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**THE PROBLEMS AND PERSPECTIVES OF TRADE RELATIONS BETWEEN GEORGIA AND RUSSIA**

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**Abstract:** Cooperation between Georgia and Russia has a long history, but in more recent times this cooperation had become more controversial. Despite the absence of diplomatic relations between Georgia and Russia, economic cooperation between these countries has not been terminated. In the history of independent Georgia, it constantly stays in the position of top 10 countries to be the largest trading partners of Russia. In 2016 it is on the second place in regards of trade turnover. It accounts for 9.4% of Georgia's foreign trade turnover, 9.8% of export and 9.3% of import. It is worth mentioning that Russia is the first exporter state for Georgia and with this index it exceeds first trade partner-Turkey, which accounts for 16.2% of Georgia's foreign trade turnover, 8.2% of export and 18.6% of import. In recent years, Russia has been the main actor of Eurasian economic integration, calling former Soviet Union countries to join this organization. Whereas, Georgia has signed an Association Agreement with the EU in 2014, which envisages Deep and Comprehensive Trade Agreement (DCFTA). Therefore, it is significant to define the perspectives of development of Georgia-Russia trade relations, in terms of both positive and negative economic and political aspects. The scientific study of Russia as a former Soviet Union legal successor with former allies is still a subject of great interest and does not lose its topicality. Russia believes that as the country with the largest economic potential in the area of the Commonwealth of Independent States, it performed the lead role in the aspect of economic integration. With its efforts, framework of normative legal acts was established in terms of bilateral and multilateral economic relations. This has maintained economic ties between the CIS countries, which are of vital importance for the economy of Russia, as well as for Georgia. On the basis thereof, the principal objective of the thesis is to analyze the contemporary state of Georgia-Russian trade relations and to determine the problems and perspectives of its development. The theoretical-methodological basis of the thesis is presented by the works of Georgian and foreign researchers, researches conducted by international organizations, international and national normative legal acts, negotiations and agreements between Georgia and Russia. Abstract-logical, analytical, monographic and statistical methods are used while working on this material. As a conclusion, it is mentioned that despite the Georgian-Russian tense political relations, the sustainable development of the Georgian economy significantly depends on the deepening of trade relations with Russia, although it can be quite risky for Georgia.

**Keywords:** foreign trade, export, import, Georgia, Russia.

**1. INTRODUCTION**

Historically, the most developed form of interstate collaborations is international trade, thus the first theories relate to the justification of its expediency. Classical theories of international trade, such as: mercantilism, theories of absolute (A. Smith) and comparative advantages (D. Ricardo), Heckscher-Ohlin, Heckscher-Ohlin-Samuelson and others – are commonly accepted. From the modern theories, the scale effect, technological inequalities, life cycle, international competitiveness and other theories should be noted.

Georgia's Foreign trade is characterized by cyclic development, permanent negative balance of trade and high import dependence, high level concentration of geographic structure, export and import diversification: low level, reduction in the portion of high technology export in the export of industrial product manufacturing, liberal trade policy and others [1,2].

Collaboration between Georgia and Russia has a long history; however, it has recently obtained contradictory nature. Despite the fact that there are not diplomatic relations between Georgia and Russia, economic collaboration between these two countries has not ceased. Russia is one of the most significant trading partner of Georgia. Economic factor of Georgia-Russia relationship development is actual, as economic collaboration is beneficial not only for Georgia, but also for Russia, which is interested in supplying it with Russian products. Considering the above-mentioned issue, the main task of the paper is to analyze the current condition of Georgia-Russia trade relations and define problems and perspectives of its development.

## 2. TRADE CONNECTIONS IN GEORGIA-RUSSIA RELATIONS

Trade with Russia has always been prioritized and held the leading position among the major trading partners, based on the tendencies of Georgia's external trade development. It is worth mentioning that Georgia-Russia economic relations have been improved and more profitable conditions have been created for trade expansion since 2012 parliamentary elections. As a result, trade turnover significantly increased in 2014-2015, which was expressed by the following indices: according to 2014 data, trade turnover between Georgia and Russia reached 850,2 million US dollars, and by the 2015 data, it exceeded 787,0 million US dollars. In 2016, Georgia's trade turnover with Russian Federation amounted to 882,0 million US dollars, thus with 9.4% Russia was the second largest trading partner of Georgia, after Turkey. It is noteworthy, that Georgian export in Russia reached the historical maximum of 274,6 million US dollars (9,6% of total export) in 2014. In 2015, Georgian export in Russian Federation amounted to 162,8 million US dollars, which is 7,4% of total export, and in 2016, Georgian export in Russia surpassed 206 million US dollars, which is 9,8% of total export (table #1)[3].

