

# Innovative Customs System and its Impact on the Sustainability of the Transit Potential

By George Abuselidze<sup>1</sup>, Aleko Meladze<sup>1</sup>

## Abstract

Georgia, due to its geopolitical location, has the potential to become a transit hub connecting the West and the East, the North and the South, which will bring the country the greatest economic benefits and give it a significant political advantage on the international scale. In such conditions, the use of innovative tools of the customs system focused on stimulating financial and economic development is vital. Today's existing customs system cannot fully ensure the effective use of the country's potential, because cargo turnover carried out by road, rail, sea transport, and pipelines is not characterized by a significant growth trend. The paper proposes a model of an innovative customs system that ensures the growth of economic income for the country, which is mainly based on the growth of the country's transit potential and its effective use.

*Keywords: innovative customs system, transit potential, transit attraction, economic income, economic effect.*

## 1. Introduction

One of the priority directions in the development of the methods and tools necessary for the effective management of the country's foreign economic relations is trade and customs disparities and modern approaches necessary for the formation of an optimal customs system. At the same time, the modern global competitive environment forces states to use their opportunities and advantages as effectively as possible in terms of strengthening their place in the international economic space and obtaining maximum economic benefits for the country.

At the initial stage of the formation of an innovative economy, when the process of forming the innovation system in the country is proceeding at a rather slow pace when the introduction of innovative methods in production and management processes is associated with many contradictions when the main vectors of obtaining a competitive advantage remain one of the unsolved problems for the country when the path to the country's development is vague and non-linear, we consider it most important to use the country's transit potential as efficiently as possible, to increase the country's transit attractiveness, to make the country a transit hub and to receive financial, economic, social and political benefits as a result.

Effective functioning of the customs system is of the utmost importance to ensure the utilization of the country's transit potential and its effective use, for which the measures of the customs policy are crucial. The effectiveness of customs policy measures largely depends on the active use of scientific approaches, adaptation to the current situation, and

<sup>1</sup>Batumi Shota Rustaveli State University, Georgia.

orientation to the expected real results, which in itself requires the formation of an environment necessary for an innovative customs system.

The purpose of the study is to substantiate the possibility of effectively using the transit potential of the country and obtaining an increased economic effect for the country through the innovative development of the customs system. The tasks set according to the goal are: to show the necessity of innovative approaches for the effectiveness of the customs system; Dynamics and analysis of the country's foreign trade turnover, cargoes, and vehicles moved in transit; show the current results of using Georgia's favorable geopolitical location and justifying the need for more efficient use; Development of necessary measures for the formation of an innovative customs system.

The subject of the study is the modern problems of the formation and functioning of the customs system of Georgia, and the object of the study is the formation of an innovative customs system and determining the degree of its influence on the transit potential of the country and the results obtained from it.

The purpose of the research and the corresponding tasks gave rise to the following hypotheses:

Hypothesis 1. The existing customs system contributes to the growth of transit potential;

Hypothesis 2. Innovative development of the customs system is important for increasing the country's income, but does not increase the transit potential;

Hypothesis 3. Innovative development of the customs system is important for increasing the country's revenue and turning the country into a transit hub.

## **2. Theoretical and methodological bases of the research**

The monograph "The Role of Finance in the Transitional Economy of Georgia" (Gamsakhurdia, 1997) is devoted to the problems of the functioning of the spheres and links of the financial system, where the author justifies the role of financial policy in the financial and economic development of the country in the crisis period. In the monograph *Southwestern Georgia of the era of Tbel Abuserisdze* (Abuselidze, 2004), the author describes the economic situation of Georgia at that time, emphasizes the transit role of the country between the East and the West, and concludes that the land and sea routes of Georgia have always been the most important part of international trade routes. In the monograph "Region: Analysis, Evaluation, Perspectives" (Glonti, 2007) the author examines the financial and economic system and, based on foreign experience, justifies its most important role in the financial, economic, and social development process of the country and the region. In Chikovani's work, the main directions of the improvement of freight transportation in Georgia (Chikovani, 2020) convey the dynamics of transportation development and the basics of the interaction of different types of transport in the nodes of the transport network.

Authors (Vakulchyk, et al., 2023) claim that there is a critical need to create a methodology for objective quantitative assessment of the qualitative traits of businesses engaged in international trade operations during customs diagnostics to ascertain whether they abide by customs laws and qualify for Authorized Economic Operator status or not.

The manual "Customs Case" (Qarumidze, 2002) deals with the key issues of customs affairs and customs law, where attention is focused on the problems and challenges of

establishment and development of customs affairs in Georgia, customs system, and customs policy. In the textbook "Theory of Customs Case" (Rukhaya et al., 2009) authors discuss in detail the customs case as a discipline and as an economic category, considering customs policy as the most important in the context of the development of the country's customs system.

The modern challenges of the transit corridor of Georgia are discussed in the work "New challenges of cargo transportation through the transport corridor passing through Georgia" (Tokmazashvili, 2018), where the author considers the geographical location of Georgia to be very favorable and considers it to be the main factor in making it the main logistics hub of the Caucasus and Central Asia.

The authors draw attention to the greatest economic importance of the transit corridor of Georgia in the work "Transport Corridor of Georgia and its economic efficiency" (Tsanava et al., 2019), where they talk about the directions for increasing economic efficiency. In the work "European Integration of Georgia and Financial-economic Condition: Achievements and Challenges", the author focuses on the financial-economic aspects of the European integration of Georgia and considers the financial-economic results of the process of approximating the agreement on a deep and comprehensive free trade area as one of the main challenges (Abuselidze, 2019).

In addition to scientific works, the theoretical basis of the research is the following legal norms: Customs Code (Georgian Customs Code, 2019), Tax Code (Georgian Tax Code, 2019), and resolutions of the Government of Georgia (Decree of the Government of Georgia #213, 2010), (Decree of the Government of Georgia # 286, 2022), (Resolution of the Government of Georgia #455, 2022).

The methodological basis of the research is the synthesis of qualitative and quantitative research methods. Functional and component analysis, logical approaches, and evaluation methods are used within the framework of qualitative research. Statistical data analysis and comparison methods are used within the framework of quantitative research. Based on the study and analysis of the obtained qualitative and quantitative data, specific opinions are substantiated, the presented hypotheses are tested and relevant conclusions are formulated.

### **3. Results and Discussion**

The growing impact of global processes on the economy and rapid technological changes have created a tough competitive environment at the modern stage, where the active use of new approaches is necessary to gain an advantage. The realization of new approaches is related to the activation of innovative processes in the economy because innovation implies not only the creation and sale of new products but also the development and implementation of new management and organizational methods (Zoidze and Abuselidze, 2023). Organizations that actively introduce innovations quickly gain a competitive advantage and generate high profits, and states that use innovative tools for economic policy, management, and regulation have a greater chance of obtaining financial and economic benefits for the country and a high social effect on society.

In modern conditions, innovation is considered a complex process of making more effective decisions, during which public interests, market requirements, current level and

scale of economic development, conditions of technological development, functioning of innovation systems, and so on are necessarily taken into account. Accordingly, innovation in the management and organizational direction represents the management of creative activity processes aimed at obtaining the maximum effect through the use of new methods and tools of management and regulation.

