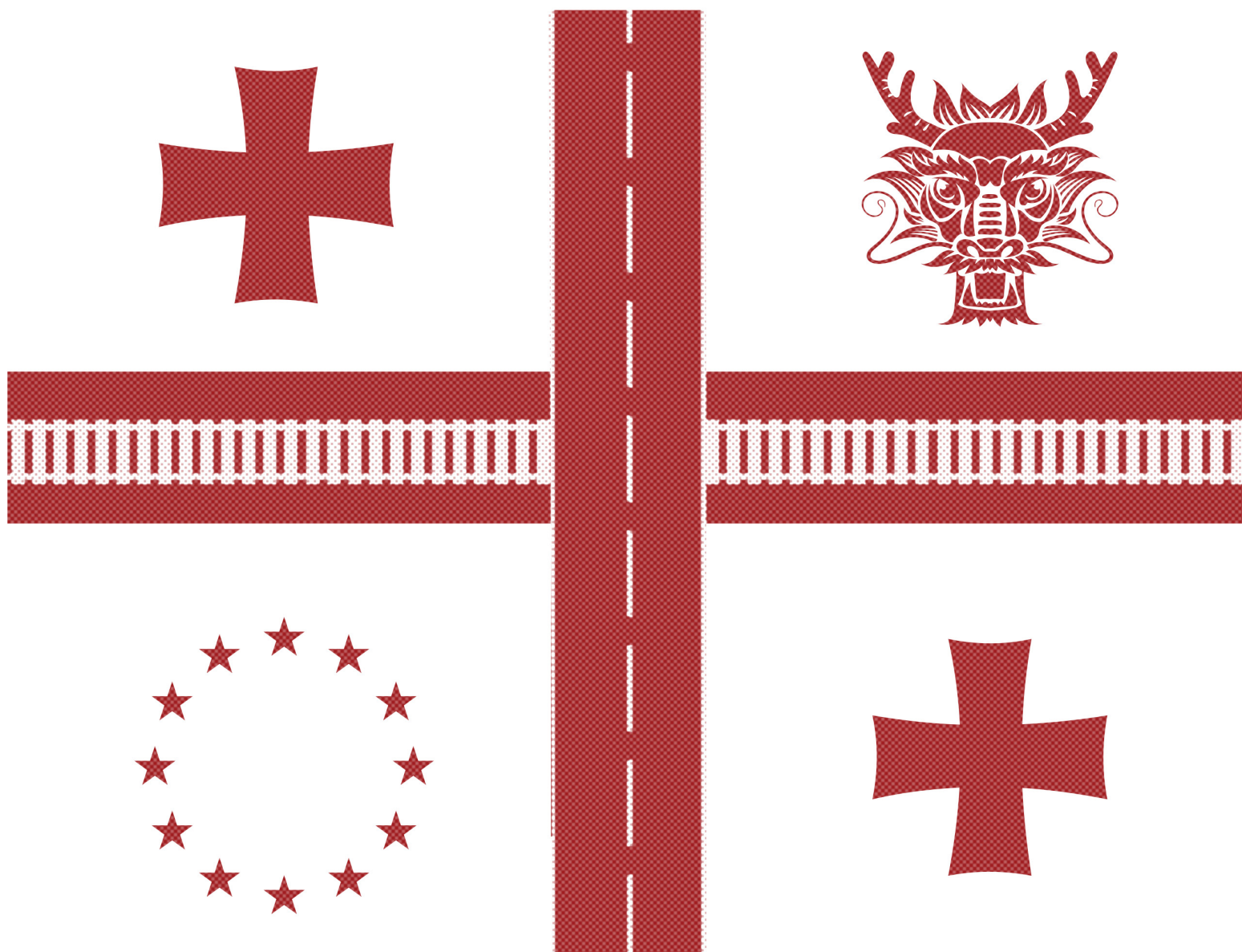




# ON THE FAULT LINE: GEORGIAN RELATIONS WITH CHINA AND THE WEST



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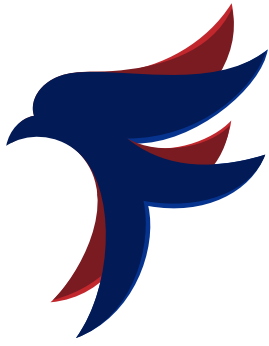
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## ON THE FAULT LINE:

## GEORGIAN RELATIONS WITH CHINA AND THE WEST

### EXECUTIVE SUMMARY

Relations between Georgia and the People's Republic of China have expanded as China engages with the wider Black Sea region. The bilateral relationship is mostly economic in nature, with Georgia participating in the Belt and Road Initiative and the two countries signing a free trade agreement in 2017. While deeper engagement with China carries potential risks of overdependence and democratic backsliding, Georgia's partial integration with Euro-Atlantic structures serves to mitigate those risks. This report argues that an expanded Chinese presence has the potential to bring Georgia closer to the Euro-Atlantic space if its Western partners make renewed commitments within the paradigm of constructive competition with China. The United States and the European Union have both indicated a willingness to do so.

