



## Georgia: A Free Trade Partner

Georgia has huge potential as a new trading partner for Hong Kong, with a substantial number of business opportunities arising from its combination of firm support for the [Belt and Road Initiative \(BRI\)](#), its open and business-friendly economy and its strategic location in the central Caucasian region of Eurasia. A country of 3.7 million people, its prime setting at the very crossroads of China and Europe, as well as its extensive array of [Free Trade Agreements \(FTAs\)](#) – including treaties with the Chinese mainland and Hong Kong – sees it offering a host of new trade and investment possibilities.

Its appeal has been boosted by a number of ongoing reforms, including a greater emphasis on open governance, improvements to the local business environment and an ambitious infrastructure development programme. In the case of the latter, this has seen a number of landmark investment projects being given the greenlight, including the US\$2.5bn *Anaklia Deep Sea Port and Special Economic Zone*, the *Baku-Tbilisi-Kars Railway* and ongoing railway track modernisation work. Taken together, these projects are not only seen as representing major steps forward for Georgia's international connectivity, but also as playing a key role in the country's evolution from being a simple transit hub to becoming a true regional logistics and industrial centre. Hong Kong investors and professional service providers, of course, could clearly play a huge role in facilitating this ambitious and capital-intensive reinvention process.

### A Leading Reformer in Europe and Central Asia

Georgia, which borders Russia to the north, the Black Sea to the west and Turkey, Armenia and Azerbaijan to the South, is a leading reformer and significant emerging Caucasian market. According to the [World Bank](#), it has implemented 47 business-friendly reforms in the past 15 years, topping the ranking of European and Central Asian countries.

Owing to these reforms, all tax procedures and customs clearances in the country are now web-based and unified under one tax code. This has reduced the average number of days and procedures to register a new business greatly, from 25 days and nine procedures in 2003 to just two days and two procedures now.

The 2005 tax code changes were especially significant, transforming the country's fiscal landscape. The types of taxes applicable in Georgia were slashed from 21 in 2004 to six simple, flat taxes with rates so low that the country has once been ranked fourth in the world (after Qatar, the UAE and Hong Kong) in terms of how much it taxes its citizens.



Today, to introduce new taxes or increase existing rates, the Georgian government would have to call a national referendum as required by its constitution.

Types of Taxes	Georgia Mainland Company	FIZ- or FTZ-Registered Company
Vat	18%	0%
Corporate Income Tax	15%	0%
Tax on Dividend Withdrawal	5%	0%
Property Tax	Up to 1%	0%
Import Tax	0% - 20%	0%
Personal Income Tax	20%	20% (payable by employees only)

Source: Ministry of Finance of Georgia

While most of the taxes are already exempted in the country's four free industrial zones (FIZs) and two free tourism zones (FTZs), the Georgian government also introduced a new growth-oriented model of corporate income tax in 2017. The relevant tax payment is postponed or deferred until actual profit distribution in a bid to promote re-investment of earned profits into existing and/or new business endeavours.

The reform-driven economic success has helped Georgia lay a solid foundation for continued economic progress. In the two decades ending 2017, the country registered an average economic growth of more than 5%, a pace far higher than many of its Commonwealth of Independent States (CIS) peers, such as Russia, Ukraine, Belarus and Kyrgyzstan.

### A Staunch Supporter of Free Trade

Georgia, given its strategic geographical location and dearth of natural resources beyond agribusiness, has developed a transit-oriented economy, where up to 60% of the cargo flows the country handles are actually in transit. This is in stark contrast to its Caucasian neighbours, such as Russia and Armenia, which are rich in mineral resources such as oil and gas, iron, copper, molybdenum, lead, zinc, gold, silver, antimony, aluminium, as well as other rare metals.

To facilitate trade and strengthen its role as a transit hub, Georgia supports free trade and has entered into an extensive network of FTAs. Agreements are in place with most, if not all, of its key trading partners, including European Union ([EU](#)) and CIS countries, *European Free Trade Association* ([EFTA](#)) members, Turkey, Mainland China and Hong Kong. Apart from the unfettered market access to a 2.3 billion-strong market under this web of FTAs, Georgia also enjoys preferential *Generalised System of Preferences* ([GSP](#)) treatments on some 3,400 products from Canada, Japan and the US.

