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Irakli Gharibashvili: “We intensified the dialogue [on free trade agreement with the US]”

Nino TURASHVILI
FactCheck

In his interview given to the Georgian Public Broadcaster on 6 March 2014, Irakli Gharibashvili, Georgian PM stated: “The dialogues with the United States of America were launched during the previous government. We intensified the dialogue and brought about the accomplishment that President Obama himself tells me they need to assist us in enhancing economic and trade relations and carrying out due preparations as one day[free trade] agreement may be reached.” Additionally, in regard to this subject the Prime Minister accused the previous government of “courtesy” and “diplomatic scandal” towards Georgia’s American colleagues which was spurred by the government’s publicly announcing the signing of the Free Trade Agreement. The given statement was the PM’s response to the voiced criticism of the opposition alleging that the government’s effort and enterprise on the Free Trade Agreement with the US was insufficient.

At the meeting with students of Ivane Javakhishvili Tbilisi State University held on 13 March 2014, Irakli Gharibashvili returned to the subject of the free trade agreement dialogues with the US and described the previous government’s position and expectations in this respect as both exaggerated and illusory.

FactCheck took interest in the PM’s statement and verified its accuracy.

The Free Trade Agreement envisages the opening of new markets for goods and services, eliminating trade barriers and ensuring the protection of intellectual property rights.

The high-level dialogue with the US on a free trade agreement took its start on 30 January 2012 following the meeting of Mikheil Saakashvili with Barack Obama. At the meeting the US President asserted: “What we’ve agreed to is a high-level dialogue between our two



countries about how we can continue to strengthen trade relations between us, including the possibility of a free trade agreement...” On his part, Saakashvili thanked President Obama for mentioning “the prospect of a free trade agreement,” saying that it would bolster Georgia’s further progress.

The first meeting in the framework of the high-level dialogue took place on 20 April 2012. At the meeting between United States Trade Representative, Ron Kirk, and Georgian Prime Minister, Nikoloz Gilauri, it was decided to form a working group focused upon a free trade agreement between the two countries. On 29 May 2012, another meeting of the US-Georgia high-level dialogue was held between Deputy United States Trade Representative, Miriam Sapiro, and Chief Advisor to the Prime Minister of Georgia, Tamar Kovziridze. At the meeting the officials discussed the possibility of a free trade agreement between the two countries. In the course of the first half of 2012, therefore, two high-level dialogues were held between the US and Georgia on the matters of a free trade agreement.

Of note is that United States Trade Representative, Ron Kirk, confirmed the possibility of a US-Georgia free trade agreement in his later statement as well (See link: page 75). In particular, at the hearing before the United States Senate Committee on Finance examining the accession of Russia to the World Trade Organisation (WTO), Kirk responded to Senator Orrin Hatch’s question inquiring about the ongoing negotiations with Georgia on a free trade agreement and highlighted the meeting of May 2012 held in the framework of the US-Georgia high-level dialogue on trade and investment where officials discussed a range of options for increasing bilateral trade and investment, including the possibility of a free trade agreement. Further, the United States Trade Representative expressed his readiness to work together with the Committee to explore concrete ways for pursuing the goals elaborated above.

No high-level dialogues were held between the US and Georgia on the matters of a free trade agreement in 2012 (after the Georgian Dream’s taking office) or 2013. This fact was officially confirmed to us by spokespersons of the Ministry of Foreign Affairs of Georgia as well as the Ministry of Economy of Georgia. The high-level meeting on the free trade agreement took place only on 27 February 2014 during the Georgian Prime Minister’s visit to Washington where he met with the United States Trade Representative, Michael Froman. As can be seen from the government’s press release, the officials discussed their mutual interests on bilateral trade and investment growth.

It has been established by fact that only one high-level dialogue was held between Georgia and the US in the period from October 2012 to February 2014 (17 months) whereas Georgian and American officials met twice within the framework of the high-level dialogue in the period from January to October 2012.

CONCLUSION

Irakli Gharibashvili justly notes in his statement that the dialogue on a free trade agreement was launched during the previous government. However, the PM also claims to have intensified the dialogue during his government which is not confirmed by fact. Specifically, in the aftermath of 1 October 2012 in the framework of the high-level dialogue on the free trade agreement, Georgian and US officials met only once. It is also of note that along with Georgian politicians, the United States President and other representatives of the US administration were publicly pointing to the prospects of a free trade agreement between the US and Georgia.

Consequently, Irakli Gharibashvili’s statement: “We intensified the dialogue [on free trade agreement with the US],” is FALSE.



