



# Georgia: A Star Reformer

In 2003, many in Georgia feared the worst for their nation. With revenue shortages crippling government services, corruption and red tape smothering economic enterprise and a fragile post-Soviet social unity fraying, the country appeared to be careening toward failed-state status. This untenable position ultimately gave way to November 2003's Rose Revolution, and the subsequent election of President **Mikheil Saakashvili** and his youthful government of modernizers.

Less than one decade later, a rejuvenated, confident Georgia is thriving, the result of one of the most ambitious reform agendas undertaken in modern history. By almost any standard, Georgia is the fastest reforming country in the world.

"What happened in Georgia for the last seven years is an amazing social transformation as well as amazing economic, cultural and geopolitical changes," explains President **Saakashvili**, now mid-way through his second term in office. "In terms of benchmarks, Georgia is absolutely unique right now in the world."

Indeed, Georgia's progress is as impressive as it is unprecedented. **Saakashvili's** aggressive free-market campaign, for example, has breathed life into a once stagnant economy. Annual GDP growth has averaged an enviable 6 percent since 2004. Corruption and bureaucracy have been all but extinguished, making Georgia—once considered among the world's most anti-business regimes—one of the easiest countries in which to conduct business. According to World Bank rankings, it is now easier to start a business in Georgia than in the United States or United Kingdom. Unsurprisingly, foreign investment has surged.

Perhaps most importantly, a wave of citizen-centered policies

has rapidly repaired the tenuous bond between citizen and state. Georgians' confidence in national institutions is now ranked the highest in Europe.

All of this has given rise to a promising generation of educated and ambitious Georgian youth with democratic beliefs and western ambitions.

But the U.S.-educated **Saakashvili** knows that Georgia's national transformation will ultimately fall short if it fails to better integrate the once isolated Soviet satellite into the global community. The Georgian president has therefore set his sights on EU accession. "Georgia will become a member of the European Union," proclaims **Saakashvili**. "It is not only me who says that. European leaders, too, are standing behind this vision."

With two major ports and a rapidly expanding national infrastructure, Georgia also has much potential as a strategic transport and logistics hub for the Caucasus. In this light, **Saakashvili** also sees his country as an indispensable future member of NATO, particularly in the wake of its 2008 military conflict with Russia. To this end, the Georgian president has built a strong international campaign around Georgia's NATO bid, receiving backing most recently from French President **Nicolas Sarkozy**.

However, despite the global accolades and support, officials in Tbilisi acknowledge that the nation's bold vision must continue to be met with bold measures if Georgia is to enshrine its newfound international credibility.

"What is important is to keep reforming. If you stop reforming you will regress," says Minister of Internal Affairs **Ivane Merabishvili**. "In Georgia we try to introduce new reforms every month."

With so much still to do, the stakes for Georgia's current administration are unquestionably high. Still, if the past years have taught the world anything, it is that Georgia is clearly up to the task. ■

"Georgia will become a member of the European Union,"

President Mikheil Saakashvili



# Georgia's Economy: Upgraded and Ready for Business

As Georgia sizes up EU accession, one can't help but notice the striking contrast between its own economic outlook and that of Europe at large. While the European economy remains crippled by uncertainty from its sovereign debt crisis, confidence in Tbilisi is brimming.

Tellingly, Georgia recently revised its 2011 growth forecast upwards from 5.5 percent to 6.0 percent. Growth over the first three quarters of 2011 registered even higher at 6.2 percent. Government officials see this as proof that the Georgian economy's newfound competitiveness has made it largely resilient to global downturns.

"Despite the unfavorable global economic environment," says Prime Minister **Nika Gilauri**, "the Georgian economy has continued to demonstrate healthy features based on its diversified structure and its reformed nature."

## Government Services, Business Mentality

Much of Georgia's overnight economic success can be traced back to the Saakashvili administration's unwavering commitment to business-friendliness. In a sign of open revolt against its clunky Soviet-era bureaucracy, Georgia has done away with 70 percent of business-related licenses and 90 percent of business operating permits. All remaining licenses and permits can now be obtained in a matter of days from one of many customer-oriented public service halls found throughout the country.

"It is important to realize that the government should operate like the business sector," explains Minister of Economy and Sustainable Development **Vera Kobalia**. "If you work in business, you know that the most important person is your customer."

The payoff from such an approach is that Georgia can now boast one of the world's most efficient and responsive regulatory frameworks for conducting business. Georgia ranks 16th in the World Bank's current *Ease of Doing Business Rankings*, occupying the number one spot in the "ease of registering property" subcategory.



