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# LARGE CITIES AND ECONOMIC GROWTH (based on the Georgian example)

NIKOLOZ CHIKHLADZE

Doctor of Economic Sciences, Professor of Kutaisi University, Professor of Akaki Tsereteli State University, Georgia

NANA RUSADZE

Doctor of Public Administration, Associate Professor of Akaki Tsereteli State University, Georgia

AZA IPSHIRADZE

Doctor of Economics, Professor of Kutaisi University, Associate Professor of Akaki Tsereteli State University, Georgia

**Abstract.** The formation of market relations in Georgia and the integration of its economy with the world economy have further enhanced the relevance of the solution to the problem of allocating the country's economic space unit and institutional organization. After gaining independence, the transition to the market system essentially changed the characteristics of the economic and social situation for both regions and individual territorial units. These changes significantly affected the cities, which faced many challenges, and as a result, a difficult socio-economic situation was formed in these cities.

In the paper, we tried to study the role of cities in economic growth and did this on the example of the self-governing cities of Georgia.

It turned out that self-governing cities of Georgia play a crucial role in the development of the country and regions. In these cities, the positive and negative sides of the socio-economic reforms implemented in the regions, in general, the main directions of the development of the regions and the country are most acutely manifested. Therefore, these cities' economic development and strategic management acquire special importance. They generate more than 4/5 of investment and the total added value created in the country, the significant share of turnover of the business sector and employment is recorded in this sector.

**KEYWORDS: URBAN ECONOMY, SELF-GOVERNING CITY, GROWTH INSTITUTION.**

## Introduction

We live in an urban environment. It can be said that the world is endangered by the constant population movements from the countryside to cities. 65 million persons are added annually to the world's urban population, which means adding seven new Chicagos per year. According to the forecasts of some authoritative organizations, by

2025, the total GDP of the world's 600 largest cities will reach \$64 (60% of global GDP), and the average yearly income per household will be \$32 thousand. (Dobbs...2011:12) [1]

The territorial system is a basic constituent of social and economic steadiness, forming a kind of basis for the sectoral system. It is influenced by industrial, sectoral, social and political factors. On the other hand, the territory is characterized

by resource potential and resource intensiveness. Thirdly, the territory is significant in terms of attracting and retaining the population, as well as in terms of social attractiveness.

The world has been urbanising rapidly since the second half of the last century. Currently, 82% of the population lives in cities in developed countries. According to UN data, in 60 years (1960-2020), the proportion of people living in cities in the world has increased from one-third to 56.2% (from 1 billion to 4.4 billion people), and by 2050 this figure will reach 68%. (World... 2018) [2]

Studies have shown that urbanization and economic development are closely associated with each other: high urbanisation levels correlate with per capita personal income. This is explained by the introduction of labor-saving technologies in agriculture, the release of the labor force in relatively low-productivity agriculture, the outflow to more productive, processing sectors and the service sector, and agglomeration or scale effects. (Henderson, 2010:525) [3]

### Basic part

In many developed countries, rapid urbanization was not accompanied by industrialization, as in developed countries when cities were growing along with the increase in the number of factories. (Gollin... 2016:40) [4]

The decrease in industry share in the post-Soviet economy was due not to the increase in high-quality, innovative services but to sharp declines in industrial production. After the Soviet Union collapsed, there was a large-scale deindustrialization of the economy, resulting in many sectors and industrial enterprises disappearing. This

is related to the phenomenon of the “necroeconomy”, which includes the so-called dead enterprises and is the result of the refusal of competition in the conditions of the administrative economy. (Papava, 2015:980) [5]

Unfortunately, the adverse events significantly affected large cities and created a depressed background therein. Georgian cities were no exception in this regard.

