

# ISSUE BRIEF

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## U.S.–Georgia Free Trade Agreement: Time to Get Moving

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Journalist Michael Totten recently described Georgia as being at “the edge of the West” and recalled that U.S. ambassador to the Soviet Union George F. Kennan famously said that “Russia can have at its borders only enemies or vassals.”<sup>1</sup> Were he alive today, Kennan would have agreed that this is Georgia’s current predicament.

In spite of sharp economic contraction after the 2008 Russian invasion and global recession, Georgia’s economy averaged 4.8 percent annual growth from 2006 to 2010. Growth in 2011–2012 has been even more robust, currently averaging close to seven percent in real terms.

According to the 2012 *Index of Economic Freedom*, published by The Heritage Foundation and *The Wall Street Journal*,<sup>2</sup> Georgia has one of the world’s best trade–freedom

scores along with a high investment–freedom score. Moving in a timely manner to implement a Georgia–U.S. free trade agreement (FTA) would promote economic freedom and prosperity in both countries and would serve U.S. security goals in Eurasia.

**The Long Road Back from the USSR.** Communist Russia invaded Georgia in 1921, destroying its democratic government and inflicting upon it a wasteful and inefficient command economy. There was no private property, no lawful entrepreneurship, and inferior quality goods. Corruption was endemic. When the USSR collapsed, so did Georgia’s economy.

The country had to reinvent itself as a market–based democracy from scratch. It has made tremendous progress. Georgia’s *Index* rank rose from 123rd out of 142 countries in 1996 to 34th out of 179 countries in 2012. That progress was made in spite of significant obstacles erected by the Russian Federation almost as soon as Georgia proclaimed independence in 1991. Notwithstanding these daunting challenges, the Georgians have persevered.

In 2008, Mikheil Saakashvili won re–election to a second and final term as president, and his center–right

United National Movement also scored victories both in rocky parliamentary elections in 2008 and in calm municipal elections in May 2010. Voters will elect a new parliament in October 2012 and a new president in 2013.

**Economic Freedom in Georgia: A Work in Progress.** Georgia’s economic freedom score of 69.4 in the 2012 *Index* ranks it slightly above average in Europe (16th out of 43 countries), but well above the world average. Fighting the hangover effects of Soviet–era corruption, the Georgian government has arrested corrupt former officials and policemen, radically downsized bureaucracies, and cracked down on smuggling. Regulations have been reformed and simplified; taxes have been cut. Entrepreneurs find it easier to start a business.

A reform to take effect in 2013 will institute lifetime tenure for judges. Judges must now pass tests before appointment—another effort to enhance the effectiveness of the court system. The government’s Ministry of Justice has also recently opened several “Public Service Halls,” customer service centers with enhanced capability to deliver birth certificates, passports, property titles, etc., to Georgian citizens

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quickly and inexpensively. Other efforts are underway to improve security of real property rights.

### **A U.S.–Georgia FTA Would Strengthen Institutions**

Presidents Obama and Saakashvili kicked off FTA negotiations<sup>3</sup> in January 2012. Although recent U.S. trade agreements with Colombia, Panama, and South Korea took more than five years to implement, there is no reason why the U.S.–Georgia FTA cannot be done in a fraction of that time. Both countries are already relatively open to international trade and investment, and the volume of trade between the two is relatively small.

Both countries are members of the World Trade Organization (WTO), and they already have a bilateral investment treaty that has been in place since 1997. Georgia is part of a free trade area including Azerbaijan, Armenia, Belarus, Moldova, Kazakhstan, Russia, Ukraine, Uzbekistan, Tajikistan, and the Kyrgyz Republic, although trade relations with Russia are hampered by punitive measures that Moscow imposed before and after the 2008 Russia–Georgia War. The U.S. has FTAs with 20 countries that can serve as templates.

In 2010, the U.S. collected just \$226,000 in tariffs on imports from

Georgia valued at a total of \$193 million—far less than 1 percent.<sup>4</sup> Georgia is America’s 113th-largest trading partner,<sup>5</sup> ranking just between Iceland and Benin. Many imports from Georgia enter the U.S. duty-free under the Generalized System of Preferences (GSP) program, but not all items are eligible, and Georgia’s GSP status is not permanent.

Indeed, the AFL-CIO recently asked the Obama Administration to withdraw Georgia’s eligibility for GSP trade status. In a January 2012 letter to the U.S. Trade Representative, The Heritage Foundation cautioned that removing Georgia’s eligibility for GSP would be contrary to fundamental and long-standing U.S. trade and foreign policy goals.<sup>6</sup>

Georgia has greatly contributed to U.S. and allied security in international peacekeeping missions in Afghanistan and Iraq, punching “above its weight.” Georgian soldiers have been killed alongside Americans. Georgia and the U.S. have important bilateral interests: The U.S. sought and received Georgia’s consent regarding Russia’s accession to the WTO, while Georgia is waiting for the U.S.’s greater involvement in security issues, including NATO’s Membership Action Plan (promised to Tbilisi at the North Atlantic

Alliance’s 2008 Bucharest summit) and defensive arms sales.

This is not an easy task. Russia launched its 2008 war against Georgia for highly valued strategic and geopolitical objectives, which included de facto annexation of Abkhazia, weakening or toppling the Saakashvili regime, and preventing NATO enlargement to include Georgia.<sup>7</sup>

**A Friend and a Partner.** An FTA would be a win-win for the U.S. and Georgia. It would benefit Georgia by making the country a more attractive destination for international investment. It would also send an additional signal to Russia that Georgia is viewed by Washington as a friend and partner.

Georgia needs and deserves America’s continuing strong support. Moving in a timely manner to implement a Georgia–U.S. FTA would promote economic freedom and prosperity in both countries and would serve U.S. economic and security goals in Eurasia. The Obama Administration and Congress should expedite its negotiation and approval.

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1. Michael Totten, “When the West Saved Tbilisi,” *National Review Online*, July 18, 2012, <http://www.nationalreview.com/articles/309770/when-west-saved-tbilisi-michael-totten?pg=4> (accessed July 18, 2012).
2. Terry Miller, Kim R. Holmes, and Edwin J. Feulner, 2012 *Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2012), pp. 199–200.
3. Ariel Cohen and Bryan Riley, “Time for a Georgia–U.S. Free Trade Agreement,” The Heritage Foundation, *The Foundry*, February 6, 2012, <http://blog.heritage.org/2012/02/06/time-for-a-georgia-u-s-free-trade-agreement/>.
4. U.S. International Trade Commission, “U.S. Imports for Consumption at Customs Value from Georgia,” [http://dataweb.usitc.gov/scripts/cy\\_m3\\_run.asp?FI=m&Phase=HTS2&cc=4633&cn=Georgia](http://dataweb.usitc.gov/scripts/cy_m3_run.asp?FI=m&Phase=HTS2&cc=4633&cn=Georgia) (accessed July 19, 2012).
5. Ibid.
6. Bryan Riley, James M. Roberts, and David S. Addington, The Heritage Foundation, letter to the Honorable Ron Kirk, U.S. Trade Representative, January 9, 2012. Copies available upon request.
7. Ariel Cohen, “Saving Georgia,” Heritage Foundation *WebMemo* No. 2021, August 14, 2008, <http://www.heritage.org/research/reports/2008/08/saving-georgia>.

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