South Caucasus and Central Asia: The Belt and Road Initiative
Georgia Country Case Study

Macroeconomics, Trade and Investment
South Caucasus and Central Asia
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This Country Case Study was prepared by the South Caucasus and Central Asia MTI in collaboration with the staff from other World Bank Global Practices covering the two sub-regions. The main objective of the Country Case Studies is to provide an informed view of the potential impact of the Belt and Road Initiative over the countries of Central Asia and Caucasus and policy recommendations to reap the benefits and mitigate risks. The main authors of the Country Case Study were Kazi Matin and Evgenij Najdov, with support from the Central Asia and Caucasus MTI team. The team is grateful for the guidance from Sandeep Mahajan (Practice Manager), peer reviewers Michele Ruta, Abdulaziz Faghi and Paul Vallely and for useful comments from Sascha Djumena and contributions from Violane Konar-Leacy, Victor Aragones and Ian J.D. Gillson.

Acronyms and Abbreviations

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<tr>
<td>BRI</td>
<td>Belt and Road Initiative</td>
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<td>CAC</td>
<td>Central Asia and Caucasus</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>MSR</td>
<td>Maritime Silk Road</td>
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<td>O&amp;M</td>
<td>Operations and Maintenance</td>
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<td>SOE</td>
<td>State-Owned Enterprise</td>
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<td>SREB</td>
<td>Silk Road Economic Belt</td>
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Executive Summary

Following a difficult transition up to 2003, Georgia has grown robustly since as the economy responded to robust reforms. GDP grew by more than 8 percent a year, on average, during 2003-07 and then at close to 6 percent in 2010-13 after the financial crisis and at around 5 percent since 2017. Poverty declined from 35 percent in 2006 to 20 percent in 2018. Strong reforms efforts in Georgia have resulted in a liberal business and regulatory environment and better market access than other countries in the Central Asia and Caucasus (CAC) region.

Still, few issues are a concern. Capital accumulation has been strong; however, productivity growth has slowed. At around 12.7 percent\(^1\) in 2018, poverty remains high while the divide between Tbilisi and the rest of the country grew. The structure of production has changed little, reflected in a narrow and unsophisticated export base. Significant improvements are needed to the assets base (i.e. human capital, physical infrastructure and institutions) to increase export diversification (World Bank 2012). In response, the government prioritized connectivity and launched a major reform aimed to upgrade skills.

Georgia will benefit from the Belt and Road Initiative (BRI), though not as much as some of the other CAC countries. Having its own seaports means that Georgia is less dependent on cross-border rail transport as the rest of CAC is. Still, if fully implement globally, the completion of BRI transport projects is estimated to reduce Georgia’s shipment time by 3.5 percent; the reduction could be 10.5 percent or three times higher if transport improvements are accompanied by reforms in trade facilitation and logistics that halve border-crossing-delays.

The reduction in shipment time will increase exports. Georgian exports are estimated to rise by 1.7 percent once the BRI related transport infrastructure improvements are completed. Reforms in trade facilitation and logistics which would half border-crossing delays along the BRI corridors could push the exports growth to 6 percent. The more important effect could be on the composition of exports as exports of agriculture, processed food, garments, metals and machinery parts and components get a bigger boost from BRI because of their time-sensitiveness. This boost could translate into strong export growth as some of these are in line with Georgia’s comparative advantage. However, complementary sector polices, especially in agriculture, will be needed to address the constraints facing the sector.

Faster shipment time and the resulting boost to time-sensitive exports are likely to increase foreign direct investment (FDI) inflows and GDP. Overall FDI to Georgia is estimated to rise by 2.5 percent, with media reports suggesting that Chinese outward FDI from private firms and State-owned Enterprises (SOEs) is already flowing into Georgia’s free industrial zones and in finance and tourism sectors. Georgia’s GDP is expected to rise by up to 4.5 percent because of BRI transport projects, combined with halving of border-delays and reduced tariffs. Given the high cost of transport projects, complementary reforms that improve the integration gains and that strengthen fiscal institutions and governance become even more important to ensure that welfare gains remain substantial.

A range of complementary policies could help to maximize benefits from BRI and minimize risk. For example, further reforms in trade facilitation and logistics are needed to unlock Georgia’s transit potential. Also, addressing the remaining bottlenecks in the business climate and skills can help attract FDI. Sector reforms, especially in agriculture and agro-processing, are needed to ensure an adequate supply response. Interventions are also needed to deal with economic dualism. The fiscal risk from public infrastructure investment has been managed well, though the fiscal space for scaling-up investment in the BRI route is limited, especially in the COVID-19 environment and its immediate aftermath. Still, it will

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\(^1\) International poverty line.
be also important to improve fiscal institutions to manage public spending better; failure to do so will likely lower the benefits from BRI.

**Stronger regional cooperation is needed to reap the benefits of improved physical infrastructure.** There has been no lack of cooperation initiatives in CAC, though these appear to have had only limited usefulness, including due to selective coverage of trade and transport issues, complex rules, as well as lack of functioning dispute resolution mechanisms. In the case of Georgia, closer cooperation with Azerbaijan on managing the Trans-Caucasus Transport corridor, including by potentially setting up a joint operating entity and improving the efficiency of the maritime connection with Central Asia (i.e., Caspian Sea) and Europe (i.e., Black Sea), could go a long way to improving the attractiveness of the corridor.

**While the COVID-19 pandemic is reshaping supply chains, the integration agenda will remain a key ingredient of development strategies for countries like Georgia.** This note presents results of modeling exercises undertaken prior to the COVID-19 pandemic and does not capture the ongoing discussions about near-shoring production and reconfiguring global value chains. In fact, the role of global value chains in global trade had stalled even prior to the pandemic and COVID-19 has strained them further (World Bank, June). Still, a common transport infrastructure continues to make sense as the case for international trade, through differences in comparative advantage, specialization and economies of scale, remains strong. In fact, a number of the CAC countries, including Georgia, could benefit from efforts of companies to diversify production from China. These countries will, however, need to pay more attention to debt sustainability and put more efforts in improving trade facilitation to better manage the risks from the slowdown of the global economy and ensure transport chains remain stable.
1. Introduction

1. **Georgia is the only country in the CAC region that can access markets around the world through its own seaports and thus less dependent on China’s BRI overland corridors for trade, investment and growth.** Nevertheless, the Georgian government is investing in the one BRI corridor China – Europe route that passes through the Caucuses, partly because it provides a faster route to China. The potential for larger volume of Chinese transit cargo on this route may also be attractive given its desire to become a major transit and trading hub in the region. With greater people-to-people contact between China and Georgia, there could also be greater access to China’s outward FDI under the BRI that would bring with it capital, better technology as well as managerial and marketing know-how. Chinese private firms are already investing in Tbilisi, Kutaisi and other areas in the country. Georgia’s liberal investment and trade regime, especially its free trade agreements with the European Union (EU), China, Turkey, and its location, make it eminently suited for such FDI inflows, including participation in China-centric Global Value Chains (GVCs).

