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Georgia-Saudi Arabia Relations: Challenges and Untapped Potential

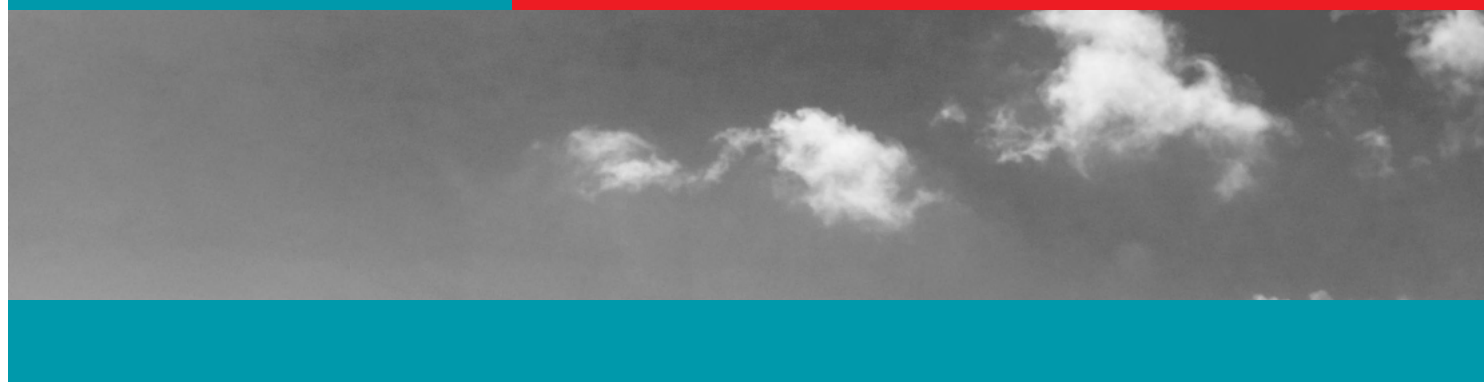
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Executive Summary

The joint paper between the Gulf Research Center (GRC) and Geocase focuses on areas of cooperation between the Kingdom of Saudi Arabia and Georgia. This includes fields of proposed developments within the economic sector including tourism, deepening business and commercial relations, as well as progress in the field of military cooperation. The issues pertaining to bilateral cooperation and prospects for relations between Georgia and the Kingdom of Saudi Arabia aim to highlight the importance of strengthening friendly relations to enable the promotion of political, economic, social, and cultural ties between the two countries.

Given the territorial proximity, the regional actors of the Middle East see ties to Georgia and the South Caucasus from several perspectives including as an additional route for relations with Europe. Since the collapse of the Soviet Union brought an end to Georgia's isolation, a gradual reclamation of its historical role as a cultural and economic crossroads between the Middle East, Asia, and Europe has taken place. Thus, this paper puts great attention on the connections between the Gulf region and the Caucasus region in formulating policies to deal with intra- and interregional affairs, not only for the counties of both regions, but also for external actors that are interested and engaged in the two regions.

As both countries are also focused on expanding their footprints in the direction of South and East Asia, this paper seeks to explore dimensions of developments for a closer and proactive partnership that would strengthen cooperation between the international community and the governments of Saudi Arabia and Georgia, to ultimately address the globally important issues of security, peace, and sustainable development.



Georgia-Saudi Arabia Relations: Challenges and Untapped Potential

Gulf Research Center (GRC)

Geocase

Georgia and Saudi Arabia are not necessarily seen as natural allies or even partners. However, both are located in regions which are increasingly interlinked geopolitically and security-wise. Recent events in the South Caucasus, namely the Second Karabakh War, underlined how inextricably connected the region has become with the larger Middle East (ME). Turkey, Russia and Iran – all major players in the ME – have designed their foreign policy projection in the South Caucasus based on recent power developments. Given that Saudi Arabia due to its substantial political and economic weight and regional influence is deeply involved in the geopolitical processes of the ME, this could also serve as a good basis for Riyadh's interests in the South Caucasus. This does not necessarily mean that the Kingdom is harboring geopolitical aspirations, but rather that it has increased interest in the region's and particularly Georgia's transit capabilities (ports, roads, railways etc.) as a connector not only between Europe and China, but also between the ME and the Black Sea basin.

