FOREIGN ECONOMIC POLICY OF GEORGIA SINCE GAINING THE INDEPENDENCE

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Abstract

The paper gives the description and study of the foreign economic policy of Georgia in the independence period. The purpose of the study is to describe and analyze the preconditions for the sustainable and stable development of the country by means of developing foreign trade, improving investment potential and using an efficient foreign debt management system.

During the studies, the paper used the materials of the studies conducted by Georgian and foreign scientists, as well as international and private organizations and their evaluations. The opinions about the improvement and risks of the present-day situation are given following the consideration of different components of the foreign economic policy of Georgia, and opportunities for the rationalization of foreign policy of Georgia are offered.

Keywords: DCFTA Georgia, trade policy of Georgia, foreign direct investments, foreign debt.

JEL codes: Q01, P16; P33; P45; P48

Introduction

Since gaining the status of a sovereign state, Georgia has realized a number of important economic reforms. At the beginning, the foreign economic relations of the country developed spontaneously, but the currency reform of 1995 followed by the introduction of the national currency and gaining the status of an observer in the World Trade Organization, laid the foundation to the formation of the foreign economic policy of Georgia. The purpose of the foreign economic policy is to ensure sustainable and stable development of the country through the development of foreign trade, improvement of investment potential and efficient foreign debt management.

A great body of the foreign economic policy forms a part of the foreign trade development policy, while a necessary condition for its successful development was a decision about conferring Georgia the status of an observer with the World Trade Organization in 1996 motivated by the political views and then, conferring Georgia the status of an full member of WTO on the 14th of June, 2000. At the Donors’ Summit

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1 In 1991, after the country gained the status of a sovereign state, there was political instability and grave economic situation in Georgia. In 1991-1994, GDP of Georgia decreased by 42%. Such state of affairs was aggravated by the occupation of Georgian territories by Russia and the internal opposition inspired by Russia. Following such a situation, the country could start to shape its foreign political economy mainly from 1995.

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held in Brussels in 2004, the European Union confirmed that Georgia, together with Armenia and Azerbaijan, was a subject of the new EU neighbors Initiative. The Initiative considers rendering support to Georgia to be compliant with the EU countries. It is also important that despite the view about the close cooperation, the representatives of the EU and Georgia were always careful with Georgia’s affiliation with the EU. The goal of the study of the paper is to accomplish the comparative analysis of the processes of formation of foreign economic policy of Georgia and its outcomes.

In order to reach the set aim, we have planned to accomplish the following objectives:
1. Analysis of the establishment and action of the foreign trade policy of Georgia;
2. Consideration of the policy supporting the attraction of foreign investments and analysis of the hindering factors, and
3. Detection of the opportunities of efficient management of obligations related to the foreign debt of the country.

We do not consider the questions of considering the exchange rate stabilization policy as an objective of foreign economic policy, as following the economic and political situation in the region, permanent fall of the national currency exchange rate must be considered as the only rational policy, what is clearly the process opposite to stabilization.

The work aims at casting the light on the strategic trends in foreign economic policy of Georgia and is based on the works by foreign and Georgian scientists (Gucht K., Gvelesiani R., Gagnidze. I., Sepashvili E., Papachashvili N., Jibuti M., Metreveli M.), studies of the international organizations regarding the strategic trends of Georgian foreign economic policy and Georgian legislation and regulation acts of foreign economic policy.

1. Shaping foreign trade policy of Georgia

An important part of the foreign economic policy is a part of the foreign trade development policy. The foreign trade policy of Georgia shaped since the country’s affiliation with the WTO covers both, customs policy and administration, right to protect intellectual property, measures to improve trade relations (security, antidumping and compensation procedures), as well as development and realization of the policy and practice, which influence the fields of trade with goods and services (Revaz Gvelesiani, Irina Gogorishvili, 2010). Foreign trade policy of Georgia is based on the important agreements concluded under the aegis of the WTO covering many different fields.

**Binding tariffs.** High rates of tariffs were agreed on during the process of accession mostly on agricultural products (alcohol, juices, production of processing industry, tobacco, etc.) as well as on some industrial products (construction materials, light industry production, etc.). Georgia has joined the majority of the so-called Sectorial Initiatives requiring from the member countries harmonization of tariffs on some goods, often down to “0 (fish, oil, drugs, agricultural machinery, chemical products, etc.).

The above initiatives include a wide range of products reduction of import cost on which is in the best interests of Georgia entrepreneurs and costumers. This range includes informational technologies, pharmaceutical production, machinery equipment, raw materials, etc. Reduction of customs duty on the above goods increase the
availability of the components, equipment’s and technologies necessary for development of the local production and service, and shall promote further economic development of the country.

Along with this, Georgia has made some „exceptions“ from „Sectorial Initiatives“ (sunflower oil in oil sector, TV in IT sector, some phytogenic drugs in pharmaceutical sector, etc.) to protect the interests of local producers. On December 6, 2002 the Parliament of Georgia adopted the Law of Georgia on Customs Tariffs and Duties. Based on the changes the tariffs in force were approximated to the binding tariffs. By doing so, Georgia met its obligations in the sphere of tariffs. Along with this, differentiation of tariffs was implemented (range from 0% up to 30% of the customs value). In whole the Georgian Tariffs System remains to be liberal compared to other developing countries. According to WTO data, an average tariff of Georgia is 7,2%, and 1,5% for MFN countries. In general, the duty-free regime is effective for 22,3% commodity groups and 86,8% of the commodity groups in MFN countries. A 13,0% rate is fixed for the import of agricultural products, and the rate is 6,4% for MFN countries. In general, the duty-free regime is effective for 8,0% of agricultural products and 49,8% for products in MFN countries (World Tariff Profiles 2015).