As a historic step in the continued effort to support the *BRI*, Georgia signed the FTA with Mainland China in May 2017, coming into force on 1 January 2018. The *Sino-Georgia FTA* is not only the first FTA China has signed with a Eurasian country, but also the first Chinese-initiated FTA since the *BRI* was put forward in 2013.

Under the *Sino-Georgia FTA* since 1 January 2018 Georgia imposes zero tariffs on 96.5%



of mainland products, covering 99.6% of the total imports from Mainland China. The mainland imposes zero tariffs on 93.9% of Georgia's products, covering 93.8% of China's total imports from Georgia, of which 90.9% of product types (taking up 42.7% of imports) will have zero tariffs immediately and the remaining 3% of product types (51.1% of imports) will be phased out within five years.

In a similar vein, Hong Kong and Georgia signed an FTA on 28 June 2018, scheduled to come into effect by the end of the year, after completion of the necessary procedures. The *Hong Kong-Georgia FTA* is comprehensive in scope; encompassing trade in goods, trade in services, investment, dispute settlement mechanisms and other related areas in 18 chapters. On coming into effect, Georgia will eliminate all import tariffs for products of Hong Kong origin, with the exception of 3.4% of tariffs lines, comprising mainly agricultural products, such as a fruits and nuts and their preparations, as well as beverages and spirits, due to domestic sensitivity.

In addition to merchandise trade, both Sino-Georgia and Hong Kong-Georgia FTAs have chapters for trade in services, under which both sides will further open their markets to each other on the basis of their *WTO* commitments. Broad consensus has been reached in many fields, such as environment and trade, competition, intellectual property, investment and e-commerce.

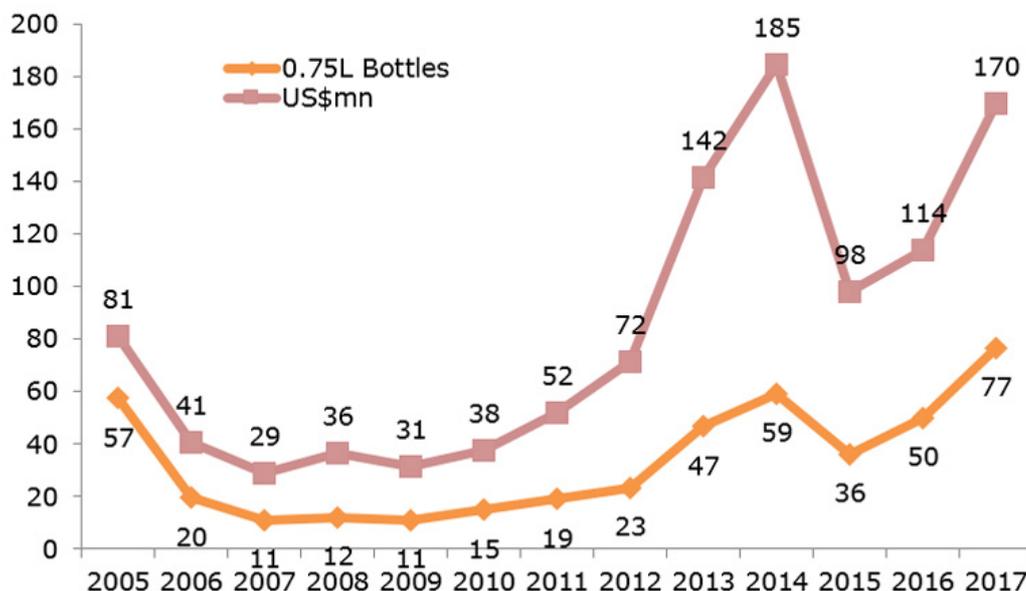
These FTAs will bring legal certainty and better access to the Georgian market for Hong Kong and mainland businesses, while offering potential opportunities as a gateway to the Caucasian region of Eurasia covered under the *BRI*. They will also enhance trade and investment flows between Hong Kong, the Chinese mainland, Georgia and the greater Eurasian region.

