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Industrial Policy in Georgia (2014-2025): An Analytical Assessment

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Abstract: ***This article evaluates the trajectory of Georgia's industrial policy between 2014 and 2025, examining its influence on structural transformation, innovation capacity, and competitiveness. Drawing from the "Georgia 2020" Strategy and key programs such as Produce in Georgia, the Partnership Fund, and the Innovation and Technology Agency, the study employs a mixed-methods approach using national and international benchmarks. The analysis reveals that, while institutional frameworks have evolved, Georgia continues to face challenges including a narrow industrial base, limited technological upgrading, and weak human capital alignment. The study concludes with policy recommendations emphasizing innovation-led growth, regional diversification, and improved institutional coordination to support long-term industrial transformation.***

Keywords: Industrial Policy, Structural Transformation, Georgia 2020, Manufacturing, Innovation, Economic Development

1. Introduction

Over the last decade, Georgia has undertaken major efforts to stimulate industrialization within a liberalized economic environment. Following years of deregulation and privatization, the government's 2014 Socio-Economic Development Strategy "Georgia 2020" represented a shift toward production-oriented growth. It articulated three central pillars: competitiveness, inclusiveness, and sustainability (Government of Georgia, 2014).

Yet, despite stable macroeconomic indicators and rising openness, Georgia's industrial sector continues to underperform relative to regional peers. Manufacturing output remains stagnant, export diversification weak, and productivity growth minimal (Benidze, 2018; World Bank, 2023).

This study re-examines Georgia's industrial policy framework through the lens of structural transformation. It asks: Has industrial policy in Georgia effectively fostered competitiveness, technological upgrading, and inclusive growth? The analysis covers the period after 2014 and integrates updated post-pandemic data (2020–2025).

2. Methodology and Data

The research adopts a mixed methodological approach combining descriptive analysis, cross-country comparison, and policy evaluation. The primary data sources include GeoStat, The Ministry of Economy and Sustainable Development, UNCTAD, and World Bank datasets for 2014–2024. The analysis considers the following key variables:

- Manufacturing value-added (% of GDP)
- Export diversification index and FDI inflows
- Innovation and competitiveness rankings
- Employment and productivity trends

The analysis applies Rodrik's (2004) framework for evaluating industrial policy, emphasizing coordination challenges, institutional capacity, and learning spillovers, with comparative reference to transition economies such as Estonia and Lithuania.

3. Literature Review

Industrial policy's resurgence in development economics underscores its role in addressing market failures and fostering productive capacity (Rodrik, 2004; Chang, 1994). Historically, successful late-industrializing economies - Korea, Taiwan, Ireland - combined targeted incentives with institutional discipline (Amsden, 2001).

Krugman (1995) argues that openness without competitiveness deepens dependency on imports, while Leontief (1986) highlights the centrality of inter-sectoral linkages to sustained growth. Within transition economies, structured industrial policy has proven essential for aligning innovation systems, human capital, and export performance (Miller & Blair, 2009).

In Georgia, Benidze (2018, 2021) identified systemic gaps: fragmented coordination, limited technological absorption, and insufficient investment in R&D (below 0.3% of GDP). Moreover, comparative studies by the World Bank (2023) show that coherent industrial ecosystems, particularly in small open economies, require synchronized education, finance, and innovation strategies to trigger structural transformation.

4. Results and Analysis

From 2010 to 2025, Georgia's industrial policy evolved through distinct stages that reflect the country's gradual shift from liberalization toward a more active developmental framework. The early phase, from 2010 to 2014, was marked by deregulation, privatization, and the establishment of a liberal market environment that prioritized the ease of doing business over sectoral coordination. This period strengthened Georgia's reputation as an open, reform-oriented economy, yet left the industrial base fragmented and highly dependent on imports. The second phase, spanning 2014 to 2020, was defined by the introduction of the Georgia 2020 Socio-Economic Development Strategy, which sought to reposition the state as a facilitator of industrial and export-led growth. For the first time, the government articulated measurable goals for competitiveness, innovation, and human capital development. The most recent stage, between 2020 and 2025, emphasized consolidation of industrial and innovation programs, with a particular focus on regional industrial zones, digitalization, and post-pandemic resilience. However, despite institutional progress, the absence of a unified industrial master plan continues to fragment the policy landscape and weaken coordination among agencies.

