

ECONOMIC GROWTH OF GEORGIA DURING RUSSIA-UKRAINE WAR

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ABSTRACT

Just when the whole world, which was already almost stopped and reduced as a result of the pandemic, was starting the process of restoring the global economy, the Russian Federation invaded Ukraine, which further stopped the process of economic recovery and deepened the world economic crisis, which was previously dictated by the breakdown of the supply chains. Russia and Ukraine, with their economic scale, are important players in ensuring the world trade balance, both jointly and separately, so the start of the war led to an increase in the prices of a number of goods and services, which particularly affected strategic goods such as oil products, gas, wheat, corn, oil and others. Economic and financial sanctions were quite immediate, some countries still failed to join the sanctions and plans were developed to reduce their dependence on Russian energy resources and goods, because joining the sanctions completely would cause the collapse of the economy of such countries, since some countries are completely dependent on Russian resources. Russia and Ukraine are one of the most important trade and partner countries for Georgia, that's why the war had a significant impact on the economy of Georgia. Despite the fact that Georgia largely joined the sanctions imposed by the European Union, it still maintained its openness to the Russian economy and trade, which was reflected in the Georgian economy by the inflow of remittances from Russia and the increase by the flow of travelers.

Key Words: Economic Growth, Trade, World Economic, production possibilities.

THE TEXT

Russia's invasion of Ukraine profoundly impacted the global economy, immediately sending shockwaves across the globe. The attack of a country that was once a major energy supplier to Europe on the country which was one of the top food exporters in the world, sent food and fuel prices spiraling, causing major energy shortages and the prospect of protracted recession in the United States and the European Union. At the start of the war, it was expected that the Georgian economy would be severely and negatively impacted for the following reasons:

First, as a former Soviet republic, Georgia historically maintained close economic trade ties with both Russia and Ukraine. The ties with Russia have weakened consid-

erably in the wake of the 2008 Russian-Georgian war but remained significant. Russia was the primary market for imports of staple foods into Georgia, such as wheat flour, maize, buckwheat, edible oils, etc. Russia and Ukraine were both important export markets for Georgia. Russia was absorbing about 60 percent of Georgian wine exports and 47 percent of mineral water exports, while Ukraine was one of the leading importers of alcohol and spirits from Georgia (46 percent of Georgia's exports). Tourism and remittances are other areas where Georgia is significantly tied to Russia and somewhat weaker to Ukraine. Before the pandemic, in 2019 Russia accounted for 24 percent of all tourism revenues, while Ukraine for 6 percent. Remittances from Russia accounted for 16.5 percent of total incoming transfers in 2021.

Second, while the Georgian government chose to largely keep a neutral stance on the war (announcing at one point that they would not join or impose sanctions against Russia), the main financial and trade international sanctions were still in effect in Georgia due to international obligations and close business ties with the West. These factors were reinforced by strong support for Ukraine among the Georgian population, where the memory of the Russian invasion of Georgia in 2008 remains uppermost. In addition, Georgia is a net energy importer, and while the dependence on energy imports from Russia is not significant, the rising prices would have affected Georgia profoundly.

In 2022, Georgia received about 3.6 billion USD in income from Russia through remittances, tourism, and the export of goods, which is 3 times more than the income received from Russia in 2021 from the same sources. This number by 2 times exceeds the income received from Russia in 2019, before the beginning of the Covid-19 pandemic. In 2022, the income from remittances, tourism, and export of goods from Russia was 14.6% of the Georgian economy (GDP), while in 2021, this figure was 6.3%, and the maximum – was 9.9% in 2018. Therefore, Georgia's economic dependence on Russia increased compared to previous years. The growth is mainly due to the soaring remittances.