Georgia's geopolitical location and the significance of the Caucasus region is further an area of concern for Saudi Arabia in terms of the overall stability and political security in the region. Saudi Arabia seeks to deepen ties with Georgia, not only through the agricultural and tourism sectors, but also by developing important oil and gas trade routes in the region. In this context, Iran retains strong economic ties with Georgia while the land corridor of the South Caucasus links Russia

in the north with Turkey and Iran in the south. This aspect has opened new dimensions for the national interests and security of Saudi Arabia. The importance of finding a counterweight to Iran is underscored by the fact that Iran borders Armenia, Azerbaijan, and Turkmenistan and that Teheran considers the region as a crossroads for trade between the Mediterranean region and China as well as between the Baltic Sea area and the Arab world.

A Brief History of Bilateral Relations

Diplomatic relations between Georgia and Saudi Arabia were first established in 1994. Since then, there has been a gradual growth in bilateral relations, primarily focused on the economic and tourism sectors. The opening of the Saudi embassy in Tbilisi in December 2018 was important for the development of a gradual unification of the geopolitical concerns of the South Caucasus and the Middle East, with the goal of promoting business and political opportunities between the two sides. H.E. Abdullah H.M. Almutairi presented his letter of credentials to the President of Georgia on June 18, 2019.

Since then, the relationship has experienced a range of other important milestones. This includes:

- The decision of the Georgian government in 2015 to allow nationals of Saudi Arabia to enter the territory of Georgia and stay there without a visa requirement for 360 days.
- On March 21-22, 2016, the Chairman of the

Parliament of Georgia visited Saudi Arabia. The Chairman of the Parliament of Saudi Arabia reciprocated with a visit to Georgia from October 31 to November 3, 2017.

- The Parliamentary Friendship Group of the Majlis al Shura (Parliament) of Saudi Arabia in January 2019 was an additional step forward towards enhanced friendship and partnership. The visit in June 2019 of H.E. Dr. Ibrahim bin
- The visit in June 2019 of H.E. Dr. Ibrahim bin Abdulaziz Al-Assaf, Minister of Foreign Affairs of the Kingdom of Saudi Arabia to Georgia deepened ties and led to an exchange over a variety of regional issues of concern.

Bilateral military cooperation has also been actively pursued. For instance, on April 9-11, 2017, Deputy Minister of Defense of Georgia Mr. Giorgi Butkhuzi visited Saudi Arabia. On November 1-2, 2018, Major General Al Shayee Mughram Ahmed (Marine Authorities of Royal Saudi Arabia) with an accompanying delegation participated in the Georgia Defence & Security Conference. On December 16-17, 2018, Mr. Butkhuzi again visited Saudi Arabia followed by the participation on November 6-7, 2019 by the President of the Saudi Joint Chiefs of Staff, General Fayyadh Al Ruwaili in that year's Defence & Security Conference. Military cooperation has expanded to include ties between the military-scientific Center "DELTA" of the Ministry of Defense (MOD) of Georgia with the MOD of Saudi Arabia. This has included the purchase of military-medical evacuation vehicles produced by DELTA and further includes the production of military vehicles in compliance with Saudi Arabian requirements.

Saudi Arabia's support for Georgia on various international issues is highly valued in Tbilisi. Saudi Arabia is an active supporter of Georgia's territorial integrity and follows a non-recognition policy with regard to Georgia's

occupied regions of Abkhazia and the Tskhinvali region/South Ossetia. The Kingdom's support is seen as crucial for Georgia in its efforts to garner votes in the United Nations General Assembly (UNGA) for the resolution on the "Status of IDPs and Refugees from Abkhazia, and Tskhinvali region/South Ossetia, Georgia." More recently, Saudi Arabia has called for a ceasefire between Armenia and Azerbaijan over the territory of Nagorno-Karabakh, which helped produce a cease-fire under the relevant UN Security Council resolutions.

As far as Georgia is concerned, Georgian Ambassador to the Kingdom, Vakhtang Jaoshvili during the Saudi Shura Council's Joint Saudi-Georgia Parliamentary Friendship Committee meeting in March 2021, condemned the Houthi attacks targeting the Kingdom. He also stated that developing and expanding relations with the Gulf region would help to reduce the influence of Iran on the region.

Georgia-Saudi Economic Cooperation

In terms of economic ties, significant attention is paid to the tourism sector as part of the larger economic potential between Saudi Arabia and Georgia. The Kingdom is among the largest investors in Georgia from the Gulf, with foreign direct investments to Georgia from the Kingdom exceeding USD 100 million, mainly in the areas of real estate, agriculture, and hospitality. An increasing number of businessmen are showing interest in visiting Georgia to seek investment opportunities. Deepening business and commercial relations with Saudi Arabia is also seen as a way for Georgia to enhance its cooperation with other Gulf Cooperation Council (GCC) member states. The current trade volumes between Georgia and the other GCC states stand at USD 21 million in 2020 but the focus is to see these volumes expand over the coming years.

