

# Belt and Road Initiative: Implications for Georgia and China-Georgia Economic Relations

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Georgia's economic relations with China have been especially activated in the past couple of years. This includes both direct trade relations between the two countries as well as Chinese direct investment in the Georgian economy.<sup>1</sup>

China's interest to expand its international economic outreach is quite clear and that includes Georgia as well. This naturally begs the question about why China is interested in developing economic cooperation with a geographically remote Georgia.

## Belt and Road Initiative in the Context of Georgia

Answering this question is not at all difficult based upon new global projects put forward by Beijing, including the Silk Road Economic Belt and the 21st Century Maritime Silk Road, both of which together create the Belt and Road Initiative.<sup>2</sup> It is certainly noteworthy that this global initiative includes the Asia-Pacific, Europe, Central Asia, South Asia, Southeast Asia, West Asia and Africa.

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1 Joseph Larsen, "Georgia-China Relations: The Geopolitics of the Belt and Road," Georgian Institute of Politics, Policy Paper, October 2017, pp. 5-10, <http://gip.ge/georgia-china-relations-geopolitics-belt-road>; Mariam Zabakhidze, Giorgi Bakradze & Batu Kutelia, "Georgia and China: 'Carry Away Small Stones to Move a Big Mountain'," Economic Policy Research Center (EPRC), Issue #6, January 2017, pp. 13-16, [https://www.eprc.ge/admin/editor/uploads/files/China\\_A5\\_WEB2.pdf](https://www.eprc.ge/admin/editor/uploads/files/China_A5_WEB2.pdf).

2 Su Ge, "The Belt and Road Initiative in Global Perspectives," *China International Studies*, No. 57, March/April 2016, pp. 5-27.

The Silk Road Economic Belt (SREB) provided for several economic corridors such as the New Eurasian Land Bridge, the China-Mongolia-Russia Economic Corridor, the Central Asia-West Asia Economic Corridor, the Indo-China Peninsula Economic Corridor, the China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor<sup>3</sup> among which the economic corridor crossing the Central Caucasus<sup>4</sup> was not clearly outlined; however, this definitely did not prevent Chinese companies from conducting economic activities in the Caucasus.<sup>5</sup> It should be pointed out that the Georgian corridor (as well as that of Azerbaijan) is located in the Central Asia-West Asia Economic Corridor.<sup>6</sup>

Georgia, together with its neighbor and strategic ally, Azerbaijan, has been considered in the context of the historical Great Silk Road<sup>7</sup> right from the beginning of the 1990s. The practical implications of this idea have been the TRACECA<sup>8</sup> project initiated by the EU in 1993, the INOGATE<sup>9</sup> project starting in 1996 and somewhat later was supported by the *Silk Road Strategy Act* adopted by the United States Congress in 1999.<sup>10</sup> In fact, practically

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3 Su Ge, "The Belt and Road Initiative in Global Perspectives," p. 17.

4 The Caucasus consists of three sub-regions, one of which, the Northern Caucasus, is a part of Russia with the Southern Caucasus belonging to Turkey and Iran. Georgia, Armenia and Azerbaijan form the Central Caucasus. See Eldar Ismailov & Vladimir Papava, "A New Concept for the Caucasus," *Southeast European and Black Sea Studies*, Vol. 8, No. 3, 2008.

5 Dong Yan, "China's Strategy in the Caucasus," *Foreign Policy Research Institute*, April 3, 2017, <https://www.fpri.org/article/2017/04/chinas-strategy-caucasus>.

6 Meine Pieter van Dijk & Patrick Martens, "The Silk Road and Chinese Interests in Central Asia and the Caucasus: The Case of Georgia," Maastricht School of Management, Working Paper No. 12, August 2016, p. 5, <https://www.msm.nl/resources/uploads/2016/09/MSM-WP2016-12-1.pdf>.

7 For example, Vadime Elisseff, ed., *The Silk Roads: Highways of Culture and Commerce*. New York: Berghahn Books, 2000; Richard C. Foltz, *Religions of the Silk Road: Overland Trade and Cultural Exchange from Antiquity to the Fifteenth Century*, New York: St. Martin's Press, 1999; Hsin-Ju Liu, *The Silk Road: Overland Trade and Cultural Interactions in Eurasia (Essays on Global and Comparative History)*, Washington, D.C.: American Historical Association, 1998.

8 TRACECA is the abbreviation of the Transport Corridor Europe-Caucasus-Asia. See "History of TRACECA," TRACECA, <http://www.traceca-org.org/en/traceca/history-of-traceca>.

9 "In Brief," INOGATE, 2016, <http://www.inogate.org/pages/1?lang=en>.

10 "H.R.1152-Silk Road Strategy Act of 1999," 106th Congress (1999-2000), August 2, 1999, <https://www.congress.gov/bill/106th-congress/house-bill/1152>.

all projects<sup>11</sup> envisaged in terms of the Silk Road transport corridor are functioning successfully today. One of the flaws of these projects can be considered to be the fact that they were designed to create both transport as well as energy corridors to connect Europe through the Caucasus to Central Asia;<sup>12</sup> however, they did not envisage extending the corridors all the way to China.