# THE CHINA FACTOR



Debate about Georgia's foreign policy focuses on the country's position on a "geopolitical fault line" between the East and West. This narrative views Georgia in the context of geopolitical competition between the Russian Federation and the Euro-Atlantic space, with the wider Black Sea region being the central zone of contention. Georgia's relations with local partners (Armenia, Azerbaijan, Turkey), while driven by pragmatic rather than civilizational choices, are nonetheless often viewed as functions of Georgia's position on this fault line.

Geopolitical competition between Russia and the Euro-Atlantic space is real, but the constellation of interests is more complex than is often acknowledged. While eschewing a multi-vectored foreign policy in favor of integration into the Euro-Atlantic system, Georgia has nonetheless sought to diversify its roster of partners, especially in the economic sphere. In recent years, Georgia's political and business elite have sought to cultivate a deeper relationship with the People's Republic of China. For its part, China has increased its economic and diplomatic presence in the wider Black Sea region while implementing Belt and Road Initiative (BRI). A complex web of projects and initiatives (many of them financed by the Chinese government), the BRI is an ambitious plan to strengthen connections between Europe and

Asia by building infrastructure in the intervening states. Georgia is one such state.

Georgia's government and business leaders have seized on this opportunity, reaching out to China while framing the country as a gateway to both Europe and Asia. In 2017, Georgia signed a free trade agreement (FTA) with China. The agreement entered into force the following year, making Georgia the only country with both a Deep and Comprehensive Free Trade Area (DCFTA) with the European Union (EU) and an FTA with China. In a 2018 interview, the country's then-President Giorgi Margvelashvili framed the FTA as a way to benefit from China's growing assertiveness: "We look at China's development as a rare and great opportunity, instead of a challenge, for the world. That is why Georgia signed a free trade agreement last year with China."<sup>1</sup>

This report examines the current state of Georgia-China relations, analyzing both opportunities and risks presented by continued Chinese economic and diplomatic engagement. The paper argues that emerging ties with China could, counterintuitively, strengthen Georgia's relations with its Euro-Atlantic partners. The United States and EU could respond to the expanded Chinese presence with deeper engagement of their own.

<sup>1</sup> "Interview: China's development constitutes great opportunity for the world – Georgia president." Xinhua, June 06, 2018. [http://www.xinhuanet.com/english/2018-06/11/c\\_137246612.htm](http://www.xinhuanet.com/english/2018-06/11/c_137246612.htm).

## AN EXPANDING RELATIONSHIP

Bilateral ties have advanced gradually since China first recognized Georgia as an independent state in 1992.<sup>2</sup> Georgian exports to China increased from just \$6 million in 2009 to \$198 million in 2018, making it Georgia's sixth-largest market.<sup>3</sup> Georgian exports are dominated by raw materials although Chinese consumers purchased nearly seven million bottles of Georgian wine in 2018<sup>4</sup>—making China Georgia's third-largest wine market after Russia and Ukraine. Over the same period, Georgia's imports from China increased from \$175 million to \$833 million, making it the third-largest source of imports after Turkey and Russia. Through the first four months of 2019, China surpassed Russia to become the second-largest exporter to Georgia.

When the FTA entered into force in 2018, it eliminated tariffs on 96.5% of Chinese exports and 93.9% of Georgian exports. A 2015 feasibility study estimated that the total bilateral elimination of tariffs would result in a 9% increase in exports and a 1.6-2.2% increase in imports for Georgia.<sup>5</sup>

While it is too early to assess the impact of the FTA, the agreement is likely to be favorable to Georgia. Even before the implementation of the FTA, Georgia allowed the import of nearly all Chinese imports at near-zero tariffs. Moreover, the bulk of imports entering Georgia are made up of capital goods and machinery and electrical equipment.<sup>6</sup> Trade liberalization should thus create new opportunities for Georgian exporters without flooding Georgia's consumer markets with cheap import goods.

China is also a noteworthy source of foreign direct investment (FDI) although the rate of new investment has fallen since spiking in 2014.<sup>7</sup> Total FDI from China reached \$218 million in 2014 due to large one-time investments, falling to \$67 million the following year. In 2018, total FDI from China amounted to \$65 million.

Georgia's largest foreign investor is Xinjiang-based Hualing Group, which has invested more than \$500 million dollars in Georgia since 2007.<sup>8</sup> Hualing's investments include two hotels, a Free Industrial Zone in Kutaisi, a residential and commercial district outside Tbilisi, and a wood processing plant, among others. In 2018, the company launched a budget airline with Tbilisi International Airport as its main hub.<sup>9</sup> According to Hualing's website, it employs more than 3,000 people in eight different enterprises in Georgia. Hualing also owns a controlling share in Georgia's Basis Bank, which in 2016 received a \$5 million line of credit from the state-owned Development Bank of China.<sup>10</sup> This is indicative of how private investments by Chinese companies often come with government strings attached.<sup>11</sup>

Growing trade turnover and Chinese investment are significant for Georgia. From China's perspective, however, Georgia's primary value is neither as a consumer nor a producer, but as a regional transport hub. Georgia's role in the emerging BRI is worth analyzing in detail.

