

# Economic Ties of Georgia with Central Asian Countries and Future Cooperation Perspectives

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## ABSTRACT

Central Asia is decisively one of the most significant regions in the world that makes a valuable contribution to Eurasian economic cooperation. The region is affluent with natural and energy resources that arouse the interest and desire for collaboration among the neighbors and generally, rest of the world. Georgia and the Central Asian republics are connected by historical liaison, starting from the ancient Silk Road. Although the multilateral relations have improved significantly over the years, much remains to be undertaken. For this region, Georgia is a gateway to connect with the Western world. On the other hand, Central Asia is also in Georgian interest, that allows the country to be involved in regional transportation projects, as well as increase its access to Asian markets. The aim of the following paper is to analyze economic relationships between Georgia and Central Asian countries in terms of foreign trade, tourism, foreign direct investments and remittances, detailed by countries. Additionally, the study pays attention to future collaboration perspectives and priority areas between the countries. This incorporates the partnership in such strategic spheres, as trade, energy, transport, tourism and infrastructure. The analysis of these issues is crucial since the economic intimacies between the given countries will contribute to deepening cooperation between the nations of the region and push Eurasian economic cooperation ahead.

**KEYWORDS:** Central Asia, Georgia, Trading, FDI, Tourism

In a contemporary and dynamic world where mutual trade, human mobility, free movement of goods, services and capital are actively increasing, regional cooperation is becoming even more essential for multilateral benefit. In this regard, Central Asia, which includes Kazakhstan, Uzbekistan, Kyrgyzstan, Turkmenistan and Tajikistan, is one of the main nuclei of Eurasian economic cooperation. Almost every year, new spheres of partnership and priority areas are delineated, that makes collaboration more global and freer, without additional barriers. Since the 1980s, the opening of borders by the People's Republic of China and its desire to connect with the rest of the world, as well as the collapse of the Soviet Union in the 1990s, have more or less removed political blockades and created new opportunities for economic partnership. These processes have enabled countries to cooperate not only economically, but also in social, peace, security and other priority directions.

Georgia, due to its geographical location, has always been in the interest of global attention and

international players. Historically, in major cases the country served as a main logistics artery, while in other occasions it has been seen as an alternative route, however, the main goal was to connect the western and eastern parts of the world. Georgia still fulfills its historical purpose and passes the regional railway, as well as the energy resources through the country. It is principal that the Caspian gas and oil resources are transported through Georgia to Turkey, thus making Georgia an important energy carrier in the region. Along with Georgia, Azerbaijan is also establishing its own positions as a transport passageway, hence these two countries have the function of a transport-energy hub in Central Caucasus (Papava, 2017). In a recent, "One Belt – One Road" initiative, Georgia's section is located in the Central Asia-West Asia Economic Corridor, and along with Azerbaijan, it plays a strategically foremost role.

Central Asia is an essential working region for Georgia in terms of increasing economic

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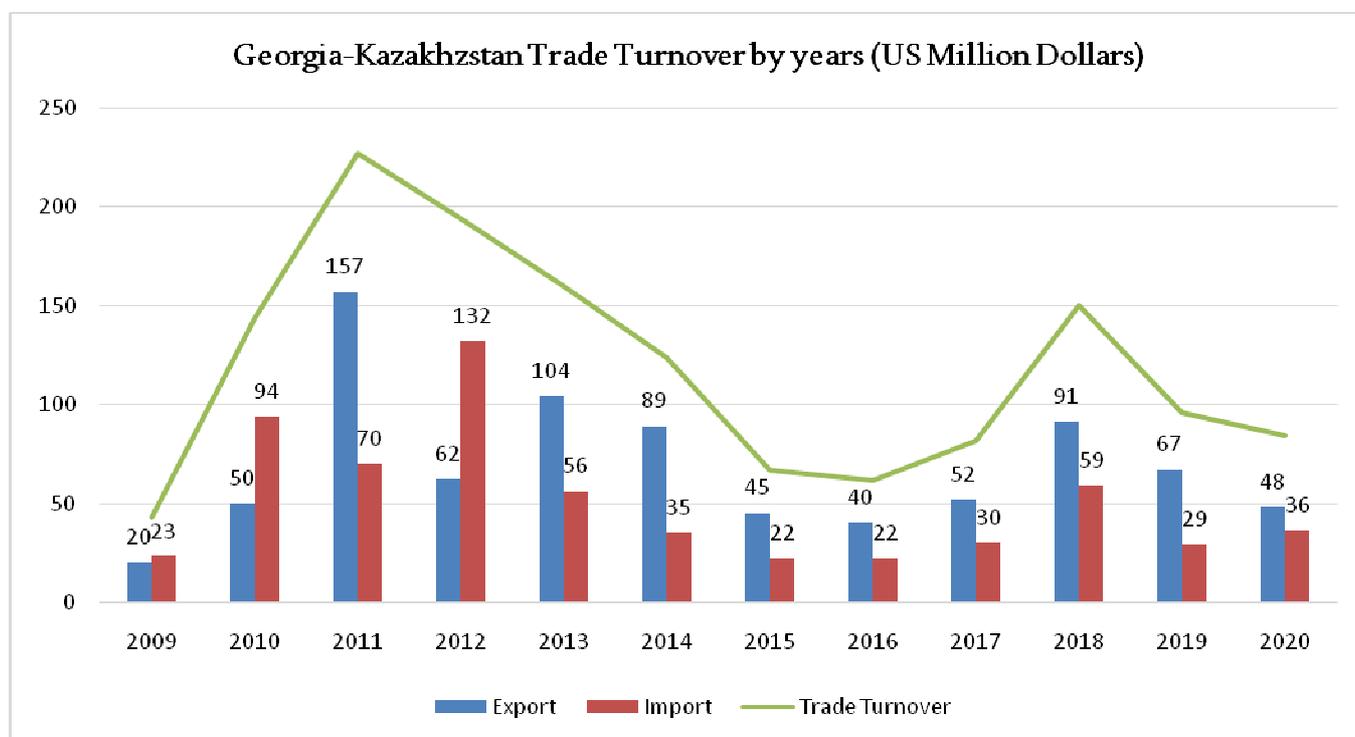
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opportunities. Despite some positive dynamics in terms of cooperation between the countries in recent years, there is still a lot of work to be done and both sides have to struggle in order to explore each and every potential. Generally, Central Asia is quite a diverse region, with mainly low- and middle-income populations, strategically important location and wealthy natural resources. The region stretches from the Caspian Sea to the western border of China. It is bordered by an enormous economies such as China and Russia. Central Asia has always been the focus of international attention, and the world's major players have always sought to increase their dominance in the region. Therefore, it is interesting to review the economic relations between Georgia and the nations of Central Asia, and highlight the areas that are utterly important on the way of seeking new opportunities.