Georgia's growing economic dependence on Russia constitutes a threat to the country, as Russia has repeatedly utilized economic relations to politically leverage independent countries. Furthermore, the increased economic

Figure 1. Export of Georgian goods to Russia (2012-2022)



Figure 2. Import of Russian good to Georgia (2012-2022)

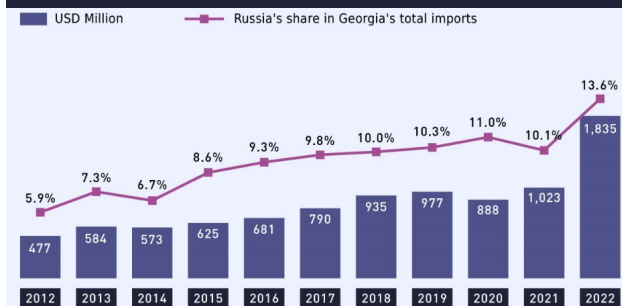


Figure 3. Exports of Georgia to Russia by commodity groups, 2022

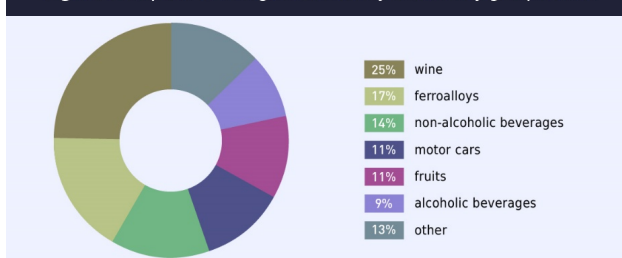


Figure 4. Imports of Russian products by commodity groups, 2022

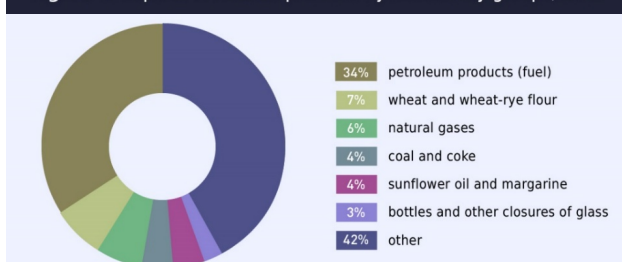
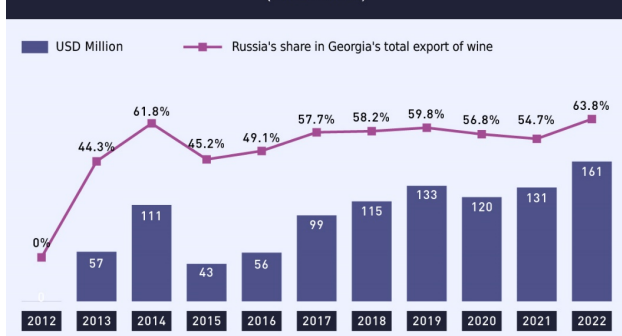


Figure 5. Export of Georgian wine to Russia (2012-2022)



Data source: GeoStat

dependence on Russia is a threat to Georgia in terms of macroeconomics too as the Western sanctions and the war caused the economic crisis in Russia that will continue in 2023 as well.

Despite the fact that in the background of the Russia-Ukraine war, the volume of exports is increasing, which is confirmed by the analysis of export-import. In 2022, compared to the previous year, the export of Georgian products to Russia increased by 6.8% and amounted to 652 million USD, while the import increased by 79% and reached 1.8 billion USD. The share of exports to Russia was 11.7% of the total exports of Georgia, which is 2.7% point less than it was in 2021 (See **Figure 1**). The Russian share decreased because Georgian exports to Russia grew at a lower rate than Georgia's total exports to all countries. In 2022, the total export of Georgia increased by 32%.

As for the imports, the share of imports from Russia increased from 10.1% to 13.6% in the total imports of Georgia, which is the highest in the last 17 years (See **Figure 2**).

Overall, in 2022, the share of trade with Russia in Georgia's total trade grew from 11.4% to 13.1%, which is the highest in the last 16 years. In 2022, wine was the top of Georgia's exports to the Russian market with 161 million USD and ferroalloys were the second largest with 109 million USD, followed by the export of non-alcoholic beverages – 90 million USD and light vehicles – 76 million USD (See **Figure 3**).

As for the imports, oil products were top of Georgia's imports from Russia with 623 million USD, followed by wheat and wheat flour – at 128 million USD, natural gases (gas) at 112 million USD, coal and coke – at 78 million USD and cooking oil and margarine – 76 million USD (See **Figure 4**).