### **Unique Taste and Fashion Ready for Export**

Among the many export sectors likely to benefit from the new FTAs are Georgia's wine, food and fashion industries. Georgia has an 8,000-year wine-making history and 525 indigenous grape varieties, such as Kristel, Mtsvane and Saperavi highly popular in former soviet republics, but novel to many Asian drinkers. Georgian wine has already become a rising star in the Chinese wine market, with exports increasing exponentially since 2008[1]. Last year, the mainland, buying 7.6 million bottles of Georgian wine, became its third largest wine export market after Russia and Ukraine.



## Georgia's Wine Exports



Source: National Wine Agency of Georgia

Riding on the success in the mainland, Georgian winemakers are looking for new growth opportunities in the burgeoning Asian market. Some of them, with the state support from the *National Wine Agency of Georgia*, have been actively exhibiting in wine fairs, organising wine-tasting activities and appointing agents/distributors in the region. Exports aside, the *National Wine Agency of Georgia* is also keen on promoting wine-related investment opportunities in Georgia to Asian investors.

Irakli Cholobargia, Head of the Marketing and Public Relations Department of the *National Wine Agency of Georgia*, said: "Although there are more than 500 companies producing wine in Georgia, only about 25 out of the country's 525 indigenous grape varieties have been widely used in the industry. There is plenty room for growth and foreign investment."

Hong Kong, with zero duty and duty-related customs/administrative controls for wine as well as widely-recognised neutrality in trading and promoting wine is a ready trading and distribution hub for Georgia wine in Asia. Hong Kong can also offer a good platform for Georgia winemakers to meet prospective Asian investors who are now the prime movers in global wine investment, with a growing appetite not just for fine wines, but vineyards and wineries.

Wine aside, Georgia, with 22 micro-climates varying from cool and dry to warm and humid, was also seen as a quality food supplier during soviet era. Nowadays, Georgian fresh fruits and vegetables are still well-regarded as healthy and of good quality in the CIS region. Also, the country's traditional delights, such as the sausage-shaped churchkhela[2] confectionary and *Borjomi* fizzy mineral water, are reportedly gaining more attention from the increasingly health-conscious consumers worldwide.

Long dubbed the culinary capital of Asia, with some 14,000 restaurants serving an array of cuisines from all over China, the rest of Asia and the world, Hong Kong can be a good



showroom for Georgian food companies to launch into Asia. In particular, Hong Kong businessmen, who have a good understanding of mainland consumer tastes, can help Georgian food exporters show how their produce can be used with Asian ingredients and culinary skills to complement flavours found in Asian cuisines.



Georgian fresh produce is popular in Central and Eastern Europe, especially in ex-soviet countries.



The sausage-shaped churchkhela is a Georgian national sweet.



Avtandil is a famous Georgian designer fashion brand, having partnerships with more than 150 shops worldwide.



Rosebud is a Georgian start-up hosiery brand, expanding from an online shop at buyers.ge to stores in shopping malls.

In addition to agribusiness, design – including fashion – is booming in Georgia, as the government promotes the use of modern design to convey core values, such as administrative transparency. This goes hand in hand with Georgian consumers, especially the younger generation, becoming more fashion savvy. This demand is driven by increases in income as well as a reaction to the soviet era when outfits tended to be more standardised.

The greater willingness and ability to spend on fashion has also led to the emergence of a number of designer brands such as *Avtandil* and *Rosebud* that have built a following in both the domestic and international markets. Given their relatively small production volume, they usually either only sell online or rely on fashion houses and showrooms in West Europe (including Milan and Paris) to reach out to Asian fashion lovers. These budding fashion brands are therefore ready clients for Hong Kong fashion traders able to offer extensive industry knowledge and distribution networks in the Asian region.

