Economic Forum, which, in turn, takes into account analysis of the information presented by individual entrepreneurs in special questionnaires. According to this indicator, the productivity level of the country is determined by its competitiveness, which represents the combination of separate institutions, factors and policies. The more competing economic system, the higher the level of living in the economy as well as the level of life, and the most importantly - the coefficient of the return on investment, which is one of the main indicators to assess economic potential. In addition, the above-mentioned coefficient determines the investment attractiveness of the country.

According to Hecksher-Olin theory, all countries have similar technologies, but they have a different ratio of factors of production, namely land, labor, natural resources and fund. The country benefits from those areas where factors, that are excessive, are used intensively. Products from these sectors are exported. The country also imports products and services for the production of which the country is experiencing a comparative shortage of factors. For example, a country with such a high level of cheap labor as Korea, exports labor-intensive goods. Countries rich in natural raw materials and arable land are exporting products from these sectors. Sweden's historically

strong position in the steel industry is explained by the fact that the iron ore obtained there contains very few phosphoric admixtures that allow for higher quality steel (Lekashvili, 2012).

The Global Economic Competitiveness Report of the World Economic Forum 2018–2019 presents the Competitiveness index of 137 Countries. The report comprises three main components of the development of a single country, such as: basic requirements, efficiency enhancement factors, and driving factors for innovation. All these three compilers incorporate 12 components;

Components of basic requirements include:

1. Institutions;
2. Infrastructure;
3. Macroeconomic stability;
4. Health Care and Primary Education

Components of the efficiency enhancement factor include:

5. Higher education and training;
6. Effectiveness of the commodity market;
7. Effectiveness of the labor market;
8. Development of financial markets;
9. Technological readiness;
10. Market size

The components of innovation and development are as follows:

11. Business development;
12. Innoivations;

Significant methodological changes were made in the Global Competitiveness Index Rating of 2018. Various indicators and components were removed from the rating and replaced by new ones. The country's assessment scale has been changed and the maximum 7 points score has been replaced by 100 points. GCI rating countries are evaluated in 4 directions which, in turn, combine 12 indicators. These indicators, in turn, consist of 98 components. In 2018 the position of Georgia is favorable to 2017 – 57 th place, with 66.8 points (improved by 1.4 points) Human capital – 65th place, with 72,1 points (improved by 0,7 points), Market – 75 th place, with 55.4 points (reduced by 0.1 points), Innovative ecosystem – 72nd place, with 47.4 points (improved by 2,7 points).

The positions of Georgia in frames of the world's competitiveness indicators changed according to years (see Table 1 and Table 2).

Table 1. Georgia in the World Competitiveness Index

Year	Position of Georgia	Points
2018-2019 Index	66 th place	4.28 points
2017-2018 Index	67 th place	4.3 points
2016–2017 Index	59 th place	4.3 points
2014–2015 Index	69 th place	4.2 points
2013–2014 Index	72 th place	4.2 points
2012–2013 Index	77 th place	4.1 points

Source: The table was compiled by the author of the article based on data from the World Economic Forum <https://www.weforum.org/reports>

According to the Global Competitiveness Index published in October 2018, Georgia has advanced one step ahead compared to the previous year and moved from 67th to 66th position with total 60.9 points. Last year, the rating system comprised 7 points, while Georgia's total score was 4.28.

According to the Global Competitiveness Report for 2018, of the 110 components of the criteria that were presented in the indicators in the previous year, 55 increased indicators, 35 reduced, and 15 remained unchanged.

According to the position, significant indicators characterized by reduced rates are the following: the financial system (-25 position), stability of banks (-12 positions), venture capital availability (-19 position), market growth (-13 position), debt dynamics (-26 Position), trade tariffs (-1 position), macroeconomic stability (-24 position) and payroll flexibility (-6th place).

Improved components are: judicial independence (+4 positions) recruitment and separation practice (+7 positions), reliability of police service (+2 positions) and women in the labor market (+43 positions);

According to the latest reports, Georgia is among the top ten countries leading in 8 criteria. In the 2018 Global Competitiveness Index, there are 9 components are presented. The best positions the country occupies in the top ten list of the world are as follows: Electrification (first place), labor tax (first place), student-teacher ratio in primary education (second place), shareholders management (third place) Time for starting business (fourth place), trade tariffs (fifth place), service transparency standards (sixth place), use of foreign labour (sixth place), public expenditure (tenth place);

According to the index, the lowest indicators of Georgia are: social capital (126th place), quality of vocational training (131st place), qualification of the graduates (123rd place), finding and hiring employees (111th place), insurance premiums (122nd place), market capitalization (121st place), credit crunch (119th place), workforce diversity (116th place).

