



Royal United Services Institute
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Workshop Report

Tbilisi Silk Road Forum

Next Steps for Georgia and the Silk Road

Raffaello Pantucci and Sarah Lain



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Executive Summary

THE REPORT PROVIDES the context for the recommendations outlined in this Executive Summary, which offer a strategy for institutionalising the Tbilisi Silk Road Forum, capitalising on its success and placing Georgia at the heart of Eurasian connectivity.

Georgia should build on the success of the Tbilisi Silk Road Forum which took place in October 2015 by establishing a series of working groups involving key public and private stakeholders from other countries along the Silk Road to discuss ways of implementing the connectivity vision:

- **Working group 1:** Connectivity and harmonisation: To identify existing connectivity and harmonisation challenges and determine programme and investment requirements to address and mitigate them.
- **Working group 2:** Infrastructure and partnerships: To identify opportunities for investment in infrastructure development, for greater public–private partnerships and to understand why such partnerships do not already exist.
- **Working group 3:** Energy: A comprehensive understanding of energy needs, security and development along the Silk Road.

The working groups should:

- Conduct a literature review to identify the existing knowledge base and distil key findings into a short report that can act as a foundation for the working groups' consideration.
- Conduct a study among private sector representatives to identify existing challenges for those doing business in Georgia, focusing on key areas of economic importance such as agriculture, tourism, manufacturing and energy.
- Establish a position within the Ministry of Economy and Sustainable Development responsible for co-ordinating Georgia's Silk Road and Eurasian connectivity activity.
- Establish a secretariat for the Silk Road Forum that will not only co-ordinate the annual Tbilisi Forum and manage the related working groups, but will also help to deepen understanding and develop potential opportunities for Eurasian connectivity projects. This will involve creating an online hub for Eurasian connectivity research, managing a Twitter feed, e-list, and other associated online activities to capture knowledge about Eurasian connectivity, and disseminate ideas and best practice. The ultimate aim of the secretariat will be to create a virtual 'think and do tank' for Eurasian connectivity.
- Take a leadership role in Caucasus and Central Asian connectivity projects, by establishing a secretariat and encouraging relevant parties to nominate significant government figures as representatives or 'ambassadors'.

Georgia is a strong candidate to host this initiative given its good relations with most major players in Europe and Asia. Sitting at the heart of the Eurasian continent, between many countries with troubled relations, Georgia is able to play the role of an honest broker that can bridge the continent and help turn the numerous Silk Road visions into reality.

Tbilisi Silk Road Forum

The Tbilisi Silk Road Forum which took place 15–16 October 2015 – co-hosted by the Georgian and Chinese governments – was a clear endorsement by Georgia of China’s proposed Belt and Road policy. It also provided an opportunity to showcase Georgia’s position at the heart of a changing Eurasia. At a time when Iran is opening up, there is a surge of Chinese investment following the Belt and Road vision; numerous other proposals for Eurasian connectivity are being advanced by outside powers. As a country with strong connections to the east and west, Georgia is well placed to benefit from this web of connectivity and to offer examples of best practice to those nations that are still formulating their own responses to this regional development. This report details the key findings that emerged from the two-day conference, suggests ways in which it can move beyond being a one-off event and outlines some ideas for how Georgia can establish itself as one of the key hubs of Eurasian trade and commerce.

The event was one of the first Belt and Road forums co-sponsored by the Chinese government to be held outside China. While there have been numerous events focused on the initiative within the country, as one of the first events of its kind to take place beyond China’s borders, it brought Chinese and local partners together to discuss the implementation of this new strategic foreign policy initiative. This reflected not only Beijing’s desire to engage with Silk Road participating countries directly, but also Georgia’s recognition of a need for greater inter-regional engagement in order to identify those ideas or projects which might offer opportunities for greater engagement under the Belt and Road initiative. The event also highlighted Georgia’s willingness to be at the forefront of China’s outward-facing foreign policy push, and to help shape Eurasian engagement with the Belt and Road project, following on from Tbilisi’s hosting of the Asian Infrastructure Investment Bank (AIIB) negotiations in July 2015.

