



Joint Feasibility Study on China-Georgia Possible Free Trade Agreement

Final Draft Report

The research was conducted by PMC Research Center and University of International Business and Economics (UIBE) with close cooperation of the Ministry of Economy and Sustainable Development of Georgia and the Ministry of Commerce of China

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Table of Contents

1. Overview	5
1.1 Background and Objective of the Study	5
1.1.1 Background	5
1.1.2 Objectives of the Study	6
1.2 The Scope, Methodology and Structure of the Study	6
1.2.1 The Scope and Methodology	6
1.2.2 The Structure of the Study	7
2.1 China's Economy and Foreign Economic Policy	9
2.1.1 China's Economy	9
2.1.2 China's Foreign Economic Policy	14
2.1.3 China's FTA Practice	17
2.2 Georgia's Economy and Foreign Economic Policy	22
2.2.1 Georgia's Economy	22
2.2.2 Trade Performance	25
2.2.3 Foreign Direct Investment	32
2.2.4 Georgia's Foreign Economic Policy	34
2.2.5 Georgia's FTA Practice	34
3. Bilateral Trade and Economic Relations between China and Georgia	37
3.1 Overview of Bilateral Trade and Economic Relations	37
3.2 Two-way Trade in Goods	37
3.3 Two-way Trade in Services	39
3.4 Two-way Investment	40
3.5 Two-way Economic cooperation	41
3.5.1 Economic Cooperation and Development	42
3.5.2 Tourism Cooperation	44
3.6 Existing Legal and Institutional Framework of Bilateral Trade and Economic Cooperation	44
3.6.1 Legal and Institutional Framework of Bilateral Economic Cooperation	44
3.6.2 Legal and Institutional Framework of Bilateral Investment	45
3.6.3 Legal and Institutional Framework of Tourism	45
3.6.4 Legal and Institutional Framework of Intellectual Property	45
3.6.5 Other Legal and Institutional Frameworks	46
4.1 Trade Policy	47
4.1.1 Tariff	47
4.1.2 Non-tariff Measures	52
4.2 Other Trade Policies Affecting Trade in Goods	54
4.2.1 Rules of Origin	54
4.2.2 Customs Procedures and Trade Facilitation	60
4.2.3 Sanitary and Phytosanitary Measures (SPS)	63
4.2.4 Technical Barriers to Trade (TBT)	65
4.2.5 Trade Remedies	67
4.3 Trade in Specific Sectors	69

4.3.1 Agricultural Products	69
4.3.2 Textiles and Costumes	70
4.3.3 Machinery and Electronic products	71
4.3.4 Grape Wine	72
4.3.5 Waste Copper.....	73
5 Trade in Service	75
5.1 Overview of Policy on Trade in Service.....	75
5.1.1 China.....	75
5.1.2 Georgia.....	75
5.2 The Trend of Specific Service Industry	76
5.2.1 China.....	76
5.2.2 Georgia.....	80
5.3 Temporary Entry of Natural Persons	86
5.3.1 China’s Temporary Entry Policies.....	86
5.3.2 Georgia's Temporary Entry Policies	87
6. Investment	88
6.1 China and Georgia’s investment policy	88
6.1.1 China.....	88
6.1.2 Georgia.....	91
6.2 Specific Sectors for Investment.....	92
6.2.1 Hydropower	93
6.2.2 Communication and Internet Sector	94
6.2.3 Pharmaceutical Industry.....	95
6.2.4 Transportation Infrastructure	95
6.2.5 Natural Resources	96
6.2.6 Grape Wine	97
6.3 The Potential Impact of Free Trade Agreements on Direct Investment	98
7. Other Areas Where Both Parties Have Interests	102
7.1 E-commerce	102
7.1.1 E-commerce Situation in China.....	102
7.1.2 E-commerce and ICT Situation of Georgia	104
7.1.3 Cooperation Willingness for Both Sides	105
7.2 Intellectual Property Rights	106
7.2.1 IPR Protection in China	106
7.2.2 IPR Protection in Georgia	108
7.2.3 Cooperation willingness for both sides	113
8. General Provisions, Institutional Provisions and Dispute Settlement	115
8.1 General Provisions	115
8.2 Joint Committee	115
8.3 Consultations	115
8.4 Contact Points	115
8.5 Dispute Settlement	115
9. Conclusions and Recommendations.....	116
9.1 General Conclusions	116

9.2 Sector Specific Conclusion	116
9.2.1 Trade in Goods	116
9.2.2 Trade in Services	117
9.2.3 Cooperation in Other Fields	117
9.2.4 Investment	117
9.3 Recommendations	117
Appendix 1: Introduction of the Partial equilibrium model and its main analysis results	119
Appendix 2: Introduction of Global Trade analysis Project (GTAP) and its main analysis results.....	124

1. Overview

1.1 Background and Objective of the Study

1.1.1 Background

China and Georgia are friendly countries. In 1991, China recognized the independence of Georgia -- among the first countries to recognize the independence of Georgia and established diplomatic relations. In 1992, China established diplomatic relations with Georgia. After twenty years of close interactions of leaders and people, fruitful cooperation in various fields is achieved.

In 1993, relevant government departments of China and Georgia signed several agreements, such as economic and trade agreement, agreement on encouragement and mutual protection of investments, scientific and technical cooperation agreement, agreement on cultural cooperation, health and medical science cooperation agreement, cooperation agreements in agriculture and food industry, tourism cooperation agreements, customs mutual assistance agreement, inter-bank cooperation agreement, and the development of railway transport cooperation agreement and maritime cooperation agreements. In 1994, the two countries signed the "mutual exemption of visas for official travel and group travel visa-free mutual agreement", "China agreement to provide 30 million yuan commodity loans to Georgia." In 1999, the two countries agreed in Tbilisi Georgia to establish a Commission on Economic and Trade Cooperation, and held the first meeting. China is always a friend of Georgia. In September 2013, during a visit to Kazakhstan, President Xi Jinping proposed the "Silk Road economic belt" strategic vision, enthusiastically responded by many countries including Georgia. On March 9, 2015, the Chinese Ministry of Commerce and the Ministry of Sustainable Development of Georgia agreed to establish a joint working group on trade to study feasibility of China-Georgia Free Trade Agreement. The two sides also signed a memorandum on strengthening "Silk Road economic belt" to jointly promote economic and trade cooperation, and to enhance trade, investment, economic and technical cooperation and infrastructure interconnection level. To start a free trade agreement feasibility study for the two sides, serves as an important initiative to strengthen "Silk Road economic belt", which will reinvigorate bilateral economic and trade relations for the two countries.

Georgia and China intend to intensify the trade and economic relations through creating free trade agreement. The goal of the report is to evaluate the potential, ex-ante effects of free trade agreement on existing trade flows and identify the specific areas of interest for further cooperation. The Research component of the report include the methodology and discuss some effects of differences in methodologies used by Georgian and Chinese experts, data description, detailed results of simulations and sensitivity analysis of parameters and discuss the specific sectors for potential augmentation of cooperation.

1.1.2 Objectives of the Study

This report seeks to analyze the potential benefits and challenges of a potential China-Georgia free trade agreement. It involves the study of foreign economic situation between the two countries, in particular, through analyzing foreign economic policies and bilateral economic and trade relations, investigating issues related to trade in goods, trade in services and investments. Based on that, solid scientific suggestions will be given to guide the potential free trade agreement negotiations.