FALSE

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Global Trade Unbundled

The FINANCIAL

Global trade patterns have changed dramatically in the last two decades. Emerging markets now account for 42% of world exports, up from 19% in 1990, or 52% excluding intra-EU trade. Asia has firmly established itself as the centre of the “made in the world” vertical global supply chain, with China emerging as a mega-trader, according to Standard Chartered.

Trade is increasingly “unbundled” with countries no longer trading in goods so much as in “tasks”, such as design or assembly. Services trade is expanding faster than goods trade driven by improving communications; it cannot easily be measured at the border and some estimates put services at 40% of total trade now.

Historically trade growth has averaged about 1.4 times GDP growth. But since the 2008 peak, world exports have risen only 5%, while nominal GDP has grown more than 10%. Some fear that this slowdown is structural. Trade growth will pick up and this ratio can be restored, according to Standard Chartered.

Growth in developed countries is accelerating while manufacturing, still the driver of goods trade, is coming out of the doldrums. Constraints such as lower trade finance availability and rising protectionism are fading. New multilateral trade pacts are in the works.

The next leg up in trade is



likely to be fuelled by a further unbundling of the supply chain, by continuing growth and opening in emerging countries and by increasing horizontal trade in both intermediate and finished goods.

Emerging markets now account for around half of global trade; most countries have seen a big rise in the share of their trade with EM. From 1990-2012 the share of US trade with EM rose to 46% from 25%, Brazil’s to 57% from 25% and Korea’s to 60% from 16%, according to Standard Chartered.

Goods are increasingly “made in the world”, with global supply chains; the import content of exports has risen from 20% of total exports in the 1990s to 40% of total exports currently and is expected to rise to 60% by 2030.

Services trade is growing fast and is more important than it looks; trade in services has grown at an average 9.0% since 1990, higher than the 8.6% for goods trade, according to Standard Chartered.

The slowdown in trade growth since 2008 is mostly temporary; the ratio was highest in the 1990s - a golden decade for trade fuelled by the creation of the WTO and liberalisation in China and India.

Trade is set to accelerate but patterns will change; China is now a mega-trader - a position last held by colonial Britain, with trade significant not only as a share of world trade (11.5%) but also of its own GDP (47%), according to Standard Chartered.

“Trade is unlikely to grow as rapidly as it did in the 1990s or 2000s but we think that concerns about the lack of trade finance and a sudden end to supply chain expansion are overdone; we believe the trade-GDP ratio can regain the 1.3 to 1.5 range longer term,” Madhur Jha, Senior Global Economist at Standard Chartered, said.

“South-South trade and services trade are likely to gain importance over the coming years; in the WTO’s ‘high’ scenario, South-South trade balloons to around 43% of total world trade, more than doubling from current levels. China would augment its position as the mega-trader of this century, raising its share from a tenth to about a quarter of total trade,” he said.

“Asia remains the centre of inter-regional trade and we expect it to maintain its importance in world trade over the coming years, with the fastest growing trade routes likely to remain centred on Asia,” he added.

Radio Commersant



PERSONAL RADIO OF BUSINESS

marketing@commersant.ge
+995 32 2505 955

Commersant.ge

Banks' Credit Portfolio in Georgia Will Exceed GEL 12 Billion in 2014, Zurab Gvasalia

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sign capital from the Georgian banking sector which would damage the Georgian economy as a result. Today this problem has already been solved so I do not think that there are any significant legislative changes that are hampering the Georgian banking sector's development.

Q. What new products have been offered to customers by banks in Georgia and how diverse are these products?

A. The banks have significantly reduced loan processing and issuing time. Today, it is possible to issue a business loan within 45 minutes. Over the last year, banks offered customers business and consumer portability of loans with updated conditions. The banks have updated the versions of internet banks through the addition of new functions and they have also updated SMS services.

TBC Bank created the first internet banking application for the iPad in Georgia at the beginning of 2014. Through iPad Bank clients can manage their finances, transfer money and get access to a range of information. Like Mobile Bank it offers the most innovative way to manage your money on the go.

Last year, Bank of Georgia introduced a totally new internet bank for business, Business Online, which is completely tailored to the needs of individual businesses. It has brand new and unique functions for legal entities, it is very fast, best protected, and meets European standards.

7 steps that will bring success to SME business in Georgia, consisting of 7 components each of which is aimed at SME development, is being offered by TBC Bank this year, which is another very useful initiative.

The financing of educational events by banks is also very helpful. One of the most important events of the year was the joint innovation of TBC Bank and IFC (International Finance Corporation). They launched a free web platform designed to help small and medium enterprises (SMEs) become more competitive and profitable, and boosting economic growth across Georgia. The SME Toolkit, an IFC innovation developed in partnership with IBM, will provide smaller businesses with tools and educational resources that support their operations from start-up to expansion. This web platform is tailored to the local market and provides businesses with practical guidance in areas like accounting, access to finance, and human resources.

