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**World Trade Organization**  
Economic Research and Statistics Division

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**GEORGIA'S POST-ACCESSION STRUCTURAL REFORM CHALLENGES**

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*Manuscript date: May 2017*

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# GEORGIA'S POST-ACCESSION STRUCTURAL REFORM CHALLENGES

G. Arveladze and M. Smeets<sup>1</sup>

## Abstract

The process leading to WTO accession is complex, requires solid domestic coordination mechanisms in the acceding country, a rethinking of its economic and trade policies and significant domestic structural reforms. It often implies the creation of new institutions designed to coordinate and implement the policies at the national level, as was the case in Georgia. The analysis offered in this working paper addresses some of the challenges that Georgia faced during its WTO accession and the many economic reforms that were undertaken after it became a full member of the WTO in 2000. Today, Georgia has one of the most liberal trade regimes and largely benefits from the new trade opportunities that WTO accession has offered. Even though Georgia has been a WTO member for long, it continues its domestic economic reforms in order to further strengthen its international competitiveness for goods and services. This working paper discusses the various measures taken by Georgia and how it uses and implements some of the main WTO provisions to that effect. This includes the ratification of the TFA by Georgia as part of its commitment to reduce transaction costs, enhance efficiency and reduce lengthy and costly administrative processes at the border. Trade capacity building at the technical level has also contributed to human and institutional capacity building in Georgia and developing a better understanding of the rights and obligations of WTO membership thus facilitating Georgia's fuller integration into the multilateral trading system.

**Key words:** trade policy, negotiations, structural adjustment, post-accession, policy coherence.

**JEL Classification:** F13, F15, F53

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## 1. INTRODUCTION

The process of obtaining Membership of the WTO is complex and implies many challenges for the countries wanting to join and hence the long average duration. Once that goal is achieved, the practice shows that WTO membership creates significant new opportunities. This perhaps best explains why, since the WTO was created in 1995, a total of some 36 countries have taken the initiative to join the WTO and successfully completed the accession process nearly two dozen more are presently negotiating their accession.

Georgia was one of the countries that shortly after becoming an independent state launched the process of joining the WTO in July 1996. This decision was largely driven by the new trade opportunities that WTO membership offers and the decision taken to undertake the necessary reforms with a view of aligning domestic policies with international standards and requirements. Following 4 years negotiations, it obtained the green light from the WTO members, leading to the formal ratification by Georgia's Parliament in May 2000, thus freeing the way to become the WTO's 137<sup>th</sup> member on 14 June 2000. Georgia was the fourth former Soviet Republic joining the WTO after the Kyrgyz Republic, Latvia and Estonia.

The accession process required a fundamental rethinking of Georgia's economic and trade policies, the implementation of significant domestic structural reforms, the creation of new institutions designed to implement the policies and major trade capacity building efforts at the technical level in order to better understand the rights and obligations of WTO membership. The analysis offered below addresses the key challenges that Georgia faced in the accession process and is presently facing as a new WTO member and discusses the mechanisms that were and continue to be put in place to seize the new opportunities that this membership offered. In order to better appreciate the challenges that acceding countries face, explanations will first be provided on the requirements for WTO membership.

## 2. KEY ELEMENTS OF WTO ACCESSIONS

A main objective of the WTO is to achieve the universal application of the rules of the multilateral trading system. One way of reaching that goal is by increasing the WTO's membership, thus ensuring that trading nations play by the same rules and thus creating a 'level-playing field'. The most recent examples of accession are Liberia and Afghanistan, who concluded their accession negotiations to the WTO in December 2015 (MC-X, Nairobi)<sup>2</sup> and officially joined in 2016, thus bringing the WTO membership to a count of 164 members.<sup>3</sup> The membership now represents 98% of world trade, thus making the system nearly universal. How is membership obtained and how does the WTO membership compare to that of the GATT?

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<sup>2</sup> World Trade Organization, Nairobi Ministerial Declaration, adopted on 19 December 2015 (2015) WT/MIN(15)/DEC., para 18.

<sup>3</sup> Liberia formally joined the WTO on 14 July 2016, as the WTO's 163<sup>rd</sup> Member, [https://www.wto.org/english/news\\_e/news16\\_e/acc\\_lbr\\_20jun16\\_e.htm](https://www.wto.org/english/news_e/news16_e/acc_lbr_20jun16_e.htm), followed by Afghanistan which formally joined the WTO on 29 July 2016 as WTO's 164<sup>th</sup> Member. [https://www.wto.org/english/thewto\\_e/countries\\_e/afghanistan\\_e.htm](https://www.wto.org/english/thewto_e/countries_e/afghanistan_e.htm)

There are two methods to acquire membership of the WTO.<sup>4</sup> The ‘original membership’ was available for a GATT Contracting Party that had accepted the WTO Agreement at its date of entry into force, 1 January 1995 under Article XI:1. This option was available for a limited period of time: up to the end of 1996.<sup>5</sup> The vast majority of the present WTO members joined the WTO as original members bringing the total WTO membership at its creation in 1995 to 128 members. This number increased to 130 before the 1996 deadline, two of which joined under the provisions of Article XII (Ecuador and Bulgaria). Members were obliged to have made concessions and commitments for goods and services: these were embodied in schedules and had been duly annexed to the GATT 1994 and the GATS 1995. These requirements, and in particular the fact that all original members had to accept the WTO Agreements without reservations, resulted in the all-embracing nature of the WTO and of the universal nature of rights and obligations for which it provides. While this requirement applies to all new members alike, there is an exception for LDCs, which are required to undertake commitments and concessions to the extent consistent with their individual development, financial or trade needs or their administrative and institutional capabilities.<sup>6</sup>

Another 36 members joined the WTO through the formal accession process, negotiations regulated by Article XII of the WTO Agreement. They are referred to as ‘Article XII Members’. Time and experience has shown that obtaining WTO membership is a long, arduous and complex process.<sup>7</sup> According to the WTO’s Director General’s latest annual report it takes an average of 10 years and 2 months to complete.<sup>8</sup> The accession of LDCs on average takes 2 years and 4 months longer than the accession of the other, non-LDC countries. The adoption of the above mentioned LDC decision has reduced the length of this process by nearly 2 years. Georgia’s accession process took exactly four years and thus is less than half the average duration for other accession negotiations. This testifies of the determination and commitment of the Georgian authorities to join the WTO and complete the transition process and moving to market based principles.

There are many reasons that the average duration of the accession process is so lengthy. One is that the conditions for membership are not specifically set out in legal texts and are not defined, which complicates matters. The provisions simply indicate that membership can be obtained ‘on terms to be agreed between it and the WTO’ which is a rather open notion and can have a different meaning for different countries and situations.<sup>9</sup> There are no specific benchmarks and each accession is unique, reflecting the economic situation of the applicant and the commitments it is willing to make. This also explains why acceding countries are mostly required to assume higher levels of obligations than the original members, often

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<sup>4</sup> According to WTO Agreement Art XI(1) membership is open to any state or separate customs territory possessing full autonomy in the conduct of its external commercial relations.

<sup>5</sup> By that time 130 had completed the domestic procedures and joined the WTO.

<sup>6</sup> Following the launch of the DDA, members adopted in December 2002 a set of Guidelines to ease and accelerate the accession of LDCs, as contained in WT/L/508. The guidelines were further strengthened in July 2012 following the adoption of a Decision by the General Council, to ‘further strengthen, streamline, and operationalise the 2002 LDC accession guidelines’ (World Trade Organization, Accessions of LDCs, 25 July 2012, WT/L/508/Add.1). The guidelines basically establish benchmarks on market access negotiations on goods and services.

<sup>7</sup> U. Dadush and C. Osakwe, ‘WTO Accessions and Multilateralism: Case Studies and Lessons Learned’, WTO (2015).

<sup>8</sup> WTO Accessions 2016: Annual Report by the Director-General’ December 2016, WT/ACC/28, Annex 4. The shortest negotiations lasted 2 years and 10 months (Kyrgyz Republic), whereas the accession of some of the largest nations took much longer, including 19 years and 2 months for the Russian Federation and 15 years and 5 months for China, which formally joined in December 2001 during the Ministerial Conference at Doha. The Russian Federation formally became a member on 22 August 2012, after it had ratified the WTO Agreements in July of the same year. The signing ceremony had taken place in Geneva during the 8<sup>th</sup> Ministerial Conference (MC-VIII), December 2011.

<sup>9</sup> Article XII(1) of the Marrakesh Agreement.

referred to as 'WTO plus' provisions for the acceding countries. According to the WTO the newly acceded countries make considerably more concessions both in the area of goods and services, with nearly 100% of all tariff lines bound, mostly at lower levels and also covering far more services sub-sectors.<sup>10</sup> As will be shown, this also applies to Georgia, which has created one of the most liberal tariff regimes. Their commitments generally go beyond what most original members have committed to, thus pointing at a two-speed process. In addition, most acceding countries have an obligation to initiate the process of joining the Government Procurement Agreement (GPA) following their accession, thus expanding its membership and coverage. This also applies to Georgia, which is an observer to the GPA and committed to join.

Related to the previous explanation is the fact that the new members have to sign off on all rights and obligations and need to provide sufficiently convincing evidence that access to their markets is ensured in similar ways as the access that they will benefit to world markets as a result of their accession. After all, through WTO membership, a new member, by virtue of the Most Favoured Nation (MFN) principle acquires in one stroke all rights and obligations that have been negotiated in the GATT/WTO for over 50 years.<sup>11</sup> MFN and 'national treatment' are two of the most fundamental principles of the WTO ensuring non-discrimination.<sup>12</sup> Obtaining MFN treatment and benefiting from national treatment are actually some of the driving forces for acceding countries to join the WTO, as they provide for unconditional market access. The advantages and the acquired rights thus obtained need to be matched at the domestic level. The members want to ensure that they will get access to these markets in the same ways that the new member has access to the WTO members' markets.

The initiative to apply for membership always comes from the applicant that wants to join the WTO and Georgia was no exception to this rule.<sup>13</sup> Georgia applied for WTO membership on 3 July 1996. The WTO's Secretariat facilitates the process, but membership is entirely voluntary. The process can only begin if there is a clear expression of interest from the applicant. Such interest has become stronger with the establishment of the WTO for various reasons. One is the recognition that the WTO is the only international organization governing trade with multilateral trade rules. It is increasingly understood that it is hard to stay out of the system, as the cost of staying out is too high. As all members abide by the same set of rules, staying out implies ipso facto that the multilateral trade rules do not apply. As a result there is no need for any member to apply the key WTO rules principles including the non-discriminatory treatment measures: MFN treatment and national treatment to non-members.<sup>14</sup>

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<sup>10</sup> World Trade Organization, *WTO at Twenty: Challenges and Achievements*, WTO (2015), Table 5.

<sup>11</sup> According to Article I, para. 1 of the GATT 1994, the Most Favoured Nation (MFN) Treatment means that 'with respect to customs duties and charges of any kind... any advantage, favour, privilege or immunity granted by any (Member) to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other Members'. See also van den Bossche, P. and W. Zdouc, *The Law and Policy of the WTO* (3<sup>rd</sup> edition, Cambridge University Press, 2013), for further reading, p. 317-348.

<sup>12</sup> Article III of the GATT 1994 contains specific provisions prohibiting discrimination in the treatment of any product, domestic or imported, once it has entered the market. Para. 4 states that: 'the products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transport, distribution or use...'. For further reading, see also van den Bossche and Zdouc, *Law and Policy*, p. 249-417.

<sup>13</sup> It is an entirely voluntary process, with no pressure being exerted by any outside source. It shows that the country expressing an interest to join the WTO sees a need and an economic advantage in being a WTO member. It is also recalled that the membership needs to be vetted by Parliament, thus completing a duly democratic process with the parliamentarians being accountable to their electorate.

<sup>14</sup> It could be said that for non-WTO Members 'the law of the jungle applies', as no rules prevail between members and non-members. Any measure whether in accordance with the WTO rules or not can be applied, including quotas or any other form of discrimination and without needing to provide justification.

This creates uncertainty in trade and is a key factor in the decision making process to join. A country can no longer stay out given the strong economic interdependency between nations.