2 Larsen, Joseph. "Georgia-China Relations: The Geopolitics of the Belt and Road." Georgian Institute of Politics, October 2017. [http://gip.ge/wp-content/uploads/2017/10/Chineti%20Saqtartvelo%20Eng\\_Ydit.pdf](http://gip.ge/wp-content/uploads/2017/10/Chineti%20Saqtartvelo%20Eng_Ydit.pdf).

3 According to the website of the National Statistics Office of Georgia available at <https://www.geostat.ge/en/modules/categories/35/external-trade>

4 "Georgia exports 86.2 mln bottles of wine in 2018, record high of last 30 years." Agenda.ge, January 4, 2019. <http://agenda.ge/en/news/2019/23>.

5 "Joint Feasibility Study on China-Georgia Possible Free Trade Agreement." PMCG, August 07, 2015. <http://www.pmcg-i.com/publications/reports/item/942-joint-feasibility-study-on-china-georgia-possible-free-trade-agreement>.

6 "Product Imports by Georgia from China 2017." World Bank, 2017. <https://wits.worldbank.org/CountryProfile/en/Country/GEO/Year/2017/Trade-Flow/Import/Partner/CHN/Product/All-Groups>.

7 "Foreign Direct Investments by Countries." National Statistics Office of Georgia. <https://www.geostat.ge/en/modules/categories/191/foreign-direct-investments>.

8 "Hualing Group investment in Georgia." Hualing Group. <http://hualing.ge/language/en/hualing-georgia/>.

9 "About Us." MyWay Airlines. <http://www.mywayairlines.com/AboutUs>.

10 "Hualing Group enters into preliminary agreement to acquire majority stake of Bank Republic, a subsidiary of Societe Generale Georgia." Hualing Group. <http://hualing.ge/language/en/hualing-group-enters-into-preliminary-agreement-to-acquire-majority-stake-of-bank-republic-a-subsi-ary-of-societe-generale-in-georgia/>.

11 Larsen, Joseph. "Georgia-China Relations: The Geopolitics of the Belt and Road." Georgian Institute of Politics, October 2017. [http://gip.ge/wp-content/uploads/2017/10/Chineti%20Saqtartvelo%20Eng\\_Ydit.pdf](http://gip.ge/wp-content/uploads/2017/10/Chineti%20Saqtartvelo%20Eng_Ydit.pdf).

# GEORGIA - CHINA TRADE

Free Trade Agreement entered into force in 2018.  
It eliminated tariffs on:

**96.5%**

Chinese exports

**93.9%**

Georgian exports



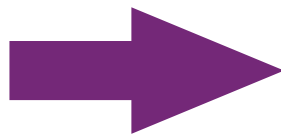
IN THE FIRST FOUR MONTHS OF 2019, CHINA SURPASSED RUSSIA TO BECOME THE **SECOND LARGEST EXPORTER TO GEORGIA.**

Georgian exports to China

**EXPORTS**

2009

**\$6** MIL



2018

**\$198** MIL



**7** MILLION

CHINESE CONSUMERS PURCHASED NEARLY SEVEN MILLION BOTTLES OF GEORGIAN WINE IN 2018.

CHINA IS NOW GEORGIA'S LARGEST MARKET

**6<sup>TH</sup>**

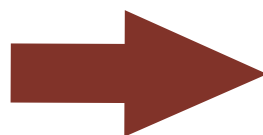


Chinese imports to Georgia

**IMPORTS**

2009

**\$175** MIL



2018

**\$833** MIL



Hualing Group is Georgia's largest foreign investor. Investments include two hotels (top), a Free Industrial Zone (middle), and budget airline with Tbilisi International Airport as its main hub (bottom). *Source: Hualing.ge*





## THE BELT AND ROAD INITIATIVE

China officially announced the BRI in 2013. The initiative has been framed as a “march west” by Beijing, in response to President Barack Obama’s “Pivot to Asia” although Chinese officials have stated that it is “not a tool of geopolitics.”<sup>12</sup> Hailed as “the project of the century” by Chinese Communist Party Chairman Xi Jinping, the BRI is a web of projects covering both land and sea.<sup>13</sup> The land component is the Silk Road Economic Belt (SREB), and the sea route is called the Maritime Silk Road. Still vaguely defined, the BRI is a dense web of transport routes that encompasses both new and pre-existing projects. Yevgen Sautin fittingly referred to it as “a catch-all for Chinese development aid, private and public loans, and foreign direct investment, greatly muddying analysis.”<sup>14</sup>

Despite the difficulty in ascertaining where the BRI begins and other regional infrastructure frameworks end, the goals of the initiative are more straightforward. It was launched to promote China’s economic agenda and geopolitical influence in Eurasia. Reduced physical and political barriers to trade are expected to open new markets for exporters and foster regional security through enhanced cooperation. The BRI also involves securing energy supplies from Russia and Central Asia.

If implemented successfully, the project promises to promote four Chinese foreign policy goals identified in a 2015 paper by the Council on Foreign Relations: 1) pacify its periphery, and 2) sustain high economic growth, 3) maintain internal order, 4) cement China’s international status.<sup>15</sup>

## GEORGIA’S POSITION ON THE SILK ROAD ECONOMIC BELT

Georgia is involved directly in the China-Central Asia-Western Asia Corridor stretching from China in the east to Turkey and the Black Sea in the west.<sup>16</sup> The corridor is one of six overland corridors making up the SREB, the goal of which is to “shorten the distance between China and Europe” by strengthening the intervening infrastructure, including in the South Caucasus. Indicative of the BRI concept, the China-Central Asia-Western Asia Corridor aims to build upon, rather than replace, existing infrastructure frameworks.

