



საგარეო ურთიერთობებისა და სტრატეგიული მართვათმკვიდრების კვლევითი ფონდი
GEORGIAN FOUNDATION FOR STRATEGIC AND INTERNATIONAL STUDIES

58

TURKISH - GEORGIAN ECONOMIC RELATIONSHIP

GIA JANDIERI

EXPERT OPINION



2016



საქართველოს სტრატეგიისა და საერთაშორისო ურთიერთობათა კვლევის ფონდი
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Summary

Turkey became a major trade partner for Georgia and has played an important role in the economic recovery of the post-soviet nation. Georgia ran into a long and deepest crisis since collapse of the Soviet Union estimated by the World Bank as the decline by more than 70 per cent.

For almost 70 years the economy of Georgia was a part of centrally planned economy of Soviet Union. Every decision was made by first communist party leadership and then by the central government in Moscow. Prices, quality, quantity and design, as well as many other conditions of economic activities were to be decided all in the center. That also meant that only central government had power to authorize which factory to produce what and for whose consumption.

Soviet Union was a closed nation behind the "Iron Curtain". All enterprises belonged to the state and completely depended on its resources and orders. Exporting of a product was also very restricted and controlled by the central government. Very limited import was available from Eastern-European nations, satellites of the Soviet Union and also centrally distributed. The soviet citizens could only travel in the countries friendly to the SU and this was also very much constrained.

In these conditions soviet economy stopped developing, improving quality and technologies, labor skills and qualifications. Georgia was not an exception. All its production was to serve the demands of the *Empire of Evil*, mostly commanded by political decisions. Non-existence of competition or practice of dealing with global markets made the quality of the goods very low. Flourishing underground economy supported some better quality of living but simultaneously put whole nation in systematic corruption, bribery for financial and material resources.

After the collapse of the SU this type of economy wouldn't have a chance to continue existing. Nobody anymore was interested to supply Georgia's factories with raw materials neither buy their low-quality goods. Having no experience of foreign trade or partners abroad, made it very difficult exporting and importing even of the essential goods like food, fuel for cars.

Most of the Georgians suddenly became unemployed; having few skills in entrepreneurship it was difficult to reorganize the economy into a modern one. Though private property was recognized and process of privatization launched private sector remained weak caused by few experience in business and contractual relations. Investing in a country with no understandable rules and unskillful workers had no attractiveness.

The economic contraction was accompanied by Russian energy blockade. Natural gas and electricity supply from Russian Federation was artificially limited to provision of Russian owned companies and transit into Armenia for more than a decade.

In these conditions Georgia vitally needed new partners and opportunities, provision of food and other consumption goods. Such support came quickly from Turkey which in a few years became a major trade partner and investor for Georgia. During two decades since 1995 Turkish-Georgian trade has averaged at 15 percent of total Georgian trade turnover and reached USD2 billion per year in 2014. More than USD1 billion has been invested by Turkish side in Georgia's economy.

Nations have made several steps to strengthen the relationship between them, signed 76 bilateral and multilateral agreements for trade freedom, visa facilitation/elimination, customs and taxation, border crossing procedures, constructing of natural gas and oil pipelines, high voltage transmission and railway infrastructures, etc. Shah Deniz natural gas pipeline helped Georgia to diversify its energy provision and eliminate dependence on Russian sources. Turkish company TAV has made a very effective contribution in reconstructing of two Georgian airports in Tbilisi and Batumi which became small but very efficient transportation hubs connected to several European and Asian airports, making traveling to and out of Georgia much more comfortable than it was before. Many Turkish citizens use Batumi airport as a flight destination to their homes bordering Georgia, near to Sarpi and Hopa.

Turkish support was vital, with its role in establishing of the new Georgian economy, ensuring access to goods and resources, encouraging further development.

Turkish-Georgian Economic Cooperation.