There are many other sound reasons for joining, including the need to bring domestic legislation in line with international norms and standards. The need to conduct structural reforms, as will be seen in the analysis below, was clearly an important driving force for Georgia and it is an on-going process. Being a member provides a unique opportunity to accelerate the domestic reform process, leading to greater openness and a better and more efficient economic resource allocation. This was a particular driving force for many countries after the collapse of the Soviet Union and the end of the Cold War, leading to the creation of a fifteen new independent states, often referred to as 'transition economies'.<sup>15</sup> Joining the WTO became a key objective to enhance economic efficiency in policy making and based on market principles. According to the most recent annual report by the Director-General, out of a total of 36 Article XII members, 18 of them, i.e. half, specifically indicated in their introductory statements in the working party reports that the transition from central planning to market economy was an explicit objective.<sup>16</sup> This includes all formerly centrally planning economies, including the Russian Federation, and with only very few exceptions.

What drove them to do so, as stated by Broadman was that 'the dismantling of the Soviet Bloc brought economic chaos and a collapse of trade flows, which compelled countries in Central and Eastern Europe to begin to reintegrate into the global economy'.<sup>17</sup> In the early years of the transition, many countries in the region started to adopt liberal import policies, in many cases largely driven by willingness and policy objectives to join the WTO. Georgia, as one of the three Caucasus countries, was no exception and determined to undertake the domestic reforms and adjustments to abide by the market based principles. The objectives of trade liberalization, market opening and ensuring transparency were and still are at the heart of Georgia's reform policies.

Integrating transition economies into the multilateral trading system was a major challenge both economically and politically because of the way centrally planned systems operated. The economic systems of centrally planned economies were largely based on quota regimes, administered by central governments, as opposed to market based regimes, where markets determine prices based on offer and demand. Structural, institutional and economic reforms were required, largely accompanied by international organizations including the OECD, the IMF, World Bank and the European Bank for Reconstruction and Development (EBRD)<sup>18</sup> providing them with specific advice on how to conduct the reforms.<sup>19</sup> The WTO played a key role, as the WTO membership would anchor the transition to market based regimes. The reform process was very challenging from the outset, as the inefficiencies of the domestic markets in the transition economies could lead to a surge in imports competing with domestic goods of sometimes lower quality and foreign direct investment with the risk of depressing the domestic economy at first. The longer term perspective would be a more efficient economy, with a better integration into world markets, higher quality of goods at

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<sup>15</sup> The Cold War ended with the collapse of the Berlin Wall in Fall 1989, leading to the reunification of the two Germanys and following which the former Soviet states gained independence. The establishment of the WTO was seized as an opportunity to undertake domestic economic and structural reforms and join the multilateral trading system.

<sup>16</sup> WTO Accessions: 2016 Annual report, 2 December 2016 (WT/ACC/28), table 1, page 17.

<sup>17</sup> H.G. Broadman, 'From Disintegration to Reintegration, Eastern Europe and the Former Soviet Union in International Trade', World Bank (2005) p. 2.

<sup>18</sup> European Bank for Reconstruction and Development (EBRD), created shortly after the end of the cold war to assist the formerly centrally planned economies in their reform process, based in London.

<sup>19</sup> Sometimes the financial support to accompany the reform was made conditional upon the reforms.

competitive prices and a larger consumer choice. However, this process takes time to materialize and requires a potentially significant price to be paid.

Even today this adjustment process continues to be challenging in many countries, with difficulties in diversifying production and connect to global markets.<sup>20</sup> One of the questions at the time was whether the reforms should be undertaken rapidly, or if this should be a gradual process. Clearly some countries decided to move fast, in order to quickly introduce the market based principles, even if this meant a loss in GDP in the early stages of the transition process. Others decided to opt for a gradual transition process, taking more time to introduce the new laws and regulations to conform to the market based principles. Which process is better remains an open question, but the facts and figures confirm that those countries that took the necessary actions managed to experience a steady growth of their economic activities. Here again Georgia is no exception with exports and imports of goods and services having grown manifold since the completion of the accession process.

Most of the 12 countries that were also part of the then newly established Commonwealth of Independent States (CIS), together with the three Baltic countries (Estonia, Lithuania and Latvia) actively pursued WTO membership in order to lock in the reforms, restructure and liberalize the economy.<sup>21</sup> The same applies to other Eastern European Countries that were not yet WTO members, including some countries in the Balkan region and those that emerged after the breakup of Yugoslavia in the early 1990s, as well as the three Caucasus countries (Georgia, Azerbaijan and Armenia).<sup>22</sup> In most cases this required much more than simply addressing border policies by replacing quantitative restrictions (quotas) with tariffs. A complete policy agenda was pursued, affecting border and behind the border policies, in order to make the domestic markets function more efficiently. Such reforms can hardly take place without a cost to the domestic economy, thus affecting established interest groups. Most acceding countries explicitly recognize that the short term costs associated with the adjustment process are largely outweighed in the longer run by substantial efficiency gains.

Acceding countries often underestimate one of the main challenges: prior to the commencement of the accession process domestic reforms are required to bring them in line with WTO rules and regulations. Many analysts and observers as well as WTO studies note that these domestic reforms are the key to the completion of the accession process.<sup>23</sup> This case study on Georgia's accession to the WTO specifically focuses on the reforms that were undertaken in the accession process and provides evidence on how it has benefited from the reform process. As is argued, Georgia spent considerable time and effort to prepare the accession process by engaging all stakeholders from the outset and prior to the official launching of its accession process. This to a large extent explains why Georgia could complete the accession in less than half the average time that is required for most acceding countries. It benefited not only from an excellent negotiating team, but managed to get the necessary domestic support and buy-in throughout the accession process.

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20 This is evidenced by S. Sutyryn, A. Koval and O. Trofimenko in 'Integrating into the Multilateral Trading System', in M. Janssen, M. Sadni Jallab and M. Smeets (eds.), *Connecting to Global Markets, case studies presented by WTO Chairs*, WTO, (2014).

21 Established in December 1991 and consisting of Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Turkmenistan, Tajikistan, Ukraine, Uzbekistan and Georgia.

22 It is noted that Azerbaijan, Turkmenistan, Uzbekistan are still not members of the WTO. Azerbaijan applied for WTO membership in 1997 and negotiations started two years later; Turkmenistan has not yet committed to membership; Uzbekistan's accession seems not to be progressing much for now.

23 WTO at Twenty, Table 5.

The preparatory process prior to accession included many structural domestic legislative reform initiatives, adjusting laws and regulations, consultations at all levels and involving all stakeholders, including the private sector, interdepartmental coordination, interactions with the Parliament, training and capacity building of the officials responsible for the implementation of the WTO agreements etc.. Hundreds of legislative texts and changes to existing laws and regulations were introduced in anticipation of WTO's membership. Georgia doesn't stand alone in having gone through this very intense legislative process, as all acceding countries have to bite the bullet and undertake the reforms required for membership. By way of example of the importance of legislative changes required by acceding countries and according to the WTO, China introduced and/or modified over 2,300 legislative reforms, and the Russian Federation modified almost 1,200.<sup>24</sup>

The new WTO members need to prove that all domestic laws and regulations are in conformity with WTO law and ensure that all institutional arrangements are effectively in place to put its legal system into full operation. The laws and regulations are carefully scrutinized by the membership during working party meetings dedicated to each accession.<sup>25</sup> This is a particularly intensive duty and the difficulty often lies here, as domestic law makers need to be convinced of the advantages that WTO membership will bring. It is not always easy to demonstrate that the long term balance will tip in the favour of the country joining the WTO and outweigh the short term costs.<sup>26</sup> Parliamentarians often change during the (long) accession process. Many have little knowledge of the WTO system and rules and regulations, which may mean little to their local constituencies. It thus becomes a challenge to convince them of the longer term advantages of membership and accept the short term costs.<sup>27</sup> Indeed, the economic advantages of membership are not immediate.

Some accession processes have been interrupted at some point and become 'dormant' for a while as a result and there can be longer periods that pass without negotiations or any activity.<sup>28</sup> It has often been a challenge for the government to get the law makers on board within the set time-frame to ratify the WTO Accession Protocol.<sup>29</sup> Georgia's authorities regularly briefed and sensitized the Parliament on the issues in order to get the timely buy-in and support. Parliamentarians need to be convinced of the longer term benefits that WTO membership brings. Fortunately, these are increasingly well documented.

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24 The WTO at Twenty, Table 3.

25 Each accession is conducted through a working party, composed of members that have expressed an interest in following the debates and discussions on the terms of accession of the candidate country. Hence, the composition and number of countries in the working party varies from one accession to the other. The Chairman of the working party is appointed by the membership and in close consultation with the applicant country. It is also noted that in addition to the multilateral process, which is conducted through the working party, the applicant conducts bilateral negotiations to agree on the market access conditions, tariff schedules and services commitments with each of the members of the working party. Hence, in the accession process the distinction is made between the multilateral and the bilateral tracks, which are mostly conducted in parallel.

26 It is not easy to measure and quantify in economic terms the benefits that WTO membership brings following the accession process, as many of the advantages are gradually obtained during the accession process, when the domestic reforms are conducted and laws are introduced. Contrary to a common belief, little immediate change occurs on the day following membership, as most conditions are already met on that day.

27 Loss of competitiveness, jobs, support measures etc.

28 This was the case with Vanuatu earlier, and more recently with several other countries, including Algeria, Ethiopia, Lebanon and Sudan, with the latter three recently actively having resumed their accession process after many years of inaction.

29 According to Article XII the applicant member has a period of 6 months to complete the domestic ratification process, following completion of the accession negotiations and the adoption of the Protocol of Accession by the membership. This has been particularly challenging in many countries and the WTO has often been called upon to speak to parliaments in acceding countries and hold bilateral meetings with lawmakers to explain the WTO, including the main elements of the WTO rules based system and possible implications of membership. Based on personal experience, it is confirmed that these meetings often turned out to be decisive in getting the support of Parliament.

According to the WTO report, the accession of Article XII members, especially those with large economies like China, has significantly lowered protection and expanded trade opportunities over the past 20 years.<sup>30</sup> Concerning goods trade, acceding members have made binding commitments on virtually all their agricultural and non-agricultural tariffs, significantly improving the certainty and predictability of their trade regimes. Also, according to the same report, the binding commitments are at substantially lower levels than those made by the original WTO members. As will be seen further, Georgia again is no exception to the rule and has one of the most liberal tariff regimes. The report goes on to observe that with the overall more liberal commitments, Article XII members have consistently had stronger trade growth performance than the original members. Since 1995, the average trade growth rate of Article XII members was 12.4%, almost double that of original members (7.4%), including after the financial crisis of 2008. China's average growth rate for the period 1995-2013 is 16.0%, which is exceptionally high and it largely outperforms the other countries. Economic growth in Georgia has also been above the average, as will be shown later. It is noted here that one should be cautious in attributing the substantially higher growth rates exclusively to the WTO accession, as there are not only numerous other macroeconomic factors that contribute to growth, but equally many developments in the world economy play an important role, often unrelated to WTO accession.

Finally, it is worth noting that the geo-political developments of previous decades not only explain the rapidly expanded membership of the WTO in recent years, but have considerably contributed to the diversity of the membership and the system, bringing together different economic systems under one umbrella organization, the WTO. This has had fundamental economic and policy implications, as it not only anchored the basis on which the multilateral trading system of the WTO is based (market based principles) but it also extended the rules to a new family of countries that had based their economic systems on a fundamentally different economic and political philosophy. It triggered a process of further trade liberalization and a wider adherence to the rules based trading system, which in itself are remarkable achievements that cannot be underestimated. In this respect the WTO differs fundamentally from the GATT system, as few centrally planned economies effectively participated in the multilateral trading system. This is more a specific feature of the WTO.

