

The Results of Possible Free Trade Agreement Between Georgia and China

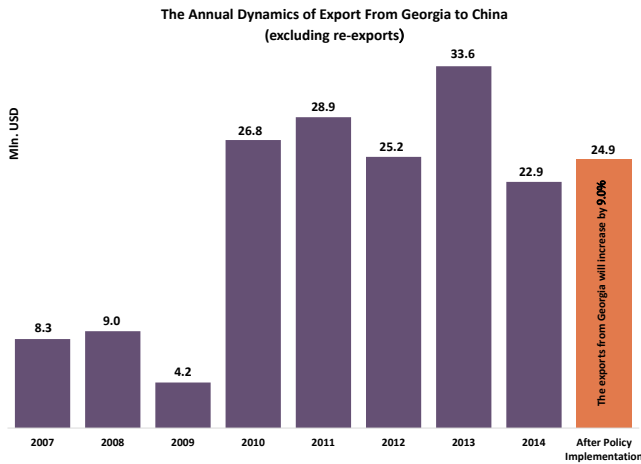
Economic Outlook and Indicators

China is the second largest trading partner of Georgia. In 2014, total trade turnover between Georgia and China amounted to 823.4 mln. USD, which is 7.2 % of total turnover.

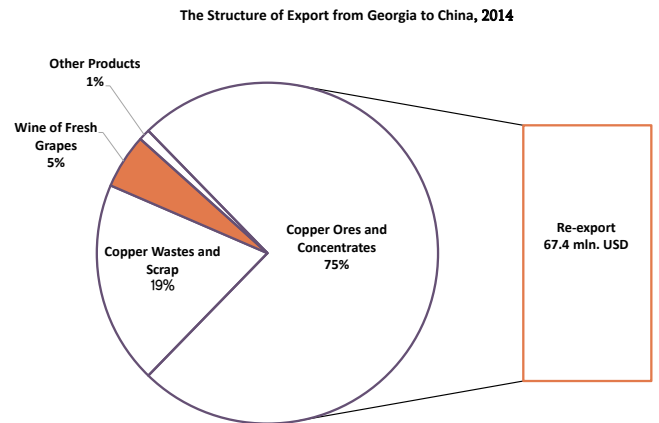
Georgia and China intend to intensify bilateral trade and economic relations through concluding Free Trade Agreement (FTA).

PMCG conducted research about the economic feasibility of this agreement. The study uses the “partial-equilibrium” model, which analyzes the possible results in a short-run period.

The study shows that FTA can contribute to increase the volume of export from Georgia to China. The volume of import and FDI from China to Georgia will also increase.



Source: GeoStat; Research done by PMCG



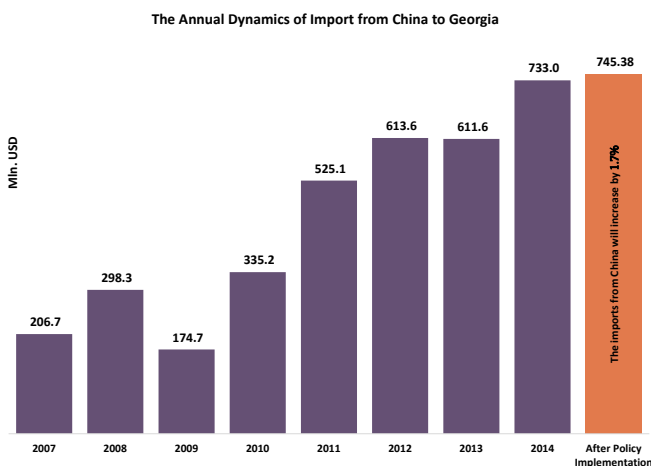
Source: GeoStat

After signing the FTA between Georgia and China, it is expected to increase the volume of export from Georgia to China by 9.0% (2.1 mln. USD) in the short-run period (2-3 years).

