

# CRISIS AS AN OPPORTUNITY FOR GEORGIA'S DEVELOPMENT

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საერთაშორისო პროექტების განვითარების მრჩეველი*

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## Abstract

The present article discusses the impact of the Coronavirus/COVID-19 crisis on the global development, and challenges and opportunities which can be translated into a second chance for government to accelerate development, if they take advantage of new opportunities or bring fresh attention to previously neglected issues. The above topics are analyzed on the example of Georgia.

The article shows the main effects of the outbreak. The study identifies several unique opportunities offered by the post-crisis era to the Government, such as:

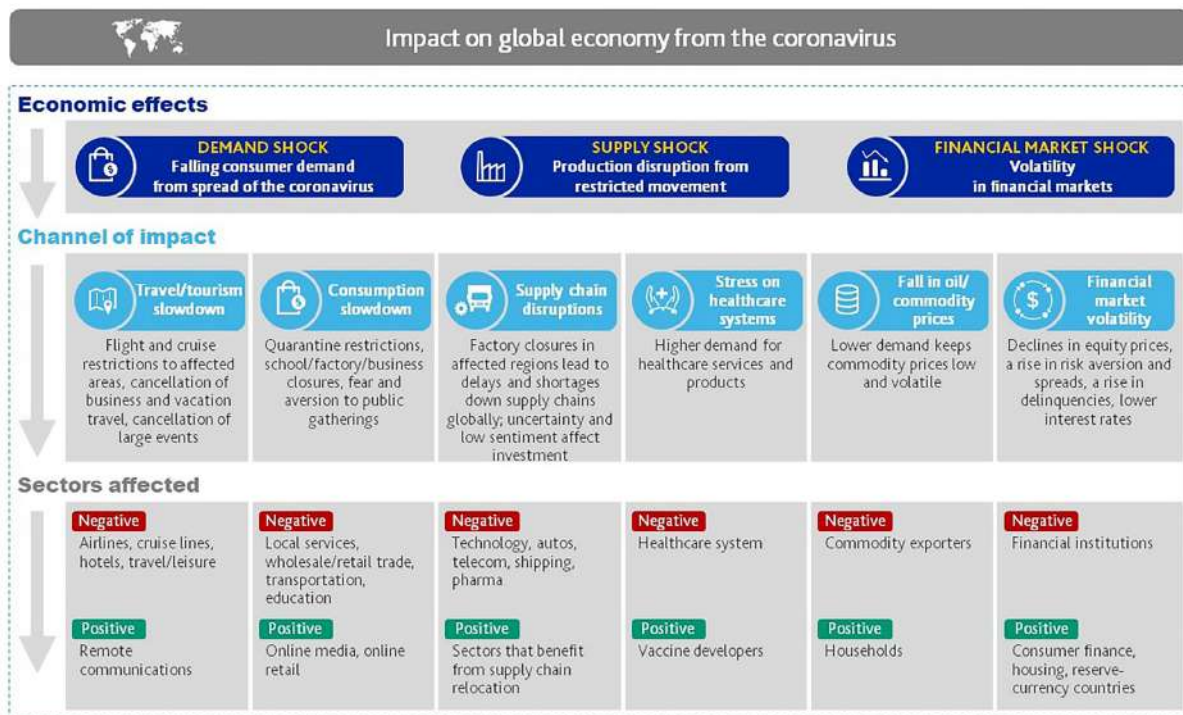
- **Fast Changing Geography** – Following the crisis, there will be fundamental changes to how people across the globe interact and trade.
- **Modernized Trade & supply chains** – The COVID-19 pandemic exposed several gaps in the supply and demand chains.
- **New Market opportunities** – The country needs to do more to bolster trade with its existing partners and move into new markets.
- **Innovative approaches** – The near global lockdown in response to COVID-19 has stimulated sectors to embrace technology and innovation at an unprecedented level.
- **Importance of resilient international cooperation** – International assistance will be equally important in the crises and post-crisis period.

**Keywords:** Georgia, COVID-19 Pandemic, Fast Changing Geography, Strong International Cooperation, Trade & Supply Chains, New Markets, Innovative Approaches, Key Economic Sectors.

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The COVID-19 pandemic is an unprecedented global development crisis. The challenges and disruptions caused by the pandemic can translate into a second chance for governments to accelerate development, however, if they take advantage of new opportunities or bring fresh attention to previously neglected issues.

**№1 – Impact on global economy from the coronavirus**



Source: Moody's Investors Service<sup>1</sup>

The post-crisis era offers several unique opportunities for the Government of Georgia (GOG):

**Fast Changing Geography** – Following the crisis, there will be fundamental changes to how people across the globe interact and trade.

