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GEORGIA AND SOUTHERN CAUCASUS REGION

BUSINESS OPPORTUNITIES

Macroeconomic Outlook

Situated in the Southern Caucasus, **Georgia** has a strategic location with its close proximity to Europe, Central Asia, Turkey and the Middle East, it stands as an attractive place for multinational companies to locate their manufacturing and production operations.

Georgia is the ideal **Regional Hub** for developing investment projects and trade operations as it has the best cost factors, logistics and transport chain and business environment for serving the **Southern Caucasus Region**. The country maintains stable and solid relationships with **Armenia** and **Azerbaijan**.

Prior to the global economic crisis, Georgia experienced unprecedented **economic growth**, with a 4-Year Average GDP Growth Rate of 10.2% till 2007. Despite recent slowdowns in GDP growth and Foreign Investment, in 2010 the country saw a rapid recovery with **GDP growth rates at 6,4%**.

	2007	2008	2009	2010
GDP (Billion USD)	10,2	12,8	10,7	11,7
GDP – Real Growth Rate	12,3	2,1	-3,9	6,4
GDP – Per Capita (USD)	2.326,3	2.937,0	2.455,3	2.658,0
Inflation rate % (average annual)	9,2	10,1	3,0	11,2
Total exports (Mil. USD)	1.240,2	1.498,0	1.135,0	1.583,4
Total imports (Mil. USD)	5.216,7	6.050,0	4.378,3	5.095,1
Trade surplus/deficit (Mil. USD)	-3.976,5	-4.552,0	-3.243,4	-3.511,7
Exchange rate – USD/GEL (Period average)	1,67	1,49	1,6715	1,7964
Exchange rate – EUR/GEL (Period average)	2,28	2,18	2,1871	2,3644

Source: National Statistics Office of Georgia and IMF

This growth has been fueled by significant **domestic and international investment**. Since 2004, investors have privatized more than GEL 2 Billion of State assets. These new businesses have contributed significantly to job creation, domestic production and export development. Georgia growth can also be contributed to its proactive integration into

international markets, resulting in increased foreign trade turnover. In 2010 Georgia total **international trade turnover** was USD 6.5 Billion, an increase of 121.2% since 2004.

Business Climate

Georgia government has implemented important reforms since 2004 to offer a Liberal Tax System and a Business-Friendly Environment to potential investors.

The success of Georgia proactive reform agenda is reflected in the **rankings in international business surveys**. As demonstrated below, Georgia is consistently improving its position in all major international indices that evaluate **business climate reform**.

Business Climate
2010 - Ranked 11th out of 183 economies (up from 15th in 2009) - World Bank "Ease of Doing Business"
2010 - Index of Economic Freedom (Heritage Foundation), 26th place (up from 32nd place in 2009)
2010 - Corruption Perception Index (Transparency International) - 66th place (up from 32nd place in 2009)
2010 - Standard and Poors Ratings, B+ (upgraded from "B")
2009 - Fitch Ratings, B+

Competitive Trade Regimes
Free Trade Regime - with CIS countries and Turkey (since November 1, 2008)
Most Favored Nation Regime (MFN) - with World Trade Organization (WTO) member countries
Preferential Regime (GSP) - with USA, Canada, Japan, Switzerland, Norway
Preferential Regime (GSP+) - with EU (more than 7,200 items) since 2005
Possibility of FTA with EU in nearest future

Business opportunities

- 1) Georgia has 3 **Free Industrial Zones** (Kutaisi, Poti and Tbilisi) that offer incentives and opportunities to process, produce and export goods with a minimal tax burden. Firms can export goods free of trade barriers to global markets of more than 500 million consumers. With the introduction of **Georgia’s 3 Free Industrial Zones**, many new investment opportunities have been created in the following sectors:

Manufacturing Sectors	
Textiles– Apparel	Organic Fertilizers
Metallurgy	Heavy Machinery
Petrochemicals	Auto Parts
Packaging (Paper/paperboard/corrugated – Plastic crates/beverage bottles)	Construction Materials (Basalt Fiber products – Perlite products – Wood products)

- 2) The government established also 2 **Free Touristic Zone**: Kobuleti and Anaklia offering investors unprecedented terms for the construction of hotels along the seaside that has the best climate conditions. Investment in the **Tourism** industry has grown substantially since 2004, to over **USD 1 Billion in 2007**. In 2009, more than **1.5 million people** visited Georgia, representing an increase of 16% compared to 2008. 64.3% of these visitors live in CIS countries.

With the increasing growth of tourism in Georgia, many investment opportunities have been created:

Tourism	
Health Spas & Sanatoria	Restaurants, Cafes & Clubs
Traditional Spas & Sea Resorts	Cultural Tourism
Mountain Winter Resorts	Eco–Tourism
Wine & Vineyard Tours	Adventure Tourism
Hotel Development	Historical Tours

- 3) **Agriculture** in Georgia has been one of the greatest beneficiaries of reforms since 2004, particularly in the areas of land reform, ownership rights and tax reform. Georgian agriculture is in a period of transformation, which creates a vast number of investment opportunities. Agricultural firms **pay no VAT, no profit tax and no import duties on equipment**. Furthermore, agriculture has benefited tremendously from **liberal Trade Regimes, such as the FTA & GSP+ agreements with Georgia's major trading partners**. In 2008, the agriculture sector including hunting, forestry and fishing accounted for **8.9% of the total GDP**.

One key area of investment is in the introduction of **modern agricultural technology and infrastructure**, which can significantly increase production and contribute to the overall export potential for Georgia's agricultural products.

Some of the most advantageous investable sectors include:

Agriculture	
Wine Sector	Intensive Apple Production
Mineral and Portable Water	Fresh Culinary Herbs
Forestry	Off-Season Storage
Fishery	Georgian Beef Fattening Operation
Citrus Production	Fruit Jam and Sauce Processing
Integrated Dairy Production	Pedigree Poultry Hatching Eggs

- 4) In Georgia, electricity generation is going through a **transformation to Clean & Green Energy production**. As part of this transformation, private and public investment has been made to fully rehabilitate key infrastructure (link) components. Likewise, recent legislation has deregulated and unbundled energy services, which has stimulated further investments in generation, transmission and distribution. Georgia is a net exporter of electricity, and current public and private investments are pushing this market to achieve expand further. In Turkey, electricity consumption is increasing at a dramatic pace, requiring its domestic energy sector to double its capacity by 2020.

Currently, Georgia's excess supply of electricity offsets the increasing demand in Turkey, Russia, Azerbaijan and Armenia. The peak demand season (summer) in many of these countries is equally matched by Georgia's peak supply season, when river flows are at their highest. Georgia has a very high **Hydro-Power Energy Potential**. There are 26,000 rivers on the territory of the country. Their total length is approximately 60 000 km. To date only 15–18% of its hydropower potential (2.7 GW) has been utilized.

- 5) **IT & COMMUNICATIONS.** Georgia's **Telecommunications industry** has recently experienced robust growth and expansion of the market with introduction of the latest ITC technologies. Telecommunications is one of the fastest developing industries in Georgia. From 2005 to 2008, mobile phone users grew from 1.4 million to 2.8 million. Total industry revenues in 2007 were more than GEL 1.2 Billion, compared to GEL 596,000 in 2004. With introductions of new technologies, officials expect this number to increase significantly. Increased **internet usage** also introduces many **technology-related investment opportunities**. Currently, 38% of residents in the capital city, Tbilisi, use the internet. Since the beginning of 2008, the number of Tbilisi residents who use the internet has doubled. In other major Georgian cities, internet usage rates vary between 20–31%.