Regional infrastructure development has long been a priority for international actors with interests in the region. In 1993, the EU launched the Transport Corridor Europe-Caucasus-Asia (TRACECA), a regional infrastructure initiative involving Georgia and 12 other countries. In 2013—two years prior to Georgia’s official entry into the BRI—the railway and maritime authorities in Azerbaijan, Georgia, and Kazakhstan established the Trans-Caspian International Transport Route (TITR), an organization devoted to cooperation on infrastructure projects.<sup>17</sup> The goal of the TITR is to facilitate transportation between China and the EU, with its member organizations touting it as an overland alternative to both Russia and Iran. This dovetails with the aims of the China-Central Asia-Western Asia Corridor, which is also intended to limit dependence on Russia and Iran.

Georgia offers both land and sea transport routes that facilitate transportation along the corridor.<sup>18</sup> First, it provides an overland route to Turkey, especially via the Baku-Tbilisi-Kars (BTK) railway. Second, Georgia can serve as a maritime outlet to Europe via its yet-to-be-completed port in the Black Sea town of Anaklia.

12 Sun, Yun. “March West: China’s Response to the U.S Rebalancing.” Brookings, January 31, 2013. <https://www.brookings.edu/blog/up-front/2013/01/31/march-west-chinas-response-to-the-u-s-rebalancing/>.

13 “China’s Xi hails Belt and Road as ‘project of the century.’” Financial Times, May 14, 2017. <https://www.ft.com/content/88d584a2-385e-11e7-821a-6027b8a20f23>.

14 Sautin, Yevgen. “China’s Black Sea Ambitions.” Foreign Policy Research Institute, December 11, 2018. <https://www.fpri.org/article/2018/12/chinas-black-sea-ambitions/>.

15 “Revising U.S Grand Strategy Toward China.” Council on Foreign Relations Press, April 2015. <https://www.cfr.org/report/revising-us-grand-strategy-toward-china>.

16 Youwei Lai and Wu An. “China-Central Asia-Western Asia Economic Corridor: Progress, Main Challenges, and Promotion Measures.” Development Research Center of the State Council of the People’s Republic of China, November 6, 2018. [http://en.drc.gov.cn/2019-01/02/content\\_37421873.htm](http://en.drc.gov.cn/2019-01/02/content_37421873.htm).

17 “History of company.” Trans-Caspian International Transport Route. <http://titr.kz/en/about-the-association/history-en>.

18 Larsen, Joseph. “Georgia-China Relations: The Geopolitics of the Belt and Road.” Georgian Institute of Politics, October 2017. [http://gip.ge/wp-content/uploads/2017/10/Chineti%20Saqartvelo%20Eng\\_Ydit.pdf](http://gip.ge/wp-content/uploads/2017/10/Chineti%20Saqartvelo%20Eng_Ydit.pdf).

## A TRANS-CAUCASIAN RAILWAY

The Baku-Tbilisi-Kars (BTK) railway, an 829-kilometer stretch connecting Azerbaijan to Turkey via Georgia, was officially launched in 2017. The first Chinese shipment to travel along the line arrived in Georgia in February 2018. Goods originating in China are first shipped to Kazakhstan by rail. From there, they're loaded onto barges at the Caspian port of Aktau and shipped to Baku. From Baku, they're transferred onto rail cars for shipment to Turkey and, eventually, the EU.

The BTK railway allows a single shipment to travel between China and Europe in 15 days, significantly faster than by sea.<sup>19</sup> It has the capacity to carry 6.5 million tons of freight per year, a figure which is expected to eventually increase to 17 million tons. It also launched passenger transport earlier this year.

The BTK railway is part of the Trans-Caspian East-West-Middle Corridor Initiative ("Middle Corridor"), Turkey's own Silk Road initiative, which aims to create a regional rail network that connects Turkey with Central Asia (namely Kazakhstan and Turkmenistan) via the Caucasus and the Caspian Sea.<sup>20</sup> The Middle Corridor overlaps with the BRI and TITR, highlighting the complex interactions of regional infrastructure projects. Moreover, the BTK railway highlights Georgia's need to coordinate policy with its neighbors (Turkey and Azerbaijan) in order to maximize benefits from involvement in the BRI.

## THE ANAKLIA BLACK SEA DEEP WATER PORT

The \$2.5 billion Anaklia Black Sea Deep Water Port is the largest infrastructure project in Georgia's history. Once constructed, it will dwarf the combined capacity of Georgia's two existing ports, in Batumi and Poti, with the ability to handle 1.5 million tons annually in its first phase (scheduled for completion in 2021).<sup>21</sup> An estimated 146 million people will be impacted by supply chains augmented by the Anaklia port.