As agreed at the video conference held on the 24th April 2015 the objectives of the study are:

- To provide background information to commence negotiations on CGFTA.
- Identify specific products sectors for expansion and diversification of trade between the parties.
- Identify the benefits and challenges that may derive from the proposed FTA.
- To make conclusions and recommendations on options for future action including scope, framework and architecture and FTA for furthering bilateral trade investment and economic cooperation to expand and enhance the benefits in these areas.

1.2 The Scope, Methodology and Structure of the Study

1.2.1 The Scope and Methodology

The scope of study in this report includes economic situation between the two countries and their foreign economic relations, bilateral trade and economic relations between China and Georgia, trade in goods, trade in service and investment. In addition, this study encompasses a wide range of other areas of mutual interest to enhance economic development between the two countries. The study will provide the broadest possible basis for consideration of future actions by the Governments of China and Georgia.

The core objective of the feasibility study on the Free Trade Agreement (FTA) is to explore the prospects for liberalization of bilateral trade and investment through an FTA, consistent with the WTO rules. In addition, this study encompasses a wide range of other areas of mutual interest to enhance economic cooperation between the two countries. The study will provide the broadest possible basis for consideration of future actions by the Governments of China and Georgia.

The effects of trade policy changes can be analyzed in different set-ups. The most widespread methods are partial-equilibrium (PE) and general equilibrium (GE) models. In the simulations, Georgian experts use a PE approach. More precisely, the impacts of full trade liberalization is studied by the methodology developed by experts at the World Bank, The Tariff Reform Impact Simulation Tool (TRIST)¹

¹ For detailed description of TRIST, see the following [Link](#).

Chinese experts use GE approach (Global General Equilibrium Approach) to sort out potential effects of free trade agreement. It is true that, on the one hand, GE approach takes into account inter-market linkages which PE approach cannot; but on the other hand, a GE model will typically be set up at an aggregate level, whereas a PE approach model can be as disaggregated as possible. Moreover, GE approach estimates long term effects, while PE model captures short and medium term effects. Accordingly, there will be differences in the results. One serious limitation of PE approach is the sensitivity of results to the values of parameters of the model, in this case, to the values of elasticities, for which the empirical literature is still limited. But to counterbalance this shortcoming, we carry out sensitivity analysis of parameters.

1.2.2 The Structure of the Study

The other chapters of the study have the following structure:

Chapter 2: Overview of the Chinese and Georgia Economies and Foreign Economic Policies

This chapter will review economic performances of Georgia and China and their foreign economic policies in terms of implementation of WTO Agreements, Regional Agreements and other Agreements regarding bilateral trade and investment and economic cooperation.

Chapter 3: Bilateral Trade and Economic Relations between China and Georgia

This chapter will provide an overview of the bilateral trade and economic relations of the two countries, two-way trade and investment performances and sets out the existing legal and institutional framework of bilateral trade and economic cooperation.

Chapter 4: Trade in Goods

This chapter will cover the policies applicable to trade in goods, including tariffs, non-tariff measures, rules of origin, customs procedures, SPS and TBT measures and trade remedies. Further, it describes specific product sectors of economic importance to both countries and the detailed results of simulations.

Chapter 5: Trade in Service

This chapter will describe the overview of trade policies on trade in service and on specific sectors of trade in service, as well as their trends.

Chapter 6: Investment

This chapter will describe the overview of investment policies, legal framework for investment including special laws, bilateral investment treaties, Double Taxation Agreements and specific areas of investments.

Chapter 7: Other Areas Where Both Parties Have Interests

This chapter will describe other areas interested by both parties such as e-commerce and intellectual property rights.

Chapter 8: General and Institutional Provisions, Dispute Settlement

This chapter will describe general, institutional provisions and dispute settlement mechanism in a supposed free trade agreement.

Chapter 9: Conclusions and recommendations

This chapter will include general and sector specific conclusions, recommendations, and suggestions including the roadmap.

2. Overview of the China's and Georgia's Economies and Foreign Economic Policies

2.1 China's Economy and Foreign Economic Policy

2.1.1 China's Economy

2.1.1.1 Recent Development of China's Economy

Since its accession to the WTO, China has actively integrated into the process of globalization and achieved a successful development. The average annual GDP growth rate reached 10.6% between 2002 and 2011. After long-term rapid growth, since 2012, Chinese Economy has begun to enter the new normal of 7%-8% rapid growth. China's GDP growth was 7.7%, 7.7% and 7.4 between 2012 and 2014². China's GDP reached RMB 63.65 trillion in 2014³. China is now the world's second largest economy after the United States.

In recent years, China's per capital GDP grew steadily, reaching RMB 46,650, which was about 3.76 times that of 2004. However, China's GDP per capital is still relatively lower than the world, just ranking the 80th⁴, still belonging to developing economies.

In 2014, the second industry in China added value to RMB 27.1 trillion, an increase of 7.3%, accounting for 42.6% of GDP; the tertiary industry added value to RMB 30.7 trillion, an increase of 8.1%, accounting for 48.2% of GDP. From 2013, the tertiary industrial added value started to exceed the secondary industry. And in 2013 and 2014 the tertiary industrial added value grew faster than the secondary industry at the rate of 0.5% and 0.8%, indicating that china has sped up the shift from industry-oriented economy to service-oriented economy⁵.

Total employment of labor force was 773 million in 2014, with 393 million in the towns and cities, added 3 million and 11 million than last year. The registered urban unemployment rate was 4.09% at the end of 2014, which is almost the same with previous years⁶.

² National Bureau of Statistics of the People's Republic of China, <http://www.stats.gov.cn>.

³ Ibid.

⁴ IMF, World Economic Outlook, April, 2015.

⁵ National Bureau of Statistics of the People's Republic of China, Statistical Bulletin for National Economic and Social Development 2013, http://www.stats.gov.cn/tjsj/zxfb/201402/t20140224_514970.html.

National Bureau of Statistics of the People's Republic of China, Statistical Bulletin for National Economic and Social Development 2014, http://www.stats.gov.cn/tjsj/zxfb/201502/t20150226_685799.html.

⁶ Ibid.

2.1.1.2 Foreign Trade

2.1.1.2.1 *Trade in Goods*

Foreign trade plays an important role in China's economic development. Since the reform and opening up, the rapid growth in trade has contributed greatly to the growth of GDP. Whichever was total export-import volume, imports or exports, China maintained the growth rate of 17% between 2005 and 2011. In 2009, under the impact of the international financial crisis, China's trade in goods fell by 13.9%, in which China's exports and imports fell respectively by 16% and 11.2%. Since 2012, China's trade in goods has entered the modest growth. Import and export growth rate declined from the previous two-digit to the single-digit. In 2014, imports and exports amounted to USD 4.30 trillion, up 3.4% from 2013; among which export volume amounted to USD 2.4 trillion, up 6.1%; and import volume amounted to USD 1.9 trillion, up 0.4% (See table 2-1).