### **3. GEORGIA'S ACCESSION PROCESS AND THE IMPLEMENTATION OF ITS COMMITMENTS**

The process of Georgia's accession was officially launched following the application for WTO membership in June 1996. At its meeting on 18 July 1996 and in accordance with the rules, the General Council established a working party to examine Georgia's accession application.<sup>31</sup> The working party met three times, including on 3 March 1998, chaired by H.E. Ms E.L. Herfkens (Netherlands) and, following the departure of the Netherlands Ambassador, on 13 October 1998 and 28 July 1999 under the chairmanship of H.E. Ms A. Anderson (Ireland).<sup>32</sup> Some 20 countries plus the EU and its member states took part in the deliberations. In addition to the discussions in the working party, bilateral market access negotiations were conducted with 12 members.

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<sup>30</sup> Cf WTO at Twenty, Table 5.

<sup>31</sup> The terms of reference and the membership of the Working Party are contained in document WT/ACC/GEO/2/Rev.4

<sup>32</sup> Report of the Working Party on the Accession of Georgia to the World Trade Organization WT/ACC/GEO/31, 31 August 1999.

The negotiations included tariffs, Non-Tariff Barriers, Services and Intellectual property rights (IPRs) with a view of granting and extending the Most Favoured Nation treatment, national treatment, non-discrimination and transparency. The accession discussions and negotiations took place on the basis of a Memorandum on the Foreign Trade Regime of Georgia, which had been submitted in the early phases of accession and questions relating to it.<sup>33</sup> The outcome of the discussions and the negotiations are contained in the Report of the Working Party, as well as in the Annex to the report, which contain Georgia's tariff schedule with reference CXLV-Georgia, Part 1- Goods (WT/ACC/GEO/31/Add.1) and Georgia's services commitments in Part II-Services (WT/ACC/GEO/31/Add.2).<sup>34</sup>

In terms of domestic set-up, it was quickly understood that cooperation between all Ministries and departments was of the essence in order to follow a coherent and coordinated approach, a responsibility assumed by the Ministry of Foreign Affairs. Hence and with a view of getting the necessary support in modifying existing and introducing new legislation, one of the first steps in Georgia included the setting up the institutional and legislative framework and the inter-ministerial coordination mechanisms to ensure coherent approaches. The national coordination and later the implementation of the WTO commitments were entrusted to the Ministry of Foreign Affairs, which established an inter-ministerial task force to that effect. In addition to preparing and adjusting laws, rules and regulations, the challenges included submitting all legal text in official WTO language, sharing information with private sector and get their feedback on concessions, identify priorities for give and take and establishing red lines, get full support from domestic constituency, including the Parliament, which needs to be briefed regularly, build technical knowledge and expertise on the WTO rules and rights and obligations. The practice shows that WTO Members will always ask for the maximum concessions from acceding countries, which need to be clear as to how far they can go with granting concessions. In other words, they need to establish their 'red lines'.

Once Georgia joined the WTO as a full Member, it became again apparent that for the implementation of the commitments and obligations taken required more coordination and a need of staying in close touch with the many different entities involved in the accession process required a systematic approach. Hence, in 2001 the President of Georgia issued a decree containing a detailed Action Plan, referred to as decree N113<sup>35</sup> and which established the various responsibilities between the relevant Ministries for implementation of Georgia's obligations and in accordance with its membership. The decree led to the establishment of an interagency commission which included all the relevant ministry and agencies of Georgia. The main function of the commission consisted of the preparing and adopting a strategy and action plan for the implementation of commitment, coordinate and monitor the implementation of general and specific commitments, ensure a proper implementation of the WTO provisions, maintain close working relations with WTO Secretariat and ensuring a full and active participation in to the WTO events. The commission was chaired by the Ministry of Foreign Affairs until 2005. The process of the implementation of the accession commitments was monitored by the head of the commission and the Members of negotiating team became members of intergovernmental commission. The members of accession team had built a solid knowledge of the provisions of the WTO agreements and the process of implementation of obligations. This was the result of various capacity building efforts

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<sup>33</sup> Accession of Georgia to the WTO: Memorandum on the Foreign Trade Regime, 7 April 1997, WT/AA/GEO/3.

<sup>34</sup> Cf footnote 32 and the Annex to the report.

<sup>35</sup> Decree N113 of the President of Georgia of 26 March 2001 addresses the relations between Georgia and the WTO as a full member.

undertaken by the WTO and bilateral donors as will be explained further.

Since 2010 the department for Foreign Trade and International Economic Relations (which was subsequently re-named as the 'Department for Foreign Trade Policy') and which is housed in the Ministry of Economy and Sustainable Development of Georgia is the sole authority coordinating all Ministries and Agencies that have a responsibility with regard to WTO related issues. It also acts as an information centre which can provide any information on the WTO and Georgia's rights and obligations. The department actively cooperates with all the relevant ministries and institutional authorities on all WTO subjects. It is responsible for all the WTO notifications and ensures that they are submitted to the WTO Secretariat on time. The work is planned and organized in ways to ensure that all WTO obligations are met. In order to ensure a close coordination between the capital and the WTO Secretariat, a Permanent Mission of Georgia to the UN Office and other international organizations in Geneva was established, with dedicated staff following the day to day business and discussions of the WTO.

Since the WTO has a highly technical and complex set of trade rules and a rapidly increasing number of Agreements covering a broad spectrum of issues, trade capacity building through technical assistance and training was indispensable and an essential component in the learning process ensuring the full implementation of Georgia's obligations. In order to build such human and institutional capacity, support was provided both by the WTO Secretariat and bilateral donors.<sup>36</sup>

Between the years 1998-2003, i.e. during the accession of Georgia to the WTO and shortly after, the USA, EU, Canada, Switzerland, World Bank and WTO secretariat assisted Georgia. Following its accession, the trade capacity building efforts were further intensified with direct support provided in Georgia as well as through activities whereby Georgian governmental officials were invited to participate. The activities included training courses, general and specialized technical seminars and courses to enhance their knowledge, awareness and understanding of the agreements and obligations. In addition, various WTO information centres were established in order to provide support to government and business society. Many important training events took place in-country (Tbilisi) for government officials, including general and specialized WTO training sessions.

In line with the progressive learning Strategy of the WTO Institute for Training and Technical Cooperation (ITTC), staff of the Ministry of Economy and Sustainable Development of Georgia and who directly work on WTO subjects have undertaken E-Learning courses on offer, attended the Regional Trade Policy Courses (RTPCs) and Advanced Trade Policy Courses (ATPCs), provided by the ITTC.<sup>37</sup> Government officials have participated in the Netherlands Trainee Program (NTP, funded by the Netherlands) and the WTO French Irish Mission Internship Program (FIMIP, funded by France and Ireland) and provided by ITTC. Altogether, since Georgia acceded to the WTO, a total of 460 trade capacity building activities have been organized to which Georgia was invited to nominate participants. A total of 369 Georgian officials participated in any of these events, thus gradually building and deepening the knowledge of Georgian's experts. Numbers have increased in the last few years with 216 officials having benefitted from WTO training in last

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<sup>36</sup> Smeets, M., 'Trade Capacity Building in the WTO: Main Achievements since Doha and Key Challenges', 47 *Journal of World Trade* (2013).

<sup>37</sup> *Ibid.*

three years on the basis of 287 activities that were on offer (Cf. Table 1). In addition, in the last four years Georgia has had one official under the NTP and two under the FIMIP. In many cases the officials that have benefited from one of the two internship programs upon return to capital assumed key functions in their domestic administration and often return as ambassador or as a delegate to Geneva representing their country at their permanent mission at the WTO. This certainly applies to Georgia, which is no exception to this rule.<sup>38</sup>

The importance that the WTO attaches to engaging the Caucasus countries was testified early on through the organization of a WTO Ministerial Conference for Central Asia and South Caucasus countries, organized by WTO at the initiative of then Director-General, Mr Mike Moore. The Conference was held in Tbilisi (May, 2002) in recognition of the considerable reform efforts undertaken by Georgia and its speedy accession to the WTO. The Conference brought together a dozen Ministers from countries in the region to discuss issues of common interest and more specifically the challenges related to WTO accession and post accession reforms. A similar Conference was held the same year for countries in the Balkan, many of whom were negotiating their accession to the WTO following the breaking up of former Yugoslavia and the creation of new and independent countries. Several countries also had the objective to join the European Union, and for which WTO membership was a *sine qua non*, given the fact that the EU is a customs union.

The Director-General found that the efforts undertaken by countries in these two regions were of significant importance, precisely because of the scale of reforms required and in many cases already undertaken to conform to the WTO's market based principles. In addition, as many countries face similar issues in the accession process, they could benefit from each other's experiences through information sharing. Both regions had the highest rate of countries committed to WTO accessions and the economic and policy challenges were considerable. The Director-General considered it of importance to provide a specific and dedicated support to countries in the accession process, reason for which they have often been prioritized in the trade capacity building programs. As a result, the WTO's trade capacity building efforts for all countries concerned were further strengthened and deepened.

Following Georgia's accession to the WTO and given the enormous tasks at hand, with the support of the Canadian International Development Agency (CIDA), the International Centre for Trade Policy and Law of Georgia was established with a view to helping Georgia fulfil its commitments. Activities were expanded to cover informational support for public and private sector concerning trade policy issues. Also with the financial and technical support of the CIDA the experimental courses on "Trade policy and commercial diplomacy" were conducted in the Universities of Tbilisi. The courses mainly focused on the WTO issues. Representatives of the Department for Foreign Trade Policy conduct seminars and made presentations for public servants at the Training Centre of the Ministry of Foreign Affairs of Georgia about foreign trade policy of Georgia and WTO specifically. Separately, Georgian Universities decided to include lectures on the WTO in their curriculum of International Economy. One of the underlying ideas was to train students on WTO issues and get them interested in trade and trade policy, with the possibility to enrol in the Ministry at a subsequent stage.

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<sup>38</sup> Mr Genadi Arveladze himself worked at Georgian permanent mission as a FIMIP, before joining the government as a Vice Minister of Economy and Sustainable Development of Georgia.

Trade capacity building through training and education continues to be a priority for Georgia's policies. Through these training efforts, the knowledge and experience of the staff has significantly improved. The relevance and effectiveness of the trade capacity building efforts in building human and institutional capacity building is confirmed by an independent external evaluation that was conducted in 2016<sup>39</sup>. It underscores that ...'Drawing on its different lines of evidence, the evaluation has been able to trace demonstrated results from the training of individuals (including interns) and groups through to strengthened contributions and rising levels of responsibility in their work, to more effective institutions in the field, and finally to collecting an unexpectedly large volume of plausibly-linked, concrete examples of more effective participation in the system by countries concerned. This body of evidence meets and exceeds the conditions for a reasonable causal claim that the training interventions made substantial contributions to countries' more effective participation in the MTS.'<sup>40</sup>

#### 4. GEORGIA'S POST-ACCESSION REFORMS

- *Main trade policy objectives:*

With trade being considered the main driver of economic growth, the main objectives of Georgia's trade policy are defined as follows<sup>41</sup>:

- Integration into the world economy, including the implementation of WTO membership obligations and obligations under other international agreements;
- Trade policy liberalization, including simplification of export and import procedures and tariff and non-tariff regulation;
- Diversification of trade relations by establishing preferential regimes with main trade and regional trade partners;
- Enhancement of transparency in the policy-making.

In order to pursue these objectives and as a new and Recently Acceded Member (RAM) of the WTO, the main challenges for Georgia consisted of continuing the reform process initiated during the accession process.<sup>42</sup> It is considered to be the only way to take advantage of the benefits that WTO membership offers and to operate the system. The domestic reform process included a broad range of measures aimed at reducing transaction costs, easing business transactions, reviewing tax laws and regulations and enhancing transparency with a view of attracting foreign direct investment (FDI). Georgia's main reform initiatives target streamlining, liberalization and simplification of trade regulations and their implementation. All measures are geared towards enhancing competition, encouraging and facilitating trade, easing customs procedures, lowering import duties and reducing the incidence of non-tariff measures.

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<sup>39</sup> SAANA Consulting 'WTO Trade-Related Technical Assistance External Evaluation', Final Report, 31 October 2016.

<sup>40</sup> Ibid, p. viii.

<sup>41</sup> Trade Policy Review, Report by Georgia, WT/TPR/G/328, 10 November 2015, page 3 and Trade Policy Review, Report by the Secretariat, WT/TPR/S/328, 10 November 2015, page 8.

