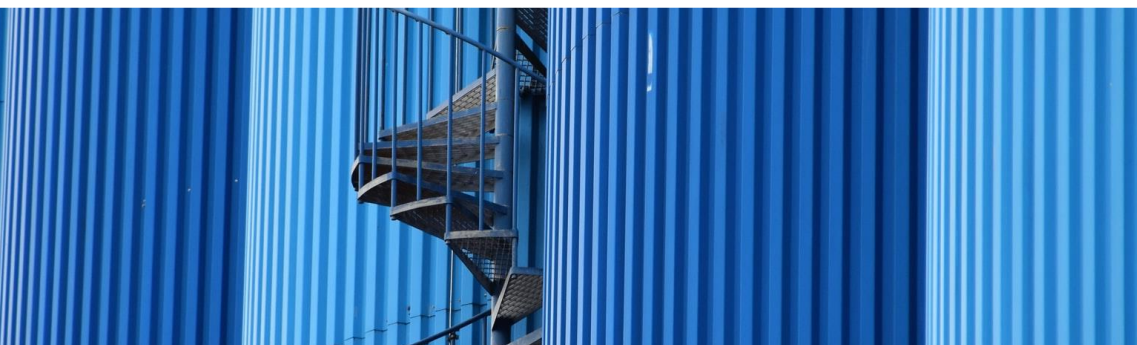




# Industries snapshot in Georgia before COVID-19



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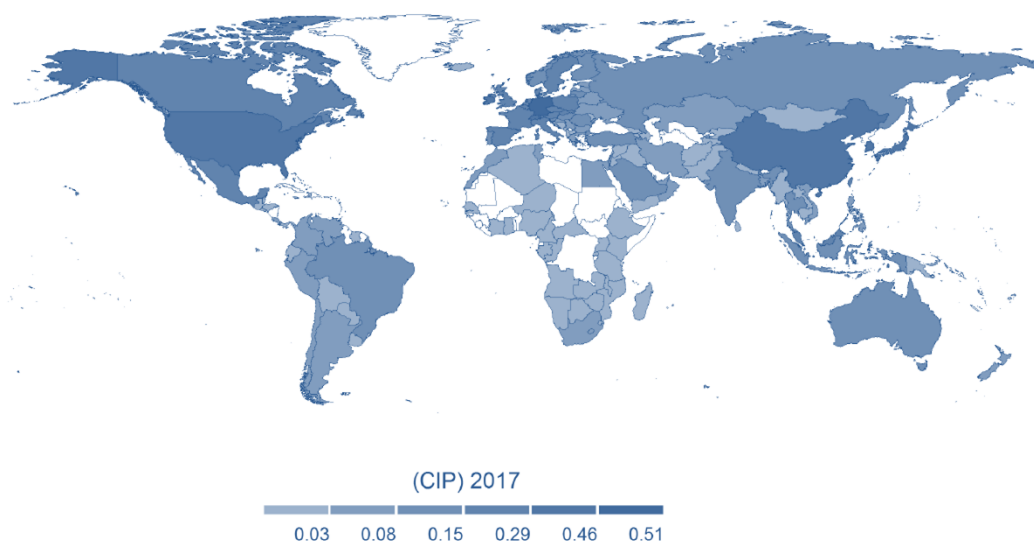
*Author: Elene Minashvili*

Economic activities in different sectors can define the development direction of the country. The industries in Georgia are going through a transformation and development in accordance with the international, as well as the domestic market. In emerging economies, industrial growth is reflected in achieving higher productivity, embracing new technologies, intelligent production processes and reducing the effects of the industrial production on the environment and climate.

In order to better analyze and compare economic industries internationally, it is a common practice to compare indexes. The Competitive Industrial Performance (CIP) index is a composite measure to benchmark industrial competitiveness across different economies, representing valuable information on countries' strengths and weaknesses in national/local production. The CIP Index is widely used by international development agencies to rank countries within the context of their development priorities. The global manufacturing ranking is based on the analysis of eight indicators reflecting the following three dimensions:

- The capacity to produce and export manufactured goods;
- The extent of technological deepening and upgrading;
- The impact on the global market;