Dr. David Bezhuasvili  
Member of Parliament

"Even those of us who come from the private sector are surprised to see how rapidly the

government reacts to the needs and challenges of the private sector," says **Dr. David Bezhuasvili**, the founder of the **Georgian Industrial Group (GIG)**, who ceded day-to-day control of his group to serve as an MP. "They understand the competition from the outside world and how to support Georgia to find its place in this globalized world."

Furthermore, the government's unrelenting war on corruption has rapidly restored transparency and efficiency to the business sector. According to Transparency International, Georgia was the global leader in combating corruption over the 2004-2010 period. Georgia today ranks alongside the U.S. in terms of corruption levels, and continues to decline sharply each year.

All of this has allowed Georgian officials to approach foreign investors with a newfound confidence and an unbeatable sales pitch. Foreign investors, for their part, have been quick to get on board. Investment into Georgia has skyrocketed since 2004, averaging over \$1 billion in net FDI per year. Between 2004 and 2009, cumulative FDI inflows accounted for a whopping 59 percent of GDP.

## Credit to Fiscal Responsibility

Beyond the structural overhaul of its economy, Tbilisi's approach to fiscal management has been no less impressive. Estimated total public debt for 2011 stands at 40 percent of GDP (down sharply from 63.2 percent in 2003) and falling fast. Georgia's deficit is expected to narrow this year to 3.7 percent of GDP, down from 9.2 percent just two years ago. The recently passed Economic Liberty Act, set to come into force at the end of 2013, will constitutionally enforce debt and deficit limits while lowering the nation's already low income tax rates.

Currently, Georgian citizens and foreign businesses alike enjoy the fourth lowest tax burden in the world—comprised in part by a flat income tax of 20 percent and a corporate tax rate of 15 percent. Incredibly, despite steadily decreasing tax rates, tax revenues have posted an astonishing fourfold increase since 2004.

Such fiscal responsibility has not gone without notice. In April, Georgia made bold inroads with U.S. investors with a highly successful Eurobond issue that was 5.3 times oversubscribed. In November, Standard & Poor's upgraded Georgia's sovereign credit rating to BB-, one of only three upgrades

handed out by the firm to a European country in 2011. Fitch Ratings followed suit in December, also upgrading Georgia's to BB-.

However, while positive credit momentum and access to market-based funding reflect the remarkable progress made in Georgia's economic management, challenges lie ahead. First, officials must rapidly exploit potential in underdeveloped sectors of the economy to provide a credible long-term growth strategy. Efforts must also be made to reduce the country's current account deficit, which lingers around 10 percent. Encouragingly, the government's current development plan—which emphasizes tourism, agriculture and energy—seems likely to succeed on both fronts.

## Tourism Takes Off

Few sectors in Georgia show as much promise as tourism. From modern ski resorts to world-renowned vineyards to Tbilisi's culture treasures, Georgia's tourism attractions are bringing in record numbers of foreign visitors. An upgraded transport network and the rollout of visa free travel for many countries—including the U.S., EU, Canada and Japan—have also added to the country's international appeal.

"When I became President in 2004, Georgia received 120,000 visitors," recalls President **Saakashvili**. "Last year [2010] we received 2 million. This year we will receive 3 million, next year we will receive 4 million, and the year after that 5 million." To observers, this surge in foreign arrivals signifies that tourism will soon be a major contributor to Georgia's economic growth. Tourism receipts in 2011 are expected to account for 6 percent of GDP, up sharply from 4 percent in 2010.

The tourism sector has thus become a major target for FDI, evidenced in part by the number of international hotel chains sprouting throughout the country. Still, if projections of 1 million new visitors per year are accurate, Georgia will need sustained, heavy investment in tourism and tourism-related infrastructure projects for years to come.

## Georgia's Green Revolution

Officials also talk of the need to revamp an unproductive agriculture sector that employs roughly half of Georgia's workforce but contributes less than 10 percent to GDP. Here, the government sees great opportunities for inward investment in processing and



Vera Kobalia  
Minister of Economy

distribution—importing international know-how and technology to Georgia's fertile farmlands.

"We can definitely, in a short period of time, double or triple our productivity," predicts Minister Kobalia. "It is safe to say that the agricultural sector is very promising and that it could be the most interesting sector for investors."