### Growing Chinese Foothold in Georgian Trade and Investment

Given the geographical proximity and historic ties, CIS members, EU countries and Turkey are Georgia's principal trading partners. In 2017, these key partners accounted for 75% of Georgia's total trade. Thanks to the *BRI* and wider presence of Chinese enterprises in Georgia, the mainland has fast gained a foothold in Georgia and has become the country's biggest Asian trading partner.



Last year, Mainland China was Georgia’s fifth-largest export market and third-largest import source, accounting for 7.6% of the country’s total exports and 9.2% of its total imports. Hong Kong sold US\$103 million worth of goods to Georgia and bought US\$6.3 million in 2017, accounting respectively for 0.2% and 1.3% of Georgia’s total imports and exports.

### Georgia’s Foreign Trade Pattern in 2017

Exports (US\$2.7bn)		Imports (US\$8.0bn)	
By Region (% of Total)	By Individual Economy (% of Total)	By Region (% of Total)	By Individual Economy (% of Total)
1. CIS (43.3%), of which - Russia (14.5%) - Azerbaijan (10.0%) - Armenia (7.7%) - Ukraine (4.6%) 2. EU (23.7%), of which - Bulgaria (6.6%) - Romania (2.8%) - Italy (2.5%) - Spain (2.2%) - Germany (1.7%)	1. Russia (14.5%) 2. Azerbaijan (10.0%) 3. Turkey (7.9%) 4. Armenia (7.7%) 5. Mainland China (7.6%) . . . 38. Hong Kong (0.2%)	1. CIS (29.6%), of which - Russia (9.9%) - Azerbaijan (7.6%) - Ukraine (5.9%) - Armenia (3.5%) - Turkmenistan (1.5%) 2. EU (27.5%), of which - Germany (5.4%) - Italy (2.7%) - Romania (2.4%) - Bulgaria (2.0%) - Netherlands (1.9%)	1. Turkey (17.2%) 2. Russia (9.9%) 3. Mainland China (9.2%) 4. Azerbaijan (7.6%) 5. Ukraine (5.9%) . . . 19. Hong Kong (1.3%)
By Category (% of Total)	By Mode of Transport: (% of Total)	By Category (% of Total)	By Mode of Transport: (% of Total)
1. Copper Ores (15.4%) 2. Ferro-alloys (11.3%) 3. Motor Cars (8.6%) 4. Wine (6.3%) 5. Nitrogen Fertilizers (2.8%)	1. Road (45%) 2. Sea (43%) 3. Air (8%) 4. Rail (4%)	1. Petroleum and petroleum Oils (8.7%) 2. Motor Cars (6%) 3. Gases (4.4%) 4. Medicaments (4.3%) 5. Copper Ores (4.2%)	1. Road (42%) 2. Air (35%) 3. Sea (10%) 4. Rail (9%)

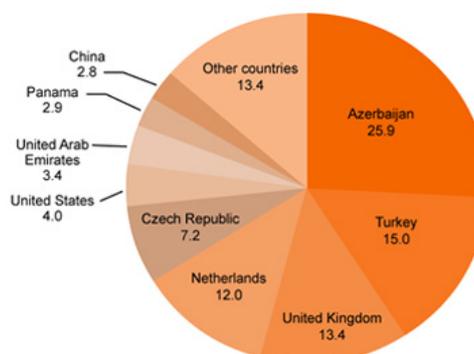
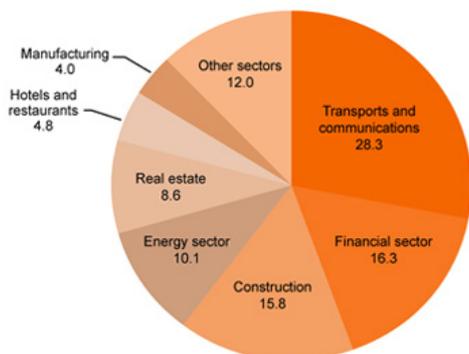
Source: National Statistics Office of Georgia (GeoStat)

The growing Chinese presence permeates not only in trade, but also investment in Georgia. In spite of a similar EU and CIS dominance, the mainland is estimated to have grown to be the country’s fifth-largest foreign investor, growing from a US\$590 million position in 2015 to US\$656 million in 2017. An estimated US\$51.9 million of the US\$1.9 billion annual FDI inflow to Georgia last year came from China, accounting for some 2.8% of the total.