### Trading

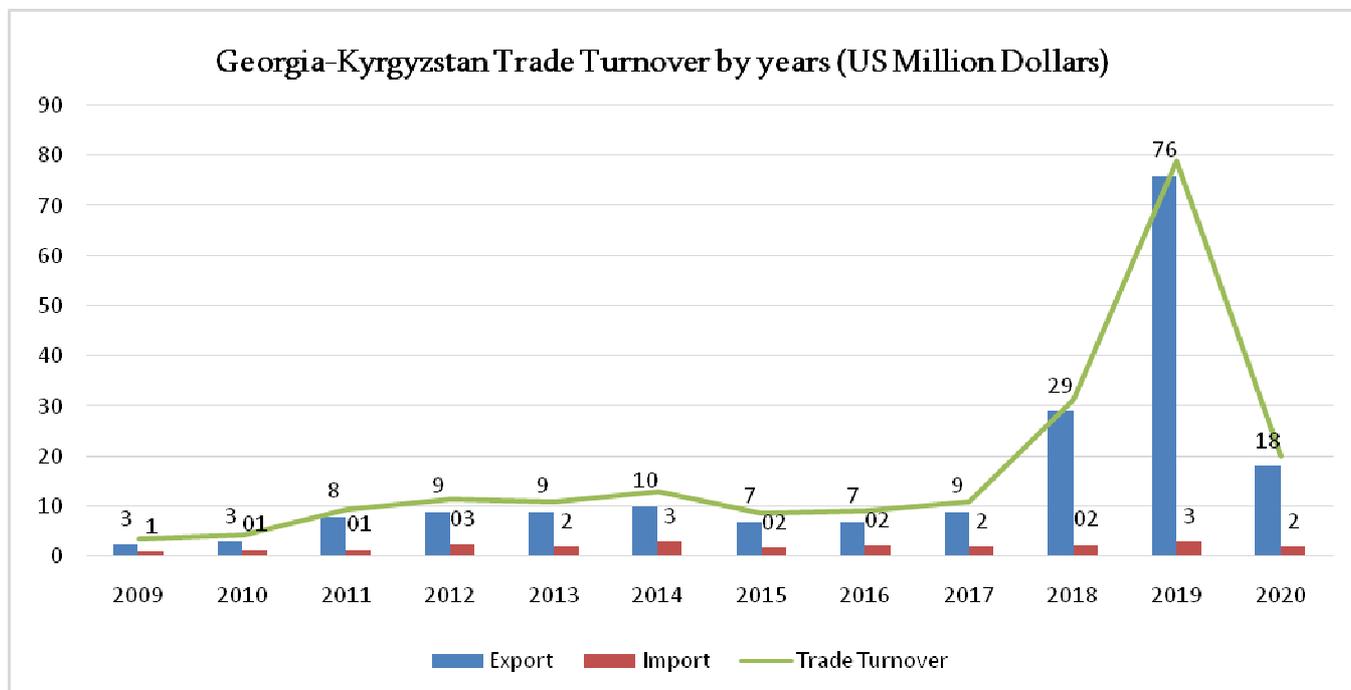
Trade relations between Georgia and Central Asian republics have a historical background. This relationship has been deepening over the years, new contracts and agreements are concluded, trade procedures are simplified and so forth. Along with the enhancement of economic relations, the range of export and import products is also expanding. All this is utterly significant for the development of multilateral relations. Currently, the main products exported from Georgia to Central Asia include mineral waters, nuts, spirits, dry-goods, as well as re-exports of furniture, medicines and automobiles. As for the products imported to Georgia from this region, it includes oil and oil products, natural gas, ferro alloys, wheat, wheat flour, tobacco products and others (Ministry of Economy and Sustainable Development of Georgia, 2019).



Source: National Statistics Office of Georgia, processed by the author

Kazakhstan is the richest and most economically developed country in Central Asian region. It has the wealth of natural resources, such as oil and gas, as well as it is the largest country in the world with uranium reserves (Statista, 2018). Its priorities are - efficient management of energy resources, transport and communications infrastructure, agriculture, new technologies and innovations.

