

Georgia: Greater Democracy and Open Markets Are the Way Forward

Anthony B. Kim and Mamuka Tsereteli, PhD

KEY TAKEAWAYS

America's growing relationship with Georgia, based on shared values and common interests, is beneficial to both countries.

The U.S. and Georgia have built a strong relationship but much more can be done, especially through trade and investment.

Washington should continue to encourage and support Georgia to pursue institutional and structural reforms to strengthen its democracy and economic freedom.

America's growing relationship with the strategically located country of Georgia, based on shared values and common interests, is important and beneficial to both countries. As in past crises and challenges, Georgia is proving in the current coronavirus pandemic to be a dependable ally for the United States. Located at the geopolitical crossroads of Europe and Asia, the country stands out as one of the most notable emerging economies in the world.

The United States and Georgia have measurably deepened their partnership through strong cooperation over the past three decades. Georgia, for example, has made significant military contributions to the U.S.-led international security operations in Iraq and Afghanistan. The United States is a strong supporter of the sovereignty and territorial integrity of Georgia within internationally recognized borders. Yet much

This paper, in its entirety, can be found at <http://report.heritage.org/ib5095>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

more can and should be done to advance U.S.–Georgia relations. The two long-time partners have much more to gain if they pursue greater cooperation to amplify the values of democracy and open markets.

Georgia’s Democracy: The Importance of Good Governance

Georgia has been long considered as one of the most market-driven democratic states in the post-Soviet region, although the South Caucasus nation has faced “ongoing governance challenges.”¹ Since the country’s independence from the Soviet Union in 1991, Georgia has made notable progress fighting corruption and developing modern state institutions.²

In its latest edition of *Freedom in the World*, an annual report that assesses political rights and civil liberties around the globe, Freedom House classifies Georgia a “partly free” country.³ On the June 29 ratification of electoral reforms by the Georgian parliament, the Washington-based organization noted, “This important compromise between Georgia’s political parties will result in greater political pluralism and trust in Georgia’s electoral processes...[and] reflects the contribution of Georgia’s public and civil society in their successful months-long campaign to demand reform.”⁴

Applauding the adoption of constitutional amendments that establish a more proportional electoral system, the U.S. Department of State also noted the ratification as “historic” and underscored that “the United States will continue to support Georgia’s efforts to strengthen its democracy, electoral practices, and the rule of law.”⁵

To that end, Georgia’s upcoming October parliamentary elections have become more critical as an elevated proving ground for Georgian democracy that should bolster good governance. Georgia has been regarded as a beacon of hope within the Eurasian region because its democratic endeavors drastically contrast with its post-Soviet neighbors.⁶ Washington should pay closer attention to Georgia’s forthcoming election process and ensure concrete support for the country’s democratic practice of free, fair, and transparent parliamentary elections in October.

Georgia: A Regional Champion for Economic Freedom

Unambiguously, Georgia is a vital economic partner for the United States. The country offers a critical route for trade and energy from the Caspian Sea to Eastern Europe, and a robust U.S.–Georgian economic partnership serves American interests.

Over the past 25 years, Georgia has made tremendous progress in integrating with the West and moving toward a more market-oriented economy. Since 1996, when The Heritage Foundation began including the country in its annual *Index of Economic Freedom*, the Georgian economy has moved up from the ranks of economically “repressed” to “mostly free.”⁷

According to the latest edition of the *Index*, Georgia’s economic freedom score is well above the regional and world averages, and multiyear reforms to open markets, cut regulation, and simplify taxes have led to the modernization of the country’s economic system. Georgia’s economic freedom score is 77.1 out of 100, making its economy the 12th freest in the *2020 Index*.⁸

While Georgia’s entrepreneurial framework, among the best in Europe, is conducive to economic activities in general, the economy is still characterized by dependence on low-value sectors and thus remains well below its full potential. Sizable segments of the market such as the agriculture sector, start-up entrepreneurs, and new investments related to infrastructure development are still underserved by formal financial institutions. Significant assets, including a large portion of agricultural land, remain in state ownership under inefficient management. In addition, capital markets remain underdeveloped and do not have adequate depth to provide long-term, meaningful finance for companies seeking to scale up.

A Policy Agenda for Washington and Tbilisi

The current pandemic-induced economic uncertainty is wider and more complex than past economic challenges. The United States and Georgia have fought side by side against common foes in the past. The same determination and cooperation will be required to navigate through the current situation.