**List of specific commitments for trade in services.** The list of specific commitments for trade in services includes limitations local and foreign suppliers. The limitations shall be of the following types:

- The so-called Horizontal – for all sectors of the services;
- The so-called Vertical – special for the specific sector;

It is noteworthy that regulation of trade in services is liberal enough in Georgia, i.e. foreign providers have insignificantly less limitations compared to local ones (Banking-funding, insurance, construction sector, etc.). Georgia has stated commitments for 123 sub-sectors (from existing 155) in 11 sectors of service (from existing 12), which is pretty high indicator. It should also be mentioned that GATS, compared to GATT, envisages more exceptions concerning Most Favorite and National Treatment Regimes. Along with this, the given exceptions should, be clearly defined in the member country’s list of specific commitments. In case of Georgia, exceptions from MFN regime are, observed in transport, fishing, and film production sectors. Taking into account the level of revenues and economic development of the country, the obligations of Georgia are much liberal than those of other countries. From the maximum possible elimination of the limitations for the trade in service, Georgia eliminated limitations for 54% of the positions. It should be noted that the similar indicator in economically week countries amount to 7%, while for more affluent ones – 25% (Working Party Report of Georgia’s Accession to the WTO).

Taking into considerations the above mentioned, during the negotiations of the DOHA Development Round, Georgia declared its position that a wide range of commitments undertaken during the accession process allowed Georgia to refrain from taking additional commitments.

**Customs and tariffs policy.** The first Customs Code of Georgia was adopted in 1997, with the relevant amendments in the field of obligations arising from the agreements signed at WTO made to it in the following years. Despite the fact that Georgia became
the member of the WTO on June 14, 2000, fulfillment of one of the most important commitments related with the customs tariffs only started at the beginning of 2003 to the Law on Customs Tariffs and Duties, which was adopted on August 20, 1998. This was the step to meet the commitments and harmonize the Georgian tariffs with the Binding Tariffs as agreed with the WTO.

The above resulted in putting into operation several different trade regimes:

- Ordinary (for WTO on-member countries).
- Most Nations (for the WTO member countries and/or countries representing the parties of bilateral agreements).
- Preferential, including:
  1. Free trade regime (with C.I.S. countries)
  2. Generalized System of the Preferences regime (GSP) (covers only several countries on Georgian export).

The customs tariff on import was set at the level of binding tariffs that resulted in 22 tariff lines instead of the formerly operating three ones, i.e. 0%, 5% and 12% (Custom service).

In compliance with the above law, the tariff specified in annex of the law shall be used on the import from the WTO member countries, the tariff rates fluctuate within the range of 0-30% (Custom service).

The first Customs Code of Georgia was adopted in 1997, with the relevant amendments regarding the obligations arising from the agreements signed at WTO made to it in the following years. Since 2010, step-by-step measures to harmonize the Customs Code of Georgia with the EU requirements have been realized. The agreement on Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Georgia gave rise to a new wave of changes serving as a basis to adopt a new Customs Code in 2016. Under the effective Customs Code, import, export, re-export and transit are taxed, and preferences are envisaged for the “Golden List”, while the import tax of the temporarily imported goods is monthly 3% of the total payable amount.

Non-tariff measures: veterinary and phyto-sanitary control, intellectual property, certificates and permits, non-tariff measures. Export of goods is exempted from taxes except black and/or color metal scrap and black and/or color metal residue.

As regards the preferences, an entity is a member of the “Golden List” if it uses the simplified customs procedures and different term of import fee payment.

The Law “On Customs Fees” (effective from 1998 to 2011) was abolished at the beginning of 2011. The countries, which are not the members of the WTO, have found themselves under a harder customs regime. 17 so called LDCs\(^3\) are among them and are given 0 customs rate by most of the rest developed or developing world in order to assist them.

It is obvious that due to the current economic situation of Georgia, the country has no opportunity to decide on this approach, though, taking into consideration the world’s

\(^3\) So called Least Developed Countries – LDC
general tendency – all international organizations (including UN and the WTO) urging
the world to assist poor countries, in no way Georgia can justify implementations of a
strict, discriminative regime towards the least developed countries, the more so as
import from these countries is insignificant (0.2% of the whole import), hence,
awarding the MFN regime will practically have no negative effect on customs
revenues. In this connection, on the initiative of the Ministry of Foreign Affairs of
Georgia, a draft law about the changes was developed and adopted later.

**Customs valuations methods.** After affiliation with the WTO, Georgia’s legislations
concerning customs valuations were harmonized with the international standards and
WTO requirements.

Since its affiliation, the instructions of determinations of customs valuations of goods
have been, defined by a Decree № 843 of December 5, 1994 which defines 6 methods
of valuations, from which the primary method was invoiced price.