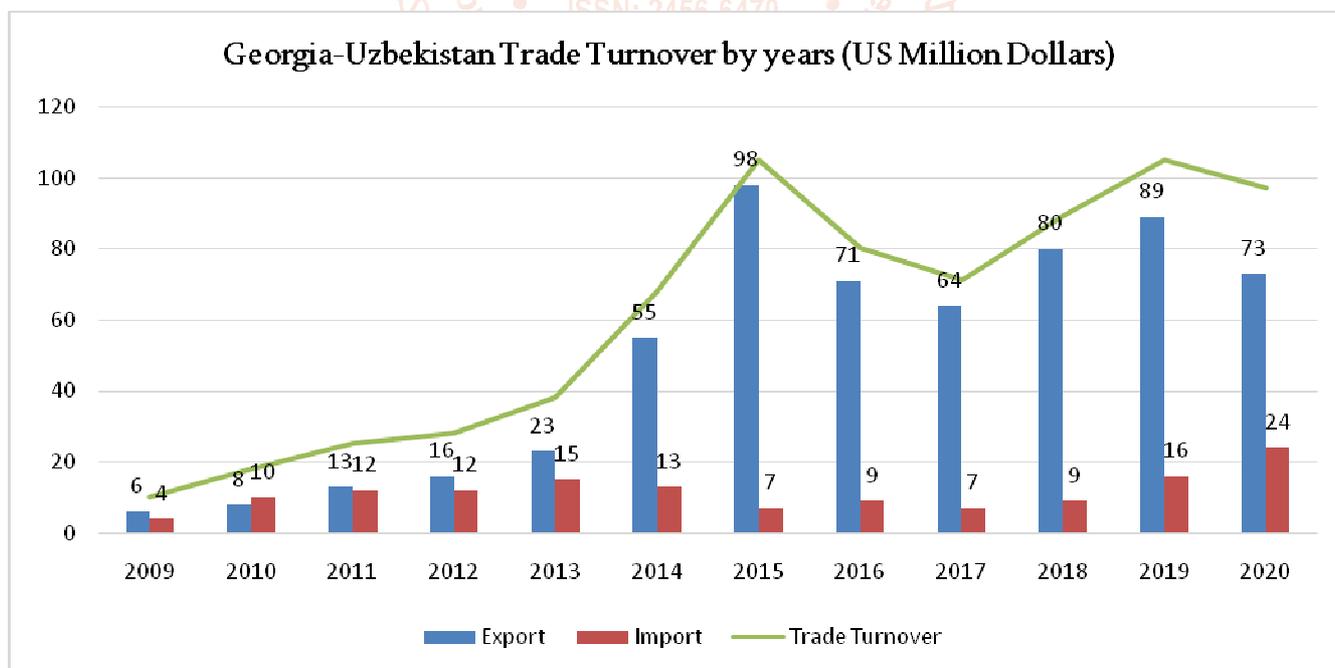
Georgia and the Republic of Kazakhstan have had a free trade agreement since 1997 (Legislation Database of CIS Countries, 2020). It should be emphasized that Kazakhstan is an outstanding trade partner for Georgia among the countries of the Central Asian region. For instance, in 2019, about 8% of Georgia's total exports were made to Central Asia, of which more than 1.5% - to Kazakhstan. Besides, Central Asia is also an important region in terms of wine export, one of the main selling products of Georgia. In this regard, Kazakhstan retains the leading position. To illustrate, in the first six months of this year, Georgia earned 4.2 million dollars from wine exports from Kazakhstan. Products exported from Georgia to Kazakhstan include Beverages, spirits and vinegar, meat and edible meat offal, cars, pharmaceutical products, machinery, nuclear reactors, boilers and more (Trading Economics, 2020). The graph shows the dynamics of trade between the two countries, which has been relatively declining in recent years. It should also be noted that Georgia has a positive trade balance with Kazakhstan.



Source: National Statistics Office of Georgia, processed by the author

Kyrgyzstan was one of the first countries to develop a market economy after gaining an independence. Kyrgyzstan is a mountainous country that, unlike its neighbors, is not affluent with natural resources, except for its gold reserves. Its priority areas include the development of transport infrastructure, agriculture and the strengthening of small and medium-sized businesses.

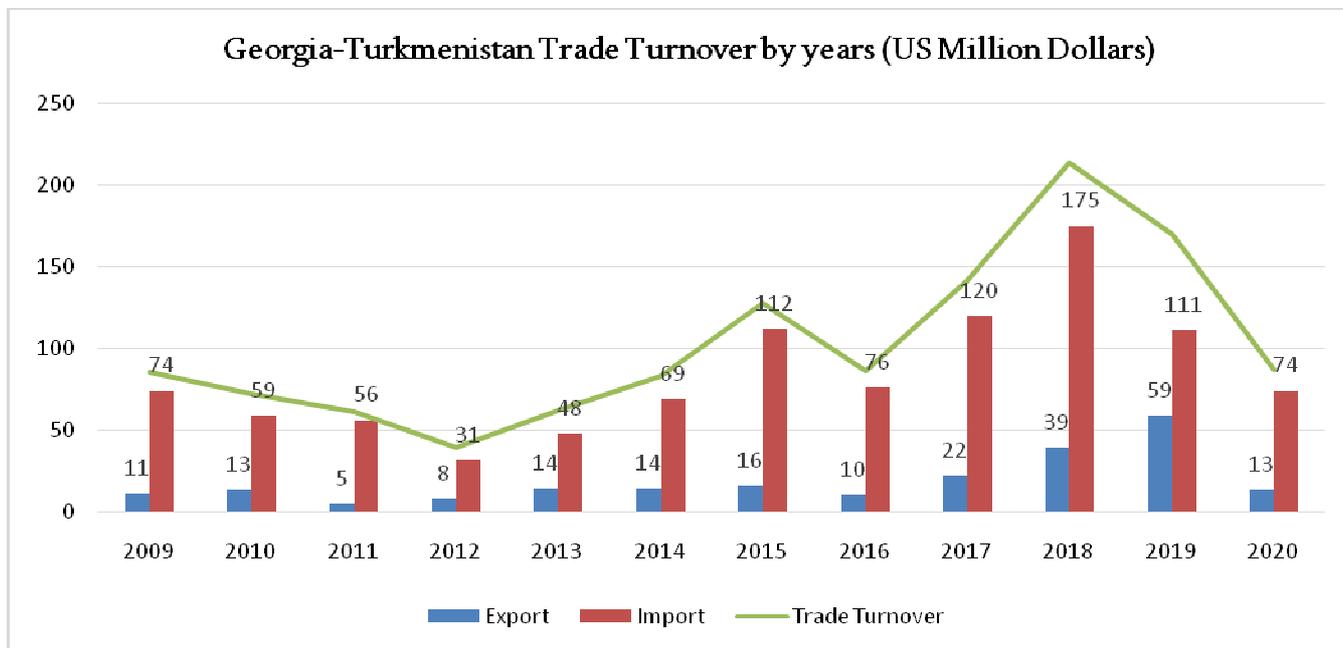
Georgia and Kyrgyzstan signed an Investment Protection and Incentive Agreement in 1997, which was renewed in 2016 (Investment Policy Hub, 2020). During the same year, an agreement on the avoidance of double taxation was signed between the countries. This is an important contributing factor to the deepening of economic relations between these two nations. The main export products from Georgia to Kyrgyzstan are mineral waters, alcoholic beverages, citrus, nuts, as well as automobiles and pharmaceutical products (Trading Economics, 2020). The graph above shows Georgia-Kyrgyz trade by years.



