

## SOME ISSUES OF ECONOMIC RELATIONS BETWEEN GEORGIA AND RUSSIA

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### **Abstract**

*Since the collapse of the former Soviet Union, the Russian Federation has always sought to maintain its leverage over the former Soviet republics. The same was towards Georgia, which had been an independent state in 1918-1921 and was violently "Sovietized" in 1921.*

*Since the early 1990s, Georgia had been a member of the Commonwealth of Independent States (CIS) despite the fact that it gained its independence. The goal of this was: First, to maintain traditional ties before establishing new economic relationships; second, to ensure territorial integrity. Unfortunately, the CIS failed to live up to its expectations, more than 20% of Georgia's territory was occupied by Russia and Georgia pulled out of the CIS block.*

*Currently, Georgia has severed diplomatic relations with Russia. The economic relations between them are characterized by the volatility, which is often determined by political factors from Russia's side.*

*In the post-Soviet era, Russia still managed to own large energy facilities in Georgia. Its interests are far greater than those of railroads and pipelines in Georgia, which are still unrealized.*

*Nevertheless, Russia is an important trading partner for Georgia in terms of export, import and investment. In addition, many of our compatriots are employed in Russia and send a large amount of remittances to Georgia.*

*Relations between the two countries were particularly strained - especially after the August war in 2008. Georgia will never accept the occupation of its indigenous territories, so Russia is deeply concerned about Georgia's Euro-Atlantic aspirations.*

*Currently, bilateral economic relations are also tense, and issues of bilateral sanctions are being discussed, which will not be beneficial to either party.*

*In the light of the foregoing, the paper deals with the dynamics of exports, imports, investments, remittances and more between Georgia and Russia at the contemporary stage.*

**Keywords:** *Georgia, Russia, export, import, GDP per capita, investment*

**JEL Classification:** *F50, F51, F59*

### **I. INTRODUCTION**

Since the collapse of the former Soviet Union in the early 1990s, the Russian Federation has always sought to maintain its leverage over the former Soviet republics. The same policy applies to post-Soviet Georgia (Chania and Putkaradze, 2018; Silagadze, A., 2018; Silagadze, A., 2013).

As a result of the aforementioned policy, in the early 1990s, Georgia, despite its restoration of independence, was forced to become a member of the Commonwealth of Independent States (CIS) in order to prevent a violation of its territorial integrity. Unfortunately, the hope did not come true and more than 20% of the country's territory was occupied. Georgia left the CIS bloc, broke diplomatic relations with Russia, and economic relations between the countries became volatile. Russia has a keen interest in Georgia from a geo-economic and geopolitical point of view, and Georgia's Euro-Atlantic aspiration resents Russia (Bakhtadze and Sartania, 2019; Papava, 2013).

Post-Soviet Georgia has undergone rapid economic reforms, using various models (Ananiashvili and Papava, 2014; Sepashvili, 2016) to shift to a market economy. Against this backdrop, Russia has always been considered as an important trading partner for Georgia in terms of export-import and investment directions, but hopes have surpassed the reality. It should be taken into account that many of our compatriots are employed in Russia and they send a large amount of remittances to Georgia (Silagadze, A., Atanelishvili and Silagadze, N., 2019).

At present, bilateral economic relations are also tense, and the issue of imposing bilateral sanctions is being discussed, which will not be beneficial to either party.

## II. GENERAL ANALYSIS

The Georgian economy traditionally was focused on the Russian market. Due to the complicated situation between two countries the small country suffers even more because its foreign market is still poorly diversified and manufactured goods are non-competitive. However, the Russian economy also depends heavily on the international market and the actions of our country's partners.

To avoid more loss, it became necessary to increase competitiveness of manufactured products and diversify foreign markets. Normalization of relations with Russia is undoubtedly beneficial, but it cannot be done at the expense of Georgia's territorial integrity.

In 2018, the GDP of the Russian Federation (current US \$) was \$1.658 trillion (\$516.8 billion in 1990), the same indicator in Georgia was: \$16.2 and \$7.8 billion, respectively. (Table 1).