The main criterion for an “urban-type settlement” is the population size, which varies from country to country. According to the legislation of Georgia, a city is a settlement with a registered population of more than 5,000, and industrial enterprises and a network of tourist, medical and socio-cultural institutions are located on its territory. It serves as a local economic and cultural center. (Law of Georgia, 2014) [6]

One of the important indicators of the economic development of self-governing cities/municipalities is the added value produced therein. The analysis revealed low rates of added value between municipalities and, at the same time, a sharp inequality. In particular, the annual added value produced in 57 municipalities (89% of the total) does not exceed 250 million GEL. In only four municipalities, it varies within the range of 500 million to 1 billion GEL; in one municipality (Batumi), it is in the range of 2-3 billion GEL, and it is the highest in Tbilisi (almost 24 billion GEL). (see Table 1)

Self-governing cities of Georgia (Tbilisi, Kutaisi, Batumi, Poti, Rustavi) play a decisive role in the development of the country and regions. In these cities, the positive and negative sides of the socio-economic reforms implemented in the regions are most acutely manifested, generally, in the direction of development of the regions and the

**TABLE 1:** Ranking of municipalities produced by value added (2022)

ADDED VALUE PRODUCED (BILLION GEL)	NUMBER OF MUNICIPALITIES	% OF THE TOTAL NUMBER
> 3,0	1	1,56
2,0 – 3,0	1	1,56
1,0-2,0	1	1,56
0,5-1,0	4	6,25
< 0,5	57	89,07

Calculated according to: [www.geostat.ge](http://www.geostat.ge)

**TABLE 2:** *The specific share of the total indicators of the self-governing cities with the corresponding indicators of the country (%)*

Indicator	%
Population	45.4
Value Added	80.1
Investments in fixed assets	80.7
Number of employees in the business sector	78.3
Turnover	86.4

Calculated according to: [www.geostat.ge](http://www.geostat.ge)

country. Therefore, these cities' economic development and strategic management acquire special importance. (Chikhladze...2023:170) [7] 45.4% of the country's population lives in these cities, 82% of the total added value created in the country is produced there, and the specific share in the turnover of the business sector is 86.4% (see Tables 2 and 3).

The level and potential of urban infrastructure development significantly determine the development potential of self-governing cities. The readiness of the entire city infrastructure to "receive" new types of business, "new cargo", and new people, as well as how quickly and effectively the city infrastructure can adapt to new conditions, are highly important. Along with other factors, the economic development of Tbilisi and Batumi was largely due to this factor.

The geopolitical depression caused by Russia's war against Ukraine, as well as the economic sanctions imposed on the Russian Federation,

hurt the global economy. The situation was also complicated by the negative processes caused by the COVID-19 pandemic. (Papava, 2022:8) [8]

It is necessary to take into account that during the ongoing Russia-Ukraine war, the burden of mass immigration is primarily transferred to the self-governing cities of Georgia. They are at different stages of development, and different processes are going on therein. Therefore, focusing on the growth of joint demand on supply opportunities and using different approaches to managing economic development processes is necessary.

