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## **DEVELOPMENT PROSPECTS FOR TRANSIT POTENTIAL OF GEORGIA**

### **Abstract:**

The present paper studies the transit potential of Georgia and developing perspectives. It's noted, that strengthening of transit energy corridor is of great importance for Georgia due to its strategically important geographical location. Thanks to its transit and energy corridors, Georgia gained the status of the country that supports balancing of economic interests between European and Asian countries. Favorability of the country's geographical location has been proved and increased since the establishment of Baku-Supsa and Baku-Tbilisi-Ceyhan pipelines. Besides these two geo-economically strategic pipelines of international importance, there are two exceptionally important gas pipelines running through the territory of Georgia: the North-South or Shah Deniz and the Baku-Tbilisi-Erzurum pipelines. Strategically important Georgian ports and terminals such as Batumi, Poti and Kulevi have direct connections with railway lines of Azerbaijan, Ukraine, Russia and Bulgaria. Development of port infrastructure is one of the priorities for Georgia. For this purpose, construction of deep-water port in Anaklia is of special importance. The government of Georgia has already called for investors to express interest in this project. Full utilization of its transit capacity will be beneficial for Georgia both from political and economic point of view.

Due to its geopolitical location, Georgia turned out to be in the area of strategic interests of the US, EU, Russia, Turkey, Iran and China. As a result, developed countries have begun to actively cooperate with Georgia with the purpose of utilization of their predominant geopolitical and economic importance. Georgia is developing multilateral relations directed to global integration and the transit potential is one of the main preconditions of achieving competitiveness in these processes. The country has good opportunities for economic prosperity and rapid growth. The main task in this regard is to avoid threats by careful maneuvering and suggest mutually beneficial economic projects based on equal partnership to the international community. All this makes it possible to introduce economic, social, political, legal and other kinds of achievements of the West adapted with national values in Georgia.

The paper concludes that due to its strategically important location Georgia is given an opportunity to become actively involved in global integration processes and use the benefit gained from these processes to ensure high rates of economic growth and increase in the competitiveness of the country.

### **Keywords:**

geoeconomics, geopolitics, transit potential, integration, competitiveness.

Geopolitical and geo-economic location, as well as its transit potential represents significant factors of the country's technological environment. Historically, Georgia is situated at the intersection of Europe and Asia, in particular, in the south-west of Caucasus. The Caucasus covers the territory between the Black, Azov and Caspian seas. The Caucasus Mountain Range divides the region into two parts: Northern and Southern, or Transcaucasus. Georgia is situated in the western part of Transcaucasus. Its territory is 69 700 square kilometers, the general length of borders is 2 149 km, out of which 1 839 km is land and 310 km is sea border. Georgia is bordered by Azerbaijan on the east, north border with Russian Federation (Krasnodar Krai, Karachaevo-Cherkessia, Kabardino-Balkaria, North Ossetia, Ingushetia, Chechnya and Dagestan) goes along the Greater Caucasus Mountain Range at altitude up to 5000 meters, southern border which separates Georgia from Turkey and Armenia goes along the Minor Caucasus Range and Javakheti Plateau. Greater Caucasus Mountain Range has always been a symbol of national and cultural identity. In addition, the Caucasus Mountains are the source of forest and hydroelectric resources of the country and account for an important share of its tourism potential. Western border of Georgia (between the confluence of the river Psou and Sarpı village) is represented by the coast of the Black Sea. About 40% of the total territory of the country is covered with forest. The country also has significant hydroelectric resources (which mostly meets Georgia's demand for energy). In addition, there are various types of mineral waters, some of them are recognized as international brands and represent successful businesses. At different times manganese, silver, gold and copper were successfully extracted in Georgia[1. 2.].

Georgia is part of the Caucasus, which itself is situated at the border of Europe and Asia. It's formal to say that Georgia is situated between Europe and Asia as the country makes choice in favor of Europe and "it can be said without exaggeration that the country has always been striving to be part of Europe not only geographic point of view; unfortunately, in past centuries, due to the unilateral wish, the dream couldn't come true in Sulkhan Saba era or in 1918-1921," [3, Papava V., 2002, p. 408]. On June 27, 2014 the EU and Georgia signed an Association Agreement, which will replace the "Partnership and Cooperation Agreement – PGA" signed in 1996 and will create a new framework for cooperation between the EU and Georgia. EU-Georgia Association Agreement is an ambitious and innovative agreement, so called, the agreement of a new generation, as unlike other agreements signed before, it includes Deep and Comprehensive Free Trade Area – DCFTA [4, Daghelishvili N., 2013] and creates the basis for irreversible political and economic integration of Georgia.