**Table 1. Growth rates of GDP in Georgia and Russia (% compared to the previous year)**

	2012	2013	2014	2015	2016	2017	2018	GDP in 2018 compared to 1990 (%)
World (Average)	2.5	2.7	2.9	2.9	2.6	3.2	3.1	30.3
Georgia	6.4	3.4	4.6	2.9	2.8	4.8	4.7	44.3
Russia	3.7	1.8	0.7	-2.3	0.3	1.6	2.3	34.0

Computed: <https://www.geostat.ge/ka/modules/categories/35/sagareo-vachroba>,  
<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=RU> 25.10.2019.

Thus:

- The growth rate of the world GDP in 1990-2018 accounted for 30.3%; the same indicator was 34% in Russia and 44.3% in Georgia;
- In recent years in Georgia the economic growth rates were higher than in Russia;
- Complicated relations with Russia have had a negative impact on the economy of both post-Soviet countries (Georgia, Ukraine, Moldova) and resource-rich Russia (in view of sanctions and delayed modernization of the Russian economy, etc.).

According to the GDP per capita indicator, Russia has actually come close to the world average indicator and has significantly outstripped Georgia. (Table 2).

**Table 2. Gross domestic product percapita (current US \$), billion US dollars**

	1990	2012	2013	2014	2015	2016	2017	2018
World (Average)	4 280	10 474	10 764	10 929	10 218	10 248	10 770	11 298
Russia	3 485	14 351	16 007	14 100	9 314	8 746	10 751	11 289
Georgia	1 614	4 250	4 342	4 439	3 757	3 857	4 046	4 345

Computed: <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=RU-GE> 25.10.2019.

Russia's indicator of 2018, for the above reasons, has fallen sharply in the last four years compared to the indicators of 2012-2013.

Overall, in 2018, compared to 1990, GDP per capita increased by 2.64 times (on average) in the world, 3.24 times in Russia, and 2.69 times in Georgia.

Russia holds important positions in Georgia's foreign trade. However, as it was noted, these relationships are unstable and often face very severe political pressures. (Table 3).

**Table 3. Export and Import of Georgia to Russia, Billion USD.**

Year	Export, total	Export (to Russia)	Import, total	Import (from Russia)
2007	1.332	0.045	5.512	0.573
2008	1.465	0.030	6.301	0.423
2009	1.134	0.021	4.476	0.291
2010	1.667	0.035	5.236	0.290
2011	2.186	0.037	7.072	0.388
2012	2.377	0.047	8.056	0.477
2013	2.91	0.191	8.023	0.584

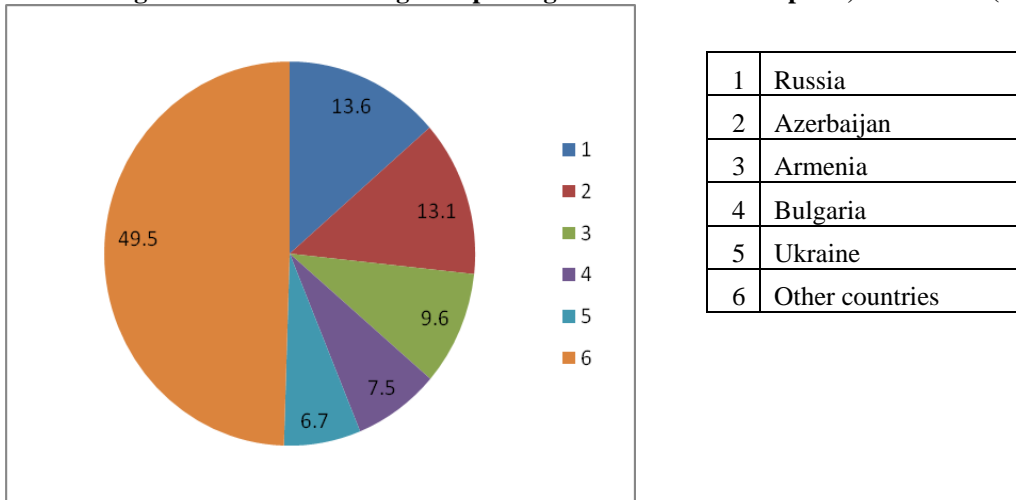
2014	2.861	0.275	8.602	0.576
2015	2.204	0.163	7.300	0.625
2016	2.113	0.207	7.294	0.676
2017	2.736	0.397	7.943	0.787

Computed: <https://www.geostat.ge/ka/modules/categories/35/sagareo-vachroba> 27.10.2019.