## Georgia's FDI

Inflows (US\$1.9bn)	
FDI by major economic sectors in 2017* (%)	FDI by major investor countries in 2017* (%)



\* Preliminary data

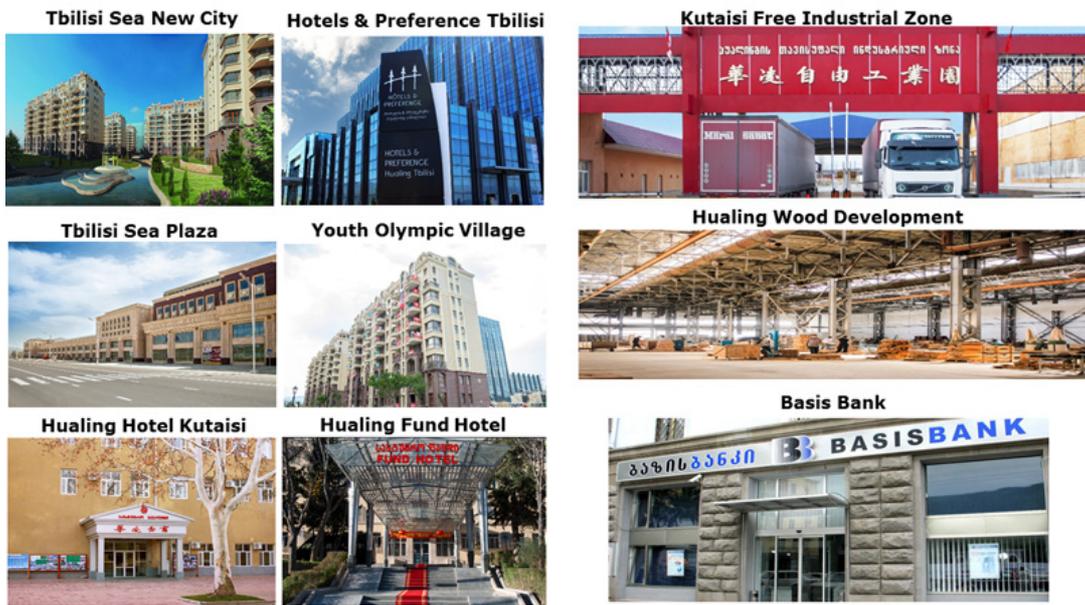
Stock/Position (US\$17.4bn)	
By Region (% of Total)	By Individual Economy (% of Total)
<ol style="list-style-type: none"> <li>EU (44.3%), of which                             <ul style="list-style-type: none"> <li>- The UK (15.9%)</li> <li>- The Netherlands (14.2%)</li> <li>- Luxemburg (3.2%)</li> </ul> </li> <li>CIS (25.9%)                             <ul style="list-style-type: none"> <li>- Azerbaijan (21.8%)</li> <li>- Kazakhstan (1.8%)</li> <li>- Russia (1.6%)</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>Azerbaijan (21.8%)</li> <li>The UK (15.9%)</li> <li>The Netherlands (14.2%)</li> <li>Turkey (6.5%)</li> <li>Mainland China (3.8%)</li> </ol>

Source: GeoStat

Falling largely in line with Georgia's economic strengths, Chinese investors have a diversified investment portfolio in the country. Investment span many different sectors such as infrastructure development, engineering contracting, project contracting, trading, banking and finance, hospitality and real estate, telecommunication, forest resources development, building materials processing, manufacturing, renewable energy and mineral exploitation.

