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**The Silk Road and Chinese interests in Central Asia
and the Caucasus: the case of Georgia**

Meine Pieter van Dijk¹ and Patrick Martens²

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¹ Senior Project Consultant, Maastricht School of Management

² Senior Project Consultant / lecturer, Maastricht School of Management

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The Silk Road and Chinese interests in Central Asia and the Caucasus: the case of Georgia
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Abstract

There was never one Silk Road and there will never be one road in the one belt as suggested by the name, One Belt One Road (OBOR) initiative, chosen by the Chinese government. There will be several railroad connections between Beijing and Europe, different water ways connecting the East and the West and also different highways can be used if one would like to drive from Maastricht to Shanghai. For gas, oil, electricity and possibly in the future water, the options are still open, although a gas pipeline has almost reached Baku and an oil pipeline Atyrau, while a power line is planned to Aktau.

In this contribution we focus on railways and roads between East and West and in specific what this means for one country, Georgia. We use this case study to show how large economic and political interests interfere in China's attempt to boost its economy by investing in infrastructure and improved linkages with Europe and the Middle East. It has been noted that this is an example of a Game changer. Instead of trying to compete with the US Navy in the East China Sea China opts to go West. Instead of building up the Chinese navy to be capable of surveillance in the East China Sea, the straits of Malacca and around Somalia, the East-West corridors will eventually be shorter and cheaper and achieve the same results of assuring China's supplies and selling Chinese products, without a costly trip via the Suez Canal to Europe and the Western Hemisphere. We conclude that China bets on several alternative Silk Roads and can play off countries in that game. At the same time it will be mainly Chinese industries, which would benefit from better trade regimes exporting to Europe or the United States, if they invest in countries along the Silk Road.

Introduction

The fight for hegemony in the Caucasus is ages old. We note that Georgia came under Persian and later the Ottoman dominance and even earlier Alexander the Great had an impact on the region, while the country was also influenced by the Hellenistic culture and the Roman Empire. Only after the fall of the Ottoman Empire did the country enjoy a short period of independence again. It lasted from 1917 till 1921 when Georgia was incorporated in the Soviet Union. The Soviet period lasted till 1992 and shortly Georgia will celebrate 25 years of independence, but still in an internationally threatening context, with currently the Russians, Chinese, Turkish and European Union as the major actors.

Georgia is strategically placed between the Caspian Sea and the Black sea and figures prominently in the Chinese press (China Daily, 15-9-2015: 3). For China, it is a strategic option to shorten the distance between China and Europe, but this also allows China to circumvent Russia. Georgia will construct a new port in Anaklia on the Black Sea to cut shipping time from China to Europe in half (to just 17 days; compared to current shipping routes which would take about a month) and has commenced negotiations with China on a free trade agreement. According to the same article the then prime minister of Georgia expressed his appreciation as such: "we consider it as an expression of support to Georgia, to Georgia's economy and to our people". He expressed the desire to become a logistic hub in the region. For Georgia, China is the third-largest trading partner (US\$ 820 million in bilateral trade in 2014). The prime minister has also encouraged Chinese tourists to visit Georgia.

Russia is of course aware of these plans and its recent advances of the South Ossetian boundary fence allows it closer access to the east-west road highway and oil and gas pipelines in Georgia may be taken of reminders of its power. Its presence inside Georgia provides leverage and a message that the transport corridor through Georgia can quite easily

fall under its control and is therefore an insecure route if there is indeed an intention to circumvent Russia. It happens that the border conflict between Georgia and Russia has global implications. Furthermore, Georgia is going through an economic crisis and will find it difficult to provide the necessary co-financing for the Trans Asian railway corridor and the oil pipeline to the Black sea. (The Messenger, June 20, 2016: 3).

This paper is about the impact of the Chinese, but requires an explanation of the political context. After an introduction of the Silk Road and a theoretical section, evidence about the Chinese presence in Georgia will be presented, to allow us to draw some conclusions about the current geo-political game in which Georgia has a central role in terms of its geographical location.