2. **Following a difficult transition up to 2003, Georgia has grown robustly since, except for the 2008-09 global financial crisis and the 2014-2015 commodity price adjustment.** It grew at an annual average rate of more than 8 percent a year during 2003-08 and then at close to 6 percent in 2010-14 after the financial crisis and now at close to 5 percent since 2015. Poverty declined from 35 percent in 2006 to 20 percent in 2018, with considerable welfare improvements among households in the bottom 40 percent of the income distribution.

3. **Georgia has a liberal business and regulatory environment, notwithstanding few weak spots.** The country ranks 7th in 2019, out of 190 economies, in the World Bank’s Doing Business, substantially better than its neighbors. It is also among the top 10 in registering property, starting a business, enforcing contracts and protecting minority investors; but it lags in a few indicators, like in getting electricity, trading across borders, and resolving insolvency.

4. **Also, it has better market access than other countries in the CAC region.** It has a Deep and Comprehensive Free Trade Agreement with the EU which allows the bulk of its products to enter the EU duty-free as well as bilateral free trade agreements with China, Turkey, and the CIS countries. In fact, Georgia has the most liberal trade policy of all countries in CAC.

5. **While growth has been robust, few issues are of concern.** Capital accumulation was very strong until recently; however, productivity-growth has slowed with decreasing returns to reforms in business and regulatory environment. Unemployment has declined, but at around 11.6 percent in 2019 remains high with more than two-fifths of employment in low productivity agriculture. FDI inflows have been substantial but most of it is flowing into services (tourism, transport, communications, financial sector and real estate) and relatively little into tradeable sectors; its contribution to the productivity growth has been limited. The structure of production has changed little, and this is reflected in the export base. Compared to its peers, merchandise exports remain relatively low at 22 percent of GDP and quite concentrated for a non-oil country. Recent product-space-analysis shows that Georgia faces considerable challenges in its effort to upgrade merchandise exports to more complex products. There will have to be significant improvements to its assets base (i.e. human capital, physical infrastructure and institutions) to increase export diversification (World Bank 2012).

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2 The country also has preferential trade agreements (GPS) with the USA, Norway, Switzerland, Canada, and Japan.
3 See ‘Georgia’s Path to Economic Diversification’ (IMF 2018a).
The government has focused on two of those areas as priorities for policy and investment intervention. First, it seeks to improve international and internal transport connections by investing in rail, road and port infrastructure, including local roads. Second, it aims to upgrade skills with greater emphasis on imparting soft skills (ability to learn, leadership, autonomy, languages) and occupation-specific skills for specific sectors (e.g. tourism, textiles, energy, machinery components, business services) by improving overall quality of its education services. Georgia’s institutions are a role model globally in some sectors; however, further progress is needed in judiciary as well as in performance at the local level.

This note assesses the potential impact of BRI over connectivity and the Georgian economy. It looks at how, if fully implemented globally, the BRI is expected to achieve better transport connections and greater economic integration of participating BRI countries, discusses improvements in Georgia’s cross-border transport, electricity and ICT infrastructure to-date, and the potential impact of the completion of BRI transport projects on lowering Georgia’s shipment time. It further looks at the likely economic impact of BRI reductions in shipment time on exports, FDI and GDP, the within-country regional distribution of that impact and how complementary polices can enhance the positive impact, mitigate risks and reduce regional inequity. Finally, it also examines the fiscal risk of scaling-up investment in BRI projects in the coming years without undermining medium-term debt sustainability.

Box 1: Quantifying the impact of BRI

The results presented in this Country Case study envisage the full implementation of all BRI transport infrastructure projects and as such are not an assessment of the impact or the cost and benefit of individual corridors or projects. The estimates were derived as part of the preparation of the World Bank’s “Belt and Road Economics: Opportunities and Risks of Transport Corridors” report which uses empirical research and economic modeling to provide an objective analysis of opportunities and risks of BRI transports corridors. Estimates of the gains in shipment time were calculated by a combination of geographical data and network algorithms between 1,000 cities in 191 countries. The global network of railways and ports in 2013 is used to estimate the pre-BRI shipment times. The network is subsequently upgraded with planned infrastructure projects as part of the BRI to derive post-BRI shipment times. The projects were selected based on the criteria that the transport project is located on the corridor and that the project has been explicitly mentioned as part of BRI in an official document. This is neither exhaustive nor an official list of BRI transport projects. On the two corridors that go through CAC, the report identifies around two dozen of transport connectivity projects. Out of these, around half were operational in 2019, six were under construction and the remaining were proposed.

Next, sectoral estimates of “value of time”, considering each pair of countries and each sector, transform the reduction in shipment time into reductions of trade costs. Importantly, the analysis does not assume that all infrastructure projects are good. In fact, in a separate analysis of 68 BRI projects globally, Reed and Trubetskoy (2019) show that half of them generate little value when built in isolation; however, when the entire network of projects is built, this share falls to around one-third. This confirms the inter-dependence of projects as well as the importance of proper project selection and appraisal. Finally, a range of models (computable general equilibrium, structural general equilibrium and gravity models) are used to estimate the impact of the reduced trade costs on trade, FDI and GDP.

2. The Belt and Road Initiative

The BRI, announced in 2013, is an ambitious multi-year Chinese effort to improve international transport infrastructure and increase economic integration. Its goal of better transport connections and greater economic integration is to be achieved through substantial Chinese financing of transport and
complementary infrastructure in the BRI countries, better policy coordination among those countries, and larger flows of outward FDI from Chinese private firms and SOEs, all aimed at promoting “orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets” (NDRC et al, 2015).

9. The initiative envisages implementation of a series of transport infrastructure projects along the Silk Road Economic Belt (SREB) land corridors and along the 21st Century Maritime Silk Road (MSR) sea-routes. The SREB seeks to improve China’s transport overland to Europe and Asia through six BRI corridors: i) the New Eurasian Land Bridge Corridor; ii) the China – Central Asia – West Asia Corridor; iii) the China – Mongolia – Russia Corridor; iv) the China – Pakistan Economic Corridor (CPEC); v) the China – Myanmar – Bangladesh – India (BCIM) Corridor and vi) the China – Indochina Peninsula Corridor. The MSR seeks to build or improve ports along the sea routes linking China’s coast, one crossing the South China sea through the Malacca strait to the Indian Ocean and extending to Europe, and another crossing the South China sea and extending to the South Pacific. The BRI envisages investments not only in the corridor infrastructure (rail, road and port projects to improve cross-border transport), but also in complementary infrastructure like power and ICT. The BRI builds on the number of other transport initiatives aimed at improving connectivity in the region, which have had some success, though the time and money cost of transport remain high.

Figure 1: BRI corridors

Source: Xinhua News Agency; Hong Kong Trade Development Council

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4 The total cost of BRI infrastructure program has been variously estimated at US$1-4 trillion, with Chinese infrastructure commitment to date at US$300-500 billion.

5 “Countries along the Belt & Road may fully coordinate their economic development strategies and policies, work out plans and measures for regional cooperation, negotiate to solve cooperation-related issues and jointly provide policy support for practical cooperation and for large scale projects.” (see pg 3 op. cit)

6 These include the Transport Corridor Europe Caucasus Asia (TRACECA) initiative, the Central Asia Regional Economic Cooperation (CAREC) program and the Special Program for the Economies of Central Asia (SPECA) program.
10. **Two BRI corridors pass through CAC and connect China to Europe and China to Iran and West Asia, respectively, through five routes.** The first uses two rail routes, one through Kazakhstan, Russia and Belarus and the other through Kazakhstan, Azerbaijan, Georgia and Turkey. The second uses three routes, one through Kazakhstan, Uzbekistan and Turkmenistan, another one through Kyrgyz Republic, Uzbekistan and Turkmenistan and the third through Kyrgyz Republic, Tajikistan and Afghanistan.