China's main exports were machinery products and equipment, textile and apparel as well as metals and metal products. The main importers of Chinese products were EU, USA, Hong Kong China, Japan and the Republic of Korea. China's main imports were machinery products and electrical equipment, mineral fuel, oils and ores. China's main sources of imports were Japan, EU, the Republic of Korea, Taiwan China and USA.

Table 2-1 Import and Export of China's Trade in Goods, 2005-2014

(US Dollars in billions)

Year	Total trade	Growth Rate (%)	Export Value	Growth Rate (%)	Import Value	Growth Rate (%)
2005	1421.9	23.2	762.0	28.4	660.0	17.6
2006	1760.4	23.8	968.9	27.2	791.5	19.9
2007	2173.7	23.5	1217.8	25.7	956.1	20.8
2008	2563.3	17.9	1430.7	17.5	1132.6	18.5
2009	2207.2	-13.9	1201.7	-16.0	1005.9	-11.2
2010	2972.8	34.7	1577.9	31.3	1396.2	38.8
2011	3642.1	22.5	1898.6	20.3	1743.5	24.9
2012	3866.8	6.2	2048.9	7.9	1818.4	4.3
2013	4159.0	7.6	2209.0	7.9	1950.0	7.3
2014	4303.0	3.4	2342.8	6.1	1960.3	0.4

Source: National Bureau of Statistics of the People's Republic of China; Ministry of Commerce of the People's Republic of China

2.1.1.2.2 *Trade in services*

According to the WTO statistics, in recent years, China's trade in services has grown steadily and always been a net importer. In 2013, China's total exports and imports of services

exceeded 500 billion for the first time, amounting to USD 539.64 billion, an increase by 14.7% compared to 2012, only accounting for 6.0% of that of the world's (See Table 2-2). China was the third largest service trading powers in the world after the United States and Germany. The United States and Germany accounted for the proportion of world trade in services were 12.2% and 6.2% respectively.

Facing the economic downturn and the downward pressure on trade in goods, china has actively improved the service trade structure and increased high value-added services exports in 2014 in order to promote trade in service rising steadily. The total trade in service exceeded \$600 billion for the first time and came to \$604.34 billion which increased by 12.6% compared with last year, becoming the world's second largest service trading country after the United States. However, the proportion of the world's service trade is still low, accounting for only 6.2% which is 12.1% lower than the United States. In 2014, china's total trade in services accounted for 12.3% of the total volume of its foreign trade, among which the imports were \$382.13 billion increased by 15.8% compared to 2013 and the exports were \$222.21 billion increased by 7.6% compared to 2013, resulting in a trade deficit of \$159.93 billion that increased by 35% compared to last year's \$118.46 billion.

Table2-2 Import and Exports of China's Trade in Service, 2005-2014

(US Dollars in 100 millions)

Year	Total Trade	Share of Total World Trade (%)	Growth Rate (%)	Export Value	Growth Rate (%)	Import Value	Growth Rate (%)	Balance of Trade
2005	1571	3.2	17.5	739	19.1	832	16.2	-93
2006	1917	3.5	22.0	914	23.7	1003	20.6	-89
2007	2509	3.9	30.9	1217	33.1	1293	28.8	-76
2008	3045	4.1	21.4	1464	20.4	1580	22.2	-116
2009	2867	4.5	-5.8	1286	-12.2	1581	0.1	-295
2010	3624.0	5.1	26.4	1702	32.4	1922	21.5	-219.3
2011	4191.0	5.2	15.6	1821	7.0	2370	23.3	-549.2
2012	4706.0	5.6	12.3	1904	4.6	2801	18.2	-897.0
2013	5396.4	6.0	14.7	2106	10.6	3291	17.5	-1184.6
2014	6043.4	6.2	12.6	2222	7.6	3821	35.9	-1599

Source: WTO International Trade Statistics Database; Ministry of Commerce of the P.R. China, China Statistics of Trade in Services 2014; National Bureau of Statistics of China, Statistical Communiqué of the People's Republic of China on the 2014 National Economic and Social Development

China's trade in services mainly focus on transportation, tourism, construction and other labour-intensive services as well as resources endowment department and other traditional services. In 2014, the three major traditional Chinese service (tourism, transportation, and construction) import and export accounted for a total of \$376.55 billion, which is 62.6% of the total volume of trade in services. Computer and information service, financial service,

communication services and other high value-added service trade appeared a quick development trend with an increase of 25.4%, 59.5% and 24.6% respectively. The trade deficit is \$159.93 billion increased by 35% compared to 2013. It mainly come from tourism which is \$107.89 billion increased by 40.3%, accounting for 67.5% of the total, followed by transport (\$57.9 billion) and fee for patent or royalty (\$21.9 billion). The insurance services slightly narrowed to \$17.9 billion compared to 2013.⁷

Table2-3 Import and Exports of China's Trade in Service Sectors, 2013-2014

(US Dollars in 100 millions)

	Total Trade		Export Value		Import Value	
	2013	2014	2013	2014	2013	2014
Transport Services	1319.7	1345	376.5	383	943.2	962
Travel	1802.4	2217.5	516.6	569.3	1285.8	1648.2
Communication Services	33	41	16.7	18	16.4	23
Construction Services	145.5	203	106.6	154	38.9	49
Insurance Services	260.9	271	40	46	220.9	225
Financial Service	63.3	101	29.2	46	34.2	55
Computer and Information Service	214.2	269	154.3	184	59.9	85
Fee for Patent or Royalty	219.2	233	8.9	7	210.3	226
Consultation	641.2	692	405.4	429	235.8	263
Advertisement and Publicity	80.4	87.9	50	49.9	31.3	38
Movies, Audio and Video	9.3	11	1.5	2	7.8	9
Other Commercial Service	607.3	572	401.4	334	205.9	238
Total	5396.4	6043.4	2105.9	2222.1	3290.5	3821.3

Source: National Bureau of Statistics of China, China Statistical Yearbook 2014;

CHINAFOREX.COM.CNhttp://www.chinaforex.com.cn/attachment/cms/item/2015_01/27_15/dd1c78ca5c315280.png; Ministry of Commerce of the China

⁷CHINAFOREX.COM.CNhttp://www.chinaforex.com.cn/attachment/cms/item/2015_01/27_15/dd1c78ca5c315280.png; Ministry of Commerce of the China

2.1.2.3 Foreign Direct Investment

Since reform and opening up, China's utilization of foreign capital has made remarkable achievements. In 2014 although inflows of global foreign direct investment (FDI) fell by 16%, inflows of FDI to China increased by 3.7%, and China became the largest recipient of FDI in the world for the first time. China gave permits to 23778 non-financial enterprises with foreign investment, increased by 4.4% year on year which reverse the two year's decline since 2012. The FDI inflows to non-financial sectors reached \$119.56 billion, 1.7% higher than that in 2013. (See table 2-4) The top ten economies (in terms of actual investment amount) directly invested in China are Hong Kong China, Singapore, Taiwan China Japan, South Korea, the United States, Germany, the United Kingdom, France and Netherlands. The total was \$112.59 billion and accounted for 94.2% of China's FDI inflow. ⁸

With the implementation of the strategy of "going out", China's foreign direct investment increased steadily. The outflow was only about \$12.26 billion in 2005, and in 2014 it reached \$102.9 billion that is about 8.4 times compared with 2005, increased by 14.1% compared to 2013, with investment to 6128 foreign enterprises in 156 countries and regions. By the end of 2014, the cumulative non-financial foreign direct investment is \$646.3 billion. ⁹The key areas of China's FDI outflow are energy, raw materials, agriculture, manufacturing, services, as well as infrastructure. Hong Kong China, South Africa, British Virgin Islands, Australia, Singapore and Cayman Islands are the main destinations.