The old Silk Road and its revival through the One Belt One Road initiative

The origins of the Silk Road go back two millennia when new products from Asia, particularly silk, reached the Roman empire and resulted in huge amounts being pumped out of the Roman economy and into new trade markets beyond its borders. As an economic and political concept, the Silk Road has regained its lustre with the resurgent economic, political and military power of China. The modern, updated version has seen major investment in transport links, particularly transcontinental railway lines that have already opened up freight routes. The Yuxinou International Railway that runs from China to the Duisberg distribution hub in Germany has started transporting laptop computers, shoes, clothes and other non-perishable goods in one direction, and electronic goods, medical equipment and car parts in the other direction. This new Silk Road route, or more accurately an expanding network of transportation infrastructure linking west and east, is significantly faster than the long sea route. Noting the centrality of China in the revived Silk Road, the historian, Peter Frankopan has written:

“The Chinese government is building networks carefully and deliberately to connect to minerals, energy sources and access to cities, harbours and oceans. Barely a month goes by without the financing on a massive scale to either upgrade, or build from scratch infrastructure that will enable volumes and velocities of exchange to rise sharply. It does so in partnership with countries whose status is raised from “iron friends” to relationships that can survive in ‘all-weather’ conditions.” (Frankopan 2015, page 516)

The Silk Road has been described as "the most significant and far-reaching initiative that China has ever put forward (Wu, 2015). Five major goals are listed by the National Development and Reform Commission (NDRC, 2015):

1. Policy coordination
2. Facilities connectivity
3. Unimpeded trade
4. Financial integration
5. People to people bonds

The One Belt One Road (OBOR) can be understood as China's initiative to increase connectivity and cooperation among countries along China's old overland and maritime trade routes. Kim Chong Min (2016: 14) calls it China's new international economic diplomacy initiative. It is certainly new and puts the spotlight on a number of countries that are often not in the centre of the world's attention. It also accelerates outward investment, and shifts industries into Central, South and South-East Asia, which aligns with China's desire to develop the western part of the country (Van Dijk, 2012). Winter (2015) has listed the six principle economic corridors of the One Belt One Road (OBOR) initiative:

1. China-Mongolia-Russia economic corridor
2. New Eurasia land bridge economic corridor

3. China-Central Asia West Asia economic corridor
4. China-Pakistan economic corridor
5. Bangladesh-China India-Myanmar economic corridor
6. China-Indochina economic corridor

We will deal in particular with the China-Central Asia West Asia economic corridor. Georgia is also part of the plans of China to create a new Silk Road and is attractive for several reasons, including:

- It avoids passing through Russia;
-
- It is easier for China to deal with a small country, which is more dependent on China than China is dependent on Georgia.

The 21st Century Maritime Silk Road would according to Min (2016) connect Fuzhou with Jakarta, Calcutta and Colombo and in more western direction with Kenya (Nairobi), Greece (Athens), Italy (Venice) and the Netherlands (Rotterdam).

The role of Russia

The notions of 'iron friendship' with China and 'surviving all weather conditions' are particularly relevant in the cases of Georgia and the Central Asian states as they are confronted by newly assertive Russian power, and in the case of Georgia, military occupation of parts of its territory. The key questions concern whether Chinese investment and trade can bring prosperity to those states in the Silk Road economic belt as well as added security in what is frequently described as a 'rough neighbourhood.' This point needs to be understood in relation to China's own military assertiveness in the Pacific region and emergence as a threat to continuing American supremacy. Rachman (2016) has gone further by arguing that a fundamental shift in power from west to east is taking place. What he describes as "easternisation" locates the east, especially China, as the new centre of power in the world, noting that Russia also increasingly defines itself as an eastern power in an openly antagonistic relationship with the west. It is further noteworthy that Russia indicated an interest in joining China's 'Cross Border Inter-Bank Payments System' (CIPS) as an alternative to the SWIFT system following the threat of targeted western financial sanctions after the annexation of Crimea, as had played a key role in sanctions against Iran. China's expansionist Silk Road economic belt makes perfect economic sense considering China's strategic interests, but it is less certain what the economic and political effects will be on the former Soviet Union countries along Russia's southern rim and how Sino-Russian relations will develop at the same time.