11. **The five routes are potentially viable corridors.** First, most of the completed, ongoing and planned transport projects in the region are along these routes and thus provide CAC countries with their most direct exposure to BRI. Second, at least one major city of each country is on one or more of these routes and each country can thus connect faster to the large economies of China, Korea, Europe, Russia, Turkey, Iran, and West Asia, as well as to each other. Third, China’s dependence on these routes for faster transport to the European cities and to cities in Iran and West Asia, means that both China and the CAC countries will have an interest to continually improve the operation of these corridors. Importantly, while the BRI focuses largely on the main transport corridors, improvements to the transport network at the lower levels (for example, secondary and feeder roads) are needed to ensure that the countries and populations benefit fully from the main corridors.

12. **Georgia is a core BRI country.** It endorsed the Initiative and has been investing in transport projects along its BRI-corridor route. Though its own seaports and access to world markets make it less dependent on overland corridors, faster transport to China and Central Asia using BRI corridors is an important step to becoming a transit and trading hub. The country is also actively seeking Chinese FDI under the BRI and is leveraging its more liberal trade and investment climate to attract such inflows, with some success.

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**Box 2: BRI Corridors and routes passing through CAC**

The **New Eurasian Land-bridge BRI Corridor** connects **China to Europe** using two routes:

- **Route 1: China** (various cities, Urumqi, Alashankou) – **Kazakhstan** (Dostyk, Moityn, Nur-Sultan, Petropavl) – **Russia** (Yekaterinburg, Moscow) – **Belarus** (Brest) – **Poland** (Małaszewicze) – **Germany** (Duisburg) and onwards to various European cities. (Note: all are operational rail connections).

- **Route 2: China** (various cities, Urumqi, Khorgas) – **Kazakhstan** (Altyntol, Almaty, Shu, Zharyk, Zhezhazghan, Saksaulskaya, Shalkar, Beyneu, Aktau) – **Azerbaijan** (Baku/Alyat, Ganja, Beyuk Kesik) – **Georgia** (Gardabani, Tbilisi, Akhalakali) – **Turkey** (Kars, Istanbul) and onwards by rail/road to various European cities. (Note: all are operational rail connections except Aktau to Baku, which is the Caspian Sea ferry segment).

**China-Central Asia-West Asia BRI Corridor** connects **China to Iran/West Asia** using three routes:

- **Route 3: China** (various cities, Urumqi, Khorgas) - **Kazakhstan** (Altynkol, Almaty) - **Uzbekistan** (Tashkent, Samarkand, Navoi) – **Turkmenistan** (Farab, Mary, Serakhs) – **Iran** (Sarakhs, Mashad) and onwards to West Asian cities (also India through Bandar Abbas) (Note: all are operational rail connections).

- **Route 4: China** (various cities, Kashgar) – **Kyrgyz Republic** (Irkeshtam, Osh) – **Uzbekistan** (Andijan, Pap, Tashkent, Samarkand, Navoi) – **Turkmenistan** (Mary, Serakhs) – **Iran** (Sarakhs, Mashad) and to West Asia (also India through Bandar Abbas). (Note: the route is mainly rail, except Kashgar–Irkeshtam–Osh segment by road).

- **Route 5: China** (various cities, Kashgar) – **Kyrgyz Republic** (Irkeshtam, Sary Tash) – **Tajikistan** (Karamyk, Dushanbe, Vahdat, Yavan, Nizhny Panj) – **Afghanistan** (Shir Khan Bandar, Kunduz, Mazar-e-sharif, Herat, Ghurian) – **Iran** (Torbat-e Heydarieh, Tehran) to West Asia (also, India thru Bandar Abbas). (Note: route connected partly by rail with two large segments, Kashgar–Irkeshtam–Sary Tash – Karamyk – Dushanbe and Nizhny Panj - Shir Khan Bandar – Kunduz – Herat – that are connected only by road today).

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7 Armenia is the only exception because of the closed Armenia-Azerbaijan border and so Armenian cities could connect to China overland by rail through Russia, which is probably not competitive.
3. Improvements in Transport Infrastructure and Gaps

13. Georgia’s transport infrastructure had deteriorated for more than a decade after independence and investments to address it did not start until after 2003. Notwithstanding the investment made since then, substantial gaps remain. The reliability and efficiency of seaports can be improved and east-west and north-south highways need upgrades and new links. The rail connections from ports to cities and cities to the border are slow because of difficult terrain and poor condition of rail tracks; in addition, most of the rolling stock is beyond their service life and dry ports/terminals infrastructure remain quite deficient. As a result, business perceive the quality of the transport infrastructure to be on par with the CAC peers, but below the average for the Europe and Central Asia (ECA) region. A closer look suggests that the country has a relatively decent quality of rail infrastructure, but weak road infrastructure. Out of urban areas, road access compares well to CAC countries but lags more developed ECA countries, thus providing limited good connectivity of hinterlands to markets.

<table>
<thead>
<tr>
<th>Country</th>
<th>Rural Access Index</th>
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<tbody>
<tr>
<td>Uzbekistan</td>
<td>2.57</td>
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<tr>
<td>Kazakhstan</td>
<td>2.55</td>
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<tr>
<td>Armenia</td>
<td>2.48</td>
</tr>
<tr>
<td>Georgia</td>
<td>2.38</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>2.38</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>2.17</td>
</tr>
<tr>
<td>EE&amp;CA</td>
<td>2.69</td>
</tr>
<tr>
<td>WB</td>
<td>99</td>
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<tr>
<td>EU-10</td>
<td>100</td>
</tr>
<tr>
<td>ECA</td>
<td>77</td>
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<tr>
<td>Georgia</td>
<td>76</td>
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<tr>
<td>Kyrgyz Republic</td>
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<tr>
<td>Azerbaijan</td>
<td>58</td>
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<tr>
<td>Uzbekistan</td>
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<tr>
<td>Tajikistan</td>
<td>55</td>
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<tr>
<td>Kazakhstan</td>
<td>51</td>
</tr>
<tr>
<td>Armenia</td>
<td>29</td>
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</tbody>
</table>

Source: World Bank Logistics Performance Index

Note: rural people who live within 2 kms of an all-season road as a proportion of the total rural population.
Source: Mikou at all (2019)

14. The country’s ‘soft’ infrastructure for trade facilitation and logistics compares well with others in the CAC region, but there is still some way to go to become a strong performer in its border crossings. Georgia is ranked 45 in the world in ‘Trading Across Borders’ by the Doing Business report, this despite very low times to import and export. In fact, the performance of Georgia appears to be dragged down by relatively expensive costs for port handling, potentially a result of two ports dominating the cargo transport without effective market regulation. Furthermore, Georgia is ranked 119 on the World Bank 2018 Logistics Performance Index (LPI); in customs it is 95 but lags considerably in ability to arrange international shipments (124), logistics competence (132) and tracking and tracing of shipments (139). There are clearly significant gaps in ‘soft’ infrastructure.

