



ForumPOST

Why Georgia must work closely with its neighbours

By Aleksi Aleksishvili

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Collaborating with neighbours is vital for any country to ensure sustainable development. The example of Georgia is one of many, but may be useful for other small countries in helping them to create an environment where cooperation can naturally flourish, despite a complex geopolitical environment.

It is clear to me that the reason for Georgia's success in becoming a regional hub is twofold: first, economic reforms allowed a competitive business environment to develop, attracting companies from neighbouring countries and around the world, and second, the government chose to create an environment where regional economic cooperation could prosper, eliminating barriers to trade and facilitating the free movement of goods, services and people.

In the Georgian context, some reforms that were key to enhancing the business climate included unilateral reductions on import tariffs, the signing of treaties with 46 countries to avoid double taxation, the unilateral introduction of visa-free entry for individuals coming from regions such as the EU, CIS, OECD, and Gulf countries, streamlining of border crossing procedures, and free trade agreements with key partners in the Caucasus and Central Asia.

From 2005 to 2007, real GDP growth was more than 10% on average per year. By 2007, FDI increased almost nine times (from \$250 million to \$2.01 billion) compared to 2003, according to the National Statistics Office of Georgia. Not only was there a surge in the volume of FDI, but the geography of partners investing in Georgia increased, coming from countries in the Middle East and North Africa.

The most important achievement was investment by SMEs from Armenia, Azerbaijan, Kazakhstan, Ukraine and other countries in the region in sectors like tourism, food processing, transportation and logistics. Some companies – Pasha Bank (Azerbaijan), Array Tomorrow (Armenia) and Development Solutions (Kazakhstan) – all entered the Georgian market.

It remains striking that Georgia became a regional hub for business, notably for pharmaceuticals, minerals and the automotive industry. The government never identified these sectors as a specific priority, targeted them for investment or established tax havens. But liberal approaches in trade, a reorganization of tax and customs, and collaboration with neighbours on the development of infrastructure attracted these sectors to Georgia.

For example, in 2007, the re-export of cars from Georgia increased three times compared to 2005. Companies such as Toyota Motors, Porsche, Mazda, Hyundai and BMW opened their regional offices and centres in Tbilisi. In the pharmaceutical industry, Georgia went from being a warehouse regional supplier to hosting companies like Aversi and PSP to manufacture pharmaceuticals for export to the Caucasus and Central Asia.

Above all, one of the most important projects for regional cooperation in my experience will be the new railroad linking Azerbaijan, Georgia and Turkey. Initiated in 2004, it became the only alternative route (after Russia) to connect Europe with Central Asia via the Caucasus by railway. Upon completion in 2015, it will dramatically increase trade volumes and economic collaboration in the region between Asia and Europe.

In 2014, Georgia signed the Association Agreement (AA), including the Deep and Comprehensive Free Trade Agreement (DCFTA), with the EU. This ushered in the start of new era of economic cooperation with the world, opening new opportunities to attract investment sources and trade flows for not only Georgia, but also the Caucasus and Central Asia.

While Georgia made the decision to become a member of the EU's free trade area, substituting cooperation with its immediate neighbours for Europe will not allow the country to maximize its full economic potential. And yet, Georgia's status as a small country in a neighbourhood of larger, more influential political actors, poses key uncertainties for regional economic cooperation. In terms of geographic proximity, Russia and Georgia are natural economic partners. But in the context of the ongoing geopolitical circumstances, the future of cooperation between the two is uncertain,

especially with the upcoming launch of the Eurasian Economic Union. Relations with Kazakhstan and Belarus come into question, and close coordination with Georgia's partners will be critical to mitigate these risks.

To ensure sustainable economic growth and a steady stream of foreign direct investment for future generations, Georgia will need to deepen economic cooperation not only with the EU, but with its neighbours in the Caucasus and Central Asia, the Middle East and other partner countries.

Further enhancing economic partnership will expand access to a much larger market across the Caucasus and Central Asia than Georgia's population of almost 5 million, while working closer with neighbours will help the region to overcome current political, social and economic issues. This is my main message when advising governments in the Caucasus, Central Asia, and Eastern Europe.

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Image: People wait for the New Year tree to be lit up ahead of the arrival of the new year in Tbilisi. REUTERS/David Mdzinarishvili