The forum addressed ways to enhance transport, energy, trade and people-to-people connectivity across the Eurasian landmass from east to west, from China to Europe, as well as north to south, reconnecting Iran and Afghanistan to their Central and South Asian neighbours – in many cases reviving Silk Road routes that had fallen foul of border disputes, security or more recent cross-border sanctions. Discussions aimed to identify co-operative approaches to improving and increasing cross-border trade. With this in mind it was agreed that the next step is for participants to generate more ideas on how this can be achieved and, most importantly, to implement the resulting proposals. Inevitably a large portion of the forum was also dedicated to discussing and promoting investment opportunities in Georgia itself and understanding ways in which Georgia can benefit from, and build on, China’s Belt and Road policy and other regional connectivity initiatives. While Georgia aspires to become a transit and logistics hub, it still needs to leverage further economic investment for infrastructure development if it is to fully realise its own economic potential.

Raffaello Pantucci and Sarah Lain, of RUSI, acted as rapporteurs for this event and were asked to write this report. It aims to summarise the key ideas that emanated from the Silk Road Forum and to suggest the next steps for further policies and projects to harness the full capacity of the Silk Road.

The Silk Road: Enhancing Connectivity

Discussions focused on the enhancement and improvement of connectivity to facilitate better transport and communication links, energy integration and people-to-people connections across the Eurasian landmass, with the ultimate aim of increasing cross-border trade. Multilateral co-operation, exchange of knowledge and experience, policy harmonisation and greater co-ordination were repeatedly identified as vehicles for achieving this. Defining existing obstacles to such co-operation and ways of overcoming them is the next step in helping to shape the long-term success of this initiative.

Transport and Logistics

Improved transport connectivity is one of the most obvious areas where regional co-operation efforts should be concentrated. Expansion of rail, road, sea and air transport requires a modernised and newly built infrastructure and considerable regional co-ordination between countries. The Silk Road Forum highlighted how Georgia and its neighbours are already co-operating in this area, providing a useful example to others embarking on projects in the field. Georgia is part of the Trans-Caspian International Transport Route (TCITR). This involves co-operation between port, railway, shipping and logistics companies from Azerbaijan, Kazakhstan, Georgia and Turkey to build a modern transport corridor from China.¹ The TCITR's Coordination Committee needs to address the specific connectivity challenges discussed in Tbilisi, including the identification of ways in which technology can be used to reduce time of travel, the establishment of mechanisms to share customs information between countries, the co-ordination of tariff policies and the creation of integrated logistics mechanisms.² The aim is to reduce transport time along this corridor to fourteen days, which would make it the quickest route from China to Europe.³

The TCITR has already had some successes. In August 2015, the port of Baku saw the first container block train arrive from Shihezi in Xinjiang. This involved a train ferry from the port of Aktau in Kazakhstan crossing the Caspian Sea before arriving at the port of Alyat in Azerbaijan, which is currently being modernised by the Azerbaijani government. In October 2015, a second test container train took this route and ended its journey in Georgia. The plan is for the route to then join up with the Baku–Tbilisi–Kars (BTK) railway, which will connect the region with Europe.

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1. Eurasian Research Institute, 'Weekly Bulletin', No. 36, October 2015.
 2. Nigar Orujova, 'Consortium for Trans-Caspian Transport Route Set Up', *Azer News*, 15 October 2015.
 3. *PR Newswire*, 'First Container Train from China to Port of Baku to Transform Europe-Asia Trade', 4 August 2015.

Azerbaijan's estimated revenues from transit traffic by 2020 are predicted to reach as much as \$600–\$700 million.⁴

Co-ordinating the modernisation and construction of railways, airports and ports is an important first step, but making the route economically competitive is also crucial. The construction of additional rail infrastructure is not the only requirement for the Silk Road Economic Belt to become a reality. Routes will also need to diversify in order to avoid over-reliance on trade originating from China. In this respect the establishment of a comprehensive network of connections across the Eurasian continent that includes other countries and connects regional markets to each other as well as to China and Europe will be critical.

It will be important that Georgia aspire not only to being just a regional connectivity hub, but also a producer of goods that can take advantage of these routes, and that it develop its domestic manufacturing base accordingly. It is also important to note where rail transport fits in this overall strategy and to understand the nature of the added value that rail brings. While railways are more expensive than shipping, they can be faster and cost effective for the transport of lightweight high-value goods (it is not economically viable to use rail freight for the bulk transport of cheaper items). Georgia should look to maximise the value of rail transport, particularly for time-critical cargo or high-value goods, in order to make costs involved worthwhile. For example the train route from Chongqing to Duisburg has already delivered Acer and Asus computers to Europe, and Mercedes and BMW car parts back to China.⁵ A strategic approach to rail transport and an understanding of the competitive edge it can provide is necessary, particularly as maritime trade is also adapting to market needs. For example, by introducing less-than-container-load services, companies save time.⁶ Creative thinking will be required to make these routes competitive and to maximise the connectivity benefits of the routes across Eurasia.