15. Georgia invested substantially in its section of the China-Europe route in recent years. The new rail segment connecting Samtredia to the Turkish border through Alhalkali was built during this period.

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At the 2019 Global Competitiveness Report, the density of Georgia’s railroad infrastructure is ranked 44 globally and its efficiency 44, while its road infrastructure is ranked 73 reflecting good connectivity but weaker quality.
also with financing from Azerbaijan. The port of Poti was modernized with EU funding while tunnels and bridges along the rail connection between Azeri border and Tbilisi were rehabilitated, including some upgrading of rail tracks.

16. Though Georgian cities have access to its own seaport and are thus less dependent on cross-border rail routes than other CAC countries, the China-Europe route provides faster transport to China. A little over a decade ago rail transport between China and Europe was no faster than shipment by sea, and further reductions are likely after remaining infrastructure gaps are filled and the efficiency of transiting through the Caspian Transit Corridor is raised. International and local logistics companies offer varied services including refrigerated containers, less-than-full-container-load consignments, door-to-door deliveries and pre-announced schedules on these rail routes to Europe. However, despite the improvements, currently the Caucasus Transit Corridor underperforms compared to the China-Europe rail route going through Kazakhstan, Russia and Belarus. The frequency of all trains from China to Europe through the two routes through Kazakhstan has now risen to more than 10 a day.

Table 2: ... as should trade facilitation

<table>
<thead>
<tr>
<th>Logistics Performance Index</th>
<th>Time to import and export</th>
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<tr>
<td>Source: Logistics Performance Index</td>
<td>Source: Doing Business 2020</td>
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</table>

17. Upgrades to the five routes, especially the route going through Georgia, has enhanced cross-border transport connections of its cities. Tbilisi is connected westward to Alhalkali and onwards to Kars, Istanbul and Europe, as well as through Poti port to Istanbul and Europe, providing more choices for transit cargo. That same route connects Tbilisi south and eastward to cities in Azerbaijan and Kazakhstan, and from Kazakhstan to cities in Uzbekistan, Kyrgyz Republic and Tajikistan, using Routes 3, 4 and 5 above.

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9 DHL has been offering door-to-door deliveries and pre-announced schedules on this route since 2016, but this route remains slower and less developed than train services on the other China-Europe route (i.e. Route 1 in Box 1).

10 The China-Europe trains started as a ‘customer-driven’ model of full ‘block’ trains organized by companies but has evolved increasingly to a ‘retail model’ of regular trains based on agreements between international logistics companies and operators/agencies in transit countries, with logistics companies organizing train schedules.

11 Results of a demand analysis indicate that freight movements from China to Europe through the Caucasus Transit Corridor take more time (+2 days) and are more expensive per shipment (+$600 or +10%) than the competing Northern route (through Russia). Operational and infrastructure improvements would bring these two estimates closer to the levels seen in the Northern route.
18. **Georgia also has a north-south cross-border route.** Tbilisi is connected southward on that route to Armenia, as well as to Iran, the latter through Azerbaijan.\(^{12}\) The Iranian ports of Bandar Abbas or Chabahar can connect Tbilisi to Mumbai in India, which is faster than the connection by ship from Poti through the Suez Canal. Northward, Tbilisi is connected by rail to Russia, and also to northern and western Europe through Ukraine and Romania respectively, using both sea and rail using their Black Sea ports.

19. **Domestically, Tbilisi has been improving transport connections by road to other towns within the country as well as to its seaports, Poti, Batumi and Anaklia.**\(^{13}\) The east-west highway connects Tbilisi westward to towns like Khasuri, Samtredia, Kutaisi, and Senaki, northward to Gori and southward to Alhalkali, Sadakhlo (border with Armenia) and Red Bridge (border with Azerbaijan). The road connections from the capital to the border-crossings with Armenia, Azerbaijan and Russia are good too, except that they are frequently congested by cross-border traffic. The local roads in the hinterland are, however, reported to be in relatively poor condition.

20. **Notwithstanding recent investments, there remain significant gaps in rail infrastructure and border-crossing arrangements along the BRI corridor.** Operational and infrastructure improvements can narrow the competitiveness gap to the Northern route. First, Georgia needs to invest in the expansion and modernization of dry-port/rail terminal infrastructure at two points along this route: at Alhalkali in Samtredia-Alhalkali rail segment and at Garbadani near the Azeri border. Also, existing plans to build an International Logistics Center at Tbilisi may need to be implemented given its major role in both north-south and east-west rail and road traffic. Trains along the mountainous rail route between the Azeri border and Tbilisi and Samtredia are slow because tracks, bridges and tunnels require substantial rehabilitation and upgrades. The quality of rolling stock, including locomotives past their service-life, reduces speed especially in the difficult terrain of this route. Similarly, there are gaps in ‘soft’ infrastructure relating to processing inefficiencies at border-crossings at Georgia-Azerbaijan and Georgia-Turkey borders that need to be addressed (Longchamps 2018).

### 4. Estimates of BRI Impact on Shipment Time and Trading Cost

21. **The completion of BRI transport projects around the world\(^{14}\) and in the CAC region, will reduce Georgia’s shipment time.** The BRI transport projects increase the number of rail and port connections in the global transport network as a whole, improve the speed of travel along the upgraded or newly-built rail segments and seaports as well as the options available to shippers on routes to reach destinations. Because all countries are linked by the global transport network, any reduction in shipping time in one part, affect the shipping times in other parts of the network. Thus, Georgia’s shipment time falls not only because of the transport projects built or upgraded in the country and in its proximity, but also because of rail and port projects in countries in other parts of the world.\(^{15}\)

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\(^{12}\) This rail route is Tbilisi – Garbadani – Boyuk Kessik – Baku / Alat – Astara – Rasht – Qazvin – Mashad, (Astara – Rasht link under construction).

\(^{13}\) Anaklia is under construction as a deep sea port to accommodate ship drafts of up to 17 meters which Poti and Batumi cannot (Starr 2019).

\(^{14}\) BRI transport projects around the world have been compiled into a list in De Soyres 2018 and Reed and Trubetskoy 2019.

\(^{15}\) The BRI is estimated to reduce the average shipping time for all country-pairs in the world from 22.9 days to 22.3 days (upper bound) i.e. a reduction of around 15 hours, even if this includes countries that are not much or very little at all affected by BRI transport projects.
22. The envisaged BRI transport projects, when fully completed, are estimated to lower Georgia’s average shipment time with its trading partners by 3.5 percent (Baniya et al 2019). Within the CAC sub-region, the reduction is similar to what is estimated for Tajikistan but higher than that for Armenia. Currently, it takes slightly less than 15 days to trade between Georgia and its BRI trade partners on average (same as the median for 70 BRI countries analyzed), and almost 33 days to trade with China. Shipment time with China would fall by more than a day. More importantly, the reduction in shipment time could be magnified by reforms in trade facilitation and logistics. Gains in Georgia’s average shipment time could be nearly three times higher than the estimate cited above (Baniya et al, 2019), if reforms that halve border-crossing-delays accompany the completion of BRI-transport-projects.