Overall, despite the collapse of the Soviet Union, initially Russia's role in Georgia's foreign trade was significant. Due to the August war in 2008, the scale of trade turnover between Georgia and Russia was declined sharply, and it has increased in recent years. In 2018, Georgia's exports to Russia amounted to \$ 437 million (13.0% of the country's total exports), while imports exceeded and amounted to \$ 934 million (10.2% of the country's total imports).

Russia also holds a leading position in trade with Georgia in recent period. (Fig. 1).

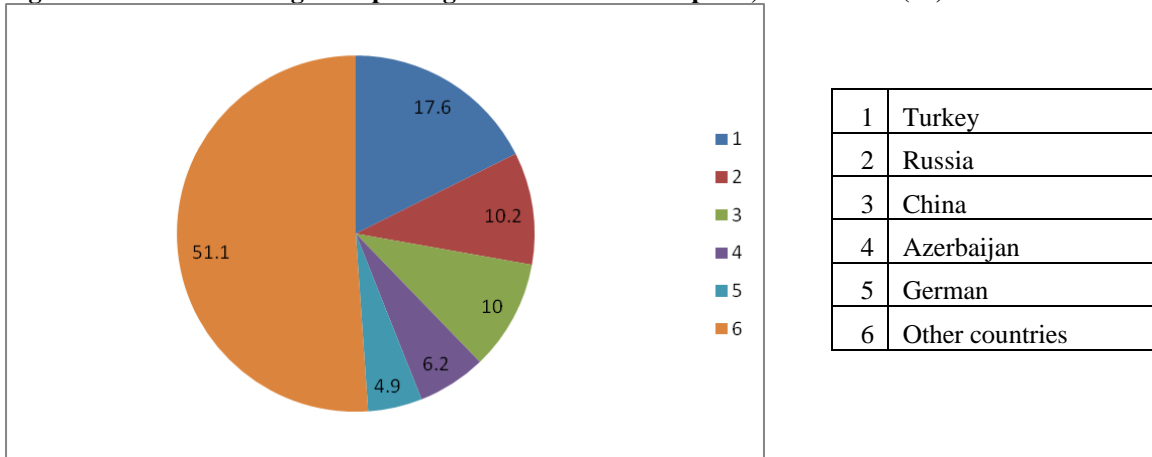
**Figure 1. Share of the largest exporting countries in total exports, I-IX / 2019.(%)**



Computed: <https://www.geostat.ge/ka/modules/categories/35/sagareo-vachroba> 27.10.2019.

Thus, Russia is the largest exporting country for Georgia, accounting for 13.6% of the total exports. The volume of Russian imports to Georgia is even greater. (Fig. 2).

**Figure 2. Share of the largest importing countries in total imports, I-IX / 2019. (%)**



Computed: <https://www.geostat.ge/ka/modules/categories/35/sagareo-vachroba> 27.10.2019.

Thus, Russia ranks second among Georgia's largest import countries.

Notwithstanding the above, Russia has not yet fulfilled its WTO membership obligations: on the Russian-Georgian state border (on the Psou section), Georgia and Russia have to exercise bilateral control over cargo shipments.

Georgia has not yet joined in imposing international sanctions on Russia. We think this policy is justified for our country at this stage, but predicting the continuation of such a policy in the long run is a difficult matter.

Russia owns significant property in Georgia (especially in the energy sector) and makes substantial investments in them and in other areas. (Table 4; Fig. 3).

