



საქართველოს სტრატეგიისა და საერთაშორისო ურთიერთობების კვლევის ფონდი
GEORGIAN FOUNDATION FOR STRATEGIC AND INTERNATIONAL STUDIES

GEORGIA-JAPAN: PERSPECTIVES FOR ECONOMIC COOPERATION

VLADIMER PAPAUA, VAKHTANG CHARAIA

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Introduction

The development of bilateral and multilateral relations between Georgia and Japan are dynamic. The parties actively cooperate in the fields of politics, trade, investment, infrastructure, healthcare, agriculture, the implementation of new technologies, culture, education, information technologies and tourism. High-level visits, business forums and cultural events are held regularly. Japanese-Georgian cooperation was further strengthened during the COVID-19 pandemic which brought enormous difficulties to Georgia and the world at large (e.g. Papava and Charaia 2020) but did not disrupt Japanese assistance to Georgia.

Japan is the world's number three economy (WPR 2020) and one of the most competitive countries (Schwab ed. 2019) which has about 5.5 times the territory and roughly 33 times the population of Georgia. Japan's gross domestic product (GDP) per capita (GDP per capita) by 2021 was about seven times higher than that of Georgia.

Unfortunately, Japan is the world leader in terms of the public debt to the GDP ratio which is more than 256% (Jacobs 2022).

It should be noted that Japan is one of the exceptions where, unlike the rest of the world, we have not witnessed high inflation but, rather, observed deflation during the 2020-2021 pandemic (-0.03 and -0.17, respectively) (Statista n.d.). It may be due to its traditionally zombie economy (e.g. Hoshi 2006, Kane 2000) which ensures that supply does not decline and which is crucial to curbing inflation during the economic crisis caused by the COVID-19 pandemic (Papava 2022). It is noteworthy that the process of economic zombification, unfortunately, still has the state support (Papava 2020, 2021; Stiglitz 2020; Zingales 2021).

Global challenges also affect Japan's global outlook, including the area of the diversification of its economy. Progress is particularly evident - Japan's main export products today are automobiles and auto parts, integrated circuits, personal electric gadgets and ships. Its major trading partners are the US, China and South Korea.

In recent years, Japanese companies have partially left the countries where they had large investments as a part of their risk adjustment strategies and are concentrating on relatively new markets. An illustration of this is the partial withdrawal of Japanese firms from the Chinese market and more intensified operations in the European direction, including Georgia.

Investments

The Bilateral Agreement (UNCTAD 2021) on the Liberalization, Stimulation and Protection of Investments was signed by Japan and Georgia on January 29, 2021 (and entered into force on July 23 of the same year). Work on this agreement started back in 2017 and will be fully implemented after its ratification by both countries. For the record, this has been the first such agreement for both countries signed since the outbreak of the COVID-19 pandemic (Harris 2021).

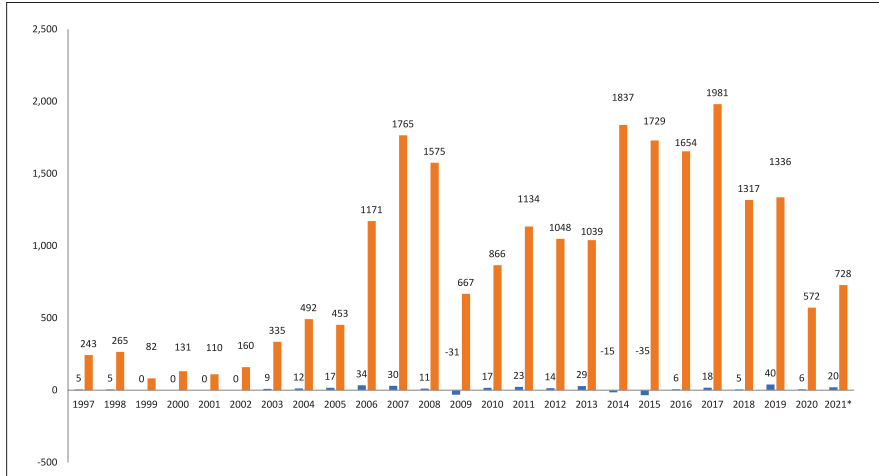
At this stage, there are 26 companies with Japanese capital operating in Georgia. Their main sector of interest is energy (MoESDoG 2021).

