



GEORGIAN FOUNDATION FOR  
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## GEORGIA'S ECONOMY: FROM OPTIMISM TO PRIMITIVISM

VLADIMIR PAPAUA

# 75

EXPERT OPINION





საქართველოს სტრატეგიისა და საერთაშორისო ურთიერთობათა კვლევის ფონდი  
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## **EXPERT OPINION**

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## Introduction

The parliamentary elections of 2016 have confirmed that the subsequent (as well as the previous) four years are “doomed” to witness the confrontation between the ruling Georgian Dream (GD) party (now with a constitutional majority) and the former ruling party, the United National Movement (UNM), which has been partially modified by breaking up in two parts (still present with a parliamentary minority). The third small faction traversing the parliamentary threshold – the Georgian Alliance of Patriots is incapable of exerting any tangible influence on parliamentary decisions.

The controversy between the incumbent and former ruling parties began in the aftermath of the 2012 parliamentary elections.

Following these elections in 2012, GD voters expected that the country would launch an irreversible process of the restoration of justice; in other words, that for the sake of which electors cast their votes in favor of the GD. Unfortunately, in an unanticipated move, GD leaders publicly announced that following the elections, the country was to foster a process of cohabitation; namely, the coexistence of the winning GD and the losing UNM.<sup>1</sup> This was not the will of the majority of the population but, rather, an initiative put forward by the USA and the EU.<sup>2</sup> In turn, cohabitation has made it clear that the GD government had been unable to implement relevant personnel changes in state institutions. As a result, by 2016, cohabitation, as such, came to an end, being replaced by a government integration of two political forces with seemingly different ideologies – the GD and the UNM. This has also been apparent in the multitude of ideological adherents of the latter abundantly populating the offices of ministries and government agencies, not to mention the highest echelons of government and the constitutional majority of the parliament.

Over the 2012 and 2016 electoral periods, the GD issued numerous pledges to its voters, including economic guarantees which garnered special attention; however, their implementation could not (perhaps yet) be achieved for objective or subjective reasons.

The economic vision upheld and the economic policies effected by the GD government can be divided into two segments provisionally entitled

“Economic Optimism” and “Economic Primitivism.” The key aspects of each are discussed in more detail below.

## **Economic Optimism**

A dream, as such, is based on optimism when the dreamer engages in positive thinking with regard to his future. It is, therefore, not at all surprising that a large segment of Georgian society welcomed a political party with the GD name with a preliminarily optimistic attitude.

Despite the fact that the Economic Optimism Index (EOI)<sup>3</sup> has been calculated for a number of years already, unfortunately, theoretical bases for economic optimism have yet to be established.<sup>4</sup> At present economic optimism mostly is a topic of sociological research.<sup>5</sup>

It is essential to underline that, despite triggering an economic slowdown,<sup>6</sup> the GD government took a set of optimistic steps from the outset.

**EU Association Agreement.** Coming to power in late 2012, the GD was faced with a number of challenges<sup>7</sup> with one of the most crucial comprising the reaching of an Association Agreement with the EU. A key constituent of the Agreement is the Deep and Comprehensive Free Trade Area (DCFTA)<sup>8</sup> agreement with the EU. For the UNM government, adherence to the “European track” was, unfortunately, largely confined to articulation while in actuality efforts were being directed at ensuring that Georgia’s rapprochement with the EU did not materialize.<sup>9</sup> The country had instead mapped a path towards “Singaporization.”<sup>10</sup>

The GD government managed to secure Georgia’s signature<sup>11</sup> of the Association Agreement in June 2014, entering into force as of 1 July 2016.

Signing the EU Association Agreement and the entry into force of the DCFTA should be assessed as the most significant positive measures taken by the GD government. This, in turn, served to bolster economic optimism among a large part of the population.

**Alleviation of Informal State Pressure on Businesses.** The basis for economic optimism ensued from the GD’s guarantees that the harmful practice of state pressure on businesses, a phenomenon highly prevalent throughout the UNM’s tenure, would be eradicated.<sup>12</sup> It can be legitimately stated that the GD has fulfilled this promise<sup>13</sup> in its entirety.

