

## SOME ASPECTS OF NATIONAL ECONOMIC DOCTRINE

Tamaz ZUBIASHVILI

*Ivane Javakhishvili Tbilisi State University, Georgia  
zubtamaz@yahoo.com*

Tamar ATANELISHVILI

*Ivane Javakhishvili Tbilisi State University, Georgia  
[tamaratanelishvili@yahoo.com](mailto:tamaratanelishvili@yahoo.com)***Abstract**

*Doctrines which substantiated introduction of market economy elements and priority of development of real sector, e.g. industry, on certain stage of the development of national economy have held an important place in the history of economic thought. Classics were the very first to develop such doctrines. (Silagadze, A., 1996, 2000, 2001, 2006-2016; Силагадзе, А.: 1991, 2009-2013, 2016; Kharitonashvili, J., 2008; Silagadze, A., Atanelishvili, T.: 2006-2007, 2010- 2011, 2013-2014; Силагадзе, А., Атанелишвили, Т. 2010).*

*The issue was quite challenging on the first stage of building of capitalism in Georgia (19<sup>th</sup> century). Niko Nikoladze, a Georgian public figure (1843-1928), emphasized the high priority of the issue in those times. (Nikoladze, N.: 1960-2003, 2006; Gamezardashvili, D., 1983; Janelidze, O., 1998; Silagadze, A., (Editor), Atanelishvili, T., Goshadze, G. (Edit.), Demetrashvili, T., Zurabishvili, V. (Edit.) - 2005; Silagadze, A., Atanelishvili, T., 2004). His attitudes are still important in post-Soviet Georgia which heavily depends on import. The fact is that instead of using rich local resources, Georgia tends to import goods which the country has a real ability to produce itself. Poor development of real sector of economy has remained an Achilles' heel for years. Tourism is a priority for the country, but during economic crises touristic flows stop and if there is no alternative, the country will face a deep crisis. (Tvalchrelidze, A., Silagadze, A., Keshelashvili, G., Gegia, D., 2011; Силагадзе, А.Н., Сидоров, В.А., Ядгаров, Я.С.: 2016).*

*According to the conclusion made in this article, Niko Nikoladze's doctrine which complies with "classic" attitudes, also complies with both "classic" and national economic doctrines of Germany. It also complies with Ilia Chavchavadze's economic doctrine with the difference that Ilia believed that agriculture was of highest priority while Niko Nikoladze believed industry to be the most important. In general, his economic doctrine implies priority development of national industry, deepening of west-east sea and railway ties, construction of ports, supporting export, careful demilitarization, and improvement of market mechanisms of price formation, etc.*

**Keywords:** *Industry, oil pipelines, railway, demilitarization, banking, capital market*

**JEL Classification:** *B20, B30, B40*

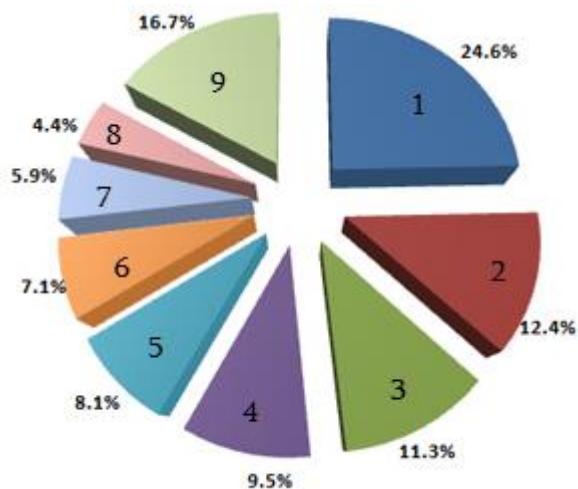
**I. INTRODUCTION**

Doctrines which accented the leading role of industry in the economic development of the country have held an important place in the history of economic thought. Classics were the very first to develop such doctrines. The issue was quite challenging on the first stage of building of capitalism in Georgia. Niko Nikoladze, a Georgian public figure (1843-1928), emphasized the high priority of the issue in those times. (Bakradze, 2004; Bakhtadze, V.).

