

Georgia-China Economic Relations: Trade, Investment and Development Perspectives

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Abstract: *Over the past decade, Georgia and China have cultivated a multifaceted economic partnership, shaped significantly by the 2017 Free Trade Agreement and China's Belt and Road Initiative. This study explores the evolution of this relationship from 2010 to 2023, analyzing trends in trade, foreign direct investment, tourism, and infrastructure development using official datasets and comparative frameworks. The findings reveal a steady increase in trade volume and investment flows, though structural imbalances persist, with Georgia predominantly exporting raw materials and importing high-value manufactured goods. Chinese investments have bolstered infrastructure, yet limited domestic linkages pose a challenge for long-term development. The paper concludes with policy recommendations to strengthen industrial capacity, promote technology transfer, and foster sustainable, inclusive growth within this bilateral framework.*

Keywords: Georgia-China Relations; Trade Imbalance; Belt and Road Initiative; Foreign Direct Investment; Economic Development

1. Introduction

Economic relations between Georgia and China have transformed remarkably over the last twenty years. After the 2003 Rose Revolution, Georgia pursued aggressive liberalization policies, reducing tariffs, improving business regulation, and orienting toward global markets (Benidze, 2021). China, simultaneously expanding its global economic footprint through the Belt and Road Initiative (BRI), identified Georgia as a critical logistics and investment hub in the South Caucasus (World Bank, 2023).

The 2017 Free Trade Agreement between Georgia and China marked a turning point, granting Georgian exporters duty-free access to a market of over 1.4 billion consumers (Ministry of Economy, 2023). In return, China obtained a stable entry point to the European neighborhood via Georgia's ports and railways. As a result, China rose to become Georgia's third-largest trading partner after Turkey and Russia in 2023 (GeoStat, 2023).

Despite this progress, the relationship remains asymmetrical: Georgian exports are concentrated in raw materials such as copper ores, ferroalloys, and wine, while imports from China include machinery, electronics, vehicles, and textiles (UN Comtrade, 2023). As Rodrik (2004) and Chang (1994) emphasize, such unbalanced trade structures are typical of developing economies with a weak industrial base.

This paper examines the evolution and composition of Georgia - China economic relations. The section 2 presents the

methodology and data sources. Section 3 reviews the relevant literature. Section 4 provides empirical results on trade, investment, tourism, and infrastructure. Section 5 discusses

policy implications, and Section 6 concludes with recommendations for balanced and sustainable growth.

2. Methodology and Data

This study employs a descriptive and comparative analysis based on official data from the National Statistics Office of Georgia (GeoStat), the Ministry of Economy and Sustainable Development of Georgia, UN Comtrade, and UNCTAD. The analysis period covers 2010-2023.

The approach combines quantitative trade analysis and sectoral linkage interpretation, inspired by Leontief's (1986) input-output model, highlighting inter-sectoral effects. The framework follows methodologies applied by Miller and Blair (2009), Ten Raa (2006), and Benidze and Berikashvili (2023), focusing on economic interdependencies and multiplier effects. Indicators analyzed include:

- Annual trade turnover (exports, imports, and balance)
- FDI inflows by origin and sector
- Number of Chinese tourists visiting Georgia
- BRI-related infrastructure and investment projects

The study also incorporates academic literature on trade and industrial development (Rodrik, 2004; Krueger, 1993; Krugman, 1995) and reports from the World Bank and UNCTAD to contextualize findings.

3. Literature Review

Globalization has created complex interlinkages between small and large economies. Rodrik (2004) argued that structural transformation requires targeted industrial policy to strengthen productive capacity. Chang (1994) emphasized that developing countries must build industrial linkages to avoid dependence

on low-value exports. Similarly, Krugman (1995) showed that openness without competitiveness leads to dependency on imports rather than productivity growth.

In the Georgian context, Benidze (2019, 2021) highlighted the importance of manufacturing and value-added exports as drivers of sustainable growth. Leontief's (1986) model of inter-sectoral linkages demonstrates how strategic sectors-such as manufacturing, logistics, and tourism-can stimulate broader economic activity. Studies by Miller and Blair (2009) and Murray and Lenzen (2013) support this approach by quantifying direct and indirect linkages.

For China, outbound investment strategies under the Belt and Road Initiative have been analyzed by Chen and Li (2020), who found that Chinese FDI tends to cluster around logistics corridors and infrastructure hubs. The World Bank (2023) noted that small economies like Georgia benefit from improved connectivity but risk dependency if domestic production remains underdeveloped.

4. Results and Analysis

Georgia's total trade with China has increased from USD 123 million in 2010 to USD 2.03 billion in 2023 (GeoStat, 2023).

Year	Exports to China (USD million)	Imports from China (USD million)	Trade Balance (USD million)
2010	19.6	103.4	-83.8
2015	116.5	648.1	-531.6
2020	477.2	946.0	-468.8
2023	716.3	1,312.8	-596.5

Source: GeoStat (2023), UN Comtrade (2023)

China accounted for 8.7% of Georgia's total trade turnover in 2023, compared to just 1.5% in 2010. Exports were dominated by copper ores (63%), wine (9%), ferroalloys (8%), and nuts (4%). Imports from China were more diversified, including machinery (24%), vehicles (18%), textiles (11%), and electronics (9%). The trade deficit widened slightly after 2020 due to post-pandemic demand recovery (World Bank, 2023). Chinese FDI in Georgia expanded with the implementation of the FTA and the BRI.