Thanks to an initiative by the National Bank of Georgia, a new service is now available in the Georgian banking system: the electronic signature. Electronic signature is an alternative to signing paper documents. Based on the model agreed with the National Bank, an electronic signature has the same legal effect as a signature on paper documents, conferring identical rights and obligations on the bank and its clients.

Electronic signature is a significant step forward, contributing to both the short-term and the long-term development of the Georgian banking sector.

Q. The European Bank for Reconstruction and Development (EBRD) marked an historic milestone in Georgia with the first-ever bond issue by an international financial institution in Georgian Lari. This initiative is aimed to drive forward the development of the local capital market and enable the EBRD to raise local currency in support of its lending programme in Georgia. How will it really help?

A. I do think that EBRD's initiative will contribute to developing the lo-

cal capital market as well as boosting lending in the local currency. Alternative sources for resource replacement as opposed to bank deposits are being created. This will again be very beneficial for the economy based on the principles of competition.

Coupons on the EBRD's inaugural Lari bond are flat to the three-month rate on certificates of deposit issued by the NNB and are eligible for sale and repurchase operations carried out by the bank. At this time, the interest rate for the bonds is 4.3 percent, which will be reviewed once every three months.

Q. What is the interest rate on loans at present and is it possible to do business with this rate?

A. The existing interest rates on loans are significantly lower compared to those in previous years. This is proven by the international researches, including one which was ordered by the National Bank of Georgia.

The goal of the research was to compare the interest rates on loan products of different countries. The research covered the countries of the Balkans, Eastern Europe, the Caucasus and Central Asia. The result is that the interest rates on loan products in Georgia are lower than in Kazakhstan, Serbia, Azerbaijan, Armenia, Poland and more developed Eastern-European countries.

This research proved that the banking sector is a reflection of economic development and within the framework of the economy's further development, the interest rates will decrease much more. In two or three years it might be similar to how it is in the EU and the signing of the Association Agreement will of course support this process.

Today, the banks have a special offer not only for the mortgages of business loans, but for consumer loans with very low interest rates, which in some cases start at 7 percent.

Q. How serious a problem is it that customers are generally lazy about reading in detail the contracts they sign with banks? Is it the main reason for the disputes that can arise between the two sides?

A. Customers' complaints towards banks are most often precisely due to their not having read the contracts in many cases, rather than because there is something that has been written that is unclear for the customers.

Before signing a contract, the Bank always offers customers the chance to read the terms of the contract. In this way, the customer will get all the information they need including the loan repayment schedule and how much to pay. But, unfortunately, the majority of customers just read the contracts superficially or not at all.

In recent years banks have significantly improved the level of their customers' awareness. The National Bank of Georgia has designed a mandatory provision of financial information/guide for clients. Banks are obliged to explain to customers all of the issues related to the taking out of a loan.

I do not deny, however, that there are cases when a credit officer makes a mistake and the customers' complaints are well-founded, but such cases are very rare.

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Irakli Gharibashvili: "If I am not mistaken, according to the surveys published in 2010, Georgia ranked last in Europe by the level of education."

Natalia VAKHTANGASHVILI

FactCheck

On 13 March 2014, Prime Minister of Georgia, Irakli Gharibashvili, held a meeting with students of Ivane Javakhishvili Tbilisi State University. After delivering a speech the PM took questions from the audience. One of the questions put forward by the students concerned the problems related to the quality of education in regional secondary schools of Georgia. Responding to the question, the Prime Minister asserted that the Government is developing educational programmes which will be made available to everyone. Gharibashvili further clarified that Georgia was granted a total of 140 million in the framework of the Millennium Challenge Fund which would be employed for the development of the education field; specifically, for the strengthening of higher educational establishments and technical schools of Georgia, including those operating in the regions of the country. The PM also noted: "If I am not mistaken, according to the surveys published in 2010, Georgia ranked last in Europe by the level of education. This is a truly shameful result for us."

FactCheck inquired about the said survey in which Georgia allegedly came last by the level of education among European countries and studied the document.

In his statement Irakli Gharibashvili was referring to the survey which was published in 2011 by the OECD (Organisation for Economic Co-operation and Development), entitled PISA (Programme for International Student Assessment). PISA is an international comparative survey of the knowledge and skills in reading, mathematical and scientific literacy for 15-year-olds.

As clarified in the research, PISA seeks to measure how well young adults have acquired the knowledge and skills that are required to function as successful members of society. The survey also serves as a certain guide to the governments of the participating countries aiding them to craft the policies which will improve the existing educational outcomes making the system more efficient. PISA is a regular, ongoing series of assessments that are administered in participating countries every three years.