The financial system, its level of development, and innovative potential are the most important factors for the economic progress and well-being of any country, as the main factor determining innovative development (Abuselidze and Beridze, 2019; Abuselidze and Meladze, 2023). The innovativeness of the financial system, and the effectiveness of its spheres and links, on the one hand, give a special impetus to the activation of other components determining innovativeness, and on the other hand, reflects their consequential side.

The main goal of the financial and economic system is to create favorable political, economic, social, ecological, and other conditions for the development of society, it serves to strengthen the economic strength, which should be implemented based on the development of the regional financial complex functioning in interaction with the country's economy (Glonti, 2007). Based on this, from the point of view of financial and economic development, the financial system can be imagined as a prerequisite and basis for innovative development, as well as the main means of achieving the country's economic development and public welfare.

The state financial policy plays an important role in the formation of the financial system. State financial policy is a set of measures developed by the state to ensure the implementation of its functions and tasks, which is manifested in the mobilization and optimal distribution-use of financial resources among members of society, priority sectors, and territorial units of the country (Abuselidze & Mamuladze, 2020; Gamsakhurdia, 1997). In modern conditions, the financial policy can be imagined as a constituent part of the country's economic policy, as well as one of the strategic directions of the state innovation policy.

The financial system is an instrument for the implementation of financial policy, and its separate areas and links determine the objects corresponding to a specific goal. While one of the main tasks of any country is the deepening expansion of foreign economic relations and transit attractiveness, the country's customs system, as the most important link of the financial system, has a special mission, both in terms of strengthening the country's transit attractiveness and financial and economic benefits for the country.

The customs system is an orderly combination of certain elements, instruments, legal norms, and economic relations that ensure the implementation of the measures determined by the state customs policy (Uridiya et al., 2009). The customs system regulates the volume and structure of the export and import of goods, it provides the rules and conditions for the implementation of transit procedures, which directly affects the transit potential of the country and the income from it.

According to Hillberry and Zhang (2018), trade facilitation policy measures are not as effective at explaining cross-country variance in customs and logistics performance as nation variables linked to geography, income, and overall governance quality.

A unified customs policy, customs tariffs, and regimes are implemented in Georgia, which are a set of measures, a system, and a strategy as a whole. Customs policy based on

reasonable and scientific principles allows the country to develop priority sectors and deepen political and economic relations with foreign countries (Qarumidze, 2002).

Customs policy is an effective tool for stimulating the economy, which with its mechanisms contributes to the realization of the principles of a competitive environment and free market. In the process of regional integration, it is necessary to reconcile the protectionist customs policy and the liberal customs policy, which should be changed in parallel with the changes in the economic and social situation in the country and the world (T'sinaridze et al., 2020; Erkoreka and Blas, 2023).

The purpose of the customs policy as a foreign economic policy is to stimulate foreign economic relations, which requires a low level of protectionism in the customs policy, and the customs policy as a domestic economic policy assumes a high level of protectionism since its purpose is to stimulate economic development and protect the domestic market from the competition of foreign goods. The effectiveness of customs policy implies the balancing of conflicting principles and their compatibility with current economic events and processes (Meladze, 2021). Thus, the customs policy is a set of measures determining the functioning of the customs system, for which it is important to deepen foreign economic relations, stimulate exports, protect the local market from competition, protect the country's economic border, state security, transit attractiveness and obtain economic benefits for the country.

During the last few years, the foreign trade turnover of Georgia has been characterized by a growing trend, both export and import of goods are increasing. Table 1 shows the statistical data on the foreign trade turnover with goods of Georgia for the years 2017-2022.

**Table 1:** Foreign trade in goods, million US dollars, 2017-2022

Category name	2017	2018	2019	2020	2021	2022
1 Foreign trade in goods, turnover	10802.7	12741.1	13317.9	11398.3	14342.4	19181.1
2 Export	2745.7	3379.7	3798.4	3344.5	4242.7	5592.8
3 Including re-export	739.3	1155.6	1474.6	935.4	1115.6	1888.6
4 Net exports	2006.4	2224.1	2323.8	2409.1	3127.1	3704.2
5 Import	8057.1	9361.4	9519.5	8053.8	10099.8	13588.3
6 Foreign trade balance	-5311.4	-5981.7	-5721.1	-4709.4	-5857.1	-7995.6

*\*Source: compiled by the author, based on the data of the National Statistics Office of Georgia (2023a).*

From this period, the foreign trade turnover with goods is characterized by a decreasing trend only in 2020, which is caused by the negative impact of the COVID-19 pandemic on the economy, when the foreign trade turnover decreased on an international scale. Based on the data, it is established that the volume of import exceeds the volume of export by 2.54 times, and the volume of net export (export - re-export) by 3.72 times. Consequently, the balance of foreign trade is constantly negative. The mentioned circumstance indicates the import dependence of the Georgian economy, which is largely the result of the underdevelopment of the real sector of the economy.

Trade relations between Georgia and the European Union are carried out based on the Agreement on the Deep and Comprehensive Free Trade Area (DCFTA), which is the most important part of the Association Agreement with the European Union and

establishes the trade and customs policy instruments used in mutual trade. DCFTA will bring significant changes to Georgia's export-import in the long term, will contribute to the growth of GDP, and increase wages and purchasing power of the population, however, in the short term, it will require sufficient resources due to the effects related to the approximation of the legislation, for which the gradual implementation of the approximation is necessary to ensure loss reduction (Abuselidze, 2019).

From the point of view of obtaining economic benefits for the country, it is interesting to separate the volumes of transported cargo according to the types of transportation, the data on which are given in Table 2. Relative indicators are calculated here, which show the share of each type of goods moved in the form of transportation in the total foreign trade turnover.

**Table 2:** Foreign trade in goods in Georgia (import, export), according to types of transportation, million US dollars, 2018-2021

		2018		2019		2020		2021	
Foreign trade turnover		12741.1		13317.9		11398.3		14342.4	
Type of transportation		ABS.	REL.	ABS.	REL.	ABS.	REL.	ABS.	REL.
1	Road transport	5551.3	43.57%	5916.0	44.42%	4875.9	42.78%	6540.7	45.60%
2	Railway	982.0	7.70%	811.4	6.09%	764.1	6.70%	906.6	6.32%
3	Air transport	1102.6	8.65%	1003.4	7.53%	862.2	7.56%	1098.0	7.66%
4	Sea transport	4727.9	37.10%	5177.8	38.88%	4505.8	39.53%	5409.5	37.72%
5	Other	379	2.97%	409.3	3.07%	385	3.38%	387.4	2.70%

*\*Source: compiled by the author, based on the data of the National Statistics Office of Georgia (2023b) and Abuselidze (2021).*

From Table 2, it is clear that among the types of transportation used in foreign trade turnover in Georgia, the largest share comes from road transport, and its rate is equal to 44.1% according to the given 4-year average. In this regard, marine transport is in second place - with 38.3%. The third is air transport - 7.9%, the fourth is railway transport - 6.7%, while the share of other types of transportation is insignificant and only 3%. It is worth noting that 82.4% comes from only two types of transportation - road and sea transport, which should be taken into account when developing directions necessary to increase the effectiveness of the customs system.