**Georgia 2020.** A vivid example of the economic optimism upheld by the GD government is the approval in 2014 of the Social-Economic Development Strategy of Georgia – Georgia 2020<sup>14</sup> (hereinafter, Georgia 2020).

According to Georgia 2020, the economic policy of the Georgian government should be based on three key principles. The first implies ensuring rapid and efficient economic growth driven by the development of the real sector of the economy. The second principle implies the implementation of economic policies that facilitate inclusive economic growth. The third principle is based on the rational use of natural resources, the provision of environmental safety and sustainability, and natural disaster risk mitigation throughout the process of economic development.<sup>15</sup>

According to the document, the government of Georgia should have focused on the country's innovative development and the establishment of a knowledge-based economy which, undoubtedly, was a beacon of hope. The launching of the Startup Georgia program was also crucial in the promotion of innovative business.<sup>16</sup>

The resolution of the government of Georgia, which approved Georgia 2020, also instructs ministries and other state agencies to draw up mid-term action plans based on Georgia 2020 by June 30 of every year.<sup>17</sup> Unfortunately, the government has yet to fulfil this task which has raised questions about the feasibility of the objectives and goals set forth in the Georgia 2020 document.

## **Economic Primitivism**

As is known, the antonym of the word “optimism” is “pessimism” rather than “primitivism.” Moreover, primitiveness, as a simplified approach to a complex issue, does not necessarily preclude optimism.

There are a number of significant works on economic primitivism, including notable studies through the lenses of economic anthropology,<sup>18</sup> anarchoprimitivism<sup>19</sup> and libertarianism.<sup>20</sup> The Georgian version of economic primitivism has an entirely different basis. In particular, in modern Georgia, optimism caused by or associated with economic primitivism is a trait embodied largely by people without sufficient knowledge of economics.

**Governmental 4-Point Plan.** An illustration of economic primitivism is the Governmental 4-Point Plan initiated by the now Prime Minister, Giorgi Kvirikashvili. The plan was first introduced to businesspersons in early 2016;<sup>21</sup> however, at the time, the document itself did not exist in written form. Interestingly, discussions around this topic took place without a written copy of the plan. Unfortunately, the tradition established by the UNM government of holding public presentations of non-existing documents was maintained. Namely, as a direct attendee of the first of such public presentations, I confirm that in the summer of 2004, the then Prime Minister presented a new tax code which, at the time of the said presentation, had not yet been drafted.<sup>22</sup>

The Governmental 4-Point Plan first appeared in written form towards the end of the GD's pre-election program – Freedom, Rapid Development, Well-being,<sup>23</sup> developed for the 2016 parliamentary elections. Subsequently, the Plan was incorporated into the winning party's government program of the same name.<sup>24</sup>

The four points of the Governmental 4-Point Plan are as follows: 1. economic reform, 2. education reform, 3. spatial planning and 4. governance reform.

The cornerstone of point 1 is corporate income tax exemption for businesses in the case of profit reinvestment.

According to point 2, the vocational education system should be oriented towards a dual or work-based learning approach which entails training programs implemented jointly by educational institutions and potential employers; university education would be focused on the actual requirements of the economy identified as a result of labor market analysis.

According to point 3, spatial planning measures around the country should be conducive to mindful urban and rural development and the advancement of an inter-regional transport network, ultimately aiming to transform Georgia into a year-round tourist destination.

Point 4 aims at increasing governance efficiency.

One does not need to be an experienced economist to be able to pinpoint the difference between Georgia 2020 and the Governmental 4-Point Plan: a more-or-less comprehensive strategy aimed at the country's innovative development is reduced to four fragmented points.

The key issue is that the Governmental 4-Point Plan promotes the maintenance and reinforcement of a non-productive and, at the same time, consumerist economic model in Georgia.<sup>25</sup> Unfortunately, due to the low level of development of the real sector of the economy, the country consumes more than it produces. As a result, over the years, import is 3-4 times higher than export while import goods constitute an average of 80% of the consumer basket (as well as the food basket).

