

Commentary: Belt and Road Initiative: Implications for Georgia

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In the modern world, major economic initiatives possess the potential to have effects similar to those of major empires' expansionist policies that reshaped the fate of many regions and nations. Despite always finding themselves on the fringes of those empires, relatively shielded from the largest waves, countries of the South Caucasus (SC) were still affected significantly. China's Belt and Road initiative (BRI) has the potential to turn into a fate-altering development for the SC region. Key regional powers already have a long-lasting history of dealing with the countries and nations of the SC. This article will examine China's engagement in the SC region as a newcomer and, in this context, the determination of the SC countries to become an integral part of the BRI. The article argues that these initiatives will create a sense of engagement with the global economy for the SC Region, attract an influx of new sources of investment, and create more jobs that are not related to traditional economic sectors of the economies of the respective countries. If effectively managed, European and Chinese initiatives can balance out other regional actors' economic and political interests within the region.

Key words: Georgia, One Belt One Road, South Caucasus, Investment



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Quest for transit

A brief overview of the annals of Georgia provides one interesting detail: All major empires deemed Georgia a geographic gateway or a transit route on the way to their next destination. This historic heritage left its mark on the foreign and economic policy perceptions of Georgians as a people and Georgia as a state. Security concerns were always followed by economic challenges and, in most cases, any invader would quickly discover the benefits of Georgia's potential as a transit nation. This benefit, once exploited for imperial expansionism, eventually was utilized by Georgia, as an independent nation state, to establish itself as a major transit location. Utilization of its transit potential from the east to the west and from the north to the south transformed into Georgia's major economic and foreign policy initiative, in turn defining Georgia's role and place in the globalized world.

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Some of the examples of the practical applications of this idea were the TRACECA¹ (Transport Corridor Europe–Caucasus–Asia) project initiated by the EU in 1993, the INOGATE² (Interstate Oil and Gas Transportation to Europe) project starting in 1996, and the encouraging Silk Road Strategy Act adopted by the United States Congress in 1999. In 1999, Uzbekistan joined the GUUAM³ (abbreviature for Georgia, Ukraine, Moldova and Azerbaijan – Organization for Democracy and Economic

1 The official website of TRACECCA (2018). Available at: <http://www.tracecca-org.org/en/home/> (Accessed: 10 November 2018).

2 The official website of INOGATE (2018). Available at: [http://www.inogate.org/?lang=en_\(Accessed: 10 November 2018\).](http://www.inogate.org/?lang=en_(Accessed: 10 November 2018).)

3 The official website of GUAM (2018). Available at: <https://guam-organization.org/en/> (Accessed: 10 November 2018).

Development) initiative with hopes of becoming part of an alternative transit infrastructure to and from Europe, bypassing dependence on Russia. (In reality, Uzbekistan left GUUAM in 2002.) In fact, practically all projects envisioned in the framework of the Silk Road transport corridor are functioning successfully today. Nevertheless, none of these initiatives extended their scope to include China, which was on the threshold of its miraculous economic boom.

Positioning for BRI

The second decade of the 21st century has been marked by the emergence of new regional but rather expansionist economic initiatives that will undoubtedly affect the countries of the South Caucasus. The EU effectively expanded toward the east and is eager to seek further ways to engage with its neighborhood,⁴ particularly with its eastern counterparts.⁵ Concurrently, Russia is reinventing its new strategy in the quest for economic and political dominance by creating the Eurasian Economic Union (EEU).⁶ Locked between two major political and economic projects – Euro-Atlantic (EU, NATO) and Eurasian Post-Soviet (EEU and CSTO) – the countries of the South Caucasus discovered a third economic giant and its seeming soft power project – China and the One Belt One Road (BRI) initiative. Omitted initially from this project, countries of the region effectively attracted Chinese interest to their economic and transit potential and inserted themselves into the main body of the BRI.

At the time of the launch of BRI initiative, the South Caucasus region was not utilized as a part of any designed or functioning corridors. The closest ones would bypass it to the north through Russia and to the south through Iran. However, the immense potential of the South Caucasus as a route incited growing interest in the region.

For example, in 2015 the connection efficacy from the Xinjiang province of China to the port of Poti in Georgia, via Kazakhstan

4 European Union External Action (2018) European Neighborhood Policy (ENP). Available at: https://eeas.europa.eu/diplomatic-network/european-neighbourhood-policy-enp_en (Accessed: 10 November 2018).

5 European Commission (2018) Eastern Partnership, Available at: https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/eastern-partnership_en (Accessed: 10 November 2018).