Data on cargo moved by rail transport in Georgia and its dynamics for the years 2018-2022 are given in Table 3, where the last line shows the percentages that reflect the percentage share of transit in the total cargo turnover of rail transport.

**Table 3:** Weight of cargo moved by railway, thousand tons

		2018	2019	2020	2021	2022
1	cargo, total	10005.0	10860.6	11063.3	12130.7	14772.8
2	including transit	4166.4	5261.0	5542.0	6730.8	8655.3
3	Share (%)	41.6%	48.4%	50.1%	55.5%	58.5%

*\*Source: compiled by the author, based on the data of the National Statistics Office of Georgia. 2023c).*

If we look at Table 3, it is clear that the amount of cargo moved by railway has been increasing every year for the last 5 years. Both the absolute index and the percentage share of cargo moved in transit by rail transport about the total cargo turnover are characterized by a growth trend, although it should be noted that the growth rates are insufficient considering the existing transit potential.

The volume of cargo processed in ports and terminals of Georgia in 2020 amounted to 16255.5 thousand tons, in 2021 - 16517.7 thousand tons, and 2022 - 15008.2 thousand tons. The number of incoming ships in 2020 was 1759 units, in 2021 - 1588, and 2022 - 1606 (National Statistics Office of Georgia, 2023d). According to the mentioned data, the cargo turnover carried out by sea transport and the number of incoming ships is not characterized by an increasing trend, which indicates the underutilization of the transit potential.

To determine the level of utilization of the country's transit potential, below, Figure 1 presents quantitative data on the number of transit vehicles in Georgia, the weight of transit cargo, and the annual amount of road usage tax, from January 2008 to August 2023. The annual sum of the amount of road use tax is calculated by the author, by mathematical multiplication of the number of vehicles moved in transit during the year and the amount of road use (Decree of the Government of Georgia #213, #286). For a better understanding of the data in Figure 1, the unit of weight of the cargo is defined as "thousand tons", the unit of the number of vehicles is "one hundred pieces", and the unit of the annual sum of the amount of road use tax is selected as "ten thousand GEL".

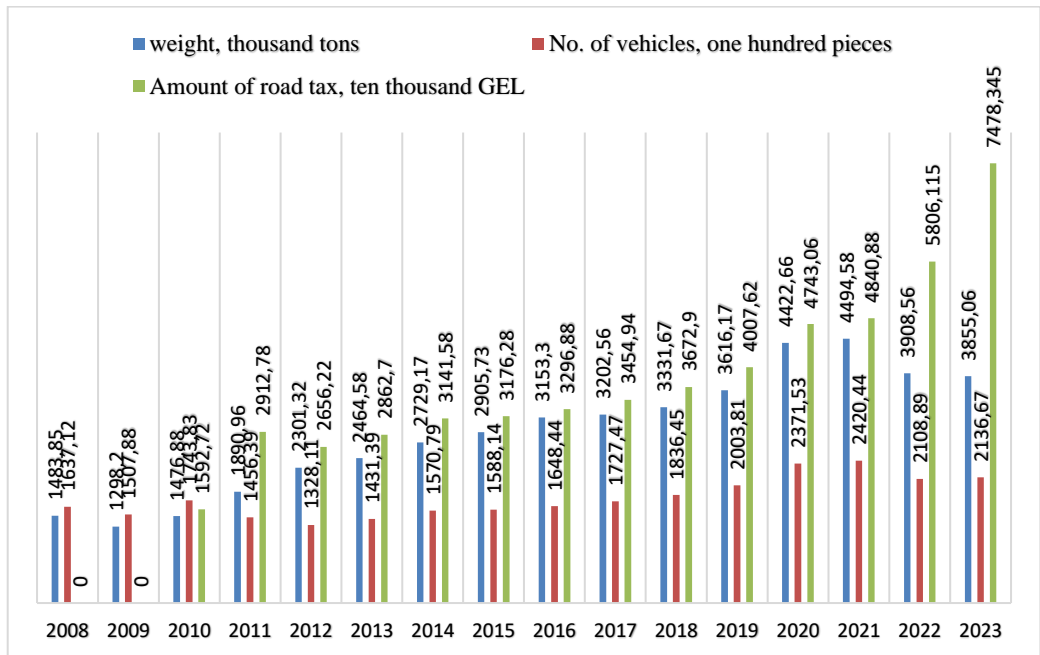


Figure 1: Dynamics of transited goods, number of vehicles, and amount of road usage tax in Georgia, 2008-2023

\*Source: Compiled by the author, based on the data of the State Revenue Service, (2023a). Note: 2023 data are taken including the month of August.

According to Resolution No. 213 of 2010 of the Government of Georgia, it was determined that the road usage fee must be paid to the state budget of Georgia. The road usage fee for the transit transportation of cargo through Georgia by one motor vehicle is equal to 200 GEL (Resolution #213, 2010). This norm came into effect on August 1, 2010. The mentioned norm of the road usage fee was changed in 2022, by the 286th resolution of the Government of Georgia, and it was set at 350 GEL instead of 200 GEL. By the same resolution, the part of the re-export procedure, which is similar to transit in its content, was added to the transit procedure to pay road usage tax (Decree #286, 2022). The change came into force on June 20, 2022.

Figure 1 clearly shows that since 2008, both the volume of goods moved in transit and vehicles moved in transit have been characterized by an increasing trend. Only in a few years, the downward trend of the mentioned data can be observed, which in one case can be related to the 2008 Russia-Georgia war (2008), and in the other case to the economic consequences of the spread of the Pandemic and the Russia-Ukraine war (2022). Overall, in 2022, compared to 2008 data, the total weight of goods moved in transit increased by about 160%, and the number of vehicles moved in transit increased by about 50%. The difference between the growth rates, in our opinion, is largely due to the increase in the load on the individual vehicle. Based on the analysis of the data and taking into account the existing transit potential, we consider the annual growth rate to be insufficient, because in most cases it is within the range of 5-15% per year depending on the weight of the cargo moved in transit, and only in individual cases it is 25-28%. According to the vehicles moved in transit, the annual growth rates are much lower and range from 5-10% annually. Figure 1 shows the dynamics of the amount of road utility tax, which is increasing almost every year and naturally corresponds to the number of vehicles moving in transit. In 2008 and 2009, the amount of road usage was equal to zero. In 2010, the amount of road usage amounted to only 15.927200 million GEL, because this data represents the amounts paid from the first of August (from the entry into force of the resolution). That's why we will use 2011 as a baseline. In 2022, compared to 2011, the amount of road usage has increased by almost 100%, and up to August 2023, the amount of road usage has increased by 157% compared to the data of 2011, which was caused by the increase of the road usage tax from 200 to 350 GEL in June 2022. Naturally, at the end of 2023, this data will approach at least 200%.

If we look at Figure 1, one important fact is clear, the introduction of the road usage tax in 2010 did not have a significant negative impact on the number of goods moved in transit or on the number of vehicles. Also, in parallel with the increase of the road usage tax from 200 to 350 GEL in 2022, the volume of goods moved in transit, as well as the number of vehicles moved in transit, not only decreased but also increased. The mentioned fact must be taken into account when developing the necessary measures for the innovative development of the customs system.