In this article we will analyze some of his economic attitudes (to some extent in relation with the modern times) according to which development of industry should have been a priority in the economic development of Georgia. The issue is absolutely challenging in Post-Soviet Georgia whose main aim is European integration. (Silagadze, A., Zubiashvili, T.:2015; Silagadze, A., Tokmazishvili, M., Atanelishvili, T.:2014; Zubiashvili, T., Silagadze, L.:2016]. The fact is that instead of using rich local resources (Silagadze, A., Zubiashvili, T., Atanelishvili, T., 2016], Georgia tends to import goods which the country has a real ability to produce itself. Poor development of real sector of economy has remained an Achilles' heel for years. Foreign debts and investments are poorly used to develop this sector. (Kharaiashvili, E., Gagnidze, I., Chavleishvili, M., Nacvlishvili, I., Nacvaladze, M., 2008; Silagadze, L.: 2015, 2016; Silagadze, N., 2011). Tourism is a priority for the country, but during economic crises touristic flows stop and if there is no alternative, the country will face a deep and long crisis. At present, portion of industry in Georgia's gross production is quite low – 16.7 %, and it barely satisfies local demand. (Aleshchenko, V., Nedelea, A., 2008; Basilia, T., Silagadze, A., T Chikvaidze, T., 2001; Tvalchrelidze, A., Silagadze, A., Keshelashvili, G., Gegia, D., 2011; Atanelishvili, T., Silagadze, N., 2016).

(Chart 1).

**Chart 1. Gross production structure 2015, percentage, 2015 (%).**



1.Industry, 2.Commerce, 3.Construction, 4.Transport and communication, 5.Agriculture, fish-breeding, 6.Public governance, 7.Real estate transactions, lease, and service provision to customers, 8.Health care and social assistance, 9. Other branches.

[http://geostat.ge/?action=page&p\\_id=118&lang=ge](http://geostat.ge/?action=page&p_id=118&lang=ge)

Various scientists have dedicated their works to study of these issues. (See References)

## II. GENERAL OVERVIEW

After graduating from Zurich University in 1868, Niko Nikoladze defended a doctoral thesis on the topic “Demilitarization and its social and economic results” at the same University. His thesis was published as a separate book in Genève in French.

In 1883 he published a programme dedicated to the problems of oil industry and shipment. The programme was approved by the participants of Baku Oil Industrialists’ meeting.

In 1894-1912 Niko Nikoladze was elected as mayor of the city of Poti (sea gate of Georgia). Under his leadership projects of highest importance were developed, namely:

- Grozny (Chechnya, Russia)-Poti oil pipeline;
- Railway of southern Caucasus;
- Development of Poti port;
- Tbilisi water pipeline, etc.

Giorgi Nikoladze (1888-1931), a professor at Tbilisi State University, continued traditions of his father. In 1929 he managed the construction of Zestaponi ferroalloys trial oven. Currently, that very enterprise is one of the main exporters of ferroalloys in Georgia.

## III. PRIORITY OF INDUSTRY

Like “classics”, Niko Nikoladze studies industrial branch in general, and believes that industry plays main role in creation of material wealth, which leads to the development of other branches of economy. At the same time, he did not underestimate the role of commerce in the economic development of the country.

He was much concerned about poor use of rich natural resources of Georgia which was often caused by lack of qualified knowledge. He supported the idea of exploring the coal-rich resources of Tkibuli (West Georgia), establishment of enterprises, including wool knitting factory, etc.

According to N. Nikoladze, technical development of industry could play crucial role in the development of the country. He knew very well that the country would not have any progress with tools from the times of “the Noah’s Arch survivors”. Without knowledge and new technologies small-scale entrepreneurs would not be able to compete with capitalistic “steam machine”.

He duly believed that construction of railway network, building of Black Sea ports and development of shipbuilding, creation of commercial fleet and involvement of the country in the world trade were crucial factors

for the development of industry.

He emphasized that absence of Georgian commercial fleet hindered the import of cheap raw materials in industry, export of agricultural produce, and, in general, the country became dependent on other states.

In his opinion, in the development of commercial relations between the Europe and Asia crucial role could be played by construction of Poti-Tbilisi-Baku-Middle East railway line as well as a railway line to Iran.