According to the figures, one of the main problems of the country is education and low qualification. This, in turn, hinders the development of other areas that require highly qualified personnel and innovations. On the other hand, the biggest challenge is the financial system and the sphere of innovation.

It will be interesting to see where Georgia is in the most difficult situation in 4 categories of the last report, according to 12 indicators, and, in general, what positions are represented in these categories. It is also interesting to see if the general picture of positioning of the indicators converges with the general picture of subindicators.

According to these indicators, the problem of financial system is indeed one of the four categories in the Global Competitiveness Index of 2018 and it coincides with the picture presented in subindicators. Also, indicators of market size and innovative opportunities indicate that the country is not in a very pleasant situation. Evaluating the general picture, it should be noted that among the four categories – the fourth category is the most problematic. The fourth category includes the market and financial ecosystems, and combines 4 indicators in total, among which three indicators with the lowest positions.

Recently, the Government of Georgia has implemented a number of reforms which affected some indicators of individual components of the country's competitiveness. However, the above-mentioned reforms have not been fully and properly reflected in the presented international rating. Consequently, in the light of the integration process, systemic reforms should be implemented efficiently.

Index of Economic Freedom (Heritage Foundation). Since 1995, Index of Economic Freedom has been set by the largest research organization of the United States – "The Heritage Foundation". Index of Economic Freedom estimates the economic freedom of 180 countries annually considering quantitative and qualitative components. Each component is rated on a 100-point system. Each component will be given the same weight/value for the individual country estimation, and the arithmetic mean will be determined.

The index is based on the four main criteria:

- Rule of law (protection of ownership, effectiveness of judiciary, level of corruption and government honesty);
- Government size (fiscal health, tax regime and public expenditure);
- Regulatory efficiency (simplicity of starting business, labor freedom and monetary freedom);
- Market openness (free trade, freedom of investment, access to finance).

According to the Index of Economic Freedom there are five levels/degrees of economic freedom:

- Free, 80–100 points;
- Mostly free 70–79,9 points;
- Moderately free, 60–69,9 points;
- Mostly unfree 50–59,9 points.
- Unfree

The [Table 2](#) presents the positions of Georgia in the Index of Economic Freedom.

Table 2. Positions of Georgia in the Index of Economic Freedom according to years

Year	Position of Georgia	Points	Level/degree of economic freedom
2018	8	75.9	Mostly free
2017	13	76	Mostly free
2016	23	72,6	Mostly free
2015	22	73	Mostly free

There are three procedures required to start a business in Georgia. It requires three days, no minimum capital required, and therefore the country has a good standing position in the "Freedom of Business" component of the "Regulatory Effectiveness" criterion (87.2, 16th place). However, there are some problems with the "monetary freedom" component (78.2 points, 92th place). There is a problem with the "freedom of labor" component as well. In particular, the level of unemployment is still high in the country, and there is no dynamism in the labor market.

Foreign trade is very important for the economy of Georgia. The total volume of export and import is 110 % of GDP. The average tariff rate is 0.7 %. That's why Georgia holds 9th place (88.9 points) in the "free trade" criterion. The situation with the "Financial Freedom" component is also hard (39th place, 60.0 points), which is due to the problems with the stock exchange (weak stock market).

3. Conclusion

Doing business rating. Doing Business Group of the World Bank annually publishes the ranking of doing business in different countries. Business rating is a quantitative indicator of business regulation and protection of property rights. The report aims to investigate the regulations of business activity in a particular country.

The report on the "doing business" prepared the Ministry of Economy and Sustainable Development of Georgia notes that positive changes have been achieved as a result of the institutional reforms and improvement of regulatory environment in the country.

Significant success and international recognition of Georgia is the result of reforms carried out by the Georgian government in 2013–2019. Over the past six years, 20 reforms have been implemented in the country to improve the institutional and regulatory environment.

It is important for Georgian companies to focus on differentiated approach strategies, as this policy will promote the enhancement of qualitative characteristics of Georgian products and introduction of innovations and new technologies. In order to increase the level of business competitiveness in general, it is advisable to develop clusters in Georgia and introduce business management practices in accordance with the principles of international management.

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