From economic and geographic point of view, Georgia is located at the crossroads of Europe and Asia and it has always served as a bridge between the Western and Eastern civilizations. Seaside location of Georgia gives an advantage to the country compared with Azerbaijan and Armenia. Georgia connects to the Black Sea region countries through the Black Sea and to the Mediterranean countries through Bosphorus and Dardanelles straits. It's possible to connect to the whole world through Gibraltar Strait and to East and Central European countries through the River Danube [5].

“Georgia has a unique location on the Eurasian continent. If you look at the map Georgia is quite small but it has a very strategic geographic location. The country has borders with very interesting countries. It is also interesting that we connect Asian part with the Black Sea region and European part and we have been doing this for hundreds of years. After the collapse of the Soviet Union, we realized our strategic role and our place in civilized world quite properly. Our role, as a connector between two global worlds, is development of transport highways and implementation of the concept called transit concept” [6].

Strengthening of transit energy corridor is of great importance for Georgia due to its strategically important geographical location. Thanks to its transit and energy corridors, Georgia gained the status of the country that supports balancing of economic interests between European and Asian countries. “A well-developed transport, energy, logistical and agricultural infrastructure is one of the most important factors capable of increasing the country’s competitiveness and realizing its full transit potential. Logistics, as one of the most rapidly developing sectors of the modern world, would enable Georgia to make maximum use of its transit and trade potential. Correspondingly, state policy will be directed towards developing this sector, including through the development of infrastructure, attracting investments to the sector and integrating the country with international and regional transport systems” [7].

Implementation of large-scale regional projects (transnational projects in the fields of energy and transportation), in which Georgia is involved, is an important factor for creating new jobs and strengthening competitiveness of the country. Construction of highways and development of infrastructure in the country resulted in higher rates of economic growth. Favorability of geographic location of Georgia proved and increased with the construction of Baku-Supsa and Baku-Tbilisi-Jeihan pipelines. Due to these pipelines Georgia “gains a very important international economic function... The pipeline is the “touchstone” for Georgia to attract attention of strategic investors” [3, Papava V., 2002, 415].

The Western Route Export Pipeline (WREP) also known as the Baku-Supsa pipeline, is the first investment by International Oil Consortium in Georgia. Through that pipeline the crude oil from the Chiragi oil deposit of the Caspian Sea goes through Sangachal terminal to the Supsa terminal on the Georgian Black Sea coast [8].

The intergovernmental agreement on the construction of the pipeline was signed between Georgia, Azerbaijan and Turkey in 1999 at the OSCE Istanbul Summit. Baku-Tbilisi-Ceyhan (BTC) pipeline is the first and shortest route to transport oil between the Caspian and the Mediterranean Seas. The full length of this one of the longest pipelines in the world is 1 768 km. - 443 km. stretches through Azerbaijan, 249 km. through Georgia and 1076 km. through Turkey. BTC transports oil from Azeri-Chirag-Guneshli deposit to Mediterranean (Ceyhan) port in Turkey. This is the world’s second longest pipeline. The longest one is Druzhba pipeline, which transports oil from Russia to Central Europe [8].

Besides the above geoeconomically strategic and important pipelines, there are two more very important gas pipelines in Georgia - North-South and Baku-Tbilisi-Erzurum pipelines. The North-South gas pipeline was built in the second half of the 20<sup>th</sup> century and it carries Russian gas to Georgia and Armenia. Georgian section of the pipeline is 221 km. [8].

South Caucasus gas pipeline (SCP), or the same as Shah Deniz gas pipeline was constructed to transport natural gas from Shah Deniz and other deposits of the Caspian Sea to Turkey and then from Turkey to European markets. Construction of SCP was ended in 2006. Georgia got gas from that pipeline in 2007. According to the agreement on the pipeline project Georgia is not only a transit country but also a consumer country of natural gas [8]. Georgia has option to purchase 5% of the gas transported from Azerbaijan to Turkey at a preferred price. In addition, Georgia will buy additional amount of gas (half a billion cubic meters of gas per year) from the investors of the project at a special price during the first 20 years of the project functioning. In future, it's envisaged to connect the pipeline with Turkmen and Kazakh producers. 5 million tons of oil will be transported through Baku-Supsa pipeline per year, 50 million tons of oil through Baku-Tbilisi-Jeihan pipeline per year and 30 billion cubic meters of gas through South Caucasus Pipeline (SCP) per year. On the territory of Georgia the project is managed by BP, the largest shareholder of the Consortium. BP is one of the largest investors in Georgia having invested over 1.5 billion USD in infrastructural and social development projects.

