

From Reformer to Performer: Georgia needs to harness its flagship economic reforms for robust economic growth

“I am not arguing, and never have argued, that all we have to do is to let the economy run by itself. We want a free economy, not only because it guarantees our liberties, but also because it is the best way of creating wealth and prosperity for the whole country.”-Margaret Thatcher

From a failed State to a Top Reformer

After the Soviet Union Collapse and regaining the independence in 1991, Georgia went through the exceptional challenging path, including of non-existence of rule of law, strong vertical hierarchy of most political and economic structures as well as massive corruption, high level of poverty, unemployment and widespread existence of shadow economies. These dark dots marked the launch of a new chapter in the history of Georgia.

Yes. Sharply after the Rose Revolution, Georgia has started to write a remarkable story of transformation. It is worth to be underlined, that Georgia has introduced liberal and free market-oriented economic policy, only 6 types of low, flat taxes, significantly decreased number of licenses and permissions and significantly simplified administrative procedures. Georgia has been one of the most trade-open economies in the world.

Georgian flagship economic reforms were driven by Kakha Bendukidze, by a man- “[who remade Georgia](#).” Vibrant libertarian trajectory put the country on a fast-track economic path. Yes, the results were simply astonishing. Within a couple of years, a failed ‘post soviet’ state has managed to become the “world’s best reformer” and one of the most attractive destinations for foreign direct investments. The ideology towards economic reform was guided by the fundamental principles of reducing state interference in business processes and creating a small and efficient government. Georgia has been also one of the most business-friendly transition economies, whose trade policy is based on integration, liberalisation, diversification and transparency. Its international ranking on leading indicators, such as [Doing Business](#) or [Transparency Corruption Perception index](#), has also surged from the bottom to the top.

Georgia continued smoothly to become a full member of the world market through implementing liberal economic laws and transform itself to a classical liberal democratic state, though it still faced challenges in regard with judiciary system and the rule of law. And the questions appeared: What does Georgia need to do to continue its growth trajectory and implement solid reforms to respond existing challenges efficiently and effectively? The response of Georgian population was to give a mandate to billionaire Bidzina Ivanishvili who has established the coalition of ‘Georgian Dream’ to shift the

country into another successful milestone. The coalition campaigned on the promise that Ivanishvili would “give five million to every village”, and citizens will get “free money.”

Next Chapter – Regulations & Economic Turmoil

It needs to be emphasized, that Ivanishvili’s government had very favorable preconditions for rapid economic development. As mentioned above, after the Rose Revolution, the country underwent through painful but necessary political and economic reforms. By this time, most of the fundamental reforms in Georgia had been completed successfully, however there was a need to enlarge the tools and ingredients for further sustainable economic and democratic development.

Instead of carving effective mechanisms for robust economic growth, the Government has introduced unrepresented wave of regulations that on one hand deteriorated Georgia’s investment climate, on the other hand resulted in economic stagnation accompanied by high level of unemployment and poverty.

The first wave of regulations included ban on selling agriculture land to foreign nationals, introducing visa regime for 23 countries, which was simplified on a later stage with huge efforts from business and civil society, however due to these harmful restrictions Georgia has lost hundreds of million dollars. The second wave of regulations addressed financial sector by imposing restrictions within the framework of responsible lending system;- the number of active microfinance organizations has decreased by 71% since the introduction of the regulations. During this time, 35 organizations declared liquidation and stopped operations.

While the previous government was oriented to massive privatization, the Georgian Dream team has emphasized, that ‘state-owned’ companies to be an engine for economic growth. To sum up, the losses of state-owned companies in the last six years have exceeded 3 billion GEL. During the same period, financial liabilities increased by GEL 2.9 billion. Also, the expenses of these enterprises has increased by 1.2 billion GEL. The amount transferred from the state budget to these companies in the last five years is equal to 1.4 billion GEL. The latter is a good example of the government wasting taxpayers’ money.

It is worth to highlight, that Georgian Dream cite agriculture as one of the main sources of achieving economic growth. However, the results show the opposite. Overall, the government spent in excess of 1 billion on supporting agriculture between 2013 and 2018. These funds were allocated to projects such as cheap agricultural loans, free tillage, enterprise funding, the Plant the Future project, the Georgian Tea Revival Program, agricultural insurance, subsidising the prices of grapes and citrus fruit, agricultural machinery, as well as scientific research. An additional sum of 300 million was spent on renovating and building irrigation infrastructure. Numerous donors have been helping the agricultural sector with grants and expertise. Against this background, we really must

ask ourselves how we managed to achieve a decline instead of growth in Georgian agriculture. The answer lies in the wrong economic policies pursued by the state.

The government has also managed to introduce number of protectionist policies, such as: anti-dumping law; reversed the labour code and increased the role of labour inspection. Furthermore, they have imposed licenses and new rules for taxis; introduced technical inspection of vehicles, significantly increased excise tax and launched mandatory pension reform, that is associated with high political and social risks and it will most likely not work for the benefit of any public group. Mandatory Pension reform can be characterized as introduction of 'quasi tax', that is additional artificial barrier for enterprises.

Fact and Figures

Gross Domestic Product (GDP-nominal) was \$ 2.7 billion in 1995 and \$ 5 billion in 2003. Government debt in 2003 amounted to 40% of GDP. In 2012, the reformers team left an economy of 16.5 billion and a government debt of 30%. Georgian Dream has ended 2020 again with an economy of 16.5 billion and up to 60% government debt. During 1995-2003, Georgian economy grew 2 times; during 2003-2012; the economy grew 3 times, the debt decreased by 10%. During, 2012-2020, the economy has not grown, government debt has increased by nearly 30%.

WHY? – The answer lies in the wrong economic policy. As simple as that.

Avenues for Robust Economic Growth

Georgia is one among seven countries in the world, which has Free trade Agreement with EU and China. Furthermore, Georgia has also FTA with Hong Kong, Turkey, EFTA and CIS member states. Georgia's pro-business reforms turned the country into one of the most attractive business environments worldwide, with simple rules for doing business which apply to all market players equally. Georgia needs to use its full potential and attract foreign investment by offering an advantageous business environment. Political stability, low taxes and regulations, a cheap or qualified workforce, a stable microeconomic environment, economic openness, natural resources, strategic location, free trade and corruption-free rule, are all factors that encourage investment inflow.

Hence Georgia needs:

- Speedy Deregulation- abolishment of all harmful regulations and artificial barriers for business and investors;
- Privatization- of state owned enterprises and properties that will have a positive and tangible impact on economic growth;
- Connectivity with the World market- Georgia needs to work hard to transform itself into a transport and logistics hub connecting Europe and Asia.

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- Education reform- One of the important pillar for sustainable and robust development;
- Good governance and institutional reform- taking the right steps to modernize the judiciary system to boost transparency, independence and accountability.

Rapid economic growth is essential for Georgia. However, this requires deregulation, more business-friendly legal framework and “let the economy work by itself”. We need to unlock the full potential of Georgia for sound economic development and bring back the country into the international business arena, which will create wealth and prosperity for each Georgian citizen across the country.