In the same 2021, a convention was signed between Georgia and Japan for the elimination of double taxation with respect to taxes on income and the prevention of tax evasion and avoidance which further simplifies economic operations for Georgian and Japanese investors (MoFAoJ 2021). It will primarily stimulate foreign direct investment. As of now, Georgia has signed a similar agreement with 57 countries around the world (Agenda 2021).

The main interest of Japanese investors in Georgia is energy, transport and real estate. It should be noted that following TEPCO's example which has already made its first investment in Georgia, the country is being actively studied in recent years by representatives of such well-known Japanese companies as Mitsubishi Motors, Toshiba, Hitachi and others. TEPCO itself conducted a three-year pre-investment monitoring in Georgia and purchased 31.4% of the Dariali HPP shares in the spring of 2020 (EG 2020). The overall cost of this project was USD 123 million (Agenda 2020).

From 1997 to the third quarter of 2021 (the latest available data), the Japanese brought a total of about USD 210 million to Georgia with a maximum annual investment of USD 39.5 million in 2019 (Diagram 1). The share of Japanese direct investment in the total foreign direct investment in Georgia even reached 3% in some years; however, it accounts for about 0.9% of the total investment attracted by Georgia (almost USD 23 billion) making it one of the top 30 leading investors in the country. Large amounts of previous Japanese investments were withdrawn/sold in 2009, 2014 and 2015.

Diagram 1. Japanese Foreign Direct Investment in Georgia



Source: Geostat, https://geostat.ge/media/42108/FDI_Eng-countries.xlsx.

* Data for I, II and III quarters of 2021.

The government's Enterprise Georgia program is actively involved in attracting Japanese (and not only) investors. There are many mechanisms in its toolkit to incentivize investors, be they financial, personnel, information or other.

Financial and Technical Assistance

The Japan International Cooperation Agency (JICA) is also actively represented alongside the World Bank, the Asian Development Bank, the European Investment Bank and others (e.g. Papava and Charaia 2021) to ensure Georgia's financial sustainability (e.g. Charaia and Papava 2021) as well as infrastructure development. Its portfolio includes both grant and loan projects (MoESDoG 2019).

JICA has been represented in Georgia since 1995 and has participated in major investment projects in the fields of energy, healthcare, solar energy and the environment. It is actively assisting Georgia in bringing Japanese experts to Georgia and training Georgian specialists in Japan. Japan is actively involved in the development of Georgia's large infrastructure through JICA such as the Baku-Tbilisi-Kars Railway and the East-West Highway (JICA 2021).

From the very beginning of the partnership, Japan has been assisting Georgia with both grant and loan programs. As of January 2022, the Government of Georgia owes USD 185.5 million to the Government of Japan which amounts to approximately JPY 21.5 billion and/or GEL 566 million (MoFoG 2022).

No less important is Japan's non-financial assistance, including personnel training/retraining. In 2008, Japan allocated USD 200 million at the international donor conference for war-torn Georgia, most of which was distributed for agriculture and the rehabilitation of the East-West Highway's Zestaponi-Kutaisi-Samtredia section (EoJiG 2022).

In addition to assistance through the JICA channel, Japan, via its embassy, is also active in areas such as the reconstruction of schools and kindergartens, equipping non-profit hospitals and donations of ambulances, the establishment of homes for the elderly, the fortification of river banks and the construction of gabions, environmental protection and many others.

On March 10, 2015, an Economic and Social Development Program agreement between the Government of Japan and the Government of Georgia on a non-project grant of JPY 500 million (approximately USD 5 million) was signed in Tbilisi according to which the Government of Georgia was awarded a grant for the purchase of new generation (hybrid and electric) cars. Based on this grant, a total of 96 Mitsubishi cars were delivered to Georgia – 45 Plug-in Hybrid Mitsubishi Outlanders and 51 Mitsubishi I-Miev electric cars (Agenda 2018) which are now owned by the police and mainly used for the security of the capital.

Another example of Japanese support is the implementation of a renewable solar energy system in the vicinity of the Tbilisi International Airport. The JICA allocated JPY 480 million for this purpose. The project started in November 2015 and, with a generation capacity of 337,000 kWh per year, is currently the largest solar power plant in the Caucasus (JICA 2016).

