MODERNIZATION PATHWAYS FOR GEORGIA'S TRANSPORT SECTOR: STRATEGIC CHALLENGES AND REGIONAL PROSPECTS

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Abstract: This study evaluates Georgia's logistics potential and examines its prospects for becoming a key regional transport hub. Owing to its strategic geographical location, Georgia enjoys considerable transit advantages; however, infrastructural constraints, tariff-related issues, and geopolitical risks continue to limit the country's full potential. The research applies PESTEL analysis to identify the main barriers to regional positioning and outlines strategies for overcoming them. The originality of the paper lies in proposing an integrated framework for enhancing the efficiency of transport logistics through infrastructure modernization, tariff reforms, and the strengthening of international partnerships. The findings emphasize that advancing infrastructure, updating fiscal and tariff policies, and modernizing transport networks are essential steps for consolidating Georgia's role within regional transport corridors.

Keywords: Logistics, transport hub, regional positioning, infrastructure modernization, PESTEL analysis of transport potential
URL: nsarhiv.uni-svishtov.bg
DOI: https://doi.org/10.58861/tae.ea-nsa.2025.3.04.en
JEL: N70, O18, R42, R48

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1. Introduction

Georgia's geographical location gives it great potential to become a major logistics hub for the Caucasus and Central Asia. Located at the crossroads of Europe and Asia, Georgia can become a major channel for the movement of economic cargo, which will contribute to the development of trade and economic ties in the region.

The role of logistics is particularly important for increasing a country's competitiveness, as an efficient logistics system reduces trade barriers and simplifies the transportation of goods (Fernandes and Rodrigues, 2009). The faster and more stable the transport infrastructure, the greater the country's ability to attract new partners and investments (Mistura, 2019).

Despite these advantages, the Georgian market, which is now fully liberalized, requires mandatory institutional strengthening. The current instability and expectations of institutional fragility create challenges that prevent the full potential from being achieved (Wang and Wang, 2010). Strengthening the logistics sector, ensuring institutional stability and transparency, and implementing an effective market regulation model are critical for Georgia to function as a reliable logistics hub (Abuselidze 2021).

Effective and proactive policy management, implementation of infrastructure projects, and creation of a market-friendly environment will enable Georgia to occupy a strategic place in regional logistics.

Trends in the development of the logistics sector in Georgia have been growing in recent years, which is based on the effective use of international trade corridors and strategic location. Logistics makes a significant contribution to the global economy, which is especially noteworthy for the countries of Europe and Eastern Europe, where the logistics market is growing significantly. In the European Union, the logistics market exceeds 900 billion euros and has an annual growth rate of 5%, while in Eastern Europe this growth reaches 15%, which is 3-4 times higher than the growth rate of local GDP.

In 2009-2012, Georgia's cargo turnover indicators were growing steadily, with annual growth rates of approximately 5-7 percent. However, since 2013, cargo turnover has been declining, due to both a decrease in local demand and, to some extent, a lack of transit cargo. Stopping this trend and restoring growth is important for Georgia to become a solid regional logistics center.

There is a need to attract investment and improve logistics processes, which includes upgrading infrastructure, increasing transport efficiency, and improving service quality (Tkeshelashvili and Mebonia, 2014). This will make Georgia a more attractive regional logistics center, which will benefit the country's economy and strengthen the positions of local production and exports.

The slowdown in container traffic growth is a matter of concern in Georgia. In 2013, the ports of Batumi and Poti handled 370,000 TEU, down 20% from the average annual growth rate in 2010-2012. This decline is an important indicator that Georgia's logistics system is facing competition and infrastructure challenges, which are impacting transportation efficiency and market diversification.

Road transport dominates the logistics market structure, while the role of rail transport is gradually decreasing. This is due to the high railway tariffs and insufficient infrastructure development, which deprives rail transport of its competitive advantage over road transport. The share of air transport is low, which is also a problem of lack of infrastructure and high cost (Katamadze and Katamadze, 2023).

Another significant obstacle is the lack of Class A warehouse infrastructure. Class B and C warehouses on the market are mainly based on the Soviet-era structure, which makes it difficult to meet modern standards and reduces the quality of service (Abuselidze, 2021; Abuselidze et al., 2023). Class A warehouses would improve the speed of cargo processing and develop the distribution network, which would contribute to the fast and efficient delivery of products.