*World map of CIP index scores, 2017*

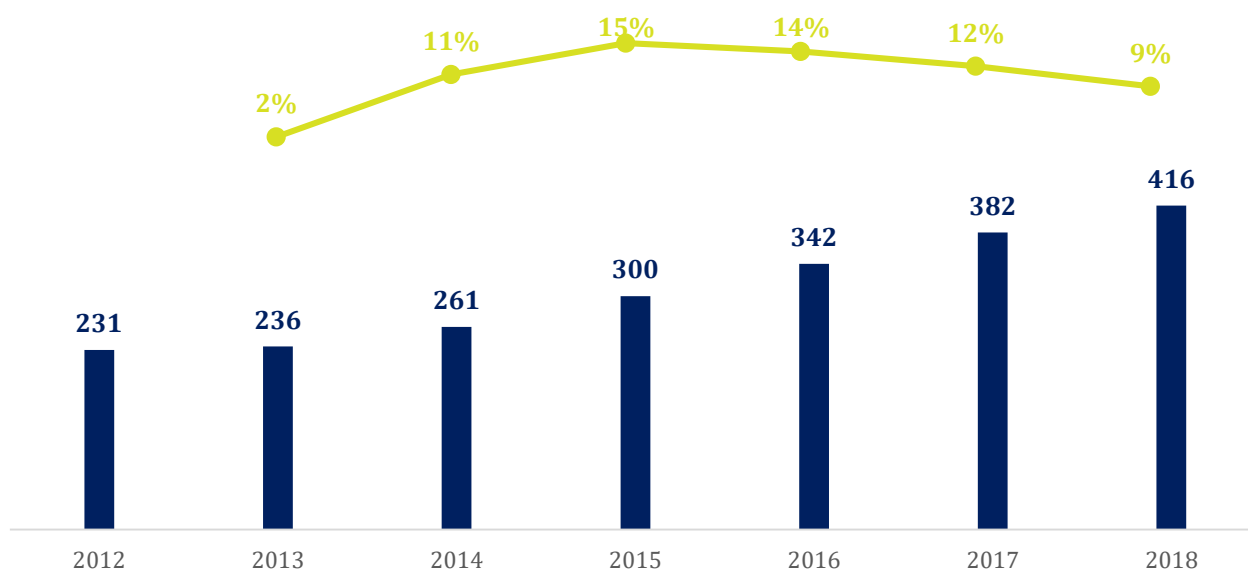


*Source: UNIDO*

Chart 1 represents the countries at the top of the 2017 CIP ranking by colors, the darker the color, the higher the country is placed in the ranking. According to the United Nations Industrial Development Organization (UNIDO), in 2017, the top 10 countries by the CIP index were Germany, Japan, China, Republic of Korea, USA, Ireland, Switzerland, Belgium, Italy and Netherlands respectively. From 2012 to 2017, Germany and Japan remained at the first and the second places respectively. China, which was ranked fifth, moved up to the top three in 2015, pushing the USA down in ranking. As for Georgia, being ranked 97th in 2012, the country moved up to 94th in 2017, always remaining at a higher position in rankings in comparison with the two other countries in Southern Caucasus - Azerbaijan and Armenia.

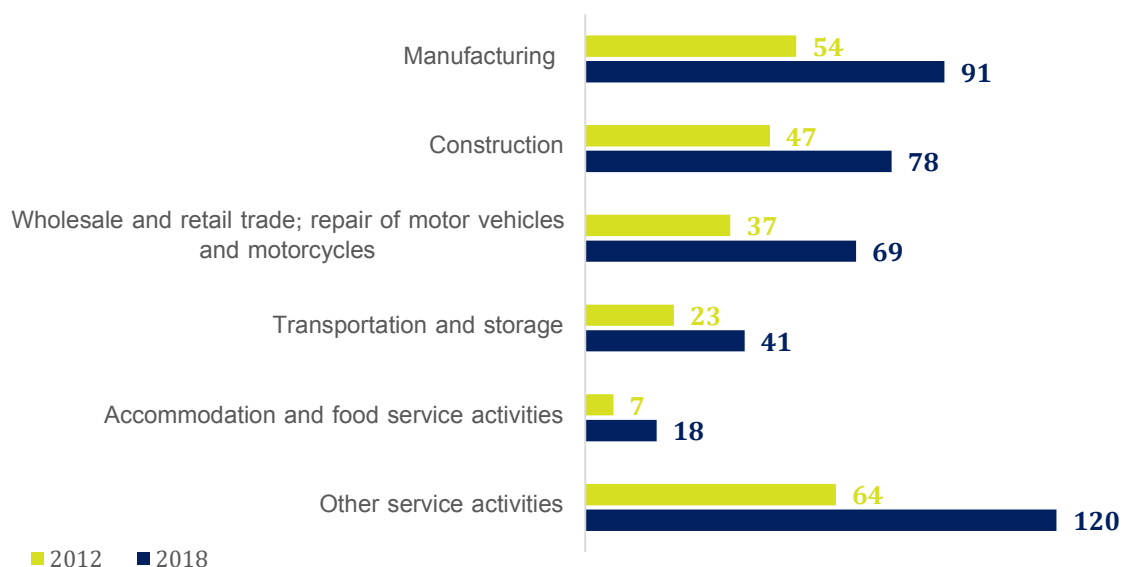
Georgia's industry development in the domestic market can be observed with the help of the National Statistics Office of Georgia, which studies 16 economic activities and annually monitors production, turnover, added value, employment, etc., and is published on the official website. It is interesting to see how the industries have changed in Georgia over the past few years and which ones had the biggest growth.