*Table 1. The major trading partners of Georgia, 2016 year.*

Countries	Export		Import		Turnover	
	Mil. USD	Share (%)	Mil. USD	Share (%)	Mil. USD	Share (%)
<b>Total</b>	<b>2,113.1</b>	<b>100.0</b>	<b>7,294.2</b>	<b>100.0</b>	<b>9,407.3</b>	<b>100.0</b>
Including:						
Turkey	173.6	8.2	1,353.3	18.6	1,526.9	16.2
<b>Russia</b>	206.4	9.8	675.6	9.3	882.0	9.4
China	167.9	7.9	547.8	7.5	715.7	7.6
Azerbaijan	152.6	7.2	492.5	6.8	645.1	6.9
Germany	85.4	4.0	420.3	5.8	505.7	5.4
Ukraine	73.2	3.5	417.9	5.7	491.1	5.2
Armenia	150.8	7.1	216.8	3.0	367.6	3.9
Italy	72.7	3.4	263.1	3.6	335.8	3.6
Bulgaria	167.4	7.9	150.4	2.1	317.8	3.4
USA	68.3	3.2	214.6	2.9	282.9	3.0
Other countries	794.9	37.6	2,541.9	34.8	3,336.8	35.5

*Source: National Statistics Office of Georgia*

Analyzing the commodity groups, exported from Georgia to Russia, is also interesting: natural grape wines, mineral and fresh water and Ferro-alloys take the first, second and third places, respectively: according to 2015 data, wine export amounted to 43,3 million US dollars, which is 26,6% of total export, and mineral water export went over the limit of USD 33 million, which is 20,3% of total export. Ferro-alloys export is on the third place with USD 22,6 million (13,95%). As for commodity structure in 2016, a change in the main group did not occur: except the fact, that wine export reached 55,7 USD million (28% of total export) and Ferro-alloys export held the second place with 50,6 million US dollars, which is 19,2% of total export (table #2) [3,4].

*Table 2. The major commodity groups, exported from Georgia to Russia.*

	2015			2016*		
	Thsd. US Dollars	Tons	% (Share)	Thsd. US Dollars	Tons	% (Share)
<b>Total Exports</b>	<b>162,889.4</b>		<b>100</b>	<b>206,225.30</b>		<b>100</b>
<b>Including:</b>						
Wine of fresh grapes	43,347.8	13,471.3	26.6	55,766.3	20,030.7	27.0
Ferro-alloys	22,644.6	25,406.3	13.9	39,435.1	50,624.6	19.1
Waters, natural or artificial mineral and aerated water	33,027.3	40,397.6	20.3	35,300.9	51,963.1	17.1
Non-denatured ethyl alcohol, spirits, liqueurs and other spirituous beverages	10,571.6	1,803.4	6.5	12,530.8	2,488.3	6.1
Other nuts, fresh or dried	10,664.9	1,410.5	6.5	9,467.2	1,505.9	4.6
Other commodities	42,663.3		26.2	53,725.0		26.1

\*Preliminary data.

Source: National Statistics Office of Georgia

[http://www.geostat.ge/cms/site\\_images/\\_files/english/bop/FTrade\\_12\\_\\_2016\\_ENG-with%20cover.pdf](http://www.geostat.ge/cms/site_images/_files/english/bop/FTrade_12__2016_ENG-with%20cover.pdf)

In June 27 2014, Georgia signed Association Agreement with EU [5], at the same time, in 2014, Russia became an initiator of Eurasian Economic Union formation [6] on the basis of Customs Union in the post-soviet space, where it considers Georgia as a member. Thereby continuation of negotiations between Customs Union and Europe is essential to achieve conformity of free trading regimens, their harmonization and risk reduction. Besides, trading regimens of Eurasian Economic Union and DCFTA countries must coincide with each other according to the World Trade Organization (WTO). Thus, solution of these issues should be a milestone for development of long-term, large-scale economic relations and economic project implementation in Caucasus region.

As Georgia is trying to form pragmatic relations with Russia regarding trade-economic cooperation, it did not join the sanctions, imposed by the world's leader states against Russia, following Ukraine crisis, and contributed to deepening of trade relations and its development. Georgia justified this decision by the motif of receiving purely economic benefits and explained its position by low levels of bilateral trade.

### 3. CONCLUSION

The research, presented in the paper, allowed us to introduce the following conclusions: despite the difficult political conjuncture, Georgia-Russia trade relations has still existed and moreover, Russia has been one of the major trading partners of Georgia for years. Development of economic relationship between two countries depends on the issues that are not directly related to bilateral relations. At this stage, Georgia and Russia ignore political disagreement; however, they do not actively discuss the advantages of bilateral dealings, which is, of course, an impediment for development of high-level economic relations.

In the modern world, settlement of political disagreements depends on creation of profitable conditions for economic collaboration. Despite the long-term difficulties of Georgia-Russia economic relations, it still has a potential to create a novel system of development, which should be managed in terms of economic dealings and consider geoeconomic and geopolitical interests of the both countries.

Western sanctions induce Russia to seek out new partners, which also considers normalization its relationship with Georgia. Georgian export to Russia has the following advantages: less strict technological standards compared to EU in terms of market volume; customer's habits and more. It is also significant for Russia that except for Russia-

Georgia trade relations, Georgia also serves Russia-Armenia transits. Normalization of economic relationship with Russia would promote Georgia's more active development, including the inflow of Russian investments.

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