6 The official website of Eurasian Economic Union (2018). Available at: <http://www.eaeunion.org/?lang=en#about> (Accessed: 10 November 2018).

and Azerbaijan, was tested. Railway cargo was loaded in China on the 29th of January and arrived in Georgia on the 6th of February of the same year.⁷ However, almost a third of the whole transit time was spent on handling administrative obstacles. Several other tests were carried out as well to showcase prospective trade and transit routes operating via the South Caucasus.

Following the Rose Revolution, Georgia drastically improved its governance, internal security, and legislative base. It started implementing ambitious infrastructure projects while boasting improving ratings and rankings in a variety of performance measures – economic, anti-corruption, public safety, etc. The World Bank even commended Georgia’s attractive investment climate thanks to little bureaucracy, functioning institutions, low levels of corruption, and steady growth.⁸

All of these developments were duly noted by the parties who were tasked with the implementation of the BRI project.⁹ Georgia became directly involved in this process in 2016 when it joined the Asian Infrastructure Investment Bank (AIIB), a \$100 billion fund designed to finance Belt and Road projects. In 2017, Georgia signed an agreement under which the bank will provide \$114 million to build the Batumi Bypass Road, a new highway to connect Georgia’s hinterland to the port city of Batumi through a series of mountain tunnels.

At the Chinese government’s International Fair of Investment and Trade in Xiamen, Georgia was one of the few countries invited to present on its viable trade environment. This gave the impression that Georgia has become one of the preferred trade partners of the Middle Kingdom.

Legal framework and favorability

In addition to the geographic location and favorable economic climate, a series of free trade deals also contributed to the

7 Van Marle, G. (2018) ‘Georgia eyes China’s one belt one road to break dependence on Russia’, The Loadstar, 12 February. Available at: <https://theloadstar.co.uk/georgia-eyes-chinas-one-belt-one-road-break-dependence-russia/> (Accessed: 10 November 2018).

8 World Bank (2012) Fighting Corruption in Public Service: Chronicling Georgia’s Reforms, Available at: <http://documents.worldbank.org/curated/en/518301468256183463/pdf/664490PUB0EPI0065774B09780821394755.pdf> (Accessed: 10 November 2018).

9 Soric, M. (2017) ‘China’s New “Silk Road” goes through the Caucasus’, DW, 26 December, Available at: <https://www.dw.com/en/chinas-new-silk-road-goes-straight-through-the-caucasus/a-41930469> (Accessed: 10 November 2018).

increasing appeal of Georgia for transit initiatives: the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU, signed in June 2014, and, effective since 2016, a free trade agreement with Turkey and all the CIS states. Georgia opted to become a logistics hub linking China to the EU and beyond. Consequently, in May 2017, Tbilisi concluded a free trade deal with Beijing, thus making Georgia the only post-Soviet country that has reached free trade deals with the EU, China, all littoral neighbors, and beyond.

On October 15, 2018, the European Union adopted a new strategy on connecting Europe and Asia¹⁰ which became a major theme at the latest Asia–Europe Meeting (ASEM) summit held in Brussels. Under this new connectivity initiative, the EU intends to “build a dynamic superhighway combining transcontinental rail lines, roads and maritime networks.” The Commission’s joint communiqué on the new strategy¹¹ disclosed that the EU recently agreed, through this complementary initiative, to extend its Trans-European Transport Network to countries of the so-called Eastern Partnership,¹² which includes all three states of the South Caucasus. As the EU emphasized, “the European Union and China share an interest in making sure that our respective initiatives work well together, despite the differences in approach and implementation”; hence, the South Caucasus region has become one of the junctions of these two robust initiatives.

Against a backdrop of multiplying political and military hotspots in the world, the region of the SC, even with the presence of existing conflicts, has proved to be a fertile ground for noteworthy infrastructure projects and has established itself as a point of focus for major regional and global actors. Having one of the elements of the BRI project going through the SC would obviously diversify routes and offer one more element for effective investment of

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10 The European Council (2018) Connecting Europe and Asia: Council adopts conclusion, Available at: <https://www.consilium.europa.eu/en/press/press-releases/2018/10/15/connecting-europe-and-asia-council-adopts-conclusions/> (Accessed: 10 November 2018).

11 The European Council (2018) Global Partners for Global Challenges: ASEM 12 Chair’s Statement, Available at: <https://www.consilium.europa.eu/en/press/press-releases/2018/10/19/global-partners-for-global-challenges-asem-12-chair-s-statement/> (Accessed: 10 November 2018).

12 European Commission (2018) Connecting Europe and Asia – building blocks for an EU Strategy, Available at: https://eeas.europa.eu/sites/eeas/files/joint_communication_-_connecting_europe_and_asia_-_building_blocks_for_an_eu_strategy_2018-09-19.pdf (Accessed: 10 November 2018).