With its geographical location, Georgia is a crossroads, which has been a transit corridor connecting the West and the East since ancient times, it also connected the North and the South, and its location on the Black Sea has always been a great advantage over its South Caucasian neighbors (Tsanava et al., 2019).

Kartli, which was the heart of the country, was significantly advanced from the 11th century, because the most important trade routes leading to all sides passed through it,



which were a measure of the economic and political importance of the country. The Georgian feudal state aimed at the need to enter and dominate trade highways, for which in the 12th century the politically and economically strengthened Kingdom of Georgia brought under its control the Eastern and Western Transcaucasian trade routes, which played an important role in the country's economic development. Thus, the land and sea roads of Georgia have always been part of international trade routes, which were the main conduits of goods from the East and the West (Abuselidze, 2004).

Georgia's geopolitical location and transit-economic situation led to the fact that the transcontinental trade caravan route, the transport highway connecting Europe and Asia - the Silk Road - passed through Georgia. The Silk Road contributed to the development of cultural, economic, and political relations between the countries of the West and the East, and brought significant economic and political benefits to Georgia.

Due to the best transport-geographical location, Georgia has turned into a transport hub in Eastern Europe, which has put the issues of the construction of Transport Corridor Europe Caucasus Asia (TRACECA) and increasing cargo flows on the agenda (Abuselidze et al., 2023).

The result of Georgia's very favorable transit-geographic location is that the most important oil and gas pipelines pass through Georgia:

1. The Baku-Sufsa oil pipeline, which has the greatest socio-economic and geopolitical importance for Georgia, was manifested by the increase of investment flows during the implementation of the project, the employment of hundreds of Georgian citizens, the reduction of the level of political and economic dependence on other countries, etc.;
2. The Baku-Tbilisi-Ceyhan oil pipeline, the purpose of its construction from the beginning was to transport oil from Azerbaijan and later from Kazakhstan to the European market independently of Russia and to bypass it, which dramatically reduces Russia's political and economic influence in the region;
3. The Baku-Tbilisi-Erzrum gas pipeline, which supplies both Turkey and Georgia with natural gas, ensures the reduction of Georgia's dependence on Russian gas, thereby emphasizing the great political and economic importance of the gas pipeline;
4. North-South main gas pipeline, the same Russia-Tbilisi-Armenia Gazprom gas pipeline, through which Russia transits natural gas to Armenia through the territory of Georgia;
5. Baku-Tbilisi-Akhalkalaki-Kars railway, which is the most important highway connecting Azerbaijan, Georgia and Turkey. In the long term, this project allows the South Caucasus railways to connect with Europe through Turkey, which significantly increases the importance of the project.

Transit highways are important for Georgia, both in terms of turning the country into a transit hub and receiving economic benefits from transit shipments, as well as in terms of regional integration processes. The rational use of the country's transit attractiveness, in addition to the social, economic, and financial effects, has the greatest geopolitical importance, as it can create an alternative vector of pipelines and gas pipelines controlled by Russia.

The company that owns the main gas pipelines and oil pipelines in Georgia is the joint-stock company "Georgian Oil and Gas Corporation", which has been granted the status of a national oil company and ensures the smooth operation of oil and gas transportation

systems on the territory of Georgia (Georgian Oil and Gas Corporation. (2023a). Below are the Figures based on the data of the Georgian Oil and Gas Corporation. Figure 2 shows the dynamics of oil transited in Georgia, and Figure 3 of natural gas transited in Georgia, for the years 2010-2022.

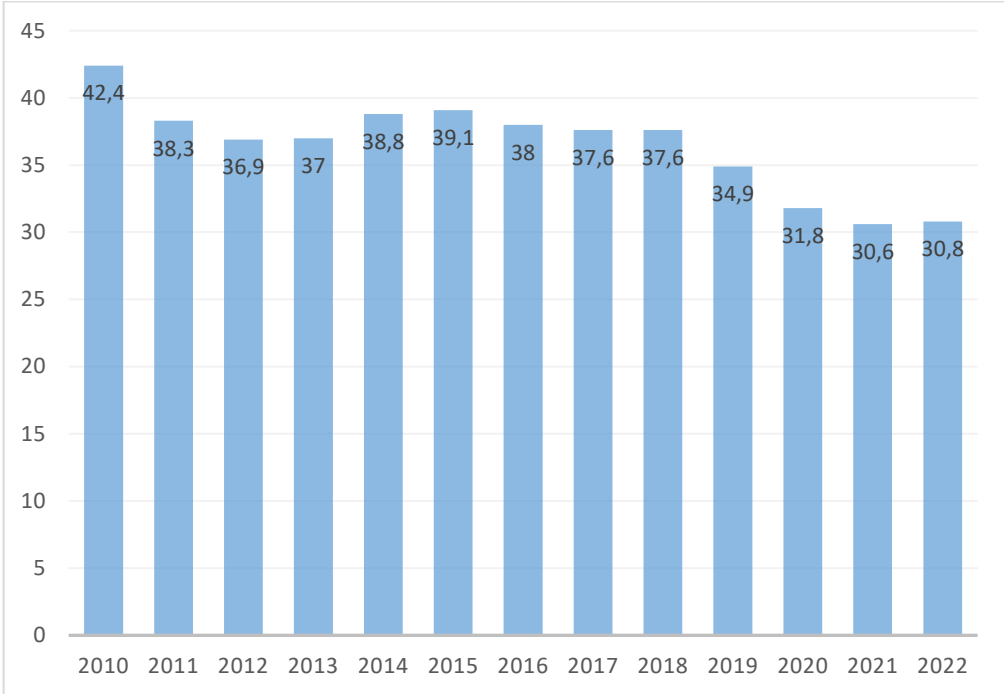


Figure 2: Oil transited in Georgia. million tons, 2010-2022.

\*Source: Compiled by the author, based on data from the Georgian Oil and Gas Corporation, (2023b)

As can be seen in Figure 2, oil moved in transit in Georgia is characterized by a decreasing trend in most cases. In the mentioned period, a significant increase can be observed only in 2014, which amounted to 1.8 million tons. In 2015, the increase is insignificant and it is equal to only 0.3 million tons. The increase in 2022 is more insignificant, which is equal to 0.2 million tons. As a whole, in 2022, compared to 2010, the transited oil in Georgia has decreased by 11.6 million tons, which is equal to 27.4%.

