

Georgia-China Economic Cooperation before and during Covid-19 Pandemic

Vakhtang Charaia

Professor

*Georgian Aviation University
vakhocharaia@gmail.co*

Mariam Lashkhi

Invited Lecturer

mariam.lashkhi09@gmail.com

Covid-19 pandemic has changed the world. Initially seemed as health-care challenge, new Coronavirus managed to change not only medical, but also economic, as well as almost all other aspects of our every day life (Balogu, 2020). Coronomics even cooled down the global economic interconnectedness which reached its historic heights in the 21st century (Papava, Charaia, 2020). Consequently, countries are struggling to attract foreign direct investment (FDI) and to expand trade (Barbate, 2020). Consequently, Supply chains have slowed, consumer spending is down, political reality vague, and most states have been unable to stave off recession.

At the same time, global crises often open up new opportunities that can ultimately lead to progress and prosperity (Buheji, Ahmed, 2020). Under these circumstances, countries big and small are looking for strategic partnerships to overtake their competitors. This is why China, a rising superpower, and Georgia, a middle-income country, have been enhancing their economic relationship (Charaia, Papava, Wang, 2018).

Currently, cooperation between Georgia and China is less than between Georgia and the West, but presents its own unique opportunities and challenges. China Georgia cooperation is positive not only for this two, but many other countries in the world, including S. Caucasus, Baltic and other EU member states (Charaia, Chochia, Lashkhi, 2018), as well as for other countries out from the given region. Despite the fact that Georgia - China cooperation could cause some challenges from Georgia's western partners, it still tries to diversify its economic potential through cooperation with all possible economic partners, including not only China, but even occupier - Russian federation (Charaia, 2016), which could bring some level of stability in good case, but total disaster in case of negative scenario.

Keywords: *Coronomics, global economics, China-Georgia economic relations.*

JEL Codes: *F00, F02, O11*

Overall Economic Cooperation

After several decades of partnership, more or less significant economic cooperation between Georgia and China has only started in 2005 and reached its pick in the 2010s. The cooperation between the two has gradually increased through significant economic forums, BRI initiative, cooperation in transit, investments and etc. Shortly after Georgia signed an Association Agreement (AA) with the EU and joined the Deep and Comprehensive Free Trade Area with EU, it was invited by China to strengthen their partnership considerably by signing FTA in 2017 (Ministry of Economy and Sustainable Development of Georgia, 2017).

Nowadays Georgia can be counted among the few countries in the world to have FTAs with both the EU and China (only four in the world: Israel, Island, Switzerland and Georgia), while none of them are a direct competitors. At the same time Georgia is one of the most reliable countries for the foreing investors according to different international rankings and local researches (Charaia, Lashkhi, 2018; Charaia, Chochia, Lashkhi, 2020). The FTA with China means more to Georgia than just a new market for its goods and services. In fact, the country stands to benefit in multiple ways. Local businesses and infrastructure projects should boom as Georgia turns into a transport hub, creating jobs and raising living standards. Companies from countries lacking FTAs with China and the EU, as well as CIS and Turkey may wish to move their production to Georgia, also knowing that India and Israel are also close to sign FTA with Georgia makes opportunities even more attractable.

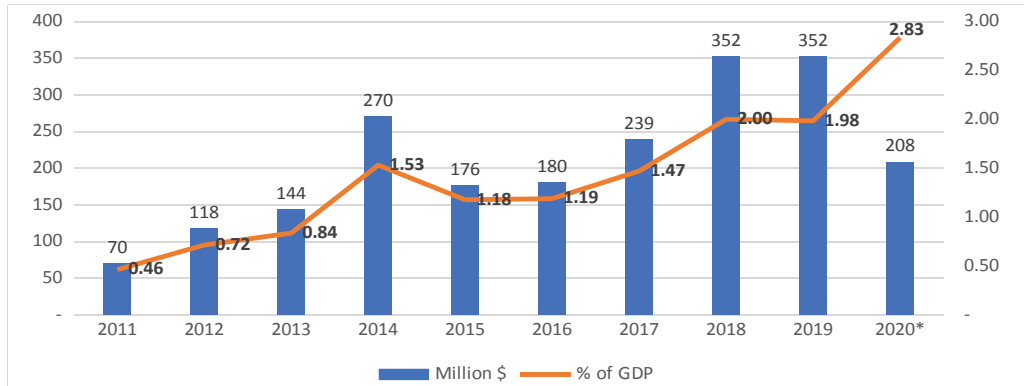
According to the official data from National Statistics Office of Georgia and National Bank of Georgia, China's involvement in the Georgian economy is significantly less than in case of other top countries, but follows an upward trajectory. According to the 2019 statistics, the Georgian economy made almost \$300 million from China across a variety of sectors - from tourism (\$30 million), investments (\$43.8 million), exports (\$223 million), and remittances (\$1 million) - which is equivalent to 1.98 percent of Georgian GDP that year (see Diagram 1). In the first two quarters of pandemic 2020, cooperation has reached its maximum with 2.83 percent or more than 200 million, only for the first half of the year (see diagram 1).