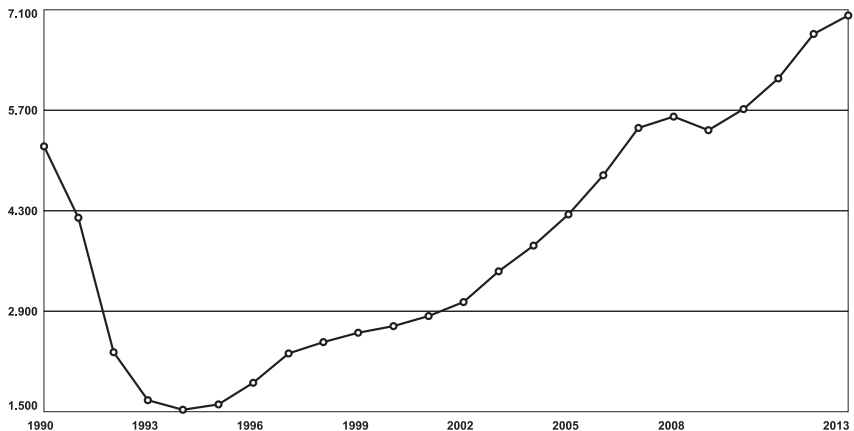
Georgia's Independence.

Georgia, independent republic during 1918-1921 was forcibly incorporated into Soviet Union and remained its part until the dissolution in 1991. From 1992 Georgia's people faced all the challenges and difficulties any new state could have. Independence started with a civil war in Tbilisi ended with the cope and dismissal of the first president Z.Gamsakhurdia and his government; in 1992-1993 Georgia suffered from another internal (though supported from outside) conflict after which lost control to big parts of two regions.

But this was only the initial part of the problems the new state met - the economic activities were hindered by several different reasons and reached a record contraction the world hardly seen before (at least in peace). The World Bank estimates that the Gross National Income of the country deteriorated by more than 75 per cent in comparison to the best levels of 1980s; unemployment reached 70-80 per cent.

The Chart A below displays the GNI PPP¹ per capita of Georgia during the period of 1990-2013².

Chart A: GNI PPP per capita of Georgia, 1990-2013, World Bank Group.



In fact Georgia's economy had fallen to its real worth, or the market value of its assets and human capital. I counted here some of the major reasons for the crisis:

1. *No experience of trade, no partners abroad;*
2. *Low quality of produced goods;*
3. *Low productivity and insufficient skills of workers;*
4. *Energy supply shortages and blockade from Russia;*
5. *Old outdated technologies and equipment existed in the factories and uncompetitive ways of farming;*
6. *Created by Russia internal conflicts, Russia's aggressive policies and instability.*

The remaining working factories were not able to sell their production as the former partners didn't want to buy and there were no new partners. Supply of production goods from the other territories of former SU also stopped. The worse situation was created in the sectors of food and other necessary goods, including of electricity and natural gas (and home-heating); owners of personal cars stopped using of their transportation means for several years or months, public transportation was completely privatized or destroyed.

Foreign currency inflow fell and consequently, the capacities of importing of goods from abroad too. In 1993 Russian Federation abandoned use of soviet rouble and

¹ Purchasing Power Parity

² The World Bank Group information

launched new Russian rouble which also followed the same path of high inflation. The same happened with newly created Georgian surrogate of money - coupon - during its existence from 1993 to 1995 it devaluated from US \$1 for 712³ coupons to \$1 - 1,300,000 coupons.