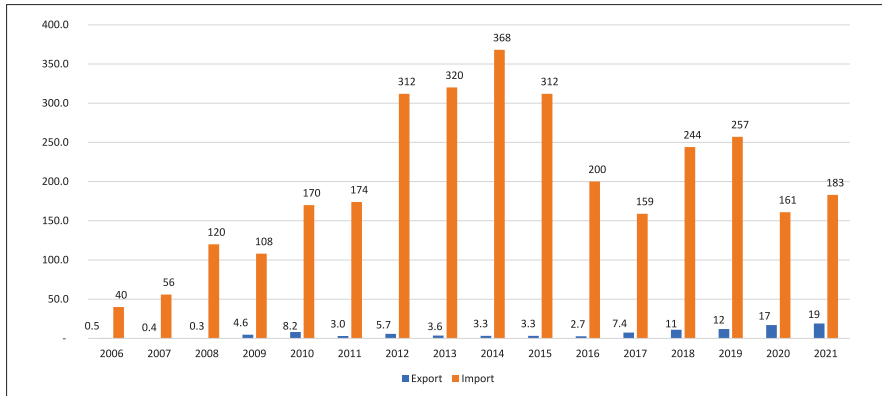
Japan actively cooperates with the Georgian healthcare sector by supplying Georgia with high-quality Japanese products (MoFAoJ 2018).

Trade

Trade between Georgia and Japan is organized on the principle of the so-called GSP which implies certain import benefits for Georgia as a developing country.

According to the official statistics, Georgian-Japanese trade began in 1995, although it exceeded the more or less significant USD 10 million mark only in 2006. In recent years, there has been a slight but steady increase in Georgian exports to Japan (Diagram 2).

Diagram 2. Georgia's Trade Turnover with Japan (USD million)



Source: Geostat. <https://www.geostat.ge/en/modules/categories/35/external-trade>

Georgia's main export products for the Japanese market are precious scrap metal, clothing, chemicals, wine, mineral water, fruit and more. The main imported products are cars, tires and pipes. The main importers in Georgia are the following Japanese companies: Toyota Tsusho, Conica Minolta, TEPCO and JT.

In 2021, Georgian exports to Japan increased by 13% and reached USD 18.94 million. Export without re-export amounted to USD 16.62 million, an increase of 7% (it was USD 15.51 million in 2020). Of this, USD 11.51 million worth of precious scrap metal, USD 3.32 million of crude aluminum and nearly USD 1 million of wine were sold.

The increase in exports of Georgian products to Japan with export potential, such as berry fruits (kiwi), dried fruits, spices, fruit and vegetable juices and canned food, mineral water, beer, flour, fish, ferro silicon manganese and crude aluminum are recorded in small doses. It should be noted that despite numerous attempts to popularize Georgian wine in Japan, sales are still quite small and have never exceeded USD 1.2 million annually.

At the same time, a review of global imports in Japan identified those products which Georgia can supply. For example, from agricultural products these include cheese and cottage cheese, honey, chestnuts and walnuts, and chocolate products. It is noteworthy that exports of chocolate, jams and alcoholic beverages were recorded in Japan in January 2019 for the first

time in the test volume. Among significant exported industrial products are manganese ore, textile products and medical devices.

During the same period, imports from Japan to Georgia increased by 14% and amounted to USD 183 million. The increase in imports is mainly due to the following products: passenger cars - USD 164 million, tires (new) – USD 3.9 million, tires (used) – USD 2.2 million, medical equipment – USD 2.2 million and trucks – USD 2 million.

Toyota Caucasus Ltd. is one of the Japanese companies working in Georgia and is involved in foreign trade operations. It is a representative of the Toyota company, one of the largest automobile manufacturers in the world, and it simultaneously serves Georgia, Armenia and Azerbaijan. Toyota Caucasus was founded in 2006 and has a total investment of more than USD 10 million. It exports vehicles worth of tens of millions of USD to the region annually.

Perspectives

Innovations and technologies. Japan, as one of the most technologically successful countries in the world, has a huge potential to share its own experience with Georgia and, at the same time, contribute to the development of Georgia’s startup ecosystem. In turn, Georgian startups may become an area of interest for Japanese investors.