Source: National Statistics Office of Georgia, processed by the author

Uzbekistan is a country rich with natural resources. It has both natural gas, as well as it is among the top 10 gold mining countries in the world and is also one of the largest exporters of cotton. Uzbekistan is constantly striving for the introduction of new technologies and transition to higher standards of production for sustainable economic development. Their priority areas include transport and energy infrastructure, agriculture, rural development and human capital improvement.

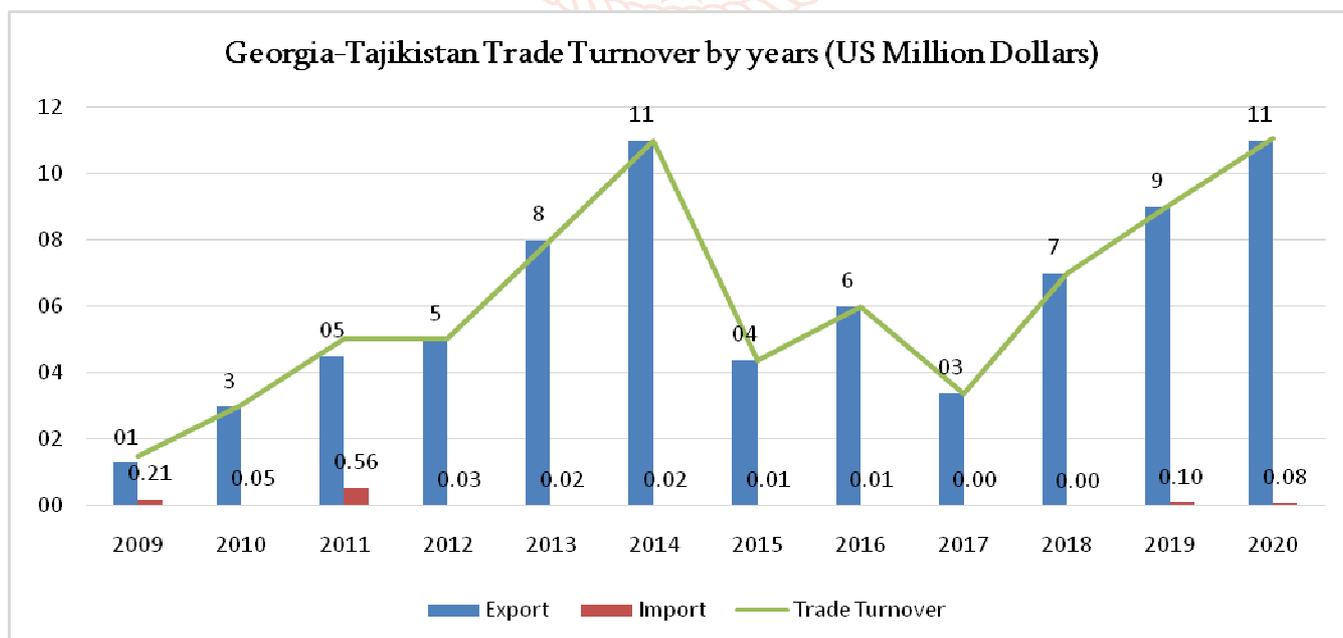
Free Trade Agreement between Georgia and the Republic of Uzbekistan has been in force since 1995. Besides, by the decision of the Government of Uzbekistan, the excise tax on agricultural products was abolished, which affected 73 products exported from Georgia, including mineral waters, fruit juices, non-alcoholic beverages. Of course, this will have a significant impact on the growth dynamics of Georgia's exports. The main selling products from Georgia to Uzbekistan are pharmaceutical products, optics, photography, technical and medical equipment, cars, mineral waters, alcoholic beverages and more (Trading Economics, 2020). The graph shows the dynamics of Georgia-Uzbekistan trade, which is characterized by much higher positive extension since 2014, compared to previous years. Worth mentioning that Georgia has a positive trade balance with Uzbekistan.



Source: National Statistics Office of Georgia, processed by the author

Turkmenistan is a country rich in natural gas, which is one of its main sources of income. Its priority areas include transport infrastructure, agriculture and support for small and medium-sized enterprises.