Today, the rules of customs valuations are, regulated by a decree № 736 of November 9,
2004 of Minister of Finance of Georgia. According to these rules, at present time
Georgian customs uses all 6 methods of valuations and they fully meet the requirements
of WTO. The primary method is the contact price of goods. Georgia abolished
minimum import price system in 1998, which is not allowed under the Agreement of

**Application of indirect taxes in accordance with WTO requirements.** As it has
already been mentioned, the WTO members oblige the member countries to observe the
most favorite nation regime, which is mostly being implemented. In addition, the Law
on Customs Tariffs and Duties and the Tax Code envisage taxation of imported and
locally produced tobacco with different fixed taxes. It would be reasonable if the new
Tax Code defined the taxations regime of the above product in accordance with
Georgia’s commitments to the WTO.

**VAT and excise.** According to the provisions of the WTO agreements, VAT and excise
for locally produced and imported goods are similar and used without discrimination.
Tobacco products represent the exception. During the accession Georgia took the
obligation (Task Force Report, paragraph 57) stating that by the date of accession,
similar excise taxes would be applied uniformly to the imported and locally produced
goods, including tobacco and other tobacco products, and would be in compliance with
the provisions of Article III of GATT 1994 Agreement.

**The import rates of excise goods are calculated as follows:**

- For alcoholic drinks: by the volume of alcoholic drinks;
- For tobacco production: by the quantity or weight of the tobacco production;
- For oil products: by weight (volume) of oil products;
- For passenger cars: by age and engine volume of the passenger car.
- Under the Tax Code of Georgia of 2013, the tax for cigarettes (20 cigarettes)
of 0.60 Gel increased to 0.75 Gel. The tax also increased for alcoholic drinks. The applicable import fee rates are: 0%, 5%, 12% or a fixed one depending
on the kind of goods.
Pre-shipment inspection. All WTO member countries applying the pre-shipment inspection are required to exercise it in compliance with the WTO agreement.

Georgia, after expiration of the contact with ITS-British company – has not been using pre-shipment inspection any longer, which automatically resolved the issue of the fulfillment of the above commitment.

Standardization-certification. In compliance with the Presidential special decree, dated by August 8, 2002 a law was prepared by „Saksdanarti“, according of which, the list of products and services falling under obligatory certification came into force, which reduced a number of goods falling under obligatory certification by 62%.

To accelerate the process of the reforms, the President of Georgia issued the July 10, 2003 Decree № 848 – Accelerating Introduction of Euro-Directives Existing in the Technical Legislation.

The works to elaborate technical regulations are in the process, but there are still several sanitary, construction and other norms that do not comply with the international standards. In order to meet the WTO obligations and to maximally harmonize the system of technical regulations with the international standards, the Government of Georgia on February 24, 2006 issued the Decree № 45 on Recognition of Technical Regulation of Other Countries and Operational Rules, which fully meets the requirements of the WTO and TBT and is aimed at meeting this commitment. The above processes were discussed and positively evaluated by the WTO Secretariat in March, 2006.

After the accession to WTO, the Georgian Government established the so called technical Barriers Enquiry Point, which is supposed to submit the information related to standardization issues in Georgia to the WTO Secretariat. Presently, the Enquiry Point operates at the National Agency for Georgia Standards, Technical Regulations, and Metrology and periodically notifies the WTO Secretariat about the status in the sphere. Unfortunately, the Center does not function at its full capacity.

Protection of local producers from unfair competition and excess import. Application of such protective measures is envisaged by the Georgian legislation (namely, the law of Georgia on Customs Tariffs and Taxes, article 7). However, the mechanism for their execution has not been elaborated or designed yet and requires relative systematizations.

With the support of foreign experts and in accordance with the WTO requirements, the drafts law on Use of Antidumping, Countervailing and Safeguard Measures was prepared in Georgia, which was properly analyzed in the WTO Secretariat. However, the draft has not been adopted yet due to unknown reasons. In 2015, the said Law was updated and adopted by considering the conclusion of the European Union experts.

Considering the fact that protective measures may only be used based on the results of proper investigations and justified argument, the draft law envisages establishment of the Government Commission to Regulate Suppressing Measures in Foreign Trade, which will study cases and prepare recommendations concerning the implementation of the import suppressing measures.
The existence of the law on Antidumping does not necessarily mean application of the above protective measures. The existence of the law enables the Government of Georgia, in case of necessity and without the international commitment, to apply modern, civilized measures for the protection of domestic market.

Nevertheless, in case of necessity and absence of the law, the Government of Georgia can apply the measures but, doing so, without preliminary economic computations and justification would cause violation of the commitment to the WTO and member countries that may result in imposition of penalties on Georgia. Such penalties may produce more damage in terms of economic effect to the country compared to the unfair action against which the measures would be carried out.

**Trade-related aspects of intellectual property rights (TRIPS).** TRIPS represent one of the most important components of the WTO agreement. During the process of accession to the WTO, the Georgian Parliament, in order to meet the demands of the member countries, adopted a member of laws and normative acts to put the legislation regulation the sphere in compliance with the international norms.

It should be mentioned that though Georgia’s legislation fully meets the requirements of the international norms and the WTO requirement in whole, the enforcement mechanism are still weak due to scarce financial resource and lack of experience.

The above situation can be observed not only in Georgia but in many developing and even some of developed countries since detection and elimination of violations related to intellectual property rights is a very specific and complicated problem.

Protection of one’s rights on the foreign markets is not less complicated. The issue is very significant for Georgia, especially for wine industry.

The WTO membership significantly increases Georgia’s opportunities in this sphere. Alongside with this, Georgia has to carry out a pro-active policy at the markers of the WTO non-member countries (Azerbaijan, Kazakhstan, and other) to protect the rights of the Georgian entrepreneurs.

