

Economics

China-Georgia Economic Relations in the Context of the Belt and Road Initiative

Vakhtang Charaia*, Vladimer Papava**, Fanmei Wang§

* *Business and Technology University, Tbilisi, Georgia*

** *Academy Member, Ivane Javakishvili Tbilisi State University, Tbilisi, Georgia*

§ *University of Science and Technology Beijing, Beijing, China & Harvard University, Boston, USA*

ABSTRACT. The paper discusses the China-Georgia economic relations and their activation promoted by the Belt and Road Initiative. Georgia finds its place in one of the corridors of this Initiative, the Central Asia-West Asia Economic Corridor which creates principally new ways for the development of its economy. 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. © 2018 Bull. Georg. Natl. Acad. Sci.

Key words: China-Georgia economic relations, Belt and Road Initiative, EU, free trade agreement, economic hub

Relations between large and small countries is a rather difficult phenomenon as, given their differing sizes, a question is immediately asked about whether or not it is at all possible for these countries to be equal partners in a geopolitical or geo-economic sense. Studying the economic implications of the size of a country is one of the important directions of modern economic science [1,2].

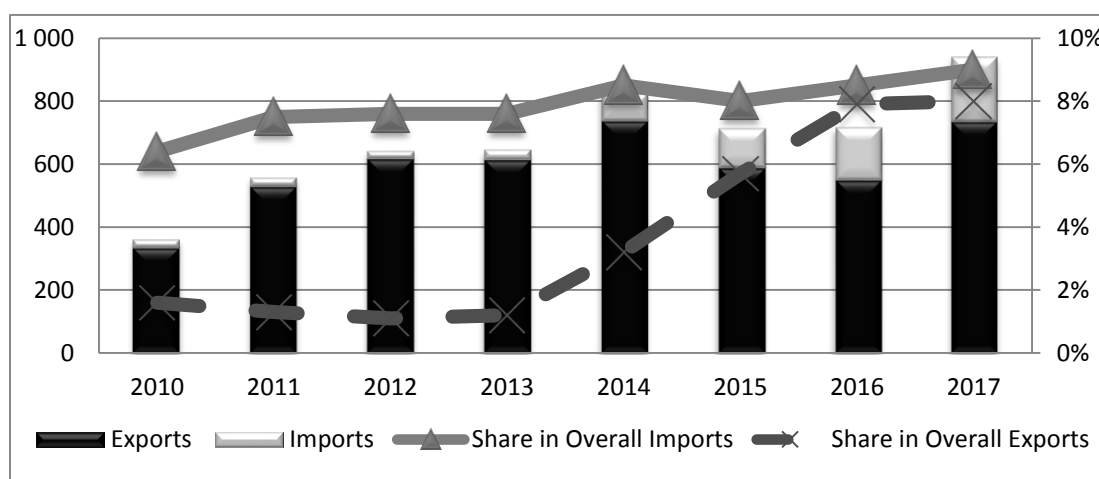
The economic (and not so economic) relations of the small country of Georgia with its large northern neighbor, Russia, turned out to be quite difficult and have created numerous complications [3]. At the same time, Georgia's economic relations with another large economic area, the European Union (EU), give a reason for hope [3-5].

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 investments in the Georgian economy [6, pp. 5-10; 7, pp. 13-16].