In 2009-2010, an agreement was achieved at the negotiations held in the framework of the South corridor with the purpose to develop a new route for transporting gas. The agreement envisaged realization of AGRI – Azerbaijan-Georgia-Romania – Interconnector project, which was designed to transport natural gas (liquefied form) to Romania and then to the European market through Georgia and the Black Sea. AGRI responds to some of the challenges in Europe, such as energy diversification and designing alternative routes for the gas suppliers and it has international support [8]. New energy corridors are opened through Georgia not only due to the increase of export of oil in the Caspian Sea region, but also due to the wish of Kazakhstan and Azerbaijan to diversify flows of oil and be less dependent on Russian direction.

Full utilization of its transit capacity will be beneficial for Georgia both from political and economic point of view. Georgian railway plays an important role in utilization of transit potential. Rail transport has the history of almost 140 years in Georgia. Georgian railway with its developed infrastructure is a determining factor for successful functioning of Europe-Caucasus-Asia transit corridor. Baku-Tbilisi-Kars railway (the so called Silk Road) is the beginning of a very important, new era from the point of increasing transit capacity of Georgia and development of new businesses.

“Construction of a new Silk Way emphasizes transformation of Georgia into multiregional trade gateway connecting Europe, East Asia, India, Central Asia and the Middle East. Due to Georgia, billions of consumers in Asia and Europe will be easily accessible for both companies and individuals and Asian goods and energy resources

will reach European countries much faster when they are transported through Georgia."The Silk Road" connects the countries with the short land route through Georgia. Geographic location of Georgia definitely helps "the country to become a regional hub" [9].

Roads and motorways are one the most important determinants of the current state and development perspectives of the transit potential of Georgia. The length of the roads of common use is 6901 km in Georgia. The full length of the roads for transit purpose of international importance is 1603 km and the length of secondary roads is 5298 km. On average, transit through Georgia amounts to nearly 24.5 million tons of goods and 257 million passengers per year. Road transportation accounts for a large share (about 59.9%) of total transit goods [10].

The Asian Development Bank (ADB) supports development of the national transport policy of Georgia and corresponding action plan, which will contribute to increasing the effectiveness of transportation sector and improving competitiveness, attracting additional investments, development of multi-modal transportation, integration of transport systems of Georgia with the international ones, raising the level of safety and service, making full use of transit potential [11]. The World Bank launched a project, which envisages development of logistics and transportation of goods, as well as development of multi-modal freight corridors and investment projects for green logistics.

Georgian aviation plays an important role in transit potential of Georgia. In 1994 Georgia became full member of International Civil Aviation Organization. Network of airports in Georgia is comprised of three international (Tbilisi, Batumi, Kutaisi) and three local (Mestia, Natakhtari, Telavi) airports. Due to the increase in tourist flows to Georgia, the number of passengers using international airports of Georgia also increased. In 2014 Georgian airports provided service for 2.008.171 passengers, which is 9.51% (174 364 passengers) higher compared with 2013. The number of passengers increased in all the three international airports of Georgia in 2014. 1 575 386 passengers passed through Tbilisi international airport in 2014. The number is 9.7% (139 340 passengers) higher compared to the correspondent figure of the previous year. Just like number of passengers, the volume of goods transported by air transport of Georgia in 2014 also increased. 19 659.075 tons of goods was transported in 2014, which is 2.8% higher compared with the corresponding figure (19 122.955) of 2013. Tbilisi international airport account for large share of the goods transported [12]. In 2014 transportation of passengers on the aviation market of Georgia was carried out by three Georgian (Georgian Airways, Vista Georgia, Air Caucasus) and 32 foreign airline companies. During the last year, the following foreign companies began to carry out regular flights from Georgia: „Air Arabia“, „YANAIR“, „Dniproavia“, „Air Cairo“. Since September 27, 2014 regular flights between Georgia and Russia began to be carried out again. Flights between Tbilisi and Moscow are made by Georgian Airways from Georgian side and by S7 Siberia, Transaero and Aeroflot from Russian side [12]. Georgian airports are well connected with different countries through transit flights. However, one of the main priorities of the country is

developing direct flights in the direction of Italy, Germany, France, Romania, Bulgaria, Slovakia, China, India and Japan. This will support development of tourism and have positive impact on the development of economic relations between the countries.