<sup>42</sup> The countries that are recognized as Recently Acceded Members (RAMs) are defined in the WTO negotiations and listed as such for the purpose of having a common understanding on which ones they are. Given their status as having recently acceded and having made considerable concessions in the process, special conditions are considered for them under the terms of the draft agreements under negotiation.

*- Fiscal and tax reforms:*

Some of the main reforms that were put into effect included the corporate income tax reform, enhancing easiness of tax compliance, enhancing stock exchange activities, the development of local capital market, a reform of the pension scheme, based on a private pension system, the introduction of transparent and efficient public-private partnership (PPP) framework<sup>43</sup>, the creation of a public investment management framework, which should lead to an improved efficiency of state projects, stimulating private savings, strengthening the public trust in the financial system, enhancing the transparency and financial accountability and strengthening the protection of shareholder rights.

More specifically with regard to tax and fiscal legislation, the Georgian tax system was simplified and tax rates were reduced. An easily administered, flat, and simple tax system was introduced. The number of different taxation schemes was reduced from 21 to only 6 types of taxes. These include corporate income tax, personal income tax, property tax and indirect taxes such as VAT, excise, and import duties. A new tax code entered into force on January 1, 2011, which incorporates both the tax and customs codes. Further improvements and innovations included the introduction of the status of micro, small business, the establishment of a Tax Ombudsmen, and the principle of good faith. All measures further strengthened the principles of transparency and accountability. Furthermore, the Georgian business licensing system was modernized and simplified and 'unnecessary' regulations, which often turned out to be a source of corruption were abolished. The number of licenses and permits necessary for doing business was reduced by almost 85% and the “single window” and “Silence is Consent” principles were introduced. These two principles introduced by the Georgian Government essentially aim to minimize the bureaucratic red tape and facilitate services related procedures for the customers.

In particular:

Single Window – is a customer-oriented principle where public and private service is rendered in an integrated manner under one single window;

Silence is Consent – is a principle when in case of non-response on the inquiry of a citizen from a service provider within a defined period of time, the issue is considered upheld.

Georgia does not apply or recognize quantitative restrictions in foreign trade (licenses, quotas, prohibitions, and other) except when necessary for healthcare, security and safety, and environment protection purposes. Import licenses are mostly granted automatically in accordance with the relevant WTO provisions.

*- Ratification of the Trade Facilitation Agreement (TFA)*

It is for the very same reason that Georgia, after a careful examination of all aspects of the Trade Facilitation Agreement (TFA) decided to fully support and ratify the Agreement, which happened on January 4<sup>th</sup>, 2016. It is recalled that the TFA was negotiated at the MC-IX

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<sup>43</sup> Georgia is currently working on a new PPP framework legislation, which will enhance cooperation between state and private sectors, raise private funding (including foreign investment) and establish clear risks allocation mechanisms between the public sector and the private sector.

(Bali) WTO and adopted by the members on 27 November 2014.<sup>44</sup> The TFA could only enter into force once two-thirds of members had completed their domestic ratification process. On 22<sup>nd</sup> February 2017, the required total of 111 members had ratified the agreement, thus freeing the way to its entering into force and implementation.<sup>45</sup> Several countries have indicated their intention to also ratify in the months ahead, thus further broadening its membership and spreading its benefits more widely. In ratifying the TFA, nearly two years after the TFA was negotiated, Georgia became the 64<sup>th</sup> WTO members to have formally adopted the TFA. Here again Georgia showed a strong political will and commitment to be bound by provisions of this Agreement. It is strongly motivated by the economic efficiency gains that can be derived from a full implementation of the TFA.

Indeed, there has been a large conversion of thought in the literature on the economic benefits that the implementation of the TFA can yield.<sup>46</sup> A recent study undertaken jointly by the WTO and the World Bank underscores the role of reducing transaction costs in developing countries in support of trade.<sup>47</sup> It observes that it is ‘a common finding in the literature that trade facilitation can improve export performance and that the potential gains are larger for developing countries than developed countries’.<sup>48</sup> The WTO estimates that ‘the full implementation of TFA could reduce global trade costs by an average of 14.3 per cent’.<sup>49</sup> According to the Peterson Institute, ‘the implementation of the TFA could amount to over US\$ 1 trillion in gains to the world GDP’.<sup>50</sup> There is wide recognition of the fact that while the implementation of the TFA will benefit all countries, it will mostly come to the benefit of developing countries, as both export and GDP growth will increase more than in developed countries. Beverelli et al. calculate that ‘improved trade facilitation can lead to an increase in the number of products exported by destination of up to 16 per cent’.<sup>51</sup> Similar conclusions on the gains of the TFA are contained in a series of case studies presented by WTO Chairs, in which they analyze the cost and benefits of the implementation of the TFA for countries and regions and more specifically for Africa and Arab countries.<sup>52</sup> Calculations made by economists, international organizations and think tanks suggest that the trade costs in developing countries are on average the equivalent of 219 per cent import duties<sup>53</sup>.

The decision to ratify the TFA didn’t come out of the blue and was the result of a careful examination of the potential benefits that Georgia could derive from the TFA and a full consultation with all interested parties. The text of the TFA was first translated into Georgian. On 3 November 2014 the Georgia Revenue Service established a national technical expert group composed of customs officials, legal and IT experts in order to determine what measures to submit into the classification of Section I of the TFA. The national technical

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<sup>44</sup> Agreement on Trade Facilitation, 11 December 2013, WT/MIN(13)/36, WT/L/911.

<sup>45</sup> Cf WTO 2017 News item, 22 February 2017: WTO’s Trade facilitation Agreement enters into force.

<sup>46</sup> Cf WTO World Trade Report 2015: Speeding Up Trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement, p. 80, Table D, which includes a selection of studies that have estimated the effects of trade facilitation on trade flows.

<sup>47</sup> World Bank and WTO, *The Role of Trade in Ending Poverty*, p. 46.

<sup>48</sup> Ibid.

<sup>49</sup> Cf WTO World Trade Report 2015, Chapter D, p. 73.

<sup>50</sup> G. Hufbauer and J. Schott, ‘Payoff from the World Trade Agenda 2013’, Report to the ICC Research Foundation, Washington DC (2013), p. 11.

<sup>51</sup> C. Beverelli, S. Neumuller and R. Teh, ‘Export Diversification Effects of the WTO Trade Facilitation Agreement’, *Working Paper No. 137*, FIW Vienna (2015), p. 20.

<sup>52</sup> Teh, R., Smeets, M., Sadni Jallab, M. and Chaudri, F. (eds.), *Trade Costs and Inclusive Growth, Case studies presented by WTO chair-holders* (WTO, 2016). This publication contains a collection of readings that resulted from the side-event organized by the WTO Chairs during the Fifth Aid for Trade Global Review, July 2015.

<sup>53</sup> Ibid, Foreword by the Director General.

expert group held 5 meetings and prepared a report assessing the compliance of the Georgian national legislation with the TFA commitments. This assessment was carried out on the basis of the internationally agreed standards and tools of the World Customs Organization such as MERCATOR Programme and WCO Revised Kyoto Convention<sup>54</sup>.

Georgia is also expected to accede to the WCO Revised Kyoto Convention in the nearest future. Pursuant to the Report of the national technical expert group of the Revenue Service, Georgia (as a developing country) designated all of the provisions contained in Section I of the Agreement under Category A for implementation in full upon the entry into force of the Agreement, with the exception of a few provisions. The customs administration of Georgia in cooperation with the Ministry of Economy and Sustainable Development of Georgia coordinates the work on the formation of the National Committee on the Trade Facilitation (NCTF). It is expected that the NCTF with involvement of the private sector will be created in the nearest future and relevant procedures have been already begun for this purpose.

#### *- Promoting Foreign Direct Investment*

With regard to the efforts to attract FDI, Georgia has taken various economic reforms with a view to ensuring a strong legal system to protect investor rights and applies the national treatment to all investors. The government of Georgia has made it a priority to further improve the investment climate and strengthening investor confidence to attract foreign direct investment and boost economic growth.<sup>55</sup> Much of Georgia's trade and investment laws and regulations were aligned to that of the European Union. The FDI ratio to GDP in 2015 was 11% and in three quarters of 2016 was 13%. Sectors that attracted the highest shares of investment were transport and communication (39%), energy sector (12%), construction (10%), financial (8%), manufacturing (7%), hotels and restaurants (7%), real estate (4%).<sup>56</sup> Georgia's geographical location in the Caucasus, at cross-roads between North and South and East and West makes it the ideal corridor for trade flows and connecting different geographical regions, with a tremendous economic and trade potential.

#### *- Enhancing transparency through notifications*

Georgia has made important strides in enhancing transparency by reviewing all laws and regulations and introducing new ones, more simplified and in accordance with prevailing international standards and ensuring timely notifications. Georgia generally complies with its notification obligations. It has significantly increased its notifications in all areas covered by the WTO agreements and more specifically in the areas of TBT and SPS. Some challenges remain more specifically in the areas of TBT and SPS as will be explained further below. It

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<sup>54</sup> The Mercator Programme was initiated by the World Customs Organization in June 2014 to support the uniform implementation of the Customs provisions of the TFA through the means of various WCO instruments and tools. The main components of the program center around the following: extensive donor funding through WCO Customs Co-operation Fund, maintaining a global network of Customs experts for in-country assistance activities, carrying out technical assistance activities, trainings, awareness raising campaigns, facilitating of stakeholder engagement in the National Trade Facilitation Committees. The Revised Kyoto Convention (RKC) is the main customs convention with the aim of ensuring trade facilitation. Developed by WCO and in force since 3 February 2006 it is an update and a revision of the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention) adopted in 1973-1974. The RKC aims at facilitating trade by harmonizing and simplifying Customs procedures and practices. To this end the Convention provides standards and recommended practices for modern customs procedures and techniques. As such customs procedures included in the TFA build upon the corresponding parts of the Convention and thus become a technical tool for the implementation of the Agreement's provisions through the coordination of the Mercator Program and the Trade Facilitation Agreement Facility (TFAWG).

<sup>55</sup> WT/TPR/G/328 page 3, para 1.5.

<sup>56</sup> Ibid, page 4, para 2.6.

has established the necessary institutional bodies to transmit notifications to the WTO and to stakeholders in Georgia, including enquiry points in the relevant ministries. The responsible agency for the notifications is the department for Foreign Trade Policy under the Ministry of Economy and Sustainable Development of Georgia, which provides the WTO secretariat with notifications according to the annual notification schedule. Notifications are provided by the relevant agencies, including by the Georgian National Intellectual Property Center – Sakpatenti with regard to intellectual property rights.

The Ministry of Economy and Sustainable Development of Georgia ensures the timely provision of notifications to the WTO pursuant to the following agreements:

- Agriculture (art. 18.2);
- Import Licensing Procedures (art.7.3);
- GATS (art.3.3);
- Subsidies and Countervailing Measures (art.25.1);
- Technical Barriers to Trade (art.2.9, 2.10);
- Georgia provided one time notification that it will not apply any anti-dumping and countervailing measures until relevant legislation is in force;
- Georgia notified that it does not maintain any state trading enterprises in accordance with the Article XVII:4(a) of the GATT 1994.

With regard to agriculture, Georgia notified that it provided no *export subsidies* to agricultural products in 2013-2015 years. It holds that all *domestic support* for agriculture falls within the terms and definition of the Green Box, i.e. measures exempt from reduction commitment. In 2013, total domestic support amounted to GEL 427.2 million, equivalent to 1.6% of GDP, 6.4% of total tax revenue, 6.4% of total government expenditure. In 2014, total domestic support amounted to GEL 162.5 million, which is equivalent to 0.6% of GDP, 2% of total tax revenue and 2% of total government expenditure. In 2015, total domestic support amounted to GEL 161.8 million which is equivalent to 0.5% of GDP, 1.8% of total tax revenue, 2% of total government expenditure.

#### *- Training and education*

At the level of education, a broad general reform was introduced with a view of maximizing the quality of teaching in secondary schools and as well as more fundamental reforms at the level of higher education and based on a comprehensive research of the labor market needs. Separately, efforts were made to strengthen vocational education. Finally, there is an increased involvement of the private sector in the professional education.