More than Just Transit

Like many other Belt and Road participating countries, Georgia needs to identify areas where it can benefit from enhanced connectivity beyond merely being a transit location for Chinese goods. A factor cited repeatedly in relation to Georgia's competitive edge within the Belt and Road region was the fact that it is at a 'geographical crossroads' and is therefore logistically important within the network of Eurasian countries that are often characterised as part of the Silk Road – a latticework of connectivity that stretches east–west from China to Europe, and south–north from Iran and the Gulf to Russia. What, however, does this mean for Georgia and how can the country achieve its full potential? Finding its unique selling point within the transport sector is important. Azerbaijan has already begun thinking about this. Not only will

4. Seray Ozcan, 'Trans Caspian Rail Corridor to Transform Europe China Trade', Hazar Strategy Institute, 16 November 2015.

5. Dexter Roberts, Henry Meyer and Dorothee Tschampa, 'The Silk Railroad of China-Europe Trade: Companies Deep in China Lean on Railroads to Ship to Europe', *Bloomberg*, 21 December 2012.

6. Greg Knowler, 'Central Asia's Baku Port Rides the China-Europe Rails', JOC.com, 6 August 2015, <http://www.joc.com/rail-intermodal/central-asias-baku-port-rides-china-europe-rails_20150806.html>, accessed 27 July 2016.

the railway line through Azerbaijan connect with China, it also allows Baku to export its own oil products to Turkey and Europe. Maximising the use of the railway in multiple capacities can also boost tourism and people-to-people connections. With this in mind, Azerbaijan Railways signed an agreement in 2014 with the Swiss company Stadler to supply passenger carriages for its BTK line.⁷ Shortly after Iran opened up and Chinese President Xi Jinping made his historic visit to the country, the first train left from the city of Yiwu in the eastern Chinese province of Zhejiang heading to Tehran.⁸ During the president's visit a number of deals were signed; discussions also advanced about the possibility of China investing in the Iranian port of Chabahar (which India has already taken a prominent role in seeking to develop) to provide Chinese goods and interests in Central Asia with another route to the sea.

Future discussions should build on these examples and address ways in which the principles of connectivity enshrined in the Belt and Road vision can be used to build up the national economic potential of countries along the route – not only Georgia, but also other Central Asian, South Asian or Caucasus nations. The introduction of free or special economic zones, industrial parks and free trade agreements will go some way to achieving this; they are something that Chinese officials talk about during regional travel. The consolidation and development of a domestic manufacturing base will ensure that not only Chinese goods travel along the Silk Road – it will also help neighbouring countries to maximise the economic potential created by the growing number of Chinese companies that are being forced to move abroad because of rising labour costs at home.

Georgia already has a free trade agreement with the EU and is in the process of negotiating a similar agreement with China.⁹ A project management company, the Hualing Group, has been active in Georgia since 2007 and recently launched a free industrial zone in the country's legislative capital, Kutaisi. The zone includes timber and resource processing lines, the products of which will be exported to neighbouring countries. Georgia's free trade agreement with the EU makes it particularly attractive to external investors seeking access to European markets and is of particular potential interest to Chinese traders. Although projects such as these allow Georgia to benefit from Chinese technology and expertise while also boosting its own exports, it is necessary to ensure that Georgians themselves benefit from employment and training opportunities by requiring any joint project to have some local content. While attracting foreign investment to these economic zones should be a key priority of Georgia's economic strategy, it is also important for such joint initiatives to be implemented effectively and equally. If Georgia is to benefit, then the government must ensure that it has established rules for investment that prioritise local content (be it in terms of employees or materials), while also remaining attractive for outside investors.

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7. Railway Technology.com, 'Stadler Rail to Supply Passenger Rail Cars to Azerbaijan Railways', 13 June 2014, <<http://www.railway-technology.com/>>, accessed 28 July 2016.
 8. *PressTV*, "'Silk Road' Train Departs China for Iran', 29 January 2016.
 9. See Ministry of Commerce, PRC, 'China-Georgia FTA Joint Feasibility Study', <<http://fta.mofcom.gov.cn/list/chinageorgiaen/chinageorgiaennews/1/encateinfo.html>>, accessed 28 July 2016.