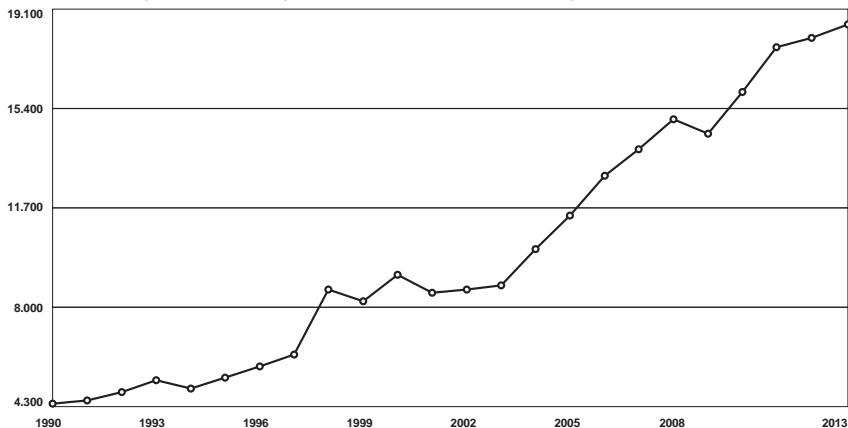
Despite of these hard conditions entrepreneurial spirit and peace gave a way to some revival of the economy, especially from 1995. In 1994 Georgia adopted its new laws for economic transactions, and in 1995 new Constitution of Georgia and then new currency the Lari. Georgia started a new life and finding new partners, new ideas for development and support from international institutions.

One of the first Nations which answered immediately to growing demands for importing of goods from Georgian side was Turkey.

Turkish Republic Becomes Georgia's Partner.

Turkey was the only economically healthy nation neighboring to Georgia in 1990s. Its economic potential has been increased radically since 1990 and it became a member of OECD⁴ in 1961 and WTO⁵ - 1995. Economic growth since 1990 averaged 4.2 per cent until 2013 and GNI (calculated by Atlas Method in current US\$) increased from 124.4 billion to 821.7 billion, or increased 6.6 times or by 560 per cent⁶ (meanwhile, Georgia's economy increased only by 35% in comparison to the 1990 level). With the chart B the readers can the Gross National Income per head of Turkey during 1990-2013 (PPP, current International Dollar, World Bank Group).

Chart B. GNI Per Capita PPP, Turkey, 1990-2013, World Bank Group.



³ The Coupon was first issued April 5, 1993 and had initial rate to US Dollar the same as of Russian Rouble in that moment. This rate is taken from web-site: www.kovalut.com/history/kurs-cb.php?valuta=usd&month=04&year=1993

⁴ OECD - Organization for Economic Cooperation and Development

⁵ WTO - World Trade Organization

⁶ World Bank Development Group

With the similar starting position, Georgia's economy dropped down and recovered to the same level only in 2008 while Turkey's one continued growing and had a very successful two decades.

Adoption of new economic laws in Georgia (such as Civil Code, Tax Code, Customs Laws etc), which by themselves were very far from satisfying investors or partners, opened doors to trade. Turkish and Georgian companies made several attempts to fill the gap between the potential demands and supply. Shelves of Georgian shops, - empty for many years, had been filled by the goods from abroad, - mostly from Turkey.

Turkey and Georgia Step Firmly Towards Each-Other.

Turkish Republic was one of the first nations to recognize Georgia's independence after the collapse of Soviet Union already on December 16, 1991; diplomatic relationship had been restored on May 21, 1992.

The very first country which supported Georgia's efforts to establish a new state and economy (or re-establish the old ones) was its direct neighbor Turkey. As it was mentioned Turkish leaders showed openness to develop economic and political ties with Georgia; together with Georgian side they have made several steps for this. So called *zero problem relationship* promoted by 76 different agreements between the sides made it possible formation of a voluntary, effective, deep and friendly cooperation. In this article I am going to illustrate some of achievements of this cooperation and the basis they were made on.

Turkish Georgian Economic Cooperation.

The first Turkish-Georgian trade agreement was made already on May 16, 1994 - *On Support and Cooperation in the Sphere of Customs*. It helped the trade between the two nations that was substantial already in early 1990s and in 1995 Turkey became a major trade partner of Georgia with around 20 percent of total Georgian foreign trade. In the 1990s its share of Georgia's foreign turnover averaged 15 percent and remained at that level during the following decades, twice exceeding Ukraine, - the second largest trade partner of the country.

From USD\$129 millions total exchange of goods in 1995 between the two nations reached almost USD2 billion in 2014, or increased 15 times. Free Trade Agreement and Avoiding of Double Taxation of Income agreements of 2007 between the two nations the economic relationship even closer and effective.