The port will have a depth of 16 meters, enough to receive 10,000 twenty-foot equivalent unit (TEU) vessels. Those are the largest ships currently transiting the Black Sea, significantly larger than the 1,500 TEU vessels handled by Georgia's existing ports. Adjacent to the port, there will be a 2,000-hectare Special Economic Zone (SEZ), one of several special areas in the country that allow tax-free production of goods for export. If and when successfully completed, the port will make Georgia a regional hub for both rail and container traffic, finally allowing the country to capitalize on its position as a bridge between Europe and Asia.

The port is being built by the Anaklia Development Consortium (ADC), an international group of private firms whose stated goal is to "create a world class port complex for Georgia and establish Anaklia as a focal point of trade to and from Central Asia and on the New Silk Road trade route between China and the Europe" [sic].<sup>22</sup> Made up of Georgian, U.S., and European firms, until recently the ADC included TBC Holding (Georgia), Conti International (USA), SSA Marine (USA), British Wondernet Express (UK), and G-Star LTD (Bulgaria).

19 Shepard, Wade. "Reconnecting Asia: The Story Behind The Emerging Baku-Tbilisi-Kars Rail Line." *Forbes*, December 15, 2016. <https://www.forbes.com/sites/wadeshepard/2016/12/15/reconnecting-asia-the-story-behind-the-emerging-baku-tbilisi-kars-rail-line/#651e0fad3978>.

20 "Turkey's Multilateral Transportation Policy." Republic of Turkey Ministry of Foreign Affairs. [http://www.mfa.gov.tr/turkey\\_s-multilateral-transportation-policy.en.mfa](http://www.mfa.gov.tr/turkey_s-multilateral-transportation-policy.en.mfa).

21 Aitzhanova Aktoty, et al. "The Impact of the Belt and Road Initiative in Central Asia and the South Caucasus: "Inside-out" Perspectives of Experts from the Region." *Emerging Markets Forum*, 2019. [https://www.pmcg-i.com/media/k2/attachments/The\\_Belt\\_and\\_Road\\_Initiative\\_in\\_the\\_South\\_Caucasus\\_Region.pdf](https://www.pmcg-i.com/media/k2/attachments/The_Belt_and_Road_Initiative_in_the_South_Caucasus_Region.pdf).

22 "Anaklia Port." Anaklia Development Consortium. <http://anakliadevelopment.com>.

## PORT PROGRESS MIRED BY SCANDAL

The Anaklia port project officially launched in 2017, although progress has been slowed by an ongoing scandal. Mamuka Khazaradze, founder of the TBC Group (the owner of TBC Holding, the only Georgian member of the ADC), resigned from TBC's supervisory board in February 2019 amid a money laundering investigation into a \$17 million transaction that took place in 2008.<sup>23</sup> Khazaradze has called the investigation a “campaign to mar the reputation” of TBC Bank, which is part of TBC Group and one of the country's largest retail banks.

Uncertainty about the status of TBC Group has delayed funding for some components of the port project, leading to speculation that the Georgian government is attempting to sabotage the project.<sup>24</sup> The validity of the case has also been questioned by some of Georgia's international partners. In February, France's Ambassador to Georgia publicly criticized Georgian authorities over the investigation into Khazaradze.<sup>25</sup>

The project will be stuck in limbo until the Khazaradze case is resolved. While the seabed has been dredged and construction work is underway, the project is being delayed due to investor misgivings. Only about \$70 million in investments have been made, well short of the \$620 million needed to complete the project's first phase.

According to the ADC, \$400 million in loans have been pledged by four international financial institutions—the European Bank for Reconstruction and Development (EBRD), the Overseas Private Investment Corporation (OPIC), the Asian Development Bank (ADB), and the Asian Infrastructure Investment Bank (AIIB). Before

disbursing funds, however, these institutions want government guarantees they will be repaid if the project fails to deliver.

The government has heretofore refused to underwrite the loans. In a parliamentary hearing in March 2019, Maia Tskitishvili, Georgia's Minister for Infrastructure and Regional Development, said, “This was supposed to be a risk that the investor, the consortium, had to deal with.” ADC officials, for their part, have accused the government of manufacturing the case against Khazaradze to scuttle investor interest.<sup>26</sup>

In anonymous comments, ADC officials told a Tbilisi-based journalist that the Khazaradze scandal may be a clandestine attempt by the government to sabotage the project in order to placate Russia.<sup>27</sup> Anaklia is adjacent to the Russian-occupied region of Abkhazia, and the port could divert container traffic from Novorossiysk, the nearest deep-water port. ADC officials have also expressed suspicion that the Georgian government is trying to force them out and replace the consortium with Chinese developers. No evidence has been presented to substantiate either claim, however.

While a Chinese company failed to secure the bid to build the port, China still has a vested interest in the project.<sup>28</sup> The Shanghai-based ZPMC corporation is investing \$50 million in the form of container cranes and other heavy equipment.<sup>29</sup> Moreover, the Chinese-led AIIB<sup>30</sup>—of which Georgia is also a founding member<sup>31</sup>—will invest in the road and rail infrastructure connecting the port to Georgia's hinterland.

23 “Mamuka Khazaradze Resigns as TBC Withdraws Lawsuit.” *Civil.ge*, February 21, 2019. <https://civil.ge/archives/277383>.