Despite its strategic geographical location, Georgia still lacks a well-functioning and competitive transport infrastructure, which prevents it from fully utilizing its potential as a logistics hub for the Caucasus and Central Asia (Benmaamar et al., 2015).

The lack of infrastructure connecting different modes of transport in the country hinders the achievement of network effects. For example, the absence of an effective intermodal transportation system, where rail, road and maritime transport operate in full synergy, hinders the provision of modern logistics services (Bendekovic et al., 2014; Nam and Song, 2011).

Decision-making and promotion of infrastructure development related to the modernization and creation of synergies in the transport network should become one of the priorities for Georgia to increase the speed of transportation and the quality of service (Gambino, 2019). Such developed infrastructure will give the country a strategic advantage and improve its competitiveness, which will ultimately contribute to Georgia's emergence as an effective transport corridor (Sheverdashvili and Totikashvili, 2017).

An effective transport infrastructure development policy includes increasing coordination between transport types and introducing modern technologies in transportation, which will strengthen the leading position in international competition in the logistics sector (Osadze and Sosanidze, 2021).

Increasing the competitiveness of the Georgian logistics sector directly depends on the implementation of international standards and the use of effective management know-how. Foreign suppliers and partners are constantly increasing the demands on Georgian companies to bring their logistics processes closer to Western standards. To meet these needs, the Georgian Logistics Association has established a partnership with the US Supply Chain Council (SCC). This cooperation aims to introduce the supply chain standard, SCOR® (Supply Chain Operations Reference) in Georgia.

The SCOR® standard is a globally recognized framework that helps companies streamline and improve their supply chain operations (Chuchelauri, 2024). The implementation of this standard involves the implementation of processes that will help Georgian companies optimize operations and create efficient, transparent logistics systems. This is especially important for strengthening competition in the international market and gaining partnerships.

2. Methodology

The main methodological framework of the work includes a complex approach to assessing Georgia's logistics potential and its potential to become a regional transport hub. Both quantitative and qualitative analysis methods were used in the research process, which serves to create a complex picture.

To assess Georgia's transport and logistics potential, PESTEL analysis was used, which includes political, economic, social, technological, environmental and legal factors. The analysis identified the main challenges and opportunities that affect the country's logistics efficiency.

The study also used regional positioning analysis, which includes tariff, infrastructural and geopolitical factors. This method identified the main barriers to regional positioning, including the lack of tax and tariff benefits, infrastructural failures and geopolitical risks.

The research results showed that infrastructure modernization and strengthening international partnerships are critical for the development of Georgia's transport and logistics potential. The strategies identified as a result of the research aim to strengthen Georgia's position as a regional logistics hub.

3. Results and Discussions

3.1. Barriers to Regional Positioning in Freight Transportation: Georgia's Perspective

What are the main barriers preventing freight companies registered in Georgia from gaining strong regional positions and at the same time, increasing the efficiency of the sector? What reforms and changes are required to improve these positions to change the declining trend in freight flows in the transport sector to positive and increasing figures?

The significant barriers to Georgia’s freight transport sector include several key factors:

1. **Tax Code –** Existing tax regulations in many cases complicate and increase operating costs for resident companies, limiting their competitiveness in the international market.

2. **Infrastructure challenges** – The lack of modern transport infrastructure, such as a lack of ports and low rail capacity, reduces capacity and increases tariffs, which hinders the maintenance and growth of freight flows.

3. **Unilateral tariff preferences –** Preferences imposed by neighboring countries for other transport routes shift cargo flows from Georgian corridors to alternative directions, reducing the volume of transit through the country.

4. **Geopolitical issues** – The political situation in the region and the volatility of mutual partnerships often create an unstable environment, which complicates long-term partnership projects and the continuity of cargo flows.

5. **Personal interests and domestic transport tariffs –** unconstructive interests in tariff policy and market deregulation, which make Georgia's transport network less attractive to domestic and external markets.

In terms of implementing reforms, it is advisable to:

- Modernize infrastructure, upgrade ports and the railway network;
- Introduce internationally competitive tariffs;
- Establish tax incentives and review unilateral concessions, which will increase the attractiveness of Georgia as a transit route;
- Deepen regional transport partnerships, which will allow the country to fully utilize its transport potential.