23. The reduction in shipment time will lower trade cost. Time affects trade flows just as tariffs and freight costs do, because customers and firms value accessing goods in a timely manner and any delay in serving different markets is likely to reduce related trade flows. But the same fall in shipment time can generate differing magnitudes of decline in trade costs because of different composition of time-sensitive goods in trade. The completion of BRI transport projects is estimated to reduce Georgia’s export-weighted trade costs by 1.4 percent.

<table>
<thead>
<tr>
<th>Country</th>
<th>BRI</th>
<th>China</th>
<th>Lower bound</th>
<th>Upper bound</th>
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<tr>
<td>ARM</td>
<td>15.5</td>
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<td>8.5</td>
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</tr>
<tr>
<td>TJK</td>
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<td>31.7</td>
<td>3.0</td>
<td>3.9</td>
</tr>
<tr>
<td>UZB</td>
<td>17.3</td>
<td>27.0</td>
<td>13.6</td>
<td>15.2</td>
</tr>
</tbody>
</table>

Table 3: Investments will lower the time to trade

Figure 2: as well as the costs of trade

Box 3: Electricity and ICT infrastructure and gaps*

The analysis in this note is focused on transport connectivity and economics; however, other infrastructure will also be important for countries to be able to reap the benefits of improved transport connectivity and this box provides some information on the infrastructure and gaps in energy and ICT.

Energy. Though Georgia has no shortage of power supply, it is dependent on imported power to meet seasonal demand. More than 80 percent of installed power generation capacity is in hydro which means electricity generation is at its lowest point in winter when demand peaks; the opposite is true in summer. While Georgia has considerable untapped potential for hydro generation, expanding such capacity is likely to increase summer surplus (when export demand remains uncertain). Due to bottlenecks in the transmission grid, the capacity to transmit power from the new generation facilities to demand centers may be insufficient, though this is gradually being addressed. The distribution network supplying electricity to more than 1.5 million consumers is not fully

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16 The case study cites upper bound estimates, i.e. assuming shippers can switch transport modes from maritime to rail when BRI improvements in transport infrastructure make such switching optimal.

17 Trade costs equals the sum of the cost of tariff, the cost of freight and cost of shipment-time, expressed in ad valorem terms.
reliable due to inefficiencies in the dispatch system. Investments in the transmission system remain a challenge as is the need to attract private investment in generation.

Almost all Georgian households have access to electricity, barring a couple of thousands of households living in remote and mountainous villages. There has also been recent improvement in the efficiency, reliability, and transparency of electricity connections. The “Getting Electricity” indicator of the Doing Business ranked Georgia 42nd globally, due to relatively affordable prices and efficient procedures for connecting to the grid, though the score on the reliability of the supply is 5, compared to 6.2 in ECA, on average (on a scale of 0-8).

Georgia electricity sector was liberalized in 2008 and is now a largely privatized market-based operation. Though there is relative stability in prices for all its market participants, from generators to customers, it has been prone to underinvestment. Government guarantees to purchase power to potential private investors have helped but overuse can lead to other inefficiencies, including fiscal risks. Further reforms are planned as part of the country’s accession to the Energy Community between the EU and a number of countries, including Georgia, with a new Law on Energy and Water Supply and a new Law on Renewable Energy being adopted in late-2019.

ICT. Eight international IP connectivity providers are in Georgia, either serving the domestic market, or transiting internationally. The country is directly connected to the EU via an undersea cable to Bulgaria, and to its neighbors through terrestrial links (and undersea to Russia). These connections land approximately 275 kbps of international bandwidth per capita in the country, growing by over seven times between 2013 – 2018. Still, the international connectivity market has scope for increased competition and diversification of routes, particularly in connectivity with Europe.

The two largest telecommunications providers in the country have developed backbone and backhaul networks across Georgia, connecting population centers, and with networks in neighboring countries at borders. This segment of the market demonstrates a high level of concentration and has scope for increased investment in densification of networks, and competition to make prices more efficient. Georgia’s geographic location presents an opportunity to strengthen the region’s connectivity. Investment in international and domestic infrastructure is needed to densify networks and provide viable options to diversify global international IP traffic flows.

Sector stakeholders are focusing on improving rural and mountainous area connectivity by extending backbone networks and last mile access. Additionally, discussions are underway for a second undersea cable connecting Georgia to the EU, with a view to strengthen landed capacity in the region that may serve future demand from outside the region. Georgia’s location and relationship with neighbors can enable the development of multiple connectivity corridors – towards Central Asia, and towards the Persian Gulf.

Leveraging alternative owners of telecom-ready infrastructure and fiber optic networks, such as railways and power transmission companies, will enable the development of these corridors. Furthermore, enforcement of the sector regulator’s recent tariff and access regulations for middle and first mile can impact pricing, in turn improving attractiveness of the region as a viable alternative route for intercontinental connectivity. Additionally, the development of Internet Exchange Points (IXP) in Georgia can stimulate greater interconnectivity between networks and develop the necessary scale to attract international carriers. The country’s potential as a regional hub for data services can also be exploited if data management and privacy laws and policies are harmonized within the region, and potentially with EU.

* Energy information based on Aldayarov et al (2017); ICT on Raja (2019, unpublished)

5. Potential Economic Impact of the BRI

24. The completion of BRI transport projects around the world will increase Georgia’s exports, FDI and GDP. In addition to total exports increasing, the export composition is likely to shift towards more time sensitive items.\textsuperscript{18} The expansion of profitable export opportunities, especially in more time-sensitive

\textsuperscript{18} Same reduction in shipment time increases time sensitive exports more than others. Items like perishable food or fashion garments are more time sensitive because their external demand depends more on faster and timely deliveries. Similarly,
items, is likely to encourage greater FDI inflows, especially from Chinese private and state enterprises, to agriculture and manufacturing sectors. More processed goods become easier to produce and export given greater access to timely imported inputs and faster cross-border transport. Expanding FDI and exports will boost GDP, too. This note presents the results of the analysis undertaken prior to the COVID-19 pandemic and does not take capture the ongoing discussions about near-shoring production and reconfiguring global value chains. While the COVID-19 impact is likely to be profound, the case for international trade, through differences in comparative advantage, specialization and economies of scale, remains strong.

Recent Trade Flows

25. **Prior to the COVID-19 pandemic, trade growth had been strong.** Total trade grew from around US$1 billion to around US$12.5 billion between 2000 and 2018, at a compound annual rate of almost 15 percent, the fastest among the CAC sub-region. Most of this growth in trade was driven by imports rising to US$9.1 billion, with exports growing to around US$3.3 billion. Metals account for almost third of total goods exports in 2018, about half of it is copper, including re-exports. Agriculture accounts for around 7 percent of exports; processed food is a large and growing share of exports (17 percent) which is dominated mainly by wine and spirits. Manufactured exports comprise mainly of apparel, footwear and transportation good (mostly re-exports) and very little downstream differentiated copper products. Trade in services has also expanded strongly recently, with Georgia enjoying a sizeable surplus, most due to growing tourism and transport services. A large immigration and diaspora contributed to strong income inflows.