Under these circumstances, the first point of the Governmental 4-Point Plan will bolster those Georgian firms that are typical of a non-productive and simultaneously consumerist economy. The system, known as the Estonian Model, which entails the exemption of reinvested profit from corporate income tax, has entered into force in Georgia as of 2017. The reform does not yet apply to the financial sector (commercial banks, credit unions, insurance agencies, microfinance organizations and pawnshops) and will do so as of 2019.<sup>26</sup> It is unclear as to why tax breaks for profit reinvestment should be granted to restaurants and hotels, not to mention the financial sector: such businesses are abundant in the Georgian economy even without the tax benefits. It would have been more advisable to afford tax breaks to only those firms within the real sector of the economy which would apply innovative technology to reinvest their profit. Given the severe shortage of such firms, the Estonian Model for corporate income tax will contribute to the enhancement of the consumerist structure of the economy in Georgia and offer no incentive to the nearly non-existent innovative real sector.

It is noteworthy that the Estonian Model affords no benefits to medium and small businesses and will complicate administrative procedures for large businesses as entrepreneurs will now be required to file monthly tax returns at the Revenue Service of the Ministry of Finance.<sup>27</sup>

This prompts a recollection of one more point: not only one type of tax benefit but almost all tax or other forms of benefits applied in a Free Economic Zone (FEZ) taken together do not suffice to ensure successful economic development even within the FEZ itself which, unfortunately, as expected, is confirmed by Georgian experience.<sup>28</sup>

The second point in the Governmental 4-Point Plan carries the same connotation. Once again, considering that Georgia has virtually no real sector of innovation economy, the focus of the vocational education system



solely on work-based learning approaches and the focus of university education – solely on the actual requirements of the economy will never be able to ensure the training of specialists befitting a knowledge-based economy.<sup>29</sup> Thus, the focus of vocational and university education on solely the current rather than prospective needs of the economy will further contribute to enhancing the consumerist structure of the Georgian economy.

As per the third point in the Governmental 4-Point Plan, proper spatial planning in the country should make Georgia a year-round tourist destination. It is noteworthy that tourism was a priority issue in the Georgian economy both under the UNM<sup>30</sup> as well as the GD<sup>31</sup> governments. Given that, as mentioned above, import goods take up 80% of Georgia's consumer and food baskets, the needs of tourists, as additional consumers, should be supplemented by additional import since Georgia produces only 20% of its food products and, unfortunately, none of the means of transportation or fuel necessary for travel within the country. Hence, the government tending solely to the development of tourism truly fails to contribute to the country's diverse economic development and sustains trends applicable to a consumerist economy.

The fourth point of the Governmental 4-Point Plan will be discussed further below.

Evidently, the first three points of the Governmental 4-Point Plan oppose the country's innovative development strategy and, thus, the Georgia 2020 plan mentioned above. It is an unfortunate fact that the Government's 4-Point Plan constitutes a vivid example of economic primitivism resulting from a disregard for economics.

Against this background, the approval of the Governmental 4-Point Plan by the regional director of the World Bank is surprising<sup>32</sup> although not unexpected given the conscious or unconscious mistakes previously perpetrated by international financial institutions in Georgia.<sup>33</sup>

**Balancing the National Budget Deficit.** It was initially clear that transferring to the Estonian Model of corporate income taxation would trigger a substantial cutback in national budget tax revenues.<sup>34</sup> Given that 2016 was a parliamentary election year, the government postponed the implementation of this reform to 2017.

Since revenue otherwise generated from corporate income tax will now be deducted from the national budget, the government has made the call to increase excise taxes and taxes on gambling.<sup>35</sup> While increased taxes on gambling is seen as a positive development by both economists and society as a whole, the excise tax increase raises serious doubts. In particular, as of 2017, excise taxes on tobacco products increased as follows: filtered cigarettes – by almost 1.9 times while the excise on non-filtered cigarettes has doubled which raises the question as to whether or not this will drive the tobacco business, at least partially, into the shadow economy.