It turns out that the author predicted the necessity of restoration of “the Silk Road”. Actually, the construction of Azerbaijan-Georgia-Turkey railway line has almost been finished and it will play crucial role in two-way freight turnover between the Europe and Asia.

#### IV. ABOUT COMMERCE

Niko Nikoladze believed that commerce could greatly contribute to the country’s development. Through commerce, Georgia could export abundance of goods (instead of cash) which would earn more income for the country, but for this purpose Georgia was required to produce export goods.

In this view, the situation is still unsatisfactory: volume of import in Georgia’s trade balance exceeds the volume of export 4.7 times. That means that with the money earned by us new jobs are created abroad, while local resources remain unused. (Table 1).

**Table 1. Foreign trade of Georgia, 2007-2015 (\$ mln)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Foreign trade turnover	6444	7797	5609	6913	9259	10413	10433	11463	9935
Registered export of goods (FOB)	1232	1495	1134	1677	2186	2377	2911	2861	2205
Registered import of goods (CIF)	5212	6302	4476	5236	7072	8056	8023	8602	7730
Foreign trade balance	-3980	-4806	-3342	-3559	-4886	-5680	-5112	-5741	-5525
Export without reexport	1113	1326	990	1380	1693	1606	1812	1873	1637

[http://geostat.ge/?action=page&p\\_id=133&lang=geo](http://geostat.ge/?action=page&p_id=133&lang=geo) 28.09.2016

Nikoladze’s worries were not groundless: Technologically low-developed country is an exporter of cheap raw material and importer of expensive products manufactured with the same raw material. That leads to impoverishment of broad population, brawn drain and settling of foreigners in the country. Unfortunately, population of Post-Soviet Georgia has decreased sharply (by up to 15 %) due to such tendencies.

#### V. ABOUT DEMILITARIZATION

As noted above, N. Nikoladze dedicated his doctoral thesis to the issue of demilitarization. He understood well that military expenses exhausted national economy and that’s why he preferred peaceful relations with neighboring regions.

In his opinion, demilitarization is profitable because liberated money can be used to revive industry but he is against fast demilitarization which can lead to crisis. The crisis can result in stoppage of defense industry, growth of unemployment rate, reduction in state revenues, and decrease in demand. Also, he believes that after fast demilitarization, troop dismissal will not reduce state expenses significantly – on the contrary, the state expenses will increase due to the necessity to help the unemployed and the underfeed.

Thus, Niko Nikoladze’s original research made the civilized world see clearly the uselessness of demilitarization, on the one hand, and possible negative social and economic results of fast demilitarization, on the other hand.

#### VI. MISCELLANEOUS

*Agrarian project.* In his work *Liberation of Peasantry in Georgia* (1865) he wrote that formal abolition of serfdom in Georgia still left the peasantry in the pincers of their landlords.

According to his project, nobility and village banks were to be founded in Georgia. He believed that the utmost task of the banks were to prevent the population from losing their estates. As part of this plan, first independent commercial Nobility Bank was founded in Georgia in 1875 and Ilia Chavchavadze was chosen to chair it.

*Banking principles.* N. Nikoladze developed the following principles of banking policy:

- Bank loan can be profitable only if it is used to improve the estates of land owners;
- Banks should give loans preferentially to those people who cultivate their own land;

- Strict observance of loan payment will encourage issuance of new loans.

He understood well that gross capital of a bank consisted of own and attracted resources. Furthermore, he duly emphasized the importance of bank guarantee in credit relations.

In his opinion, credit can be useful if it creates wealth. Thus, credits can be used effectively, first of all, by pioneer entrepreneurs.

In pace with the development of banking sector, N. Nikoladze noticed perspectives of development of another important market structure – capital market.

*Unemployment and employment.* He duly believed that growth of unemployment rate:

- reduces demand and increases competition;
- creates problems with sale of produced goods.

He believed that the *price* and the supply and demand for goods were related to each other.

## VII. CONCLUSION

Niko Nikoladze’s doctrine, which complies with “classic” attitudes, is still challenging today. His doctrine implies:

- Priority development of national economy;
- Deepening of west-east sea and railway ties;
- Construction of oil pipelines;
- Supporting export;
- Careful demilitarization;
- Improvement of national banking;
- Development of capital market;
- Improvement of market mechanisms of price formation, etc.

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