Chinese money, along with valuable partnership opportunities for Chinese companies.

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If, in other parts of the world, the BRI initiative is considered as a tool for Chinese influence, dominance, and demographic expansionism, in the SC the perception is different. The BRI is considered as an extra economic component for diversification of sources of investment, trade partnership, and infrastructural projects beside the already engaged Russia, Turkey, EU, and the United States. It is also believed to be engagement without any political strings attached, at least not immediately or visibly, and hence very comfortable for the political leaders of the region, who have to balance between all other regional and global powers.

From theory to practice

Georgia quickly and effectively began to realize its potential. Last year the Georgian economy started to see substantial and visible engagement from the Chinese partners. A memorandum on the construction of a free economic zone was signed by the economic ministers of China and Georgia, among other deals made at the two-day Belt and Road Forum hosted by Tbilisi.¹³ In June 2017, the two countries also inked another deal that said China would give Georgia about \$9.1 million worth of grants to improve medical infrastructure.¹⁴ Georgia is expecting a Chinese bank to be established in the country with \$1 billion capital, according to another agreement signed in 2017. In January 2017 the China Energy Company Limited (CEFC) became the latest Chinese company to make a major investment in Georgia, agreeing to purchase 75 percent of shares in the Poti Free Industrial Zone.¹⁵ Located on Georgia's Black Sea coast – a place that promises easy access to European shipping lanes – the Poti FIZ provides another base for tax-free production. The 300-hectare zone opened in 2011 and has housed companies producing everything from

13 Li, W. (2017) 'China and Georgia to build Free Economic Zones', GBTimes, 29 November, Available at: <https://gbtimes.com/china-and-georgia-to-build-free-economic-zones> (Accessed: 10 November 2018).

14 Al Jazeera News (2017) Georgia eyes gains in China's Belt and Road Initiative, Available at: <https://www.aljazeera.com/news/2017/11/georgia-eyes-gains-china-belt-road-initiative-171128160451540.html> (Accessed: 10 November 2018).

15 Xin, Z and Shijia, O. (2017) 'CEFC to set up zone in Georgia', China Daily, 8 December. Available at: <http://www.chinadaily.com.cn/a/201712/08/WS5a29d34da3101a51ddf8d962.html> (Accessed: 10 November 2018).

wood products to IT services. The Hualing Group's construction projects in the capital of Tbilisi are attributed to the serious interests that Beijing has vested in Georgia. The group is now in the middle of constructing a special economic zone in a suburb of Tbilisi itself. Hualing Group has already invested up to \$500 million in seven projects in Georgia, including a cement factory and the airline MyWay.¹⁶ On February 13, 2018, one of the leading Chinese FinTech companies, Chong Sing Holdings, purchased the American built and owned Immersion Cooling Data Center in Gldani Free Industrial Zone¹⁷. This purchase was the first transaction related to the rapidly growing FinTech industry and made Georgia the second largest Bitcoin miner after China.

Economically booming China has become more attractive for one Georgian traditional product – wine. Exports of wine and spirits to the Chinese market grew rapidly and with an impressive upward trajectory.¹⁸ It should come as no surprise that China is now Georgia's third-largest trade partner¹⁹ (the first two being Turkey and Azerbaijan; the fourth, Russia). Evidently, trade between the two countries increased significantly over the past 10 years. In 2002, bilateral trade amounted to approximately \$10 million; in 2014–2015, it reached \$823 million.

Enhancing regional cooperation

As mentioned in the introduction, countries of the region proactively promoted infrastructure projects that would support the realization of the transit potential of the respective countries. Successful implementation of energy-related projects such as the Baku–Tbilisi–Ceyhan oil pipeline and Baku–Tbilisi–Erzurum gas pipeline (lately extended to the Trans Anatolian Natural Gas Pipeline, TANAP) gave stimulus to other transportation and infrastructure projects.

16 Soric, M. (2017) 'China's big investment push in Georgia', DW, 26 December, Available at: <https://www.dw.com/en/chinas-big-investment-push-in-georgia/av-41933923> (Accessed: 10 November 2018).

17 Forbes Georgia (2018) Bitfury Group sells Gladani data center to Chong Sing Holdings, Available at: <http://forbes.ge/news/3437/Bitfury-Group-Sells-Gldani-Data-Center> (Accessed: 10 November 2018).

18 Wang, N. (2017) 'Georgian wine exports to China rise 104%', The Drinks Business, 13 July, Available at: <https://www.thedrinksbusiness.com/2017/07/georgia-wine-exports-up-in-volume-and-value/> (Accessed: 10 November 2018).