Economic indicators over the past decade reveal a pattern of macroeconomic stability coupled with limited structural transformation. Georgia's GDP expanded at an average annual rate of 5.3 percent, yet the manufacturing sector's share in GDP increased only marginally - from 10.2 percent in 2014 to 12.4 percent in 2024 (GeoStat, 2024). This stagnation contrasts with the more rapid industrial expansion observed in comparable transition economies. Employment data reinforce the same trend: manufacturing accounts for merely 7.2 percent of total employment, while agriculture still employs 37 percent of the labor force. This illustrates a case of premature deindustrialization (Rodrik, 2016). These figures indicate that Georgia's growth has been driven primarily by construction, services, and consumption, rather than by productivity - enhancing industrial activity.

Trade and export composition further highlight the fragility of the industrial base. The structure of exports remains heavily concentrated, with five products - copper ores, ferroalloys, wine, nuts, and mineral water - comprising approximately 63 percent of total exports. Manufactured goods represent only 22 percent of Georgia's exports, compared with 55 percent in peer transition economies (UNCTAD, 2024). This limited diversification underscores the country's continued dependence on raw materials and low-value-added production, despite access to major international markets through the EU Association Agreement and the Georgia–China Free Trade Agreement.

Performance against the Georgia 2020 strategic benchmarks has been mixed. The investment-to-GDP ratio reached 26.8 percent, well below the 35 percent target; total factor productivity growth averaged 1.4 percent compared to the expected 3.2 percent; and the unemployment rate remained above 15 percent. Georgia's rank in the Global Competitiveness Index fell from 66th in 2014 to 74th in 2024, while research and development expenditure stagnated at 0.3 percent of GDP, a fraction of the EU average (2.3 percent). These indicators confirm that macroeconomic stability has not yet translated into structural upgrading or industrial diversification.

Institutional programs implemented since 2014 demonstrate some achievements but also major shortcomings in scope and depth. The Produce in Georgia program, launched in 2014, provided subsidized loans, property access, and technical assistance to domestic producers. By 2024, it had supported 359 projects, generated approximately GEL 783 million in investments, and created 13,000 jobs. However, most projects remain concentrated in low-technology sectors like food processing, construction materials, and textiles. Only a small share of beneficiaries achieved export competitiveness.

Similarly, the Partnership Fund has invested USD 487.8 million since 2011, but most of its portfolio is directed toward energy (47 percent) and real estate (24 percent), with manufacturing accounting for just 20 percent. Its contribution to GDP growth is minimal, and its developmental role limited by a commercial investment logic rather than an industrial one.

By contrast, the Innovation and Technology Agency (GITA) has made more visible progress in fostering a technology - oriented ecosystem. Since 2014, GITA has funded more than 600 innovation projects, allocated over GEL 22 million in grants, and contributed to Georgia's rise from 68th to 45th in the Global Innovation Index between 2017 and 2023. Nonetheless, R&D intensity remains insufficient to support long-term technological upgrading, and collaboration between universities and industry is still weak, ranking 98th globally. High - technology exports represent only 7 percent of total manufactured exports, reflecting the limited diffusion of innovation across production sectors.

Human capital and productivity remain major structural constraints. Labor productivity in manufacturing averages USD 13,500 per worker, compared with USD 35,000 in Eastern Europe. Georgia's vocational education enrollment stands at 9.5 percent, significantly lower than the EU average of 25 percent, while its workforce skill ranking remains among the lowest in the region (WEF, 2019). This mismatch between education outcomes and industrial demand inhibits technology absorption and discourages foreign direct investment in higher - value sectors.

Financial conditions have improved modestly, yet they continue to constrain industrial expansion. Private credit reached 62 percent of GDP in 2024, the highest in the South Caucasus, but most lending supports consumption rather than productive investment. Industrial borrowers face interest rates averaging 10-12 percent, and domestic savings remain shallow at 18.5 percent of GDP. The government's Credit Guarantee Mechanism, introduced in 2022, helped improve SME access to loans but has not yet generated the scale of capital investment necessary for manufacturing transformation.