Beginning in 2017, the excise tax on fuel also increased substantially: petrol – by 2 times, diesel fuel – by almost 2.7 times and natural gas used as fuel – by 2.5 times . Naturally, fuel price hikes will have a negative impact on the economy as a whole as well as on the social conditions of the population.

Excise taxes have largely been increased on imported motorcars aged 6 years or more. This approach aims to promote a gradual renewal of the country's aging motorcar park.

A set of logical question comes to mind: why is the reduction in tax revenues ensuing from the application of the Estonian Model compensated only at the expense of raising excise taxes? Why has the government not touched upon other forms of taxation?

The point is that even during the UNM's tenure, the Constitution of Georgia was amended to state that all tax increases, aside from excise tax or the levying of any new taxes can take place only via referendum.<sup>36</sup> The regulation of tax policy via referendum is clearly unjustified as this procedure in this context is devoid of any reason: it can be said in advance with confidence that the absolute majority of voters would oppose any tax increases or the imposition of any new taxes. Unfortunately, the GD government and parliamentary majority, which have resolved to revise the Constitution,<sup>37</sup> do not yet aim to conduct a referendum on tax policy or abolish these regulations through populist means...

Provided that the excise tax hike is an unpopular move, the government, in the national budget for 2017, assumed an obligation to reduce budget expenditures. Namely, wage-funds at the majority of budgetary organizations will be decreased by 10% and administrative costs will be reduced by the same share.<sup>38</sup> The government also associates this step

with point 4 of the Governmental 4-Point Plan which aims to enhance governance efficiency. Regrettably, the government does not have a clear understanding of what “enhancing governance efficiency” entails; in this context, the 10% reduction of state administration constitutes a simplified approach to the issue as downsizing the government does not necessarily guarantee an increase in efficiency.<sup>39</sup>

It is unfortunate that the government also fails to take into account that fuel price hikes or curtailing budgetary organizations under conditions of stimulated inflation will further complicate the social situation in the country and should not be within the political interests of a wise government.

**Larization of Mortgage Loans.** Since November 2014, Georgia’s national currency, the lari (GEL) has been subject to devaluation<sup>40</sup> which was further accelerated in 2015-2016.<sup>41</sup> The process exacerbated the situation for the segment of the population with foreign-currency mortgage loans from commercial banks. In order to assist this group (a total of 33,000 borrowers), the government took the decision to launch the larization program.<sup>42</sup>

Participation in the program is voluntary and it exclusively pertains to those who have taken out mortgage loans before 1 January 2015 and whose annual income does not exceed GEL 100,000. Moreover, the program applies to those mortgages which also do not exceed GEL 100,000. The larization of a loan will take place on the day of the conversion at a rate equal to the official rate of exchange reduced by GEL 0.2 which will be subsidized from the national budget and amount to a total of GEL 65 million.<sup>43</sup> It is noteworthy that the National Bank of Georgia (NBG) will supply commercial banks with the foreign currency necessary for the larization program and contribute to the liquidity of the lari. It should be emphasized that the larization program does not imply any additional expenses incurred by commercial banks.

For the mortgage conversion program not to trigger any further devaluation of the lari, the NBG plans to sell foreign currency sourced from international reserves to commercial banks. In order to draw parallels, it should be recalled that, as a rule, the NBG is highly cautious about spending currency reserves to maintain the stability of the national currency although this does not apply to the mortgage larization program. Consequently, the

conversion of USD-denominated mortgage loans into GEL will not result in any further devaluation of the lari.

It should also be emphasized that it is unclear why the government refers to mortgage larization as a social program<sup>44</sup> since it does not concern the needy population: low-income citizens cannot afford to take out mortgage loans in foreign currency; although, the subsidy withdrawn from the state budget is funded by the entire country, including citizens with low wages (as an average, 900,000 persons pay income tax).

**Impact of the Government's Uncoordinated Statements and Reckless Actions on the Currency Market.** Following the parliamentary elections, in late November 2016, the Parliament of Georgia confirmed the partially reshuffled GD cabinet (although with the still-incumbent PM Giorgi Kvirikashvili).<sup>45</sup> It is noteworthy that neither the pre-election party program<sup>46</sup> nor the government program<sup>47</sup> approved by the parliament included any mention of the excise tax hike, the 10% cutback of budgetary expenditures or the mortgage loan larization scheme<sup>48</sup> which were made public a few days later.