The role of China

China's concept of the Silk Road Economic Belt was proposed by President Xi Jinping in Astana when on a state visit to Kazakhstan in September 2013. The economic belt is intended an initiative that will act as a dynamo for strengthened bilateral trade and economic relations between China and the Eurasian region, including Georgia. In a significant addendum in May 2015, China and Russia agreed in Moscow to integrate the former's Silk Road Economic Belt with the latter's vision of a trade and infrastructure network across Eurasia, the Eurasian Economic Union formally launched in January 2015 and comprising the former Soviet Union states of Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan.¹ This reinforces Russia's own 'pivot to the East' and serves to dispel the perspective that Russia and China are natural adversaries. Furthermore the Silk Road Economic Belt directly links

¹ http://news.xinhuanet.com/english/2016-06/24/c_135464233.htm

China to the EU, strengthening economic ties and raising doubt that there is any new great game in Central Asia and the Caucasus involving Russia and China in alliance against the West. Freer trade and growing cooperation in a number of spheres further undermine a new great game thesis.

The HSBC Bank supported an advertisement in the Financial Times (30-5-2016: 11) stating that 'China's plans for a 'new silk road' through Central Asia to the Middle East and Europe could transform the region's economies'. The Financial Times published a report in 2106 to examine these investments in infrastructure, along with policies in the region, which could bring a big change. The question is asked what would be the financial and political implications of such investments and what will be the impact on trade, industry and investment? The summary was published as a special section of the newspaper on May 10, 2016 with the title: 'The new trade routes Silk road corridor'.

Not one but several Silk Roads

There was never one Silk Road and there will never be one road in the one belt as suggested by the Chinese government. There will be several rail and road connections between Beijing and Europe, different sea routes connecting the East and the West and also different highways can be used if one would like to drive from Maastricht to Shanghai. For gas, oil, electricity and possibly in the future water, the options are still open, although a gas pipeline has almost reached Baku and an oil pipeline Atyrau, while a power line is planned to Aktau. The map on page 2 and 3 of the Financial Times supplement shows the existing and planned Trans Asian railways corridors, existing and planned gas pipelines, existing and planned oil pipelines and planned power lines. Tbilisi figures in the existing oil pipeline and trans Asian railway from Tehran to the Georgian harbour of Poti on the Black sea. A gas pipeline under construction through Turkey will also go through Georgia, reaching the South Caucasus in Baku, the port of neighbouring Azerbaijan.

The hope is that the investments in the new Silk Road will revitalize the economic activity and trade in the south Caucasus. To achieve this a \$40 billion Silk Road Fund and a reservation of \$100 billion by the Asian Infrastructure Investment Bank (AIIB) has been announced. The new Silk Road should improve the connections between Asia, and in particular China, and Europe and the Middle East. Its impact can be substantial, if only because the price of transportation is lower than using a plane, while the length of the trip is much shorter than taking the traditional sea roads. The new Silk Road would cross several Central Asian republics and may find it difficult to circumvent Russia or avoid Turkey, unless the South Caucasus route is fully developed.

The theory of international relations

The theory of international relations and international trade is all about relations between countries of different size and different levels of development. In the framework of a small country like Georgia, between major global powers such as the European Union, China and Russia different bodies of literature are relevant. First, we note a process of globalisation with winners (like China) and losers (like Russia). Globalisation is not always a win-win process and it is important to analyse the cases where some countries benefit at the expense of others. Secondly, the theory of neo-colonialism has been used to describe China's role in certain countries. Van Dijk (eds., 2009) quote a former South African president, who described China's role in Africa in these terms.