24 Menabde, Giorgi. “Georgia's Anaklia Deep-Water Port Faces a New Challenge.” *Eurasia Daily Monitor*, June 18, 2019. <https://jamestown.org/program/georgias-anaklia-deep-water-port-faces-a-new-challenge/>.

25 “An investigation launched against the founders of TBC Bank raise many questions.” *Transparency International Georgia*, February 16, 2019. <https://www.transparency.ge/en/blog/investigation-launched-against-founders-tbc-bank-raise-many-questions>.

26 “The Parliament hearing the Minister of Regional Development and Infrastructure, Maia Tskitishvili on construction of Anaklia Port.” *Parliament of Georgia*, March 21, 2019. [http://www.parliament.ge/en/saparlamento-saqmianoba/plenaruli-sxdomebi/plenaruli-sxdomebi\\_news/parlamentna-regionuli-ganvitarebisa-da-infrastrukturis-ministrs-maia-cqitishvils-anakliis-portis-msheneblobis-proeqtis-ganxorcielebis-sakitxe-mousmina.page](http://www.parliament.ge/en/saparlamento-saqmianoba/plenaruli-sxdomebi/plenaruli-sxdomebi_news/parlamentna-regionuli-ganvitarebisa-da-infrastrukturis-ministrs-maia-cqitishvils-anakliis-portis-msheneblobis-proeqtis-ganxorcielebis-sakitxe-mousmina.page).

27 Lomsadze, Giorgi. “Georgian East-West port project mired in controversy.” *Eurasianet*, March 28, 2019. <https://eurasianet.org/georgian-east-west-port-project-mired-in-controversy>.

28 Menabde, Giorgi. “China Loses Bid for Construction of Georgian Deep-Water Port on Black Sea.” *Eurasia Daily Monitor*, February 26, 2016.

29 “ZPMC Invests \$50 Million in Georgia's Anaklia Port.” *Port Technology International*, January 02, 2018. [https://www.porttechnology.org/news/zpmc\\_invests\\_50\\_million\\_in\\_georgias\\_anaklia\\_port](https://www.porttechnology.org/news/zpmc_invests_50_million_in_georgias_anaklia_port).

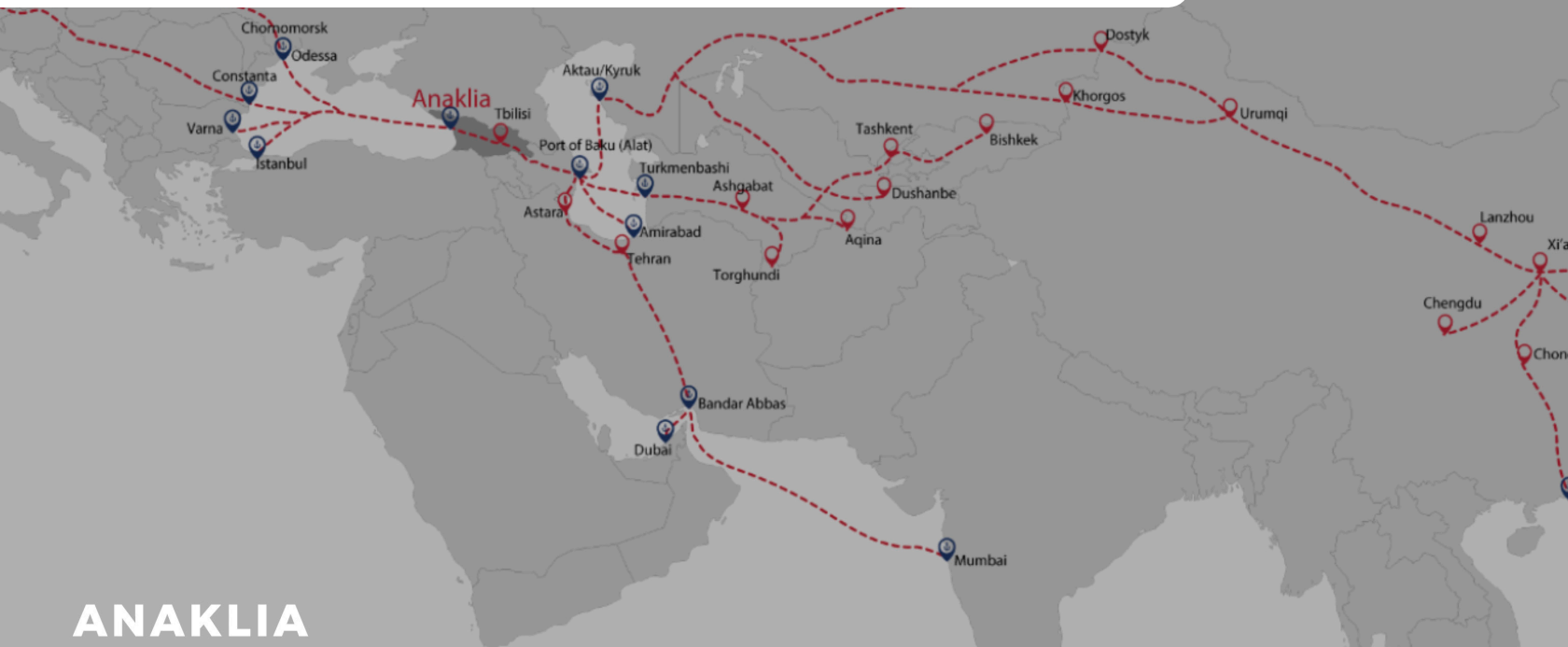
30 “Asian Infrastructure Investment Bank.” AIIB. <https://www.aiib.org/en/index.html>.