Unfortunately, the government disclosed these initiatives without prior agreement with business representatives (including commercial banks). Moreover, as it turned out the government itself did not even possess a coherent understanding of these initiatives. An evident example of the above is the Prime Minister's announcement about an outright ban to be imposed on online loans<sup>49</sup> which was rebuffed two days later by the Vice President of the NBG<sup>50</sup> as well as by the Deputy Minister of Finance.<sup>51</sup> It should be noted that online lending restrictions harbor a risk of shifting this type of business to the black market in the form of usury.<sup>52</sup>

The disclosure of such reckless and uncoordinated initiatives has significantly fueled panic on the country's currency market.<sup>53</sup>

In an attempt to decrease the dependence of the Georgian population and economy on foreign currency (mainly the USD), as of 2017, the Prime Minister has authorized all loans up to GEL 100,000 to be issued only in the national currency while as of 2018, this regulation will apply to all loans up to GEL 200,000.<sup>54</sup> The directive will in no way decrease the overall demand for USD since, as noted above, Georgian commercial banks have accumulated substantial foreign debt; thus, if prior to the adoption of this regulation citizens borrowing in USD were the primary dollar buyers,

then following its enactment banks issuing loans in GEL will proceed to purchase dollars instead. Respectively, the aggregate demand for USD will not decline. In other words, even though the total share of transactions in GEL will experience a surge, this will still fail to stabilize the exchange rate.

**Recurrent Attempts to Dissolve the National Bank of Georgia.** The first such attempt was undertaken in 2008 when the Bank Supervision Agency was removed from the NBG. In 2009, however, the Agency rejoined the NBG once again, reinstating its supervisory function.<sup>55</sup>

In light of the devaluation of the Georgian national currency, in 2015, the GD parliamentary majority lashed out at the president of the NBG placing all of the blame for the devaluation on him. In order to avoid a persisting devaluation of the national currency, the GD parliamentary majority took the decision to strip the Bank of its supervisory functions.<sup>56</sup>

Despite the fact that international financial institutions urged Georgian authorities to refrain from taking the step (so as not to cripple the NBG),<sup>57</sup> the parliament nevertheless proceeded to approve amendments to the Organic Law on the NBG. The amendments set forth the establishment of the Bank Supervision Agency, which is formally included in the NBG, but has an autonomous governance scheme.<sup>58</sup>

Even though the President of Georgia vetoed the proposed legislative amendments,<sup>59</sup> the GD parliamentary majority overrode the veto<sup>60</sup> and propelled the bill into law.<sup>61</sup>

At a later stage, opposition MPs from the UNM and the Free Democrats lodged a joint complaint with the Constitutional Court which alleged that the establishment of the Bank Supervision Agency was unconstitutional.<sup>62</sup> Fortunately, the Constitutional Court suspended the operation of the Bank Supervisory Agency pending the verdict.<sup>63</sup>

Deliberations on the issue in the Constitutional Court were so protracted that the term of office of the NBG president expired and following the election of the new president, the GD government abandoned the initiative aimed at promoting the NBG's institutional decline.<sup>64</sup>

Such a step taken by the GD authorities constitutes one of the most impressive examples of economic primitivism when, instead of implementing staff changes at the NBG envisioned by relevant legislation, it was decided to weaken the NBG on the basis of institutional revision.

**Privatization of the Premises of the Ministry of Economy.** Another clear example of the GD government's primitivist approach to the economy is the 2015 privatization of the building housing the Ministry of Economy. As a result, the building was sold for USD 9.45 million to the Chinese company, Hualing, via online auction.<sup>65</sup> The company plans to turn the building into a hotel.<sup>66</sup>

It is noteworthy that following privatization, the Ministry of Economy remained stationed in the auctioned building and proceeded to disburse leasing charges to Hualing until, due to a fire,<sup>67</sup> the Ministry was required to pay a fine to the owner of the property, vacate the building and lease new premises...<sup>68</sup>

The practice of selling ministry buildings to clear the way for new hotels was initiated under the UNM government.<sup>69</sup> Namely, in 2007 the former premises of the Ministry of Agriculture<sup>70</sup> and in 2012 the Ministry of Justice building<sup>71</sup> were exploited for this purpose.