Examples of leading Chinese investors in Georgia include *Xinjiang Hualing Group Corporation*, *CEFC China Energy*, *Sichuan Electric Power Import and Export Company*, *China State Grid International Development Corporation*, *Georgia Sinohydro*, *China 20th Metallurgical Construction Co., Ltd.*, *Huawei Technologies*, *ZTE Corporation* and *Manzhouli Heyuan Economic and Trade Co., Ltd.*

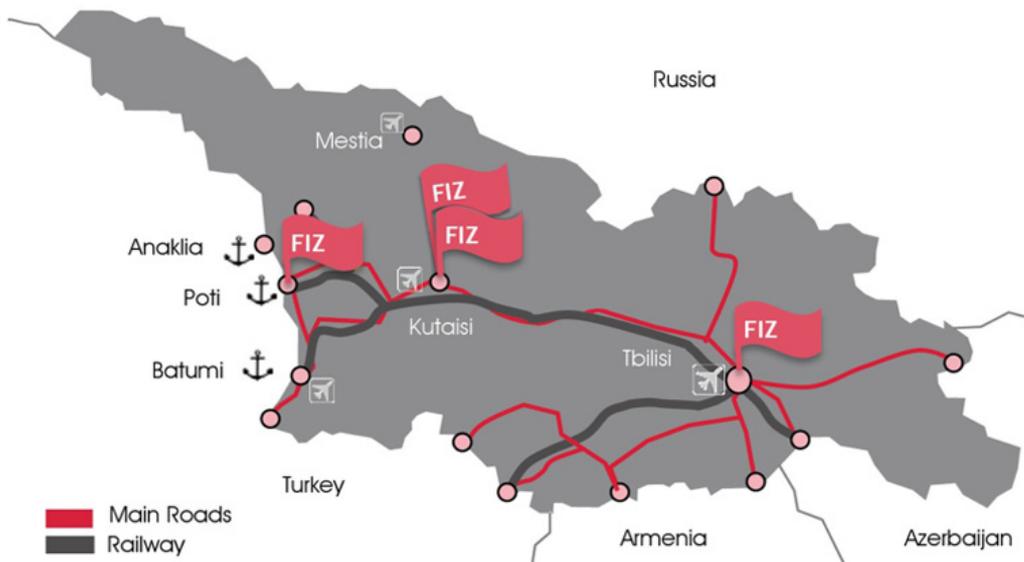
As the largest Chinese investor in Georgia, *Xinjiang Hualing Group Corporation*, for example, has already realised eight projects, including a landmark real estate development in Tbilisi, the capital. The Youth Olympic Village was converted into a residential and commercial complex, comprising *Hualing Tbilisi Sea New City*, *Hualing Tbilisi Sea Plaza* and *Hualing Hotels & Preference Tbilisi*, with abundant warehousing, retailing, wholesaling and meetings, incentives, conferences and exhibitions (MICE) capacity.



Chinese conglomerate, Hualing Group, started investment in Georgia in 2007 and is one of the country's largest foreign investors.  
Source: Hualing Group

In consonance with Georgia's vision to transform itself from a logistic junction into an industrial hub, *Hualing* has also strengthened its investment in the country's manufacturing sector by taking a stake in the Kutaisi Free Industrial Zone (FIZ). This, together with *CEFC China Energy's* recent investment in Poti FIZ on the eastern Black Sea coast to build an export hub for Chinese goods and services to Europe and Central Asia, has made Chinese investors vital for the future of two of the country's four FIZs, and important partners in realising Georgia's industrial potential.

### Georgia's Free Industrial Zones (FIZs)



Source: Georgian Railway

Also worth noting is the growing visibility of Chinese investors in Georgia's banking and