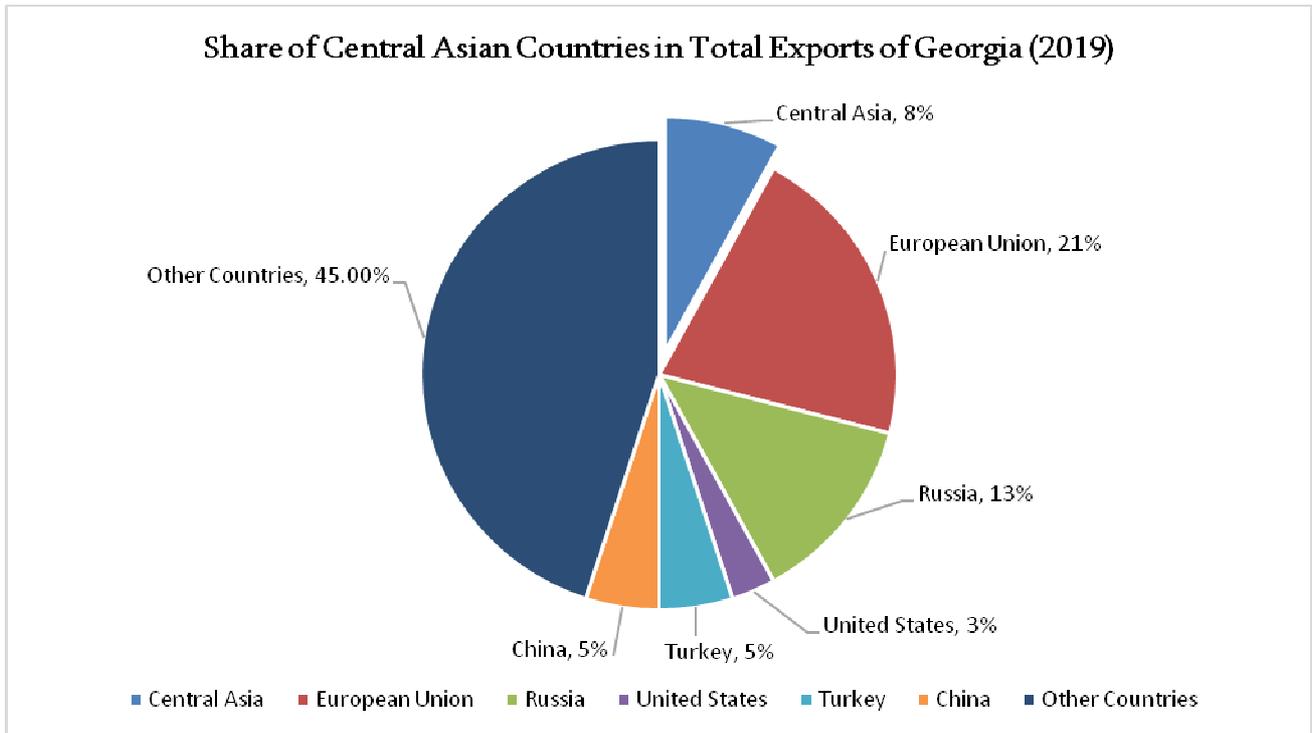
Georgia and Turkmenistan have had a free trade agreement since 1996 (Investment Policy Hub, 2020). There have been a number of high-level meetings over the years to discuss cooperation in the fields of economics, transport, energy, tourism and science. The main export products from Georgia to Turkmenistan are residues, wastes of food industry, animal fodder, mineral and alcoholic beverages, iron and steel, meat and edible meat offal, pharmaceutical products, as well as machinery, nuclear reactors, boilers (Trading Economics, 2020).



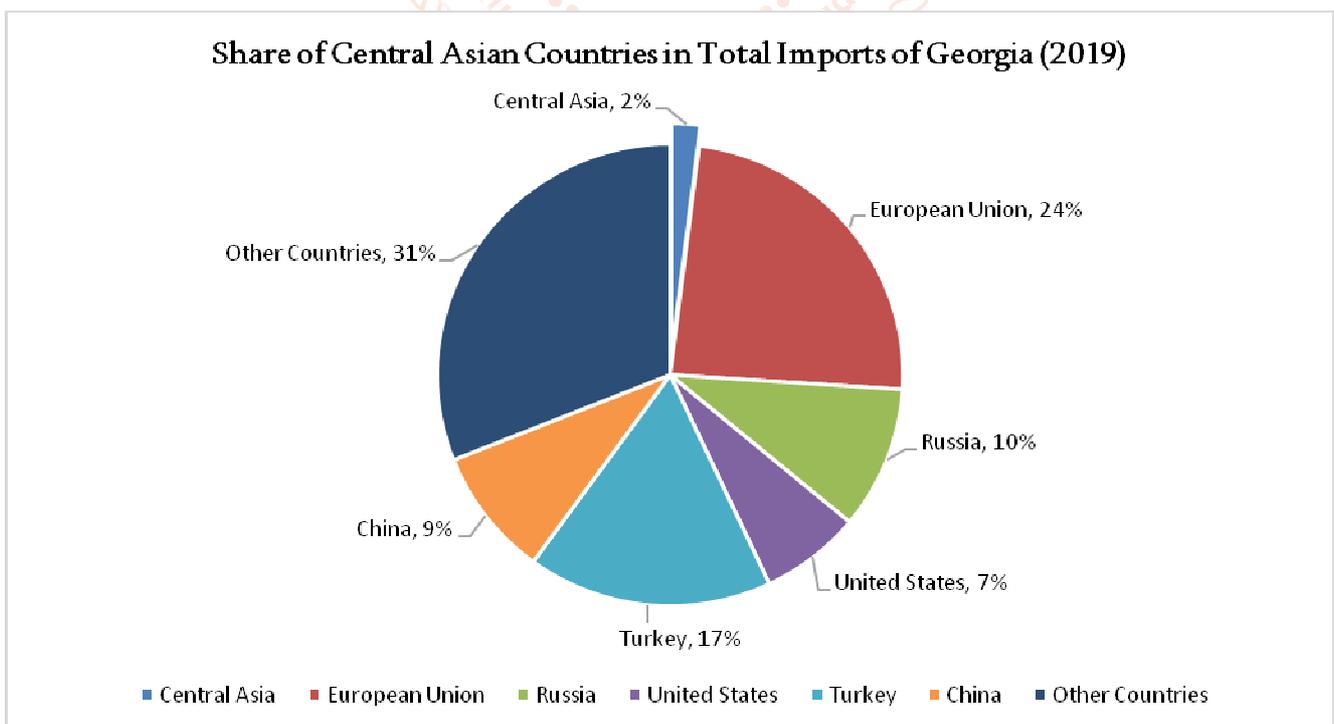
Source: National Statistics Office of Georgia, processed by the author