Specific bodies of literature that may be relevant:

a. The China hegemony thesis in its relations with other countries (Kaplan, 2016) and illustrated in some of the case studies in Van Dijk (eds., 2009). Kaplan starts with 'as China asserts itself in its nearby seas', to finish with the conclusion that we have to 'prepare to navigate the anarchy of an unravelling Eurasia'.

b. The frozen conflict theory, which states that Russia uses border conflicts in countries like the Ukraine and Georgia as a conflict that can be revived if needed in the context of international relations, concerning fundamental choices these countries make such as joining the EU or NATO. The conflict in Georgia about the breakaway territory of South Ossetia can hardly be called a frozen conflict, since the Russians arbitrarily move the boundary fence, moving just a few meters, but causing unrest and unhappiness, for example separating farmers from their land, which suddenly is considered to be part of South Ossetia. The events hardly capture the attention of the world, because the war in Syria and against ISIS is at a different scale and gets all the attention of the international press. Locally the information is available (for example from the weekly bilingual newspaper Observer, No. 29, 20-6-2016).

Historical context of Georgia: current geo-political and economic realities

Georgia is a small strategically located country in the south Caucasus historically surrounded by strong neighbours. The historian, Donald Rayfield, has described it as a having to survive “between empires” in a long and complex history (Rayfield, 2012). The empires referred to were the Byzantines, the Seljuk Turks, the Persians, the Ottomans, most devastatingly, the Mongols, and finally the Russians who have exercised military dominance over Georgia more or less continuously since the Treaty of Georgievsk established Russian suzerainty in 1783. Georgia since re-established its independence in the post-Soviet period, but has had to endure continuing Russian occupation of large parts of its territory by Russia following wars in Abkhazia and South Ossetia and is faced with a military threat inside its territory, including arbitrary expansion of boundary fences by Russian military forces. The seizure of a mile long section of the trans Georgia oil pipeline was a threatening move, but it is unclear how far Russia will go in the light of its current economic problems and it has not stopped oil transportation or hindered the current construction of the gas pipeline. Seizure of roads and railways would certainly force China to accept that all Silk Road Economic Belt routes include Russia. Notably in the past, Russia has also applied economic pressure on Georgia with a trade boycott of Georgian products that has since been rescinded. Nevertheless, there have been threats to restore it and pressure to join the ‘alternative to the European Union’, the Eurasian Economic Union.

Since the Rose Revolution in 2003 Georgia has developed from near failed state status into a progressive democracy achieving good results in modernizing governance with a number of widely acknowledged international best practices, such as the Government e-procurement system. The best results in terms of world governance indicators were achieved in 2014, according to a World Bank study. The index is made up of freedom of expression, political stability, government effectiveness, level of regulation, rule of law and corruption control and is based on annual measurements since 1996. All six indicators improved except for government effectiveness, which showed a small decline (Financial Headline news and analysis, 20-6-2016: 12). Good governance in Georgia has had a positive impact on the investment climate and will continue to impact positively on economic development.

The difficult geo-political situation has resulted in Georgia looking to the United States and Europe for military protection as well as close economic cooperation in line with its pro-Western market-orientated economic policies. However, western involvement in the region has declined and the Georgian government has been disappointed by the slow progress of its Euro-Atlantic integration. Notably, Georgia was not given its desired Membership Action Plan (MAP) with NATO at the summit in Riga in May 2016 despite the promises that had been made at the NATO summit in Bucharest in 2008 that Georgia will become a member of the alliance. Despite the promise heralded by the EU Association Agreement, a primary Georgian objective of a visa-free travel regime with the EU has still not been granted, although this most likely a consequence of EU efforts to ensure fair play in the Georgian general election scheduled for October 2016. Notwithstanding the slow progress on the MAP

and visa liberalisation, most Georgians broadly support the government's pro-western policies as shown by a representative poll conducted by the National Democratic Institute in March 2016, although with pragmatic understanding that good relations with Russia are important.² Generally, most surveys have shown that Georgians are most concerned with living standards and economic conditions.