Much of the improvement in economic ties is related to Georgia's positive economic position, the country's strong record of implementing

economic reforms and its ability to raise the living standards of its citizens. The GDP of Georgia has averaged a 5 percent growth rate annually over the years between 2005 and 2019. In addition, and according to the Transparency International’s Global Corruption Barometer, Georgia is perceived as a corruption-free destination. Many international institutions rank Georgia as a top performer. For example, the Heritage Foundation and the Fraser Institute have consistently ranked the country as one of the economically freest in the world. According to the World Bank’s Doing Business Indicators, Georgia takes the 1st position in Europe and Central Asia in the following areas: Starting a Business, Registering Property, Protecting Minority Investors and Paying Taxes. Georgia also has one of the lowest tax rates in the world at 9.9%. In 2017, Georgia implemented the so called “Estonian model” of corporate income tax. In this new model of taxation, retained earnings are exempted from corporate income tax and the profit tax is applied only in case of profit distribution.

In addition to a tax-friendly environment, Georgia has one of the lowest tariffs in the world with most goods entering the

country tariff free. In 2014, Georgia signed an Association Agreement with the European Union (EU), which includes a preferential trade regime (DCFTA). Georgia also has free trade agreements with Turkey, Ukraine, China (including Hong Kong), EFTA and CIS countries (including Russia, Kazakhstan etc.). Additionally, Georgia is the beneficiary of the GSP regime of the following countries: USA, Japan and Canada.

In terms of trade, the EU is Georgia’s largest trading partner. In the first eleven months of 2020, trade turnover between the EU and Georgia amounted to EUR 2.1 billion. From January to November 2020, EU countries imported goods from Georgia worth EUR 671 million, up by 16% compared to the same period in 2019.

As far as Georgia and Saudi Arabia in particular are concerned, the current trade volume between the two sides is still relatively low although the trend of annual growth is positive. Trade volumes reached a high of 28.8 million USD in 2016. As a result, there is a huge untapped potential in trade and economic relations between the two countries.

Georgia Trade Balances, Exports and Imports with Saudi Arabia (2018-2019)

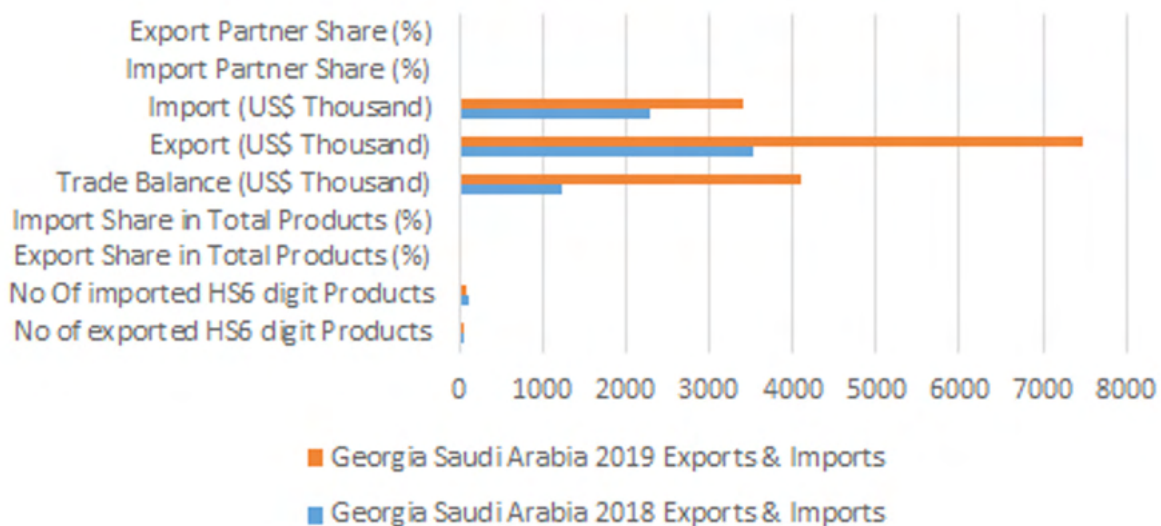


Figure 1: Georgia Trade Balances with Saudi Arabia (2018-2019), [World Bank](#)

Tourism: Domestic and international tourism are important factors in the Georgian economy. Revenues from international tourism reached 3.3 billion USD in 2019 and tourism made up 8.1% of total GDP. International trips to Georgia have been growing in recent years. In 2019, they reached a record number of 9,357,964 visitors, which represents an annual growth rate of 7.8%.