In the Central Asian region, Tajikistan is positioned as a bridge between the countries of Central and South-West Asia. Its priorities include regional development, agriculture, transport infrastructure and small-scale electric power technology.

An Agreement on International Road Traffic between the Government of Georgia and the Government of the Republic of Tajikistan was signed in April this year. The agreement is an important step forward in deepening economic relations between the two countries. It will facilitate the further development of traffic. The document provides for the resolution of legal issues related to transport, as well as special conditions of transit shipping (Ministry of Economy and Sustainable Development of Georgia, 2021). The main products exported from Georgia to Tajikistan are cars, pharmaceuticals, tobacco, beverages, spirits and vinegar and more (Trading Economics, 2020).

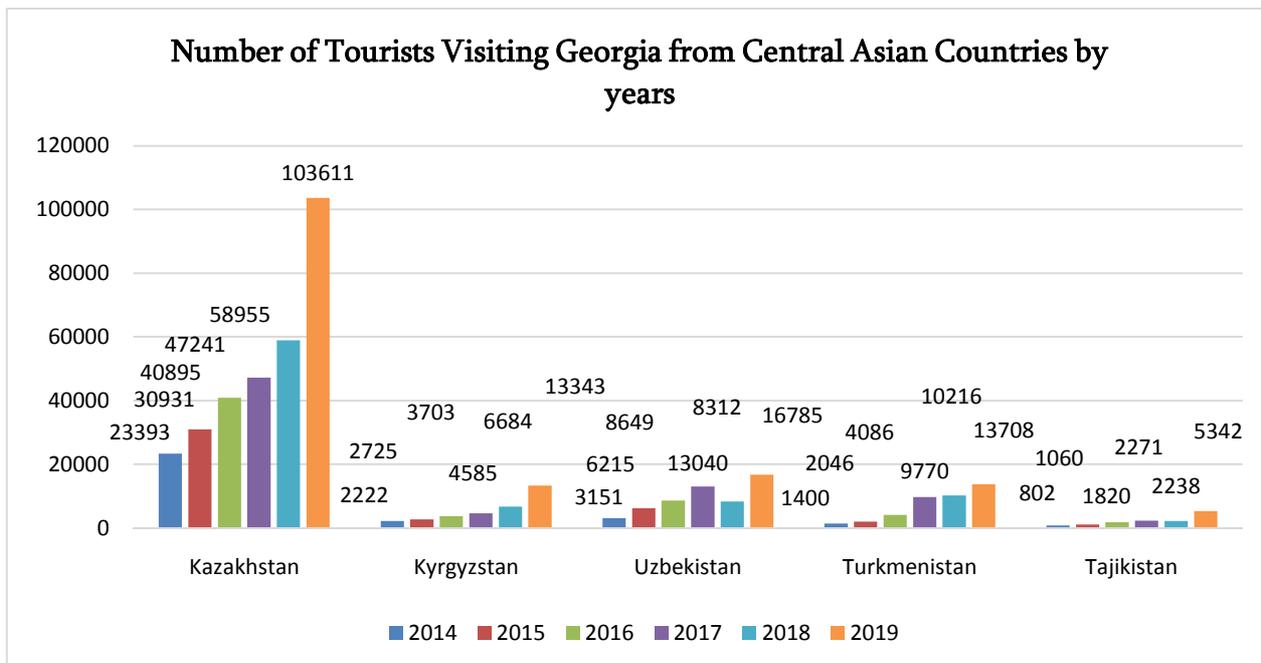


**Source: National Statistics Office of Georgia, processed by the author**



**Source: National Statistics Office of Georgia, processed by the author**

**Tourism**



**Source: National Statistics Office of Georgia, processed by the author**

The flow of tourists from Central Asian countries to Georgia is characterized by an increasing dynamics and is growing significantly every year. Georgia is becoming more and more recognizable and attractive tourist destination in this region. Although the influx of tourists from all countries from the region is growing, Kazakhstan maintains its leading position in this regard as well. Kazakhstan is among the top 5 countries from which tourism is the most growing in Georgia. It is among the European countries in terms of both the duration of the visit and the average cost per visit to Georgia. Additionally, in 2012, an agreement on cooperation between the Ministry of Economy and Sustainable Development of Georgia and the Ministry of Industry and New Technologies of the Republic of Kazakhstan in the field of tourism was signed. Against the background of the pandemic, after the start of vaccination and the resumption of tourism, Kazakhstan and Uzbekistan were among the top 15 countries from which the most tourists came to Georgia. In addition to the main motivations and benefits that accompany tourism, in case of Georgia, recreational and balneological refreshment directions have been identified, that are often included in the basic requirements of the visitors from Central Asia. Cooperation in the field of aviation is strengthening with the Central Asian region as well, which is crucial for getting more tourist flows in the country. In May of this year, the Kazakh low-budget airline company FlyArystan entered the Georgian aviation market, that started operating regular flights from Kutaisi International Airport to the cities of Aktau, Atyrau, Nur Sultan and Shymkent.