*Total Production Value and its growth rate in Georgia, 2012 – 2018*



*Source: National Statistics Office of Georgia*

Production Value by Top 5 Economic Activities in Georgia, 2012 and 2018



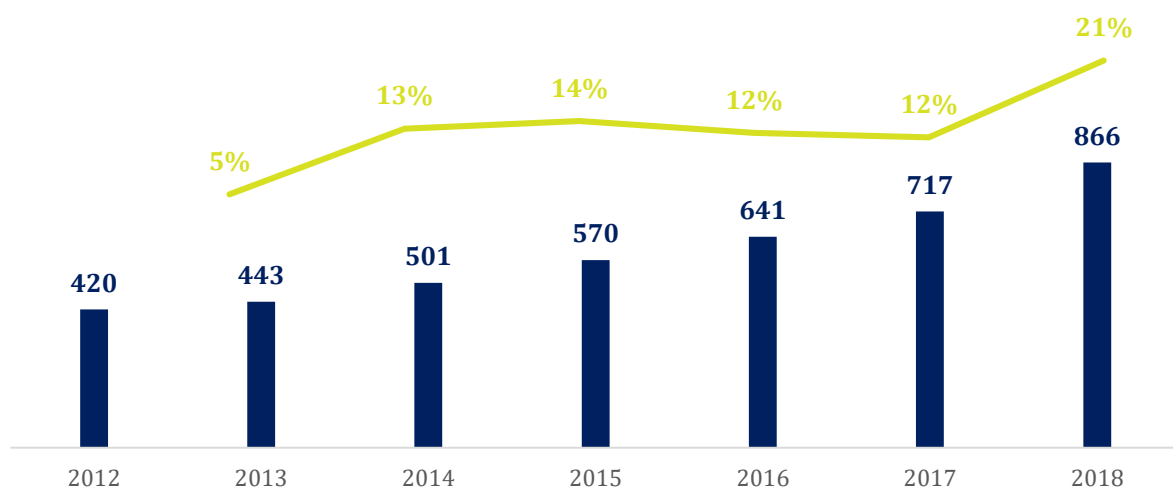
Source: National Statistics Office of Georgia

As provided in Chart 2, the biggest growth in total production value was observed in 2015 (15%), while the smallest growth was in 2013 (2%) and 2018 (9%).

As for specific industries, according to Chart 3, manufacturing had the biggest growth from 2012 to 2018 while the smallest growth was in arts, entertainment and recreation (3%).