Table 2-4 The FDI Inflow and Outflow of China, 2005-2014¹⁰

(US Dollars in 100 millions)

Year	Inflow	Growth Rate (%)	Outflow	Growth Rate (%)
2005	603.25	-0.5	122.6	123.03
2006	658.2	9.11	161.3	31.57
2007	747.68	13.59	187.2	16.06
2008	923.95	23.58	406.5	116.8
2009	900	-2.6	433.0	6.5
2010	1057	17.4	590	36.3
2011	1160	9.7	601	1.8
2012	1117	-3.7	772	28.6
2013	1176	5.3	902	16.8
2014	1196	1.7	1029	14.1

Source: Ministry of Commerce of the China; National Bureau of Statistics of China

⁸ 2014 Business Review IX: Utilization of FDI Grows Steadily and Pace of Reform and Opening up Accelerated, Ministry of Commerce of the China, <http://english.mofcom.gov.cn/article/newsrelease/significantnews/201502/20150200892097.shtml>

⁹ Brief Statistics on China's Non-financial Direct Investment Overseas in 2014, Ministry of Commerce of China, <http://search.mofcom.gov.cn/swb/searchList.jsp#>

¹⁰ FDI in this table refers to non-financial FDI

2.1.2 China's Foreign Economic Policy

China has always adhere to the "reform and open" foreign economic policy. In November of 2013, the third plenary session of the eighteenth passed "the decision of several important issues by the central committee of the communist party of China on comprehensively deepening reform" (hereinafter referred to as "decision"). It pointed out that to adapt to the new situation of economic globalization, it is necessary to promote the interaction of internal and external opening and the combination of "bring in" and "going out". To establish a new system of the open economy, it is also needed to improve the orderly free flow of international and domestic factors, the efficient allocation of resources and market deeply integration. Besides, speed up cultivating, participating in and leading the new international economic cooperation and competition advantage, and promote the reform with open policy.

In the September and October of 2013, President Xi put forward the strategic concept of the construction of "silk road" economic zone and "maritime silk road" of the 21st century (hereinafter referred to as "One Belt And One Road"). As a new bridge linking China and the world, China will follow the peaceful cooperation, inclusive opening, mutual learning and supervision, and win-win spirit of the "silk road", while cooperate with the countries along the "silk road" on transportation infrastructure, energy, trade, regional integration, the internationalization of the Renminbi and so on. "One Belt And One Road" is not limited to funding and technology, it also includes the development of the reform and innovation and the operating thought of inclusive opening, the derived new form of trade, investment and financing arrangement, the optimization of the structure and toughness of the Chinese and foreign economic and trade cooperation, and the acceleration of cross-border financing of various advantage resources.

In October 2013, President Xi put forward the initiative of preparing to establish the Asian infrastructure investment bank, funding the infrastructure construction of the countries in the region and promoting the construction of regional connectivity and economic integration. The new Asian infrastructure investment bank will work with existing multilateral development Banks outside, complementing each other to promote steady economic development in Asia.

China has actively promoted the construction of the Asia-pacific free trade zone (FTAAP). In November 2014, the road map of the Asia-pacific free trade zone was passed, implying the start of the FTAAP. The Asia-pacific free trade zone will become the world's largest free trade arrangements. And this inclusive and benefits-shared economic cooperation framework will push the regional development and inject fresh momentum into the lasting development of the Asia-pacific and even the world economy.

2.1.2.1 Policy on trade in goods

China's goods trade policy includes tariff policy, non-tariff measures policy such as import licensing, import quota and import bidding, and other trade policies affecting goods trade like the rules of origin, customs procedures, health and plant health measures, technical trade measures and trade remedy measures. When entered into the world trade organization in 2001, China made specific commitments on goods trade policy.

In November 2013, the "decision" pointed out that it should speed up optimizing the integration of areas under special customs supervision and the construction of free trade zone. Adhere to the rules of the world trading system and the open bilateral, multilateral regional and sub-regional cooperation. Expand the common interests of all countries and regions, and speed up the implementation of free trade zones strategy. Reform the management system like market access, customs supervision, inspection and quarantine, and accelerate the negotiation of new issues such as environmental protection, investment protection, government procurement, electronic commerce, etc.

2.1.2.2 Policy on trade in service

When China joined the world trade organization (WTO) in 2001, nine of 12 categories of general agreement on trade in services were made specific commitments, including business services, communication services, construction and related engineering services, distribution services, education services, environmental services, financial services, tourism and related services, transportation services, etc.¹¹

In November 2013, the "decision" pointed out it is supported for inland cities to open more international air routes, develop multimodal transport so as to form a foreign economic corridor crossing the east and west while connecting the north and south. Promote the construction of "silk road" economic belt and maritime "silk road" to form a new pattern of all-around opening up.

China has signed 14 free trade agreements. Among them, "the closer economic partnership arrangement between the mainland and Hong Kong" (CEPA Mainland-Hong Kong), "the closer economic partnership arrangement between the mainland and Macao" (CEPA Mainland-Macao), China-ASEAN, China- Pakistan, China- Chile, China- New Zealand, China- Singapore, China- Peru, China- Costa Rica, China-Iceland, China- Switzerland and some other free trade agreements all showed China has made commitments higher than the WTO in service trade sectors.

¹¹ Work file of WTO: GATS/SC/135, February 14th, 2002.

2.1.2.3 Policy on FDI

Both “bringing in” and “going out” are China’s critical open-up strategy. Major laws and regulations specifically related to FDI include: the Law on Chinese-Foreign Equity Joint-Ventures, the Law on Chinese-Foreign Contractual Joint Ventures, the Law on Foreign-Capital Enterprises, and their respective implementing regulations.¹² Under the three laws, types of foreign investment enterprises (FIEs) are equity joint ventures, contractual joint ventures and wholly foreign-owned enterprises (WFOEs). On 1st March 2010, the newly adopted Regulations for the Administration of the Registration of Foreign-invested Partnership Enterprises came into force. Since then, foreign enterprises or individuals can set up an enterprise in the legal form of a partnership¹³ in China.

The Catalogue for the Guidance of Foreign Investment Industries stipulates the basic principles concerning FDI in China. It lists the industries that are encouraged, restricted or prohibited, while the industries not included in the category are allowed. The newly revised Catalogue for the Guidance of Foreign Investment Industries, which was released by National Development and Reform Commission (NDRC) and Ministry of Commerce (MOFCOM) on 10th March, 2015 and approved by State Council, entered into force on 10th April, 2015. The 2011-revised Catalogue for the Guidance of Foreign Investment Industries issued on 24th December, 2011 and coming into force on 30th January, 2012 was annulled on the same day.