However, Georgia knows that it must bolster any newfound productive capacity—in agriculture, as well as other tradable sectors—with greater access to export markets. Internally, Georgia has already removed many of its own hurdles to trade, notably by eliminating stifling export/import regulations and overhauling its notoriously inefficient customs force. However, Tbilisi is also aggressively pursuing new Free Trade Agreements (FTAs) to give Georgian firms and Georgian products the global breadth to expand. Negotiations on a deep and comprehensive FTA between the EU and Georgia are scheduled to begin in January while preparatory talks with Washington are also underway.

### Opening the Energy Corridor

When President **Saakashvili** took office in 2004, Georgia's lack of energy security presented perhaps the most immediate threat to economic development. A spotty generation and transmission network meant that many across the country had access to electricity for only a few hours per day. Moreover, sole reliance on Russian gas left Georgia perilously exposed to supply shocks and geopolitical tremors. Thanks to an ambitious energy overhaul, all of this has changed.

Today, Georgia's energy sector is in full swing. Massive investments in hydropower plants throughout the country and a full upgrade to the nation's power grid provide unlimited, cheap power for Georgian firms. In fact, electricity generation has risen so dramatically in the past seven years that, today, Georgia is able to export a profitable electricity surplus.

Still, with only 18 percent of Georgia's hydropower production exploited, experts see much room for further expansion in domestic production. Many, like **Georgian International Energy Company** (GIEC)—the energy subsidiary of GIG—see a window for immediate investment. GIEC has broken ground on new hydro projects and is looking toward strategic partner-

ships and a possible IPO to expand its reach. Strong national efforts have also been made to diversify the supply of hydrocarbons into Georgia, a task assigned to the **Georgian Oil and Gas Corporation** (GOGC). Created in 2006, GOGC has been the driving force in fostering national energy security.

"Five years ago, when the new management took over GOGC, it was very important for us to diversify the supply routes and suppliers," explains **Zurab Janjgava**, General Director of GOGC. "Today we have three technical sources supplying Georgia and commercial agreements with different gas suppliers."

Janjgava also understands the responsibilities that Georgia must assume as a corridor between the energy-rich Caspian Basin and European consumers. Participation in flagship pipeline projects like Nabucco, for example, ties Georgia directly to the future of European energy security and European prosperity at large.

Most importantly, the flood of cheap, secure energy into Georgia has given the Georgian government yet another lever for economic development. "The energy that flows through Georgia—oil gas, and electricity—makes it a good ground to establish energy consuming business here," says Janjgava. "Georgia is very attractive for investment."

### A Regional Transport Hub

Another one of the daunting tasks faced by President **Saakashvili** upon his arrival in office was the modernization and expansion of an inadequate Soviet-era transport infrastructure. **Saakashvili's** response, a bombardment of public and private investment, has not only supported economic expansion at home but has also linked Georgia to the world.

Georgia's rail network, for example, has been lengthened, modernized and tied to European and Turkish networks. The Black Sea port of Poti, recently taken over by Dutch shipping giant Maersk, is in the midst of major refurbishment to boost capacity. Forty miles down the coast, Royal

Caribbean is constructing an international passenger seaport in Batumi. Brand new highways snake across the country and will soon link Georgia to Baku and Istanbul.

Civil aviation, too, is booming. New passenger terminals in Tbilisi and Batumi, have led to a spike in arrivals. The number of passengers using Georgian airports more than doubled between 2004 and 2010. The recent signing of a Common Aviation Area Agreement with the EU promises even heavier demand for Georgian aviation services in the future—and foreign players have taken note.

One of them is veteran aviation expert and airline operator **Farhad Azima**. Azima, who is collaborated with the Georgia Civil Aviation Administration and the Ministry of Economy to build a national aviation framework, sees a bright future for aviation in Georgia. Currently, Azima is working on the establishment of an all-cargo airline, a passenger hub for Tbilisi, an executive jet service and a maintenance and training academy. "We are delighted to be involved in the implementation of the national development plan through the aviation sector," says Mr. Azima.

Still, there is much work to be done in bringing Georgia's infrastructure up to speed. **Saakashvili** knows that his country's transport network will have to keep pace with its feverish growth rates or risk bottlenecks. Thus, Georgia's long-term growth prospects remain highly dependent on its continued ability to funnel foreign investment and expertise towards infrastructure projects.

Fortunately, FDI flows to transport projects have surged in recent years. Foreigners, it seems, are keen to take part in Georgia's national transformation—thus the unprecedented national transformation will continue.

It would have seemed impossible to many in 2003, but Georgia—the former jewel in the crown of the Soviet Union—is now one of the world's most dynamic economies. Look for great things in the coming years from this ambitious, young nation that has just begun to hit its stride. ■

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