Given that citizens of Saudi Arabia enjoy a visa free regime in Georgia, visits have increased with Saudi Arabia ranking 12th in terms of international visitors arriving into Georgia in 2019. In 2019, the number of Saudi visitors came to 75,155, a 44.9% of growth in comparison to 2018. Increased numbers are supported by improvements in air links which help make travel to Georgia easier. For example, a Georgian airways company began a direct flight from Saudi Arabia to Tbilisi for the first time in mid-2016. In addition, a Saudi airline company has offered direct summer flights from cities in Saudi Arabia to both Tbilisi and Batumi since 2018. Prior to the COVID-19 pandemic, there were 11 direct flights between the two countries, which is a high number considering the early growing bilateral development.

Investment: As to the levels of FDI, there is also untapped potential. Overall, the statistics indicate a great volatility to the levels of FDI starting from a mere 2.0 million USD in 2011 and reaching 39.5 million USD in 2012 but then declining again to 8.1 million USD in 2013 and 3.78 million USD in 2018. In 2020, the figure was once again only 1.85 million USD. The reasons for such variance are many but indicate significant room for improvement.

Transport Corridor: While overall economic ties have been slow in developing, wider geopolitical motives indicate an increased long-term interest in Georgia's and generally the South Caucasus' nascent energy and transport corridor. Given its geographical location, Georgia serves as a bridge between

Europe and Asia and offers the shortest route for transportation.

Georgia - GCC Relations

In addition to Saudi Arabia, Georgia has been actively promoting its economic and investment interests with the Gulf Cooperation Council (GCC) states particularly since 2014. There have been multiple high-level visits by the heads of state and government allowing for enhanced relations and giving impetus to investment growth. This has included, for example, meetings between Georgian officials and the Crown Prince of Abu Dhabi, Sheikh Mohammed Bin Zayed Al-Nahyan, and the Prime Minister of the UAE and Ruler of Dubai Sheikh Mohammed bin Rashid Al Maktum. The recent downfall in global oil prices starting in 2014, has underscored a renewed urgency to intensify efforts at economic diversification of the GCC's economies including the development of other production spheres as well as investments into vital infrastructure overseas.

Similar to the case with Saudi Arabia, a key reason for the growth of Georgia-GCC relations has been the GCC's decades-long support for Georgian sovereignty and territorial integrity. This is particularly important for Tbilisi given that the GCC states also maintain close relations with Russia.

Georgia is certainly seen as an important component in promoting regional connectivity. The GCC states look at the South Caucasus as a continuation of the Central Asian corridor. Together these two regions make up a critical road and rail link between larger world markets such as Europe and China. Quite naturally, the GCC states want to tap into many economic opportunities stemming from the nascent South Caucasus corridor. Indeed, numerous pipelines, railways and roads built in the past 20 years, have gradually been transforming the region into a global transportation corridor. Emphasis on connectivity is even more important following the Second Karabakh War. What used

to be a relatively landlocked region, despite its access to the Black Sea, is now opening up, with Turkey and Iran likely to have new railway connections to Russia.

Georgia's integral role as a transport hub is however jeopardized by the November 2020 tripartite agreement between Armenia, Azerbaijan and Russia that ended the Second Karabakh War. Among the provisions, Turkey is set to gain a land corridor from Azerbaijan's exclave of Nakhchivan to the rest of Azerbaijan via Armenia. The stipulation in the document reads: "Armenia guarantees the security of transport links ... [for] unimpeded movement of citizens, vehicles, and cargo in both directions". Moreover, "transport control is exercised by the Border Service of the Federal Security Service of Russia. By agreement of the parties, the construction of new transport communications connecting the Nakhchivan Autonomous Republic and Azerbaijan's western regions will be provided." In normal circumstances, a higher level of connectivity is a boon for countries. In the South Caucasus, it could also be a cause of economic isolation and even isolation or projection of external geopolitical power.

With the new Karabakh agreement, there is a concern that Georgia's transit capacities might be challenged. In the short and medium term, no significant reshuffling in the region's connectivity patterns is likely to take place. After all, Baku and Ankara already have well-functioning railway and pipeline infrastructure running through Georgia, and Georgia has been officially engaged in the trilateral partnership with Turkey and Azerbaijan for nearly a decade. The endurance of the format has held despite changes in governments and region-wide geopolitical transformations over that decade. Nevertheless, the implications of recent developments bear watching.