For this purpose, the Georgian National Intellectual Property Center Sakpatenti prepared several international agreements aiming at improving the protection of geographical indications and names within the frames of CIS.

In 2002 Georgia joined the Nice Agreement concerning the International Classification of Goods and Services and the Hague Agreement concerning the International Deposit of Industrial samples.

Intra-country procedures are being carried out for Georgia to join the following international agreements:

1. The Budapest Agreement for Patent Procedures to Recognize the Deposition of Germs;
2. The Rome Convention of Performers, Producers of phonograms and Broadcasting Companies;
3. The Lisbon Agreement on Protection of Geographic Names and Their International Registration.
Currently, within the framework of Multilateral Negotiations, Georgia is participating in the important initiative of the “Group of Friendly Countries of Geographic Indications” envisaging the establishment of registration and notification global system (Global Register) of Geographic Names and Indications for alcoholic and types of goods. It is noteworthy that despite the fact that the Georgian Legislation in whole meets the requirement of the international norms, the enforcement mechanisms are weak and poorly developed.

A non-efficient enforcement system may be explained by the following circumstances: the Georgian National Intellectual Property Center (Sakpatenti) works basically on the legislation, i.e. harmonization and improvement of the legislative basis. Despite the fact that it is a National Agency for Intellectual Property Protection, it is not involved in the enforcement process. According to Paragraph 189 of the Criminal Code of Georgia, the illegal use of phonograms, video grams, database or purchase of copies, their import, storage, sale, rent or other type of illegal use shall be penalized or sentenced. However, according to paragraph 26 of the Criminal Procedural Code, these measures can only be applied only based on the claim of the complainant. Nevertheless, in case if the violation has a special public effect, the state has the right to carry adequate measures on its own initiative. According to Paragraph 1571-1573 of the Code of Administrative Offences of Georgia the illegal use of phonograms, video grams, data base, or purchase of copies, their import, selling, renting and other Kind of use for the purpose of generating income, shall be charged with GEL 500-5000 and the technical equipment and materials shall be confiscated. Protocols concerning the above offences shall be prepared by the appropriate structures of the Ministry of Internal Affairs and Financial police (Article 239, paragraph 33). It should also be mentioned that for the purpose to prepare the protocol, appropriate structures of the Ministry of Internal Affairs and Financial police must have the conclusion of the experts, stating that the presented products are pirated. However, presently this kind of expert service does not function. The policy implementing instrument is the Law of Georgia “On Border Measures related to Intellectual Property”.

Concluding the Deep and Comprehensive Free Trade Agreement (DCFTA) between the EU and Georgia was a new impulse for the reforms in the fields of foreign trade. It should be noted that DCFTA is a part of the Association Agreement. The EU-Georgia Association Agreement sets the goal of developing the Deep and Comprehensive Free Trade Agreement (DCFTA) with all countries and undertaking relevant obligations by the countries.

The EU requires the Government of Georgia to adopt new legislation and regulations to get the quality of the Georgian production close to the European standards. This will ensure the entry of the Georgian production to the EU common market. Concluding such an agreement will mean that the partner country will share and introduce virtually, over 80% of the EU legislation.

As for meeting the terms necessary to start the negotiations, out of 10 directions (tariff and non-tariff barriers, sanitary and phyto-sanitary measures, state acquisitions, customs administration, investments and service, certificate of origin, removal of technical barriers to trade, competition policy, protection of intellectual property, sustainable development, environment and social issues), the EU outlined 4 most
problematic fields for Georgia. Following the recommendations, the Government of Georgia undertook to discharge the obligations in all four fields:

**Removal of technical barriers to trade** – the Government of Georgia developed a thorough strategy in this field in line with the EU requirement. In addition to the strategy, the Georgian party developed an Action Plan on its own initiative.

**Sanitary and phyto-sanitary measures in agriculture** - The government of Georgia developed a thorough strategy, and after delaying the obligations for several times what took long, enforced the temporarily invalidated articles of the Food Safety legislation, and started controlling the export commodity from July 1, 2010.

**Competition policy** – The EC Recommendation envisaged the development of a new law regarding the protection of competition. As the issue of anti-monopolistic regulations and competition protection policy were not considered as a priority in terms of deregulation policy of the former government, during the negotiations with the EU this field was problematic for long. At present, the legislation is developed and intense work to improve the legal mechanisms to regulate the conflicts of interests related to its action is under way.

**Protection of intellectual property** – A study was conducted under the EC Recommendation (by UNDP), and the Government of Georgia adopted a law about the design of industrial products what is in line with the European Council Regulations. A service to protect intellectual property was established. However, in order to achieve full harmonization in this field, what is associated with a number of hardships at present, it seems that the Georgian party will have to get closer to the EU standards gradually.

On December 5, 2011, Karel De Gucht, the European Commissioner in the trading questions, stated that the Deep and Comprehensive Free Trade Agreement will help Georgia to become more competitive and use the EU domestic market (Karel De Gucht, 2011. EU launches trade negotiations with Georgia and Moldova). This statement demonstrated that the EU has started the process of negotiations about the deep and comprehensive free trade with Georgia.

The goal of the joint work was to ensure the structural and dynamic approach of Georgia to the EU in the above-listed prioritized fields. The Georgian party developed the governmental strategies, which will allow Georgia to share the EU Recommendations in the shortest possible time.