A cross-country comparison places Georgia behind its regional peers in industrial intensity and innovation capability. Manufacturing accounts for 12.4 percent of GDP in Georgia, compared with 16.2 percent in Estonia and 17.5 percent in Lithuania. R&D expenditure stands at 0.3 percent of GDP, while Estonia and Lithuania invest 1.8 percent and 1.2 percent, respectively. Although Georgia's regulatory environment remains efficient and business - friendly, its weak production capacity, narrow industrial base, and low innovation depth underscore the persistent structural gap between policy ambition and industrial performance.

Taken together, these results illustrate that while Georgia's economic policy framework has succeeded in fostering stability and attracting investment, it has yet to generate the scale of industrial transformation required for sustainable, innovation - led growth. The combination of narrow industrial diversification, limited technological upgrading, and modest productivity gains indicates that the country remains in an early stage of structural transformation, reliant on external financing and low - value - added sectors for growth.

5. Discussion and Policy Implications

The empirical findings highlight a paradox: Georgia exhibits strong macroeconomic fundamentals but weak industrial momentum. This "stability without transformation" mirrors trends observed in other liberalized economies lacking coordinated industrial policy (Rodrik, 2004).

- **Fragmented Governance:** Multiple institutions - MoESD, Partnership Fund, GITA - operate in silos with overlapping mandates. The absence of a unified Industrial Development Council impedes cross - sector coordination. Establishing a centralized policy body could align fiscal, educational, and technological measures.
- **Innovation and Technology Gap:** Despite incremental improvements, Georgia's innovation ecosystem remains embryonic. Policy should shift from startup promotion toward sustained technology absorption. Introducing industrial R&D tax credits, university - industry consortiums, and regional technology parks can bridge innovation and manufacturing.
- **Human Capital and Skills:** The structural skill deficit requires a dual approach: (1) modernize vocational education aligned with manufacturing clusters, and (2) incentivize private firms to invest in workforce training through cost - sharing schemes.
- **Financing Industrial Upgrading:** Georgia's reliance on commercial banks limits long - term capital access. Establishing a National Development Bank or Industrial Financing Facility could channel concessional credit toward productive sectors by following models from Poland's BGK and Korea's KDB
- **Green and Regional Industrialization:** With EU alignment, Georgia can integrate green transition objectives - renewables, circular manufacturing, sustainable materials - into industrial policy. Developing regional industrial parks (Kutaisi, Rustavi, Zugdidi) would reduce Tbilisi - centric concentration and generate inclusive growth.
- **Monitoring and Evaluation:** Industrial programs currently lack measurable impact assessment. Embedding key performance indicators (employment elasticity, export value - added, innovation uptake) will ensure evidence - based policymaking.

Ultimately, Georgia's industrial transformation hinges on coherence - connecting fiscal incentives, innovation frameworks, and educational reform into a unified strategy.

6. Conclusion

Georgia's decade-long experience with industrial policy demonstrates partial progress and persistent structural inertia. While initiatives such as Produce in Georgia and GITA have improved the entrepreneurial landscape, they have not catalyzed a fundamental shift toward higher-value manufacturing.

The study reveals three enduring gaps: (1) weak inter - institutional coordination; (2) insufficient technological upgrading; and (3) limited human - capital alignment. These deficits have prevented the emergence of a robust industrial core capable of sustaining long - term productivity growth.

To advance beyond incremental change, Georgia must adopt a new industrial policy built on four pillars:

- **Innovation - led Manufacturing:** Promote R&D-intensive sectors and foster technology transfer through global partnerships.
- **Inclusive and Regional Development:** Expand industrial zones and cluster policies beyond Tbilisi to leverage regional comparative advantages.
- **Green Transition:** Integrate environmental sustainability into industrial competitiveness, aligning with EU Green Deal standards.
- **Institutional Coherence:** Establish a permanent inter - ministerial council for industrial development, ensuring accountability and coordination.

If implemented effectively, such a framework could transform Georgia from a consumption-driven economy into a production-led, innovation-driven nation, achieving the structural transformation envisioned in Georgia 2020.

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