Year	Chinese FDI (USD million)	% of Total FDI
2015	80.5	5.3%
2018	116.2	6.4%
2020	102.1	5.8%
2023	138.7	7.2%

Source: UNCTAD (2024); Ministry of Economy (2023)

Key investors include Hualing Group, which developed the Kutaisi Free Industrial Zone and multiple real estate projects; PowerChina and HydroChina, which invested in renewable energy; and Chinese construction firms engaged in road and tunnel infrastructure (ADB, 2022). However, most Chinese FDI remains enclave-oriented, with limited integration into domestic supply chains (Benidze & Berikashvili, 2023).

Encouraging joint ventures and technology transfers could improve local linkages.

China's outbound tourism growth reached Georgia in the mid-2010s after the introduction of visa-free travel in 2013.

Year	Chinese Tourist Arrivals	Change (%)
2012	8,400	N/A
2016	34,500	+311%
2019	147,000	+326%
2020	14,200	-90%
2023	92,000	+548% (post-COVID)

Source: Georgian National Tourism Administration (2023)

Most visitors arrive for business, leisure, and cultural exchange. Chinese tourists spend approximately USD 1,150 per visit, above Georgia's average tourist expenditure (GNTA, 2023). Direct flights between Tbilisi and major Chinese cities, alongside BRI-related business visits, have contributed to steady growth. In addition, academic cooperation has increased, with Confucius Institutes operating in Tbilisi and Kutaisi, and Georgian universities launching Mandarin language programs.

Georgia's geographic location makes it a strategic node of the Trans-Caspian International Transport Route (TITR), or the "Middle Corridor," linking China to Europe via Kazakhstan, Azerbaijan, and Georgia (ADB, 2022). Chinese companies have financed or co-financed major projects, including:

- The Tbilisi Sea Industrial Zone
- The East-West Highway modernization
- Kutaisi Industrial Zone (Hualing Group)

These projects align with Georgia's aim to become a logistics hub between Asia and Europe. However, as Krueger (1993) cautions, infrastructure investments must be complemented by institutional capacity to ensure spillover benefits.

In 2023, China was Georgia's third-largest trading partner, behind Turkey (14%) and Russia (13%). However, China ranked fifth in FDI inflows and fourth in tourist arrivals.

5. Discussion and Policy Implications

The analysis confirms that Georgia's engagement with China has produced significant but uneven economic outcomes. Trade and FDI have expanded, yet most benefits remain concentrated in low-value sectors. To maximize long-term gains, several policies are recommended:

- **Export Diversification:** Support agriculture processing, creative industries, and high-value manufacturing. As Chang (1994) and Rodrik (2004) argued, industrial upgrading is essential to avoid dependency on raw commodities.
- **Investment Linkages:** Require or incentivize Chinese investors to engage local suppliers and workforce training.
- **Technology Transfer:** Facilitate joint R&D programs, especially in renewable energy and logistics digitization.

- **Tourism Strategy:** Promote cultural and educational tourism to attract high-value segments.
- **Balanced Diplomacy:** Maintain a diversified foreign economic policy to balance relations between China, the EU, and regional partners.

6. Conclusion

The evolution of Georgia-China economic relations over the past decade represents one of the most significant transformations in Georgia's external economic orientation. This partnership - anchored by the 2017 Free Trade Agreement and participation in the Belt and Road Initiative - has reshaped trade flows, investment channels, and mobility patterns across sectors. Between 2010 and 2023, trade turnover expanded more than tenfold, Chinese FDI became an integral component of Georgia's development financing, and tourism linkages contributed to cultural and service-sector diversification.

Nevertheless, the study reveals that the relationship remains asymmetrical and structurally unbalanced. Exports from Georgia are still dominated by raw materials - chiefly copper ores, ferroalloys, and agricultural products, while imports from China consist largely of high-value manufactured goods. This pattern reinforces the findings of Rodrik (2004) and Chang (1994), who argued that openness alone does not guarantee industrial upgrading unless accompanied by targeted policy interventions. The evidence suggests that Georgia's comparative advantage continues to be determined by natural-resource endowments rather than technology-driven competitiveness.

The investment dimension of the relationship has produced mixed results. While large-scale projects such as the Kutaisi Free Industrial Zone and East-West Highway modernization have improved infrastructure, the local value-added component of these investments remains limited. Following Leontief's (1986) input-output logic, greater backward and forward linkages between Chinese investments and Georgian industries are necessary to maximize economic spillovers. Encouraging joint ventures, technology transfer agreements, and workforce localization can help transition from enclave-style investments toward sustainable development synergies.

Tourism and cultural exchange have emerged as softer but equally important pillars of cooperation. The steady recovery of Chinese tourist arrivals after the pandemic, along with growing educational exchange, indicates a deepening of people-to-people connectivity - a necessary foundation for long-term resilience in the partnership.

From a macroeconomic perspective, the Georgia-China partnership has contributed positively to diversification, helping reduce overreliance on regional partners such as Russia and Turkey. Yet, as Krueger (1993) emphasized, diversification without institutional strengthening may lead to vulnerability if external shocks disrupt capital inflows or trade logistics. Therefore, Georgia's strategy must balance openness with selectivity-leveraging global opportunities while safeguarding domestic industrial interests.

Looking ahead, Georgia's success in this partnership will depend on its ability to transform trade integration into structural transformation. Key policy priorities include:

- Deepening industrial capacity in processing and manufacturing to reduce dependence on commodity exports
- Aligning BRI infrastructure with green and digital economy objectives to foster sustainability and innovation
- Expanding educational and research collaboration to enhance human capital relevant to technology-intensive sectors
- Strengthening regulatory transparency and environmental standards to attract higher-quality foreign investment.

Ultimately, the Georgia-China relationship demonstrates how a small open economy can engage productively with a global power - provided that strategic selectivity, institutional capability, and domestic innovation capacity are developed in parallel. If these conditions are met, this partnership can evolve from trade-based interdependence into a model of inclusive, innovation-led, and sustainable economic cooperation for the wider Caucasus region.

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