The inclusion of Azerbaijan and Georgia (as the Caucasian Tandem<sup>13</sup>) in the SREB project is facilitated by the already implemented Silk Road Transport Corridor (SRTC) project, an important part of which is Baku-Tbilisi-Kars railway, connecting not only Azerbaijan, Georgia and Turkey with a railroad but also connecting East and West, in general, through the Caucasus. The aforementioned railroad, as an important part of the Iron Silk Road project, is a logical piece of the Belt and Road Initiative.<sup>14</sup>

If we compare the SRTC or TRACECA and the SREB's Central Asia-West Asia Economic Corridor projects, the clear similarities are limited to a regional context only (the main countries of the Silk Road). The differences, on the other hand, lie in at least two things: first of all, the first project was initiated by the West (more specifically, the EU) while the second one originated in the East (more specifically, China); and second (which, we believe is very important), the first project is clearly and primarily a transport project while the second one is much more complex as it is economic (which

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11 For example, Bülent Aras & George Foster, "Turkey: Looking for Light at the End of the Caspian Pipeline," in Michael P. Croissant and Bülent Aras, eds., *Oil and Geopolitics of the Caspian Sea Region*, Westport: Praeger, 1999; Hoard Chase, "Future Prospects of the Caucasian Energy and Transportation Corridor: The Role of Caucasian Energy Corridor in European Energy Security," *Georgian Economic Trends*, No. 3, 2002; Frederick S. Starr & Svante E. Cornell, eds., *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, Uppsala: Uppsala University, 2005, [https://www.silkroadstudies.org/resources/pdf/Monographs/2005\\_01\\_MONO\\_Starr-Cornell\\_BTC-Pipeline.pdf](https://www.silkroadstudies.org/resources/pdf/Monographs/2005_01_MONO_Starr-Cornell_BTC-Pipeline.pdf); Thomas R. Stauffer, "Caspian Fantasy: The Economics of Political Pipelines," *The Brown Journal of World Affairs*, Vol. VII, No. 2, 2000; Eduard Shevardnadze, *Great Silk Route. TRACECA-PETra. Transport Corridor Europe-Caucasus-Asia. The Eurasian Common Market. Political and Economic Aspects*. Tbilisi, Georgian Transport System, 1999.

12 Kakha Gogolashvili, "New Silk Road: A Stage for EU and China to Cooperate," Georgian Foundation for Strategic and International Studies, Expert Opinion, No. 86, 2017, p. 9, <https://www.gfsis.org/files/library/opinion-papers/86-expert-opinion-eng.pdf>.

13 Vladimir Papava, "On the Role of the 'Caucasian Tandem' in GUAM," *Central Asia and the Caucasus*, No. 3-4 (51-52), 2008.

14 Özge Nur Öğütçü, "Baku-Tbilisi-Kars Railway and Regional Connectivity," *Daily Sabah*, February 20, 2017, <https://www.dailysabah.com/op-ed/2017/02/20/baku-tbilisi-kars-railway-and-regional-connectivity>.

means that apart from transport it also includes other economic fields). It should be pointed out that the idea about the transport corridor for Georgia would, in the future, turn into a complex economic project as it would facilitate the development of different parts of the economy as was voiced back in 2002.<sup>15</sup>

It can be baldly asserted that the Belt and Road Initiative will fundamentally alter the main directions of the world's economic development as the role of the East, namely China, is being brought to the forefront.<sup>16</sup>

## The Russian Factor and Eurasianism

According to the assessments of some analysts, one of the main threats to the successful functioning of the SREB (more specifically, the Central Asia-West Asia Economic Corridor), crossing Georgia and Azerbaijan, is Russia.<sup>17</sup> This should not be surprising, especially if you take into account that, on the one hand, the Central Asia-West Asia Economic Corridor does not cross Russia and could be considered as a competitor (or, according to a heavier assessment, an alternative) economic corridor<sup>18</sup> to the New Eurasian Land

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15 Vladimir Papava, "On the Special Features of Georgia's International Economic Function," *Central Asia and the Caucasus*, No. 2 (14), 2002.

16 Atul Bhardwaj, "Belt and Road Initiative: An Idea Whose Time Has Come," *China International Studies*, No. 64, May/June 2017; William Jones, "The Belt and Road Initiative: Charting a New Trajectory for Mankind," *China International Studies*, No. 62, January/February 2017; Fu Mengzi & Xu Gang, "New Silk Roads: Progress, Challenges and Countermeasures," *China International Studies*, No. 65, July/August 2017; Dragana Mitrovic, "The Belt and Road: China's Ambitious Initiative," *China International Studies*, No. 59, July/August 2016.

17 For example, Emil Avdaliani, "One Belt, One Road: How Far Will China Go for Georgia?" *Georgia Today*, June 19, 2017, <http://georgiatoday.ge/news/6828/One-Belt,-One-Road:-How-Far-Will-China-Go-for-Georgia>; Joseph Larsen, "Georgia-China Relations: The Geopolitics of the Belt and Road," pp. 20-21; Tony Rinna, "The South Caucasus and China's Rising Presence," *New Eastern Europe*, December 3, 2015, <http://neweasterneurope.eu/articles-and-commentary/1811-the-south-caucasus-and-china-s-rising-presence>; Meine Pieter van Dijk & Patrick Martens, "The Silk Road and Chinese Interests in Central Asia and the Caucasus: The Case of Georgia."

18 Alessia Amighini, "Policy Recommendations for the EU," in Alessia Amighini, ed., *China's Belt and Road: A Game Changer?* Milano: Italian Institute for International Political Studies (ISPI), 2017, p. 142, [http://www.ispionline.it/it/EBook/Rapporto\\_Cina\\_2017/China\\_Belt\\_Road\\_Game\\_Changer.pdf](http://www.ispionline.it/it/EBook/Rapporto_Cina_2017/China_Belt_Road_Game_Changer.pdf).

Bridge<sup>19</sup> which does in fact cross Russia while, on the other hand, Moscow wants not only to retain but also expand its influence in the post-Soviet area in general and in Central Asia and the Central Caucasus,<sup>20</sup> in particular. This is exactly why from the very beginning Moscow was not interested in the development of the SRTC crossing Central Caucasus independently from Russia.<sup>21</sup> Today, the situation is further complicated by the fact that Russia's participation in the Belt and Road Initiative can be described as extremely modest.<sup>22</sup>

In order to balance the Belt and Road Initiative, Moscow put forward the Greater Eurasian Partnership (GEP) initiative which is a large-scale vision of the Eurasian Economic Union (EAEU), a Russian-Kazakh initiative start in 2015,<sup>23</sup> and it aims at encompassing Russia, China, India, Iran, Turkey and other countries, confronting the US hegemony and Atlanticism in general.<sup>24</sup> At first glance, the GEP has formally similar scopes, objectives and priorities with the Belt and Road Initiative;<sup>25</sup> however, for the government

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19 Gabor Debreczeni, "The New Eurasian Land Bridge: Opportunities for China, Europe and Central Asia," *The Public Sphere*, 2016 Issue, [http://publicspherejournal.com/wp-content/uploads/2016/02/02.eurasian\\_land\\_bridge.pdf](http://publicspherejournal.com/wp-content/uploads/2016/02/02.eurasian_land_bridge.pdf).