26. **China has a small but rising share in Georgia's trade.** In 2000 Russia, EU and Turkey were dominant trading partners with China’s share at around 0.4 percent of total trade. However, by 2016 China’s share had risen to 8.3 percent. The increase reflects growing importance of China on Georgia’s imports side (9.1 percent of total imports), though Georgian producers have also gained market share in China (5.9 percent of total exports). EU still accounts for nearly 22 percent of total trade and is more important on the imports side. Russia’s share has declined by 5 percentage points, reflecting also the political tension between two countries affecting the access for Georgian products to the Russian market.

<table>
<thead>
<tr>
<th>Table 4: Share of Major Trading Partners in Georgian Trade (in % of total)</th>
<th>EU</th>
<th>Russia</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>28.4</td>
<td>27.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Total Imports</td>
<td>30.3</td>
<td>28.9</td>
<td>13.7</td>
</tr>
<tr>
<td>Total Exports</td>
<td>24.2</td>
<td>21.8</td>
<td>21.1</td>
</tr>
</tbody>
</table>

Source: IMF, Directions of Trade

27. **In terms of composition of exports to China, Georgia has only a few products of meaningful export size.** Total exports were above US$180 million in 2018, a strong improvement from less the US$1 million in 2000. Copper accounted for most of exports to China in 2018 (close to 85 percent). Other larger exports are beverages (mostly wine), accounting for up to 12.5 percent of exports to China in 2018.

Impact on Exports

28. **Estimates of the impact of BRI on Georgian exports are smaller than those for Central Asian countries.** The completion of BRI transport projects is estimated to increase Georgia’s exports by 1.7 percent, but this is below estimates for Central Asian countries. This is likely because processed and manufactured goods are more time-sensitive than others because their production depends more on timely access to imported inputs.
percent (Baniya et al 2019). At the same time, complementary reforms in trade facilitation and logistics that improve border-crossing efficiency can magnify the impact. Georgia’s exports could increase by as much as 6 percent if BRI improvements in transport are accompanied by a 50 percent reduction in border-crossing delays.

Figure 3: Trade is expected to increase, but much more if complemented by trade facilitation reforms (in %) (in %, assuming 50 percent reduction in border delays and no maritime preference)

Source: Baniya et al. 2019

29. The completion of BRI projects and consequent reduction in shipment time will also shift the composition of exports in favor of more time sensitive goods. (Baniya et al, 2018) finds considerable variation in the responsiveness of exports to lower shipment time across 15 groups of BRI countries’ exports with some exports many times more responsive than others. The list of 15 includes the following in descending order of responsiveness to shipment time: wood products, glass products, vegetable products, mineral products, raw hides, skins and leather, animal products (e.g. meat), chemicals, metals, textiles, electrical machinery, transport equipment and footwear.

30. Whether the additional BRI boost for time sensitive exports will translate into sustained growth of those exports depend on how well they line up with Georgia’s comparative advantage and how favorable is their external demand. Georgia has considerable untapped export potential and the government has identified commercial agriculture, energy, textiles/garments, and tourism as potential drivers of export growth. Existing endowments suggest underlying comparative advantage in the first two; as for the other two, Georgian firms have been exporting them successfully for some time, but their growth has plateaued recently. The challenge is whether complementary government policies can rise to the challenge of expanding and sustaining their domestic supply competitively.

Impact on FDI

31. The BRI is expected to increase overall FDI inflows to BRI countries. First, a reduction in shipment time raises competitiveness of exports, especially of those that are more time-sensitive, and thus encourages additional foreign investment in them. Second, under the BRI, outward FDI from Chinese private and state enterprises to BRI countries is encouraged and is, in many cases, part and parcel of BRI

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19 Total exports between BRI countries are estimated to rise by 5.2 percent. These estimates here refer to upper-bound estimates based on the assumption that shippers can switch transport modes from maritime to rail when BRI improvements in transport infrastructure make such switching optimal.
efforts to catalyze trade and growth in these countries and promote deeper integration in general, and with China in particular. Recent estimates of the BRI impact on FDI (Chen and Lin 2018) confirm that reductions in shipment time would raise overall FDI as well as Chinese FDI. A 10 percent reduction in shipment time increases overall FDI flows into BRI countries by 12 percent on average, and Chinese FDI flows into them by 7 percent. The study estimates that fall in shipment time will raise total FDI to Armenia by little less than 3 percent.

32. **Georgia has generally been an attractive destination for foreign investors largely because of its liberal trade and investment regime and numerous bilateral trade agreements with countries.** Most of that FDI so far has gone into banks, tourism, transport and communications and real estate. Nearly 50 percent of the stock of FDI in Georgia comes from Europe and the United States, eight percent from Turkey and a little over ten percent from Russia and Japan.

33. **There has been a rise in Chinese FDI since the BRI, notwithstanding the distance between China and Georgia.** China’s FDI has hovered at around 4 percent of the total FDI stock in Georgia. The Global Investment tracker (GIT), which only captures FDI transactions larger than US$100 million, records 10 Chinese FDI projects in Georgia amounting to US$1.6 billion in 2014-18. A substantial share of this is in transport, energy, finance and real estate.

34. **Media reports also provide evidence of a noticeable rise in Chinese investors’ interest in Georgia.** The China Energy Company limited, a SOE, has purchased three-quarters of the Poti Industrial Free Zone. A Chinese private investor, the Hualing Group, has bought into the Kutaisi Free Industrial Zone (FIZ), a town that is well connected by the country’s rail and road network and is within 100 kilometers of the port of Poti. Other Chinese private firms have invested in building materials like wood products (wood flooring, wood furniture) and stone-tile making, for the domestic market and for exporting to Iran, Turkey and Europe; Changan, the Chinese automaker is investing together with a Georgian group to build electric vehicles for domestic and the EU market. The two free industrial zones managed by Chinese companies, Poti and Kutaisi could potentially attract more Chinese investors.

**Impact on GDP**

35. **Higher FDI and exports generally improves productivity and raise GDP.** The estimated impact of a reduction in shipment time on Georgian GDP is around 2 percent in case of infrastructure improvements alone. Improving trade facilitation (i.e. doubling the efficiency of border crossing) across the BRI corridors will bring GDP gains to around 3.5 percent. Further lowering tariffs across BRI countries can increase GDP in Georgia by an additional one percent. This estimate is derived from a structural model (De Soyres, Mulabdic, and Ruta, 2019) where the impact is driven by a decrease in the price of imported inputs due to lower shipment time and thus a fall in production cost, is passed on to downstream industries, propagating the benefit across the country and the world. In addition, given Georgia’s location on one of the corridors, additional revenues from transit could further boost GDP.

36. **Taking into account the cost of building the infrastructure lowers the gains, though Georgia still benefits.** The welfare impact is calculated by comparing the long-term real income gains noted above with an estimate of the infrastructure cost that the country is expected to pay. This adjustment lowers

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20 The same group also invested in various other projects including a commercial bank, an airline and several new townships including the Tbilisi Sea Plaza and Township.

21 In the SGE model, welfare is defined as total consumer revenues divided by the relevant consumption price index. Total revenue takes into account payments to factors of production, revenues derived from the portfolio share and from import tariffs, and the cost of the transport infrastructure.
the welfare gain for Georgia to around 4 percent in a scenario of improved infrastructure, combined with reduced border delays and lowering of tariffs.