Creating a Public–Private Partnership

Co-operation between foreign governments, private domestic and foreign investors, and commercial operators will be critical to making all this function well. With this in mind, the importance of facilitating public–private partnerships and their role in improving connectivity was discussed extensively at the forum. It was highlighted as being essential for the full realisation of the Silk Road’s potential by the governor of Xinjiang and the vice governor of Shaanxi provinces, respectively, who spoke at the event and headed large regional delegations who visited the forum. A key objective for Georgia and other countries along the route is to develop multilateral relations with countries and companies, as well as regions, in order to establish relationships that go deeper than just government-to-government contact.

Georgia has seen some significant foreign investment in the country’s infrastructure, particularly in its ports. The final two bids selected for the development of the Black Sea port of Anaklia involved proposals from a US–Georgian consortium and a Chinese–Georgian consortium (the US-led consortium was later awarded the project¹⁰). The original seven shortlisted bidders included French, Japanese, British and UAE companies. Georgia also needs to expand awareness of the smaller-scale opportunities that the development of the country’s connectivity and transport infrastructure provides. This requires both understanding how the Belt and Road vision cuts through the country, but also exploring what other opportunities for connectivity there are and who specifically might be able to implement them.

According to one speaker representing the Asian Development Bank (ADB), the Central Asia Regional Economic Cooperation Programme, which commits billions of dollars to facilitating six economic corridors across ten countries, has estimated that private sector finance only accounts for 6% of the total amount being invested. This suggests that even well-established initiatives appear to be struggling to encourage greater private sector involvement. Deterrents may include a lack of clarity on the benefits that private investors can take from such projects, particularly in light of the long timescale expected for most of the projects in question. In other words, the timelines involved can be less appealing to private sector investors, especially when the projects are being undertaken in relatively unstable or insecure environments. Currently, they are seen as charity or development projects – their potential economic benefits are not highlighted. There needs to be a shift in thinking and greater emphasis placed on advertising their potential gains to private investors.

Discussions also highlighted the risk of confusion due to the number and diverse range of infrastructure and connectivity projects already existing across the region. Projects with overlapping objectives create a complicated picture sometimes lacking co-ordination. There are many organisations working on connectivity in Central Asia and the Caucasus, such as the ADB, the European Investment Bank, the European Bank for Reconstruction and Development (EBRD) and the US Agency for International Development (USAID) – not to mention the numerous other

10. JOC.com, ‘US Group Wins Bid for Deep-Sea Port in Georgia’, 22 March 2016, <http://www.joc.com/port-news/asian-ports/us-group-wins-bid-deep-sea-port-georgia_20160322.html>, accessed 1 August 2016.

financial institutions like the Korea Development Bank and the Islamic Development Bank. It is crucial that Georgia and its neighbours have clear oversight of these and ensure they are co-ordinated in such a manner that gaps are identified and duplication is avoided.

Border Crossings: Making it Easier

One of the Silk Road Forum panels was dedicated to discussing the need for greater policy co-ordination and harmonisation of standards, paperwork and tariffs at border crossings and for transit. One speaker commented that, on average, 40% of transport time is spent at border crossings, which decreases efficiency and increases costs for operators and consumers. For example, eight bilateral permits are required for trucks travelling across the Eurasian region to Europe. Reducing the paperwork, bureaucracy and time expended on transport is critical, though care must also be taken to ensure that the process is properly secure.

Again, work is already being done on these issues in Georgia, with particular assistance from USAID. The issue is also on the agenda for the TCITR Coordination Committee. It is crucial, however, that a joined-up and co-ordinated approach is instituted in partnership with private and public sector regional players. A multilateral effort is required to implement a single-window system, so that international traders can submit required documents in one place; harmonise documentation; increase data exchange; digitalise records (customs declarations, applications for import/export permits, certificates of origin, among others); and increase capacity to conduct data mining to understand patterns and trends in customs and trade. Key representatives in such a partnership would be drawn from Georgia, Turkey, Azerbaijan, Kazakhstan and China, as participants in the TCITR, but it would also involve a greater mix of public and private sector contributors, as well as the participation of international organisations in order to create a consultative and all-encompassing approach. This would be done with a long-term view of gradually bringing Southern European countries into the discussion.