**Foreign Direct Investments**

FDI	2014	2015	2016	2017	2018	2019	2020
Kazakhstan	12.7	10.5	9	-9	-39.8	7	2.7
Kyrgyzstan	-2.3	0.16	0.8	0.12	1.4	0.05	0.4
Uzbekistan	3	2.5	1.3	1.2	1.1	0.8	0.8
Turkmenistan	-0.09	-0.04	0.2	2.6	-0.3	1.7	0.1
Tajikistan	-	-	-	-	-	-	-

**Source: National Statistics Office of Georgia, processed by the author**

Georgia is a favorable destination for Central Asian countries regarding to geopolitics, as well as in terms of production and investments. Kazakhstan is also distinguished from Central Asian republics concerning foreign direct investments and during 2005-2020, Kazakhstan was among the top 20 largest investing countries in Georgia. Throughout the same period, 86% of foreign direct investment from Central Asia to Georgia belongs to Kazakhstan. Over the past five years, investments from Kazakhstan into Georgia has focused on the construction, transportation, real estate and financial sectors.

In order to deepen bilateral relations, in April this year the Kazakh-Georgian Economic Union was established by the joint initiative and efforts of the Embassy of Kazakhstan and Kazakh-Georgian businesses. The Kazakh-

Georgian Economic Union will contribute to the strengthening of trade-economic partnership between the two countries and cultural-friendly relations between the people. Together with international oil company - “Rompetrol Georgia”, the founders of the organization are business companies and corporations created with Kazakh capital operating in the Georgian market: Khalik Bank Georgia, Capitol Group, Batumi Oil Terminal, Air Astana, Silk Road Group and GK Logistic. Furthermore, there are about 30 companies created in Georgia with the participation of Kazakh capital, with a total investment of 450 million dollars and these companies employ more than 3,500 people. In addition, there are individuals and relatively small companies operating in Georgia, which are also created with Kazakh investments. Projects worth \$ 30 million are being implemented in Georgia with the participation of Kazakh funding.

Georgia is an attractive location for Central Asian republics both in terms of taxation and transport, as well as the variety of trade agreements that open the door for potential investors to access the largest markets, such as China, European Union and EFTA countries. Despite the some positive indicators in terms of investment partnership, an individual and comprehensive approach is needed to enable the country to get more international expenditures. Moreover, there are still some problems in Georgia, both at the central and regional levels, which may create additional difficulties for investors.

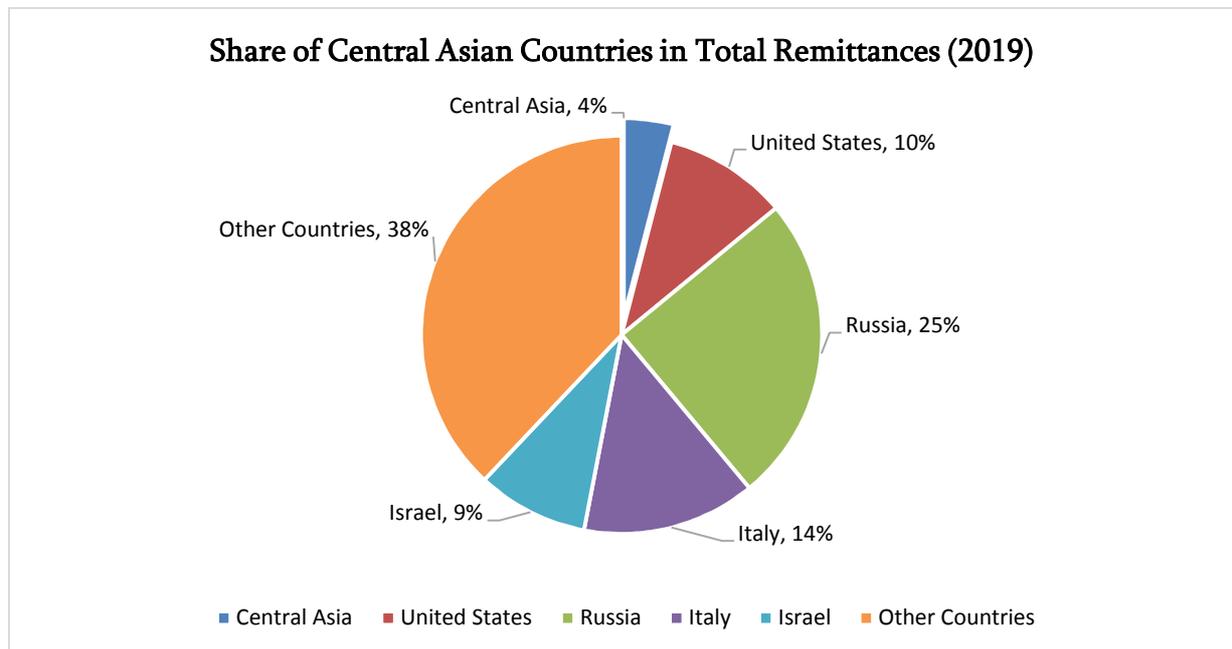
In addition to Kazakh investments in Georgia, in recent years there has been activity from Georgian investors who are interested in doing business in Central Asia. In July 2019, Kazakhstan launched the fifth largest ferrosilicon plant in the world, with a joint Georgian-Kazakh investment worth 95 million dollars. In 2020, Georgian Commercial Bank TBC entered the Uzbek market and started banking operations, with preparatory work a few years earlier. The total investment is more than 45 million dollars.