Traditionally, Georgian wine exports heavily depend on the Russian market. In 2022, Georgian wine worth 161 million USD was exported to Russia, which is a 23% increase compared to the same period of the previous year. The share of the Russian market in the total wine exports of Georgia increased and reached 63.8% which is the highest rate since 2013. (See **Figure 5**).

Georgia's dependence on Russian wheat and wheat flour has been also typically high. In 2021, 319,000 tons of wheat worth 87 million USD were imported from Russia, which was 94% of Georgia's wheat imports. Since 2022, wheat imports have been replaced by wheat flour imports. Due to Russia's increased tax on wheat exports, importers have chosen to import wheat flour instead, which is ultimately cheaper than buying and processing wheat. In 2022, the import of wheat flour from Russia to Georgia, compared to the same period in 2021, increased 6 times, while the import of wheat decreased by 30%. Overall, the share of Russian wheat and wheat flour in Georgia's total import of the same goods was 97%. The share of Russian wheat and wheat flour in food consumption in Georgia is around 78%.

In recent years, the import of Russian electricity does

not have a significant share in the electricity consumption in Georgia. In 2021, the share of electricity imported from Russia was only 1.8% of Georgia's electricity consumption, and Russian electricity accounted for 25% of Georgia's total electricity imports. In 2022, the share of Russian electricity in Georgia's electricity consumption was 2.6% and 24% of Georgia's total electricity imports. As for the import of natural gas, in 2018, natural gas imported from Russia accounted for 2.8% of Georgia's total natural gas imports (by value). In 2021, the import increased to 23.1%. In 2022, natural gas imports from Russia to Georgia increased by 32%. Overall, 93 million USD worth of natural gas was imported from Russia to Georgia, which was 21% of Georgia's total natural gas imports. Azerbaijan remains the major supplier of natural gas to Georgia. In 2022 Azerbaijan supplied a total of 349 million USD worth of natural gas, which is 79% of the total natural gas imports of Georgia. Natural gas imported from Russia accounts for 8% of the total internal consumption of Georgia.

The Government of Georgia's goal should be to reduce economic dependence on Russia to a minimum. To reduce the trade with Russia, the Government of Georgia should start working more actively and expeditiously on concluding free trade agreements with all strategic partners with whom we do not yet have such an agreement. Although such agreements will have positive effects in the long term, given the current situation, Georgia can more vigorously demand strategic partners to accelerate the process of signing foreign trade agreements.

The high share of the Russian market in Georgian wine exports is particularly alarming. As diversification of the wine export market is difficult and cannot be done swiftly, the government should have a strategy on how to reduce dependence on the Russian market in the coming years; The reduction of export and import from Russia should be done periodically, because this market is considered the most unstable for Georgia, and past experience is enough proof. Diversification of markets, even for the export of traditional goods for us, because if the war continues, the restriction of trade relations with Russia will probably continue and expand;

During the war, Georgia's export volume grew with similar goods and proportions as in previous years, but it is worth noting that Georgia's exports include a large volume of imported goods, i.e., goods that are not produced by Georgia, and the growth of export volume and import volume is almost the same, which It cannot change the negative trade balance of Georgia, besides, the volume of imports is twice or more than the volume of exports. In order to ensure the positive trade balance of Georgia, it is most important that the production of imported goods takes place in Georgia, if the country's economy allows it. According to the Statistical Service of Georgia, up to 70% of the goods included in the consumer basket are imported goods, therefore the situation can be said to be very difficult.

The Russia-Ukraine war showed us that in terms of food products, Georgia mainly depends on trade partner countries, it is clear that the production of food products is related to specific conditions, including the geographical environment, but it is possible to produce and export those goods that Georgia has the ability to produce, meaning agricultural (natural and bio-products) products (it turned out that we have the potential to produce half of the total consumption of wheat in Georgia).

The impact of the Russia-Ukraine war on Georgia's economy is obvious, the new geopolitical situation gives Georgia more opportunities in this regard due to its geographical location. Russia's economy clearly has a greater impact on Georgia's economy than Ukraine's, but this should not be considered a positive event due to the unpredictability of Russia's actions. For the future perspective, it may even be better to distance the economy of Georgia from the economy of Russia (at least the latest developments show this).

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