In November 2013, *the Decision* clearly points out that it is advisable to ease investment access, including unifying the laws and regulations, maintaining stable, transparent and predictable foreign policy; promote orderly open of the service sectors such as finance, education, culture, and health care; untie foreign investment access restrictions on services, such as brood endowment, architectural design, accounting audit, trade logistics and e-commerce services, and further liberalize the general manufacture.

China also encourages the outflow of FDI. In 1997, the “going out” strategy was put forward for the first time and since then China has enacted a series of policies to encourage investment abroad.

The governmental agencies in charge of the administration of the FDI outflow include MOFCOM, NDRC, State Administration of Foreign Exchange (SAFE), etc. On 1st May 2009, *the Measures for Overseas Investment Management* enacted by MOFCOM were implemented. It stipulates the basic principles for domestic enterprises on the management of

¹² Other laws, regulations and rules related to FDI include: *Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*; *Provisions on Foreign Invested Investment Companies*; *Interim Provisions on Foreign Invested Joint Stock Limited Companies*; *Company Law*; *Contract Law*; *Insurance Law*; *Arbitration Law*; *Labour Law*; *Provisional Regulations on Value-Added Tax*; *Provisional Regulations on Consumption Tax*; *Provisional Regulations on Business Tax*; and *Law on Protection of Investment by Compatriots from Taiwan China*. See website: Invest in China online information, http://www.fdi.gov.cn/pub/FDI_EN/Laws/GeneralLawsandRegulations/BasicLaws/t20060620_50886.jsp [11 February 2008]).

¹³<http://sousuo.mofcom.gov.cn/query/queryDetail.jsp?articleid=20100306818933&query=%E5%A4%96%E5%95%86%E6%8A%95%E8%B5%84>.

overseas investment. To carry out the Decision, MOFCOM released the newly revised *Measures for Overseas Investment Management* on 6th September, 2014 to promote domestic enterprises' role as FDI investors and facilitate overseas investment.

In accordance with *the Regulations on Foreign Exchange Administration of Overseas Investment* issued by the SAFE in July 2009, China eliminated restrictions on foreign exchange with regard to FDI outflow, promoted the healthy development of domestic institutions' overseas investment, practiced a balanced management on cross-border capital flows and maintain the balance of the international balance of payments.

In November 2013, *the Decision* also points out that China should improve the marketization of formation mechanism for RMB exchange rate, accelerate the marketization of interest rate, and improve the treasury bonds yield curve showing the relationship between market supply and demand. To promote two-way open up of capital market, orderly increase the degree of convertible cross-border capital and financial transactions, China will establish and perfect the macro-prudential management under the framework of external debt and capital flow management system, to realize RMB capital account convertibility.

2.1.3 China's FTA Practice

Although the multilateral trading system remains the main channel to promote trade liberalization, China has been intensifying its pursuit of bilateral/regional free trade agreements with different trading partners over the last decade. Regional trade arrangements has served as new platform for promoting trade and investment.

Currently, China has 19 FTAs under construction with 32 economies, among which 14 free trade agreements have been signed with 22 economies. The concluded and signed FTAs are *the China-ASEAN FTA (ACFTA), the China-Singapore FTA, the China-Pakistan FTA, the China-New Zealand FTA, the China-Chile FTA, the China-Peru FTA, the China-Costa Rica FTA, the China-Iceland FTA, the China-Swiss FTA, the China-South Korea FTA, the China-Australia FTA, the Mainland and Hong Kong Closer Economic and Partnership Arrangement (CEPA Mainland-Hong Kong), the Mainland and Macao Closer Economic and Partnership Arrangement (CEPA Mainland-Macao) and Cross-strait Economic Cooperation Framework Agreement (ECFA)*. All the above agreements have already been implemented. Table 2-5 illustrates the contents and related arrangements of the signed agreements.¹⁴

The 7 FTAs under negotiation with 22 economies include *the China-GCC (Gulf Cooperation Council) FTA, the China-Sri Lanka FTA and the China-Norway FTA, and the China-Japan-Korea FTA, the Regional Comprehensive Economic Partnership Agreement (RCEP), China-ASEAN FTA Upgrade Negotiations and the Negotiations in the Second Stage of China-Pakistan FTA*.¹⁵

¹⁴ China FTA Network, <http://fta.mofcom.gov.cn/>.

¹⁵ Ibid.

Table 2-5 illustrates the contents and related arrangements of China's signed FTAs.

Table 2-5 China's Signed FTAs and the Main Contents

FTA	The Main Contents
The CEPA Mainland-Hong Kong	<p>In 2003, the Central Government of China signed <i>the Closer Economic Partnership Arrangements</i> (CEPA) with the Government of the Special Administrative Region of Hong Kong. 10 supplements were signed between 2004 and 2013 respectively. The CEPA was one of the first FTA implemented in Mainland China.</p> <p>According to the CEPA, Mainland China gradually eliminated the tariffs on imports originated from these two Special Administrative Regions (SAR) since 1st January 2004, completed by 1st January 2006. Under the CEPA, Mainland China has also gradually liberalized markets in various service sectors by relaxing market access restrictions.</p>
The CEPA Mainland-Macao	<p>In 2003, the Central Government of China signed the Closer Economic Partnership Arrangements (CEPA) with the Government of the Special Administrative Region of Macao. 10 supplements were signed between 2004 and 2013 respectively. The CEPA was one of the first FTA implemented in Mainland China.</p> <p>According to the CEPA, Mainland China gradually eliminated the tariffs on imports originated from these two Special Administrative Regions (SAR) from 1st January on, completed by 1st January 2006. Under the CEPA, Mainland China has also gradually liberalized markets in various service sectors by relaxing market access restrictions.</p>
The China-ASEAN FTA	<p>On 4th November 2002, China and ASEAN signed <i>the Framework Agreement on Comprehensive Economic Cooperation</i>.</p> <p><i>The Agreement on Trade in Goods</i> and <i>the Agreement on the Dispute Settlement Mechanism of the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China</i> were signed in November 2004 and entered into force on 1st January 2005. According to <i>the Agreement on Trade in Goods</i>, China has been gradually reducing tariffs on thousands of goods to zero originated from ASEAN members.</p> <p><i>The Agreement on Trade in Services of the China-ASEAN Free Trade Area</i> was signed in January 2007 and entered into force on 1st July 2007, under which China shall lower the market access requirements of some service sectors including construction, environment, transportation, sporting and business services, etc.</p> <p>In August 2009, the two Parties signed <i>the Agreement on Investment</i> which will facilitate the two-way investment and strengthen the relevant cooperation.</p>
The China-Pakistan	The <i>China-Pakistan Free Trade Agreement</i> was signed on 24 th