This is also because the GCC's interest in Georgia's transit role has increased. As transcripts of meetings held between

Georgian and GCC officials reveal, the prospects of investing in the development of the transit corridor are always discussed. Road, railway and Black Sea port infrastructure are of primary interest for the GCC countries and they hope that further progress will be made by Georgia in the development of its transit potential. The reason is simple - the GCC countries see the country as yet another road to the European markets. As a part of the Central Asian-South Caucasus corridor, Georgia is a critical road and rail link to the lucrative European, Chinese, and Russian markets. This has already led to sizable investments in the transportation infrastructure, but much more needs to be done.

Untapped Potential

Referring specifically to Saudi Arabia and Georgia, several areas of cooperation between the two countries could be considered for improvement. For one, cooperation in the economic sector could be enhanced by a 'Georgia-Saudi Joint Commission on Cooperation' to facilitate closer ties between the two countries through the expansion of investments and technology sales. Second, the relationship would benefit from the establishment of a 'Saudi-Georgia Business Commission' and/or a 'Georgia-GCC Business Forum', which could potentially include all six GCC members. Such organizations could help in pinpointing areas for deeper cooperation beyond simple bilateral trade ties, and assist in identifying and prioritizing goods, services, technology, and other commercial opportunities, to deepen economic and trade relations.

There are also other areas that require attention in the coming years. Cooperation in tourism is one area for example considered as crucial, but much more could be done on that front. While Saudi citizens have not considered Georgia as one of their main tourist destinations so far, in recent years there has been an increased interest from the Kingdom with more than 75,000 Saudis visiting Georgia in 2019 a 45% increase compared to the previous year. This places Saudi Arabia ahead of the other Gulf countries in terms of number of visits to Georgia. Overall,

people-to-people contacts have been greatly facilitated through direct flights between the two countries and by the implementation of visa-free travel for Saudis to Georgia, with extended stay and multiple entry possibilities. This has considerably simplified and boosted tourist capacities and investment prospects between the two countries. The simplification of the visa regime for Georgian citizens will equally contribute to the intensification of people-to-people relations between the two countries, an issue that the Georgian government has requested Saudi Arabia to consider.

Another area of consideration is the establishment of a Free Trade Agreement. On March 9, 2018 Georgia sent an official letter to the Secretary General of GCC, H.E. Mr. Abdul Latif bin Rashid Al Zayani, expressing a high level of interest from Georgia to launch discussions on possible FTA negotiations with the GCC. In addition to existing free trade agreements with China, Turkey, and Central Asian countries, Georgia has also proposed the idea to have similar bi-lateral deals with the UAE and Saudi Arabia. With a GDP growth of over 4 percent a year (forecast for 2020), Georgia is one of the top 10 countries in the World Bank's Doing Business rankings, which already serves as a level of attraction.

The establishment of a free trade regime between Georgia and GCC countries could prove beneficial for both sides given that such a FTA would provide extended opportunities to promote and develop different industries in Georgia and in the GCC member countries, as well as considerably increase and diversify exports of both sides. In addition, Georgia can serve as an ideal gateway for GCC companies in the region, taking into account geographic location, free trade deals and the business environment it offers. With considerable large trade volumes between these two regions, especially in livestock, metals, and petroleum products, free trade agreements between Georgia and this region would allow the Gulf

countries to develop their position in the Black Sea trade routes.

There could also be progress on the implementation of planned projects in the hydropower sector, as well as ensuring adequate investments and the development of renewable energy. The government of Georgia defines the maximum utilization of its hydro potential as a priority through implementation of various investment projects. In addition, the country holds the potential of other sources of renewable energy, including the development of water resources, wind, solar, biomass and other sources of renewable energy.

Another area could be seen through the development of technologies. Georgia has expressed on numerous occasions its readiness for bilateral cooperation with Saudi Arabia in the development of innovations and technologies and the support of a startup ecosystem. In that regard, Georgia's Innovation and Technology Agency could build stronger ties with the Saudi Technology Development and Investment Company (TAQNIA), Arabian Business Innovation Services and other similar agencies.

Progress in the field of military cooperation is another potential area. Aspects here could include establishing a technical center in Georgia to coordinate the sale of military technology and promote Saudi-Georgia programs on science and technology. Here, the two countries could adopt a 'Technical Cooperation Agreement' to facilitate the implementation of technical/economic studies of specific development projects and provide technical assistance to these projects.

In conclusion, Saudi-Georgia relations still hold room for further expansion which can be developed through the establishment of further institutional mechanisms. There exists a commitment from both sides to explore such possibilities which would also benefit the broader economic diversification plans of both sides. With the two regions of the Gulf and the Caucasus moving closer, closer ties are in the offing.



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