For instance, prior to the pandemic, people in Georgia had been increasingly moving to urban areas. During the crisis, however, people sought refuge in rural communities. While

<sup>1</sup> Moody's Investors Service – Impact on global economy from the coronavirus

that trend could be short-lived, it offers the GOG an opportunity to prioritize regions outside of capital Tbilisi in the country's long-term economy recovery.

Currently, regional and local governments suffer from a lack of resources and technical capacity. With the proper support, however, they can play an important role in sustainable economic development policies, starting with improving the skills of the local labor force and job creation. Georgia should prioritize implementing the Decentralization Strategy and support development activities at local level.

To meet the new economic challenges and reduce poverty and inequality in Georgia should develop new strategy for economic development, with an ambitious effort to improve business environment conditions for small and medium size enterprise (SME) development and therefore tackle market failures that make it harder for entrepreneurs and managers of small and medium-sized companies to start, run and grow their businesses.

**Trade & supply chains** – The COVID-19 pandemic exposed several gaps in the supply and demand chains.

The World Trade Organization expects global trade to „fall by between 13 percent and 32 percent in 2020 as the COVID 19 pandemic disrupts normal economic activity and life around the world.“<sup>1</sup>

The impact will be even greater for trade in commercial services. WTO Director- General Roberto Azevêdo said: „We need to lay the foundations for a strong, sustained and socially inclusive recovery. Trade will be an important ingredient here, along with fiscal and monetary policy. Keeping markets open and predictable, as well as fostering a more generally favorable business environment, will be critical to spur the renewed investment we will need.“<sup>2</sup>

Georgia can use its favorable trade regimes with the European Union (EU), the European Free Trade Association (EFTA), the Commonwealth of Independent States (CIS) countries, Turkey, China, and Hong Kong as well as the Generalized System of Preferences (GSP) with Japan, Switzerland and USA.<sup>3</sup> The feasibility study of free trade with India is complete and the feasibility study of free trade with Israel is in its final stage.

The country needs to do more to bolster trade with its existing partners and move into new markets, however.

For instance, while Georgian companies have access to the EU market, local entrepreneurs struggle to access the market as they lack information and trading partners. While the

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<sup>1</sup> Source: World Trade Organization (WTO), [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm)

<sup>2</sup> Source: World Trade Organization (WTO), [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm)

<sup>3</sup> Source: Invest in Georgia, <https://www.investingeorgia.org/en/georgia/free-trade-regimes>

Ministry of Sustainable Economy and Development has some programs to address these issues, the pandemic provides an opportunity for the GOG to do more.

Georgia could learn from the experience of other countries, which are establishing new regional trade unions to increase trade flow. A group of Asia-Pacific economies recently committed to not impose export controls, tariffs or non-tariff measures to foster stronger trade relations.<sup>1</sup>

The country could also invest more in its service sector. Globally, trade in services has been growing faster than trade in goods.<sup>2</sup> Increased trade in services could help the Georgian economy recover faster, improve domestic firms' competitiveness, and promote inclusiveness in terms of skills, gender and the location of economic activity.

In addition, the GOG and firms will need to re-think resilience in global supply chains. Georgian has not made full use of its highly strategic location as a gateway to the Caucasus and Central Asia. The country has untapped potential to expand its role in existing trade routes and attract new investments. There are several existing resources that could be better utilized, including:

- The new Baku-Tbilisi-Kars railway line, which provides a modernized link between Georgian, Azerbaijani and Turkish railways and has a capacity of 5-15 million tons of cargo per year;<sup>3</sup>
- The Georgian Railway, which provides vital freight and passenger transportation services across Georgia and connections with bordering countries. With 1,342 km of railways, an efficient network of connections, plenty of rolling stock, and a capacity of 28 million tons/year, it is the most effective connection between Europe and Asia.<sup>4</sup>

There are also major infrastructure projects that should be finalized, including:

- The construction of the East-West highway, as well as local roads;
- The building of a new deep Black Sea port in Anaklia – the port will be able to receive vessels with a capacity of at least 6,500 TEU, bringing Georgia's logistical capabilities to a new level;<sup>5</sup>
- The expansion of the country's existing ports in Batumi and Poti.

**New Markets** – In addition to new and expanded trade routes, the pandemic has

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<sup>1</sup> Source: World Economic Forum (WEF), [http://www3.weforum.org/docs/WEF\\_Challenges\\_and\\_Opportunities\\_Post\\_COVID\\_19.pdf](http://www3.weforum.org/docs/WEF_Challenges_and_Opportunities_Post_COVID_19.pdf)

<sup>2</sup> Source: World Trade Report (WTO), [https://www.wto.org/english/res\\_e/booksp\\_e/01\\_wtr19\\_0\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/01_wtr19_0_e.pdf)

<sup>3</sup> Source: Trade with Georgia, <http://www.tradewithgeorgia.com/about-georgia>

<sup>4</sup> Source: Trade with Georgia, <http://www.tradewithgeorgia.com/about-georgia>

<sup>5</sup> Source: Trade with Georgia, <http://www.tradewithgeorgia.com/about-georgia>

opened opportunities for Georgia to attract new investors.