Such reforms will help Georgia improve the efficiency of transport corridors and increase economic benefits.

We have also conducted a PESTEL analysis of Georgia's transport potential (Table 1).

Table 1. ***PESTEL analysis of Georgia's transport potential***

P: Political factors	• **Stability and security:** Georgia is located in a geopolitically important region, where regional political conflicts often create problems for transport and trade routes. However, Georgia's efforts to integrate with the West and partnerships with neighboring countries contribute to increasing the country's potential. • **Transport policy and cooperation:** Transport development programs between Europe and Central Asia, such as the Belt and Road Initiative, contribute to the creation of a transport corridor and the growth of Georgia as a strong partner with neighboring countries.
E: Economic factors	• **Transport and logistics costs:** The main barrier to economic growth in Georgia's transport sector is the need to improve infrastructure. The current logistics costs and the impact of inflation hinder competitiveness, as containerized cargo transportation is time- and resource-intensive.

	• **Investment and foreign capital:** International organizations, such as the European Bank for Reconstruction and Development (EBRD), are supporting the improvement of Georgia's transport and logistics infrastructure, which strengthens the country's economic growth potential.
S: Social factors	• **Training and education of the workforce:** The number of Georgian professionals and their relevant knowledge play a crucial role in the development of transport and logistics services. Training of the workforce is essential for the sector to meet modern requirements. • **Growing consumer demands:** The growing demand for transport and logistics services in both Georgia and the Caucasus region is affecting economic demand and the growth of the commodity market.
T: Technological factors	• **Innovation and digital technologies:** The development of logistics technologies and the introduction of digital technologies in transport systems will allow Georgia to move cargo more efficiently and quickly. • **Infrastructure improvement:** Modernization of Georgia's ports and transport network is necessary to bring the country into line with global standards and compete with developed transit routes.
E: Ecological factors	• **Environmental protection:** The development of transport systems has an impact on the environment, which is why Georgia faces environmental challenges, such as emissions and ecosystem protection. The introduction of environmentally friendly transport systems will contribute to sustainable development. • **Reduction of greenhouse gases:** Georgia's participation in international environmental commitments will contribute to the creation of environmentally responsible transport systems, which increases the country's importance in the region.
L: Legal factors	• **Regulatory Policy:** Transport regulations adopted by the Georgian government have a significant impact on industry operations. Compliance with EU standards provides better conditions for investors. • **Promoting freedom of trade:** Trade liberalization contributes to the opening of transport corridors and increases Georgia's transit role, which leads to the strengthening of economic relations.

Source: *Compiled by the author.*

According to this PESTEL analysis, Georgia's transport potential is significantly hampered by the need for infrastructure improvement and regional political challenges, but connections to international projects and technological progress create new opportunities for the transit industry.

Overcoming barriers to Georgia's freight transportation requires a comprehensive approach that includes both regulatory and infrastructural and technological initiatives. Some of the key strategies are presented below:

1. Tax Code Reform – The aim of this change is to reduce the tax burden on Georgian transport companies and create a competitive environment at the international level. The introduction of tax incentives could have a particular impact on the maritime and railway sectors.

2. Infrastructure optimization – upgrading and modernizing ports, railways, and roads is one of the most important steps. Modern infrastructure will not only increase the speed and throughput of transportation, but also reduce costs, which will further attract potential partners and clients.

3. Establishing bilateral tariff concessions – Bilateral agreements with neighboring countries are needed to simplify and equalize route tariffs. This will allow carriers to offer cargo owners lower prices than alternative routes.

4. Development of a free transit regime – Free transit is particularly important for reducing additional costs in the transport sector. Ensuring free transit will facilitate the movement of goods without delays, which reduces waiting times and transportation costs.

5. Development of Internet platforms – the use of unified platforms, such as www.gcaa.ge, will help simplify the management of logistics processes. Such platforms will make it possible to monitor the status of cargo in real time and minimize the impact of the human factor on the organization of shipments.

6. Flexible domestic shipping rates – Flexible shipping rates will allow local companies to easily adapt to changing market demands and improve their financial situation by attracting additional resources.

Such changes will create a more favorable business environment in Georgia’s transport sector, allowing local companies to compete with other routes and countries, and potentially increase the volume of shipments to support the country’s economic development (*Sarkhanidze and Bejanidze, 2023)*.