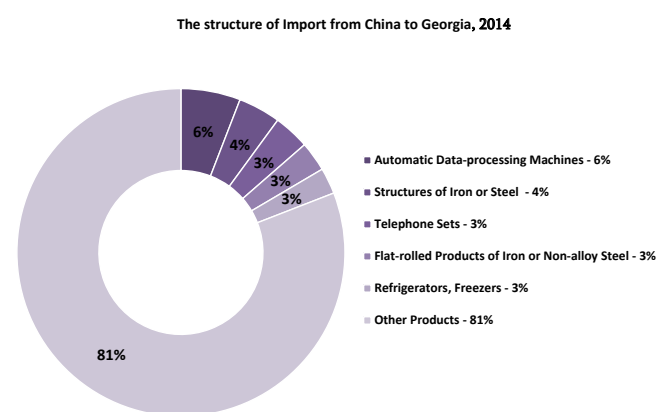
In 2014, 75% of Georgian export to China was the re-export of copper ores and concentrates (67.4 mln. USD).

After signing the FTA, export of wine (28.5%) and non-alcoholic beverages (36.7%) will increase significantly, while the export of copper and aluminium scrap will increase slightly (3.3%).

PMCG’s research did not seek to analyze the possible effect on the products, which have never exported to China, but this agreement might affect export potential of these products.



Source: Geostat; Research done by PMCG



Source: GeoStat

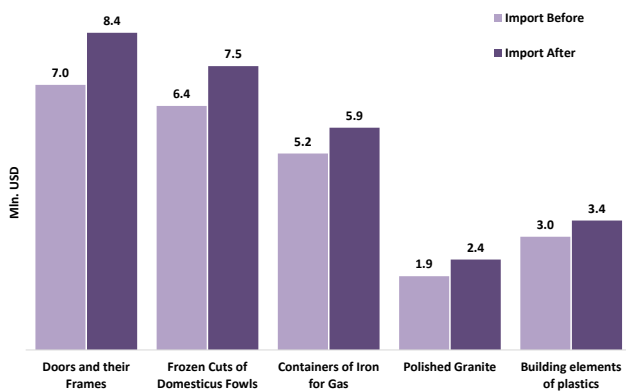
After signing the FTA between Georgia and China, it is expected to increase the volume of import from China to Georgia by 1.7% (12.4 mln. USD) in the short-run period (2-3 years).

“Substitution effect” has 48% contribution in the growth of Chinese import, while 52% is “Demand effect”.

The cheaper import from China will replace Turkey’s import. In 2014, Turkey was the largest trading partner in terms of import (20.1% of the total import), followed by China (8.6% of the total import).

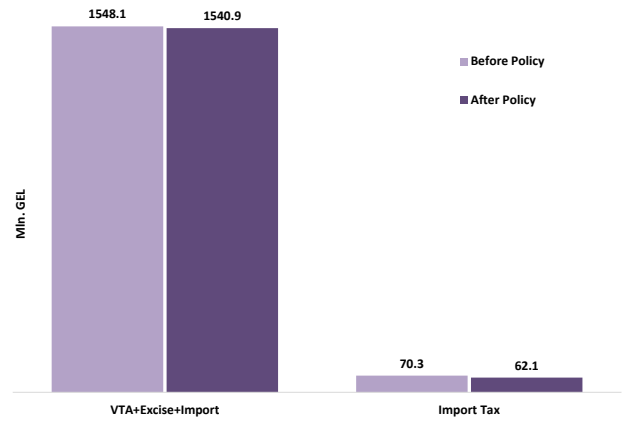
In 2014, the largest imported commodity groups from China to Georgia are: automatic data-processing machines (6%), structures of iron or steel (4%), telephone sets (3%), flat-rolled products of iron or non-alloy steel (3%) and refrigerators, freezers (3%).