The fact that the virus originated in China has raised questions about whether the country can sustain its position at the center of global manufacturing and supply chains. Some countries including USA, EU,<sup>1</sup> and Japan<sup>2</sup> as well as several big companies<sup>3</sup> already expressed interest in alternative production bases elsewhere.

The GOG needs to act quickly to interest multinational companies and investors. The country's history of successful reforms, its favorable business climate can help attract new investors to the country.

Domestic and international private sector actors can play a key role in supporting the government to respond quickly and effectively to the opportunities and expedite economic recovery.

**Innovative approaches** – The near global lockdown in response to COVID-19 has stimulated sectors to embrace technology and innovation at an unprecedented level.

Startups and innovators around the world, including Georgia, reacted quickly to meet new and growing needs for everything from oxygen masks and digital health services to no-contact food delivery and learning platforms.

Governments can bolster innovation by lowering barriers to finances for innovative entrepreneurs, increasing their capacity to react fast and help speed up economic recovery. For example, the European Commission called on start-ups with technologies related to treating, testing, monitoring or other aspects of the COVID-19 outbreak to apply for fast-track funding under the EIC Accelerator program.<sup>4</sup>

Georgia embraced innovation in government services before the pandemic – the country was recognized as a pioneer in adapting Blockchain technology for different projects – so it should be well positioned to take advantage of new opportunities.

Implementing the vision of the country's digital strategy can also stimulate new opportunities for the public, private, and civil society sectors.<sup>5</sup>

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<sup>1</sup> Source: Euro news, [https://www.euronews.com/2020/04/13/european-countries-need-to-protect-their-companies-from-chinese-takeovers-says-eu-commission?utm\\_medium=Social&utm\\_source=Facebook&fbclid=IwAR08q\\_VmrYYFTDY7eEx4UyBVy7\\_DU1Djt3IH-mFqIAxSAjkICExQ41DN\\_6nw#Echobox=1586799172](https://www.euronews.com/2020/04/13/european-countries-need-to-protect-their-companies-from-chinese-takeovers-says-eu-commission?utm_medium=Social&utm_source=Facebook&fbclid=IwAR08q_VmrYYFTDY7eEx4UyBVy7_DU1Djt3IH-mFqIAxSAjkICExQ41DN_6nw#Echobox=1586799172)

<sup>2</sup> Source: Daily wire, [https://www.dailywire.com/news/it-begins-japan-pays-billions-to-firms-to-leave-china-relocate-production-elsewhere?utm\\_source=facebook&utm\\_medium=social&utm\\_campaign=benshapiro](https://www.dailywire.com/news/it-begins-japan-pays-billions-to-firms-to-leave-china-relocate-production-elsewhere?utm_source=facebook&utm_medium=social&utm_campaign=benshapiro)

<sup>3</sup> Source: Notes from Poland, [https://notesfrompoland.com/2020/05/05/microsoft-announces-1-billion-investment-in-poland/?fbclid=IwAR0ALwBsRaLtRejYiQcbUiavnc002as84bmn6F5uMyXx1sbwd04nbMb\\_o8M](https://notesfrompoland.com/2020/05/05/microsoft-announces-1-billion-investment-in-poland/?fbclid=IwAR0ALwBsRaLtRejYiQcbUiavnc002as84bmn6F5uMyXx1sbwd04nbMb_o8M)

<sup>4</sup> Source: EU Commission, [https://ec.europa.eu/info/news/startups-and-smes-innovative-solutions-welcome-2020-mar-13\\_en](https://ec.europa.eu/info/news/startups-and-smes-innovative-solutions-welcome-2020-mar-13_en)

<sup>5</sup> Source: DEA, <https://dea.gov.ge/uploads/eGeorgia%20Strategy.pdf>

**Strong International Cooperation** – International and multilateral cooperation are critical for Georgia: the quick response from the country’s allies and international financial institutions helped the GOG design a rapid response to the crisis during the first stages of the pandemic. International assistance will be equally important in the post-crisis period.

Donors and allies can use financial and technical assistance to help the GOG meet its development priorities and address social and economic shortcomings. International cooperation can also be used as a tool for Georgia to meet its goals under Agenda 2030 and its 17 Sustainable Development Goals (SDGs).

Finally, international assistance and multilateral cooperation play a fundamental role in Georgia’s geopolitical strategy. The National Security Concept highlights the importance of high long-term economic growth and the continued partnership with allies, including the European Union, the United States, and countries in the region.<sup>1</sup>

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