The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Business in Georgia Pins Hopes on New Government, Russian Ties

October 08, 2012



Power in Georgia has peacefully changed hands after a tense parliamentary election, but as the next government takes shape under billionaire Bidzina Ivanishvili, the likely prime minister, businesspeople face political uncertainty.

Ivanishvili has no experience in government, presides over a six-party coalition that he says could splinter in parliament, and faces months of uneasy cohabitation with President Mikheil Saakashvili, a political rival.

Business chiefs are therefore eager to know how he plans to fulfill promises to relax government control of business, create jobs, raise pensions and welfare benefits, offer free health care and education and improve ties with Russia.

"All businessmen have mixed feelings," said Fadi Asli, head of the International Chamber of Commerce in Georgia. "On the one hand, we are very optimistic, and on the other hand very scared, because we don't know what will happen tomorrow."

Ivanishvili is taking over an economy that has changed enormously since Georgia, which lies on an oil and gas transit route from the Caspian Sea to Europe, became independent in 1991.

Saakashvili, a 44-year-old U.S.-trained lawyer who rose to power in the bloodless Rose Revolution of 2003, implemented liberal economic reforms, attacked corruption and attracted foreign investment.

Construction, tourism and financial services generated high growth from 2004 to 2007, and 24-hour electricity was restored in the country of 4.5 million.

Petty corruption was all but eliminated from the police and customs service, public services improved and tax collection became more efficient. In the World Bank's latest Doing Business Index, Georgia was the top-rated country in transition.

But a disastrous five-day war in 2008 with Russia, which used to be one of Georgia's biggest trading partners, and the global financial crisis knocked the economy off course.

It has been growing again since 2010, and the government expects 5.5 to 6 percent GDP growth this year and annual inflation of 6 to 7 percent, after 7 percent growth and 2 percent inflation last year.

However, Georgia faces economic challenges, including a 15 percent jobless rate and economic output per capita that, at $5,600 last year, was lower than that of many former Soviet countries.

Parts of Saakashvili's business legacy are also seen as toxic. Businesspeople criticized him for creating monopolies, for establishing state control over firms and for failing to provide clarity in tax law.

"Major businesses, like importers of oil products and food, were in the hands of people with connections to senior government officials," said Gogi Topadze, the head of beer company Kazbegi. "I'm sure it won't be like that any more, as that was one of the reasons for the ruling party's defeat in the election."

Topadze and others hope the government will make tax laws clearer, cut business tax rates and promote small business.

Mikheil Chkuaseli, CEO of Geoplant, a tea company, said local businesses want a fairer deal from the new government.

"We have peace, but we want justice now," he said. "Monopolies should be eliminated."

Ivanishvili has promised not to meddle in private business and to create a strong, even-handed anti-monopoly service.

"I promise that no one will be able to blackmail private entrepreneurs," Ivanishvili told businessmen at a meeting Friday. "An unprecedented business environment will be created in Georgia."

Ivanishvili made most of his estimated $6.4 billion fortune in Russia and has experience

and contacts there that he says offer Georgia a better chance of improved trade ties with Moscow than under Saakashvili. He told business leaders he hoped trade relations with Russia would be restored "quite quickly."

If Georgia were to mend economic ties with Russia, it might be able to rebuild bilateral trade, which has slumped to just 5 percent of total trade from a peak of 20 percent in 2006, before a Kremlin crackdown on imports of Georgian wine and mineral water.

"We are at a point where there is no relationship with Russia, but I think an upside [in relations] is there," said Irakly Gilauri, CEO of Bank of Georgia Holdings, the country's leading bank.

Gilauri sees room for a rebound in foreign direct investment into Georgia, which, at $1.1 billion last year, was little more than half its 2007 peak of $2 billion.

"The opportunities are quite wide," he told investors on a conference call. "FDI may increase because of the Russian market opening up. The market could open up on every front."

But shares in Bank of Georgia, the only liquid Georgian stock trading on the London Stock Exchange, slumped 6.6 percent the day after the election. They have not yet recovered, suggesting that investors may not share Gilauri's upbeat view.

Yet others remain optimistic.

"If prospects for the Russian market opening up seemed distant, recent political events in Georgia have made this more realistic. We can only welcome this," said Georgy Margvelashvili, the president of winemaker Tbilvino.

The Russian market made up half of Tbilvino's total sales before relations between the two countries soured in 2006, though the company has managed to reorient its exports toward other countries and has doubled exports.

"I know that the Russian market is ready, and the business elite in Russia is waiting for Georgian wine," he said. "Trade will be restored immediately once a political decision is made."

Original url:
https://www.themoscowtimes.com/2012/10/08/business-in-georgia-pins-hopes-on-new-government-russian-ties-a18400