### **5. Post-Accession Reforms in Trade in Goods**

As was evidenced, since 2000 Georgia undertook a large number of structural reforms aimed at streamlining and simplifying its trade regulations and reducing its overall levels of protection for goods and services. The main objective was to achieve higher levels of economic growth through competition, trade liberalization and efficiency enhancing measures. The reforms that were undertaken included the institutional deregulation of the economy, thus ensuring that the private sector could act as the driving force for sustainable and broad-based growth. The government thus made determined efforts to improve the public services offered to the private sector, so as to speed up administrative processes and reduce

transaction costs. It introduced the 'One Stop Principle', which effectively means the introduction of a single window. In addition, *the Regulatory Impact Assessment (RIA)*<sup>57</sup> is currently developed under the responsibility of the Ministry of Justice of Georgia in cooperation with other relevant government Entities, including the Ministry of Economy and Sustainable Development of Georgia and is scheduled to be introduced in the decision making process following its completion. The RIA system will be accomplished through the implementation of the following components: introduction of a unique, unified, standardized procedure for RIA and the amendment of the legal framework for introducing mandatory RIA. The RIA system will cover Laws and other Regulations, Elaboration and adoption of RIA methodology and rules of procedures, preparation of guidelines for RIA, development of criteria and checklists for RIA documents.

It can safely be said that the reform efforts are paying off as Members in conducting Georgia's trade policy review explicitly recognized that Georgia pursues one of the most liberal trade regimes possible, has one of the lowest tariff rates in the world with some 80% of goods entering the market duty free.<sup>58</sup> The simplification of the tariff structures implied that since 2003 the number of tariff categories was considerably reduced. Initially, Georgia counted a total of 22 tariff categories for imported goods. This number was reduced to 16 tariff categories over a transition period of 3 years. Following further legislative amendments in 2006, Georgia's import tariff rates decreased from 16 tariff lines to 3 bands, namely 0%; 5% and 12%. At the same time, import tariffs were abolished on almost 80% of tariff lines. In this regard, mention should be made of Georgia's decision to join various sectorial trade liberalization initiatives, with the aim of achieving the full elimination of tariffs for a range of goods (fishery, oils, pharmaceuticals, agriculture equipment, chemicals and etc.). Georgia does not apply seasonal tariffs.

In terms of tariff bindings, Georgia has bound its tariffs on all products with a simple average of the final bound tariffs at 7.6%.<sup>59</sup> The simple average applied MFN tariff remains low at 2% since 2010 despite being increased slightly from 1.6% in 2009. The simple average MFN tariff for agricultural products fell from 7.2% in 2009 to 6.7% in 2015 and that for non-agricultural products increased from 0.2 to 0.8%. The trade weighted averages are on average 2.3 %, with 12.5% for agriculture and 0.2% for non-agricultural products.

Most recently, Georgia became a Participant to the Information Technology Agreement (ITA). It is recalled that the first ITA was agreed by the WTO members during the first Ministerial Conference, MC-I (Singapore).<sup>60</sup> The ITA now includes 82 WTO members, who collectively account for 97% of world trade in IT goods.<sup>61</sup> It is a typical example of a sectorial initiative aimed at liberalizing trade in a specific area and providing new market access opportunities. It is noteworthy that the ITA members inscribe the tariff concessions, that is, elimination of duties in their tariff schedules, which de facto implements the ITA on a MFN basis. In other words, all the benefits of the ITA are automatically extended to the entire WTO membership by virtue of the MFN principle. Ministers endorsed the results of the negotiations at MC-X (Nairobi) and in accordance with the Ministerial Declaration, the

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<sup>57</sup> The regulatory impact analysis is a tool to assess the negative and positive impacts of proposed and existing regulations. RIA is usually required in the case of newly introduced regulations or strengthened regulations.

<sup>58</sup> Trade Policy Review of Georgia, Minutes of the meeting, WT/TPR/M/328, 7 March 2016, pages 38-39.

<sup>59</sup> Georgia's TPR Secretariat report WT/TPR/S/328, page 8.

<sup>60</sup> As contained in the Ministerial Declaration on Trade in Information Technology Products, 13 December 1996, WT/MIN(96/16).

<sup>61</sup> Data as of May 2017.

first set of tariff cuts were implemented in July 2016, with a second tranche of cuts to be implemented in 2017.<sup>62</sup>

## **6. REFORMS IN TRADE IN SERVICES**

Looking more specifically at Georgia's commitments in the area of trade in services, Georgia has made specific commitments in 11 out of a total of 12 service sectors, which is significant and it has made commitments in 123 out of existing 155 sub-sectors. Georgia eliminated most of its limitations, and liberalized 54% of all sectors. This compares to only 7% in developing countries and 25% in developed countries. Georgia's schedule includes some horizontal and vertical limitations with regard to local and foreign services providers, but overall has one of the most liberal regulations in trade in services. This reflects Georgia's commitments to use services and more specifically services trade as agents of economic growth. Services commitments are seen as a way of attracting FDI and focusing on specific sectors with potential, including tourism, transport, financial services and telecommunications. MFN exceptions include transport and cinematography sectors. This again confirms what had been observed earlier, that generally, Article XII members generally have taken higher levels of commitments than other WTO members and who negotiated to GATS. Georgia is no exception to this rule.

One of the priority sectors for Georgia is tourism. It has already proven to be the fastest growing sector in Georgia, with considerably more potential. Between 2009 and 2013, Georgia saw its number of visitors more than triple from less than 1.5 million in 2009 to more than 5.5 million in 2013. This trend has had an immediate effect on the FDI in transport and hotel facilities, with a range of new chains established in a short period of time. It is an area that will continue to get the attention of the government.

Transport and communication is another pillar for Georgia's economic development, given Georgia's important geographic location and the potential hub function it can play in connecting markets. Major investments are made in improving infra-structures with a view of connecting East and West, given its strategic importance.

The telecommunication sector has considerably been reformed and liberalized in recent years, breaking the initial monopoly position of Georgian telecom providers and opening the market to foreign competition. The market is now well serviced by foreign providers and international companies, which have significantly brought down the costs to consumer and led to the introduction of higher quality products and a broader consumer choice. The competition that this entails also generated a transfer of technology and further innovation and hence is strongly supported by the Government. In order to further stimulate innovation, Georgia established the Georgia's Innovation and Technology Agency (GITA)<sup>63</sup> in 2014 and under the direct responsibility of the Ministry of Economy and Sustainable Development. The main aim of the agency is to support R&D development and its commercialization, facilitation of applied researches, support to innovative start-ups, broad use of ICT in businesses, and infrastructure development for innovation. The agency together with the World Bank Group is working on the project to develop national innovation ecosystem in Georgia. This project aims to have an immediate effect on the creation of infrastructure to

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<sup>62</sup> Cf Ministerial Declaration on the Expansion of Trade in Information Technology products, 16 December 2015, MC-X (Nairobi).

<sup>63</sup> Cf [www.gita.gov.ge](http://www.gita.gov.ge)

bring education, knowledge and foster the establishment of new tech based companies which are the essential points for development of sustainable innovation ecosystem.

With regard to commitments in financial services, this sector is dominated by a small non-bank financial services market and an inactive private securities market. There are 19 commercial banks (with branch offices), 16 of which are foreign-controlled; the financial services commitments determine the criteria for operating in Georgia. Increased competition, including from foreign banks that set up local subsidiaries in Georgia makes access to capital more affordable, thus generating new investment and making capital more productive.

In terms of developing the insurance market in Georgia, compulsory insurance schemes are being developed, in particular compulsory third-party liability insurance for drivers, which will take effect in 2017 and an agricultural insurance pilot program, under which insurance companies offer risk insurance with regard to agriculture.

In order to further develop the Georgian capital market according to international best practices as well as to increase access to long-term and affordable investment resources, the Government is working on capital market reform.

With regard to the securities market, this is regulated by the NBG, and includes the following licensed participants: a stock exchange, a central securities depository, eight brokerage companies and six registrars. Market participants submit their reports in line with international standards. All listed companies must make public filings, which are then uploaded on the NBG website, allowing users to evaluate the company's standing. The Georgian Stock Exchange (GSE) is the only organized securities market in Georgia and operates under a legal framework that complies with good international practices in securities trading. There are no regulations authorizing private firms to restrict foreign partners' investment activity or limit foreign partners' ability to gain control of domestic enterprises.

## **7. THE ECONOMIC PERFORMANCE OF GEORGIA FOLLOWING ACCESSION**

Georgia's economic performance since joining the WTO is impressive with the economy having undergone a significant structural change. Prior to Georgia's accession to the WTO, shares in GDP of agriculture, industry and services were more or less even. The relative shares have evolved considerably since then and in the three quarters of 2016 GDP share of service sector amounted to 39% (38.7% in 2015), followed by Industry (15%) (16.5% in 2015), agriculture (8%) (9.2% in 2015). Hence, Georgia's economy has become increasingly service-based and which explains the efforts undertaken in the accession process to make services commitments that would allow unlocking its potential growth.

Mainly as a result of reforms, in 2015 compared to 2000 GDP in current prices increased by 357% and amounted to US\$ 14 billion up from US\$ 3.1 billion in 2000. Georgia's GDP continued its steady growth in 2016 and Georgia's GDP per capita grew by 466% and reached US\$ 2800 in the first three quarters of 2016 up from US\$ 400 in 2000. As is illustrated in graphs 1 and 2, in 2016 Georgia's foreign trade increased by 805%, estimated at US\$ 9.3 billion, up from US\$ 1.0 billion and following a peak of US\$ 11.5 billion in 2014. Exports rose by 553% (US\$ 2.1 billion from US\$ 0.32 billion) and imports increased by 920% (US\$ 7.2 billion from US\$ 0.71 billion). As a result of the rapidly growing imports

Georgia's trade deficit also grew, with imports largely exceeding exports (illustrated in Graph 2).

The evolution of Georgia's exports and imports (as illustrated in tables 2 and 3 and graphs 3, 4, 5 and 6) shows however that the commodity structure of Georgia's exports has hardly changed since 2000 and that there is overall very little diversification. This is an issue that will need to be addressed.

Georgia remains strongly dependent on resource-based products generating only limited new and skilled employment. The share of more processed, employment-generating products is limited. On the top of the list are copper ores and concentrates and ferroalloys. The same products are also scoring high on the list of exports prior to accession. New on the list are the exports of motor vehicles and which accounted for a significant part of total exports. It is noted however that these add little value to Georgia's manufacturing: it mainly concerns re-exports of imported used cars from Japan, the United States and Germany, with a portion being reconditioned and refurbished in Georgia before being re-exported to neighboring countries, mostly Azerbaijan, Armenia, and Kazakhstan. While there is some local value added in such refurbishing activity, the bulk of these exports are largely considered as re-exports.

Wine is again among the export commodities in 2016 and which is considered a very positive development, as wine historically represents a traditional export product of Georgia. Wine export has increased continuously in recent years (Cf Graph 7) reaching US\$ 95 million in 2015. Despite the dramatic drop in 2015 compared to 2014, this year's wine exports look again promising given the steady trend in growth and witnessed in 2016 with US\$ 113 million in export value. The recent statistics show that the main trading partners of Georgia in wine export are Russia, Kazakhstan, China and Ukraine. Also a considerable amount of wine is exported to EU countries like Latvia, Lithuania, Estonia, Netherlands and Germany. Wine exports to the United States, Canada and the UK are also on the rise as illustrated in the graphs below.

It is noted that UNESCO added the ancient traditional Georgian winemaking method using the clay jars (Kvevri) to the UNESCO Intangible Cultural Heritage Lists<sup>64</sup>. This method was inscribed in 2013 on the Representative List of the Intangible Cultural Heritage of Humanity.

Separately, in 2016 the export of several commodities has significantly increased, including those of live sheep and goats, live bovine animal, fresh vegetables, hazelnuts, citrus, spices, spirituous beverages, copper ores, fertilizers, medicaments, ferroalloys.