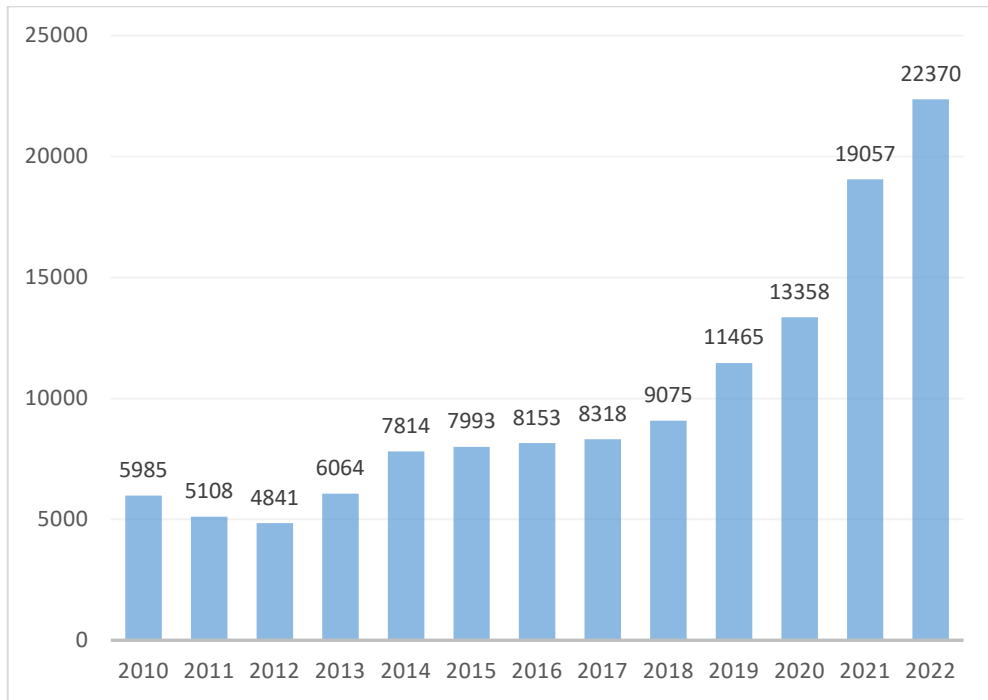


Figure 3: Natural gas in transit in Georgia. million m<sup>3</sup>, 2010-2022.

\*Source: Compiled by the author, based on data from the Georgian Oil and Gas Corporation (2023b)

Figure 3 shows that from 2010-2022, natural gas transported through pipelines in Georgia, unlike oil, has a growing trend. However, in the initial years, there was a decline here as well. There is a significant increase only from 2018-2019. Overall, natural gas transit will increase by 16,385 million cubic meters in 2022 compared to 2010, which is almost 274%. Thus, the dynamics of products transported by oil pipelines and natural gas pipelines intended for transit in the country for the years 2010-2022 are characterized by opposite trends, the volume of oil shipments decreases, and the volume of natural gas shipments increases. However, it is worth noting that transit shipments of natural gas are increasing at a faster rate than transit shipments of oil are decreasing.

In the modern Georgian reality, the issue of the development of the Euro-Asian transit corridor is on the agenda, which implies the coordinated development of transport hubs, transport Technologies, and information systems. 12-15 billion GEL investment is planned to implement this, as a result of which the volume of transit shipments is expected to triple by 2025 (Chikovani, 2020). Transit shipments increase the country's transit value, however, the existence of alternative routes connected with the Asia-Russia-EU vector on the one hand, and the Asia-Iran-Turkey-EU or Azerbaijan-Turkey vector on the other hand, involves Georgia in a geopolitically competitive struggle (Tokmazishvili, 2018). We consider the development of innovative approaches necessary for the development of the customs system for success in the competitive struggle, which implies the mechanisms of the improvement of the customs system and measures of the customs policy.

At the end of the 20th century, important political and economic events took place on a global scale: the dissolution of the Soviet Union and the recognition of the independence of the states included in it; the rapid economic rise of China, Japan, and other Asian countries; The strong interest in the international integration of the countries of Central Asia and the South Caucasus and other important circumstances put the idea of restoring the old Silk Road and the necessity of its revival on the agenda. Accordingly, based on the Brussels Declaration of 1993, the Transport Corridor Europe-Caucasus-Asia - TRACECA - a large-scale project was created, the predecessor of which is considered the ancient Silk Road (Ji et al., 2023).

The main goal of the TRACECA project was to create the shortest transport corridor connecting Europe and Asia, which should ensure the development of economic, political, and cultural relations between the countries of this region (Abuselidze, 2021).

The TRACECA project envisages the international transportation of passengers and international shipments of goods through the transit corridor using road transport, rail transport, and international seaports, which should be implemented by reducing customs barriers and simplifying customs procedures (Transport Corridor Europe-Caucasus-Asia, 2023). Therefore, TRACECA represents a modern transit corridor of Europe-Caucasus-Asia, it is an international cooperation program between the European Union and partner countries and envisages the creation of a transit highway from Europe to Asia, through the Black Sea, the South Caucasus, and the Caspian Sea to Central Asia and the Far East. One of the main goals of the TRACECA project from the beginning was that it would bring security and economic prosperity to the partner countries, which is why we consider the TRACECA project to be economically profitable and politically justified. The implementation of the TRACECA project increases investments, mainly foreign investments, both from international organizations and through the use of private investment resources. The increased investments at the expense of the TRACECA project are aimed at infrastructural directions: construction-reconstruction and technological retooling of international highways, railways, seaports, sea-ferry crossings, and international airports. In particular, the construction of the 13.25 km long section of the Batumi bypass road is underway with funding of 300 million USD from the "Asian Development Bank (ADB)" (Abuselidze et al., 2023).

According to the study (Abuselidze, 2021), if the transit corridor of the Caucasus becomes 10% cheaper, the transit time will be reduced by one week, the railway infrastructure of Georgia will be improved and reliability will increase when crossing the Caspian Sea, the said corridor will carry out unprecedented transit shipments and contribute to the growth of the country's GDP.

Thus, the Europe-Caucasus-Asia transit corridor is the most important project for Georgia. The positive effects of the highway are multifaceted: economic benefits and financial income (we mean the increase in the volume of cargo moved in transit and, accordingly, the increase in related payments, which are sources of state budget revenues), improvement of the investment environment, regional and infrastructural development, development of logistics systems, social effects, political stability, peace guarantees, promotion of international integration processes. Based on this, the priority for Georgia is the state policy aimed at increasing cargo turnover through the TRACECA project,

which will be a long-term guarantee of financial and economic strength and strengthening of the international situation.

Based on the above, we consider the use of innovative approaches for the perfection of the customs system as one of the strategic directions of the state regulation, which will be based on the measures of the customs policy, modern tools for its implementation, and relevant legal norms. We consider the following directions for the formation of an innovative customs system that provides economic benefits and turns Georgia into a transit hub:

1. Technical-technological integration of the customs system of Georgia into the customs system of the European Union;
2. Strengthening the technical-technological integration of the member countries of the World Trade Organization and unification of the customs system of Georgia in it;
3. Increase of road usage tax;
4. Spatial modernization of customs bodies and equipping them with modern technical means;
5. State support for the creation of large customs warehouses and the interest of transnational corporations in it;
6. Existence of queue-regulating parking lots in state ownership;
7. Modernization and liberalization of the legal framework of the customs sphere.

**Technical-technological integration of the customs system of Georgia into the customs system of the European Union.** In the integration of the customs system with the European Union, we mainly mean the technical side of its functioning and software provision, and we assume that the transit attractiveness of the country under modern conditions is largely determined by the lack of customs formalities of the state and the time of implementation of the procedures. In the modern global competitive environment, international shipments are carried out by logistics companies, for whom the shortness of time required for shipment is of the utmost importance in the implementation of international transit shipments.