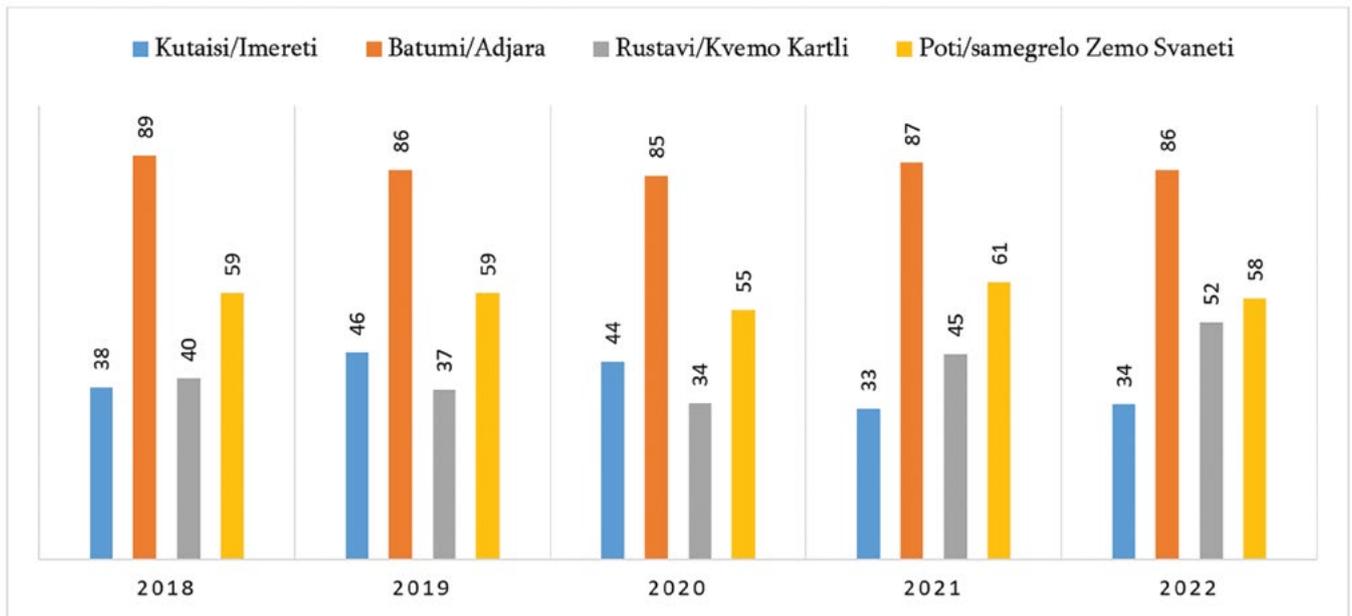
The analysis of the specific share of the added value created in the self-governing cities in the regional perspective revealed that the highest specific share in the region was recorded in Batumi. It is more than 85%, which is related to the city's expansion in the last decade, large-scale projects and investments taking place here, and significant population growth. In other cities (Kutaisi, Rustavi, Poti), it is relatively low (see Fig. 1). The low spe-

**TABLE 3:** *Some indicators of self-governing cities of Georgia (2022)*

CITY	POPULATION (THOUSANDS)	VA (MILLION GEL)	VA PER CAPITA (GEL)	DEVIATIONS FROM THE AVERAGE
Kutaisi	130.4	771.1	5913	-3888.0
Batumi	179.2	2794	15592	5790.1
Rustavi	132.3	1305.3	9866	64.8
Poti	41.5	691.5	16663	6861.3
Tbilisi	1241.7	23339	18796	8994.6
<b>Georgia/ Average</b>	<b>3688.6</b>	<b>36153.4</b>	<b>9801</b>	<b>0.0</b>

Calculated according to: [www.geostat.ge](http://www.geostat.ge)

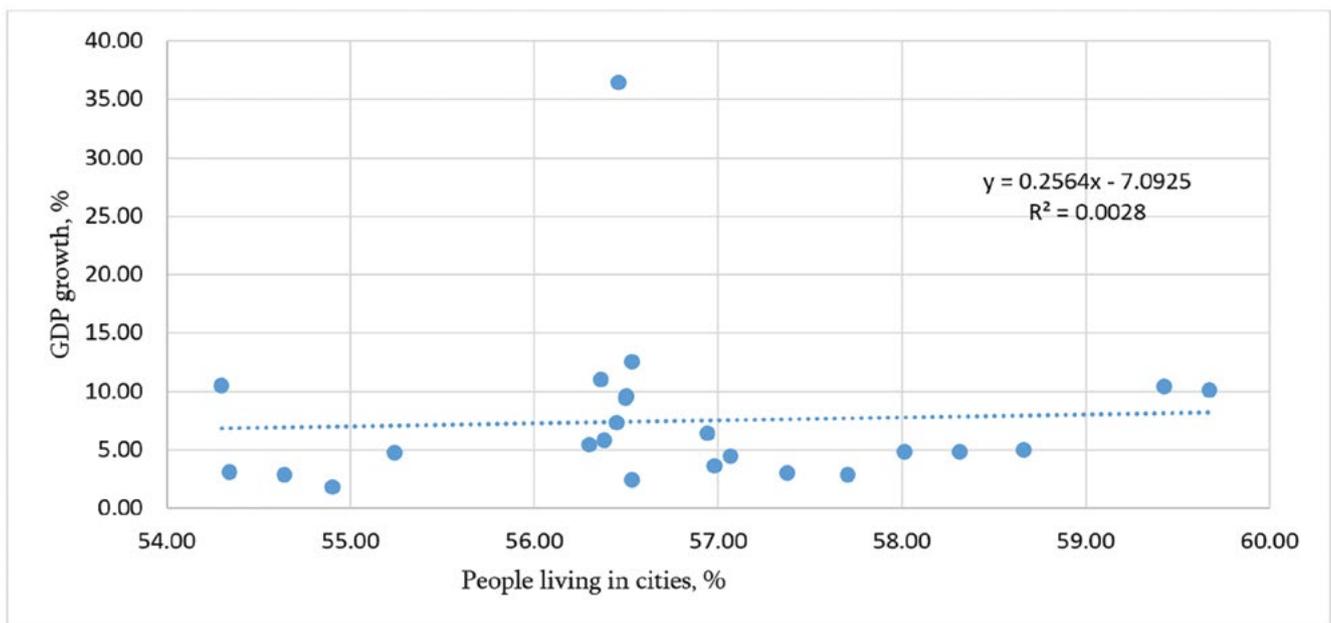
**FIGURE 1.** The share of value added created in the municipality in the region (in 2018-2022, %)