**Figure 4: Increases in GDP**
(in % from baseline, SGE analysis)

Spatial Impact

37. **Spatial analysis suggests that benefits of improvements in transport are likely to be associated with regional concentration of economic activity.** Economic growth is unbalanced (World Bank, 2009); for example, urban hubs that are closer to border-crossings will gain disproportionately more while those farther away will be relative losers. At the same time, transport improvements alone cannot offset disadvantages of unattractive locations. Cities and regions with better amenities and a significant manufacturing sector can benefit substantially more because of the potential for increasing returns and agglomeration economies.

38. **Similarly, improvements in BRI connectivity are likely to be associated with more spatial concentration, rather than dispersion of economic activity within countries.** Most of the gains expected from the improved connectivity do not accrue from the direct impact of the reduction in trade costs, rather, they accrue from income gains related to the response of economic agents which tend to increase scale and to benefit from agglomeration by locating near other firms engaged in similar and related activities. The results of a spatial general equilibrium model for Central Asia confirm these results suggesting that economic adjustment generates gains overall, but also winners and losers. Under the baseline scenario (limited adjustment), the model finds that overall gains will be limited to the direct impact of reduced trade costs. However, some economic mobility (allowing firms to enter and exit) brings higher benefits for some countries, though overall gains are smaller. Finally, allowing firms and labor to adjust increases the overall gains for the entire region with some countries benefiting significantly more; however, some countries benefit much less. Such a differentiated spatial impact also increases risks for part of the population.

39. **Given Georgia’s economic structure, this may mean bigger opportunities for some regions compared to others in an environment where there is already evidence of substantial spatial divide.**

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22 The model analysis few scenarios of economic adjustment: a) Armington, where it is assumed that producers and consumers change behavior while number of firms remains unchanged; b) monopolistic competition where firms’ entry and exit is allowed and c) increasing returns and labor mobility.
Specifically, urban centers with greater manufacturing base and agglomeration potential are likely to benefit more while some districts could easily see a fall in income. Tbilisi and few other locations are likely to benefit, though it is unclear how prepared are these locations to build on the available opportunities. At the same time, other secondary cities and rural areas could face challenges. In addition, even in those urban areas that benefit, note everyone will gain as industries that will face greater competition (for example, manufacturing) could lose jobs.

6. Complementary Policies to Accompany BRI Transport Projects

40. The government of Georgia can magnify the impact of BRI transport projects on exports, FDI and GDP if reforms in a few areas accompany the infrastructure improvements. More specifically:

a) Further improve trade facilitation and logistics to reduce border delays: Though Georgia has made significant progress in the area of customs clearances and border-crossing by adopting one-stop shop and a risk-based system, further reductions in border delays could magnify the impact of BRI transport projects. Several measures could reduce border clearance times for cargo. First, the government could promote entry of international logistics companies into the country and/or facilitate joint-ventures between them and local logistics service providers, because current logistics companies lack the know-how and experience to provide complex freight forward and warehousing services that are needed in a major transit and trade hub. Second, the Government should support vocational and technical training courses in trade facilitation and logistics to upgrade skills of logistics professionals and their availability. Third, modern ICT systems should be introduced for border and customs clearances at all border-crossings.

b) Implement second-generation business-climate reforms: These reforms are aimed at enhancing the predictability of the business climate (including establishing a proper Regulatory Impact Assessment function and strengthening the judiciary), at enabling the financial sector to develop products to increase access to finance for small and medium size enterprises (SMEs) and developing institutions that promote productivity growth in SMEs. Also, impact of government business support policies could be increased by targeting efforts to areas where Georgia could effectively compete.

c) Improve sector policies, especially in agriculture: The BRI will reduce shipment time and raise demand for time sensitive agriculture and processed foods, but to sustain export growth in these items complementary sector policies must address the other constraints to the development of the sector. First, modernizing irrigation facilities and improving access to efficient irrigation services will be important to ensure greater access to reliable water for crops. Second, expand coverage of land registration system to enhance security of land tenure and facilitate active land markets as well as credit to farmers with land titles. Third, improved connectivity with hinterlands is needed to better connect farmers with markets and processors. Finally, strengthen quality infrastructure to promote appropriate standards for agriculture and processed food exports by farmers and processors.

d) Facilitate labor mobility: The BRI impact on exports and GDP is likely to be unequally distributed across Georgian regions. Improving public services across the country and connectivity with

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23 In 2018 Georgia was ranked 53rd on efficiency of customs clearance process by Logistics Performance Index and 45th on Trading across Borders by Doing Business.
hinterlands, finding economic opportunities in secondary cities and better managing the currently unplanned migration can help in facilitating the completion of the structural transformation.

e) **Stronger regional cooperation**: Investing in Georgia’s section of the corridor will only make sense if similar upgrades are undertaken along the entire corridor. In addition, an efficient border-clearance service in Georgia will do little to improve the reliability of the corridor if not matched by similar improvements in processes along the entire corridor. There has been no lack of cooperation initiatives in South Caucasus and Central Asia, though these appear to have had only limited usefulness. The CAC economies are parties to numerous trade and transport facilitation frameworks which aspire to create frameworks for more efficient trade and economic integration. However, selective coverage of trade and transport issues, complex rules, as well as lack of functioning dispute resolution mechanisms have limited their effectiveness. To strengthen regional cooperation, countries will require building on the existing arrangements, but also establishing new ones. In the case of Georgia, developing the Trans-Caucasus Transport corridor into a competitive alternative to other routes for the transport of goods, especially for containerized goods between China and Europe, including by potentially setting up a joint operating entity to strengthen transport along the corridor and promote its development and improving the efficiency of the maritime connection with Central Asia (i.e., Caspian Sea) and Europe (i.e., Black Sea).

7. **Fiscal Risk of Scaling-Up Public Investment for BRI Infrastructure**

41. The scale and bunching of BRI transport investments and the size of borrowing to finance such investment and their terms, have typically raised questions about the medium-term debt sustainability of BRI countries. Georgia has invested in parts of the China-Europe BRI corridor route through Tbilisi and plans to scale-up public investment in future, especially to make that route and internal transport connections to that route competitive. However, the government has not borrowed from China; the BRI route improvements were financed by borrowing from international financial organizations. Improvements in port infrastructure involved the private sector.

42. Georgia’s fiscal and debt situation has been strong; however, will take a strong hit due to the COVID-19 pandemic. Fiscal accounts deteriorated slightly after 2014 when growth slowed because of the slowdown in partner countries’ growth and the substantial depreciation of the lari. However, with robust growth and disciplined current spending in the following period the fiscal deficit narrowed. Public debt increased from 32 percent of GDP in 2013 to around 44 percent of GDP in 2016 but has decline slightly by 2019. A large part of the increase in public debt was due to substantial depreciation of the lari given the high share of external debt in public debt. However, the sharp COVID-19-induced economic contraction and widening fiscal deficit will push public debt to around 60 percent of GDP.

43. Overall government investment as a share of GDP has been strong during this decade. Government investment was maintained at around 7 percent of GDP, on average, in 2010-13 but reduced to 5.5 percent of GDP in 2014-17, before recovering more recently. Investments in the BRI-corridor were continued throughout this period, though some appear to have faced some implementation issues. Capital investments are likely to be scaled-back in 2020 as the government responds to the COVID-19 pandemic.