Below, we will analyze each barrier individually, present ways to address existing challenges, and present future development prospects.

Barrier N1: Tax Code.

One of the significant challenges in the Georgian transport sector is the inflexible regime of the national tax system, which is particularly acute for international transport and trading companies. Companies in this sector often migrate to tax jurisdictions that offer low taxation regimes and specific benefits for international business operations. The main reasons for this are the following:

- Due to the specifics of international business operations, companies manage costs more effectively in countries where preferential tax policies apply to international shipments. These benefits mostly include low tax rates, simplified regulations, and minimal bureaucratic requirements, which allows companies to achieve financial stability and development.
- For Georgia, as a transit country, it is advisable to review the tax code to ensure a competitive environment. This includes simplifying taxation regimes and providing additional benefits for businesses operating in the maritime, transport and logistics sectors. Such reforms will help companies alleviate financial pressure and strengthen the sector, which in turn will contribute to the growth of the country's transit potential.

Therefore, the reforms that should be implemented in a desirable manner would be:

1. Creation of low-tax zones - the creation of special economic zones in line with international standards, where companies can receive preferential tax regimes, will help to maintain business in the country.
2. Simplification of taxes - this will increase investment attractiveness and reduce the risk of companies migrating to other jurisdictions.

The future perspective in such a reform-oriented environment will reduce competition for regional markets and strengthen Georgia's position as an important transit and logistics center.

Barriers to the Transport and Maritime Sector in Georgia: Several significant obstacles hinder the development of the transport and maritime sector in Georgia, which are reflected in financial, structural and tax conditions. The main problems include the following:

1. Non-resident tax – Companies registered in Georgia are required to pay a 10-15% non-resident tax when dealing with countries with which Georgia does not have a double taxation agreement. This means that services provided from these countries burden companies' costs and reduce their competitiveness internationally.

2. Property tax for shipowners – For companies operating in the maritime sector, property tax, which amounts to 1% of the value of the property, is a rather serious obstacle. The maritime industry is capital-intensive and high-value assets, such as ships, require much more flexible taxation. Although until 2010 this tax did not apply to ships registered in the State Register of Ships of Georgia, today such a benefit does not apply, which directly negatively affects the competitiveness of the country's maritime sector.

The current result: Such a tax environment makes the operations of international logistics and shipping companies operating in the Georgian market more expensive and uncompetitive. Compared to competitors registered in foreign countries, Georgian resident companies face difficult financial pressures, which reduces their opportunities for international positioning *(Korzhenko, 2019; Abuselidze, 2018; Alam, 2013).*

Need for appropriate reforms: To increase the competitiveness of Georgian resident companies, it is necessary to introduce special tax regimes that will reduce non-resident tax and consider the possibility of reducing or eliminating property tax for the maritime sector. These steps will help Georgian companies adapt to international standards and increase the country's transport and maritime potential.

The study revealed the need for tax policy reform and the effectiveness of existing incentives in the Georgian transport sector, namely: to strengthen the status of the region as a transport and logistics center in Georgia, it is necessary to introduce a tax policy tailored to the specifics of international business (Abuselidze, 2013). Despite the existing preferential conditions, both free industrial zones (Poti, Kutaisi, Tbilisi), as well as the tourist zone in Kobuleti, cannot provide the incentives that are needed for international logistics and shipping companies.

Current tax incentives:

- **Free Industrial Zones:** The zones in Poti, Kutaisi, and Tbilisi exempt industrial operators from profit and property taxes, which helps develop local manufacturing in these areas.
- **Free Tourism Zone:** To promote tourism development in Kobuleti, hotel owners are exempted from property and profit taxes.
- **Estonian Tax Model:** The Estonian model, in effect since 2017, allows companies to pay profit taxes only if dividends are distributed.

As for the long-term requirements, additional tax reforms are needed to attract and sustain regional trade, logistics, and shipping companies (Anderson, 2009; Thiers and McGinnis, 2011). It is important to introduce regimes that are tailored to international business—including logistics, ship operations, and trading companies (Lu et al., 2018; Huber et al., 2015). This includes legislation that facilitates international trade and transit, providing maximum tax incentives and tailored conditions (Abuselidze, 2018).