China's Role in the Georgian Economy for 2011-2020* years

Diagram 1

Source: Authors own calculations based on GEOSTAT and NBG data

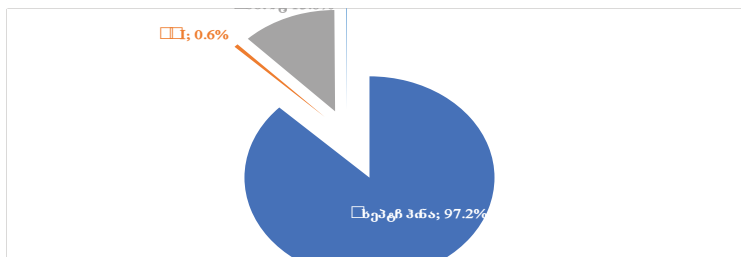
*I and II quarters of 2020



If braking down the numbers for the first half of 2020, its clear that the main part comes from the exports, while foreign direct investments, tourism and remittances are making really insignificant part of the economic cooperation between the two. Exports makes not just a significant part of the cooperation, but it is the biggest export market for Georgia with 13.6% of total exports (see diagram 2). However should be noted that Georgian exports to China has lack of diversity and in general consists from one major product – copper ore, unfortunately just a row material and not final product.

China's role in the Georgian economy as percentage of GDP (2020*)

Diagram 2



Source: Authors calculation based on Geostat data

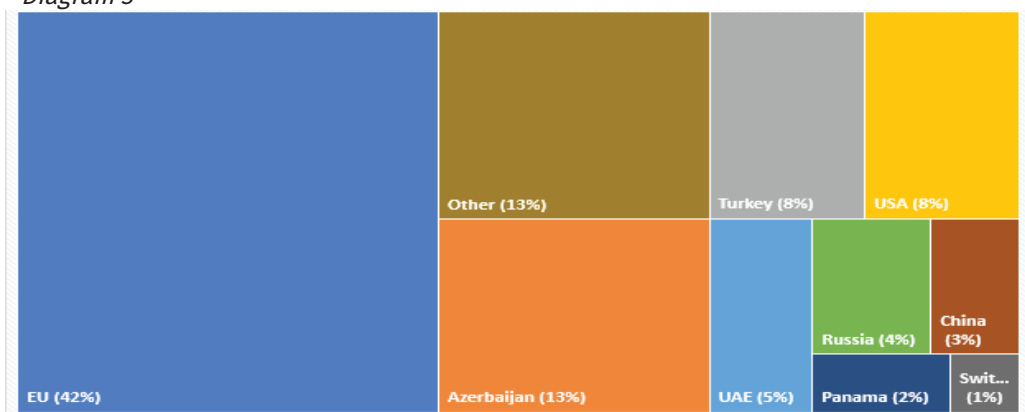
* I and II quarters of 2020

Cooperation in FDI, Trade and Tourism

Since its independence, Georgia has attracted more than \$21 billion in FDI, of which \$690 million (about 3 percent) has come from China. This makes China the seventh-largest foreign investor in Georgia, lagging behind the EU (42%), which is the top investor in Georgia; Azerbaijan (13%), which has been especially productive in Georgia of the last 5 years, but significantly decreased its activities since 2019; Turkey (8%), USA (8%), UAE (5%), Russia (4%), but running in from of Panama (2%), Switzerland (1%) and other investor countries (see diagram 3).