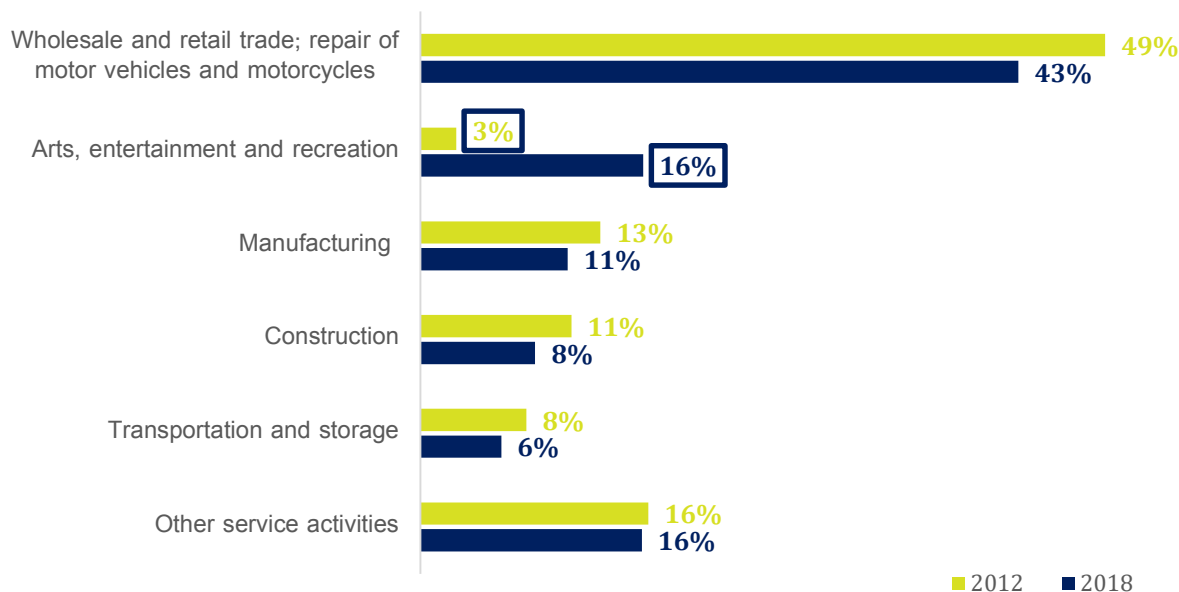
These growths of the production of manufacturing economic activities were resulted by several factors such as Free Trade Agreements with the People's Republic of China, with the EFTA Countries (Iceland, Norway, Switzerland, and Liechtenstein), Turkey and the CIS countries (Russia, Ukraine, Kazakhstan, etc.), and Generalized System of Preferences (GSP) agreements with USA, Canada, and Japan.

Total Turnover and its growth trend in Georgia, 2012 – 2018



Source: National Statistics Office of Georgia

Share in Total Turnover by Top 6 Economic Activity in Georgia, 2012 and 2018



Source: National Statistics Office of Georgia

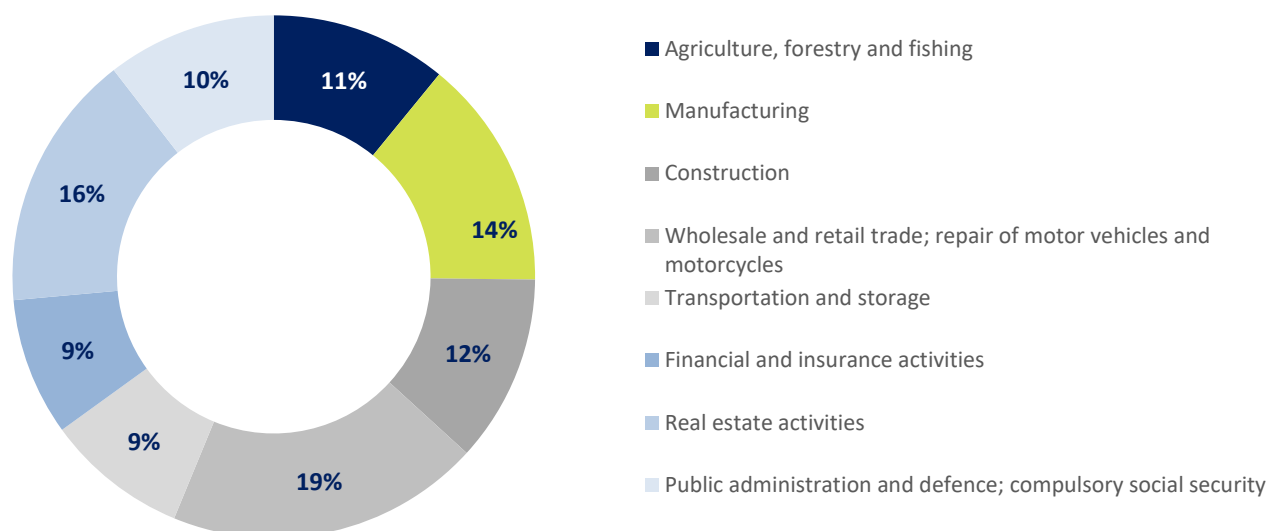
According to Chart 5, between the years of 2012-2018, the turnover of arts, entertainment, and recreation had the biggest growth, from 3% to 16% of the total amount. As for the rest of the economic activities, their share remained almost the same throughout the years, wholesale and retail trade (motor vehicles and motorcycles) having the most of the turnover. The trend continued in 2019, when automobiles topped the list of top ten exporters by \$686.7 million, accounting for 18.2% of total exports. Re-export of cars increased by 68.2% in 2019 compared to 2018 and by 18.2% in total exports.