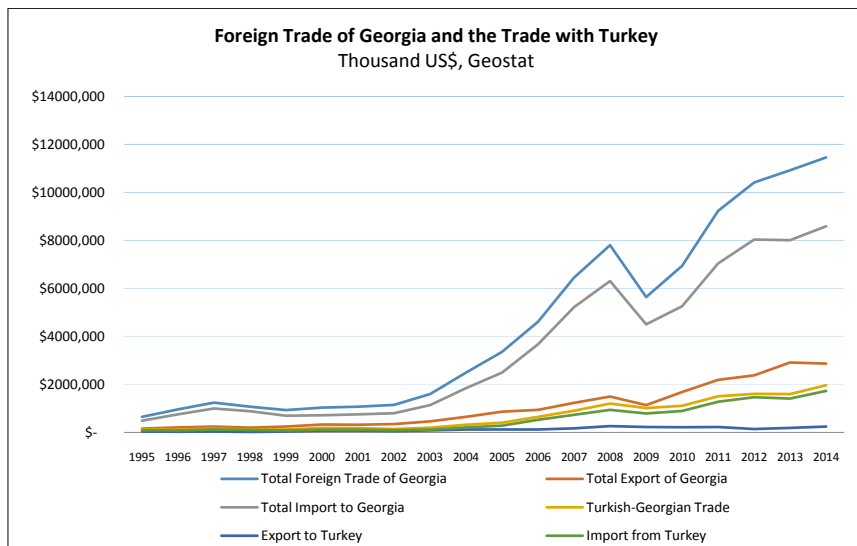
The Table A. gives us a good illustration of shifting of trade of Georgia from the ex-soviet to the new partners.

Table A. Georgia's Foreign Trade during 1995-2000, USD1,000; Geostat.

Countries:	1995	1996	1997	1998	1999	2000
Germany	22,086	38,587	52,454	96,576	75,768	89,518
Italy	12,819	40,481	48,482	39,311	31,587	32,884
United Kingdom	15,446	42,989	47,233	63,984	27,259	33,728
Armenia	29,737	38,515	41,087	28,103	27,710	27,176
Azerbaijan	61,986	103,915	140,936	92,280	89,461	75,997
Russia	97,957	184,977	194,184	180,065	152,246	160,334
Turkmenistan	47,790	18,095	19,688	11,015	40,691	23,919
Ukraine	13,792	44,461	64,184	37,353	40,711	46,347
Switzerland	8,516	18,076	23,025	37,967	17,551	36,444
Turkey	127,142	108,301	159,252	119,687	116,762	185,889
United States	43,932	60,506	106,757	91,811	89,636	76,706

The Chart C shows the development of Georgian foreign trade and the important role of Turkey in it (Geostat, USD1,000).

Chart C. Trends of Georgian Trade, USD1,000, 1995-2014, Geostat.



The next table is analyzing the shares of trade of different countries and country unions with Georgia (Geostat, USD1,000).

Table B. Foreign Trade of Georgia in 2010-2014, USD1,000, Geostat.

Selected Trade Partners	2010	2011	2012	2013	2014
Total Trade	6,934,594	9,225,154	10,413,054	10,921,110	11,453,996
EU countries	1,780,193	2,476,817	2,781,466	2,870,770	2,993,781
CIS countries	2,264,291	2,975,888	3,291,464	3,794,008	3,589,502
Russia	325,242	424,515	523,294	774,020	850,119
Turkey	1,103,494	1,502,875	1,608,914	1,592,726	1,966,687

Total trade of goods and services during the observed two decades amounted around USD13.6 billion or a little less than a year GDP of current Georgia. The major export goods to Turkey were: electricity, metals, fertilizers, clothing, fishery and cars; while the major imported goods from Turkey were: metals, pharmaceutical goods, furniture, paper, cables, etc, (2014, Ministry of Economy and Sustainable Development of Georgia).

The Table C below exhibits the distribution of export from Georgia by some important sectors during the last six years.