The principal difference in the redevelopment of ministry buildings into hotels is that the UNM government preemptively resolved the issue of identifying new buildings to house the ministries (the Agriculture Ministry was relocated to another state-owned building, and the new premises was erected for the Justice Ministry before the previous building was vacated) and then proceeded with the hotel redevelopment projects. Conversely, the GD government disposed of the Ministry of Economy building without even having considered the issue of first relocating the Ministry...

**Sale of Georgia's Strategic Assets.** To build trust within the parliament, in his address, the Prime Minister stated that the government would consider the Initial Public Offering (IPO) of 25% of the state-owned Georgian Railway and the Georgian Oil and Gas Corporation stakes.<sup>72</sup> The disposal of Georgia's strategic assets is in no way a novel concept as the UNM government did not recognize the existence of such assets and considered that selling them to Russia harbored no security threats for Georgia.<sup>73</sup> All the more, this took place in light of Moscow's public announcement of its intention to establish a "liberal empire,"<sup>74</sup> in other words, secure influence over the post-Soviet space (and beyond) by applying economic mechanisms.<sup>75</sup>

Given that gas pipelines and railways in Armenia are owned by Russian state companies (gas pipelines are owned by Gazprom while the railway is administered by the Russian Railways, company which went so far as to

rename the state-owned Armenian Railways the South Caucasus Railways which constitutes an overt acknowledgement of Moscow's intentions to establish control over the Georgian and, ultimately, Azerbaijani railways) it is evident that if even 25% of the Georgian Railway and Georgian Oil and Gas Corporation shares are put up for sale, Russian companies will be the primary stakeholders.

Due to the Armenian-Azerbaijani conflict, Azerbaijani companies may also emerge as buyers of Georgian assets as Baku seeks to acquire new economic mechanisms to exert pressure on Yerevan. In this case, Tbilisi will certainly be embroiled into the Armenia-Azerbaijan confrontation which is definitely not within Georgia's interests.

It is unfortunate that the GD continues to pursue the same policies threatening Georgian national interests as the UNM government had throughout the nine years of their tenure.

**Russian Gas Transit Fees to Armenia.** Already during Eduard Shevardnadze's presidency, Tbilisi and Moscow signed an agreement which authorized Georgia to retain – as a transit fee – 10% of the gas transported by Gazprom via the pipeline through Georgia into Armenia.

In January 2016, Gazprom initiated talks with the Georgian Ministry of Energy, seeking to replace the transit fee disbursement in the form of natural gas with cash amounting to 10% of the value of the transported commodity.<sup>76</sup>

Gazprom's proposition is undoubtedly economically unprofitable for Georgia. To expound, we should recall that in 2006, Gazprom announced that as of 2007 it would supply gas to both Georgia and Armenia at higher rates – USD 230 per 1,000 m<sup>3</sup> instead of USD 110. Moreover, Gazprom would agree to uphold the previous tariff provided it would gain ownership of gas distribution facilities, the cumulative value of which would be equal to the difference between the new and old tariffs multiplied by the amount of gas consumed.<sup>77</sup> Unlike Georgia, Armenia agreed to this proposition, effectively transferring the ownership of its gas distribution systems to Gazprom. Subsequently, against the background of Armenia's rapprochement with Russia, the price of gas supplied by Gazprom to Armenia experienced a decline.<sup>78</sup>

It is evident that due to the price differences, Georgia will be unable to purchase the same amount of gas with the monetized payment that it would have received in the form of natural gas for supporting transit to Armenia.