FTA	The Main Contents
FTA	<p>November 2006 and entered into force on 1st July 2007. According to the Agreement, China shall follow two phases to reduce the tariffs of all products. In the first phase when after the enforcement of the Agreement in five years, China shall reduce the tariffs on the products which take up 85% of the total tariff lines in five categories with different reduction. The second phase begins from the sixth year of the enforcement of the Agreement, and since then China shall eventually realize duty-free in 90% of all its tariff lines and trade value as well.</p> <p>Meanwhile, both sides have reached an agreement on detailed provisions in investment, rules of origin, trade remedy, TBT and SPS.</p> <p>On 21st February 2009, China signed the <i>Agreement on Trade in Service of the China-Pakistan FTA</i> which entered into force on 10th October 2009. According to the Agreement, China shall further open 28 sub-sectors in six main sectors of service in addition to its WTO commitment.</p>
The China-Chile FTA	<p>On 18th November 2005, China and Chile signed the <i>China-Chile Free Trade Agreement</i> which entered into force on 1st October 2006. Under the FTA, 63% of China's import tariffs were eliminated in two phases from 1st October 2006 to 1st January 2007. Most other tariffs are to be eliminated within five or ten years with the aim of 97% of China's import tariffs being eliminated by 1st January 2015.</p> <p>The <i>Supplementary Agreement on Trade in Services of the Free Trade Agreement between China and Chile</i> was concluded on 13th April 2008. According to the Agreement, China shall further open 23 services sectors and its sub-sectors including computer services, air transport services, sports services, etc. in addition to its WTO commitment.</p>
The China-New Zealand FTA	<p>On 7th April 2008, China signed the <i>China-New Zealand Free Trade Agreement</i> which entered into force on 1st October 2008. The Agreement covers areas of trade in goods, trade in services and investment. It is the first FTA that China has signed with a developed country.</p> <p>According to the agreement, China shall eliminate tariffs on 97.2% of imports originated from New Zealand by different phrases. When the FTA took effect on 1st October 2008, China has immediately eliminated the tariffs on all the goods of which MFN tariffs were below 5%. The tariffs of other goods have been gradually reduced since 2008. Meanwhile, China also made much more liberal commitments than that of WTO in sectors of business services, environmental services, sports services, transportation services, etc.</p>
The China-Singapore	The <i>China-Singapore Free Trade Agreement (CSFTA)</i> was signed on

FTA	The Main Contents
FTA	<p>23rd October 2008 and entered into force on 1st January 2009. The Agreement covers many areas such as trade in goods, trade in services, movement of people and customs procedures.</p> <p>According to the agreement, China committed to eliminate the tariffs on 97.1% of goods imported from Singapore before 1st January 2010. Meanwhile, the two sides made commitments beyond their WTO commitments in areas including health services, education services, accounting services, etc.</p>
The China-Peru FTA	<p>The <i>China-Peru FTA</i> was signed on 28th April 2009 and came into force on 15th January 2010.</p> <p>According to the agreement, in the area of trade in goods, China shall through different phases eliminate the tariff on 90% of goods originated from Peru which include aquatic products, minerals, fruits, etc. Meanwhile, China also made a commitment to further opening its related service sectors. In terms of the investment, the two sides shall provide each other, the investors and their investments, the national treatment, the most-favoured-nation treatment, and fair and impartial treatment after the accession, and encourage the bilateral investment and provide relevant facilitation. Meanwhile, the two sides also reached a wide range of consensus on issues in terms of intellectual property, trade remedy, rules of origin, customs procedures, TBT, SPS, etc.</p>
The China-Costa Rica FTA	<p>The China-Costa Rica FTA was signed on 8th April 2010.</p> <p>According to the agreement, in the area of trade in goods, the two sides shall through different phases implement zero tariffs on more than 90% goods originated from each other. Meanwhile, in the area of trade in services, China shall, on the basis of its WTO commitments, further open in 7 sectors and sub-sectors including computer services, real estate, market research, translation, interpretation and sports</p> <p>The two sides also reached broad consensus in intellectual property, trade remedy, rules of origin, customs procedures, TBT, SPS, cooperation, and many other areas.</p>
Cross-strait Economic Cooperation Framework Agreement	<p>On June 29th, 2010, the cross-strait economic cooperation framework agreement was signed. The agreement covers the main economic activities between two sides, including market opening of trade in goods and trade in services, rules of origin, early harvest program, trade remedy, dispute settlement, investment and economic cooperation, etc., fully reflecting the present situation and characteristics of the cross-strait economic trade relations and providing an important safeguard mechanism for the normalization of cross-strait economic ties, institutionalization and liberalization.</p>
The China - Iceland	The China-Iceland FTA was signed on 15 th , April 2013. This

FTA	The Main Contents
FTA	<p>Agreement is the first FTA that China signed with a European country, covering areas of trade in goods, services, investment and so on.</p> <p>According to the Agreement, after the establishment of FTA, China shall eventually make the zero-tariff products up to 96% counted by the number of taxable items, or 100% by trade volumes. Besides, China's commitments on trade in services which are higher than that of the WTO are also scheduled in the Agreement and specific provisions are given to the issues including investment, natural person movement, SPS, TBT, rules of origin, customs procedures, competition policy, and intellectual property rights.</p>
The China - Swiss FTA	<p>The China-Swiss FTA was signed on July 6th, 2013. The Agreement is the first package FTA China has signed with a continental European country. Both sides have reached an agreement with high level of trade liberalization in goods, and a consensus on the government procurement, environment, labor and employment cooperation, intellectual property rights and competition rules.</p> <p>According to the Agreement, Switzerland shall apply zero-tariff on about 99.7% of exports to China from the implementation of the Agreement. China's exports to Switzerland shall eventually apply zero-tariff on 84.2% of exports to Switzerland. If products of partial reduction in tariff are involved, Switzerland's participation in tariff reduction is 99.99%, and China's is 96.5%. Meanwhile, on the basis of the WTO commitments, both sides will further reach an agreement to open the relevant service sectors. Switzerland committed to further open in areas including travelling, translation and others. China made a commitment to further open some service sectors, such as securities sector.</p>
The China-South Korea FTA	<p>The China-South Korea FTA was signed on June 1st, 2015. The Agreement involves the biggest trade volume of countries and covers the broadest range of issues among the foreign FTAs signed by China so far.</p> <p>According to the agreement, in terms of the opening level, the proportion of the liberalization of trade in goods of the two countries exceeds 90% of the tax items and 85% of the trade volume. The range of the agreement covers 17 fields such as the trade in goods, the service trade, the investment and the rules and the "trade and economic topics in the 21st century" like the e-commerce, the competitive policy, the government procurement and the environment. At the same time, both sides promised to continue to conduct the service trade negotiations with the mode of the negative list after the signed agreement taking effect and to carry out the investment negotiations on the basis of pre-establishment national</p>

FTA	The Main Contents
	treatment and the mode of negative list.
The China-Australia FTA	<p>The China-Australia FTA was signed on June 17th, 2015. The Agreement covers over ten areas including goods, service and investment, realizing the goal of FTA with “comprehensive, high-quality and balanced interest”, and it’s one of the FTAs of the highest level that China has ever signed with other countries concerning trade and investment liberalization so far.</p> <p>According to the agreement, in terms of the opening level, both sides have products of 85.4% of trade value to enjoy “zero tariff” immediately after the FTA comes into effect. After the transitional period, Australia will have products of 100% tax items and 100% trade value that will enjoy “zero tariff”, and China will have products of 96.8% tax items and 97% trade value that will enjoy “zero tariff”.</p> <p>On trade in service, the Australian side promised to open its service sector to China with a mode of “negative list” as soon as the FTA comes into effect, being the first country in the world to make service trade commitments with negative list to China. China will open its service sector to Australia by positive list. In addition, the Australian side also made specific arrangements for China regarding working mechanism in holidays. In investment area, the two sides will give the most-favored nation treatment to each other immediately after the FTA comes into effect, and the Australian side will lower the approval threshold and make it easier for the Chinese enterprises to invest in Australia. In addition, the FTA also made regulations to enhance bilateral communication and cooperation in more than 10 areas of the “21st century trade and economic topics”, including e-commerce, government procurement, intellectual property rights and competition areas.</p>