Existing frameworks provide examples of how such harmonisation could work. One speaker mentioned World Customs Organization protocols, such as the Revised Kyoto Convention, which sets out ways to simplify and harmonise customs procedures for contracting parties. However, harmonising to a degree that will really increase efficiency within this framework will take legislative reform. In the same panel, one speaker praised agreements made at the Shanghai Cooperation Organisation (SCO) Summit in Dushanbe in 2014, where members signed documents on harmonising and simplifying procedures to facilitate road transport.¹¹ Three SCO members (Kazakhstan, Russia and Kyrgyzstan) are also part of the Eurasian Economic Union, which has regulatory stipulations regarding customs and tariffs. This highlighted the fact that there is already a considerable amount of co-operation on precisely those issues highlighted at the Silk Road Forum relating to customs and trade policy harmonisation. It is as yet unclear how existing instances of regional co-operation fit together, and where they are complementary or

11. ATI Media, 'Dushanbe budet podpisano soglasenie o sozdanii usloviy dlya mezhdunarodnikh avtoperevozik' [An Agreement will be Signed in Dushanbe on the Creation of Conditions for an International Auto Transport Corridor], <<http://ati.su/Media/News.aspx?HeadingID=1&ID=46161>>, accessed 28 July 2016.

lead to a conflict of interests. They need to be analysed to see which aspects can be replicated and harmonised elsewhere along the Silk Road, and which aspects present challenges to further connectivity. Only then can stakeholders define strategies to minimise the negative impact that system differences can have on connectivity.

Energy Integration

Energy is one of the key commodities to flow along the routes that make up the Silk Road. First, it is of great importance to the various external players, given their search for new energy markets. Second, the benefits to be derived from the development of regional electricity markets and the prospects they afford for infrastructure investment could play a vital role in stimulating local industry and economies. Third, the Georgian energy market (in terms of levels of domestic investment and size of its national infrastructure) is also large enough to be attractive to major external investors, unlike some other domestic markets.

Local energy markets have already attracted some investment. The EBRD is investing at least \$2 billion to help ensure that all citizens in the region have access to electricity all year round and to connect the region from Turkey through the Caucasus to Central Asia and China. There is scope for other external partners (either international financial institutions or national banks) to connect with the EBRD to complete these projects.

Beyond transmission lines, greater investment also needs to go into electricity generation in Georgia (and other Eurasian countries), something that can be done in a number of different ways, from the development of non-renewable energy sources such as fossil fuels to renewables. One Chinese speaker highlighted the substantial investment in wind and solar power that had been made in Xinjiang in particular – a possibility that could be explored further regionally. Given the importance of hydropower in some parts of Central Asia in particular, there is a growing regional market for clean, renewable energy sources. However, the expense of such projects means that they would only be likely to work well if greater regional integration made it possible to take advantage of the resulting economies of scale. Were these economies of scale achieved, one speaker proposed, the potential of other technologies could be developed, such as the use of electric cars. This will only work if the infrastructure to support them is widely available across the region.

Improved connectivity is also important for the development of the network of pipelines and hydrocarbon transport systems across the region. As one participant put it, ‘hydrocarbons are one of the new silks of the Silk Road’. There is already a great deal of activity underway by large energy multinationals, multilateral institutions and large nations in the development of the Trans-Anatolian Pipeline project through Turkey and Georgia to Italy; the Baku–Tbilisi–Ceyhan pipeline bringing energy to the Mediterranean; and various projects being explored across the Caspian to open Central Asian energy markets to Europe through the Caucasus. In Central Asia, the proposed Turkmenistan–Afghanistan–Pakistan–India pipeline and the possible Iran–Pakistan pipelines have slowly moved from concepts towards implementation. These large projects will require external financing, the expertise of international construction companies and political

support if they are to overcome historical cross-border tensions and the obstacles that can be caused by the interference of outside powers. Any such developments will be undertaken in an environment of low energy prices which will cause the economic viability of some projects to be questionable. While the economic slowdown taking place in China highlights the need to diversify demand countries, the development of a gas transport infrastructure remains appealing to most nations – gas is a key export for many Central Asian states.

Notwithstanding the Chinese slowdown, Asia continues to offer significant opportunities and potential future markets. Relevant Chinese regions like Xinjiang are key to Silk Road projects, with energy recognised as a regional priority both in terms of meeting domestic needs and the improvement of technology and connectivity (including the development of regional energy companies). The Chinese regional and central governments have both identified the development of energy corridors as major priorities. Domestically, this has been achieved in the development of Chinese national energy infrastructure – more work needs to go into building and connecting this to its Eurasian neighbourhood.