FDI Stock in Georgia (1996 – II quarters of 2020)

Diagram 3



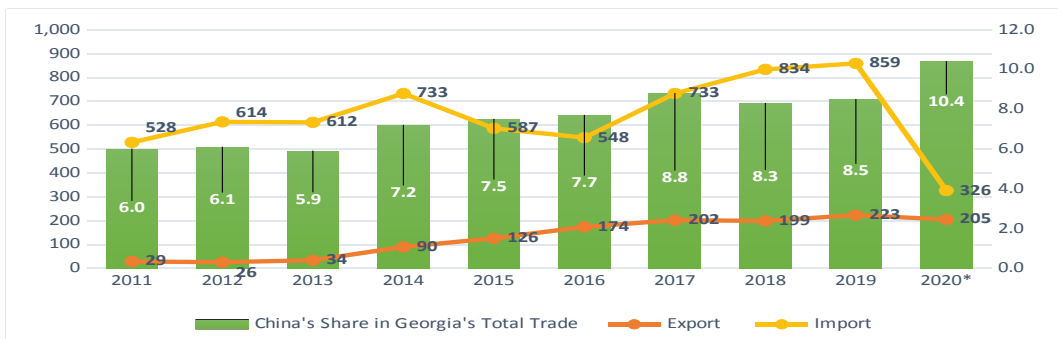
Source: Authors calculation based on Geostat data

Chinese investors first entered the Georgian market in 2002, with \$2.5 million in total investment for that year. China's FDI reached its peak in 2014 at \$220 million, representing 12 percent of total FDI inflows (Papava, Charaia, 2017). The total for 2019 fell short of that for 2014, but still saw a significant investment of \$44 million. However, the first half of the 2020, in terms of Chinese FDI activities in Georgia are not significant – only \$2.6 million. As of Jan. 1, 2020 there are 222 Chinese company registered in Georgia, among them 200 companies are with Chinese capital only and the rest with China foreign capital. For the last three years, construction, real estate, manufacturing and financial services have been the leading the sectors for Chinese investments, attracting more than 90 percent of the total Chinese FDI to Georgia.

Cooperation in trade has been on the rising trend for the last years, exceeding \$1 billion for the first time in 2018. At the same time, it should be mentioned that the FTA between China and Georgia, despite its importance and potential, has been slow to come into effect. Once the agreement is fully implemented, we can expect to see an increase in the value and diversity of exports, with new Georgian companies entering the Chinese market. Georgian exports to China for the last 10 years (2010-19) have increased around 6 times in absolute numbers and from 6 to 10.4 percent in terms of market share. At the same time, over the last two years (after the FTA) Georgian exports to China have been increased by only around 10 percent. Entering the Chinese market, despite the FTA, proved difficult for Georgian companies after their initial breakthrough (see diagram 4), thus requiring additional support from the Georgian Government.

Total Trade between Georgia and China, 2005-2020* (\$ million)

Diagram 4



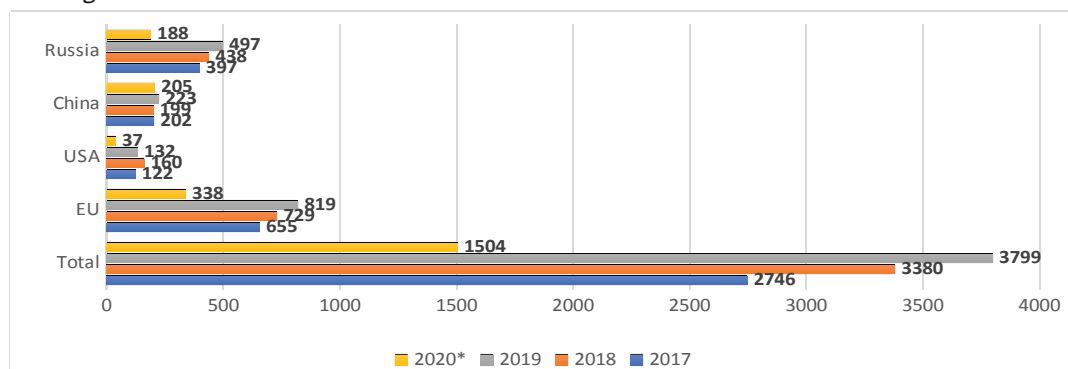
Source: Authors calculation based on Geostat data

*I and II quarters of 2020

If comparing China to other main trade partners of Georgia, the difference is obvious through the different years prism (see diagram 5), is significantly less the Georgia's cooperation with the EU and Russia, but bit more then with USA. Considering the uprising trend of Georgian export to China for the last decade and FTA factor, with probably further opportunities, one can say the potential is still not fully used.