The impression that the Georgian government would concede to Gazprom's amendments to the payment method for gas transit fees was followed by sharply critical assessments<sup>79</sup> and protest rallies.<sup>80</sup> As a result, the Minister of Energy managed to reach an agreement with Gazprom according to which, existing transit terms; namely, the commodity-based payment scheme, would be retained throughout 2016 (for one year).<sup>81</sup>

By 2017, talks between Gazprom and the Ministry of Energy on the gas transit fee payment method resumed<sup>82</sup> and, unfortunately, the Energy Minister agreed to Gazprom's proposal.<sup>83</sup>

Perhaps, the Georgian government managed to preserve the transit fee payment terms in 2016 on account of Tbilisi's explanation to Moscow that due to the upcoming parliamentary elections, it would have been highly unprofitable for the incumbent GD government and parliamentary majority to introduce amendments to gas transit terms. Thus, a one-year postponement was requested.<sup>84</sup>

It is noteworthy that already in November 2016, Armenia announced that the price of gas for local consumers would decrease as, starting in 2017, Gazprom would reduce gas transit fees for Georgia by monetizing the commodity payments.<sup>85</sup> Evidently, this information (the fact that Gazprom expected concessions on Tbilisi's part in terms of amendments to the transit fee payment method and reductions in the amount of gas thus available to Georgia whereby Yerevan made its assurances regarding consumer tariff cuts) should have been available to the Georgian government.

If the Georgian side was still obliged to cut transit fees, it would have been more prudent to retain the commodity payment scheme and agree to a smaller share instead of the 10% of transported gas.<sup>86</sup>

It is imperative to consider that Georgia is located between two member states of the newly-established Eurasian Economic Union (EAEU); thus, the threat that Georgia will be compelled to join the Union is substantial.<sup>87</sup> Moreover, this time, Tbilisi has handed over its energy leverage to Moscow since Gazprom can now also make concessions by allowing Georgia to



purchase 10% of the gas transported to Armenia (previously retained as transit payment) using the cash obtained as the current transit fee if Georgia becomes an EAEU member. It should be emphasized that the economic basis for the existence of the EAEU is underpinned by the redistribution mechanism for revenues generated by energy resources.<sup>88</sup>

The fact that Georgian MPs have assessed this harmful decision as “optimal”<sup>89</sup> and “maximal”<sup>90</sup> and that they have attributed the economic losses resulting from their weakness (at best) to the “market principle” should indeed be seen as yet another prime example of economic primitivism.<sup>91</sup>

## **Conclusion**

The GD government, having won the 2012 and 2016 parliamentary elections, in the early stages of its tenure, took a number of steps associated with economic optimism among which the signature of the Association Agreement with the EU is of historical significance. Based on the Agreement, Georgia’s economy aligned itself with the EU’s DCFTA. In this context, the government’s adoption of the Social-Economic Development Strategy of Georgia – Georgia 2020 was essential, consolidating the government’s aspiration to establish an innovation- and knowledge-based economy. The liberation of businesses from the informal pressure exerted by the state constituted a substantial step in avoiding the vicious legacy of the previous authorities.

Unfortunately, these optimistic measures have yet to be further developed and expanded. For instance, instead of the ministries being tasked with the development of action plans on the basis of the Georgia 2020 strategy (as envisioned by the government decree), the Prime Minister has entirely overlooked this complex document and replaced it with a primitive Governmental 4-Point Plan whose implementation cannot and will not lead to the improvement of the distorted consumerist economic model into which the country has been absorbed.

Clear examples of economic primitivism have been showcased by the privatization of the premises of the Ministry of Economy, an institutional battle waged against the NBG, the promotion of currency market fluctuations via reckless and uncoordinated statements and others.

The root cause for Georgian economic primitivism lies in unprofessionalism and the denial of the universally recognized knowledge of economics, contemporary geopolitics and geoeconomics. The unprofessionalism should be seen as one of the principal triggers for making and implementing ill-fated decisions associated with the country's economic security (such as the expropriation of strategic assets, and the reduction of gas transit fees).

Under these circumstances, a particular role is given to, on the one hand, international financial institutions and, on the other – to civil society whose engagement is virtually the only mechanism capable of exerting relatively effective pressure on the elimination of economic primitivism and the replacement of incompetent personnel in the government.

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