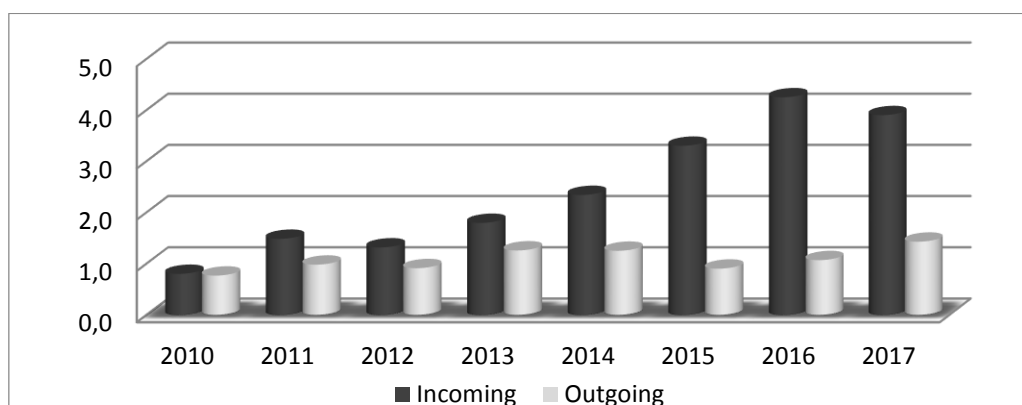
China-Georgia Modern Economic Relations.

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 are increasing (main export production is wine and other alcoholic beverages). The share of China in Georgian exports already reaches almost 10%. Georgian exports to China increased 4.5 times by 2016 as compared to 2010 while imports increased 1.6 times in the same period (Fig. 1) which indicates a new stage in Georgian-Chinese trade relations providing a basis



Source: National Statistics Office of Georgia (Geostat), http://geostat.ge/index.php?action=page&p_id=134&lang=eng.

Fig. 1. Trade between China and Georgia (Left column USD million, right column percentage).



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

Fig. 2. Money transfers from China to Georgia and vice versa.

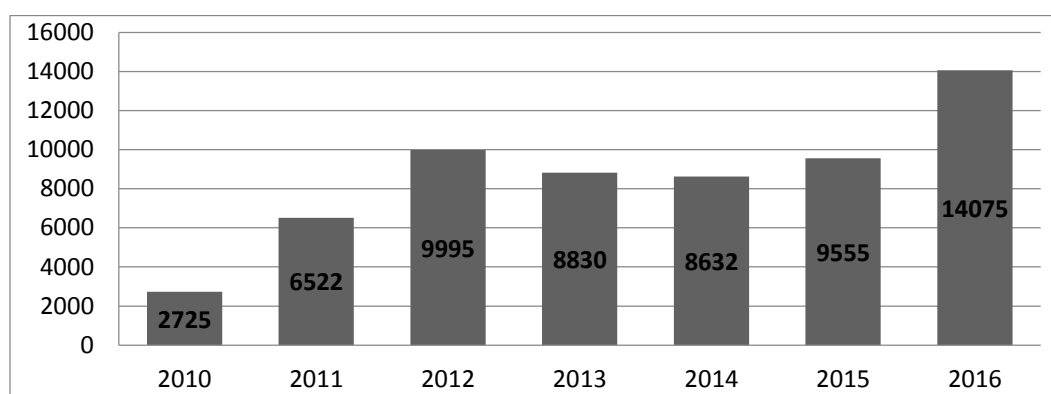
for developing Georgia's economy with a view to attract new international companies [8].

It is quite clear that the free trade agreement with China [9] 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.

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

and the incoming transfers increased by more than five times in the past seven years (Fig. 2).

The tourism sector is also looking quite dynamic and attractive. The number of Chinese tourists increased almost five times from 2010 to 2016 (Fig. 3). If we take into account the interest of the Chinese in travelling and sightseeing around historical monuments, also 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 investments in tourism industry and others), we should expect even greater number of Chinese tourists to visit Georgia.



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

Fig. 3. Number of Chinese tourists by year.