Georgian ports and terminals of strategic importance, such as Batumi, Poti and Kulevi are directly connected with the railway lines in Azerbaijan, Ukraine, Russia and Bulgaria. The history of Batumi sea port is practically the history of formation of Caucasus logistics center, which determined the role of Georgia, as a transit country. The Batumi Sea Port is an important part of Europe-Caucasus-Asia corridor, which begins in Europe and connects the region with the Caspian Sea region countries (Azerbaijan, Kazakhstan, Turkmenistan, etc) through Bulgaria, Romania, Ukraine and then the Black Sea. The key factor in the development of the port has always been the oil of the Caspian Sea [13]. Oil is delivered to Batumi oil terminal through Georgian railway with tank wagons, which are emptied on the modern railway platforms.

Construction of Kulevi port, LTD Black Sea Terminal, began in 2000. In January of 2007 the terminal was purchased by the State Oil Company of Azerbaijan Republic (SOCAR). The company has invested about 400 million dollars in the economy of Georgia so far. Kulevi oil terminal opened on May 16, 2008. Capacity of the terminal is 10 mln tons of oil per year. Due to the new complex for propylene shipment launched at Kulevi terminal in 2012, it became possible to ship chemical products through Kulevi terminal as well [13].

Port of Poti is a connecting link when shipping goods from Turkey, Middle East and Europe to the Central Asian countries and Afghanistan. 80% of shares of the Port of Poti is held by APM Terminals, subsidiary of Danish giant company, AP Moller-Maersk Grup. The port of Poti carries out shipment in three main areas: 1. Shipment to Azerbaijan and Russia from the border line, Samur-Yalama; 2. shipment to Turkmenistan, Afghanistan, Tajikistan, Uzbekistan; Baku-Turkmenbashi by ferry; 3. Shipment to Kazakhstan, Uzbekistan and Kyrgyzstan - Baku-Aktau by ferry [13].

Development of port infrastructure is one of the priorities for Georgia. For this purpose, construction of deep-water port in Anaklia is of special importance. The government of Georgia has already called for investors to express interest in this project. The port will be build in several stages and finally its capacity will be 100 mln tons of goods. Construction of new port in Anaklia will contribute to attracting new investments, creation of hundreds of new jobs, development of logistic service centers nearby the port and full realization of the country's transit potential. In 2014, container shipments through sea ports increased significantly (by 11%) compared with 2013 [11].

In 2013 Marmaray tunnel was opened under Bosphorus, which connects Europe with Asia through Bosphorus Strait. It's notable "that close cooperation of Georgia with Turkey, which grants priority to its ships to go through Bosphorus Strait, will enable Georgia to use full capacity of its oil terminals and become a mediator of the movement of other countries' tankers in the Black Sea and their sailing in offshore waters" [14, Tvalchrelidze A., Silagadze A., Keshelashvili G., Gegia D., 2011].

Thus, geoeconomical role of independent Georgia, as a significant important transit artery linking East and West, North and South becomes even more important under globalization. Due to its geopolitical location, Georgia turned out to be in the area of strategic interests of the US, EU, Russia, Turkey, Iran and China. As a result, developed countries have begun to actively cooperate with Georgia with the purpose of utilization of their predominant geopolitical and geoeconomical importance. Georgia is developing multilateral relations directed to global integration and the transit potential is one of the main preconditions of achieving competitiveness in these processes. "The country has good opportunities for economic prosperity and rapid growth. The main task in this regard is to avoid threats by careful maneuvering and suggest mutually beneficial economic projects based on equal partnership to the international community. All this makes it possible to introduce economic, social, political, legal and other kinds of achievements of the West adapted with national values in Georgia, which is a prerequisite for maintaining Georgian national identity and successful development of the country" [15, kadagishvili L., 2015]. Georgia is a full member of the United Nations, the Council of Europe, GUAM and its main geopolitical task is to integrate into the European Union and NATO. Due to its strategically important location Georgia is given an opportunity to become actively involved in global integration processes and use the benefit gained from these processes to ensure high rates of economic growth and increase in the competitiveness of the country.

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