As for the profit Georgia will gain by meeting the requirements associated with the DCFTA, the experts talk about two options: on the one hand, the economic studies of this issue accomplished by scientists : Gagnidze I (2014), Gvelesiani R (2010), Metreveli M. (2011), Papachashvili N. (2011), Sepashvili E. (2014), Jibuti M.(2013) and others showed that in the short-term perspective, meeting the requirements associated with the DCFTA will lead to the expenditures both, by the state administration and private sector, what at the initial stage, will be seen as limited foreign trade currents (these effects are already observed). On the other hand, in the long run, based on the same studies, we can state that this Agreement will be very beneficial for Georgia. In the experts’ opinion, by concluding DCFTA, the gross
domestic product of Georgia will increase by 6.5% and foreign direct investments will increase from 2.014.8 US Dollars (in 2007) to 11.36 mlrd. US Dollars (in 2020). Besides, as the joint study of DCFTA outcomes of “Ecorys” (Dutch company) and “Case” (Polish company) suggests, Georgian export to the EU is expected to increase by 12% and import will increase by 7.5%. (Ecorys & Case, 2013)

In the experts’ opinion, DCFTA will have a positive impact on the country image: the standards will be made stricter and the service quality will improve. In addition, the export of the Georgian production to foreign markets will be easier. At the same time, Georgia will have to adopt up to 350 EU laws and establish conditions suitable for their realization (Deep and comprehensive free trade area, 2014).

**Food safety strategy.** The Government of Georgia, based on the EC Recommendations, decided to develop the program to develop the extended strategy and legislative base to ensure food safety. Strategy called “Farm to fork” incorporates all the components necessary for the food safety system from the enterprise to the end consumer. The said strategy depends on the attitude of the Government of Georgia to the establishment of the legal base. At the same time, the programs for institutional development and increase in the potential of labor resources must be developed.

The Strategy covers the overall institutional program of food safety describing the mechanisms of cooperation and coordination with such institutions, as the relevant national service, LEPL Revenue Service, laboratories and policy-making institutions.

**Policy to support sustainable development.** Georgia recognizes its obligation to support the development of foreign trade in the way as to help the realization of the principal objectives of sustainable development for the wellbeing of the present and future generations. At the same time, these objectives are important to be considered and reflected at every stage of trade relations (Gvelesiani R, Gogorishvili I. 2014).

Table №1 shows that the country GDP in the period following 2015 sustainably increased, excluding the years of 2009-2010 and 2015 as a result of the military actions with Russia in 2008 and fall of exchange rate from November of 2014. Such state of affairs led to the export-import growth and reduced foreign investment flows. Despite these undesirable processes and their negative results, the share of foreign trade in GDP is also growing stably, what in the long run fosters the hope to gain positive changes. The foreign economic relations of Georgia with Estonia, an EU member state, are spontaneous and irregular what is the proof of instable business and still unused potential of the development of official institutions. Following the data of Table №1, the trend of the growing export-import with the European Union is clear (if not considering the years of 2009 and 2010, after the Russian-Georgian War in 2008).

2. **Policy for Attraction Foreign Direct Investments**

The goal of the investment policy of Georgia is to create the economic environment in the country interesting to the investors what will ensure the attraction of investments. Such environment can be established by forming the legal frame (of the relevant order policy). Three following instruments play a particular role in the Georgian legislation supporting and regulating investments:
1. Georgian Law “On promotion and guarantees of Investment” adopted in 1996 and corrected for many times later. The goal of this law is to support the realization of investments by improving the procedures necessary for investing and entrepreneurship and creating additional legal regime. It covers any local or foreign investment invested or used on the territory of Georgia. The state support of investments is provided by the Georgian National Investment Agency, which has been the state representative with the investors since 2003. The activity of the Agency is controlled by the Ministry of Economics of Georgia. The Agency renders the investor the service to obtain all necessary licenses and permits for investing or realizing other representative authority. The service is chargeable (special investments are an exception defined as special by the law) and its fee is fixed by the Ministry of Economic Development of Georgia. The taxation policy for foreign investments is given in the ratified international Double Taxation Avoidance Agreements (DTAA), too. The main goal of these agreements is to offer investors certain guarantees by excluding double taxation, and to support the movement of goods, services, capital and people. Georgia has ratified this agreement with all major investing countries and trade partners (total 44 countries). According to these conventions, an investor is secured against double taxation on the territory of Georgia. Under the effective legislation of Georgia (as per the statistical methods), a direct investor must own not less than 20% of the enterprise stocks.

For a long time, the Law regulated the legal field of direct foreign investments and a number of changes were made to it following Georgia’s affiliation with the WTO making the Law more favorable to attract foreign investments. The most recent change to the Law was reflected in the agenda of the plenary session of the VIII convocation of the Parliament of Georgia on February 5, 2015. A draft Law “On Making amendments to the Law of Georgia “On promotion and guarantees of Investment” were adopted. Under the draft law, on the territory of Georgia investing will be allowed by the investors of foreign countries and private investors in agreement with the State security and crisis management council (instead of the National Security Council at the President of Georgia), without granting the management right, in the production and realization of military and combating techniques and production and testing the new types or modified armaments with the purpose of improving the self-defense of the country.

It should be noted that today, this Law, despite a number of amendments made to it, fails to respond to the requirements of the Agreement with the EU, and a new frame law is being developed jointly with the European experts.