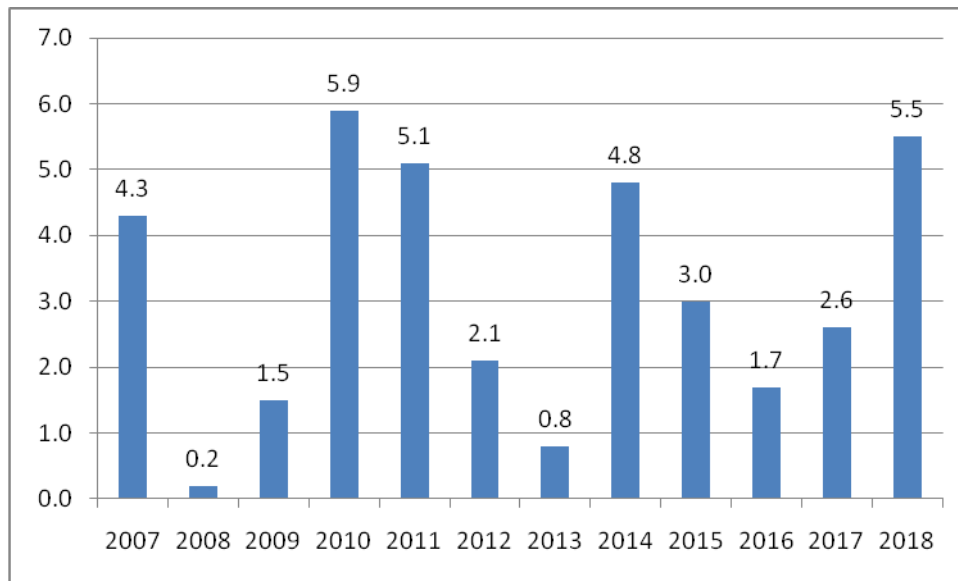
**Table 4. Foreign Direct Investment (FDI) in Georgia, million USD.**

Year	All	From Russia
2007	1,764,720.8	75,162.3
2008	1,575,243.2	26,212.2
2009	666,774.6	10,253.4
2010	865,637.7	50,974.0
2011	1,133,971.1	58,017.6
2012	1,048,227.2	22,017.3
2013	1,039,174.2	7,813.8
2014	1,836,980.0	87,908.6
2015	1,729,087.9	52,369.6
2016	1,650,327.6	28,376.0
2017	1,962,613.5	51,316.2
2018	1,265,236.1	69,654.3

Computed: <https://www.geostat.ge/ka/modules/categories/191/pirdapiri-utskhouri-investitsiebi> 27.10.2019.

Overall, the volume of FDI inflows from Russia has increased in recent years, but its share in the total FDI is not high.

**Figure 3. Share of FDI flows from Russia to Georgia in the total investments, 2007-2018 (%)**



Computed: <https://www.geostat.ge/ka/modules/categories/191/pirdapiri-utskhouri-investitsiebi> 25.09.2019.

The number of foreign tourists, including from Russia has significantly increased in Georgia. The situation with Russia has deteriorated recently, but Georgia remains an attractive destination for Russian tourists. The volume of remittances from Russia has also been solid over the years (these issues will be analyzed in other papers of the authors).

**III. CONCLUSION:**

- In 1990-2018 the growth rate of the world GDP is the highest one -3.8%, followed by Russia - 3.2% and Georgia -2.1%;
- In Georgia the economic growth rates have been higher than in Russia in recent years;

- Complicated relations with Russia have had a negative impact on the economy of both the post-Soviet countries (Georgia, Ukraine, Moldova) and on resource-rich Russia itself;
- In 2018, compared to 1990 GDP per capita has increased 2.64 times (on average) in the world, 3.24 times in Russia, and 2.69 times in Georgia;
- After the collapse of the Soviet Union, initially, Russia's role in Georgia's foreign trade was significant, but subsequently the situation worsened and orientations changed;
- Due to the August 2008 war, the scale of the trade turnover between Georgia and Russia has dropped to a critical level, and has increased in recent years. In 2018, Georgia's exports to Russia made up 13.0% of the total export, while imports from Russia to Georgia made up 10.2% of the total import;
- Despite the difficulties, Russia remains as the leading export and import country for Georgia.

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