20 For example, Mariam Zabakhidze, Giorgi Bakradze & Batu Kutelia, "Georgia and China: 'Carry Away Small Stones to Move a Big Mountain'," p. 9.

21 For example, Jan H. Kalicki, "Caspian Energy at the Crossroads," *Foreign Affairs*, Vol. 80, No. 5, 2001; A. Necdet Pamir, "Is There a Future of the Eurasian Corridor?" *Insight Turkey*, Vol. 2, No. 3, 2000; John Roberts, "Energy Reserves, Pipeline Routes and the Legal Regime in the Caspian Sea," in Gennady Chufrin, ed., *The Security of the Caspian Sea Region*, New York: Oxford University Press, 2001; Alexander Rondeli, "Pipelines and Security Dynamics in the Caucasus," *Insight Turkey*, Vol. 4, No. 1, 2002; Alexander Rondeli, "The South Caucasus: Pipeline Politics and Regional Economic Interests," in *The South Caucasus: Promoting Values Through Cooperation*, NATO Defense College, Seminar Report Series, No. 20, [https://www.files.ethz.ch/isn/26465/seminar\\_20.pdf](https://www.files.ethz.ch/isn/26465/seminar_20.pdf); Frederick S. Starr & Svante E. Cornell, "The Politics of Pipelines: Bringing Caspian Energy to Markets," *SAISPHERE*, 2005.

22 Pete Baumgartner, "China's Massive 'One Road' Project Largely Bypasses Russia, but Moscow Still on Board," *Radio Free Europe/Radio Liberty*, June 26, 2017, <https://www.rferl.org/a/russia-china-one-belt-one-road-project-putin-xi/28579849.html>.

23 Lyailya Nurgaliyeva, "Kazakhstan's Economic Soft Balancing Policy vis-à-vis Russia: From the Eurasian Union to the Economic Cooperation with Turkey," *Journal of Eurasian Studies*, Vol. 7, No. 1, 2016.

24 Sergei Karaganov, "С Востока на Запад, или Большая Евразия: Россия активно закрепляется на растущих рынках Азии" [From the East to the West, or Greater Eurasia: Russia Is Active in the Growing Markets of Asia], *Российская газета [Rossiyskaya Gazeta]*, October 24, 2016, <https://rg.ru/2016/10/24/politolog-karaganov-povorot-rossii-k-rynkam-azii-uzhe-sostoialsia.html>. (in Russian)

25 Li Ziguo, "The Greater Eurasian Partnership: Remodeling the Eurasian Order?" *China International Studies*, No. 63, March/April 2017, p. 61.

of the Russian Federation, the GEP is not just a large-scale economic cooperation project but rather it has quite a large geopolitical significance as well.<sup>26</sup> Taking into account that Russia is an economically weak (but at the same time militarily strong) country for China,<sup>27</sup> it is practically impossible for Russia to balance China.<sup>28</sup>

It is a fact that even Chinese specialists admit that Eurasianism and its theoretical and ideological views<sup>29</sup> have an important role in Russian policy<sup>30</sup> in light of which the opinion that the GEP does not have a motivation to “dilute” the Belt and Road Initiative must be considered quite naïve, postulating the supposedly Russian perception that Eurasia is limited to the post-Soviet area only.<sup>31</sup> For one thing, there is a large number of noteworthy studies regarding Moscow’s large-scale geopolitical ambitions based on Eurasianism<sup>32</sup> (which in certain cases take on an aggressive nature as well as was the case for Georgia and Ukraine) and it has also become clear that Moscow is actively considering the prospects for more extensive Eurasian partnership involving the EAEU and China, India, Pakistan and Iran.<sup>33</sup> In addition, it should also be pointed out that Eurasianism has a more ideological character for Moscow and it has not much in common with the

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26 Li Ziguó, “The Greater Eurasian Partnership: Remodeling the Eurasian Order?” p. 57.

27 *Ibid.*

28 *Ibid.*, pp. 58-61.

29 Aleksandr G. Dugin, *Eurasian Mission (Program Materials of International Eurasian Movement)*. Moscow, ROF Evrazia, 2005.

30 Li Ziguó, “The Greater Eurasian Partnership: Remodeling the Eurasian Order?” p. 47.

31 *Ibid.*, p. 59.

32 For example, Charles Clover, “Dreams of the Eurasian Heartland: The Reemergence of Geopolitics.” *Foreign Affairs*, Vol. 78, No. 2, 1999; David Kerr, “The New Eurasianism: The Rise of Geopolitics in Russia’s Foreign Policy.” *Europe-Asia Studies*, Vol. 47, No. 6, 1995; Marlène Laruelle, *Russian Eurasianism: An Ideology of Empire*. Washington, D.C., Woodrow Wilson Center Press, 2008; Vladimer Papava, “The Eurasianism of Russian Anti-Westernism and the Concept of “Central Caucaso-Asia”.” *Russian Politics & Law*, Vol. 51, No. 6, 2013; Paradorn Rangsimaporn, “Interpretations of Eurasianism: Justifying Russia’s Role in East Asia.” *Europe-Asia Studies*, Vol. 58, No. 3, 2006; Dmitry V. Shlapentokh, “Eurasianism: Past and Present.” *Communist and Post-Communist Studies*, Vol. 30, No. 2, 1997; Andreas Umland, “Pathological Tendencies in Russian “Neo-Eurasianism.” The Significance of the Rise of Aleksandr Dugin for the Interpretation of Public Life in Contemporary Russia.” *Russian Politics & Law*, Vol. 47, No. 1, 2009.