To achieve this, consideration could be given to the introduction of special economic zones in line with international governance standards, as well as specialized tax conditions based on current trends in the transit and transport sector. This would give Georgia a more competitive position in domestic and regional transport, which would also contribute to the effective growth of cargo flows.

Barrier N2: Unilateral tariff preferences.

Unilateral tariff preferences, which hinder transportation through Georgia, are a significant challenge for the growth of the country's transport potential. Georgia enjoys certain preferences from the Caspian Sea countries only in the east-west direction; however, this is not enough, as it cannot ensure the attractiveness of reverse cargo (from west to east). The absence of such preferences has led to the fact that the cost of transporting cargo from west to east is often 2-3 times higher than in the opposite direction, which complicates the efficiency of transportation.

A possible solution is to introduce bilateral tariff preferences to make transportation equally accessible in both directions. Such a policy could increase the reverse flow of cargo, improve the attractiveness of the corridors, especially the Trans-Caspian and Lapis Lazuli routes. In addition, the development of a regional strategy requires the introduction of a unified tariff policy and a marketing campaign that will help demonstrate Georgia's importance and capabilities at international transport forums.

Barrier N3: Regarding infrastructure.

The Caspian Sea rail ferries, which connect Kazakhstan and Turkmenistan with Azerbaijan, in some cases pose a capacity challenge for the transport corridors (Ekhsonov and Khoshimov, 2023). The ferries have a maximum annual capacity of 95,000 rail cars or 4.5 million tons, but their actual load is often only 50-70%. This indicates that there is limited space in the corridor for additional cargo — both from Kazakhstan (including China) and Turkmenistan (including Afghanistan).

At the same time, the Caspian Sea conditions make cargo traffic seasonally difficult, making transit times difficult to predict. As a result, while the rail route is competitive in terms of travel time between China and Europe, it is consistently more expensive than sea freight, which also hinders the efficiency of cargo transportation (Lee et al., 2009; Vierira and Luna, 2016; Naganawa et al., 2024).

Future steps include improving the Caspian Sea shipping service, including the addition of new transport capabilities, such as container ship services, which will improve the capacity needed for further cargo flows and facilitate the integration of cargo flows from China and Central Asia into the region.

The flexibility of Georgian oil terminals, which determines their competitiveness, is limited by several factors. The Batumi and Kulevi terminals are only using 18-25% of their capacity, which is a sign that their potential for market needs is not being fully utilized. The main reservoirs of the terminals are mainly oriented towards oil transshipment. However, two challenges are emerging here.

The first challenge is competition from pipeline transportation, which connects major oil-producing regions more directly, reducing costs and increasing efficiency (Dablanc and Ross, 2012; Pettit and Beresford, 2009). For example, connections like the Caspian Pipeline Consortium (CPCC) and the

Baku-Tbilisi-Ceyhan pipeline have diverted much of the oil away from Georgian terminals.

The second problem is related to the technical limitations of the terminals. The capacity and infrastructure of coastal reservoirs are not sufficient to load or receive large batches of large tankers (for example, Aframax). This is further complicated by the difficulties of maintaining the temperature of the fuel, especially for products such as fuel oil and vacuum gas oil, which require heating. Such limited capabilities of terminals prevent them from having the same level of flexibility and competitiveness as pipeline alternatives.

Overcoming these barriers requires infrastructural modernization, both in terms of reservoir capacity and technical equipment, which would allow terminals to more effectively respond to the needs of the international market and increase cargo turnover through Georgia.

The proposed solutions to address Georgia's infrastructure barriers include the following steps:

1. **Optimizing Caspian Sea rail ferries:** It is necessary to improve Caspian Sea ferry services and increase efficiency. In order to achieve greater flexibility in Caspian Sea shipping, it is important to introduce container ship services, which will allow cargo flows to respond more stably and smoothly to demand. This step will be particularly important for maintaining and strengthening the capacity of the Trans-Caspian International Transport Route (TITR) and the Lapis Lazuli Route, which will significantly improve the efficiency of regional and international logistics networks.

2. **Modernization of oil terminal tanks and technical equipment:** Optimization of the tanks and technical equipment of Georgian oil terminals, such as Batumi and Kulevi, is necessary to enable them to receive and process new cargoes. The creation of additional greenhouse tanks and increasing the capacity of terminals will help meet market demands and increase Georgia's attractiveness for both transport and consumer markets.