On July 16 2016 the Association Agreement (AA) between the European Union (EU) and Georgia fully entered into force. The AA aims to deepen political and economic relations between the EU and Georgia, also through the creation of a Deep and Comprehensive Free Trade Area (DCFTA). By removing customs tariffs and quotas and by comprehensively approximating trade-related laws and regulations to the standards of the European Union, the Agreement offers Georgia a framework for boosting trade and economic growth. This will facilitate Georgia's progressive integration with the EU single market.³ The DCFTA has shown some positive results on certain agricultural exports, especially kiwis, blueberries, nuts, garlic and wine as well as copper products and petroleum oils. Freer trade resulting from FTAs with the EU and China combined with the improved infrastructure and gains from being a vital part of the transport corridor, will be to Georgia's advantage. In terms of trade and investment, Georgia stands to benefit considerably.

In the context of this paper, the gradual EU-Georgian integration needs to be seen in relation to strengthening Sino-EU economic relations, particularly as the EU is a major trade partner for China with trade expected to reach \$ 1 trillion by 2020.⁴ Within the EU's 'Transport Corridor Europe – Caucasus – Asia' (TRACECA) initiative, the Trans Caspian International Transport Route (TITR) was launched as a 4,766 kilometre multi-modal transport route involving China, Azerbaijan, Georgia, Kazakhstan and Turkey with Ukraine joining in January 2016. This route is time efficient for China, considering the inefficiencies and slowness of the alternative Trans Siberian Railway. The fact that it avoids Russia is in the interests of Georgia and the Ukraine in particular and presents business opportunities. TRACECA has been reinvigorated by the Chinese Silk Road initiative and finally benefits are showing with the first Chinese freight train arriving in Tbilisi on December 13, 2015. The final construction of the railway section from Akhalkalaki in Georgia to Kars in Turkey is expected to be completed by end 2016 and will further strengthen Georgia's position as a transit hub.

The problem of high levels of poverty and the imperative of designing policies and strategies to alleviate poverty is a pressing issue for Georgia (UNDP, 2013 and World Bank, 2014). Infrastructural development and foreign investment have been seen as key for the previous United National Movement government, and to a lesser extent the current Georgian Dream coalition. Nevertheless despite evidence of new hotels and casinos in Tbilisi and Batumi, there are continuing high levels of poverty in both urban and rural areas. According to Jones (2013), the Georgian economy, despite progress in institution building, budgetary discipline, and growth in financial services, telecommunications and construction, shows little sign of raising the majority of the population out of poverty with, at a conservative estimate, 38,5% living below the poverty line. Poverty alleviation remains a crucial imperative for Georgia that, unless adequately addressed, will create instability. Partnerships and FTAs with the EU and China offer promise, but need to deliver results in terms of economic growth, and especially, employment creation. In this regard, a cautionary note needs to be sounded when

² <https://www.ndi.org/March-2016-Public-Opinion-Issues-Press-Release-Georgia>

³ http://europa.eu/rapid/press-release_IP-16-2369_en.htm

⁴ According to China Institute for Reform and Development.

Chinese behaviour in Africa in particular is considered. Labour intensive Chinese investments, particularly in mining and construction, have been marked by a preference for bringing in Chinese workers and concerns about low wages and human rights abuses (also Van Dijk, ed., 2009). In the case of Zambia, a Chinese Mine Manager was murdered in the aftermath of a wage dispute and the behaviour of Chinese owned enterprises has been an election issue in the elections of 2006 and 2011.