In 2016 the share of Georgia's exports to countries other than the EU and the CIS, which are considered its traditional trading partners, increased by 10% compared to 2000. Total exports thus not only increased, but in addition Georgia managed to diversify its exports to Canada, China, Egypt, India, Iran, Iraq, Japan, Republic of Korea, Mexico, Saudi Arabia, Singapore, Switzerland and USA.

In the same period (2000 and 2016), imports also increased steadily and more

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<sup>64</sup> <http://www.unesco.org/culture/ich/en/RL/ancient-georgian-traditional-qvevri-wine-making-method-00870>.

specifically from Brazil, Canada, Chile, China, Hong Kong, India, Indonesia, Israel, Iran, Japan, Morocco, Norway, Pakistan, South Africa, Thailand, USA, UAE.

These developments show that not only there has been a significantly rapid growth in imports and exports since Georgia joined the WTO, but also a diversification of markets. One of the challenges, however, consists of better linking to GVC, thus generating more value addition in the production process and upgrading production. Challenges encountered in that regard concern a lack of technological innovation, areas that have the attention of the authorities. As a result and in order to support the private sector, two new agencies - the Entrepreneurship Development Agency (EDA) and the Innovation and Technology Agency - were established in 2014 to promote entrepreneurship by improving access to finance, entrepreneurial learning, consultancy services and export promotion and innovation.

## **8. TECHNICAL REGULATIONS AND SANITARY AND PHYTO-SANITARY MEASURES IN GEORGIA**

Technical regulations, standards and sanitary and phyto-sanitary regulations are areas that are of significant interest to Georgia given the potential for further developing and expanding trade and meeting the relevant standards and SPS conditions in the export markets. It is also recognized that in doing so, a deepening of the expertise of Georgian officials is required.

During the most recent Trade Policy Review conducted for Georgia early 2016, WTO Members observed that further efforts were required on the side of Georgia to ensure that its regulatory system would be implemented according to WTO obligations in the SPS Agreement, which calls on WTO Members to base their regulations on international standards and science.<sup>65</sup> Also in the SPS area, Georgia was encouraged to further advance the regulatory framework and infrastructure for animal health control as well as to improve efficiency and hygiene and quality standards in agro-processing.<sup>66</sup> The efforts undertaken by Georgia in this regard are well recognized and reflected in the government report submitted for the TPR, specifying the measures that already have been adopted.<sup>67</sup> As far back as in 2005, the Georgian Government initiated reforms to its standardization, metrology, and accreditation systems: the removal of technical barriers to international trade and assuring transparency in the field of technical regulations. Institutional arrangements of the standardization and accreditation regulations were optimized and rendered compatible with international standards. Georgian Legislation on Sanitary and Phyto-sanitary measures were changed in order to be in compliance with the WTO requirements. This legislation does not contain restrictive licensing, except for the import, re-export, and transit of goods with regard to human health care and animal and plant protection.

The Secretariat report also underscores the importance that Georgia attaches to the need for further improvements in this area and underscores the efforts undertaken to develop its national quality infrastructure in accordance with international and EU practice. It is noted that about 98% of all standards adopted in Georgia are international or European standards. Georgia recognizes that the lack of effective SPS regulations, in particular for food safety

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<sup>65</sup> WT/TPR/S/328 para 20.

<sup>66</sup> Cf Concluding remarks by the Chair of the Trade Policy Review for Georgia, as contained in the minutes of the meeting, WT/TPR/M/328, pages 38-39.

<sup>67</sup> WT/TPR/G/328 Georgia, page 8, paras 2.42 to 2.48.

hampers Georgian exports of its agricultural products. It is for that reason that the Ministry of Agriculture is preparing to approximate Georgia's regulatory framework to about 350 EU Directives and regulations. The Government of Georgia has resorted to the WTO's technical assistance and trade capacity building activities specifically with regard to TBT and SPS in order to enhance its capacity to address the related concerns.

With regard to TBT, the notifications are provided by the Georgian National Agency for Standards and Metrology and with regard to SPS notifications the Ministry of Agriculture is responsible and presently undertaking reforms for its enquiry point. The relevant changes and the updated information on the new enquiry point will be notified to the WTO and also included on the new webpage E-ping - the online alert system for notifications. To facilitate the notification process under WTO TBT agreement, the Government adopted its decree N170 "on procedure of notification in the WTO regarding standards, technical regulations, conformity assessment procedures and drafts thereof" dated on 18 September 2009.<sup>68</sup>

Between 1 January 2009 and 25 August 2016, Georgia made 94 notifications on standards and technical regulations to the WTO. Among these, 37 were notified under Article 2.9 of the TBT Agreement. One was submitted by the GEOSTM, on the Government's acceptance in sending notifications according to the WTO's TBT Agreement.

Georgia also submitted 12 notifications under both Article 2.9.2, and Article 5.6.2 of the TBT Agreement on, *inter alia*, the approval of the rules and procedures of accreditation system; the unilateral recognition of technical regulations of EU and OECD member countries; the rules of conformity assessment procedures for imported objects requiring conformity assessment; the rules defining conformity assessment modules, sub-modules and related procedures; and certification on bio-farming procedures.

Since Georgia's Accession to the WTO 23 SPS notifications have been submitted to the Secretariat. The notifications are mainly submitted under Article 7 and relevant Annexes of the SPS Agreement. Notifications refer to the permissions or licenses for export and import of products related to plant protection, human and animal health protection. They also refer to the approval of rules and procedures related to veterinary medicine, pharmaceuticals, agrichemicals, Living Modified Organisms (LMOs) and other related areas.

## **9. GEORGIA: RTAS AND PREFERENTIAL TRADE REGIMES**

While it is clearly evidenced that multilateral trade is the absolute priority for Georgia's future economic and trade policies, it also pursues trade liberalization at the regional level and through preferential trade agreements. It presently already benefits from free trade with the CIS countries and Turkey.

Given the significance of the EU as both a market for exports and imports, and after several years of negotiations, in June 2014, Georgia signed an Association Agreement, including the Deep and Comprehensive Free Trade Agreement (DCFTA) with EU. It holds the potential of duty free access to an economically very important market with over 700 Mln consumers. The DCFTA provisionally entered into force on 1 September 2014 and includes the liberalization of trade in goods and services. It is believed that the DCFTA can also help

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<sup>68</sup> This document is only available in Georgian at [www.matsne.gov.ge](http://www.matsne.gov.ge)

exploit largely an untapped potential of certain economic sectors and create the conditions for technology and knowledge transfer as Georgian businesses integrate into global value chains. One of Georgia's major priorities is to make the best use of opportunities opened by the DCFTA and bring the anticipated benefits to Georgian citizens. The effective implementation of the DCFTA is expected to boost the economy, increase Georgia's attractiveness as a viable investment destination, create a better environment for local as well as international businesses and facilitate the economic modernization of country.

Around the same time, in fall 2014, Georgia has declared its interest to negotiate a free trade agreement with the EFTA, including Switzerland, Norway, Iceland and Liechtenstein. Here again the economic potential is important, as it would open a 14 mln. duty free consumer market.

Georgia successfully completed negotiations on a free trade agreement with the EFTA countries earlier last year and the agreement was signed on June 27, 2016. Internal procedures for the ratification have already commenced and the entry into force of the instrument is expected in the course of 2017. Georgia's export potential to the EFTA countries is quite comprehensive with respect to agricultural as well as industrial products. Important potential export commodities are wine and other alcoholic and non-alcoholic beverages, mineral and sparkling waters, fruit cans and juices, confectionary, honey, also chemical products, ferroalloys and etc.

Following the conduct of a feasibility study on a future Georgia-China free trade agreement in August 2015, Georgia and China initiated the negotiations in 2016. In October 2016, following three rounds of talks, the negotiations were successfully concluded. The agreement covers trade in goods and services as well as other sectors of economy such as SPS, TBT, competition, intellectual property and etc.

With a view of making amendments to and further improvements in the Agreement on Free Trade between Georgia and the Republic of Turkey, negotiations were conducted under the aegis of the Georgian-Turkish Joint Committee. One of the objectives was to further liberalize tariffs on agriculture commodities and another one was to add a services component to the Agreement. On 27 October 2016 the Parties signed a decision laying down the amendments to the FTA between Georgia and the Republic of Turkey, which is expected to strengthen the triangular relations between the EU, Turkey and Georgia.

Separately, negotiations between Georgia and Hong Kong, China on the formation of a free trade agreement have been concluded. Two rounds of negotiations have already been held. This is an important opportunity for Georgia to gain access to a market of some 7.3 million consumers.

In the longer run, Georgia intends to initiate negotiations in order to establish a free trade agreement with the United States and other priority countries. Georgia's long term goal is to obtain full integration into the EU.

## **10. GOVERNMENT PROCUREMENT AGREEMENT (GPA)**

Georgia is an observer to the Government Procurement Agreement (GPA) and is currently assessing the prospects of joining the agreement. In May 23-24, 2016, the WTO in

cooperation with the US Department of Commerce Commercial Law Development Programme (CLDP) and EBRD held a seminar on the GPA in Tbilisi, in order to facilitate internal reflection on GPA accession. In joining the GPA, Georgia has the prospect of stimulating more domestic competition in the process of procuring goods and services, allowing government entities to be listed under the terms of the GPA to purchase these goods and services at competitive market prices, thus generating public cost-savings. According to various studies, the government procurement market represents 15-20% of the world economy and it is an increasingly strategic focus for governments.<sup>69</sup> The GPA was revised recently and it is estimated that the parties to the revised GPA will see gains in market access of some US\$ 80 billion to US\$ 100 billion annually for their businesses.<sup>70</sup> These gains in market access are expected to be obtained as a result of adding a large number of government entities (ministries and agencies) to the scope of the GPA and from new services and other areas of public procurement activities being included in its expanded coverage. The revised GPA will be of direct economic interest to Georgia and hence its interest to be a signatory.

## **11. ECONOMIC DEVELOPMENT PLANS, PROMOTING INVESTMENT AND ENHANCING THE INVESTMENT CLIMATE IN GEORGIA**

The main priority of Georgia's economic policies is to ensure its long-term sustainable development and inclusive economic growth. Georgia's economic development policy is based on free market principles, with the private sector as a main driver of economic growth and employment. In order to further improve the business environment, the Prime minister has introduced a four-point reform plan - a strategic framework for the long-term, sustainable and fast economic development. The Main Priorities of Georgia's reforms Plan are:

- Economic growth oriented reforms
- Education reform
- Spatial planning reform
- Governance reform

The government of Georgia, in close cooperation with International Financial Institutions, actively works on implementation of the following Economic growth oriented reforms:

Tax reform – The so called “Estonian model of profit tax” has been implemented since 1 January 2017. According to the new profit tax system, retained earnings will be free of tax – meaning that profit tax will be applicable only in case of profit distribution. The reform is expected to increase available financial resources for the companies, support reinvestment and stimulates savings. Friendly tax environment is one of the advantages of the business environment in Georgia.

Capital Market Reform - Capital market development is one of the top priorities on the Georgian reform agenda. The reform aims at improving access to long-term affordable investment resources, foster investment in the economy and increase resistance of financial system against shocks.

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<sup>69</sup> R. Anderson, and S. Arrowsmith, (eds.) *The WTO regime on Government Procurement: Challenge and Reform*, (Cambridge University Press, 2011), p. xxvi. See also ‘WTO at Twenty’, p. 29.

<sup>70</sup> As contained in WTO Press release of 7 April 2014.

Pension Reform - Georgia has initiated pension reform to improve the adequacy, fairness, and sustainability of the pension system. The reform is intended to ensure that the pensions system will enable future generation of pensioners to receive better income at retirement. The new pension system will facilitate savings and the accessibility to long-term investment resources.

Public Private Partnership reform – The reforms envisage the creation of a transparent and an efficient PPP framework which are expected to enhance the cooperation between state and private sectors. The main objective of the policy is to send a clear message to investors and financiers that the Government is ready to promote and support PPP projects. This Framework will improve and ensure greater legal stability in the area of PPP, providing additional guarantees for private investors and means of public financial support.