3. Modernization of Kazakhstan's Oil Refineries: Modernization of Kazakhstan's three main oil refineries will increase the production capacity of these plants and facilitate the production of more petroleum products. It is expected that as a result of modernization, Kazakhstan will remove restrictions on the export of gasoline, diesel and jet fuel, which will create new opportunities for Georgian terminals. The development of additional capacity and technical capabilities will bring significant benefits to the country and will give Georgia a chance to become a regional hub for petroleum products.

These changes will not only increase the capacity of transport corridors, but also significantly reduce the time and cost of transportation, which will ultimately strengthen Georgia's position in the regional market.

Barrier N4: Geopolitics and Interests.

Given geopolitical barriers and interests, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline faces many challenges, which impact both the pipeline's capacity and the attractiveness of existing transport corridors in the region.

1. **Volume reduction:** With the decline in oil production from Azerbaijan's main fields, such as the ACG field, BTC's throughput has decreased, preventing the pipeline from operating at its full potential. Although the BTC pipeline, which has a capacity of 50 million tons per year, is only partially used (approximately 28 million tons), the reduction in resources reduces BTC's efficiency and increases the need to find additional volumes.
2. **Impact of alternative routes:** Oil companies have the right to choose between different routes, such as the Caspian regional pipelines and railways, which allow them to use alternative routes via terminals in Azerbaijan and Georgia or to BTC. Other pipelines in the region, such as the Caspian Pipeline Consortium (CPC) in Russia, sometimes offer more favorable terms to suppliers, which negatively affects the throughput of BTC.
3. **Actualization of alternative routes:** Recently, oil suppliers have been actively considering and using new routes for oil transportation. This change is not favorable for the Azerbaijan-Georgia Trans-Caspian Corridor, as routes that previously passed through this corridor may be redirected and become a blow to the transport infrastructure of Azerbaijan and Georgia**.**
4. **Methods of "filling" the BTC pipeline:** BTC operators are actively working to attract resources from oil suppliers in Turkmenistan, Kazakhstan, and Russia. However, attracting additional cargo is difficult, especially when there are routes that are more accessible to suppliers or have attractive tariffs.

As a result, to overcome the geopolitical barriers to BTC, it is important that the pipeline strengthens ties with oil-producing countries in the region, as well as offering them competitive rates and reliable transportation services.

To eliminate geopolitical and interest barriers, various measures can be taken that will improve oil transportation in the Caspian Sea region and create flexible alternatives, which will support oil companies and ultimately strengthen the positions of the transport corridor through Georgia. Among these measures, it is worth noting:

- ✓ **Ensuring free transit:** Caspian oil companies should have the right to choose to use free alternative routes (pipeline or railway). Promoting the principle of "free transit" means that oil exporters will be able to transport raw materials via the route that is convenient and competitive for them, including using railway networks, which will have a direct impact on the diversification and flexibility of transportation in the region.
- ✓ **Facilitation of rail transportation:** The use of rail transportation for oil transportation gives oil companies a distinct advantage. In addition, since

rail routes provide freedom to transport oil under a unique name, this allows the transported raw material to be delivered to the market without mixing. This is important for oil producers who have oil with unique characteristics in the Caspian Sea basin.

✓ **Marketing advantage:** The ability to transport special and unique types of oil is particularly important for end-users of oil. Refineries that process specific grades of oil prefer to transport unique types of oil, which favors rail over pipeline. This reflects a market-driven approach and investment incentives to maintain the region's existing output.

Thus, with a variety of routes and freedom of choice, oil companies in the region will be able to improve economic and technological optimization, and Georgia will also become a more attractive corridor for different countries.

Barrier N5: – Vested interests.

To eliminate the influence of vested interests in the transport and trade sectors, strategic approaches are needed that will promote fair competition conditions in the region and the free functioning of transport corridors:

1. **Enforce strict regulations and increase transparency:** It is essential to ensure transparency in administrative and commercial processes in the transport and trade sectors so that all participants are on a level playing field. This includes the introduction of strict antitrust regulations that prevent powerful organizations from dominating and gaining control over corridor transport for their own interests.

2. **International cooperation and conclusion of agreements:** The development of transport networks and the effective functioning of regional corridors requires close cooperation. Within the framework of international treaties and agreements, countries should formulate policies that ensure the free movement of cargo flows and help potential international nodes improve their competitiveness.