The growing Chinese interest in Georgia as a key node of intersection between Asia and Europe has resulted in dramatically increased trade and investment. Could expanding economic ties have a political impact that that has not been realized by the EU and NATO links? Put differently: can an “all weather iron friendship” provide a dimension of protective security to a vulnerable country like Georgia? The likely answer to this is that transportation routes through Georgia should not be seen as an alternative Silk Road to northerly routes that traverse Russia, which itself remains an important trade partner for China and is not excluded from the Silk Road Economic Belt. Russia is also part of the BRICS grouping, along with Brazil, India and South Africa. Notably, in May 2014, weeks after Russia’s annexation of Crimea, China and Russia agreed a \$400 billion deal for Gazprom to supply CNPC with up to 38 billion cubic meters of gas for 30 years, though it is seen to have been on terms highly favourable to China as a result of Russia’s desperation to develop alternative markets to Europe.⁵ In fact, China has invested heavily in a ribbon of road, rail and energy projects both within Russia, such as the Moscow-Kazan high speed railway, and south of Russia’s borders, including the Central Asia – China gas pipeline, the Khorgos – Aktau railway and the China - Kyrgyzstan railway. The reality is rather complex as new Silk Road transport routes do serve to diminish the dependence of Central Asian countries, particularly Turkmenistan, on Russian routes, but the facts to date suggest that the Silk Road Economic Belt is a rational and pragmatic expansion of Chinese economic interests, not an emerging political alliance to counter Russia. China is creating a competitive and extensive network of routes across Asia, including Russia, in order to create more opportunities to manoeuvre its economic forces to maximum advantage and to spread its influence and interests in the world.

Rapidly strengthening economic and commercial ties with China will not immediately provide Georgia with the security and protection that it craves, but the fact that it is emerging as a participant in the Silk Road Economic Belt is important. Besides its development as a transit and logistical hub for road, rail and sea transportation to and from Europe, there is the Baku-Tbilisi-Ceyhan oil pipeline and the currently under construction Trans Anatolian Gas Pipeline (TANAP). The latter potentially reduces European gas dependence on Russia - assuming Georgian territorial integrity - and control of the railway, road and pipelines. While on the one hand this poses a threat to Russian strategic interests, it may on the other hand strengthen Georgia through soft power. A strong Chinese stake in the Georgian economy can have a certain deterrent value, although this is highly speculative and most likely that China will not intervene in the event of a Russian attack. It has not for obvious reasons ever supported separatism such as that exhibited by Abkhazian and South Ossetian groups with Russian support, but this does not mean that it will confront Russia. It is also not easy to predict Russian behaviour in the South Caucasus beyond the current clear signals that they would like to see a pro-Russian government in Tbilisi.

Evidence about the Chinese presence in Georgia

⁵ <http://www.ft.com/cms/s/0/eea4f2ec-16c0-11e6-b197-a4af20d5575e.html#axzz4GuOlxkUm>

Concerning China's involvement in Georgia, we note the improved railways and roads between East and West and studied in specific what this means for Georgia. Georgia is strategically placed between the Caspian Sea and the Black sea and figures prominently in the Chinese press (China Daily, 2015). It is a strategic option to shorten the distance between China and Europe, but it also allows China to circumvent Russia. Russia is aware of this and the extension of the borders of South Ossetia can be seen as a bargaining chip in time of troubles. Furthermore, Georgia is experiencing economic hardship and will find it difficult to provide the necessary co-financing for the Trans Asian railway corridor and the oil pipeline to the Black sea.