United Business Service Space – The government envisages the improvement of public services offered to the private sector, which will work with a principle of “single window” offering public services to the private sector in united business space. The United Business Service Space or the so called “Business House” will provide over 600 services to businesses under one centralized location (physical and digital) currently delivered by more than 60 public institutions. This will significantly reduce time and resources of the private sector needed for dealing with bureaucracy

Spatial planning reform - is another important cornerstone in the 4 point reform agenda. Spatial planning implies ensuring rational, stable and balanced planning of the country's development. The Government of Georgia has already started working on the elaboration of a spatial planning scheme for the country. The reform envisages significantly accelerating the development of spinal road infrastructure by building east-west and south-north corridors, to utilize Georgia's potential as a key “Silk Road” country between Europe and Asia, increase population mobility, country's touristic potential and reduce discrepancies between rural and urban areas.

Moreover, Georgia aspires and plans to become a regional logistics hub and is taking all necessary measures to achieve that goal. This process will support Georgia's integration into the global logistics network and its effective connectivity to the world's leading markets. The Government of Georgia made significant reforms in its transport sector in terms of improving land, railway, maritime and air infrastructure. In this respect it is important to note that Georgia is currently developing a new deep sea port “Anaklia”, which is meant to have 100 mln tons capacity. Also, the Baku-Tbilisi-Kars railway project with some 5-15 mln t/year capacity is now completed and will become operational in the course of 2017. This railway has a significant importance for the region, because it is intended to connect Georgian and Azerbaijan railways to the Turkish one. These projects are aimed to increase the main geopolitical asset of Georgia – transit potential.

Georgia will significantly benefit from being a regional logistics center. The logistics support is a precondition for high quality service, cheap and effective supply network which ultimately raises competitiveness as in the entire country so among the enterprises operating in Georgia. It will streamline the development of trade, agriculture, production and tourism and ensure the quick accessibility for suppliers and producers to local and international markets and promote export growth.

## 12. CONCLUSIONS AND REMAINING CHALLENGES

From the analysis presented above, the policy directions chosen by the government of Georgia are clear: there is strong recognition of the need play by the rules of the WTO multilateral trading system, to apply market based principles, to create and enhance a competitive trading environment, reduce obstacles to trade, including the lowering and/or full elimination of tariffs as well as non-tariff measures and all quantitative restrictions to trade were already eliminated, abide by international standards, simplify and streamline export and import procedures, take advantage of the benefits that the TFA is likely to offer, promote FDI, innovation and transfer of technology, diversify production and exports, generate more value added and be more closely linked to GVCs, develop and strengthen further the services economy, including in the tourism sector.

Georgia has conducted major structural reforms in order to achieve all its key objectives, i.e. the integration into the world economy, including the implementation of WTO membership obligations and obligations under other international agreements, trade policy liberalization, including simplification of export and import procedures and tariff and non-tariff regulation, diversification of trade relations by establishing preferential regimes with main trade and regional trade partners and finally enhancing of transparency in the policy-making. These objectives for the major part continue to have the attention of the government and in many ways are considered as work in progress. Some of the objectives can be achieved through domestic efforts, such as abiding by the rules, liberalization and enhancing transparency, others much depend on outside factors. In that regard, it was observed during the most recent Trade Policy Review that Georgia remains vulnerable to external shocks given its heavy reliance on FDI and remittances, high current account deficit and high dollarization. Through its active participation in international trade, Georgia aims to diversify exports and benefit from MFN treatment granted by WTO members. Economic growth is expected to rise further over the medium term in line with the implementation of the said four point reform plan and improved market access. One of the potential drivers of economic growth is tourism, which makes the development of the tourism sector, and related business opportunities and private investments, a priority for the Government.

The factors that are largely outside Georgia's control also explain the parallel process that Georgia follows deepening its trade relations with regional partners while at the same time strengthening its multilateral commitments. It is believed that Georgia's medium-term growth prospects depend on a number of factors, including its ability to take advantage of the free trade agreement with the EU.

Georgia is an active Member in the WTO, and has made substantive inputs in the negotiations of the DDA, including with specific text and negotiating proposals on technically complex issues with a view of directly serving its economic and trade interests at the multilateral level. It will actively continue doing so in pursuit of its economic development policy objectives.

Finally, and to conclude, this case study evidences and confirms that while the accession process to the WTO is challenging per se, it is part of a process of domestic reforms that triggers growth and economic benefits. WTO's membership doesn't automatically lead to

economic gains, which can only be obtained through hard work, a strong and continued commitment to undertake domestic reforms and put the right policy conditions in place to trade and attract FDI. It requires a vision, a strategy and a clear understanding of the country's potential and the political will and determination to put all the elements and conditions in place to create synergies.

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**Table 1: Georgia's participation in WTO's trade capacity building Programs (2014-2016)**

| Type of activity | 2014       |              | 2015       |              | 2016       |              | TOTAL      |              |
|------------------|------------|--------------|------------|--------------|------------|--------------|------------|--------------|
|                  | Activities | Participants | Activities | Participants | Activities | Participants | Activities | Participants |
| E-learning       | 53         | 12           | 65         | 32           | 70         | 54           | 188        | 98           |
| Global           | 25         | 2            | 22         | 9            | 29         | 7            | 76         | 18           |
| National         | 1          | 1            | 0          | 0            | 1          | 67           | 2          | 68           |
| Regional         | 6          | 8            | 3          | 5            | 6          | 9            | 15         | 22           |
| Pro-memoria      | 0          | 0            | 0          | 0            | 0          | 0            | 0          | 0            |
| Other            | 1          | 0            | 2          | 3            | 3          | 7            | 6          | 10           |
| <b>TOTAL</b>     | <b>86</b>  | <b>23</b>    | <b>92</b>  | <b>49</b>    | <b>109</b> | <b>144</b>   | <b>287</b> | <b>216</b>   |

Source: WTO Trade Related technical Assistance data Base

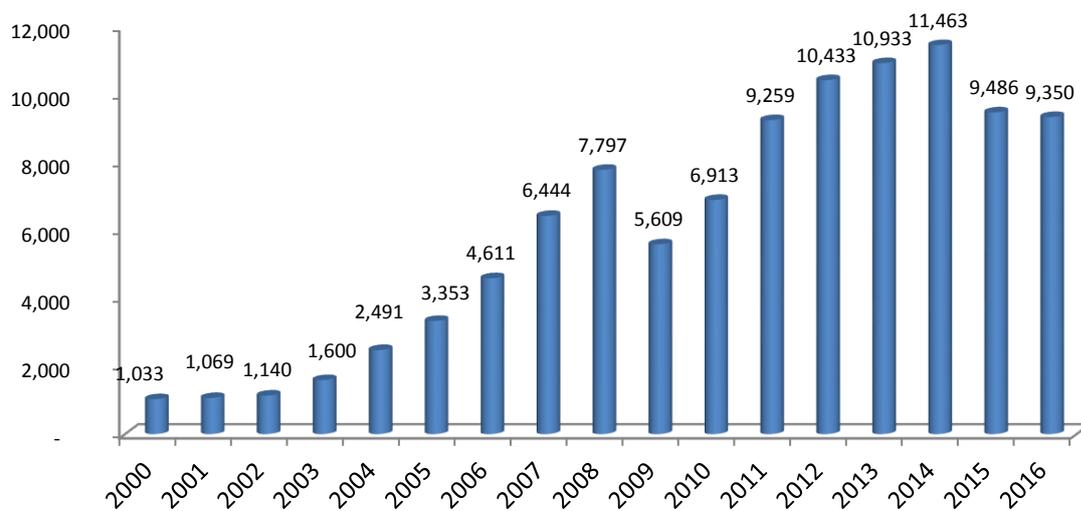
**Table 2: Georgia's Main Export Products (mln.US\$ dollar)**

| code | Name of Position                     | 2000   |  | code | Name of Position                | 2016  |
|------|--------------------------------------|--------|--|------|---------------------------------|-------|
|      | Total Exports                        | 323.94 |  |      | Total Exports                   | 2114  |
|      | of which:                            |        |  |      | of which:                       |       |
| 7204 | Ferrous waste and scarp              | 39.0   |  | 2603 | Copper ores and concentrates    | 311.7 |
| 2204 | Wine                                 | 29.0   |  | 0802 | Nuts                            | 179   |
| 802  | Nuts                                 | 19.3   |  | 7202 | Ferro-alloys                    | 169   |
| 3102 | Mineral or chemical fertilizers      | 16.2   |  | 8703 | Motor cars (parts and units)    | 167   |
| 2616 | Precious metal ores and concentrates | 16.1   |  | 2204 | Wine                            | 113.5 |
| 7202 | Ferro-alloys                         | 13.6   |  | 3004 | Medicaments                     | 107   |
| 7602 | Aluminium waste and scrap            | 12.9   |  | 2208 | spirituous beverages            | 92    |
| 2709 | Crude petroleum                      | 12.7   |  | 7108 | Gold unwrought                  | 81    |
| 2603 | Copper ores and concentrates         | 9.8    |  | 2201 | Mineral and aerated waters      | 80    |
| 2201 | Mineral and aerated waters           | 9.4    |  | 3102 | Mineral or chemical fertilizers | 65.6  |

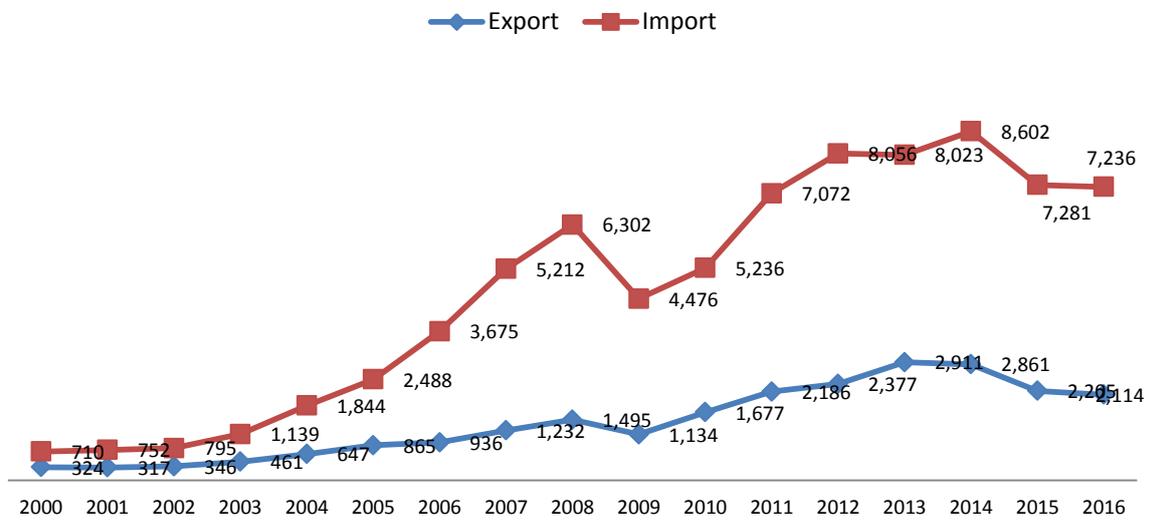
**Table 3: Georgia's Main Import Products (mln.US\$ dollar)**

| code | Name of position                           | 2000  |  | code | Name of position             | 2016   |
|------|--|-------|--|------|------------------------------|--------|
|      | total imports                              | 709.5 |  |      | total imports                | 7236.0 |
|      | of which                                   |       |  |      | of which                     |        |
| 2710 | petroleum and petroleum oils               | 71.8  |  | 2710 | Petroleum and petroleum oils | 618.7  |
| 2711 | petroleum gases                            | 50.3  |  | 8703 | Motor cars (parts and units) | 476    |
| 3004 | medicaments                                | 45.8  |  | 2711 | Petroleum gases              | 318    |
| 2402 | Cigars and cigarettes                      | 29.4  |  | 3004 | Medicaments                  | 273    |
| 1001 | Wheat                                      | 29.2  |  | 2603 | Copper ores and concentrates | 248.5  |
| 1101 | Wheat flour                                | 25.5  |  | 8517 | Telephone sets               | 176    |
| 1701 | Sugar                                      | 25.4  |  | 2402 | Cigars and cigarettes        | 101.9  |
| 8525 | Transmission apparatus for radio-telephony | 17.0  |  | 7308 | Structures of iron           | 97.2   |
| 8703 | Motor cars                                 | 15.5  |  | 1001 | Wheat                        | 86.0   |
| 8544 | Insulated wire, cable                      | 15.0  |  | 8704 | Trucks                       | 69.4   |