3. **Public-private sector cooperation:** Launching initiatives in the region that will promote equal cooperation between the public and private sectors, increasing both the attractiveness of the corridor and its economic benefits. This includes supporting marketing and investment campaigns to attract interested companies to work and develop transport and logistics infrastructure on the territory of Georgia.

4. **Supporting competition among transportation companies:** Creating a level playing field will promote market stability, while limiting administrative resources for commercial influence in the region will strengthen the functioning and stability of the transport corridor through Georgia.

To effectively manage the vested interests barrier and improve transparency and competitiveness in the transport sector, it is important to implement the following approaches:

o **Development of Internet and electronic platforms:** The introduction of platforms such as online sales, monitoring systems and simplified administrative processes in the railway and transport sector will allow direct access to customers and better service. This approach has already improved many areas of service in Georgia (for example, buying train tickets and booking hotels), which will contribute to increasing efficiency in the transport sector as well.

o **Development of a fair and open platform:** Similar to other service areas, the creation of an open platform in the transport sector (based on a multi-service internet platform) will increase transparency and significantly reduce the influence of non-professional or commercial interests on tariffs and service quality.

o **Independent monitoring systems:** The development of the platform and its monitoring by independent organizations will ensure transparency regarding the reliability and security of information management and procedures on the platform. This will allow companies to use the platform with confidence and plan cargo shipments without hindrance.

o **Rail tariff optimization:** Optimizing tariff determination and increasing competitiveness in rail services will support companies planning to transport petroleum products and reduce the preference for road transport. Increased investment and transportation subsidies may reduce tariffs and make rail transportation more attractive as an alternative option.

To increase the efficiency of domestic transportation, it is important to take several steps that will bring environmental and economic benefits:

❖ **Shifting road freight to rail:** Improving the freight transportation system: Increasing reliance on rail will allow market players to distribute large volumes of cargo more efficiently and economically, which is especially important for companies with large-scale cargo.

❖ **Environmental protection:** Reducing greenhouse gas emissions and increasing the transportation of ecological goods is an important step, as rail transport pollutes the environment less than trucks.

❖ **Unloading road infrastructure and reducing costs:** By transferring to rail transport, it will be possible to reduce the load on roads, which will lead to a reduction in road infrastructure maintenance costs and an extension of the resource of roads.

❖ **Review of domestic rail tariffs:** Optimization of domestic tariffs will help companies that have previously avoided additional costs and sought lower-cost services, such as road transport. Competitive tariffs will make rail transport more attractive.

❖ **Speed and infrastructure development projects:** Upgrading the railway system and increasing its speed is one of the crucial factors that will make rail transport a faster and more efficient option. This requires capital investments that will improve overall efficiency on both freight and passenger routes.

Implementing these steps will make rail transport attractive to companies, increase the overall efficiency of freight transportation, and have a positive impact on both the environment and Georgia's transport infrastructure.

3.2.The role of free trade in strengthening Georgia's economy

Free trade agreements provide Georgia with significant opportunities to expand its trade and investment platform and reduce barriers to the cross-border movement of goods and services. These agreements, which are in place with many countries around the world, offer several value propositions:

1. **Market expansion and new opportunities:**

- The DCFTA (Deep and Comprehensive Free Trade Agreement) with the European Union countries allows Georgian companies to import goods and services into the EU market easily, with customs benefits. This contributes to the development of local businesses in the direction of economic diversification and the introduction of European standards.
- The GSP (Generalized System of Preferences) with the US, Canada, and Japan facilitates the access of Georgian products to these markets, thereby allowing local producers to benefit from preferential conditions and increasing their export potential.

2. **Increasing commercial value:**

- Free trade with China has become particularly important for Georgian exports to one of the largest international markets. The agreement with China has facilitated the export of Georgian wine and agricultural products, which creates the opportunity for long-term commercial value growth.
- Accessibility to the markets of neighboring countries (Turkey, Azerbaijan, Armenia) also strengthens Georgia's role as a transit and logistics center, which is beneficial for a wide range of businesses, be it local manufacturing, logistics, or the service sector.

3. **Opportunities for introducing innovations and improving technologies:**

- Economic modernization and innovation are possible under free trade conditions, as the opening of global markets facilitates foreign investment, knowledge exchange, and technological progress. For example, the DCFTA agreement with the European Union includes requirements that help Georgian companies adopt European standards and maintain high quality.