Source: China FTA Network Website

2.2 Georgia’s Economy and Foreign Economic Policy

2.2.1 Georgia’s Economy

Decade ago Georgia has initiated a great number of comprehensive reforms that aimed at facilitating sustainable economic development. The main pillars of the reforming philosophy were liberalization of the economy and its integration in global markets. Implemented reforms resulted in stable macroeconomic environment and attractive business climate. The snapshot of the Georgian economy is given in the table below:

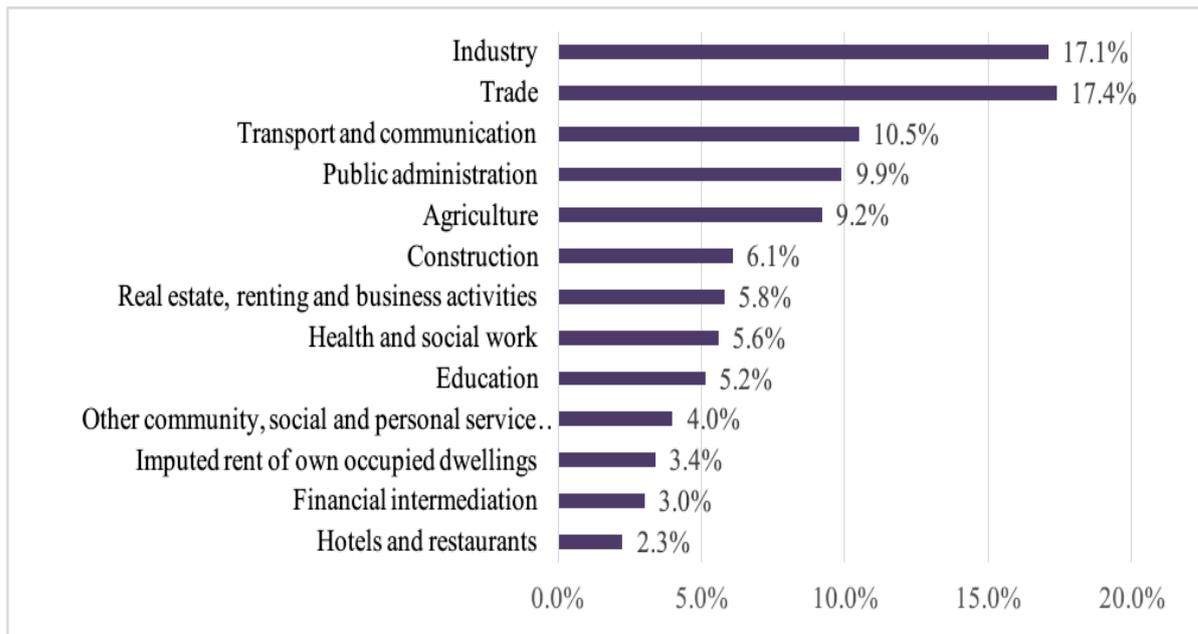
Table 2-6 Overview of Basic Economic Indicators, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Nominal GDP (mln.USD)	12800.5	10767.1	11636.5	14438.5	15846.8	16139.9	16528.5
GDP Real Growth	2.6%	-3.7%	6.2%	7.2%	6.4%	3.3%	4.8%
GDP Per Capita (USD)	2921.1	2455.2	2623.0	3230.7	3523.4	3599.6	3680.8
FDI (USD)	1564.0	658.4	814.5	1117.2	911.6	941.9	1272.5
Inflation (Annual Average)	10.0%	1.7%	7.1%	8.5%	-0.9%	-0.5%	3.1%
Labor Force	1917.8	1991.8	1944.9	1959.3	2029.1	2003.9	1991.1
Unemployment Rate	16.5%	16.9%	16.3%	15.1%	15.0%	14.6%	12.4%
Poverty Level (Registered)	8.4%	9.9%	9.7%	9.2%	9.7%	9.7%	11.6%
The Shares of Top Five Sectors in GDP							
Trade	16.2%	15.1%	16.8%	16.9%	16.7%	17.3%	17.4%
Industry	15.6%	15.5%	16.2%	17.2%	16.8%	17.4%	17.2%
Transport and Communication	11.0%	11.2%	11.5%	10.5%	10.6%	10.5%	10.5%
Public Administration	17.3%	15.8%	13.0%	11.6%	11.2%	10.1%	9.9%
Agriculture	9.4%	9.4%	8.4%	8.8%	8.6%	9.4%	9.2%
The Growth Rates of the Sectors							
Trade	23.7%	-12.6%	29.0%	17.4%	6.1%	6.8%	8.8%
Industry	6.1%	-5.9%	21.1%	23.3%	4.9%	7.4%	6.1%
Transport and Communication	2.7%	-3.7%	18.9%	6.5%	8.3%	2.3%	8.0%
Public Administration	30.9%	-13.8%	-4.7%	4.3%	3.4%	-6.4%	4.8%
Agriculture	-0.7%	-6.1%	3.6%	22.9%	4.2%	13.5%	5.4%

Source: National Statistics Office of Georgia

During 2010-2014, an average annual real GDP growth rate was 5.6%. In 2014, the indicator of GDP in current prices reached 16.5 billion USD with 4.8% real growth rate in comparison with 2013. Additionally, in the mentioned period, GDP per capita had increasing trend as well, reaching 3 680 USD in 2014.

Throughout 2010-2015, the structure of GDP by sectors has not changed significantly. In 2014, the top five sectors by share in GDP were trade (17.4%), industry (17.1%), transport and communication (10.5%), public administration (9.9%) and agriculture (9.2%).



Graph 2-1 Structure of GDP by Sectors, 2014

Source: National Statistics Office of Georgia

Due to the implemented reforms, Georgia improved not only the macroeconomic indicators, but also positions in the international rankings.

Georgia in Global rankings:

(1)15th place (out of 189 countries) in the ranking of World Bank’s Ease of Doing Business 2015. Georgia is among top 10 countries in the following areas: registering property (1st place); dealing with construction permits (3rd place), starting business (5th place); getting credit (7th place).

(2)22nd place (out of 178 countries) in the ranking of Heritage Foundation’s Economic Freedom Index, 2015 the Index of Economic Freedom.

(3)69th place (out of 144 countries) in the ranking in the Global Competitiveness Index of the World Economic Forum, 2014-2015.

(4)50th place (out of 177 countries) in the ranking of Transparency International’s Corruption Perception Index, 2014.

(5)Ba3 (Moody’s), BB- (Fitch), BB- Standard and Poors, Sovereign Raitings 2014.