Table C. Georgia's Export to Turkey, 2009-2014, USD1,000, Geostat.

Some Directions of Export	YEARS					
	2009	2010	2011	2012	2013	2014
Fertilizers, Mineral or Chemical, with Nitrogen	3,204	18,538	19,150	2,322	31,388	51,662
T-Shirts and other Made of Textiles and Fabrics	1,600	5,174	6,355	11,920	20,963	36,404
Prepared Carbonated Steel	-	-	-	1,216	32,439	32,295
Electricity	6,873	10,415	12,313	5,254	-	16,919
Flour and Granules from Meat, Fish and Crab	365	2,666	1,855	645	12,884	15,094
Ferroalloys	81,508	24,717	50,502	18,069	5,269	10,946
Total Export To Turkey	225,769	216,799	226,388	140,089	183,796	239,296

And the next Table shows us the most important import sectors from Turkey the same period.

Table D. Import from Turkey to Georgia, selected sectors, 2009-2014, USD 1,000, Geostat.

Imported from Turkey	2009	2010	2011	2012	2013	2014
Pharmaceutical Goods	125,926	138,124	133,929	133,942	152,193	171,053
Construction Materials and their Parts of Iron and Steel	10,884	19,511	42,805	43,196	36,706	43,477
Plastic Tubes, Pipes and Hoses thereof, Rigid, of Polymers of Propylene	13,944	23,847	35,432	44,804	32,654	33,389
Hygienic or Toilet Articles	18,759	22,782	26,300	27,281	32,957	37,330
Cast iron; tubes, pipes and hollow profiles	10,983	14,679	22,362	31,097	27,561	40,300
Isolated Wires and Cables	7,657	12,965	28,917	36,626	27,374	37,202
Total Import from Turkey to Georgia	787,885	886,694	1,276,488	1,468,825	1,408,931	1,727,391

Turkish Direct Investments in Georgia

Very important was also Turkish role in the Foreign Direct Investments made in Georgia. The next table (Embassy of Turkish Republic information) exhibits this in details since 2008 to 2014:

Table E. Investments in Georgia, 2008-2014 (USD1,000,000; Embassy of Turkish Republic information).

	2008	2009	2010	2011	2012	2013	2014
Total	1,564	658	814	1,117	912	942	1,758
European Union	476	224	248	554	440	391	820
CIS Countries	95	1	91	193	87	132	448
China	-2	-2	-8	10	36	90	218
USA	168	-10	136	28	20	45	182
Turkey	165	98	92	75	81	43	63
Others	662	347	255	453	248	241	27

The total Turkish capital invested during the period of 2001-2014 in Georgia was around USD931 m. Together with remittances sent by Georgian citizens to their relatives the total Turkish participation in Georgian economy during the entire period after the Georgia's independence easily exceed 1.2 Billion USD; total volume of remittances according to the National Bank of Georgia Statistics has been around USD355 million during the period between 2000 and 2014.

Here is more detailed description of Turkish Direct Investments in Georgia by sectors of Georgian economy in the table F.

Table F. Turkish Direct Investment in the selected sectors of Economy of Georgia, 2008-2014, USD1,000; Geostat.

Investment Sectors	YEARS						
	2008	2009	2010	2011	2012	2013	2014
Agrarian Sector and Fishery	8,115	-402	-340	-553	5	23	137
Industries	936	9,534	3,157	5,472	1,567	16,626	11,353
Energy Supply	-	8,000	22,960	4,512	21,295	10,724	1,155
Construction	9,400	9,625	6,956	18,884	4,333	15,878	5,361
	13,24						
Hotels and Restaurants	7	8,865	-963	-1,221	2,150	15,795	3,070
Transport and Communication	64,67						
	8	51,149	31,889	24,887	4,131	9,788	40,380
Real Estate	-46	1,362	1,762	2,175	377	5,739	1,095
Financial Sector	222	283	391	8,128	-226	75	776
Other Sectors	1,387	3,372	9,712	18,781	9,125	9,773	4,197
Total Turkish FDI in Georgia	97,940	91,787	75,524	81,060	42,758	63,110	67,540

Very impressive is also the number of Turkish or Turkish-Georgian joint companies registered in Georgia that has been steadily growing and exceeded 3,200 (Geostat information).