33 “Plenary Session of St Petersburg International Economic Forum,” Presidential Executive Office of Russia, June 17, 2016, <http://en.kremlin.ru/events/president/news/52178>.

EAEU.<sup>34</sup>

Further, the very real possibility of the growth of China's role in Eurasia based on the SREB initiative<sup>35</sup> has also put forward a new vision for the theoretical construction of Chinese Eurasianism<sup>36</sup> which begs further specialized study.<sup>37</sup> At this stage, it can be said that in the view of certain analysts, China's leadership is taking steps more or less in accordance with the widely acclaimed Heartland theory<sup>38</sup> of a famous British geographer, Halford Mackinder, and it is possible that a "benevolent China-centrist economic integration zone" will be created in Eurasia.<sup>39</sup>

It is also noteworthy that the leadership of Russia and China signed a joint statement about cooperation between the EAEU and the SREB in May 2015<sup>40</sup> while reaffirming their statement about a solid partnership and cooperation between the EAEU and the Belt and Road Initiative in June 2016.<sup>41</sup> Despite this, it has still not been possible to sign agreements on future trade and economic cooperation between China and the EAEU.<sup>42</sup> Two

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34 Marlène Laruelle, "Eurasia, Eurasianism, Eurasian Union: Terminological Gaps and Overlaps," *PONARS Eurasia*, Policy Memo, No. 366, July 2015, <http://www.ponarseurasia.org/memo/eurasia-eurasianism-eurasian-union-terminological-gaps-and-overlaps>; Vladimir Papava, "Economic Models of Eurasianism and the Eurasian Union: Why the Future is Not Optimistic," *The Central Asia-Caucasus Analyst*, October 29, 2015, <http://cacianalyst.org/publications/analytical-articles/item/13296>.

35 Michael Clarke, "Understanding China's Eurasian Pivot: The 'One Belt, One Road' Strategy Provides a Guide to the Future of China in Eurasia," *The Diplomat*, September 10, 2015, <http://thediplomat.com/2015/09/understanding-chinas-eurasian-pivot>.

36 Serafettin Yilmaz & Liu Changming, "China's 'Belt and Road' Initiative and Its Implications for Euro-Atlanticism," *China Quarterly of International Studies*, Vol. 2, No. 3, 2016.

37 It should be noted that seeing Central Eurasia in the imperial context is very interesting for scholars not only from the historical standpoint but from the contemporary standpoint as well (for example, Christopher I. Beckwith, *Empires of the Silk Road: A History of Central Eurasia from the Bronze Age to the Present*, Princeton: Princeton University Press, 2009, pp. 302-319).

38 Halford J. Mackinder, "The Geographical Pivot of History," *Geographical Journal*, Vol. XXIII, No. 4, 1904.

39 Artyom Lukin, "Mackinder Revisited: Will China Establish Eurasian Empire 3.0?" *The Diplomat*, February 7, 2015, <http://thediplomat.com/2015/02/mackinder-revisited-will-china-establish-eurasian-empire-3-0>.

40 "Joint Statement on Cooperation on the Construction of Joint Eurasian Economic Union and the Silk Road Projects," *HKTDC Research*, May 8, 2015, <http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/Joint-Statement-on-Cooperation-on-the-Construction-of-Joint-Eurasian-Economic-Union-and-the-Silk-Road-Projects/obor/en/1/1X000000/1X0A3ABV.htm>.

41 "China, Russia Pledge 'Unswerving' Partnership," *Xinhua*, June 26, 2016, [http://news.xinhuanet.com/english/2016-06/26/c\\_135466130.htm](http://news.xinhuanet.com/english/2016-06/26/c_135466130.htm).

42 Maria Lagutina, "Improving Relations with Russia and Ukraine," in *China's Belt and Road: A Game Changer?* p. 66.



main reasons can be identified for this: for one thing, the Russian model of economic modernization (which relies mostly on the principles of consumer economics<sup>43</sup>) has turned out to be utterly useless<sup>43</sup> as compared to the Chinese model (which is based upon the prioritization of innovation development<sup>44</sup>), which is exactly why Russia significantly lags behind China in terms of economic and technological development, creating impediments for Moscow in establishing more or less equality-based economic relations with Beijing. The second reason is that the EAEU is not fully established institutionally.<sup>45</sup>

## Complementarity of the Economic Corridors

According to the views of some experts, China's economic cooperation with the Central Asian countries and the membership of Kazakhstan and Kyrgyzstan in the Moscow-created EAEU as well as a clear geopolitical approximation between Russia and China in recent years (especially in the energy sector) creates the probability that the EAEU and the SREB could move to a potential merger or cooperation.<sup>46</sup>

Of course, cooperation to a certain extent between the EAEU and the SREB is entirely conceivable; however, in order to assess whether or not a merger between these two organizations is at all possible, we will need to compare the formational economic principles of the EAEU and the SREB.

At the current stage, economic development is not the major concern for Moscow; rather, what is more important is increasing its geopolitical

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43 Vladimir Papava, "Necroeconomics of Post-Soviet Post-Industrialism and the Model of Economic Development of Georgia and Russia," *Journal of Business and Economics*, Vol. 6, No. 5, 2015, <http://www.academicstar.us/UploadFile/Picture/2015-7/20157313847837.pdf>.

44 The World Bank & Development Research Center for the State Council, the People's Republic of China, *China 2030: Building a Modern, Harmonious, and Creative Society*, Washington, D.C.: World Bank, 2013, pp. 34-38, <http://documents.worldbank.org/curated/en/781101468239669951/pdf/762990PUB0china0Box374372B00PUBLIC0.pdf>.