Georgian exports to different destinations, 2017-19 (\$ mn)

Diagram 5



Source: Authors calculation based on Geostat data

*I and II quarters of 2020

Unfortunately, Georgian export to China is undiversified, making up 90% only from two main products – a. copper ores and concentrates and b. Precious metal ores (see diagram 6). In both cases not the final products but the ores only. On the other hand, should be mentioned that in the first 5 month of 2020 Georgian export to China has been increased 3 times (244%), in comparison to the same period of the previous year. This result was enough to make China number one export market for the Georgian products with 13.6 percent of total exports. On the opposite, Chinas export to Georgia is diversified with no more then 3% for any product.

Georgian Exports to China 2020

Diagram 6



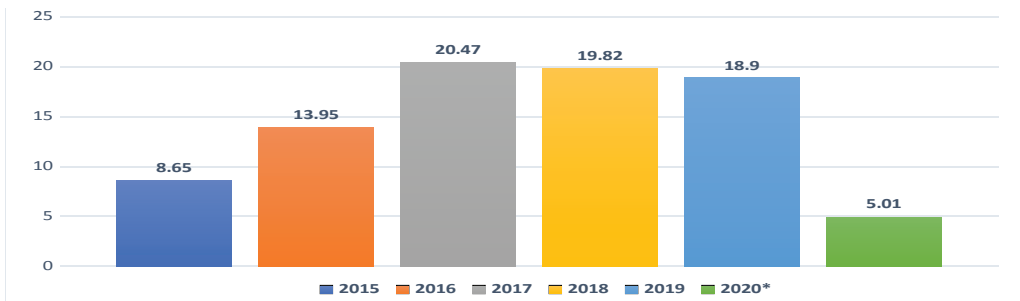
Source: Authors calculation based on Geostat data

*only first five months of 2020 are available

One of the famous Georgian export products – wine, makes an interesting move to Chinese market as well, significantly boosted by the free trade regime, which lowered tariffs on this product by 40 percent. Exports of Georgian wine to China have increased around 8 times over the last six years. In the first five-month of 2020 Georgian export to China has decreased by 33 percent in comparison to the same period of 2019 (see diagram 7), however still makes an important part of Georgian export to China.

Exports of Georgian wine to China, 2105-19 (\$ mn)

Diagram 7



Source: Authors calculation based on Geostat data

*only first five months of 2020 are available

Covid-19 has already transformed the economic structure of the world (Aptsiauri, 2020), including Georgia. With the huge influence on international trade, investments, tourism, remittances and etc. changing the global economic outlook as such (IMF, 2020). Prior to the pandemic, the tourism industry contributed 12 percent of Georgia's GDP and employed 120,000 people directly as well as an additional 500,000 indirectly. However pandemic decreased this numbers close to zero, with only two visitors from China in the first half of 2020, down from almost 50 thousand in 2019 (GNTA, 2020). As a result, the global drop-off in travel hit the Georgian economy hard and forced it to take out a \$1.5 billion (8.5 percent of GDP) international loan. Different international organizations have calculated the contraction of Georgia's economy at around 5 percent, worse than China (3 percent) but better than the EU average (around 10 percent).

Conclusion

Georgia – China economic cooperation despite its challenges has a room for further increase, which can boost not only Georgia, but also Chinese economy, as well as others. Simultaneous FTA with China and DCFTA with EU, with other countries in the queue increases Georgia's perspectives significantly.

Pandemic has put its own impact on Georgia – China cooperation, as well as to the cooperation of any other players in the world, but has shown a new path for further cooperation. With decreased FDI and tourism from China, the last managed to become the biggest market for Georgian products overwhelming Georgia's traditional markets.

Overall perspectives of Georgia – China cooperation could lead both countries to the new heights; however, without significant western support opportunities seems to be significantly limited, not only because of pandemic, but other open and hidden wars between the west and China.