The Impact of Policy on Import in the Following Commodities



Source: Research done by PMCG

The Impact of Policy on Tax Revenue from the Import to China

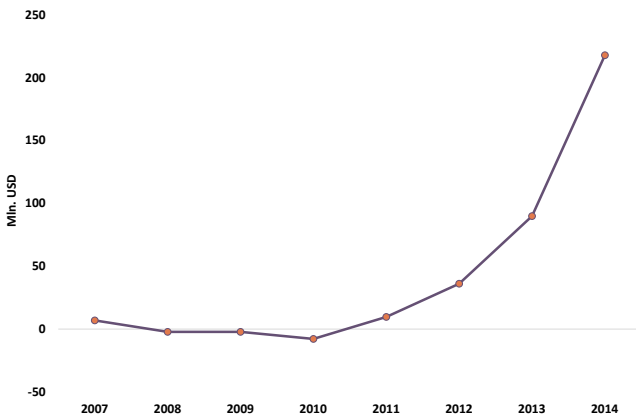


Source: Research done by PMCG

After signing the FTA between Georgia and China, the import mostly will increase in the following commodity groups: doors and their frames (1.4 mln. USD), frozen cuts of domestic fowls (1.1 mln. USD), containers of iron for gas (0.7 mln. USD), polished granite (0.5 mln. USD) and building elements of plastics (0.4 mln. USD).

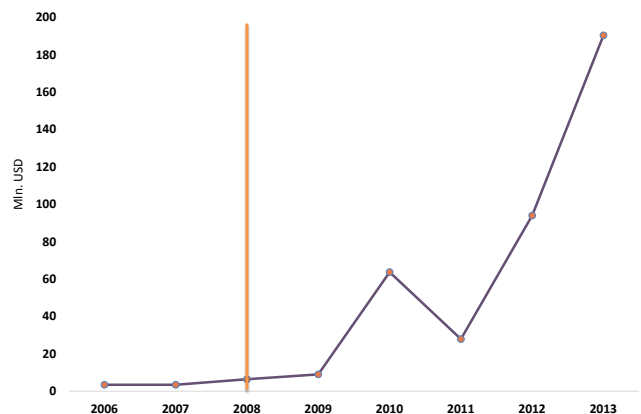
After signing the FTA, the Chinese import to Georgia will increase (1.7%), however due to the zero import duty, import tax revenue will decrease by 11.7% (-8.2 mln. GEL), while the total tax revenue from Chinese import (VTA, excise, tariff) will decrease by 0.5% (-7.2 mln. GEL).

The Annual Dynamics of FDI from China to Georgia



Source: GeoStat

The Annual Dynamics of FDI from China to New Zealand



Source: National Bureau of Statistics of China

FTA will foster FDI flows and create stronger ties with China.

In 2014, China was the third largest investor in Georgia (12.4% of the total FDI) and the volume of investments recorded 217.9 mln. USD.

It should be noted, that in 2008 China signed free trade agreement with New Zealand, which caused the growth of Chinese FDI inflows into New Zealand.

Consequently, FTA between Georgia and China can contribute to increasing the investment potential of Georgia.

Basic Economic Indicators	2012	2013	I 2014*	II 2014*	III 2014*	IV 2014*	2014*	I 2015*
Nominal GDP (mln USD)	15846.8	16139.9	3605.3	4064.1	4320.4	4527.8	16528.5	3298.9
Per capita GDP (USD)	3523.4	3599.6	802.9	905.0	962.1	1 008,3	3680.8	884.5
GDP real growth (%)	6.4%	3.3%	7.2%	5.2%	5.6%	1.8%	4.8%	3.2%
Consumer Price Index (annual average)	99.1	99.5					103.1	
Foreign Direct Investment (USD)	911.6	941.9	265.3*	150.5*	507.5*	349.2*	1 272.5*	175.3
Unemployment Rate (%)	15%	14.6%					12.4%	
External Public Debt (mln USD)	4739	4202		4082				
Poverty level (registered)	9.7%	9.7%					11.6%	

Source: National Statistics Office of Georgia
Ministry of Finance of Georgia
National Bank of Georgia

* Forecasted