2. Law “On Investment Funds” was adopted in 2013. The Law regulates such fields as defining the kinds of investments funds and their establishment and activity. The purpose of the establishment of the investment funds is attracting big finances to Georgia what will be of paramount importance not only for Georgia, but for the whole region (The Low … 2013).

3. Georgian Law “On the National Investment Agency of Georgia” was adopted in 2015 with a new edition. The Law defines the legal, organizational and economic principles of the public goals in the field of investment policy and concrete mechanisms to realize them. The goals of the Law are as follows: establishing and controlling the mechanisms of efficient expenditure of the monetary funds assigned to finance
entrepreneurship and investment projects of Georgia (relevant to the priorities under the indicative plan of economic and social development) and ensuring fair and non-discriminative attitude to the organizations submitting the entrepreneurship and investment projects in the course of financing the entrepreneurship and investment programs (The Low … 2015).

Since Georgia’s affiliation with the WTO, the principal indicators of the investment environment have been as follows: the existing income tax of 12% and social tax of 20% merged to form a single income tax of 20%; profit tax of 15%; VAT of 18%; dividends are taxed by 5%; percents are taxed by 5%; royalty is taxed by 20% (The Tax … 2015). At the same time, the investment policy is subject to further changes in line with the requirements of the Agreement of Association concluded between Georgia and the EU. As the World Bank Report “Doing Business” report suggests (Doing … 2014), Georgia is recognized as one of the leading reformer countries in recent years. At present, with the simplicity of doing business, the country ranks the 8th among 185 countries. Despite this, there are still a number of principal problems in different fields unresolved hampering the improvement of competitiveness of the private sector and long-term economic growth. At present, ensuring free competition on the market is still a problem. In addition, the questions of insolvency and solution of commercial disputes and other business issues are still unresolved. In the final run, the existing obstructions deteriorate the entrepreneurship environment, diminish the investors’ trust and make the effective mechanisms in other fields less efficient. For instance, as the World Bank Report “Doing Business” report suggests (Doing … 2014), Georgia ranks the first in the world with the simplicity of property registration. However, this counts less unless the property right is duly protected or disputes related to it are swiftly resolved. Today, we still see some paramount problems of protecting the property right guaranteed by the Constitution of Georgia, such as: Georgian pieces of art, technologies and other activities and further establishing the security mechanisms for such patents. In this respect, it is extremely important to share the experience of the European Union and seek the EU support in developing the standardization and patenting business. With this purpose, the Government of Georgia ensures the improvement of the legislative and institutional base related to the protection of the right of intellectual property and introduction the best EU practices.

The Agreement envisages the mandatory standards associated with the right of intellectual property to be met for all categories of intellectual property envisaged by the articles of the Agreement, such as copyright and contiguous rights, trademarks, geographical marking, design, patents, as well as standards regarding the protection of data submitted to obtain the permit for placing medical products and plant protection means on the market.

The problems in the entrepreneurship and investment environment are evidenced by various international assessments and reports. In particular, as the data of 2013-2014 suggest, Georgia has the following indicators in the Global Competitiveness Index: it ranks the 120th for the protection of property rights; the 92nd – efficiency of the legal frame to solve legal disputes; the 138th – efficiency of anti-monopolistic policy; the 123rd – local competitiveness intensity; the 190th – dominating scale on the market (The Global … 2015). As the Doing Business Report of the World Bank on the Environment
Regulating Direct Investments suggests (as per this Report, Georgia is one of the best), there are still some problematic fields in the country needing improvement, such as the questions of insolvency and meeting creditor’s demands as an example. In these fields, Georgia’s positions are as follows: it ranks the 88th with its insolvency procedures; the level to meet the creditors’ demands for Georgia is 33,6%, while it is 37,1% for Eastern European and Central Asian regions and it is 70,6% for OECD member countries (As per the “The Global Competitiveness Report” of the World Economic Forum of 2015-2016 suggests, the rating of Georgia improved by 3 and the country has shifted to the 66th among 140 countries from the 69th position with 4,22 points (The Global … 2015). The investment currents from the EU do not show any stable growth trends (See Table 1.) as a result of little interest in the economics of Georgia. This situation is further aggravated by the poorly developed Georgian business and market limitation. The foreign economic relations with the EU first of all, are possible to intensify at the expense of maximum approach to the legal field of Europe, introduction of quality standards and thorough protection of property rights in Georgia. The work in this field is under way and there is valid expectation to end it successfully.

The state must take effective measures to eliminate the existing gaps and maintain the stably attractive entrepreneurial and investment environment in the long-term perspective. This needs a number of legislative and institutional changes, including the strengthening of the court system. A strong and independent court is one of the preconditions to improve the entrepreneurial and investment environment, particularly to protect the property rights. It is the government of the country to secure the business interests against illegitimate intervention. The principal goal in this field is to eliminate the existing gaps and maintain the present achievements. The government of Georgia must be the main guarantor in protecting the property right. Today, the government tries, at the expense of the right tax policy, to establish the stable tax environment attractive for private sector and foreign investments, as well as business onset and development. Within the scope of The Agreement on Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Georgia, the customs legislation of Georgia is being harmonized to the EU legislation. Amendments to the Tax Code of Georgia will be minimized, and all principal obligations of tax-payers will be defined only by the Law. Tax administration will be simplified and tax sanctions will be optimized. Some categories of economic activities will be decriminalized and the limitation periods envisaged by the Tax Code will be reduced step by step.

