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Georgia's possible positioning in a new global production and trade system

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An exuberant geopolitical globalization

As international political events of the 21st century followed each other, with some duplication, modification and alternation, economic integration followed a rising line. As a result, we ended up with a high-quality, interconnected and interdependent economy articulated along a spine of tightly intertwined links between the production, trade and services sectors of global centers. Frankly speaking, the fact that such a high-risk economic model was exposed should not be solely blamed on the current crisis—observers have long criticized its exuberant inclination towards "systemic shakes"—but we should not limit ourselves to theory, since the 2008-9 financial crisis presents us with a very clear illustration of this risk. Several quasi-global "mini-shocks" took place after this financial recession as well, but went unnoticed, mostly because their tectonics were far behind the 2008-9 recession. In short, states and businesses received enormous amounts of practical materials from which to draw the right conclusions, but except the measures carried out in the banking sector which contributed to its durability, these materials could not be translated into systematically correct decisions and measures. The networking of the global economy was therefore based upon an approach which made it easy for a collapse in a given hub to spread and "infect" other hubs, resulting in a systemic global recession. Huge rises in production and trade between 2001 and 2020 (U.S. exports to China alone increased by 500 per cent during this period) led the global economy towards harmful levels of dependence. As a result, since last March, the world is facing much more than an average recession, and instead a "great suspension" of the global economy. Nowadays, alongside epidemiological discussions of the severe threat the virus poses to public health, it has also become possible to openly discuss the vulnerability of the world's economic health and the high possibility of it becoming infected due to the super-concentration and super-monopolization of production and trade in a handful of hubs. These circumstances are rendered even more inadmissible by the widespread use by various irresponsible actors of economic blackmail, threats and attempts to use political tentacles hidden within a variety of financial measures or loans in order to maintain or expand their geopolitical zones of influence, posing risks not only to the global economy but also to world peace and security.

China as a source of global rearrangement

Nowadays we hear much about China's economic expansion through a series of mega-projects on an unprecedented scale. Readers will be familiar with these projects and there is therefore no need to describe them again, but I would like to mention a few other less well known aspects that raise several issues. Let us begin with China's economic potential. The main question here is: How healthy and self-sufficient is the Chinese economy considering its huge long-term global ambitions? Does it have the ability and sufficient capacity to strengthen existing results beyond the country's borders and develop them according to Beijing's stated wishes? It would be difficult to give a positive answer to this question if we look beyond the official propaganda. In reality, the Chinese government is facing an acute dilemma between the inevitable need to reform the country's economy and the political risks this poses. Economic progress requires the fresh air of political freedom and greater international openness, but China's economy is burdened by a number of factors: the countless unprofitable state enterprises, the lack of transparency, the complete disregard for the toxic obligations held by her banking system, the artificial investment in unprofitable projects in order to stimulate production and increase employment, and the alienation and material imbalance between "inner" and "coastal" China.

These challenges are so systemic in nature that they will never be resolved by mere cosmetic changes and grandiose global mega-projects whose long-term sustainability and real achievements are far from clear. All this is a "domestic politics" unknown variable within our complex equation, but there is another more geopolitical knot linked to the trade war between the United States and China and a few other developments that preceded the pandemic.

Let us begin by mentioning the unsolved issue of the challenges of access of American companies to the promising Chinese market and the difficulties they face when trying to establish themselves in China. This is certainly not an easy task, since Western investments must satisfy a series of delicate legal and economic conditions in China, such as partnering with a Chinese company and sharing intellectual property.

The Chinese government's approach is quite understandable: in order to move up the production value chain, the country needs access to modern technologies that will make its economy more competitive. And beyond that, by producing technologically advanced products, China can finally compete with the West in markets where the latter has always enjoyed the advantage of greater scientific and technological knowledge.

And in practical terms, if we develop this official Beijing line, entering new markets equals increasing China's global economic and geopolitical weight.

The administration of George Bush Jr. and later that of Obama tried to impose rules upon Chinese expansion. Their attempts took many different forms, however, and even a brief description would be beyond the scope of this interview. Before Trump became president, one of the White House's main policies was to keep China at bay by activating the scrum mechanism of regionally important agreements. The final example of this policy was the so-called "Trans-Pacific Partnership" (officially the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP), initially signed by eleven countries of the region including the United States. The aim was clear to all: to ensure a level of transparency and unity in China's vast neighborhood which would hamper the Chinese government's efforts to pursue its narrow national agenda behind the backs of others or to exploit differences of interest in order to divide and rule. It is, however, still difficult to identify the advantages and disadvantages of this agreement, particularly as Donald Trump formally withdrew the United States from this agreement during his first day in office. That said, even without the United States, the "Trans-Pacific Partnership" continues to unite economies worth $14 trillion, but Washington's retreat has undoubtedly undermined its effectiveness.