Japan can support Georgia in overcoming challenges such as finding partners, modern experience, competencies, contacts (Charaia, Chochia and Lashkhi 2021) and finding financial resources using traditional and alternative Fintech technologies (Charaia and Lashkhi 2021). It is possible to participate in the programs of leading Japanese laboratories, incubators and accelerators such as the Tokyo Metropolitan Government Accelerator, the MUFG FinTech Accelerator, the NTT Data Open Innovation Contest and others.

Visa-free travel. In addition to business, educational, medical and other types of activities for which visa-free/efficient travel may be beneficial, the potential for bilateral tourism should also be considered. Unfortunately, Georgia is still not a special place of interest for Japanese visitors as is indicated by the total of 50,000 visits made by the Japanese to Georgia in the last ten years of which the maximum number of visits at 9,413 was recorded in 2019 (GNTA 2022). At the same time, Georgia has every potential to attract Japanese investors. As a rule, the Japanese visitors themselves belong to the high-spending segment which is very appealing for Georgia.

Free trade regime. The Georgian side became interested in starting negotiations between Georgia and Japan on a free trade agreement in 2018 and informed the Japanese Foreign Minister about this during his visit to Tbilisi. A free trade regime between Georgia and Japan will create new opportunities for strengthening and deepening trade and economic relations, further incentivizing business representatives. However, according to the website of the Ministry of Foreign Affairs of Japan, we can tell that negotiations on this matter are not yet officially on the Japanese agenda.

Incidentally, as of now Japan has various trade agreements with 20 countries or unions, including the USA, Switzerland, the EU and the UK. Negotiations are underway with Turkey (MoFAoJ 2022).

The Georgian-Japanese free trade agreement, besides the direct benefit to these countries, may attract the interest of Japanese investors in terms of easy access to the EU market while Georgia could produce Japanese products targeted for the EU at relatively low production costs.

In turn, more Georgian-Japanese economic relations and business projects would increase the rate of remittances between the two countries. For reference, less than USD 200,000 was transferred from Georgia to Japan in the last ten years and relatively more - USD 3.6 million - from Japan to Georgia. In both cases, the numbers are quite symbolic given the annual multi-billion USD remittance flow into Georgia (NBG 2022).

Direct regular air traffic. There is no air traffic agreement between Georgia and Japan. In 2009, the Georgian side drafted an agreement between the Government of Georgia and the Government of Japan on air traffic which was based on liberal principles. Under the draft agreement, airlines will be able to set fares independently while capacity and frequency will depend on demand in the aviation market for that period. Flights will be possible between any accessible points on the territories of the countries. The draft agreement was sent to Japan in 2010 through diplomatic channels but has not yet been implemented. Incidentally, representatives of Japan Airlines visited Georgia in 2018, aiming to study the possibilities of direct and charter flights between Georgia and Japan. The issue has not been further explored.

Anaklia deep-water port. The total cost of the Anaklia project is about USD 2.5 billion of which USD 600 million should be invested in the construction of the first phase (the capacity will be eight million tons). The state will have significant involvement in the project. In particular, the government will transfer 1,000 hectares of land to the investor as a long-term lease,

hand over the already prepared feasibility study to the investor, construct a road and a railway connecting the port (estimated cost of GEL 330 million) and grant the area adjacent to the port with the status of a free industrial zone in accordance with the Georgian legislation.

If necessary, the government will also consider providing a subsidized loan of USD 100 million to the investor. It is noteworthy that the soil work as well as the preliminary deepening of the seabed have already been completed in the investment area (five million cubic meters of inert material was removed), thereby reducing the capital costs for the new investor.

The Anaklia port will have: 1. A strategic location, 2. The ability to receive large vessels (e.g. Panamax), 3. The ability to provide services on a “one stop” basis, 4. Quick and easy procedures and 5. The ability to sail safely at any time of the year.

The project will help create thousands of new jobs, improve the socio-economic situation of the local population, increase the competitiveness of the transport corridor through Georgia, attract new cargo flows through Georgian territory and develop production and logistics services in the port’s vicinity.

From the information provided, it is clear just how large-scale the project of Anaklia deep-water port is. It requires not only a financially strong investor but also one with abundant contacts and the ability to attract cargo. The Japanese side has all of the necessary experience and capacity to realize this project while taking into account the interests of Georgia’s strategic partners.

Finally, our article highlighted some of the perspectives of an economic partnership between Georgia and Japan which, of course, do not preclude other possibilities.

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