The United States and Georgia have more to offer to each other and more to gain from their ever-evolving partnership on key policy fronts. Washington should advance a pragmatic and forward-looking policy agenda with Tbilisi by:

- **Continuing to encourage Georgia to pursue institutional and structural reforms to strengthen its democracy and economic freedom.** Functioning constitutional and legislative frameworks have been in place. However, further strengthening the rule of law and the business dispute-resolution system, advancing the quality and transparency of public services, and safeguarding the independence of key institutions from undue political influences would contribute to nurturing Georgia’s democracy and furthering its economic freedom.

- **Focusing on technical economic collaboration to fully capitalize on Georgia's high degree of economic freedom.** Georgia made substantial progress in economic reforms over the past 25 years as recognized by many international studies. The creation of a large number of private enterprises has been facilitated by the simplicity of business procedures and regulations. However, lingering bottlenecks in the system that prevent firms from growing and employing more people remain a pressing economic and societal problem in Georgia, with significant security implications. Diagnosing and addressing this problem merits more targeted bilateral economic cooperation.
- **Laying the practical groundwork for formal bilateral trade agreement negotiations.** The United States has discussed creating a free trade agreement with Georgia. Pursuing such a deal with Georgia would not be starting from scratch. High-level trade and investment dialogues already exist, in addition to a bilateral investment treaty and a bilateral trade and investment framework agreement. Institutionalizing a modern trade pact would be a logical next step to upgrading the U.S.–Georgia economic relationship as a key anchor for further reforms and greater partnership. Congress and the Trump Administration should make it a priority.
- **Supporting infrastructure development in Georgia that will ensure regional connectivity and build up the evolving economic cooperation among the countries in Central Asia, the Caucasus, and Central and Eastern Europe.** The U.S. strategic interest in this process is clear: to bolster the economic sovereignty of all the countries involved and to limit Russia's existing and China's growing influence in this space.

Time to Enhance the U.S.–Georgian Partnership

By pursuing deeper structural reforms that ensure long-term institutional resilience and economic productivity, Georgia can continue to build a brighter future and go beyond what the country has achieved so far. As Vice President Mike Pence remarked during his August 2017 visit to Georgia to commemorate the 25th anniversary of the diplomatic relationship between the two partners:

Georgia is a key strategic partner of the United States of America.... The United States has a keen interest in expanding our trade and investment relationship with Georgia, and your ongoing reforms have clearly demonstrated your openness and commitment to a stronger commercial partnership with the West.⁹

Indeed, the United States and Georgia still have a lot to offer to each other. Much more can be accomplished through greater strategic focus and clarity between these two willing partners.

Anthony B. Kim is Research Manager and Editor of the *Index of Economic Freedom* in the Center for International Trade and Economics, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation. **Mamuka Tsereteli, PhD**, is President of the America-Georgia Business Council and Senior Fellow at the Central-Asia Caucasus Institute of the American Foreign Policy Council.

Endnotes

1. Cory Welt, "Georgia: Background and U.S. Policy," Congressional Research Service *Report for Congress*, October 17, 2019, <https://crsreports.congress.gov/product/pdf/R/R45307> (accessed July 28, 2020).
2. U.S. Department of State, "U.S. Relations with Georgia," September 23, 2019, <https://www.state.gov/u-s-relations-with-georgia/> (accessed July 28, 2020).
3. Freedom House, "Freedom in the World 2020: Georgia," <https://freedomhouse.org/country/georgia/freedom-world/2020> (accessed July 28, 2020).
4. News release, "Georgia: Government and Opposition Join Forces on Electoral Reform Compromise," Freedom House, July 1, 2020, <https://freedomhouse.org/article/georgia-government-and-opposition-join-forces-electoral-reform-compromise> (accessed July 28, 2020).
5. News release, "On the Passage of Georgian Constitutional Reform," U.S. Department of State, June 29, 2020, <https://www.state.gov/on-the-passage-of-georgian-constitutional-reform/> (accessed July 28, 2020).
6. Alexis Mrachek, "U.S.-Georgian Relationship in 2020," Heritage Foundation *Issue Brief* No. 5033, January 31, 2020, <https://www.heritage.org/sites/default/files/2020-01/IB5033.pdf>.
7. Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2020), <https://www.heritage.org/index>.
8. Ibid.
9. The White House, "Remarks by the Vice President and Georgian Prime Minister in a Joint Press Conference," August 1, 2017, <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-georgian-prime-minister-joint-press-conference/> (accessed July 28, 2020).