cific share of Kutaisi in the Imereti region (34%) is explained by the high added value created in the Zestafoni municipality (36% of the region). In the Samegrelo-Zemo Svaneti region, the relatively low specific share of the added value created in Poti (61.1%) is due to the factor of other municipalities (for example, the specific share of Zugdidi in the region is 16.4%).

Depending on the object of the research, the question of the relationship between the level of urbanization and GDP growth is interesting. According to the regression analysis that we conducted for Georgia, which covered the years 1997-2022, no link between these values was confirmed (see Fig. 2). In this regard, other influencing factors can become a separate subject of research.

**FIGURE 2:** Dependence of urbanization level and GDP growth (1997-2022)



Currently, a significant part of Georgian municipalities run the European Union initiative “Mayors for Economic Growth” (M4EG) [9], the main mission of which is sustainable local economic development. The Local Economic Development Plans (LEDP) developed within the project are designed considering the municipality’s capacity, needs and goals for the medium term (3 years). (EU...2018) In addition, some municipalities have also devised development strategies. (Chikhladze, 2021:121) [10]

New models of urban development, innovative ways and growth trajectories for the transformation of cities in modern conditions take into account the following issues: eco-smart city, innovative ecosystems, green urban redesign, nature-based solutions, decentralization, collaboration and system solutions, climate change and adaptive governance system, energy efficiency, creativity In bureaucracy, artificial intelligence in the reinvention of cities. (The Influence...2021) [11]

In large cities, there are universities and other educational and academic institutions. Urban infrastructure has more room for allocating spaces/territories for business parks, business incubators, technological parks and similar structures. For the production of goods with high added value, they can introduce and share innovations, speed up the production processes, boost productivity, reduce production costs and contribute to the growth of efficiency, which is a prerequisite for the growth of added value produced in the city.

## CONCLUSIONS

1. The benefits of urbanization are mostly based on the industrial sectors that are open for trade. In this regard, it is essential to pay more attention to the development of industrial sectors in cities (city-based), which will reduce the mass migration of people from cities;
2. It is necessary to strengthen the industry component in the state-targeted programs, primarily for large cities;
3. Increased involvement of educational and research profile institutions operating in large cities to produce goods with high added value (formation of business parks, business incubators, technological parks) can bring a positive result.
4. To increase the possibilities of urban development and territorial growth, it is necessary to use the municipal property and land effectively, develop city infrastructure and improve enterprise infrastructure;
5. Active management of urban development using agglomeration formation tools and more support for small and medium-sized cities is desirable;
6. The EU initiative “Mayors for Economic Growth” (M4EG) and local economic development plans (LEDP) developed within its framework should become an effective mechanism which can make a significant contribution to sustainable local economic development;
7. In terms of institutional changes, it is necessary to reduce loss-making/duplicated state functions and services and save funds for a number of processes and procedures by improving internal organizational activities, which can be used more effectively in other directions.

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