4. **Prospects with the US and India:**

- Potential free trade agreements with the US and India will provide Georgia with even greater opportunities to increase exports and diversify imports, as well as demonstrate trust in new partners, which contributes to the stability of the business environment and development potential.

Georgia's free trade agreements are crucial for deepening access to global markets and sustainable economic growth (Kacharava, 2015). The competitive advantages gained through these agreements allow Georgian companies to exploit greater financial and market benefits, contributing to the full realization of the country's economic potential (Ukleba and Tsikhelashvili, 2021).

Georgia’s free trade regimes can indeed create an important platform and facilitate the development of the country’s trade and logistics potential (Gogilidze and Gogilidze, 2024). To fully utilize these opportunities, it is necessary to develop value-added services that will give the country an advantage and allow it to strengthen its economic potential as a global trade and transit center, namely:

1. Development of logistics centers: Georgia’s geographical location is ideal for the development of logistics centers and transit hubs that will connect Europe, Asia and the USA. Free trade agreements facilitate the movement of goods and increase the ability to control cargo flows, which creates the conditions for the creation of services in accordance with market requirements.

2. Value-added services: Modern logistics centers can include cargo processing, blending, and packaging services, which will be a support for imports and exports. This can attract companies that need to process cargo into finished goods, market it, and get it to market quickly.

3. Innovative approaches and technology platforms: Digital platforms and independent monitoring institutions can be established to improve transparency and simplify administrative procedures. This will facilitate the exchange of goods and services and create a more stable and competitive environment.

4. Turning problems into opportunities: Overcoming strategic barriers will make Georgia more resilient to international competition. However, as the quote says, “a big problem is a big opportunity.” If barriers are successfully managed, the country will be able to not only strengthen its own trading system, but also create a regional economic hub that will be resilient to changing global routes.

Georgia's role as a Union country will significantly increase if an innovative and transparent trade and logistics network is established on its territory, which will be strengthened by free trade agreements.

For Georgia, the development of logistics centers is an important opportunity to strengthen its status as a regional economic hub. The new project of the Ministry of Economy, which envisages the development of logistics center infrastructure, is favorable for two main reasons. First, Georgia's customs legislation is flexible and reformed, which ensures compliance with international standards. Second, the country has positive trade and economic relations with neighboring countries, especially Azerbaijan and Armenia. These relations create an accessible environment for the market and increase Georgia's competitiveness *(Sulashvili et al., 2015).*

Georgia's competitive advantages include affordable land and relatively cheap labor, which makes the country attractive to European logistics centers. Following the current trend in Western Europe, many companies are relocating their centers to Eastern Europe and the Caucasus in order to reduce operating costs. However, the creation of infrastructure alone does not mean the full development of the sector.

An important component of the success of the logistics industry is ensuring healthy competition in the market. The state is obliged to promote a fair and transparent environment in the market through effective policies so as not to create competitive restrictions. This means avoiding double standards, which will allow market players to develop freely and equally. Implementing such an effective policy will increase Georgia's logistical attractiveness and provide the country with the opportunity for stable, long-term growth at the regional level.

Conclusion

The Georgian logistics market is fragmented and largely dependent on freight forwarding companies, which often do not have their own vehicles or infrastructure. This leads to a lack of coordination between cargo owners, freight forwarders and carriers, resulting in suboptimal supply chains and long transit times. These problems create a lack of transparency and coordination, which reduces market efficiency and makes it difficult to increase competition in logistics services.

Improving the logistics market requires infrastructure investments, optimization of transportation tariffs, and the introduction of effective coordination systems. Georgia's logistics sector suffers from a shortage of qualified operators, forcing companies to solve logistical challenges on their own. This is exacerbated by particularly high fixed costs, as operating on a small scale consumes disproportionately many resources, ultimately increasing the cost of production.

In a global competition where regions and transport corridors compete with each other, the development of logistics and transport infrastructure is essential. A modern, strategically developed logistics infrastructure would help Georgia enhance its competitiveness and further facilitate its transformation into a trade and transport hub, ultimately supporting the country's economic growth.

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ORCID ID: 0009-0001-0067-8300

ISSN 0323-9004

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