45 Maria Lagutina, "Improving Relations with Russia and Ukraine," pp. 65-66.

46 Fabio Indeo, "A Comprehensive Strategy to Strengthen China's Relations with Central Asia," in *China's Belt and Road: A Game Changer?* p. 38.



influence<sup>47</sup> for which Russia uses an economic mechanism through which it voluntarily gives its revenues from the exports of energy resources to the member states of the EAEU.<sup>48</sup> This is the reason why Moscow has perceived the SREB as a creation of a rival project to the EAEU which aims to replace Moscow's influence on the Asian countries with Beijing's influence.<sup>49</sup>

Actually, the SREB project is perceived entirely differently. More specifically, two factors have a major influence on its potential success: for one thing, this project does not impose any prior limitations, methods or norms to the entities participating in it by which it provides a great deal of flexibility for bilateral and multilateral economic cooperation between these entities. The second factor is that, for now, there is no evidence to suggest that Beijing is interested in wielding any sort of strategic, political or economic influence over the countries participating in the project.<sup>50</sup>

We have a clear incompatibility between the economic designs of the EAEU and the SREB, first because of excessively different institutional designs (the EAEU is “regional and protectionist” while the SREB is “extra-regional and inclusive”);<sup>51</sup> second, it is important for Moscow to have geopolitical influence over the member states of the EAEU and it is ready to willfully take economic losses for this, while for Beijing, SREB participants are considered to be partners with economic interests.

Hence, the good prospects of the SREB, crossing the Central Caucasus, are underlined by the fact that China does not yet consider this region to be the sphere of any of its influence and, as it would seem, it has no specific plans for gaining dominance in the region.<sup>52</sup> This is especially important for

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47 Hilary Appel & Vladimir Gel'man, “Revising Russia's Economic Model: The Shift from Development to Geopolitics,” *PONARS Eurasia*, Policy Memo, No. 397, November, 2015, [http://www.ponarseurasia.org/sites/default/files/policy-memos-pdf/Peppm397\\_Appel-Gelman\\_Nov2015.pdf](http://www.ponarseurasia.org/sites/default/files/policy-memos-pdf/Peppm397_Appel-Gelman_Nov2015.pdf).

48 Aleksandr Knobel, “Eurasian Economic Union: Development Prospects and Possible Obstacles,” *Problems of Economic Transition*, Vol. 59, No. 5, 2017.

49 Maria Lagutina, “Improving Relations with Russia and Ukraine,” pp. 60-61.

50 Richard Ghiasy & Jiayi Zhou, *The Silk Road Economic Belt: Considering Security Implications and EU-China Cooperation Prospects*, Stockholm International Peace Research Institute, 2017, p. IX, <https://www.sipri.org/sites/default/files/The-Silk-Road-Economic-Belt.pdf>.

51 Joseph Larsen, *Georgia-China Relations: The Geopolitics of the Belt and Road*, p. 19.

52 Tony Rinna, “The South Caucasus and China's Rising Presence.”

the functioning and subsequent development of the Central Asia-West Asia Economic Corridor.

Given all of this, for developing the importance of the Belt and Road Initiative in Beijing's relations with Moscow, it could be instrumental for China to refuse implementing the paradigms of the predominant and confrontational alternative economic corridors. Instead of this, it would be more beneficial to move to the paradigm of the compatibility of economic corridors, which would facilitate the harmonization of these corridors and their harmonic development. This is exactly why the GEP and the Belt and Road Initiative must be seen as complementary to one another.<sup>53</sup>

Given the increased risks of terrorism and other industrial disasters in the contemporary world, it is important to have complementary transport and energy corridors which should ensure the maximum continuity of transport flows. The increased risks of technological catastrophes, transportation disasters, damaged pipelines or other man-made disasters underline the importance of the development of transport or economic corridors which can ensure that they can substitute one another in critical situations.

Therefore, the possibility of the complementarity and harmonization of the economic corridors must be based upon an approach which envisages inspecting the routes for transporting Asian energy resources to Europe, not according to their alternativeness but rather in the context of their complementarity.<sup>54</sup>

It should be pointed out that turning to the paradigm of the complementarity of the economic corridors will ensure the implementation of the Belt and Road Initiative in the context of win-win cooperation,<sup>55</sup>

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53 Li Ziguo, "The Greater Eurasian Partnership: Remodeling the Eurasian Order?" p. 62.

54 Vladimir Papava & Michael Tokmazishvili, "Pipeline Harmonization Instead of Alternative Pipelines: Why the Pipeline 'Cold War' Needs to End," *Azerbaijan in the World*, Vol. 1, No. 10, June 15, 2008, [http://biweekly.ada.edu.az/vol\\_1\\_no\\_10/Pipeline\\_harmonization\\_instead\\_of\\_alternative\\_pipelines.htm](http://biweekly.ada.edu.az/vol_1_no_10/Pipeline_harmonization_instead_of_alternative_pipelines.htm); Vladimir Papava & Michael Tokmazishvili, "Russian Energy Politics and the EU: How to Change the Paradigm," *Caucasian Review of International Affairs*, Vol. online.org/Journal/11/Done\_Russian\_Energy\_Politics\_and\_EU\_How\_to\_Change\_the\_Paradigm\_by\_Vladimir\_Papava\_and\_Michael\_Tokmazishvili.pdf.