In order to unlock this potential, certain broader regional issues need to be resolved. First, there needs to be greater harmonisation of standards across the region, along with more accurate assessments of local needs. The benefits from economies of scale will only occur if the countries have similar needs. By themselves the three Caucasus economies are relatively small and less attractive for some large-scale investments. Greater harmonisation and co-operation will create an environment that is more attractive to outside investors. However, in order to make sure these common projects can be developed, there needs to be a better understanding as to what regional needs are to ensure useful and appropriate projects can be established. Second, connectivity needs to be explored north–south as well as east–west – there are potential partners to be found in all directions, as reflected by the countries represented at the Tbilisi Silk Road Forum. Third, countries need to look into opening up their upstream assets and allowing energy multinationals with the relevant expertise to help them to develop these opportunities, something that will only be possible when they make the necessary legislative decisions and improve transparency. Finally, the concept of energy security needs to be considered comprehensively. It is not only about securing pipeline routes and infrastructure, but also about the impact that projects might have on neighbours, the potential environmental damage they could cause and the importance of ensuring that risk mitigation is built in at the planning stage.

Conclusions and Recommendations

- In response to the specific issues highlighted at the Silk Road Forum, Georgia should lead on creating a series of working groups involving relevant government, private sector and international stakeholders in order to understand how connectivity can be improved and challenges mitigated. This would be based on an understanding of existing initiatives to avoid duplication. The working groups could follow the example of the Connectivity Platform established at the EU-China Summit in June 2015, with the aim of sharing information on how to facilitate more efficient transport and identify areas of co-operation between the One Belt One Road (OBOR) and Trans-European Networks

initiatives.¹² The working groups would be divided as follows, with approximately fifteen participants in each who produce preliminary findings to be presented at the next Tbilisi Silk Road Forum:

- **Working group 1:** Identify current connectivity and harmonisation challenges and determine programme and investment requirements to address and mitigate them.
 - Suggested participants: business and state representatives from railway and logistics companies of Georgia and key regional players, including China; representatives from Georgia's Ministry of Transport and Ministry of Economy and Sustainable Development, and relevant counterparts in neighbouring countries; officials from tax, customs and border agencies; and international aid and development agencies already undertaking work in this field.
- **Working group 2:** Understand where opportunities might lie for greater public–private partnerships and investment opportunities in infrastructure development and identify why such partnerships do not already exist.
 - Suggested participants: representatives from Georgia's Ministry of Economy and Sustainable Development; relevant investment bodies such as the Georgian National Investment Agency; representatives from relevant chambers of commerce based in Georgia and surrounding countries; Georgian businesses; and select foreign investors.
- **Working group 3:** A comprehensive understanding of energy along the Silk Road including its needs, security and development.
 - Suggested participants: national energy ministries; representatives from local and international energy firms specialising in security and engineering questions; international financial institutions; aid agencies; and energy specialists.
- In preparation for these working groups, it would be beneficial to conduct some research into the existing initiatives on multilateral border facilitation and harmonisation to determine overlaps, conflicting policies and remaining gaps. This could be done in the form of a short literature review which would identify the existing knowledge base and distil its key findings into a short summary report.

The Silk Road: Playing to Georgia's Strengths

Improving the Investment Climate

Much of the discussion at the Silk Road Forum was also dedicated to promoting Georgia's investment opportunities. Important areas include hydropower, tourism, agriculture, transport, logistics and manufacturing.

12. 'EU-China Summit Joint Statement, 29 June 2015'.

One point to emerge from discussion was that, from a country-to-country perspective, opportunities for co-operation do not just exist at a national level, but also at the province-to-province and region-to-region levels. This form of collaboration is something that Georgia is already engaging in with its Chinese partners, and was reflected in the Chinese presence at the forum which included very senior figures and large delegations of businesspeople from two regions, Xinjiang and Shaanxi. One speaker referenced ongoing discussions between Shaanxi province and southern Kazakhstan on the creation of a joint industrial zone in Kazakhstan.¹³ Meanwhile companies from Xinjiang, together with the regional government have been at the forefront of many Silk Road projects, and Urumqi (the regional capital) has even marketed itself as the 'gateway to Eurasia', an identity that has also been championed by the central government in Beijing. Exploring this multilayered approach to investment is a good way of diversifying sources of investment and deals, particularly from China.

There is no doubt that Georgia has made substantial improvements in its business climate. It ranks 24 out of 189 in the World Bank's Ease of Doing Business survey,¹⁴ and 22 out of 172 in the Heritage Foundation's Index of Economic Freedom.¹⁵ It has established organisations dedicated to supporting and encouraging domestic and foreign business investment initiatives. These include Enterprise Georgia, which is housed in the Ministry of Economy and Sustainable Development and targets small- and medium-sized enterprises and export promotion, and the Georgian National Investment Agency, which seeks to attract greater foreign direct investment and is run by the prime minister's office. An important question for any future Silk Road Forum discussion is what further steps are required to improve the investment climate.