Protection of the property right is one of declared priorities of the government of Georgia. With the purpose of better protection of the property right guaranteed by the Constitution of Georgia, the court independence and further professional development of the judges is of paramount importance. Within the context of the protection of the property right, perfection of the mechanisms to protect the rights of intellectual property is also very important. The competence and opportunities of the courts are to be improved in respect of dispute resolution. At the same time, the government must promote the development of Alternative Dispute Resolution (ADR), the arbitrages in line with the world best practice. In this respect, the fact of the investment legislation of Georgia being still deficient and needing modernization is clear. In addition, the role and competencies of the business ombudsman must be extended.
3. Foreign Debt Policy

Foreign debt of Georgia is 5,774.6 mln. USD making 41.4% of the country GDP (13,959.94 mln. US Dollars). If comparing the debt to the export incomes, we will see that Georgia is one of the LILIC countries, and if comparing the debt to GDP, Georgia is among SILIC countries (Statistical … 2016). As these indicators suggest, the situation of our country is not so bad, but Georgia still ranks among unstable countries, but at the same time, with other criteria, Georgia differs from the named types of countries. Following the data of Table 1, the ratio between the state debt and GDP of Georgia was low and showed a decreasing trend from 2002 to 2009, while since 2009, it has had an increasing trend. At the same time, the situation from 2002 to present is much unfavorable in respect of the ratio between the state debt and export. In 2015, this figure reached 262% (see Table 1.).

The goal of the foreign debt management is to develop and swiftly enforce the efficient mechanisms to limit old debts and attract for foreign financial resources at the same time. In diminishing the problems associated with foreign debt management, the international experience and practice must be considered as much as possible. There is successful world program “debt-for-nature-swap” working with the aim to limit the foreign debt burden for countries. For Georgia, “debt-for-nature exchange” program can be considered much more attractive compared to “debt-for-aid-swap” or “debt-for-assets-swap” options, which are particularly beneficial for creditors. Some creditors use this instrument to purchase strategic assets (e.g. power engineering facilities, infrastructure, or non-competitive segment in some other branch) in the debtor country. Russia commonly uses this kind of transaction in the Post-Soviet countries having the liabilities to Russian Government or power engineering companies subordinate to the Russian Government. This option seems very attractive for the creditors for pure economic purposes when the amount of the exchanged debt is less than (or equals to) the price of the bought assets. Waiting for the economic transactions profitable for Georgia being similarly attracting to the crediting countries is less likely, unless the prices of the assets are lower than those on the free market. This is true if the creditors do not consider such a situation as a charity of course. An option better than this kind of swap for Georgia would be selling the demanded assets on the market and use the income to create the efficient mechanisms of debt management.

In order to improve the efficiency of foreign debt management policy in Georgia, it is desirable to establish a financial institution with transparent management mainly to realize the programs in the economic development, environmental protection and social fields instead of permanent financing the budgetary deficit. This institution must promote the attraction of grants from the interested countries and international NGOs. It will realize and supervise the realization of such programs mainly oriented on the solution of social-economic problems. Certainly, the positive effect gained through the activities of the financial organization must be permanently calculated and compared to the organizational and administration costs with the establishment/operation of the organization.

The issues of the currency policy are very important to consider in relation to the foreign debt management, but in this field we have become a hostage of the ongoing processes of the world and our neighbors. Georgia introduced the national currency,
Georgian Lari (GeL), in 1995. Until November of 1997, GeL was fixed with US Dollar, but the regional financial crisis and Russian default forced the country to shift to the floating exchange rate of GeL. For a long time, the National bank of Georgia set the targeting aim and fought against the increase of the currency rate. The price changes on the world market since 2014 and political stress between Russia and Turkey (both of them together with Azerbaijan are large trade partners of Georgia) led to the tendency of the steady fall of GeL exchange rate. Provided the tendency of the rapid fall of Georgian Lari exchange rate continues (among other things, caused by the impact of the exchange rate fall of the national currencies of the neighboring countries of Georgia), it would be desirable to converse the foreign debt into a domestic debt. However, this process is not only under our control.

Conclusions

Despite the hard political and economic situation, under which Georgia develops, the Association Agreement with the EU fosters great hopes. The foreign economic policy of Georgia now is formed in the democratic environment leading to the rational use of instruments. Despite significant positive changes, the foreign economic policy is still far from the desirable standard needed to restore the territorial integrity of our country.

Affiliation with the WTO was a political decision of Georgia. At the same time, affiliation with the WTO, with its member countries with over 99% of the world trade, has been followed by certain positive shifts for Georgia: the degree of integration of Georgia with the world trade system has increased what helps achieve the economic and political stability both, in Georgia and whole Caucasus.

The new requirements of the foreign trade policy led to the trend of growing trade between Georgia and EU. Georgia is a most-favored-nation on the markets of 178 member states meaning that the goods imported from Georgia were given the status of favored commodity no less than the one of other countries’ goods together with other advantages as the reduced import tariffs by other countries.

Following the affiliation with the WTO, Georgia received the relief by the USA, who abolished the Jackson-Vanik amendment for Georgia and granted it the status of a most-favored-nation on the permanent market and then, the status of a beneficiary of Generalized System of Preferences (GSP). It should be noted that since 2002, Turkey, Poland and Japan have applied the GSP terms to Georgia.

Reduced customs fees for the equipment, semi-finished products and raw material imported to Georgia will contribute to the increased local investments and production and will make it possible to introduce innovative and modern technologies.