In Georgia, the electronic program ASYCUDA World, also known as eCustoms, is mainly used to ensure the implementation of customs supervision and customs control, and the ORACLE program is used for the administration of customs payments and legal violations. Also, JANUS is used as an auxiliary program. For customs control and supervision, the mentioned programs are used abroad, including the EU countries, but the technical area of application of the programs is local and in many cases does not go beyond the borders of the given country. This leads to performing the same formality required for customs declaration several times, the number of which depends on the number of transit countries.

All this increases the time of carrying out customs formalities, which leads to several hours of queues at the borders. At present, the time for carrying out customs formalities for one vehicle moving in transit in Georgia is about 6-8 minutes on average, and in some specific cases, it takes almost 10-12 minutes or more time. Import and export procedures take almost the same time. Transit cargoes moved by rail and sea have different characteristics and require more time. Increased time for customs formalities and, consequently, delay of vehicles is a significant financial loss for shipping companies. In the case of integration of the customs system of Georgia with the customs system of the European Union, which

must necessarily mean technical and software integration, the time required for carrying out customs formalities will be drastically reduced and, in our opinion, will not exceed 1-2 minutes.

In the case of technical and software integration of the customs system of Georgia with the unified customs system of the European Union, reducing the time of customs formalities will have a positive effect on the country's transit attractiveness, increase the volume and number of transit shipments, thus increasing the country's economic benefits and its importance on a regional and international scale.

We consider the main shortcoming of this action to be the extent to which the EU countries are willing and able to implement the technical-technological integration of the customs system of Georgia in their space, which may be related to certain contraband risks. We consider this to be one of the main challenges of Georgia's foreign policy at the present stage.

**Strengthening the technical-technological integration of the member countries of the World Trade Organization and the inclusion of the Georgian customs system in it.** The World Trade Organization is an international association that regulates and promotes international trade, which involves the granting of preferential treatment by member countries to each other, the protection of national interests, the provision of equal conditions for local and imported goods, and the promotion of transit shipments between countries ([www.wto.org](http://www.wto.org)). The membership of the World Trade Organization gives Georgia certain privileges during the implementation of international trade, however, its potential in terms of the income received by the country's transit function is not sufficiently utilized. For this, we consider the technical integration of the member countries of the World Trade Organization, the common technical and software provision, and the inclusion of the Georgian customs system, which will reduce the time of customs formalities. This is one of the most important circumstances for shipping companies when selecting a transit corridor.

The technical unification of the customs systems of the member countries of the World Trade Organization and the mutual access of the programs led to an increase in the number of transit countries for Georgia and the expansion of the geographical area, both from the West and the East, as well as from the North and the South. As a whole, the aforementioned provides an increase in the number of transit shipments and the volume of cargo turnover, the effective use of which is a guaranteed means of obtaining increased revenues for the country.

We consider the readiness of the member states and issues of technical support to be the shortcomings of the mentioned action, similar to the previous measures. The number of member states complicates all this, which delays decision-making and significantly increases time. However, in this case, this process is facilitated by the fact that the interests and long-term goals of the World Trade Organization should include the unification of the customs system, as it will have positive consequences for most of the member countries.

**Increase of road usage tax.** The direct economic benefit of using Georgia as a transit corridor for the country is expressed by the road usage tax, which has a direct fiscal function. Its payers are transport companies. Payment is made by each means of transport

for the transit movement of goods in the customs territory of Georgia (State Revenue Service, 2023b).

In our opinion, the mentioned norm of road usage fee in Georgia was low from the beginning (since 2010) and its increase to 350 GEL in 2022 is not enough. Based on the fact that in modern conditions for transport and logistics companies, when carrying out transit shipments, the time to complete customs formalities is of the utmost importance, which is one of the main determining factors for them in determining the transit attractiveness of the country, increasing the mentioned fee (at this stage 2 times, gradually increasing in the following periods) on the transit attractiveness of the country It will not have a negative impact and, therefore, will not reduce transit shipments either. The above Figure 1 and the analysis made based on its data and the presented reasoning will serve as an argument for this.

On the contrary, this will have a positive effect on the country's economy by increasing state revenues and filling the revenue part of the budget. In addition, it is important to introduce the road usage tax and its gradual increase for cargoes moved in transit by railway transport and for the use of seaports that serve for the transit transportation of cargoes. Also, a gradual increase in fees for transportation by oil and gas pipelines is desirable. By implementing the mentioned norms, the country will receive the real economic result of the advantage given by its geopolitical location in the form of budget revenues.

The study showed that the introduction of road usage tax and its subsequent increase did not have a negative impact on transit shipments, on the contrary, they increased. That's why we don't see the risk of reducing transit attractiveness with the increase of road usage tax at this stage. Based on this, we consider the state's reasonable decision and willingness to consider the recommendations to be the main challenge for taking this step.

**Spatial modernization of customs bodies and equipping them with modern technical means.** For the effective performance of assigned functions and tasks, customs authorities need working spaces and modern technical means, which directly affects their throughput. At present, the following customs bodies are functioning in Georgia: 13 land road customs checkpoints: Kazbegi, Sarpi, Vale, Kartsakhi, Ninotsminda, Sadakhlo, Akhkerpi, Guguti, Red Bridge (border), Lagodekhi, Gardabani, Mtkvari, Samtatskaro. Two seaports: Batumi Port, and Poti Port. Three railway customs checkpoints: Gardabani, Sadakhlo, and Kartsakhi. Three air customs checkpoints: Tbilisi Airport, Batumi Airport, and Kutaisi Airport. Four General Economic Zones (GEZ): GEZ Tbilisi, GEZ Tbilisi 2, GEZ Batumi, GEZ Poti. Four clearance departments: Kutaisi, Gori, Telavi, and Akhaltsikhe (State Revenue Service, 2023c).

Land road customs checkpoints are mainly involved in international transit shipments, as well as railway customs points and seaports, oil pipelines, and gas pipelines. The least are the Clearance Economic Zones and the departments of clearance, which mainly carry out the procedures of export-import of goods. Therefore, to increase the throughput of cargo and passengers, first of all, the customs checkpoints need spatial expansion and equipping with the latest technical means, which is still an unsolved problem for most of the customs checkpoints.

For the effectiveness of customs services, it is important to arrange the issue of their technical retooling. Outdated technical means significantly increase the time of customs control (inspection, identification, laboratory inspection, sampling, scanning, technical

means of declaration, general declaration, etc.). The mentioned problem can be solved with the use of state investments, as well as with the financial resources of international organizations and foreign governments, with the active use of targeted programs of the World Trade Organization, and with the support of the European Union.

Spatial and technological modernization of customs bodies requires technical and organizational work and certain financial costs from the state, which is the main drawback of this measure. In such conditions, we consider the main challenge of the state to be the issues of finding financial resources, using them step by step, and controlling spending in a targeted manner.