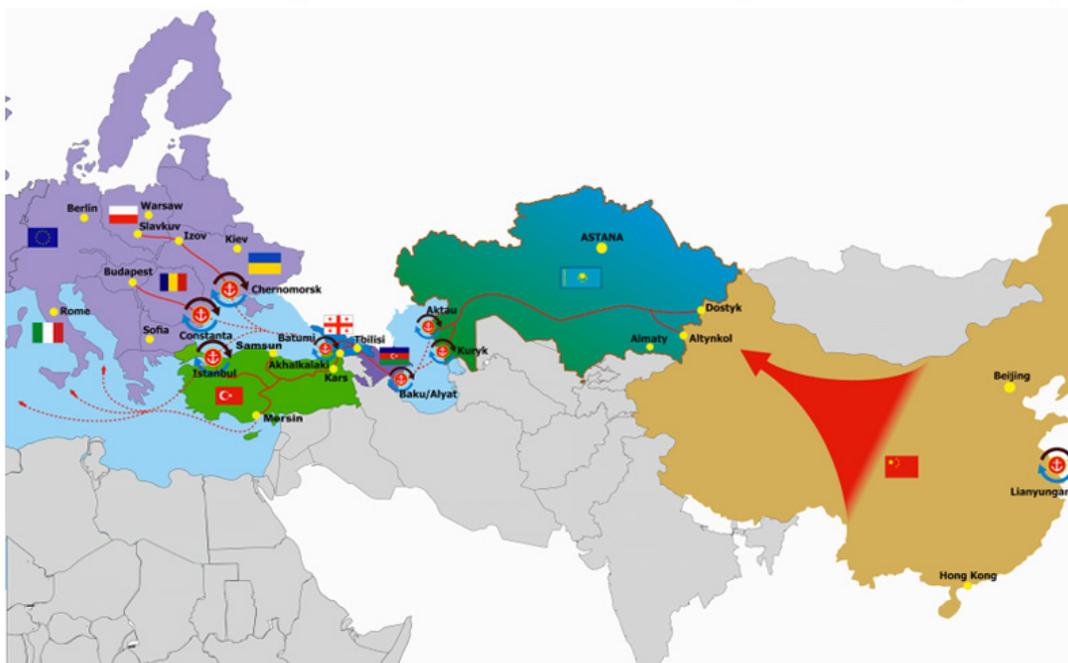
finance sector. A good example is *Hualing's* purchase of the *Basis Bank* in 2012, with an aim to grow RMB cross-border settlement businesses between China and Georgia. This was to facilitate bilateral trade and investment, and became one of the leading cases of Chinese private enterprises purchasing commercial banks abroad.

On a similar note, *CEFC China Energy* is reportedly planning to work with the Georgian government to set up a *Georgian Development Bank*. This will bolster RMB-denominated financial services and cross-border RMB settlement, while co-operating with the *Georgian National Sovereign Fund* to establish a *Georgian Construction Fund* to invest in financial services for projects such as roads, electric power, telecommunications and other infrastructure.

Also of interest to Chinese investors are the country's strategic infrastructure projects, including hydropower plants and the ongoing railway modernisation. The recognition gained by a handful of Chinese investors and builders, such as *China Railway 23rd Bureau Group*, taking part in various signature projects in Georgia, will give Chinese investors a better position in the country's future infrastructure development.

Situated on the shortest land route between China and Europe and being a key component of the *Trans-Caspian International Transport Route (TITR)* or the *Middle Corridor*, which stretches from Southeast Asia and China to Europe via Central Asia and the Caspian Sea, Georgia is an important *BRI* partner. Its strategic role as a logistic hub has been further strengthened with the October 2017 opening of the *Baku-Tbilisi-Kars (BTK)* railway route, which starts on the Caspian Sea in Azerbaijan and runs through Tbilisi and the eastern part of Turkey before merging with the Turkish and European railway systems.