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24 These include: the Eurasian Economic Community; the Shanghai Cooperation Organization; the Economic Cooperation Organization; the Transport Corridor Europe-Caucasus-Asia (TRACECA), the Central Asia Regional Economic Cooperation (CAREC) and so on.
pandemic as well as in outer years to help support the strong consolidation effort envisaged during this period.

44. Recent debt sustainability analysis (IMF 2020) confirm that public debt is sustainable. Under the baseline scenario, the fiscal deficit will spike to above 8 percent of GDP in 2020; however, it will gradually decline to levels mandated by the fiscal rule (around 3 percent of GDP) as the economy returns to growth and the measures introduced to mitigate the impact of the pandemic expire. Gross financing needs will spike in 2020 and 2021; however, these are expected to be met by increased support from development partners. The baseline permits for significant outlays on capital expenditures averaging around 6.6 percent of GDP in 2018-21, including for BRI projects.

45. The scope for further increases in public investment is limited given the impact of COVID-19 pandemic as well as Georgia’s fiscal rule. The fiscal rule mandates a deficit lower than 3 percent of GDP and puts a cap on public debt, including PPP liabilities, of 60 percent of GDP. The COVID-19 pandemic and the government’s response will push debt close to the limit which will trigger a strong consolidation effort to restore debt towards a more conservative level. Importantly, additional BRI investments are unlikely to generate sufficient incremental growth to offset the impact of more borrowing on the debt-to-GDP ratio (Bandiera and Tsiropoulos, 2019). The fiscal risks of additional large investment projects (e.g. cost overruns, delays, overestimated benefits and so on) could also be avoided by limiting further increases in public investment.

46. Georgia’s fiscal institutions are strong but could be improved further to minimize the risk of fiscal instability. The country has a robust fiscal rule, as well as an evolving fiscal oversight function. PFM arrangements are generally adequate, including a four-year planning cycle and efficient budget execution systems. Still, given the multi-year implications of scaled up infrastructure investments and their recurrent spending requirements, several actions may be warranted. First, the medium-term budget framework could be strengthened so that it can avoid frequent reallocations and/or delays in project execution. Second, with growing reliance on complex instruments to finance investments, further improvements are possible in the fiscal risk functions as well as in the PPP framework. Third, the budget would benefit from establishing an effective public investment management (PIM) system, especially at project identification and appraisal stage.

Figure 5: Quality of PPP processes
(score, on a scale from 0 to 100, higher values indicate better performance)
The role of the private sector in infrastructure provision should be strengthened too. Georgia has been accumulating experience with the engagement of the private sector in infrastructure over the last few decades. The World Bank’s database on Private Participation in Infrastructure lists a number of projects, mostly in power and transport. The country has been successful in attracting some private sector investment in power generation through power purchase agreements as well as in international pipelines. Getting a more vibrant private sector engagement in infrastructure would require stronger capacity to analyze projects, share risks as well as disclose and manage those risks. According to the World Bank Procuring Infrastructure PPPs, the performance of Georgia is around the average for the sub-region though there is scope to improve and reach levels in more advanced peers.
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## Annex: BRI Transport Projects in the Central Asia and Caucuses Region

<table>
<thead>
<tr>
<th>BRI Transport Projects</th>
<th>New, Upgrades and Expansion</th>
<th>Countries</th>
<th>Status: Operational, Ongoing, Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urumqi-Khorgas rail proj.</td>
<td>Urumqi-Khorgas new rail link</td>
<td>China</td>
<td>-2012</td>
</tr>
<tr>
<td>Khorgas New Dry Port</td>
<td>New Rail Terminal, Truck Terminal, Logistics Center &amp; Free Trade Zone</td>
<td>China, Kazakhstan</td>
<td>-2012 (partly) -2015 (fully)</td>
</tr>
<tr>
<td>Moscow-Kazan rail proj.</td>
<td>Moscow-Kazan High Speed Rail upgrade</td>
<td>Russia</td>
<td>-Under construction</td>
</tr>
<tr>
<td>Khorgas-Aktau Rail Project</td>
<td>-Khorgas-Zhetigan (293 km) -Jezkazgan-Saksaulsky (546 km) -Beyneu-Salkar</td>
<td>Kazakhstan</td>
<td>-2014 -2016</td>
</tr>
<tr>
<td>North South Uzen-Gorgan rail proj.</td>
<td>-Uzen-Bolashak -Serkhetyaka-Bereket- Iran border -TKM border-Gorgan</td>
<td>Kazakhstan Turkmenistan Iran</td>
<td>-2013 -2014</td>
</tr>
<tr>
<td>Baku-Alyat seaport</td>
<td>-Sea-link to Aktau -Sea link to Turkmenbashi</td>
<td>Azerbaijan, Kazakhstan Turkmenistan</td>
<td>-2014 -2016</td>
</tr>
<tr>
<td>Baku-Tbilisi-Kars-Istanbul rail proj.</td>
<td>Baku-Tbilisi upgrade Tbilisi-Kars new rail segment</td>
<td>Azerbaijan, Georgia, Turkey</td>
<td>-2016 -2017</td>
</tr>
<tr>
<td>Marmaray Tunnel</td>
<td>Marmaray rail project</td>
<td>Turkey</td>
<td>-Under construction</td>
</tr>
<tr>
<td>Kashgar-Pap Tashkent rail project</td>
<td>Kashgar-Irkeshtam-Osh rail proj Angren-Pap rail link to Tashkent</td>
<td>China, Kyrgyz Republic Uzbekistan</td>
<td>-Proposed -2015</td>
</tr>
<tr>
<td>Samarkand-Mashad rail</td>
<td>Samarkand-Mary-Sarahs-Serakhs-Mashad upgrade</td>
<td>Uzbekistan, Iran, Turkmenistan</td>
<td>-2016</td>
</tr>
<tr>
<td>Mashad-Tehran rail Upgrade</td>
<td>Mashad-Iran</td>
<td>Iran</td>
<td>-Ongoing</td>
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<tr>
<td>Kashgar-Dushanbe rail proj.</td>
<td>Kashgar-Irkehstam-Karymyk-Dushanbe new rail link</td>
<td>China, Kyrgyz Republic Tajikistan</td>
<td>-Proposed</td>
</tr>
<tr>
<td>Sher Khan_Herat rail</td>
<td>SherkhanBandar-Kunduz-MazareSharif-Herat new rail &amp; upgrade</td>
<td>Afghanistan</td>
<td>-Under construction</td>
</tr>
<tr>
<td>Dry ports and hubs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Atyrau, Shymkent, Astana, Almaty</td>
<td></td>
<td>Kazakhstan</td>
<td>Except for Astana, proposed for modernization &amp; expansion</td>
</tr>
<tr>
<td>Andijan, Samarkand, Bukhara</td>
<td></td>
<td>Uzbekistan</td>
<td></td>
</tr>
<tr>
<td>Bishkek, Osh</td>
<td></td>
<td>Kyrgyz Republic</td>
<td></td>
</tr>
<tr>
<td>Tursunzade, NiznyPanj, Jirgital</td>
<td></td>
<td>Tajikistan</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Reed & Trubetskoy (2018) compiled a list of BRI projects from which projects in the CAC region are cited.*