**State support for the creation of large customs warehouses and the interest of transnational companies in it.** In today's competitive environment, the world's largest corporations try to expand the geographical area of their business and increase their economic influence. Thus, transnational companies have a strong influence on international economic and political relations. Transnational companies, depending on the specifics of their activities, often need warehouses for temporary storage of finished products, materials, and raw materials and then for their use, transit movement, and/or sale. Setting up a warehouse intended for the company's activities on the territory of a foreign country and its activities are related to customs formalities and customs supervision procedures, which require a certain amount of time and financial resources from their side.

To attract transnational companies, it is necessary to set up state customs warehouses, and temporarily delegate the right to use them to transnational companies on unexploited territories owned by the state. Also, it is possible to temporarily transfer state-owned territories to transnational companies to set up customs warehouses and with state support. The mentioned measures ensure the interest of foreign large corporations in Georgia, as a transit corridor, as well as a place of activity (showrooms, service centers, production spaces) and regional centers of transnational companies. As a whole, all this leads to an increase in the volume of cargo turnover and transit shipments.

In addition to the fact that the establishment of state customs warehouses is associated with costs from the state, the disadvantage of this measure can be considered an increase in the degree of economic influence of transnational companies on local companies, which represents a certain risk that it will somehow interfere with the formation of a perfectly competitive environment. In this case, we consider the main challenge of the state to protect local companies as much as possible from the influence and competition of transnational companies.

**Existence of queue-regulating parking lots in state ownership.** For the smooth movement of lorries, the lorries moving in the direction of "Sarfi", "Kazbegi", "Red Bridge" or "Lagodekhi" customs checkpoints must be parked at the parking lot at the relevant border customs checkpoint (State Revenue Service, 2023d). The daily fee for parking a vehicle in the parking lot, set by the parking lot administration, should not exceed 80 GEL. Until 2022, the maximum amount of the said fee was 30 GEL (Resolution #445, 2022). The person who owns the parking lot performs its activities under the control and supervision of the Land Transport Agency under the Ministry of Economy and Sustainable Development of Georgia and the Revenue Service under the Ministry of Finance of Georgia.



The existence of the state-owned parking lots, the so-called "Tir Parks" (today they are owned by private individuals and operate with state licenses and under state control), their legal provision, and the application of the fees received from them to the state budget are a source of significant economic benefits for the country. It should be noted that not only trucks moving in transit but also trucks moving for any purpose, both with cargo and without cargo (including export, re-export, etc.) are the payers of the fees for parking lots, so-called "Tir Parks". However, in our opinion, there should be a gradual increase in parking fees, which will not hurt the volume of shipments and the country's transit attractiveness, and on the contrary, it will provide increased budget revenues for the country.

At this stage, we do not see any significant drawback to state-owned parking lots. The main challenge can be considered the organizational and technical issues of its functioning, which are related to costs, but the revenues received from it are naturally significantly higher than the mentioned costs.

**Modernization and liberalization of the legal base of the customs sphere.** The customs legislation of Georgia consists of the international agreements of Georgia related to customs formalities, the Customs Code of Georgia, and the subordinate normative acts adopted or issued by it (Customs Code, 2019). The set of norms regulating the customs field in Georgia creates a fairly liberal legal framework, which is due to Georgia's membership in the World Trade Organization, the norms of association agreements with the European Union, international trade, and customs agreements and obligations based on them. However, under the given conditions, the modernization of the legal base means the compatibility and compliance of legal norms with the current economic events and processes. Based on the above, we consider the following legal changes necessary to ensure the liberalization and modernization of the country's customs system:

1. Minimizing customs control and customs supervision procedures (declaration, inspection, scanning, laboratory inspection, camera inspection) for cargo moved in transit, legally recording this fact and giving them a privilege, taking into account the time factor, to increase the transit attractiveness of the country;
  2. Simplification of cargo transportation conditions subject to licenses and permits, including revision and reduction of the list of goods subject to licenses and permits, both during transit and export and import procedures;
  3. Simplification of phytosanitary, veterinary, and sanitary border-quarantine control procedures as much as possible, in the case of transit procedures, their cancellation including laboratory and camera control procedures;
  4. Liberalization of legal norms and simplification of procedures related to authorizations of international shipments, i.e., issuance of permits, fees, and quota rules, including revising and increasing the list of countries not subject to authorization;
  5. Alleviation of the current sanctions on customs violations during transit shipments to a level that does not lead to an increase in the movement of smuggled goods in the country.
- The implementation of the mentioned legal norms will have a positive impact on the effective use of the country's transit potential, increase the volume of transit shipments, and the financial and economic benefits from it.

We consider the main shortcomings of the changes and liberalization of the legal base to be, on the one hand, the mood and attitude of the public and the private sector towards

the changes, on the other hand, the liberalization of the legal base should be included in the framework of the norms of the World Trade Organization and the Association Agreement with the European Union. Minimizing customs procedures and easing customs sanctions could lead to an increase in shipments of undeclared and smuggled cargo. The main challenge of the state to combat the aforementioned shortcomings is to find the "golden mean" in the liberalization of legal norms.

Based on the discussion on the positive and negative effects of the implementation of the directions and measures of the formation of the innovative customs system, a SWOT analysis was made, which is presented below in the form of "Table 4".

**Table 4:** SWOT analysis of the innovative customs system

<b>Strengths</b>	<b>Weaknesses</b>
<ol style="list-style-type: none"> <li>1. Reduced time for customs procedures</li> <li>2. Growth of transit potential</li> <li>3. Growth of transit shipments</li> <li>4. Increase in the country's income</li> </ol>	<ol style="list-style-type: none"> <li>1. Increase in state expenses</li> <li>2. Frequent legislative changes</li> </ol>
<b>Opportunities</b>	<b>Threats</b>
<ol style="list-style-type: none"> <li>1. Turning the country into a transit hub</li> <li>2. International integration of the customs system</li> <li>3. Liberalization of customs legislation</li> </ol>	<ol style="list-style-type: none"> <li>1. Increase in contraband shipments</li> <li>2. Increase in undeclared cargo</li> <li>3. Technical-organizational difficulties</li> <li>4. Obstructing the formation of a competitive environment</li> </ol>

*\*Source: constructed by the authors, based on the materials studied.*

Thus, the proposed model of innovative development of the country's customs system derives from the existing potential, which is mainly based on the country's transit attractiveness and various effects that can be obtained from it. The practical realization of our model of the innovative customs system will lead to a multiplier effect and may become a prerequisite for the innovative development of other links of the financial system.

## 7. Conclusion

The study of theoretical materials about the country's customs system, the understanding of methodological approaches, and the structure and dynamics of the data presented in the paper about foreign trade turnover and cargo moved in transit reveals that the current customs system in Georgia cannot ensure the maximization of the use of the country's transit potential. To deal with the mentioned challenge, we consider the identification of the main reasons hindering the transformation of the country into a transit hub and the development of measures necessary for the formation of an innovative customs system based on it, which ensures the utilization of the country's transit potential and the increase of the country's income.