Discussion of this question involves a consideration of Georgia's image. One investor in the country referred to a continuing 'perception problem' in Georgia. Despite significant improvements to the ease of doing business, many foreign businesses still do not yet know enough about the opportunities that investment in Georgia presents. Although the government has done well in communicating its efforts to improve the investment climate and reduce corruption, it now needs to publicise the specific areas that need investment. For example, Georgia has huge tourism potential, given its existing hotel infrastructure, strong culture of hospitality, history and attractive countryside. One speaker mentioned, however, that the existing hotel accommodation offering is too narrow, consisting of either low-budget hotels or high-end international brands. To attract more customers, thought needs to go into a mid-range option, which would need investment. The tourism sector's efforts to capture direct foreign investment would be strengthened by market research into its existing visitor profile, to identify gaps in the market. As the self-styled crossroads of Eurasia, Georgia can also develop cross-sector opportunities for tourism and business if it succeeds in establishing more frequent and

13. *Kazinform International News Agency*, 'S Kazakhstan and China's Shaanxi Province Agreed on Coop', 4 October 2015.

14. World Bank Group, 'Economy Rankings', Doing Business, Measuring Business Regulations, 2016, <<http://www.doingbusiness.org/rankings>>, accessed 28 July 2016.

15. Heritage Foundation, 'Country Rankings', 2016 Index of Economic Freedom, <<http://www.heritage.org/index/ranking>>, accessed 28 July 2016.

reliable low-budget flights direct from European and Asian capitals to Tbilisi. Identifying these needs and targeting investors is the next step in Georgia's foreign investment communication policy.

It is also important to highlight evidence of Georgia's creative and innovative thinking in business. The announcement by the Bank of Georgia that it was looking to list a healthcare subsidiary, Georgia Healthcare, on the London Stock Exchange reflects the increasing maturity of the country's investment strategy.¹⁶ One speaker mentioned that while the work done to make it easier for foreign business to operate in Georgia constituted a positive step, the speed at which global markets are moving and economies are developing meant that the country still needs to do everything it can to make its market 'as attractive as possible or someone else will'. One aspect in particular that remains under-examined is the development of workforce training and boosting human capital.

Finally, Georgia's ongoing tensions in its bilateral relationship with Russia undermine aspects of security that can negatively affect confidence in the investment climate. Georgia is well aware of this issue and works towards maintaining stable trade relations with Russia despite the absence of diplomatic ties. However, this makes it all the more important that Georgia encourage greater external investment from large powers, like the US and China. This will also give Georgia options that will help it to maintain an amicable trade relationship with Russia.

Governance

Georgia has another significant selling point that differentiates it from many countries seeking foreign capital and expertise, namely its governance. It ranks third in terms of registering property in the World Bank's Ease of Doing Business Index. In the 2014 Transparency Corruption Perception Index the country ranked 50 out of 175 countries, just lower than Hungary, Costa Rica and Mauritius,¹⁷ and ranked 29 out of 102 in rule of law, according to the World Justice Project's Rule of Law Index in 2015.¹⁸ Georgia can act as a regional leader in setting the tone for standards of corporate governance surrounding investment, particularly with its Chinese partners as part of the OBOR policy. As one speaker put it, Belt and Road participants should qualify for participation in the project through, among other things, the robustness of their governance commitments. However, such commitments are yet to be defined.

There is still work to be done to prove to foreign businesses that Georgia is a safe place to invest with appropriate guarantees of protection. Investor trust is still damaged by the perception that business decisions may seem to be politically motivated. Public protests over a court decision upholding a shareholder dispute against popular TV station, Rustavi 2, have led to accusations that the government is seeking to shut down the opposition-run station in a bid to stifle media freedom and

16. London Stock Exchange, 'Press: Bank of Georgia Set to List Georgia Healthcare in London - FT', press release, 12 October 2015, <<http://www.londonstockexchange.com/exchange/news/alliance-news/detail/1444628511369181300.html>>, accessed 30 July 2016.

17. Transparency International, 'Corruption Perceptions Index 2014: Results', <<https://www.transparency.org/cpi2014/results>>, accessed 28 July 2016.