55 Ruan Zongze, "Belt and Road Initiative: A New Frontier for Win-Win Cooperation." *China International Studies*, No. 65, July/August 2017.

which is vital for the ultimate success of this initiative. The official statements of both Beijing and Moscow that the EAEU and the Belt and Road are complementary and not competitive must be considered as hopeful as they did not go unnoticed by the expert community.<sup>56</sup>

## **Georgia: From Energy Transportation Hub to Economic Hub**

The fact that the institution of a free trade regime between China and the EU is under active discussion is very important for Georgia.<sup>57</sup> In this regard, the SREB creates a new stage in the economic cooperation between China and the EU.<sup>58</sup>

China and Georgia are members of the World Trade Organization. The fact that a free trade agreement has been signed between the two countries<sup>59</sup> is very important in terms of the development of trade relations. Georgia also has the Deep and Comprehensive Free Trade Area (DCFTA) agreement with the EU<sup>60</sup> as well as a free trade agreement with the European Free Trade Association (EFTA).<sup>61</sup> Hence, the expansion of trade between the EU and China will enable Georgia to become a logistical hub, connecting China with Europe (for which the Baku-Tbilisi-Kars railway and the implementation of the Anaklia Black Sea deep water port project will have vital importance)<sup>62</sup> and increasing the level of its security at the same time.<sup>63</sup>

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56 For example, Joseph Larsen, *Georgia-China Relations: The Geopolitics of the Belt and Road*, p. 19.

57 For example, Liu Jia, "Walk the Talk on FTA Negotiations," *China Daily Europe*, July 7, 2017, [http://europe.chinadaily.com.cn/epaper/2017-07/07/content\\_30026178.htm](http://europe.chinadaily.com.cn/epaper/2017-07/07/content_30026178.htm); Zachary Haver, "Rebalancing EU-China Relations: The Case for an EU-China FTA," *Global Policy*, February 9, 2017, <http://www.globalpolicyjournal.com/blog/09/02/2017/rebalancing-eu-china-relations-case-eu-china-fta>.

58 Kakha Gogolashvili, *New Silk Road: A Stage for EU and China to Cooperate*.

59 Nan Zhong & Jingxi Xu, "China, Georgia Sign FTA," State Council of the People's Republic of China, May 15, 2017, [http://english.gov.cn/news/international\\_exchanges/2017/05/15/content\\_281475656216746.htm](http://english.gov.cn/news/international_exchanges/2017/05/15/content_281475656216746.htm).

60 "Trade: Georgia," European Commission, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/georgia>.

61 "Georgia Makes New European Free Trade Deal," *Agenda*, June 6, 2017, <http://agenda.ge/news/59578/eng>.

62 Joseph Larsen, "Georgia: The Black Sea Hub for China's 'Belt and Road'," *The Diplomat*, May 3, 2017, <http://thediplomat.com/2017/05/georgia-the-black-sea-hub-for-chinas-belt-and-road>.

63 Boris Ajeganov, "EU-China Trade to Bolster Security in the South Caucasus," *The Central Asia-Caucasus Analyst*, January 23, 2017, <https://www.cacianalyst.org/publications/analytical-articles/item/13423-eu%E2%80%93china-trade-to-bolster-security-in-the-south-caucasus.html>.

Of further note is that due to the transportation of Caspian oil and gas to Turkey, Georgia already plays the role of an energy resources transportation hub.<sup>64</sup> If we also take into account that Azerbaijan has managed to gain the image of a regional transport hub,<sup>65</sup> we can say that these two countries (Georgia and Azerbaijan) combined create a Central Caucasus transportation and energy hub.<sup>66</sup>

For Georgia, the SREB project creates an opportunity to transform its role as an energy resource transportation hub to a regional economic hub in general. In this regard, it should be underlined that with the DCFTA agreement signed between the EU and Georgia, products exported from Georgia to the EU must be produced in Georgia.<sup>67</sup> This, therefore, makes Georgia attractive to all countries without free trade agreements with the EU to invest in Georgia and export the production manufactured here to the EU market. This includes China as well which is already investing in Georgia.

Consequently, Georgia can actually become an economic hub in the region which would be in full accordance with the content of the Central Asia-West Asia Economic Corridor project crossing Georgia.

## **China-Georgia Economic Ties: Trade, Money Transfers and Tourism**

It is noteworthy that the trade turnover between China and Georgia has been increasing almost every year, which is especially important for Georgia as the indicators of the export of Georgian goods to China is increasing with wine and other alcoholic beverages as main export production. The share of

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64 "Opening of Caspian Basin Pipeline," US Department of State (2001-2009), May 25, 2005, <https://2001-2009.state.gov/r/pa/prs/ps/2005/46745.htm>.

65 Kenneth T. Derr, "Commitment in the Caspian: A Chevron Perspective on Energy and Economic Development," Chevron Corporation, October 20, 1998, <https://www.chevron.com/stories/commitment-in-the-caspian-a-chevron-perspective-on-energy-and-economic-development>.

66 Eldar Ismailov & Vladimer Papava, *The Central Caucasus: Essays on Geopolitical Economy*, Stockholm: CA&CC Press, 2006, pp. 103-106.

67 "DCFTA: Rules of Origin," Ministry of Economy and Sustainable Development of Georgia, 2017, <http://www.dcfta.gov.ge/en/dcfta-for-business/Rules-of-Origin->

China in Georgian exports already reaches almost 10%. Georgian exports to China had increased 4.5 times by 2016 as compared to 2010 while imports had increased 1.6 times in the same period,<sup>68</sup> which indicates a new stage in Georgian-Chinese trade relations and provides a basis for developing Georgia's economy with a view to attracting new international companies.<sup>69</sup>

It is quite clear that the free trade agreement with China will stimulate the export potential of Georgian companies. At least Georgian wine companies will have new opportunities, as previously they had to pay 40% duty tax in order to enter the Chinese market, thereby making Georgian wine uncompetitive. China has become one of the most important consumers of Georgian wine from 2015. In 2016 when the exports of Georgian wine reached 50 million bottles, the exports to China (5,299,149 bottles) saw an increase of 98%, making it the third largest export market for Georgian wine after Russia (over 22 million bottles) and Ukraine (over 5.8 million bottles).<sup>70</sup> As for the data from the first quarter of 2017, China occupies the second place after Russia (growth amounted to 383% as compared to the same period of 2016<sup>71</sup>), with the potential to overtake the Russian market. According to the free trade agreement which was enacted on May 13, 2017 (negotiations started in September 2015), about 94% (except some minor exceptions) of Georgian goods and services exported to the 1.4 billion-strong Chinese market will not be subject to customs fees and enjoy zero tariff.<sup>72</sup>

Despite the fact that the Georgian-Chinese partnership in terms of money transfers is not especially important or large, it should be pointed out

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68 See National Statistics Office of Georgia (Geostat), [http://geostat.ge/index.php?action=page&p\\_id=134&lang=eng](http://geostat.ge/index.php?action=page&p_id=134&lang=eng).