Another recent example of U.S.-Chinese confrontation in the region and beyond is their so-called "trade war". This developed in several stages and mostly involved increasing tariffs in an effort to balance trade payments between the two countries. Perhaps the most decisive development of this confrontation was the signing of the so-called "First Phase" in January, shortly before the pandemic swept the world. With her signature, China committed herself to not only increase purchases of certain categories of U.S.-manufactured products, but also to reform her "rules of the game", including those pertaining to intellectual property, and align them more closely with international demands. But then came the virus, and in its wake anxiety, insinuations and accusations around that famous triad of global healthcare, economy and international relations—and of course a brand new agenda, which has exposed the weaknesses of the pre-pandemic world's networks of production and trade and its plans to rearrange and reorganize itself as well as specific outlines. Our desires and expectations are also linked to all this, and the hope is that Georgia will manage to grasp a better future in the window of opportunity this "perfect storm" presents and will play its part alongside the other advanced nations of the world based on a concrete plan.

Moving forward in a new economic system

According to a survey carried out by the United States Chamber of Commerce, even as the "tariff-trade war" was raging in Southern China (the richest part of the country), 85% of American companies were unhappy with the business environment, and 70% declared that they would not invest further in China and were thinking of relocating to another country. (It is extremely noteworthy, however, that only 1% of them were considering a move to the United States.) Such was the mood before the pandemic made the picture even darker, and it should be noted that although European companies were not involved in this survey, their modus operandi and code of conduct very frequently imitates the American model for a variety of political and legal reasons.

Setting aside interesting facts and circumstances, does this all mean a total "business alliance" between Americans and Europeans? Of course not. It would be practically impossible for the Chinese business landscape to be without foreign investment, and there are several main arguments to back up such a bold statement. First of all, the export diversity of many companies operating in China enables them to redistribute and digest financial losses caused by U.S. tariffs. Also, it is one thing to decide to relocate a business from one corner of the world to another—a process that might take 2-3 years in total—and quite another to be able to do so quickly and cheaply. The potential speed and affordability of such a move are partly defined by the availability at the destination of suitable infrastructure, of a qualified and affordable workforce, of a satisfactory regulatory environment and of mechanisms to prevent the internal market from collapsing. Today's China meets most of these requirements. The country has a workforce of 650 million, 13 of the largest ports in the world and a developed system of production based on two essential elements of business—"operational effectiveness" (i.e. the capacity to rapidly produce large amounts of high-quality products) and a tightly integrated supply chain (which creates the so-called "timely supply" condition). Long-term opposition between the United States and China is impossible and counterproductive, and their stand-off will inevitably come to an end sooner or later. Yet the psychology of China's ruling elite should also be taken into consideration, and it is questionable how ready Beijing might be to exchange its long-term visions into short-term concessions.

In any case, it is impossible for the picture around this issue not to change, but how rigorous these changes will be depends not only on the internal dynamics of U.S.-China relations, but also on the readiness and ability of other countries to offer attractive conditions to companies leaving China. In this respect, it is noteworthy that not only the recipient countries of new businesses (mostly and still from China's neighbourhood and member countries of ASEAN) are on stand by, but also some of the countries that are interested in encouraging businesses to leave China and seeking to support this process. For example, the U.S. State Department openly declared that it will devote maximum efforts to decreasing reliance on supply chains going through China. Another possible solution could be the White House's recently announced "Economic Prosperity Network" (Australia, India, Japan, New Zealand, South Korea and Vietnam), which should become a strong alternative to businesses relocating from China. This initiative is based upon a so-called alliance of "trustworthy partnership", and my recommendation would be to thoroughly study practical ways in which to link to it. Obviously, other countries from Asia to Latin America are also considered as alternative playgrounds; I will not start discussing here who has what advantage, but I will mention two circumstances. One is that none of these countries possess all the necessary supporting elements. Secondly, countries keen to attract new businesses employ two main groups of measures: mostly fiscal, such as tax relief or exemptions, and other (non-fiscal) forms of support such as plots of land, a suitable workforce, etc.

These processes should be systematically monitored in Georgia. Appropriate materials should also be gathered and analyzed in order to define a few important advantages for us. Later, these should obviously be carried out using both public and private sector resources, making use of, say, new Georgian "public-private" partnerships in order to establish our country's position within global networks…

Georgia in the new economic and post-pandemic world

Our country naturally enjoys numerous advantages when it comes to positioning itself in our newly rearranging world. Besides the technical aspects of doing business, it is essential to name a number of geopolitical, geographic and institutional factors. Geopolitically speaking, a prominent factor is Georgia's foreign policy and its growing integration into European and Euro-Atlantic structures—an integration which, in addition to its economic significance, contributes to the stability and security of our state. Georgia has come a long and difficult way along this path, a clear result of which is the country's firm contribution to the stability and security of the Black Sea region for the North Atlantic Alliance. Georgia's waves of political, economic and social reforms, although they have obviously not yet realized their full potential, make our country stand out quite favorably against the background of our immediate and regional neighbors. In this respect, many of our competitors still need to embark upon this path if they are to become part of global economic value chains.