18. World Justice Project, 'Rule of Law Index 2015', <<http://data.worldjusticeproject.org/>>, accessed 28 July 2016.

politicise business.¹⁹ Perceived excessive influence by the Prosecutor's Office in the judiciary has also been criticised.²⁰ Regardless of the reality behind such accusations, they act as deterrents to investor confidence, particularly among those who are unfamiliar with the market. The government should do more to address the underlying issues that have led to such accusations and to communicate their resolution clearly.

Conclusions and Recommendations

- Conduct a study among private sector representatives to identify persisting challenges for those doing business in Georgia. This will help to locate and identify problems in the nation's investment culture and suggest what can be done to make the market more competitive.
- Create a working group for each key sector defined as in need of foreign investment (for example, agriculture, tourism and manufacturing). These groups will be made up of private and public sector stakeholders and will aim to determine not only how to improve the ease of working in these sectors, but also to think creatively about how it can be made more attractive and competitive for foreign investors. For example, there could be greater cross-sector co-operation between agriculture and transport. This working group should identify investment opportunities that dovetail with, and will benefit from, greater Silk Road connectivity.
- Establish a position within the Ministry of Economy and Sustainable Development that is responsible not only for co-ordinating Georgia's activity in the various Silk Road and regional connectivity projects, but can also act as an ambassador for such projects throughout the region. Ideally this person should be a prominent Georgian with a high international profile.
- Take a leadership role in Caucasus and Central Asian connectivity projects through the founding of a secretariat for the Silk Road Forum. Events like the Tbilisi Silk Road Forum help to establish Georgia as a forward-looking power that is trying to harness the momentum around the Silk Road projects. This leadership role is one that Tbilisi is particularly well suited to and will help to not only establish Georgia as a regional power, but also increase investment into the country. It should also aspire to establish a secretariat for these projects and encourage relevant powers to nominate significant figures within the appropriate ministries and agencies to represent their own national interests in regional connectivity discussions.
- The secretariat will act not only as a co-ordinator for the Tbilisi Forum that will convene annually; it will further manage the working groups, and act as a thinker and connector of potential Eurasian connectivity projects. This will involve creating an online hub for Eurasian connectivity research, managing a Twitter feed, e-list and other associated online activity to both capture knowledge about Eurasian connectivity and to disseminate ideas and best practice. It will seek to connect businesses interested in Silk Road projects with the relevant authorities, as well as establish what the needs of the countries of the Silk Road are. If properly funded, it could commission research into issues related to foreign investment along the route, with a view to subsequently promoting the findings among the appropriate audience. The ultimate aim of the secretariat will be to create a virtual 'think and do tank' for Eurasian connectivity.

19. *BBC News*, 'Protests in Georgia over Government Threat to TV Station', 22 October 2015.

20. Transparency International, 'Corruption by Country/Territory', <<https://www.transparency.org/country/#GEO>>, accessed 28 July 2016.

Conclusions

Chinese President Xi's speech in Astana in September 2013 affirmed the centrality of the Silk Road vision to China's foreign policy for the coming years. Since then, globally there has been a proliferation of Chinese-instigated trade and economic corridors that have been captured under the broader banner of Belt and Road. Eurasian connectivity has become a buzzword in many Eurasian capitals, as countries explore the opportunities provided by improving infrastructure and connectivity across the continents, together with the opening up of China's west, of Iran and other regions that were previously inaccessible. The routes through Central Asia and the Caucasus to European markets are the most advanced and those which have the most immediate potential. The willingness of most of the countries along the route to participate, their recognition of the benefits that improved connectivity can bring and the interest expressed by outside powers in playing a positive role, all make the land routes the most immediately implementable paths to greater regional connectivity.

Hosting the Silk Road Forum in Tbilisi placed Georgia at the forefront of this regional effort. To capitalise on this start, the Georgian government needs to build on this first step to place itself at the core of Eurasian efforts to implement Silk Road-inspired connectivity projects. Clearly China is the primary driver of these efforts, but Georgia should take advantage of its place in the Caucasus to encourage north–south and other regional connectivity as well. Iran's opening up presents another opportunity for Georgia, one that it could weave into regional connectivity efforts.

This push should be undertaken through a combination of bilateral and regional initiatives instigated by Tbilisi in conjunction with relevant players. Georgia's good relations with most regional powers mean that it is well placed to establish itself as the hub of such a connectivity network. If it does so, it will find itself in a position to not only encourage investment into the country, but also to profit from the Silk Road investment corridors through the region and to position itself at the heart of Eurasian economic connectivity, one of the defining economic stories of the next decade.

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