The second biggest share in the total turnover over the years was in manufacturing and construction. Both of the economic activities were affected by the fact that the Government of Georgia announced the tender for the construction of a deep-sea port and the Free Trade Zone north of Poti, in Anaklia, to expand the overall capacity of Georgia's ports and the Caucasus transit corridor. The project also involved modernizing the railway network of Georgia and Azerbaijan, as well as Turkmenistan, Uzbekistan, and Kazakhstan, located on the other side of the Caspian Sea.

Having the second biggest share in the total turnover, if we dive into the construction industry, turnover growth can be caused by a large number of buildings that were built in Georgia. Most buildings in Georgian history were built in 2016, with a total area of 2.4 million square meters of facilities completed this year. In terms of regions, 29% of projects are located in Tbilisi, followed by Kakheti with 16%.

Before the new banking regulations, new building safety standards have been in place in the sector since spring 2018. Restrictions affected both the construction process itself and the permit regulations. With the enactment of regulations, for the first time in the last three years, the rising trend of the construction sector has stopped. The construction sector has been affected by banking regulations more than any other. In the first quarter of 2019, the sector's turnover began to decline by 9.6% in comparison to the previous year.

Gross Domestic Product by Economic Activities in Georgia, 2018



*Source: National Statistics Office of Georgia*

When analyzing economic activities in Georgia in regards to the GDP, it is important to highlight, that in the first half of 2019, compared to the first half of 2018, the Georgian economy (real GDP) grew by 4.7%. In the second quarter of 2019, compared to the same period of the previous year, economic growth was 4.5%. The growth was resulted in adding 321, 1 GEL in real GDP.

In Chart 4, we can see the shares of economic sectors in Georgian GDP in 2018. Wholesale and retail trade had the biggest share (19%), whereas financial and insurance activities as well as transportation and storage each had at least (9% each).

In the first half of 2019, there was a decline in three sectors: construction decreased by 6.8%, mining industry by 5.8% and manufacturing by 3.2%. Separately, in the second quarter of 2019 (April-June), the highest growth by 18% was observed in the transport sector, while the highest decline was recorded in the education sector by 8%.

It is also interesting to look over what international publications have to say about Georgian industries, which ones are the most popular and have the biggest impact on the country's international image. In the article prepared in 2019 by Worldatlass, the website providing informative content surrounding the realm of geography internationally since 1994, the biggest industries having the impact on the development of Georgia are mining, agriculture, tourism and energy.

## Metal mining

Not only Georgians began metal mining with copper in the sixth-fifth millennia BC, but they also mined gold, bronze, brass, copper, and iron during ancient times. Georgia was a major producer of high-grade manganese

ore for over a century. Georgia has over three hundred explored mineral deposits, but only 50% of them have been brought into production.

## **Agriculture**

The Georgian agricultural sector has employed over 55% of the workforce through subsistence farming. Georgia's soil and climate have made the agricultural sector one of the most productive parts of its economy, which contributes about 7.8% of the country's GDP in 2018 and total production in agriculture and fishing amounted to 4 billion GEL.

## **Tourism**

The tourism sector is an important part of the economy, which contributed to 7.6% of the country's GDP and provided \$1.94 billion of revenue. 71.8% of Georgia's service export income is Tourism. Georgia's income from international tourism exceeded 3.2 billion USD in 2018. The country received over 8.7 million visitors in 2018 with foreign exchange amounting to \$2.6 billion during the first three-quarters of the year. All international visitors stay in the country for an average of 6.5 days. 1,404,757 tourists came from Russia, 1,424,610 from Azerbaijan, 1,098,555 from Turkey and 1,268,886 from Armenia in 2018.

## **Energy**

Georgia has an extensive hydropower capacity, which is a serious potential of being the leading supplier of hydropower in the region. Out of the 26,000 rivers in the country, 300 are significant in energy production. Hydropower accounts for more than 80% of Georgia's generating capacity and between 75-90% of power generation, based on average hydrologic conditions. By the end of 2015, Georgia had installed more than 70 operational hydropower stations, totaling 2,727 MW in capacity.

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