Peoples' Interactions.

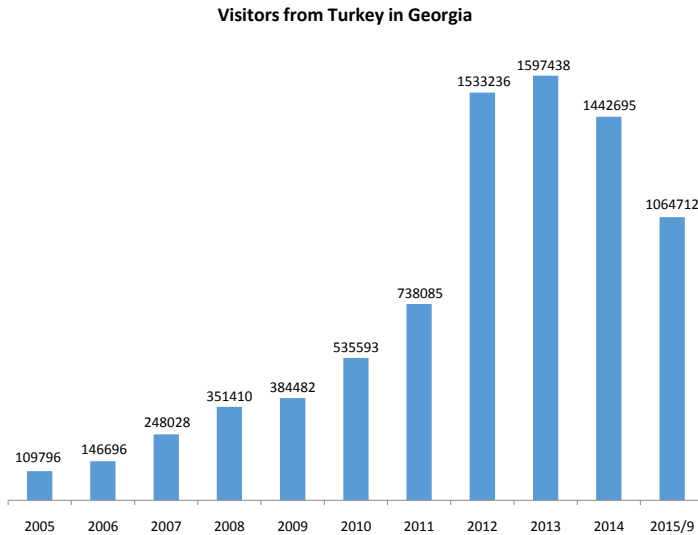
Turkey and Georgia cooperated in many other directions, such as tourism, education and health care. The total number of visitors of Georgia from Turkey during the period of 2005-2014 reached 7 million (please see the Chart D. below). This was a result of very intensive and effective decision making and cooperation between the two nations ended with a bilateral Agreement, letting citizens of each side visit the other country *without visa since February, 2006*⁷. By another unprecedented agreement in November of 2011 the governments of the two nations allowed the citizens of their countries to enter the other side's territory with ID card.

Again in September of 2012, Turkish and Georgian governments confirmed to establish crossing checking points in four places (two new) of their 273 kilometers of common land border in Sarpi, Akhaltsikhe (Posof) operating before and new, in Kartsakhi (Cildir), Maradidi (Muratli).

⁷ Source: www.und.org.tr/tr/7846/turkiye-gurcistan-vize-anlasmasininda-degisiklik

This policy had had a very significant impact on the number of visitors from Turkey to Georgia that is well illustrated in the Chart D shows.

Chart D: Number of Turkish visitors in Georgia, 2005-2014, and 9 months of 2015, Geostat



And the next Table exhibits the dynamics of Georgian visitors in Turkey, especially after the travel liberalization, Turkstat⁸.

Table G. Number of citizens departed Turkey, Worldwide and to Georgia, in thousands, Turkstat.

YEARS	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Number People Departed Turkey	23,149	27,215	30,980	31,972	33,028	36,151	36,464	39,226	41,415
Number of Georgian Citizens departed Turkey	531	609	811	974	1,084	1,131	1,365	1,733	1,718
Share of Georgian Citizens departed Turkey	2.3%	2.2%	2.6%	3.0%	3.3%	3.1%	3.7%	4.4%	4.1%

Very efficient is the system of border crossing between the countries, where the office works with a principle of one window; this sharply decreased the number of procedures and the time needed for a traveler and goods to pass the border in Sarpi (on the picture below, Sarpi Border Control Office, author's photo).

⁸ Turkish Statistics Unstitute: www.turkstat.gov.tr/UstMenu.do?metod=temelist

Photo: Sarpi Check Point.



The educational exchange has also reached quite interesting results. Office of National Statistics of Georgia reports of total number of 3,561 students studying from each country in the other during 15 years from 2000 to 2014.

Table H. Number of Georgian Students studying in Turkey and Turkish Students studying in Georgia, 2000-2014, Geostat.