**Remittances**

	2015	2016	2017	2018	2019	2020	TOTAL
Kazakhstan	14.7	11.9	13.7	16.1	26.6	19.7	<b>102.7</b>
Kyrgyzstan	0.95	1.5	2.7	11.1	28.8	8.2	<b>53.25</b>
Uzbekistan	4.2	3.9	4.2	3.5	5.2	5.7	<b>26.7</b>
Turkmenistan	0.6	0.06	0.11	0.05	0.2	0.15	<b>1.2</b>
Tajikistan	1.3	0.8	1.01	1.1	1.6	4.4	<b>10.21</b>
TOTAL	<b>21.75</b>	<b>18.16</b>	<b>21.72</b>	<b>31.85</b>	<b>62.4</b>	<b>38.15</b>	

Source: National Statistics Office of Georgia, processed by the author

As can be apparently seen in the table above, that Kazakhstan also in a leading position in terms of remittances from Central Asian countries. It should be noted that in recent years, compared to the previous period, there has been an increase in money transfers from this region, which in the end, according to 2019 data, remittances from the following area amounts 4% of the money received in Georgia.



Source: National Statistics Office of Georgia, processed by the author

### Future Cooperation Perspectives

Georgia and Central Asian countries have a large prospects of cooperation, of which very little is absorbed. Consequently, a great deal of work is required to deepen economic and regional relations. An individual approach toward countries is extremely important, to study their needs and to put forward an appropriate terms or proposals.

It is interesting, why multilateral relations have not been developed further over the years. One of the reasons for the less regional cooperation is the fact that after getting an independence from 1990s, each country has been caring about its own sovereignty, functional state institutions, market economy and sustainable development, as well as they had to handle with heavy inheritance left by the Soviet Union. Consequently, over the years, the context of broader regional cooperation has remained out of focus. Additionally, one of the impediments is Russian influence and geographical interests, which, in turn, limited free spaces as much as possible. For instance, Russia has been actively opposed to the Trans-Caspian gas pipeline, which supplies gas to Europe via Turkmenistan, Azerbaijan, Georgia and Turkey. That is why Turkmenistan was actively involved in the design of the Baku-Tbilisi-Ceyhan. Furthermore, Russia's actions in the region have intensified since China's dominance has become apparent. Therefore, attempts to establish economic and transport hegemony from the North were frequent, including ideas that were doomed to failure from the rudimentary stage. Cooperation is quite active at the local level, for example between Georgia and Azerbaijan, as well as Kazakhstan, Uzbekistan and Turkmenistan, but the active connection between these actors is still at a nadir level.

It is obvious that there is a huge space for cooperation between Georgia and Central Asian nations, and tangible steps have been taken in this regard in recent years. For instance, Georgia joined the Central Asian Regional Economic Cooperation (CAREC) program in October 2016 and became its 11th member. Along with Georgia, the organization includes Azerbaijan, Kazakhstan, Tajikistan, Uzbekistan, Turkmenistan, Kyrgyzstan, Mongolia, Afghanistan, Pakistan and China. CAREC program will contribute to the development of transport infrastructure, trade, customs and energy in the member states. In cooperation with various international financial organizations, CAREC implements large-scale infrastructure and economic projects aimed at developing trade and investment between the countries of the region, increasing the potential of the transport corridor, deepening cooperation in the

energy sector and planning future projects. Besides, Europe-Caucasus-Central Asia transport corridor project (TRACECA) is utterly important. This initiative has the strongest support from the European Union and which ensures the development of economic, political and cultural relations between the countries of the region. Into the bargain, a raft area of partnership and new opportunities for developing multilateral relationships are emerging:

- The lack of access of Central Asian countries to major seaports is pushing countries to further enhance regional cooperation possibilities, areas and engage in joint projects to increase their own trade and economic opportunities;
- The issue of Europe's energy diversification is becoming increasingly active, especially as the construction of North Stream 2 is almost complete, and Russia is increasing its political and energy leverage across Europe. From this perspective, Georgia and Azerbaijan may actually strengthen their role in Europe's access to Caspian Sea energy resources;
- As multifaceted cooperation deepens, regional coordination platforms will become even more important. In order to implement jointed transport, logistics and infrastructure projects, it is necessary to create regional institutional and legal frameworks that will make the movement of goods even easier and more accessible, which in turn brings mutual benefits;
- Creating adequate financing mechanisms for investors is important for future stable cooperation. Including the involvement of international financial and investment organizations and taking into account the requirements of shareholders;
- Taking into account the existing experience with Central Asian investors, it is crucial to take an individual approach, create the favorable conditions and increase their access to priority directions within the country;
- It is pivotal to elevate regional transport and infrastructure cooperation to a new level. In the light of increasing trade liberalization, the Caucasian and Central Asian tandem will be given even greater eminence. This relationship has a potential to become a center of Eurasian economic cooperation, that means additional benefits for each party and strong regional positions.

Partnership between the countries of the region is extremely important to handle the challenges of the

21st century. Above all, the key is the dialogue between the Central Asian republics themselves, the peaceful resolution of existing conflicts and the readiness for regional economic cooperation. Basically, the geopolitical, political, economic, security and socio-cultural environments of the Central Asian countries are closely intertwined, so finding a common solution is essential in this case as well. It is clear that regional cooperation and strong international partnerships will significantly contribute to stability, democratization, sustainable development and increased economic prosperity. Here, the Caucasian squad of Georgia and Azerbaijan has also a great value. As it turned out, there are still much work to be done between the nations, and the past period may be a good lesson for rectifying the flaws, delineate the new priority areas and directions, to deepen strategic economic partnerships.

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