The interests of Georgia in foreign relations are protected through the WTO multilateral mechanisms of conflict resolution. Georgia was given the opportunity to get actively engaged in so called new “Development Round” of multilateral negotiations to present and protect its economic interests better.

Affiliation of Georgia with the WTO and Agreement of Association concluded with the EU will significantly help the attraction of direct foreign investments to the country. Georgia may become the principal investment bridge for foreign companies, which show readiness to start production in the country and export the goods to the markets of
the neighboring countries, such as Caucasian and Central Asian countries and even more distant countries. Georgia’s membership of the WTO and DCFTA Agreement are the guarantee for the investors of the stable and predictable economic policy compliant with the international standards and the local production is allowed to the foreign markets under the most-favored-nation option.

The establishment of a liberal investment environment created the favorable basis for the DFIs, but no significant changes have been seen to their structure or trends so far.

The position of Georgia in respect of its foreign debt is satisfactory. The goal of the debt management policy was to establish the reputation of a responsible debtor for Georgia and ensure the stable supply of foreign credit resources to the country. This goal is partially met, but the efficient use of resources needs the limitation of the old debt by means of its rational service and gaining the new credits. Debt exchange by virtue of obtaining the debt-for-nature exchange world program seems the most desirable option of debt limitation for Georgia. Foreign debt policy must ensure the transparency of spending and disposing the amounts gained through the selected program. If considering that the increasing trend of the state debt and import of Georgia will be sustained for long (what, among other things, will cause the extension of the current account (CA) deficit), it becomes clear that without accelerated export rates, Georgia will find it difficult to retain the status of a responsible debtor.

The values of the indicators in Table 1. of the present paper are taken from the databases of the Ministries of Finances and Economics of Georgia, as well as National Bank of Georgia and National Office of Statistics of Georgia. Based on simple calculations, the values of the indicators received from different institutions (the Table indicators, pos. 16) make the reliability of the databases doubtful evidencing the existence of significant gaps in the operation of the official bodies of Georgia. The development and realization of the efficient economic policy in the foreign sector is possible first of all, by showing the real tendencies in this sector, what seems impossible at the present stage due to the lack of the policy instruments. We hope that in the transient period of harmonization with the EU Regulations, the gaps with the political instruments and relevant indicators will be filled.

In the final run, the success of the foreign economic policy of Georgia depends on the recognition of the priority of the national state interests by the economic interest groups in the country.
Table 1. Indicators of foreign economic policy in the years 1995-2015

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<td>Foreign Debt (TUSD)</td>
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<td>Debt/GDP,%</td>
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<td>Debt/Export,%</td>
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We can find significant differences between the data of Georgia by the World Bank and the data by GEOSTAT. Despite of the methods provided on the web-site of GEOSTAT, it is noted that GEOSTAT applies UN methods and UN is that provides the World Bank with the information. Likely, UN is based on and obtains the data of the National Banks, which unfortunately do not coincide with GEOSTAT data. Such discrepancies between the indices fail to allow conclusions, however they indicate to the problem that GEOSTAT encounters and causing inconveniences for the researchers and the specialists.

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<td>87.7</td>
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<td>105.3(255)</td>
<td>89.6(214)</td>
<td>85.3(217)</td>
<td>75.9(188)</td>
<td>82.4(204)</td>
<td>91.8(262)</td>
</tr>
<tr>
<td>CA (Mil.USD)</td>
<td>17</td>
<td>-1,174.7</td>
<td>-1,917.9</td>
<td>-2,513.5</td>
<td>-1,134.3</td>
<td>-1,193.5</td>
<td>-1,840.1</td>
<td>-1,814.0</td>
<td>-951.0</td>
<td>-1,398.0</td>
<td>-1,387.9</td>
</tr>
</tbody>
</table>


We made calculations by different sources, namely the Export and Import indices by GEOSTAT significantly differ from the data by the National Bank of Georgia (which is provided in the brackets of 2009-2015 columns of the 16th position). Export and Import indices are obtained from GEOSTAT data, calculating export and import of goods solely; Export/GDP.% and Import/GDP.% indices are obtained from the data of the National Bank of Georgia (calculating export/GDP of goods and service and import/GDP% of service without unorganized commerce) in as much as GEOSTAT does not calculate the here of index. We can find significant differences between the data of Georgia by the World Bank and the data by GEOSTAT. Despite of the methods provided on the web-site of GEOSTAT, it is noted that GEOSTAT applies UN methods and UN is that provides the World Bank with the information. Likely, UN is based on and obtains the data of the National Banks, which unfortunately do not coincide with GEOSTAT data. Such discrepancies between the indices fail to allow conclusions, however they indicate to the problem that GEOSTAT encounters and causing inconveniences for the researchers and the specialists.
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Das Ziel der Außenwirtschaftspolitik ist, durch die Weiterentwicklung der Außenhandelspolitik, die effektive Ausnutzung von eigenem Investitionspotential und Auslandsfinanzierungen ein stabiles und nachhaltiges Wirtschaftswachstum des Landes zu sichern.


Zum Beginn der Verhandlungen mussten die notwendigen Voraussetzungen erfüllt werden. Aus 10 Schwerpunkten (tarifäre und nichttarifäre Handelshemmnisse, sanitäre

1 Den vollständigen Text des Artikels „Georgische Außenwirtschaftspolitik nach der Gewinnung von Unabhängigkeit“ findet der Leser auf der beigelegten CD.
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