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საქართველო-ჩინეთის ეკონომიკური თანამშრომლობა COVID-19-ის პანდემიამდე და პანდემიის პერიოდში

ვახტანგ ჭარაია

პროფესორი
საქართველოს საავიაციო
უნივერსიტეტი
vakhocharaia@gmail.com

მარიამ ლაშხი

მოწვეული დოცენტი
mariam.lashkhi09@gmail.com

კოვიდ-პანდემიამ მსოფლიო შეცვალა. ე.წ. „კორონომიკური“ გამოწვევა შეეხო როგორც ყველაზე მდიდარ, ასევე ყველაზე ღარიბ ქვეყნებსაც, თუმცა აღსანიშნავია, რომ მისი გამკლავება არა იმდენად სიმდიდრეზე, არამედ პრაგმატულ ნაბიჯებზე გახდა დამოკიდებული. გამოჩნდა კრიზისების მართვაში ძლიერი სახელმწიფო ინსტიტუტების როლი.

კორონომიკურმა კრიზისმა შექმნა არამხოლოდ ახალი გამოწვევები, არამედ ახალი შესაძლებლობებიც. მათ შორის - მსოფლიოს ნომერ მეორე ეკონომიკის მქონე ჩინეთსა და საქართველოს ურთიერთობებისთვისაც, რომელთა პოტენციალი და რეალობა ჯერ ისევ საკმაოდ დაშორისშორებულია. უფრო მეტიც, საქართველო-ჩინეთის კომბინაციამ, გლობალური, დაძაბული გეოპოლიტიკური კონტექსტის და საქართველოს გრძელვადიანი სტრატეგიული ორიენტირების მიუხედავად, სამყაროს შეუძლია მისცეს შესაძლებლობების ახალი პლატფორმა როგორც ვაჭრობის, ინვესტიციების, ტრანზიტის, ასევე სხვა პოტენციალის სრულად ასამოქმედებლად.

თუმცა, სამწუხაროდ, ჯერ მხოლოდ რაოდენობრივ გაუმჯობესებაზე თუ ვიმსჯელებთ, ხარისხობრივი მწვერვალების დაპყრობა კი კვლავაც მომავლის საკითხად რჩება. აღსანიშნავია, რომ შეზღუდული ქართულ-ჩინური თანამშრომლობის მიუხედავად, ჩინეთის ეკონომიკის როლი ქართულ ეკონომიკაში ბოლო 10 წელიწადში 6-ჯერ და უფრო მეტადაა გაზრდილი.

პანდემიური 2020 წლის განმავლობაში ჩინეთი ნომერ პირველი საექსპორტო ბაზარი გახდა ქართული პროდუქციისათვის, თუმცა ჯერ-ჯერობით ეს მხოლოდ და მხოლოდ სანედლეულო პროდუქციას შეეხება (78% სპილენძსა და სპილენძის მადნებზე მოდის). ფულადი გზავნილების, უცხოური პირდაპირი ინვესტიციების და ტურიზმის კუთხით თანამშრომლობა კი ჯერ ისევ განუვითარებელია.

მომავლის თანამშრომლობის სფეროებს შორისაა თავისუფალი ვაჭრობის რეჟიმების და მასთან ერთად ტრანზიტის შესაძლებლობის ამოქმედებაც, რომლის პირველი კონტურები უკვე იკვეთება, თუმცა მძალვრი საერთაშორისო მხარდაჭერის გარეშე შეუძლებელია სრულფასოვნად ამოქმედდეს.

მიუხედავად ქართულ-ჩინური თანამშრომლობის სირთულეებისა, პანდემიურმა 2020-მა წელმა ნათლად დაგვანახა, რომ ურთიერთობის განვითარება ყველაზე რთულ დროსაც კი არის შესაძლებელი და შეიძლება გამოსავალიც კი – საქართველოსნაირი სუსტი ეკონომიკის მქონე ქვეყნებისათვის, რომლებსაც ამ წარმატების მისაღწევად რადიკალური ნაბიჯების გადადგმა მოუწევთ, მათ შორის საკუთარი ეკონომიკის სტრუქტურული ტრანსფორმაციის ქრილშიც.

საკვანძო სიგყვები: კორონომიკა, გლობალური ეკონომიკა, საქართველო-ჩინეთის ეკონომიკური ურთიერთობები.

JEL Codes: F00, F02, O11