Contrary to, for example Armenia, Georgia has opted for closer collaboration with the EU, rather than becoming part of the Russian economic zone (the Russian led Eurasian customs union, or since 2015 the Eurasian economic union). It considers good relations with China as a possible counterweight to the Russian dominance in the region. However, China's presence in Georgia, while growing, is still rather limited. China has been involved in health and infrastructural projects and has also shown interest for projects in the mining sector. One of China's leading energy conglomerates (CEFC China energy) is showing an interest to invest in Georgia (Caucasus Business week, 20-6-2016: 2). In an earlier issue (13-6-2016:2) it was announced that China will transport cargo to Belgium twice a week via Georgia, using the Caspian international transport route and the Poti sea port. The Journal also announces direct flights from Tbilisi to Beijing by a Chinese company and an allocation of US\$ 9.1 million for health care development in Georgia (Caucasus Business week, 13-6-2016: 11). As another example of relations with China, the Messenger (24-6-2016: 3) announced that a Chinese company would invest US\$ 10 million to build a Georgian culture house in a Chinese province where at least 200,000 bottles of Georgian wine will be sold.

An increasing number of Chinese companies are now operating in Georgia, accounting for a large increase in China-Georgia FDI. Among the most significant projects are the Hualing group's development of US \$40 million free industrial zone in Kutaisi in Western Georgia which is located close to the Anaklia Deep Water Sea Port project, which will handle 40 million tons of cargo per year and is a key link in the Silk Road economic belt as a hub for the transport of Chinese goods to Europe. It is notably aligned with Georgian government strategy to position the country as a logistics centre. In another significant move, the Hualing group has invested in the financial services sector in July 2016 by merging Bank Republic and Basisbank and taking a controlling stake, including majority votes on the supervisory board in the new bank. Interestingly, the European Bank for Reconstruction and Development (EBRD) will maintain a 3.9% share and seat on the board.⁶ In the energy sector, September 2015, the Chinese state-owned enterprise, Dongfang Electric, pledged to contribute about \$180 - \$200 million for construction of a 150 megawatt thermal power plant in the Tkibuli region of western Georgia.⁷

To conclude, China has shown its interest to financially support the construction of the necessary infrastructure for improved east-west trade and transport. It considers the new Silk Road as its signature foreign policy project and it would allow more trade between west and east. The question is what it means for Georgia's chances to develop certain industries? Rather, Chinese companies will set up subsidiaries in countries like Georgia and benefit from the favourable trade regime between Georgia and the EU or the United States.

⁶ <http://cbw.ge/banking/french-chinese-deal-georgian-bank-sector-basisbank-bank-republic-merge/>

⁷ <http://agenda.ge/news/42103/eng>

The participation of Georgia in the Silk Road economic belt: will there be gains?

Evidence of the rapidly developing Sino-Georgian relations is seen in not only in the joint signing of a memorandum of understanding between the two sides on the construction of the Silk Road economic belt, but also on the launching of negotiations on a China – Georgia free trade agreement (FTA). This followed the signing of a joint declaration on an FTA in Beijing on March 9. In the Chinese view, Georgia’s strategic location positions the country as an important hub between east and west.⁸ This fits with the Georgian government’s strategy to develop the country as a logistics hub. According to the social-economic development strategy “Georgia 2020”:

“A well-developed transport, energy, logistical and agricultural infrastructure is one of the most important factors capable of increasing the country’s competitiveness and realizing its full transit potential. Logistics, as one of the most rapidly developing sectors of the modern world, would enable Georgia to make maximum use of its transit and trade potential. Correspondingly, state policy will be directed towards developing this sector, including through the development of infrastructure, attracting investments to the sector and integrating the country with international and regional transport systems.”⁹

Following the pursuit of highly liberal pro market free trade policies in Georgia since 2003, trade and economic ties between China and Georgia have expanded rapidly. In 2014 the trade volume reached US \$0.96 billion and Chinese direct non-financial investment totalled US \$0.53 billion making China the fourth largest trade partner and its third largest foreign investor of Georgia, with approximately 25 Chinese companies operating successfully in Georgia, notably in infrastructure, banking and agriculture sectors.