69 Vakhtang Charaia, "The Role of Multinational Enterprises' Investments in Emerging Country's Economic Development, Case of Georgia," *International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering*, Vol. 11, No. 3, 2017, <http://www.waset.org/publications/10006953>.

70 "Indicators of Export of Wine and other Alcoholic Beverages for 2016," *National Agency of Wine*, <http://georgianwine.gov.ge/upload/file/1483517495-Exp16.pdf>. (in Georgian)

71 "Indicators of Export of Wine and other Alcoholic Beverages in the First Quarter 2017," *National Agency of Wine*, <http://georgianwine.gov.ge/upload/file/1491570923-i%20kv.pdf>. (in Georgian)

72 "Georgia and China Sign Free Trade Agreement," Ministry of Foreign Affairs of Georgia, May 13, 2017, <http://mfa.gov.ge/News/saqartvelosa-da-chinets-shoris-tavisufali-vachrobi.aspx?CatID=5&lang=en-US>.

that it is characterized by quite active dynamics and the incoming transfers have increased by more than five times in the past seven years.<sup>73</sup>

The tourism sector is also looking quite dynamic and attractive. The number of Chinese tourists has increased almost five times from 2010 to 2016.<sup>74</sup> If we take into account the interest of the Chinese in travelling and sightseeing around historical monuments, also adding to this the direct air connection with China and the recent growth of the number of Chinese cultural elements in Georgia (Chinese food restaurants, Chinese speaking guides, Chinese investment in tourism industry and others), we should expect even greater numbers of Chinese tourists to visit Georgia.

## **Chinese Direct Investment in the Georgian Economy**

For Georgia, as for other countries, foreign direct investment (FDI) is of vital importance.<sup>75</sup> According to statistics, the FDI in Georgia in the period from 1996 to the first quarter of 2017 amounted to USD 16.9 billion, of which 41% came from EU member states. That said, Chinese investment has been gaining ground for the last couple of years. More specifically, the amount of Chinese FDI reached almost half a billion dollars (USD 489 million) in the period from 2002 to 2017, of which 91% (USD 444 million) was invested in the past five years.<sup>76</sup> Taking into account that China has been trying to strengthen its economic position in the world since 2013, China is indeed becoming a solid partner for Georgia, especially in terms of the Belt and Road Initiative.

If we inspect the FDI to Georgia by component, it becomes clear that the investment is mainly focused in assets. However, quite solid reinvestment trends were observed in 2016 and the first quarter of 2017 as well. The latter

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73 See National Bank of Georgia, <https://www.nbg.gov.ge/index.php?m=304>.

74 See Georgian National Tourism Administration, <https://gnta.ge/statistics>.

75 Avtandil Silagadze & Tamaz Zubiashvili, "Foreign Direct Investments in Georgia," *International Journal of Arts & Sciences*, Vol. 9, No. 2, 2016.

76 See National Statistics Office of Georgia (Geostat), [http://www.geostat.ge/index.php?action=page&p\\_id=2231&lang=eng](http://www.geostat.ge/index.php?action=page&p_id=2231&lang=eng).

might be connected with the so-called Estonian Model of the profit tax adopted by the Georgian government which provides for the non-taxation of profits in case of their reinvestment. Particularly, the share of reinvested money in 2016 reached 32% of the overall investments (USD 518 million) while this figure increased to 50% or USD 201 million in the first quarter of 2017.

Sectors which attract the most FDI in Georgia are considered to be: energy, transport, real estate and construction, and processing industries. It is interesting that the structure of Chinese investment in Georgia is consistent with this list of attractive investment destinations (see Table 1 on the next page). A negative investment indicator means that the investor sold the previous investment to someone else.

Several large projects can be distinguished from the list of Chinese investment in Georgia connected with the construction sector, such as the Tbilisi Sea Olympic Complex, an especially large investment, prepared for the 2015 Youth Olympic Festival with USD 200 million in investment from the Hualing Group. The Hualing Group has invested in sectors such as construction, hotels, medical care, wood processing, cement production, free trade zones, airplane transfers and the banking sector.<sup>77</sup>

It should be pointed out that the structure of Chinese investment, as well as the investment in general, is far from what would be desirable for the long-term development of the Georgian economy. More specifically, about three quarters of Chinese investment are distributed among the real estate and construction sectors with investment in the high-tech and educationally loaded sectors virtually nonexistent. Despite the significant influx of Chinese investment in Georgia over the past couple of years, their regional distribution is negligible. Namely, 88% of Chinese FDI was focused on Tbilisi in the period from 2013 to the first quarter of 2017 while the remaining 12% went to the regions.<sup>78</sup>

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77 Monica Ellena, "Chinese Investment in Georgia: The Start of a Beautiful Friendship?" *Investor.ge*, Issue 5, October-November, 2015, [http://investor.ge/article\\_2015\\_5.php?art=6](http://investor.ge/article_2015_5.php?art=6); Hualing Georgia, "Invest in Georgia," Hualing Group, <http://hualing.ge/language/en/hualing-georgia>.

78 See National Statistics Office of Georgia (Geostat), [http://www.geostat.ge/index.php?action=page&p\\_id=2231&lang=eng](http://www.geostat.ge/index.php?action=page&p_id=2231&lang=eng).