19 Ruinan, Z. (2018) 'Georgia's trade with China stays healthy', China Daily, 31 March, Available at: <http://www.chinadaily.com.cn/a/201803/31/WS5abe6444a3105cdcf6515746.html> (Accessed: 10 November 2018).

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with the Black Sea. In combination with the construction of a new Baku International Sea Trade Port (Alat) that will be the largest multi-purpose port in the Caspian Sea, with the potential capacity to handle 25 million tons of cargo per year, and the Anaklia Deep Sea Port on the Black Sea,²⁰ with a corresponding capacity, the countries of the South Caucasus are in fact offering a ready-made link to any larger initiative originating from Europe or China.

Other additional proactive steps further enhance the feasibility of the South Caucasus region as a reliable partner of the BRI project. For example, at the 51st annual meeting of the Board of Governors of the Asian Development Bank that took place on May 3–6, 2017, Georgia and Azerbaijan declared a plan to build the first joint border crossing point within the framework of the BRI initiative.²¹

Georgia and Armenia effectively cooperated in harmonizing electricity grids and becoming integral parts of a larger electricity exchange. This EU-launched initiative²² enabled both countries to find workable solutions for transmission infrastructure. Georgia remains a major transport route for Armenian exports and imports and the improved road, railroad, and port infrastructure in Georgia also directly benefits Armenia.

Conclusion

Countries of the South Caucasus are closer than ever to fulfilling their potential as a pivotal region for global trade and exchange of ideas/innovations, creating an infrastructure that will not only serve local needs, but will be integrated into a global chain of added value. Robust and financially supported initiatives coming from Europe and Asia serve as a transformative force and a powerful motivation for internal change, greater regional

20 Jardie, B. (2017) 'With port project, Georgia seeks place in China's Belt and Road', Eurasianet, 21 February, Available at: <https://eurasianet.org/with-port-project-georgia-seeks-place-on-chinas-belt-and-road> (Accessed: 10 November 2018).

21 AzerNews (2018) Georgia, Azerbaijan to build border crossing point within "One Belt One Road" initiative, Available at: <https://www.azernews.az/nation/131493.html> (Accessed: 10 November 2018).

22 European Commission (2014) Caucasus transmission network – Phase I, Available at: https://ec.europa.eu/europeaid/blending/caucasus-transmission-network-phase-i_en (Accessed: 10 November 2018).

cooperation, and significant investments in human capital and physical infrastructure. These changes will certainly contribute to economic prosperity of the participating countries and improved social standards, and will provide a sustainable source of income for the population of the region.

Even with relatively minor role, the South Caucasus region elicited interest in what is known today as a Trans Caspian International Transport Route,²³ or so-called Middle Corridor.²⁴ The association of railways and ports of the participating countries is taking the implementation of transit projects out of the political domain and into the business domain, hence ensuring these projects' sustainability and resilience.

Excluded from original plans, and against all odds, Georgia and its neighbors have managed to successfully integrate the South Caucasus region into the BRI. Exemplary cooperation between Georgia, Azerbaijan, and Turkey has positioned the South Caucasus corridor as a lucrative addition to pre-existing plans and drawings for the One Road Initiative. The countries of the SC have managed to make the intersection of major regional and/or global economic initiatives interlocking, not inter-blocking. This example demonstrates the ability of concrete, geographic (but not necessarily political) regions to have a positive impact through their cooperation on an internationally relevant level. This leaves a thread of hope that other regions of the world, despite cultural differences, political preferences, and complicated histories, can come together and cooperate for the greater good.

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The BRI will undoubtedly be used as a balancing factor for the political and economic influences of other external powers on the region of the SC. Political implications may not be immediately visible, but academic and media outlets are intensively discussing the “Chinese model” of economic and political development as opposed to the “Western model.” Apparent alternatives to the Breton Woods institutions (the World Bank and the International Monetary Fund) are also cautiously, and closely, being observed. Several academic institutions are attempting to examine the

23 Official website of TITR (2018) Trans Caspian International Transport Route. Available at: <http://titr.kz/en/about-the-association/history-en> (Accessed: 10 November 2018).

24 Agenda News (2018) China to help Georgia develop Trans-Caspian International Transport Corridor, Available at: <http://agenda.ge/en/news/2018/808> (Accessed: 10 November 2018).

influence of Chinese investments in Latin America and Africa and understand their consequences. The same institutions are observing the behavior of China in Russia, especially in Siberia. So far, the conclusion is that the risks for the countries of the SC are minimal or insignificant, while benefits are immediately gratifying and promising.

The anticipation is that this kind of interdependence, extending from Southeast Asia and China to Europe, will provide each participating country with an impetus for peaceful coexistence and with a source of economic growth in this rapidly globalizing world.