A feasibility study on the proposed China – Georgia Free Trade Agreement (FTA) conducted by the University of International Business and Economics, the Ministry of Economy and Sustainable Business, Georgia, and the Ministry of Economy, China, found that a FTA would increase bilateral trade in goods and services as well increase FDI. The study projected that Georgia’s annual exports to China could increase by 9 percent and China’s by 1.7 percent. The most promising Georgian sectors are (UNDP and SDC, 2013): wine with a projected gain of 28.5 percent (following significant reduction of the current 21.33 percent Chinese tariff rate; non-alcoholic beverages (36.7 percent gain); copper scrap, currently Georgia’s largest export to China (4 percent gain). China’s manufacturers, especially electronic, steel and shoes will also experience gains as well as the Chinese agricultural sector, with frozen meats and dried vegetables seen as being noteworthy. Furthermore, a FTA would greatly enhance trade in services and FDI, by easing the regulatory environment and project financing.¹⁰

Discussion

Is the emphasis on the Silk Road an example of a Game changer? Instead of trying to compete with the US Navy in the East and South China sea, China opts to go West in a different way. Instead of building up the Chinese navy even further to be capable of surveillance in the East and South China sea, the straits of Malacca and around Somalia, the East-West corridors will eventually be shorter and cheaper and achieve the same results of

⁸ http://fta.mofcom.gov.cn/enarticle/enrelease/201503/20814_1.html

⁹ <http://static.mrdi.gov.ge/551e4a570cf24147438b1727.pdf>

¹⁰ <http://cbw.ge/economy/outcomes-of-possible-china-georgia-free-trade-research/>

assuring China's supplies and selling Chinese products. It is not really a game changer, since it will still be necessary to develop the navy and defend these sea roads.

It is rather another example of China's conviction that infrastructure will bring development. After having shown this at home and to some extent in Africa, it is now proving this in Central Asia. However, the case is an example of globalisation and unequal relations between countries of different size and level of development. What is clear is that bets on several alternative Silk Roads and can play off countries in that game. At the same time it will be mainly Chinese industries, which would benefit from better trade regimes if they invest in countries along the Silk Road.

In the same way the frozen conflict theory applies for Georgia, as it applies for the Ukraine. This means there is no incentive for a structural solution. As long as the current Russian regime wants to stop Georgia's preference for going west (joining the EU and NATO), Russia has an interest of keeping up the pressure and increasing it at times it needs concessions.

Do the Chinese behave as neo-colonial power in this region? There are no clear indications at this stage. On the one hand, China needs the collaboration of different governments and hence it is willing to keep their interests into account. On the other hand, China has the advantage, given alternative Silk Roads and the funds it can provide to invest in infrastructure and other sectors of the economy.

The case does make the point however that a small country, like Georgia, will find it difficult to deal with the great powers of this world. It does not have the same financial, human or military resources and is in a different stage of its development, where it has tried to diminish Russian dominance and become rather more involved in Europe. These ambitions can only be achieved if Georgia gets the necessary space to determine its own priorities.

Some conclusions

We used this case study to show how large economic and political interests interfere in China's attempt to boost its economy by investing in infrastructure and improved linkages with Europe. It has been noted that this is an example of Game Changer. Instead of trying to compete with the US Navy in the East China sea China opts to go West. Instead of building up the Chinese navy, which is a costly and long term process, and most vessels are necessary to be capable of surveillance in the East and South China sea, the straits of Malacca and around Somalia, the East-West corridors will eventually be a shorter and cheaper and achieve the same results of assuring China's supplies and selling Chinese products, without a costly trip via the Suez Canal to Europe and the Western Hemisphere. China's effort to explore the northern sea route to Europe fits in the same pattern.

The reaction of the EU is important and extremely difficult. Normally, Georgia would qualify for a long terms association process and membership of NATO would be an option in the future. However, political regimes may change and that may provide new opportunities, in the same way that the Chinese investments in Georgia's infrastructure are for the moment an opportunity, in time of recession and restructuring, they may turn into a liability.

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