And yet, at the same time, what I have just said does not mean that, in order to position ourselves successfully, we must always act unilaterally; this would be both unrealistic and not serious. Considering Georgia's small scale in terms of consumers and resources, as well as the possibility of establishing a "Mini China" regional hub, it is vital to coordinate our efforts with other countries that are politically and economically comparable to us and whose understanding of the overall picture is similar. It would be ideal to draw up a set of trans-regional rules with regionally important economic actors or to harmonize national legislations in order to present a united economic front against competitor hubs (in Asia or Latin America, for example). We needn't look too far for additional comparisons: even such projects as Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum are clear proof of the potential benefits of coordination and understanding between different countries. It should be specifically mentioned here that, when discussing the universal rules of trade and the wide area of their usage, Georgia figures rather naturally under the roof of world trade. We are practically the only country in the region to have free trade agreements with China, Hong Kong, the European Union, the European Free Trade Association (EFTA), Turkey and the CIS countries, and we may expect to sign more such preferential trade agreements in the nearest future.

Also, regarding Asian hubs, a further advantage that Georgia derives from her immediate and regional geographical position is a proximity to the American and European "end users" of the production and recycling centers of this new architecture of global supply. Along with other factors, this geographic advantage further increases demand for the development of infrastructure, including ports—infrastructure which, alongside the growing human and productive potential of the Black Sea region, will also increase the significance of Georgia's role. Obviously, the format of this article makes it difficult to cover every aspect of this question, but I will pick out one or two of them. When discussing the possibility of establishing a regional "Mini-China", one of the obstacles we face is our relative lack of a sufficiently numerous and qualified workforce; this must be compensated for if we aim to attract even a dozen medium-sized enterprises to Georgia. In this regard, I believe that one (admittedly arguable) possibility would be to modify Georgia's immigration legislation in such a way as to enable us to employ additional workers under specific fixed-term conditions. Other countries successfully do precisely that, and I think that this option deserves at least proper consideration and discussion.

I mentioned the possibility of welcoming a fixed-term workforce, and I would like to underline the fact that the local workforce's lack of necessary qualifications and skills could and must be rapidly solved in a different manner. It is vitally necessary that the government set up targeted programs to train and prepare the local workforce, for without this it would be difficult to ensure Georgia's competitiveness with other "Mini-Chinese" hubs. The question of precisely what kinds of businesses or companies need to be attracted in order to ensure Georgia's economic development must also be considered. Given the rearrangements caused by the recent "perfect economic storm", however, we will not have the luxury of being able to calmly make our choice, and in this regard attracting any "prey" would be a lucky catch. Proper planning will also be tactically vital if Georgia's strategic development is to be systemic and not follow a zig-zag path. We therefore need to draw up a list of "essential" business activities that could be easily integrated with our current national structure and could also further the country's strategic development. And speaking of tactics, one method would be to issue a so-called "investment passport" to every "essential" business activity or company. Such a "passport" or bespoken equivalent would set out rules for the relationship between the government and essential businesses, key investors or companies wishing to establish themselves in Georgia, including potential tax exemptions and legal guarantees, etc. Individually documenting and itemizing every single meaningful investment or business would also communicate a useful political message abroad and increase Georgia's attractiveness to investment.

I also wish to remind readers that Georgian legislation already provides for an instrument similar to the above-mentioned approach: these are the commercial-legislative platforms known as "special economic zones". Refining and improving the concept of these special economic zones might indeed serve as more flexible alternative to improve Georgia's suitability to the modern demands of global supply chains, but this discussion would of course be beyond the scope of this article.

In a word, current realities essentially open up new perspectives for us. Making good use of these will require proper planning and consequent execution. Along with all the thoughts I have shared through this peice of article, I believe Georgia would benefit greatly if the government would soon define a series of guidelines for such a plan. Most importantly, these guidelines should incorporate all the messages for the business sector concerning specific results and processes in a clear, business-like language. These guidelines should also make clear Georgia's ambition to join various global or regional initiatives, and should set out potential fiscal measures and suggestions for supporting the "onshorization" of foreign businesses in Georgia. Also, foreign official and media communications should be activated, including consultations with business actors of interest to us. Our current times will only reward the intelligent and the daring.

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