Educational Years	Georgian Students Studying in Turkey	Turkish Students Studying in Georgia
2000/2001	92	87
2001/2002	67	52
2002/2003	103	47
2003/2004	118	31
2004/2005	86	83
2005/2006	116	83
2006/2007	3	250
2007/2008	8	220
2008/2009	114	106
2009/2010	4	140
2011/2012	28	330
2012/2013	22	384
2013/2014	94	373
2014/2015	28	492
TOTAL	883	2,678

Very helpful was also for Georgian citizens to access the high quality medical services in Turkish hospitals. According to published online Letter⁹ of Turkish Statistics Institute such distribution of visitors from Georgia in Turkey happened in 2012, by categories:

- *Sport, Sight-Seeing, Culture* - 40.6 %
- *Visiting Relatives* - 39.0 %
- *Education* - 0.5 %
- *Health Care* - 0.9%
- *Shopping* - 13.8 %
- *Transit* - 1.9 %
- *Business (incl. conference, seminars, etc)* - 3.8 %

Share of visitors for Health Care was 0.9 per cent; the same letter shows the total number of visitors in the same 2012 was 1.4 million; that means the number of Georgian medical tourists was above 12,500. Georgia was one of the leaders in Turkish Tourism after Germany, Russian Federation and Bulgaria, with 3.7 per cent of share of total 36 million visitors in Turkey.

Multilateral, Infrastructural, Energy and Transportation Projects

The friendly nations also worked together in multilateral projects. Azerbaijan, Turkey and Georgia (together with Western Governments and Oil Companies) have been cooperating in energy and transportation infrastructural projects. Baku-Tbilisi-Ceyhan Oil and South Caucasus (Shah Deniz) Natural Gas pipelines that were constructed and have been operating since 2006 have changed the entire geo-political and economic climate in the region, becoming a serious global partner. Since its launch in 2006 BTC (1,760 km) already pumped around 298 m tons of Oil from the Caspian Sea towards the Mediterranean port of Ceyhan (BP website information). Shah Deniz pipeline (692 km) has a capacity to pump 8.8 Billion sq m of natural gas and became very important means for the energy security of the region and beyond. The Turkish investments in the energy infrastructure of Georgia during the period of 2009-2014 amounted USD46 m (Geostat)



⁹ Türkiye İstatistik Kurumu Başkanlığı, Basım ve Halkla İlişkiler Müşavirliği, www.tuik.gov.tr/basinOdasi/Tekzipler/Tekzip_04042013.pdf

2003 Agreement between the same three nations also decided to finalize the Railway between Baku and Kars (Turkey) via Tbilisi in 2015. The capacity of the railway can reach 1 million passengers and 17 million tons per year that should advance the cooperation, development and peace in the region. The route of the new Railway is exhibited on the Georgian postal stamp, on the right.

The Conclusion

Independent Georgia was trapped by the deep crisis in 1990s which almost fully destroyed the economy. Georgia needed to revive from the total bottom. In this critical moment Georgia required new partners, new ideas and capital injections.

Turkey, its government and people, didn't wait for an invitation, did not need any explanation or consideration, hurried to establish profound relationship with Georgia. The cooperation between the two sides developed very quickly, easily overcoming any barriers due to understandable mutual interests. Georgia received a best neighbor and partner, established a most intensive trade partnership that quickly helped the nation to solve core problems of supply of essential goods, including of food.

Georgia started a new life in the competitive world that would be much more difficult if not such allies as Turkey, EU and US. They almost completely substituted the old soviet compulsory relationship and played a crucial role in the re-birth and sustainability of the new Georgian state. This is because of that support Georgia was able to return to the global arena and to find its place in it.

The Turkish-Georgian relationship since the latter's independence is a brilliant case of voluntary cooperation, eliminating all barriers and looking forward to mutual interests, best example of understanding of common goals and working efficiently for achieving them without hesitation. Georgia will never forget Turkey's key role in responding to its problems and helping for solving them. This cooperation a very good lesson of how can be any barriers overcame if based on openness, freewill and respect.