**Table 1 Direct Investments from China to Georgia**

(thousand USD)

Year	2011	2012	2013	2014	2015	2016*	2017 I Quarter*	Total
<b>Overall</b>	9,643	36,126	89,874	217,944	66,948	27,379	6,575	454,489
<b>Construction</b>	8,752	6,809	55,472	202,921	56,815	-3,176	-6,316	321,279
<b>Finance Sector</b>	-	28,919	36,041	7,210	4,973	8,408	1,960	87,512
<b>Real Estate</b>	-	64	-72	4,193	27,719	19,351	10,357	61,612
<b>Mining Industries</b>	627	1,476	-132	-89	-425	408	-1	1,865
<b>Energy</b>	-1,322	18	-1,795	2,457	-1,619	548	109	-1,604
<b>Processing Industries</b>	1,534	-1,145	-133	607	-20,539	953	182	-18,541
<b>Other Sectors</b>	52	-15	493	645	23	886	282	2,367

\*Preliminary Data

Source: National Statistics Office of Georgia

FDI plays an active role not only in favor of the local market and consumers but also in balancing the external trade. The share of companies established together with Georgian and foreign participation in the overall exports is growing year by year, exceeding 60% according to 2016 data, which means that FDI plays an important part in the formation of Georgian exports.

For now, Chinese investment is interested in covering the Georgian market. At the same time, the share of Georgian exports created by enterprises with Chinese capital has not even reached 1%. Due to the fact that the trade turnover between China and Georgia is growing, Chinese products imported from China, rather than produced in Georgia, is popular so far. However, the free trade regime between Georgia and the EU should encourage the influx of the type of Chinese investment that will increase Georgia's exports to the EU's internal market.

Several important projects that are already planned by the Chinese in Georgia and whose operation can reach significant success must also be mentioned here. These include: (1) the creation of the Georgia Development Bank with USD 1 billion in capital from 2018 by the CEFC China Energy Company Limited and Eurasian Invest LLC,<sup>79</sup> which in strategic terms

79 "One Billion USD Capital Chinese Bank to Launch in Georgia," *Caucasus Business Week*, May 15, 2017, <http://cbw.ge/banking/chinese-bank-one-billion-usd-capital-launch-georgia>.

will serve as a new magnet for attracting Chinese investors to Georgia; (2) development of tea production in Georgia;<sup>80</sup> (3) creation of the Georgian-Chinese Fund for the Regeneration of Georgia, which will be implemented with the support of the Georgia Partnership Fund and a Chinese company CFC and fund Georgian startups with its USD 50 million budget (51% of the money will be Chinese contribution while 49% will be Georgian);<sup>81</sup> (4) creation of the Silk Road Common Market Zone which should facilitate the development of an innovative trade model.<sup>82</sup>

For all of the positive factors assisting Chinese-Georgian relations and which will probably also continue in the future, the existence of the constantly growing Chinese influence must also be taken into account. In creating close economic ties with China, Georgia has to take into account the possible geopolitical vectors that China might pursue in the future. This is why it is obligatory for Georgia to think about the geopolitical and geo-economic aspects of Russia-China, US-China and EU-China relations.

## Conclusion

The new global projects put forward by China such as the SREB and the 21st Century Maritime Silk Road, which combined make up the Belt and Road Initiative, create new opportunities for developing the world economy. Georgia finds its place in one of the corridors, the Central Asia-West Asia Economic Corridor of the SREB project, which creates principally new ways for the development of its economy. Together with neighboring Azerbaijan, Georgia has been actively participating in the creation and development of the SRTC, which is already successfully operating. It can be said that the SREB is the further development of the SRTC as the transport corridor is

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80 “Georgian Tea Complex Project MOU Signing Ceremony,” Hualing Group, 2017, <http://hualing.ge/language/en/georgian-tea-complex-project-mou-signing-ceremony>.

81 Lika Jorjoliani, “Georgian Government Upbeat on Chinese Trade,” *Investor.ge*, Issue 4, August-September, 2017, [http://investor.ge/article\\_2017\\_4.php?art=5](http://investor.ge/article_2017_4.php?art=5).

82 “CEFC China Signs Two Cooperation Agreements with the Government of Georgia to Help Develop an Innovative Trade Model in the ‘Silk Road Common Market Zone’,” CEFC China, May 14, 2017, <http://en.cefc.co/detail/news/749?lang=cn>.

being transformed into a much more complex economic corridor.

According to the assessments of some analysts, one of the main challenges to the successful functioning of the Central Asia-West Asia Economic Corridor is the Russian Federation and this is no surprise as Russia was also against the creation of the SRTC back in the day. In order to balance the Belt and Road Initiative, Moscow put forward the GEP initiative which is a large-scale version of the EAEU. For the Russian leadership, the theoretical views of Eurasianism have an important ideological role which is exactly why the notion that the purpose of the GEP initiative is not to weaken the Belt and Road Initiative is incorrect. It should also be noted that the very real possibility of the growth of China's role in Eurasia based on the SREB initiative has also put forward a new vision for the theoretical construction of Chinese Eurasianism which begs further specialized study.

Despite the fact that cooperation between the EAEU and the SREB is indeed possible, their merger, which some analysts believe can happen, is practically impossible. The main reason for this is the incompatibility between the economic models of the EAEU and the SREB. For developing the importance of the Belt and Road Initiative in Beijing's relations with Moscow, it is very important for China to promote the paradigm of the compatibility of economic corridors for their harmonic development.

Georgia can play the role of an economic hub in the SREB project as it already has free trade agreements in place with both the EU as well as China. Trade between Georgia and China has been extended significantly over the past several years with money transfers from China to Georgia increasing and Georgia becoming more attractive for Chinese tourists. The level of Chinese investment in the Georgian economy is growing practically day by day and this trend will have an irreversible character in terms of the implementation of the SREB project. Close economic ties with a country of tremendous economic capabilities are definitely in Georgia's interests in order to diversify export markets and attract foreign investment. 🇧🇪