Table 1. Direct Investments from China to Georgia (USD thousand)

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

*Preliminary Data

Source: National Statistics Office of Georgia, http://www.geostat.ge/index.php?action=page&p_id=2231&lang=eng

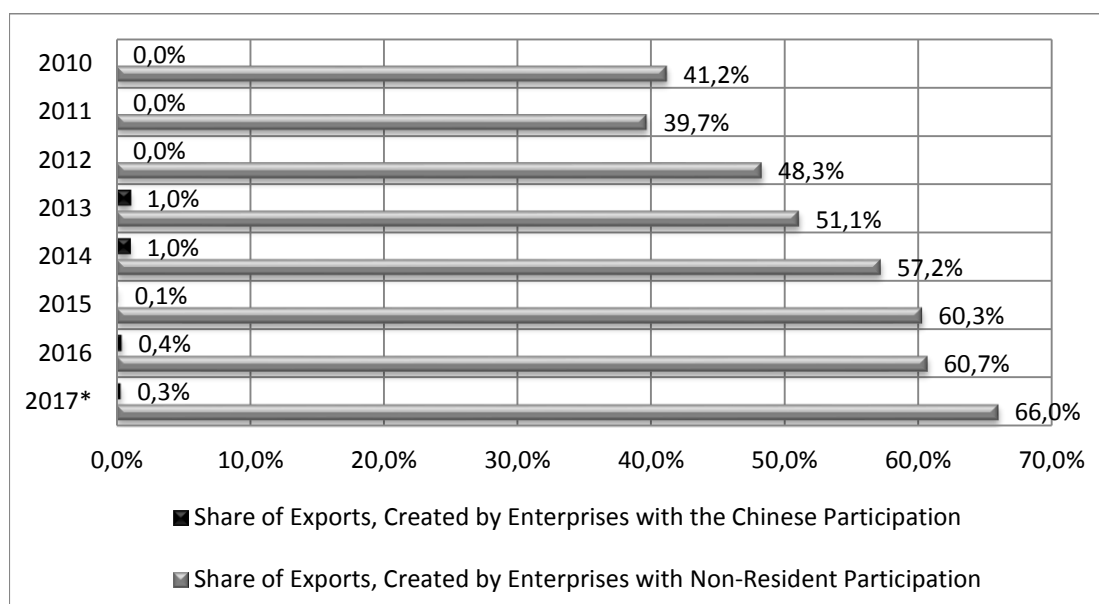
Sectors which attract the most foreign direct investments (FDIs) in Georgia are considered to be: energy, transport, real estate and construction, and processing industries [10]. It is interesting that the structure of the Chinese investments in Georgia is consistent with this list of attractive investment destinations (Table 1). A negative investment indicator means that the investor sold the previous investment to someone else.

Several large projects can be distinguished in the list of Chinese investment in Georgia connected with the construction sector such as, for example, 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 invested in such sectors as construction,

hotels, medical care, wood processing, cement production, free trade zones, airplane transfers and the banking sector [11].

FDIs play an active role not only in favor of the local market and consumers but also in balancing the external trade. The share of companies created together with Georgian and foreign participation in the overall exports is growing year by year, exceeding 60% according to the data of 2016 (Fig. 4) which means that FDIs play an important role in the formation of Georgian exports. However, this happens mainly at the expense of low-technology fields.

Several important projects that are already planned by the Chinese in Georgia and whose operation can reach significant success should also be mentioned here. These include:



*January to June 2017

Source: National Statistics Office of Georgia, http://www.geostat.ge/index.php?action=page&p_id=2231&lang=eng.

Fig. 4. Share of exports in total exports, created by enterprises with foreign capital.

- 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 [12]. In strategic terms, this bank will serve as a new magnet for attracting Chinese investors to Georgia.
- Development of tea production in Georgia [13].
- Creation of the Georgian-Chinese Fund for the Regeneration of Georgia which will be implemented with the support of the Georgia Partnership Fund and Chinese CFC and fund Georgian startups with its USD 50 million budget (51% of the money will be Chinese contribution while 41% will be Georgian) [14].
- Creation of the Silk Road Common Market Zone which should facilitate the development of an innovative trade model [15].

The activation of China-Georgia economic relations naturally begs the question about why China is interested in developing economic cooperation with a geographically remote Georgia.