31 “Georgia joins Asian Infrastructure Investment Bank as founder nation.” *Agenda.ge*, June 30, 2015. <http://agenda.ge/en/news/2015/1444>.



The \$2.5 billion Anaklia Black Sea Deep Water Port is the largest infrastructure project in Georgia's history. Once constructed, it will dwarf the combined capacity of Georgia's two existing ports, in Batumi and Poti, with the ability to handle 1.5 million tons annually in its first phase (scheduled for completion in 2021).

Source: [anakliadevelopment.com](http://anakliadevelopment.com)



## ANAKLIA

In an interesting development, both the AIIB and the ADB, a multinational fund co-led by the U.S. and Japan, are investing in the Anaklia port.<sup>32</sup> While representatives of both institutions claim they are complementary, not competitive, they are widely viewed as instruments in the U.S.-China and China-Japan geopolitical rivalries. (Note: China and Georgia are both members of the ADB,

although China only joined in 1986, 20 years after its launch. Its share of capital and voting power are significantly smaller than the relative size of its economy.)

<sup>32</sup> Annual Report 2017." Asian Development Bank, 2017. <https://data.adb.org/sites/default/files/ar2017-oi-appendix1.pdf>.

# RISKS OF GEORGIAN INVOLVEMENT IN THE BRI

It must be recognized that participation in the BRI comes with potential downsides. For one, the initiative itself is proceeding slower than expected. While the Chinese government has promised roughly \$1 trillion in investments in BRI projects, the actual amounts invested have fallen far short. An estimate by the Council on Foreign Relations' Belt and Road Tracker found that China invested only \$120 billion between 2014 and 2017.<sup>33</sup>

Criticisms of the BRI focus on China's lack of respect for labor, human rights, democratic standards, and its apparent penchant for putting junior partners into debt traps. In 2017, the Sri Lankan government was forced to relinquish a major port project to a Chinese company after failing to repay sovereign debt owed to the state-owned Export-Import Bank of China.<sup>34</sup> In October 2018, Pakistan's government asked to reconsider \$62 billion in Chinese investments due to concerns that involvement in the BRI was creating an unsustainable debt burden.<sup>35</sup> The BRI has received so much criticism, in fact, that Xi addressed debt sustainability during the Belt and Road Summit in April 2019, pledging greater transparency for "high quality development for shared benefit."<sup>36</sup>

Moreover, Chinese investments are not always what they seem. While many analysts were optimistic after a Chinese company, China Energy Company Limited (CEFC), purchased the Poti Free Industrial Zone on Georgia's Black Sea coast in 2017, no positive benefits materialized.<sup>37</sup> In fact, CEFC was forced to divest the following year after the company's founder became embroiled in a bribery scandal.<sup>38</sup>



Source: [potifreezone.ge](http://potifreezone.ge)

The U.S. has seized on these incidents as indicative of a faulty economic development model. When announcing the Indo-Pacific Transparency Initiative last year, Vice President Mike Pence framed the U.S. not only as a source of cash, but also a supporter of "civil society, the rule of law, and transparent and accountable government."<sup>39</sup> When touting his own country's credentials, the criticism of Beijing was implied. U.S. Secretary of State Mike Pompeo used more direct rhetoric in early June, saying that successful completion of the Anaklia port could "prevent Georgia from falling prey to Russian or Chinese economic influence. Those pretended friends do not have Georgia's best interests at heart."<sup>40</sup>

33 Steil, Benn and Benjamin Della Rocca. "Belt and Road Tracker." Council on Foreign Relations, May 8, 2019. <https://www.cfr.org/article/belt-and-road-tracker>.

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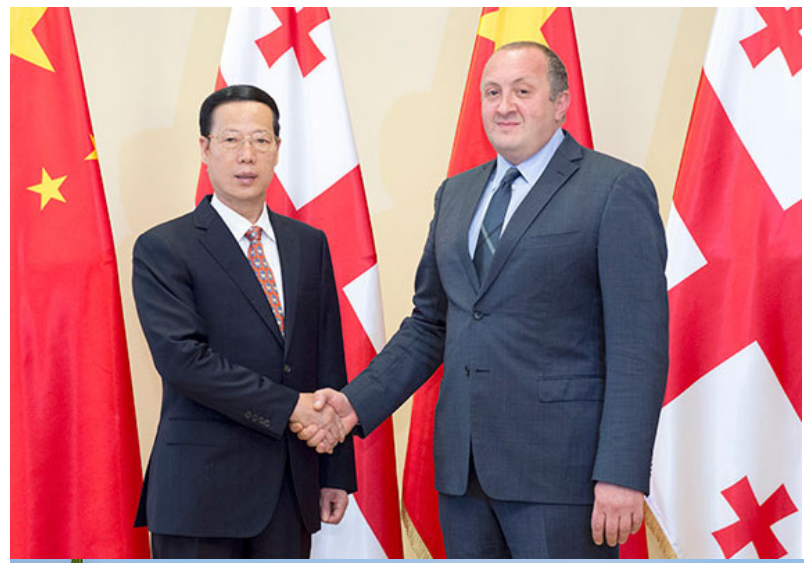
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# THE DEMOCRATIZATION FACTOR