The use of innovative approaches for the perfection of the customs system should be adapted to modern reality and should be based on customs policy measures, modern tools

for its implementation, and relevant legal norms. For the formation of an innovative customs system, which ensures maximum use of the country's transit potential, turning the country into a transit hub and obtaining economic benefits, we consider the following directions: technical-technological integration of the customs system of Georgia into the customs system of the European Union; technical-technological integration of the customs systems of the member countries of the World Trade Organization and the inclusion of the Georgian customs system in it; increase of road usage tax; equipping customs bodies with modern technical means; state support for the creation of large customs warehouses and the interest of transnational corporations; state ownership of parking lots regulating queues; modernization and liberalization of the legal framework.

Thus, based on the results of the research, when checking the hypotheses stated in the initial part of the paper, we get the following results:

Hypothesis 1 is rejected, the current customs system in Georgia does not fully correspond to the real situation, which means that it cannot ensure the growth of the country's transit potential;

Hypothesis 2 confirmed that based on the results of the research, it can be said that the innovative development of the customs system will significantly increase the country's income and at the same time will affect the transit potential of the country;

Hypothesis 3 confirmed that the model of the innovative customs system proposed by us will increase both the economic income of the country and the transit potential of the country and will ensure the transformation of Georgia into a transit hub.

## Acknowledgment

This research was carried out by a scientific grant from the Batumi Shota Rustaveli State University (Georgia) under the title "Prospects for the Development of an Innovative Economy in the Region in the Context of Global Economic and Business Challenges".

## References

- Abuselidze, G. (2004). South-Western Georgia of Tbel Abuseridze Epoch (Economical Situation). Georgia.
- Abuselidze, G. (2019). European Integration of Georgia and Financial-economic Condition: Achievements and Challenges. *European Journal of Sustainable Development*, 8(1), 53-68. DOI: 10.14207/ejsd.2019.v8n1p53
- Abuselidze, G., Beridze, L. (2019). Financing models of vocational education and its impact on the economy: Problems and perspectives. *SHS Web of Conferences*, 66, 01001. DOI: 10.1051/shsconf/20196601001
- Abuselidze, G., Mamuladze, L. (2020). The Peculiarities of the Budgetary Policy of Georgia and the Directions of Improvement in Association with EU. *SHS Web of Conferences*, 73, 01001. DOI: 10.1051/shsconf/20207301001
- Abuselidze, G. (2021). Competitiveness Analysis of the Georgian Transport and Logistics System in the Black Sea Region: Challenges and Perspectives. *Lecture Notes in Computer Science*, 12952, 133-148. DOI: 10.1007/978-3-030-86973-1\_10
- Abuselidze, G., Nehoda, Y., & Bilyak, Y. (2023). Strategic Directions of Ensuring the Financial Stability of the Transport Enterprise. *Lecture Notes in Computer Science*, 13957, 163–178. DOI: 10.1007/978-3-031-36808-0\_11
- Abuselidze, G., & Meladze, A. (2023). Modern state of innovative development of Georgia: challenges and prospects. *Economic Science for Rural Development*, 57, 177-187. DOI: 10.22616/ESRD.2023.57.018
- Chikovani, E. (2020). The main directions of improvement of freight transportation in Georgia. Tbilisi, "Kalmosani" publishing house.

- Erkoreka, M., & Blas, A. (2023). Implementation performance in the field of the EU Customs Union: consequences of differentiated policy implementation on customs control efficiency. *Journal of European Integration*, 45(5), 803-821.
- Gamsakhurdia, G. (1997). The role of finance in the transitional economy of Georgia. Tbilisi, "Meridiani".
- Glonti, V. (2007). Region (analysis, evaluation, prospects). Batumi, "Adjara" publishing house.
- Hillberry, R., & Zhang, X. (2018). Policy and performance in customs: evaluating the trade facilitation agreement. *Review of International Economics*, 26(2), 438-480. DOI: 10.1111/roie.12338
- Ji, Z., Abuselidze, G., & Lymar, V. (2023). Renewable Energy Sources Based on Agricultural Production: Potential Applications Within the Silk Road Economic Belt Framework. *European Journal of Sustainable Development*, 12(1), 159-179. DOI: 10.14207/ejsd.2023.v12n1p159
- Meladze, A. (2021). Some aspects of improving the customs policy of Georgia. *Economic Profile*, 16(2).
- Qarumidze, V. (2002). Customs case. Tbilisi.
- Tokmazishvili, M. (2018). New challenges of cargo transportation through the transport corridor passing through Georgia. Ivane Javakishvili Tbilisi State University, III International Scientific Conference - Globalization Challenges in Economy and Business. collection of Works.
- Tsanava, N., Papiashvili, M. (2019). Transport corridor of Georgia and its economic effectiveness. Tbilisi;
- Tsinaridze, R., Tsetskhladze, L. (2020). The Major Vectors of the Georgia Customs Policy in the Post-Coronavirus Rehabilitation Process. *Ecoforum*. 9(3(23)).
- Uridiya, G., Rukhaya, F. (2009). Theory of the customs case. Tbilisi.
- Zoidze, G., & Abuselidze, G. (2023). Importance of healthcare economy on sustainable development of the country. *Access to Science, Business, Innovation in Digital Economy*, 4(1), 60-70. DOI: 10.46656/access.2023.4.1(5)
- Customs Code of Georgia. (2019). Tbilisi.
- Free trade with the European Union. (2023). Agreement.
- Georgian Oil and Gas Corporation. (2023, a). about us.
- Georgian Oil and Gas Corporation. (2023, b). Oil and natural gas transit statistics 2010-2022.
- National Statistics Office of Georgia. (2023, a). Foreign trade in goods 2017-2022.
- National Statistics Office of Georgia. (2023, b). Foreign trade by type of transportation 2018-2021.
- National Statistics Office of Georgia. (2023, c). Railway transport statistics 2018-2022.
- National Statistics Office of Georgia. (2023, d). Maritime transport statistics 2020-2022.
- Resolution of the Government of Georgia #213. (2010). Regarding the determination of the amount of road usage fee and the procedures and conditions related to its payment. Tbilisi.
- Resolution of the Government of Georgia #286. (2022). "Regarding the determination of the amount of the road usage fee and the procedures and conditions related to its payment" on making changes to Resolution No. 213 of 2010 of the Government of Georgia. Tbilisi.
- Resolution of the Government of Georgia #455. (2022). "Regarding the approval of the technical regulation "Terms and conditions of the operation of the bus station and parking lot" of the Georgian Government of December 31, 2013 #442. Tbilisi.
- State Revenue Service. (2023, a). Information about the transit customs procedure 2008-2023.
- State Revenue Service. (2023, b). road usage fee.
- State Revenue Service. (2023, c). Customs checkpoints.
- State Revenue Service. (2023, d). Parking lots (TIR Parks).
- Tax Code of Georgia. (2019). Tbilisi.
- Transport Corridor Europe-Caucasus-Asia. (2023). About TRACECA.
- Vakulchyk, O., Fesenko, V., Knyshek, O., Babenko, L., Horbach, L., Abuselidze, G., & Datsii, O. (2023). Analysis of an Enterprise's Compliance with the Authorized Economic Operator Status in the Context of the Customs Policy of Ukraine. *Lecture Notes in Computer Science*, 13957, 228-241. DOI: 10.1007/978-3-031-36808-0\_15
- World Trade Organization. (2023). What is the WTO?