Belt and Road Initiative and the Role 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 (SREB) and the 21st Century Maritime Silk Road (Road), both of which together create a Belt and Road Initiative (BRI), launched by the Chinese president Xi Jinping in 2013. The SREB has three routes connecting China to Europe through Central Asia, the Persian Gulf, the Mediterranean via West Asia, and the Indian Ocean through South Asia, and the Road has been planned to create connections among regional waterways. The SREB composes an overland network of road, rail and pipelines roughly following the old Silk Road trading routes to connect China's east coast with Europe via the Eurasian land bridge [16]. Five regional corridors will then branch off this 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 [17, p. 17]. 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 [18, p. 5].

Even though most official Chinese accounts prefer to use the term “initiative” rather than “grand strategy”, the BRI is still considered as “not only a regional policy but a grand global strategy for achieving the Chinese Dream” [19, p. 20], or, at least, “the most ambitious, strategic interconnected infrastructure initiative devised in recent memory” [20, p. 7]. This initiative is an important means to multiple ends and seeks to pull those disparate threads together into a unified and comprehensive framework [21].

There exist different emphases as to the motivations and rationale behind the BRI. For instance, Zhao [21] identifies the motivations such as a new round of Chinese opening-up, a much-needed economic rebalance, and a need to adjust China’s periphery policy. Furthermore, even though it has been argued that this initiative has a fundamental geostrategic component, it appears far more geared to achieving the key economic goals [22]. Usually, it is pointed out that the BRI can help to reach domestically-focused goals, i.e. solving the issues of excess production capacity in such areas as steel, metals, and cement, creating new markets for Chinese products and services, catalyzing the economic development of China’s underdeveloped parts, especially western regions or border zones, ensuring better value for recycling China’s foreign exchange holdings, providing alternatives to vulnerable maritime transportation routes, and stabilizing volatile neighbours [23-24].

Georgia, together with its neighbor and strategic ally, Azerbaijan, has been considered in the context of the historical Great Silk Road right from the beginning of the 1990s. The practical implications of this idea have been the TRACECA project initiated by the EU in 1993, the INOGATE project starting in 1996. In fact, practically all projects envisaged in terms of the Silk Road transport corridor are functioning successfully today.

The inclusion of Georgia in the SREB project is facilitated by the already implemented Silk Road Transport Corridor (SRTC) project.

If we compare the SRTC or TRACECA and the SREB’s Central Asia-West Asia Economic Corridor projects, 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, in China) and secondly, (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 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 [25].

The fact that the institution of a free trade regime between China and the EU is under active discussion is very important for Georgia [26]. In this regard, the SREB creates a new stage in the economic cooperation between China and the EU [27, p. 9].

China and Georgia are members of the World Trade Organization. The fact that a free trade agreement has been signed between the two countries [9] 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 [28] as well as a free trade agreement with the European Free Trade Association (EFTA) [29]. 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) [30] and increase the level of its security at the same time [31].

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 [32].

For Georgia, the SREB project creates an opportunity to transform its role as an energy resources 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 [33]. 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.

ეკონომიკა

ჩინეთ-საქართველოს ეკონომიკური ურთიერთობები სარტყლისა და გზის ინიციატივის კონტექსტში

ვ. ჭარაია*, ვ. პაპავა**, ფ. ვანგი§

* ბიზნესისა და ტექნოლოგიების უნივერსიტეტი, თბილისი, საქართველო

** აკადემიის წევრი, ივანე ჯავახიშვილის სახელობის თბილისის სახელმწიფო უნივერსიტეტი, თბილისი, საქართველო

§ პეკინის მეცნიერებისა და ტექნოლოგიების უნივერსიტეტი, ჩინეთი და ჰარვარდის უნივერსიტეტი, ბოსტონი, აშშ

სტატიაში განხილულია ჩინეთ-საქართველოს ეკონომიკური ურთიერთობები და მათი გააქტიურება, რომელსაც სარტყლისა და გზის ინიციატივამ შეუწყო ხელი. საქართველოს ადგილი ამ ინიციატივაში არის ცენტრალური აზია-დასავლეთ აზიის ეკონომიკურ დერეფანში, რომელიც მისი ეკონომიკის განვითარებისათვის პრინციპულად ახალ შესაძლებლობებს ქმნის. აზრებუმი გზის ეკონომიკურ სარტყელში საქართველს შეუძლია ეკონომიკური ჰაბის როლის შესრულება, რადგანაც მას უკვე აქვს თავისუფალი ვაჭრობის რეჟიმი როგორც ევროკავშირთან, ისე ჩინეთთან.