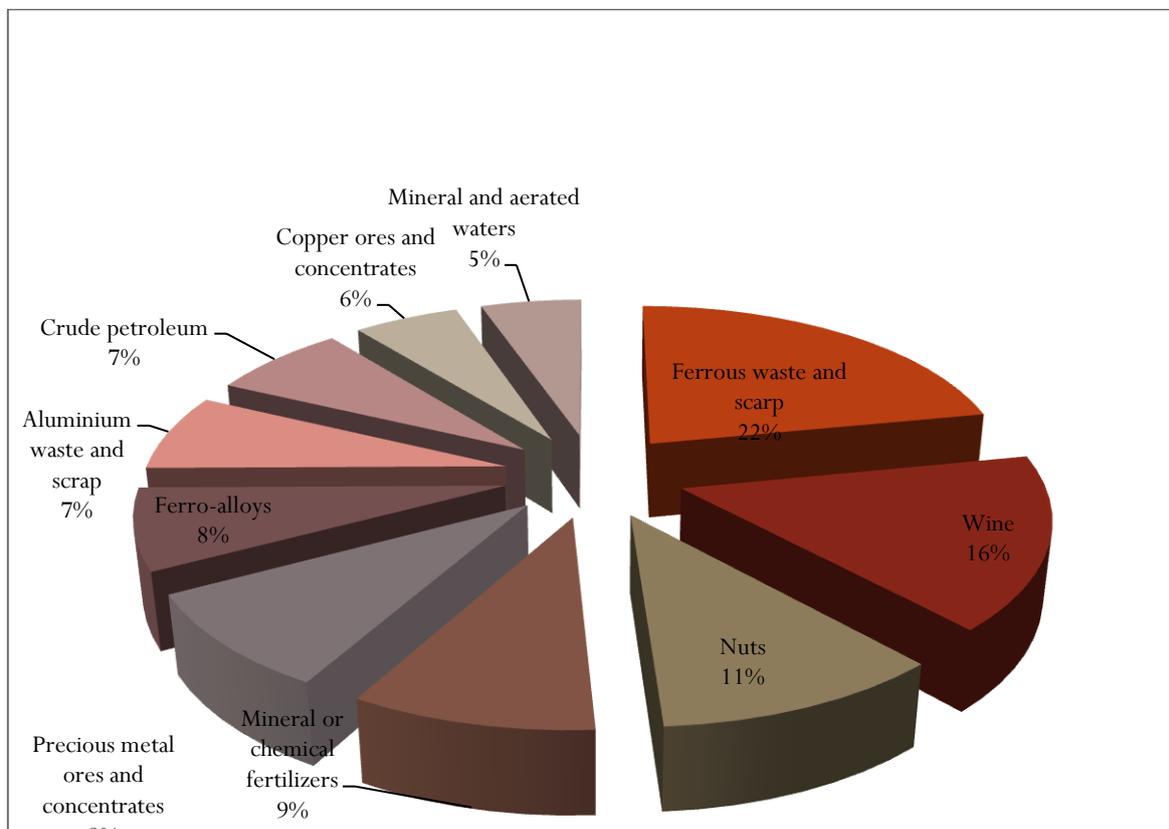
**Graph 1: Georgian foreign trade turnover (2000-2016) (mln. USD)**



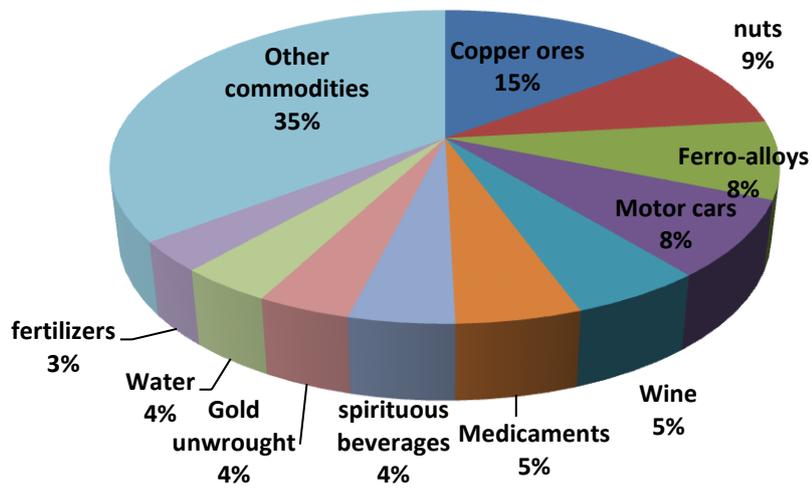
**Graph 2: Georgian Export-Import (2000-2016) (Mln. USD)**



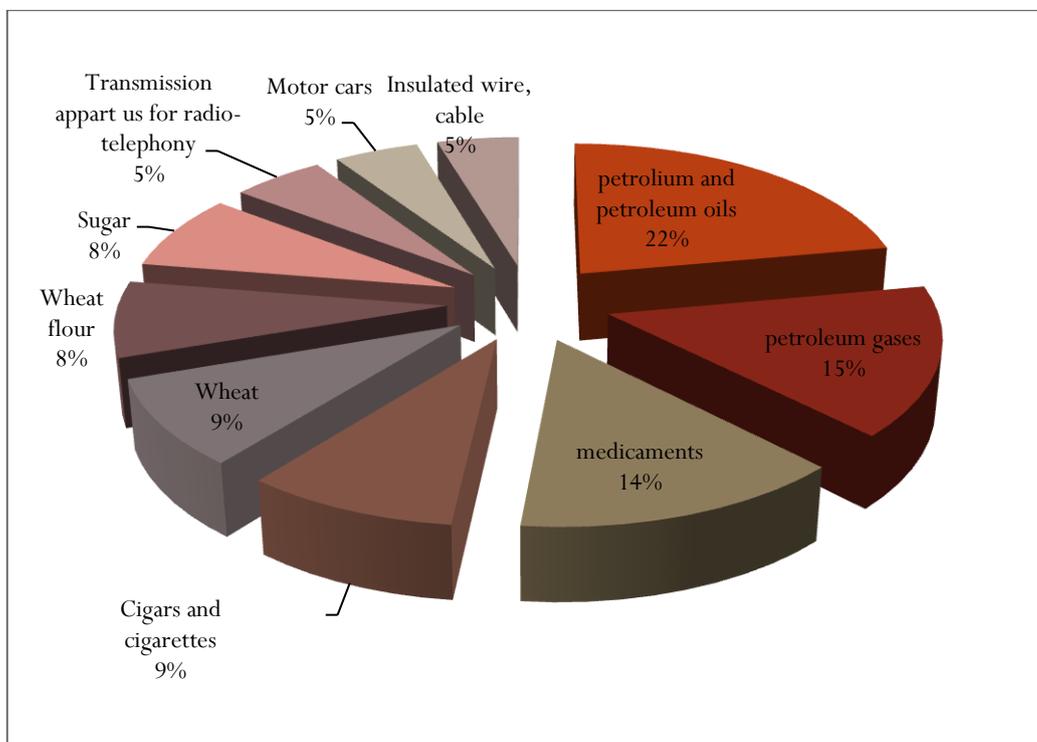
**Graph 3: Georgia's Main Export Products by share (2000 year)**



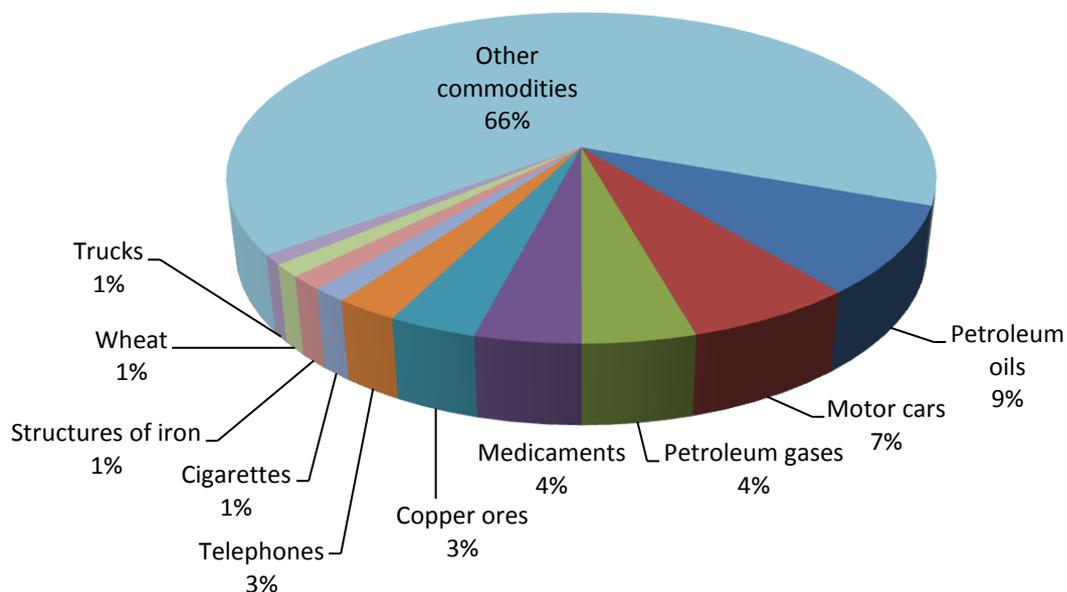
**Graph 4: Main export products by share (2016)**



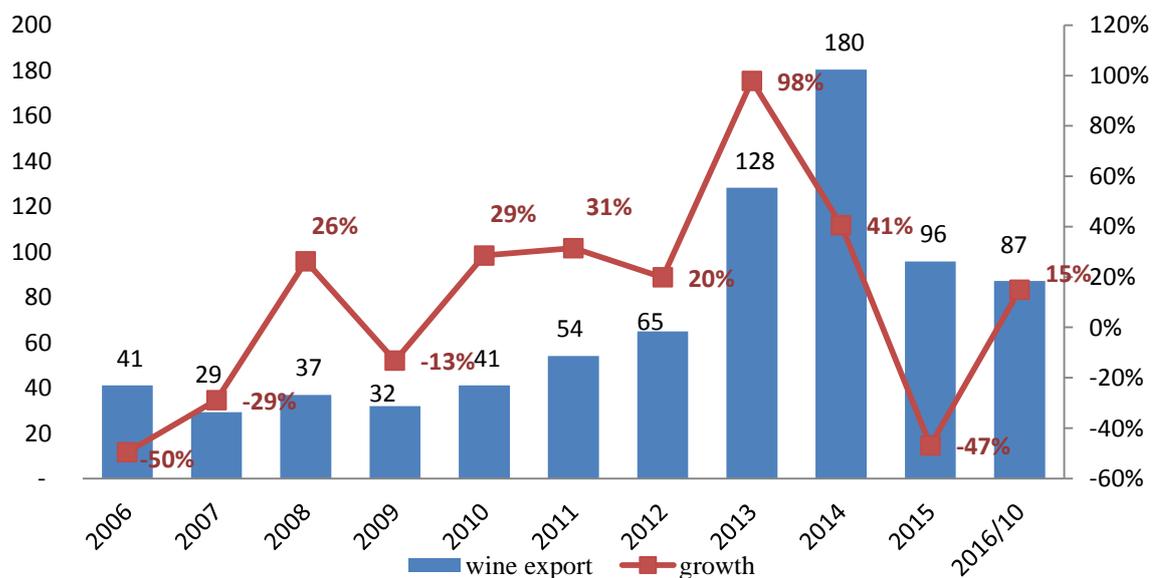
**Graph 5: Georgia's Main Import Products by share (2000 year)**



**Graph 6: Main import products of Georgia by share (2016 year)**



**Graph 7: Wine export 2006-2016 (Mln. USD)**



Source: The National Statistics office of Georgia. <http://www.geostat.ge/index.php?action=0&lang=eng>