There are serious political concerns as well. Proponents of liberal democracy argue that close bilateral ties with China correlate negatively with democratic development.<sup>41</sup> In a 2019 interview, Brookings scholar Jonathan Stromseth spoke of China “reinforcing authoritarian trends” in countries such as Cambodia.<sup>42</sup> Stromseth did emphasize, however, that China bolsters friendly regimes rather than promotes any particular political model. Andrew Nathan argued in the *Journal of Democracy* that China is “regime-type neutral.”<sup>43</sup> While it often finds authoritarian governments more amenable to its interests than are democracies, the “Chinese leadership seeks to maintain good relations with whatever regime is in power” regardless of its character. To the extent that it engages in “autocracy promotion,” China is motivated by pragmatism rather than ideology.

The question, then, is whether deeper Chinese engagement carries risks for Georgia. Such concerns must be taken seriously given the work-in-progress nature of Georgian democracy. There are key differences, however. Georgia is partly embedded in Euro-Atlantic structures and has close economic ties with a number of regional powers. It should not be compared to China’s dependent neighbors in Asia. Georgia enjoys degrees of linkage and leverage with external democratizing forces quite unlike that of Cambodia, Myanmar, or Sri Lanka.

The inhibitors of democratic consolidation in Georgia are domestic, namely informal governance, dysfunctional political parties, and public and private institutions that lack independence. One could conceive of Chinese interests being advanced by continued underperformance in these areas. However, given the hitherto lack of Chinese interference in Georgia’s domestic political process and the unlikelihood that democratic consolidation would significantly alter the current trajectory of Georgia-China relations, Chinese autocracy promotion appears a distant scenario. As for external partners exerting negative influences, Azerbaijan and Turkey pose much greater immediate threats.<sup>44</sup>



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## GROWING WESTERN INTEREST

Georgia remains firmly committed to full integration into North Atlantic Treaty Organization (NATO) and the EU. Relations with China are complimentary to its Westward orientation and will remain so. However, there is evidence that greater Chinese presence in Georgia is catching the attention of Georgia's Western allies.

This applies to both the U.S.—locked in geo-economic competition with China and attempting to present alternatives to the BRI in Asia—and the EU. In April 2019, 27 out of 28 EU ambassadors signed a report criticizing the BRI on the grounds that it “runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies.”<sup>45</sup>

Somewhat counterintuitively, the West's unease about greater Chinese involvement is a welcome development for Georgia. Rather than applying sticks to disincentivize relations with China, the opposite is happening: the U.S. and the EU are making renewed commitments of their own.


The U.S. has signaled its commitment to Georgia's economic future. In a statement marking the 10<sup>th</sup> anniversary of the U.S.-Georgia Strategic Partnership, the U.S. State Department declared the intention to “increase bilateral trade and investment, foster internationally accepted business practices, and support Georgia's aspirations to increase regional connectivity, enhance energy security, and become a transit and logistics hub.”<sup>46</sup> The statement also references progress regarding a free trade agreement between the two countries (note: talks are still preliminary and have not yet reached the negotiation stage).<sup>47</sup>

The U.S. has also taken concrete steps. In 2017, Overseas Private Investment Corporation (OPIC), a U.S. government agency promoting American business interests abroad, doubled the amount of loans available to Georgian enterprises to \$1

billion—reflecting both past success and the need for more investment. Last year, OPIC agreed to invest \$100 million in the Anaklia project. Last September, the USAID Zrda Activity in Georgia announced it would invest an additional \$2 million in the area surrounding Anaklia.<sup>48</sup>

For its part, the EU has also stepped up its commitment to regional infrastructure development. In January, the European Commission and the World Bank co-published the “Indicative Trans-European Transport Network (TEN-T) Investment Action Plan.”<sup>49</sup> The 14-page document lays out intended projects in each Eastern Partnership country—the Action Plan envisages a combined €13 billion in investments in roads, railways, ports, and logistics hubs.

In Georgia, the Action Plan pledges €233 million for the Anaklia port and €100 million for adjacent road and rail infrastructure. The EU is also committing €115 million for the Batumi Bypass Road, a project intended to improve cargo transport between Georgia and Turkey (in another example of collaborative competition, the bulk of funding for the Bypass Road is being put up by the AIIB).<sup>50</sup>

The deepening Georgia-China relationship is pragmatic and mutually beneficial. While there are risks involved for Georgia, this report argues that Georgia's partial integration with the EU and NATO helps offset those risks, as does Georgia's close economic ties with its immediate neighbors. Moreover, Georgia can benefit from engagement with China in two ways: 1) directly, by benefiting from trade, investment, and transit opportunities; and 2) indirectly, by the U.S. and EU making renewed commitments in response to China's expanding presence. Georgia could conceivably become the site of construction competition between China and the Euro-Atlantic space. 

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