REFERENCES

1. Alesina A. (2003) The Size of Countries: Does it Matter? *Journal of the European Economic Association*, 1(2-3), online at https://dash.harvard.edu/bitstream/handle/1/4551794/alesina_size.pdf?sequence=2.
2. Alesina A., Spolaore E. (2003) *The Size of Nations*. Cambridge, MA: MIT Press.
3. Papava V. (2012) Economic Component of the Russian-Georgian Conflict. *The Caucasus & Globalization*, 6 1.
4. Papava V. (2017) A Eurasian or a European Future for Post-Soviet Georgia's Economic Development: Which is Better? *Archives of Business Research*, 5, 1, online at <http://scholarpublishing.org/index.php/ABR/article/view/2651/1554>.
5. Silagadze A., Zubiashvili T. (2015) Parameters of the European Union and Post-Soviet Georgia's Economy. *International Journal of Multidisciplinary Thought*, 5, 3.
6. Larsen J. (2017) *Georgia-China Relations: The Geopolitics of the Belt and Road*. Policy Paper, October. Tbilisi: Georgian Institute of Politics, online at http://gip.ge/wp-content/uploads/2017/10/Chineti%20Saqtartvelo%20Eng_Ydit.pdf.
7. Zabakhidze M., Bakradze G., Kutelia B. (2017) Georgia and China: "Carry Away Small Stones to Move a Big Mountain." Tbilisi: Economic Policy Research Center (EPRC), Issue No. 6, online at https://www.eprc.ge/admin/editor/uploads/files/China_A5_WEB2.pdf.
8. Charaia V. (2017) 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*, 11, 3, online at <http://www.waset.org/publications/10006953>.
9. Nan Z., Jingxi X. (2017) China, Georgia Sign FTA. *The State Council the People's Republic of China*, May 15, online at http://english.gov.cn/news/international_exchanges/2017/05/15/content_281475656216746.htm.
10. Charaia V. (2014) Local Investment Climate and the Role of (Sustainable) FDI: The Case of Georgia. *International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering*, 8, 2, online at <https://waset.org/publications/9997562/local-investment-climate-and-the-role-of-sustainable-fdi-the-case-of-georgia>.
11. Ellena M. (2015) Chinese Investment in Georgia: The Start of a Beautiful Friendship? *Investor.ge*, Issue 5, October-November, online at http://investor.ge/article_2015_5.php?art=6.
12. CBW (2017) One Billion USD Capital Chinese Bank to Launch in Georgia. *Caucasus Business Week*, May 15, online at <http://cbw.ge/banking/chinese-bank-one-billion-usd-capital-launch-georgia/>.
13. Hualing Georgia (2017) Georgian Tea Complex Project MOU Signing Ceremony. *Hualing Group*, online at <http://hualing.ge/language/en/georgian-tea-complex-project-mou-signing-ceremony/>.
14. Jorjoliani L. (2017) Georgian Government upbeat on Chinese Trade. *Investor.ge*, Issue 4, August-September, online at <http://investor.ge/article.php?art=5>.
15. CEFC (2017) 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, online at <http://en.cefc.co/detail/news/749?lang=cn>.
16. National Development and Reform Commission (2015) Vision and Actions on Jointly Building the Silk Road Economic Belt and 21st Century Maritime Silk Road. *Ministry of Foreign Affairs, the People's Republic of China*, Beijing March 28, online at http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml.
17. Su G. (2016) The Belt and Road Initiative in Global Perspectives. *China International Studies*, 57, March/April.
18. van Dijk M. P., Martens P. (2016) The Silk Road and Chinese Interests in Central Asia and the Caucasus: The Case of Georgia. Maastricht School of Management Working Paper No. 2016/12, August, online at <https://www.msm.nl/resources/uploads/2016/09/MSM-WP2016-12-1.pdf>.
19. Aoyama R. (2016) "One Belt, One Road": China's New Global Strategy. *Journal of Contemporary East Asia Studies*, 5, 2.
20. Luckock T. Logan H., Montano A. (2016) The Belt & Road Initiative – A Modern Day Silk Road. In *Nexus 2016, A Global Infrastructure Resource*, Norton Rose Fulbright 05, online at <http://www.nortonrosefulbright.com/files/nexus-2016-pdf-138615.pdf>.
21. Zhao H. (2016) China's One Belt One Road: An Overview of the Debate. *Journal of Boundary and Ocean Studies*, 1, 4.
22. Johnson C. K. (2016) President Xi Jinping's "Belt and Road" Initiative: A Practical Assessment of the Chinese Communist Party's Roadmap for China's Global Resurgence. A Report, March. Washington DC: Centre for