The reporting of the findings from



PISA focuses on issues such as: How well prepared are young adults to meet the challenges of the future? Can they analyse, reason and communicate their ideas effectively? What skills do they possess that will facilitate their capacity to adapt to rapid societal change? How equitable is the provision of education within a country or across countries?, and so forth.

Originally, in 2009, 64 countries participated in the PISA survey whereas later, a further ten states joined in; among those, including Georgia as well. Unlike the original 64, in those ten countries the survey was conducted in 2010, instead of 2009, and its findings were published in the form of a final report in 2011.

The PISA survey involved testing just over 46,000 students across the ten participant countries. Georgia's results in the testing designed to assess the knowledge and skills of 15-year-olds are discussed in more detail below.

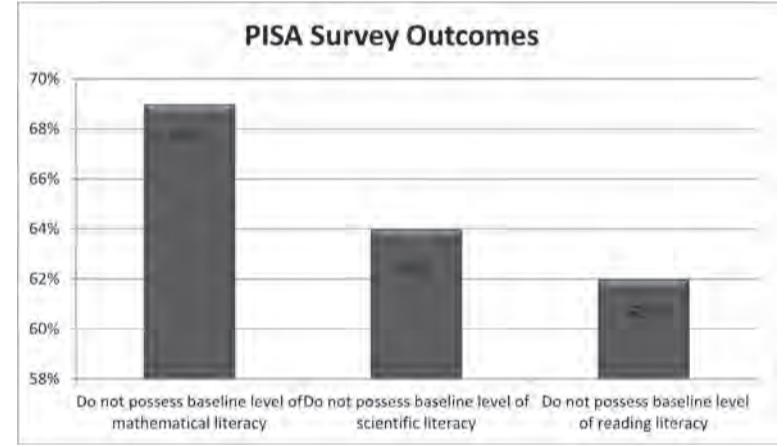
Reading literacy, which assesses

an individual's capacity to understand, use, reflect upon and engage with written texts, was measured by 374 points in Georgia, placing the country in the eighth position among the 74 surveyed countries, and in one category with such countries as Qatar, Peru and Panama. In Georgia, only 38% of students are estimated to have a proficiency in reading literacy that is at or above the baseline. Accordingly, the majority of Georgian students does not satisfy the basic requirements.

In terms of **mathematical literacy**, Georgia's students attained a mean score of 379 ranking the country tenth from the end among the 74 participating countries. This mean score is slightly above the indicators observed in Albania, Tunisia, Indonesia, Qatar, Peru, Panama and several others. In line with the research, only 31% of students are proficient in mathematics at least to the baseline level. It is of note that in Georgia, there was no statistically significant difference in the performance of boys and girls in mathematical literacy.

On the **scientific literacy** scale, Georgian students were given a mean score of 373 which places the country in the fifth position from the end. In agreement with the findings, 34% of students are proficient in science at least to the baseline level. There was a statistically significant gender difference of 19 score points in scientific literacy, favouring girls.

A clearer illustration of the PISA survey's assessment of the reading, mathematical and scientific literacy of Georgian 15-year-olds is presented in the graph below.



Discussing the outcomes of the survey Irakli Gharibashvili focused upon the results of the European countries whose scores are given in the table below.

Survey Outcomes in Europe				
#	Country	Scientific Literacy	Reading Literacy	Mathematical Literacy
1	Finland	554	536	541
2	Estonia	528	501	512
...				
35	Albania	391	485	377
36	Azerbaijan	373	362	431
37	Georgia	373	374	379

As can be gathered from the table, in line with the survey results, Georgia's score in reading literacy surpasses only that of Azerbaijan by 12 points. Judging by the assessed mathematical literacy, Georgian youth outstrips solely Albania by two points.

CONCLUSION

Our analysis of the subject revealed that the survey which Irakli Gharibashvili discussed during his meeting with the students was published in 2011. The survey was conducted in 74 countries and sought to assess the knowledge and skills of 15-year-olds. Over the course of the research, the skills of these youngsters were assessed in reading, mathematical and scientific literacy. Results show that 62% of Georgian youth do not possess the baseline level of reading literacy, 66% are struggling with scientific skills and 69% – with mathematical skills. Considering these indicators, Georgia occupies one of the lowermost positions among the 74 participating countries.

As for the indicators of European countries in particular, which was emphasised in the statement of the PM, Georgia indeed ranks last by the reading literacy of 15-year-olds. Based upon the mathematical skills Georgia outruns Azerbaijan only by 12 points while in scientific skills Georgia surpasses Albania by two points thereby having the worst final result in Europe.

Therefore, FactCheck concludes that the Prime Minister's statement: "If I am not mistaken, according to the surveys published in 2010, Georgia ranked last in Europe by the level of education," is TRUE.

TRUE



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