### The Trans-Caspian International Transport Route (TITR)



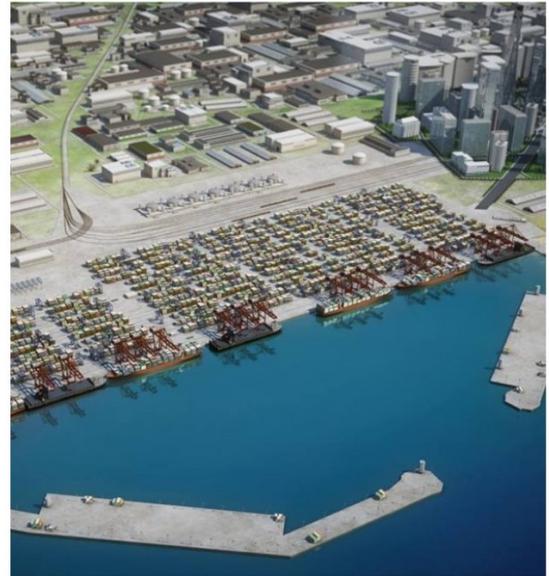
Source: Georgian Railway



Cargo trains from North-West China can now take as little as eight days to reach Georgia's Black Sea coast, compared to sea voyages which can take up to 45 days. But to realise the target of receiving more than 250 cargo trains in 2018 and fully exploit the *BTK*, further local road and rail infrastructure enhancement work would have to be carried out in order to better connect the domestic rail networks and industrial facilities with the *BTK*. The route has a current annual capacity of 1 million passengers and 5 million tonnes of freight and the potential to expand to 3 million passengers and 17 million tonnes of freight.

High on the country's keynote project list is the US\$2.5 billion Anaklia Deep Sea Port and Special Economic Zone (SEZ) project. This is the first deep sea port and the largest greenfield maritime infrastructure development in Georgia's history, marking the beginning of the country's transformation from a transit economy into a regional logistics and industrial hub capable of attracting Panamax and Post-Panamax vessels from Asia and Europe.

Under the 52-year build-own-transfer (BOT) concession agreement, the Georgian government has committed US\$120 million for the construction and development of railway and road transportation links connecting the port to the region to help establish a new maritime trade corridor from Asia to Europe. Expected to receive the first vessels by 2020, the port will open new trade routes to the landlocked Caucasus, Caspian and Central Asian regions and provide badly-needed[3] infrastructure to support regional economic and trade development there.



The Anaklia Deep Sea Port and SEZ project marks the beginning of Georgia's transformation into a regional logistics and industrial hub.  
Source: Anaklia Development Consortium

Anaklia SEZ is close to the port and boasts an initial land plot up to 400ha, with the possibility of expanding to a city-scale project of up to 2,000ha. As a pioneering step to promote the development of light manufacturing and assembly, logistics, warehousing, distribution centres, retail and other service businesses, the SEZ will not only feature a green and smart city concept, but also enjoy a special status to provide a more favourable regulatory environment and tax system (e.g. British Common Law, international arbitration, IP laws, etc.).

### Highlights of the Anaklia Deep Sea Port and SEZ Project



Anaklia Deep Sea Port	Anaklia City and Special Economic Zone
Build-own-transfer (BOT) with a 52-year concession	Special Economic Zone (SEZ) adjacent to the deep-sea port site
340ha port development area	Initial project land plot up to 400ha, with expansion to a city-scale project up to 2,000ha
Port depth of 16m CD	Focus on light manufacturing, logistics, warehousing, manufacturing and assembly, distribution centres, retail and other essential businesses
14mn tonne capacity by 2030 (Phases 1 & 2)	New legislation to provide regulatory grounds for Anaklia City and Special Economic Zone development
Able to accommodate vessels up to 10,000 TEU	Green and Smart City concept with full pledge on urban and spatial planning from the outset
Up to 100mn tonne annual capacity following completion of all development phases	
Total cost estimated at US\$2.5bn in nine development phases	

Source: Anaklia Development Consortium

As a long-term project with nine development phases spanning over more than 50 years, the Anaklia Deep Sea Port and SEZ is set to become a focal point for not only international businesses exploring new manufacturing relocation and regional distribution possibilities, but also investors looking for lucrative investment opportunities and partnerships in Georgia for many years to come.

In order to reach out to prospective investors across Asia and in other Belt and Road-connected regions, the *Anaklia Development Consortium* participated in the *2018 Belt and Road Summit* in Hong Kong. The same event saw the signing of the *Hong Kong-Georgia FTA* and the promotion of the Anaklia Deep Sea Port and SEZ project to a 5,000-strong audience of investors, project operators and service providers from 55 countries and regions.

[1] According to *Meiburg Wine Media*, Georgia’s wine exports to China have been growing at an annual rate of more than 100% since 2008.

[2] Churchkhela is made from natural grape juice and different kinds of nuts.

[3] Existing Georgian ports are expected to reach full capacity limit with five years.

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