- Strategic and International Studies, Online at https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328_Johnson_PresidentXiJinping_Web.pdf.
23. Downs E (2015) Mission Mostly Accomplished: China's Energy Trade and Investment along the Silk Road Economic Belt. *China Brief*, **XV**, 6, March 19, online at https://jamestown.org/wp-content/uploads/2015/03/China_Brief_Vol_15_Issue_6_2_01.pdf?x87069.
 24. Small A. (2015) *The China Pakistan Axis: Asia's New Geopolitics*. Haryana: Random House India.
 25. Papava V. (2002) On the Special Features of Georgia's International Economic Function. *Central Asia and the Caucasus*, **2**, 14.
 26. Haver Z. (2017) Rebalancing EU-China Relations: The Case for an EU-China FTA. *Global Policy*, February 9, online at <http://www.globalpolicyjournal.com/blog/09/02/2017/rebalancing-eu-china-relations-case-eu-china-fta>.
 27. Gogolashvili K. (2017) New Silk Road: A Stage for EU and China to Cooperate. Expert Opinion No. 86. Tbilisi, Georgian Foundation for Strategic and International Studies, online at <https://www.gfsis.org/files/library/opinion-papers/86-expert-opinion-eng.pdf>.
 28. EC (2017) Georgia. Countries and Regions. Trade. *European Commission*, February 22, online at <http://ec.europa.eu/trade/policy/countries-and-regions/countries/georgia/>.
 29. Agenda.ge (2017) Georgia Makes New European Free Trade Deal. *Agenda.ge*, June 6, online at <http://agenda.ge/news/59578/eng>.
 30. Larsen J. (2017) Georgia: The Black Sea Hub for China's 'Belt and Road.' New Investments (Some not Even Involving China) Make Georgia an Attractive Link between Asia and Europe. *The Diplomat*, May 3, online at <http://thediplomat.com/2017/05/georgia-the-black-sea-hub-for-chinas-belt-and-road/>.
 31. Ajeganov B. (2017) EU-China Trade to Bolster Security in the South Caucasus. *The CACI Analyst*, January 23, online at <https://www.cacianalyst.org/publications/analytical-articles/item/13423-eu%E2%80%93china-trade-to-bolster-security-in-the-south-caucasus.html>.
 32. Boucher R. (2005) Opening of Caspian Basin Pipeline. *U.S. Department of State*, May 25, online at <https://2001-2009.state.gov/r/pa/prs/ps/2005/46745.htm>.
 33. MESD of Georgia (2017) Rules of Origin. Free Trade with the EU. *Ministry of Economy and Sustainable Development of Georgia*, online at <http://www.dcfta.gov.ge/en/dcfta-for-business/Rules-of-Origin->.

Received February, 2018