

GEORGIA - FINDING A ROAD FROM STABILITY TO PROSPERITY

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There are clear improvements in the Georgian economy - yet more than half of the country's unemployed have been out of work for more than three years and 41 percent of this group are professionally qualified. Half are women.

As far as campaign promises go, the slogan 'from stability to prosperity' - as used by Georgian President Eduard Shevardnadze's Citizens' Union Party, as it fought and won last month's parliamentary elections, is probably as fair and accurate as any.

Despite the government's serious problems in paying wages to state employees, pensions and social benefits, the number of people living below the poverty line has fallen, from 82 percent in 1997 to 73 percent in 1998.

An individual is officially recognised as living in poverty if his declared income is less than 120 lari (\$63) a month. Undeclared earnings are estimated to run on average at nearly 80 percent of official true incomes.

And judging by the official figures at least, the gap between rich and poor is closing. According to 1998 figures, the combined income of the richest 20 percent of Georgians was more than ten times the combined incomes of the poorest 20 percent. In 1997 the difference was double that.

But such improvement should be measured against other problems. While the informal economy - mostly private trading and services - is growing, the traditional industrial sectors are shrinking. More than half of the unemployed has now been out of work for more than three years. And 41 percent of this long-term unemployed are professionals. Half are women.

Part of the problem is that capital investment is low and is largely confined to those businesses that promise rapid returns. To offset the risk of making loans to would be entrepreneurs who have no collateral, banks charge exorbitant interest rates.

But the good news is that while the overall level of capital is still low, financial reforms that have been introduced over the past four years have led to an influx of foreign investment. Tax breaks exemptions are now available to foreign investors and, according to IMF data, are granted more often than not.

In 1997 Western investment in Georgia exceeded that from the former Soviet states. While a third went into oil pipelines and related industry, the rest went to the natural gas sector, banking system, agricultural processing, telecommunications and light industry. The main investor countries are the United States, Britain, Turkey and Russia, and the volume of direct foreign investment is expected to continue growing.

Fresh impetus has come from a new land privatisation law, which grants equal rights to residents and non-residents alike. Since new legislation on foreign investment was passed in 1996, restrictions on capital repatriation and transfers of foreign currency have been lifted. But bureaucracy can still be obstructive and corruption is a perennial headache.

One very important factor that continues to frustrate Georgia's development is its poor energy system. Power cuts are frequent and the expense in stoppages and lost production huge. Defending themselves, energy suppliers complain of being trapped in a vicious circle of non-payments. State industries are among the worst culprits. One result is that energy prices are constantly rising. Another is the decision to privatise

the sector which is now underway.

Georgia's early post-communist era has been difficult politically as well as economically. Previously totally dependent on the USSR, Georgia suddenly found itself alone at the crossroads between East and West.

In 1993 a major agreement was signed with neighbouring Azerbaijan and five Central Asian republics to revive the ancient East-West 'Silk Route' across the Caspian and Black Seas to Europe via the Caucasus. The EU agreed to provide technical assistance to this project. Further agreements were subsequently reached among the participating countries on harmonising customs duties, simplifying trade procedures and improving customs co-operation.

Georgia's Black Sea port of Poti has been redeveloped to cater for the growing import and export trade. There is now a railway ferry linking Poti with the Ukrainian port of Ilichevsk and a fully operational railway links Baku on the Caspian with Poti.

More important for Georgia is the new 830-kilometre Baku-Supsa pipeline, which can take 115 barrels of crude oil per day (5.1 tonnes per year), from Azerbaijan's Caspian oil fields to Georgia's Black Sea coast.

Although the pipeline provides Georgia with only \$8 million per year in fees, its boost to the country's political profile is immeasurable. Large shares of the pipeline are owned by some of the world's biggest oil companies, which are therefore committed to Georgia's future stability.

The success of the Baku-Supsa route paves the way for a far more lucrative project - the construction of a bigger pipeline across Georgia en route to the Turkish port of Ceyhan to cater for the projected Caspian oil bonanza of the coming decades.

Although Russia wants new Caspian oil to cross its territory to the port of Novorossiysk, several factors suggest that the Georgian route will be the preferred option. Azerbaijan's warm relations with Georgia contrast with its resentment of Russian "meddling".

Russia's existing pipeline to Novorossiysk crosses Chechnya, where fighting has flared again after a two-year lull and there is little money to pay for a new pipeline circumventing the breakaway region. The US government, for its part, is lobbying hard on behalf of the Azerbaijan-Georgia-Turkey route.

In 1996 Georgia refused to join the other former Soviet republics in the Commonwealth of Independent States' customs union. By then, the Georgian government had already re-oriented towards the West.

Georgian exports to the EU grew by an officially claimed 67 percent in the first half of 1999, compared to the same period of the previous year, principally in trade with Germany, Turkey, Italy, France and Greece.

Georgia's recent membership in the World Trade Organisation (WTO) was decisive for the general direction of Georgian foreign policy. WTO membership - one of the many prerequisites for EU membership - opens up new possibilities for organised and equal trade relations between Georgia and its Western trading partners.

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Location: Caucasus
Turkey
Stavropol
South Ossetia

Focus: Caucasus

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