Table 2-7 Georgia’s Sovereign Raitings 2014

STANDARD & POOR'S	FitchRatings	MOODY'S INVESTORS SERVICE
Foreign Currency <ul style="list-style-type: none"> • Long Term: BB- • Short Term: B 	Foreign Currency <ul style="list-style-type: none"> • Long Term: BB- • Short Term: B 	Foreign Currency <ul style="list-style-type: none"> • Long Term: Ba3 • Short Term: Not-Prime
Local Currency <ul style="list-style-type: none"> • Long Term: BB- • Short Term: B Outlook: Stable	Local Currency <ul style="list-style-type: none"> • Long Term: BB- • Country Ceiling: BB Outlook: Stable	Local Currency <ul style="list-style-type: none"> • Long Term: Ba3 • Short Term: Not-Prime Outlook: Positive

2.2.2 Trade Performance

2.2.2.1 Trade in Goods

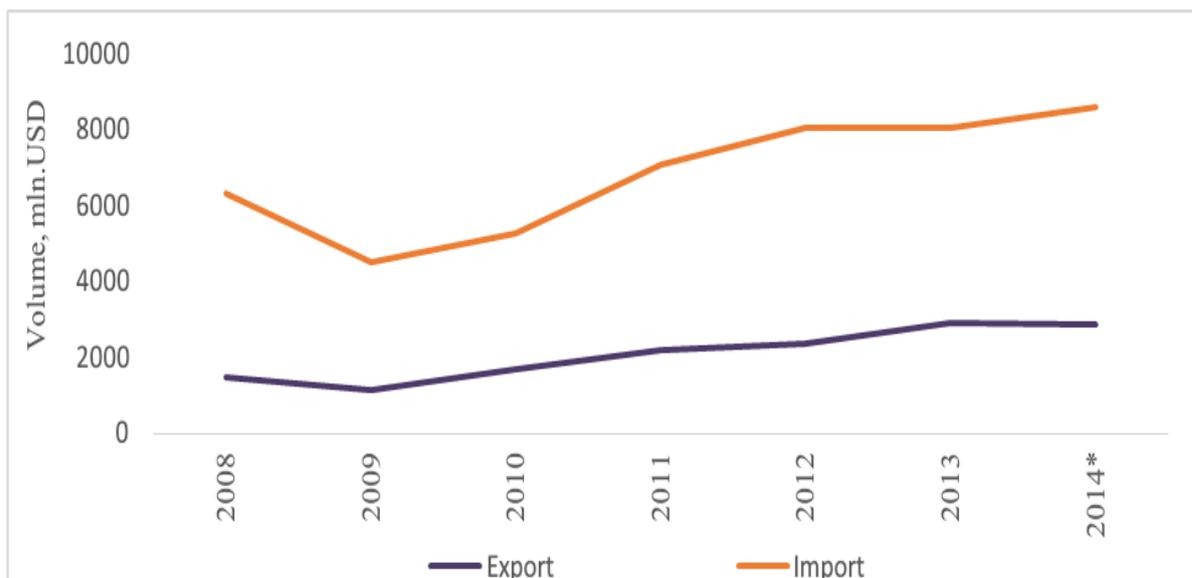
External trade plays a significant role for Georgia’s economic development. In the period of 2010-2014, Georgia’s trade turnover was increasing, but with lower growth rate. For this period, the average estimated growth rate of Georgia’s trade turnover is 16%. In 2014, the volume of trade turnover was 11.4 billion USD, which exceeds the indicator of 2013 by 5%.

Table 2-8 Georgia’s External Trade, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Turnover (mln.USD)	7 797	5 634	6 934	9 254	10 424	10 934	11 457
Growth (%)	21.0%	-27.7%	23.1%	33%	13%	4.9%	5%
Export (mln.USD)	1 495	1 134	1 677	2 189	2 375	2 908	2 861
Growth (%)	21.4%	-24.2%	48.0%	30%	9%	22.0%	-1.6%
Import (mln.USD)	6 302	4 500	5 257	7 065	8 049	8 026	8 596
Growth (%)	20.9%	-28.6%	16.8%	34%	14%	-0.3%	7%
Balance (mln.USD)	-4 807	-3 366	-3 580	-4 876	-5 674	-5 117	-5 735

Source: National Statistics Office of Georgia

In 2014, the volume of export of goods was 2.8 billion USD, which is 1.6% lower than the indicator of 2013 and the volume of import was 8.5 billion USD, which exceeds the indicator of 2013 by 7%.

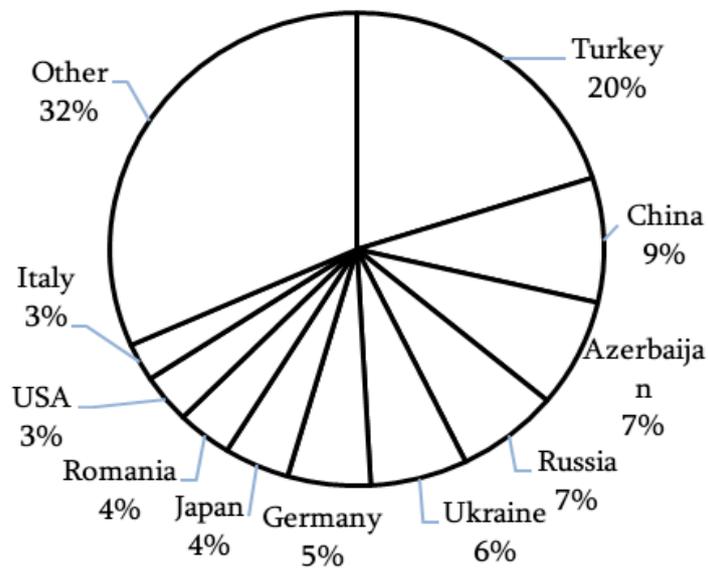


Graph 2-2 Dynamics of the Registered Import and Export of Goods, 2008-2014

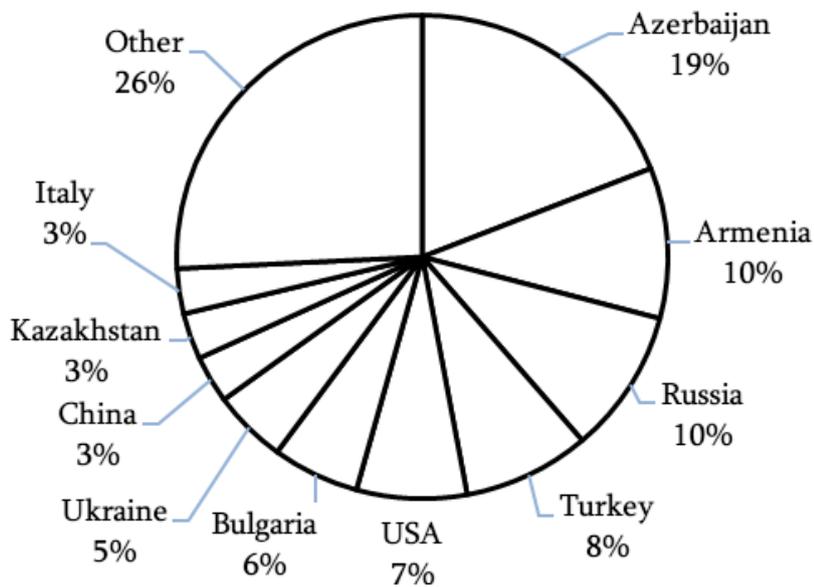
Source: National Statistic Office of Georgia

In 2014, Georgia's main trade partner countries are Turkey (17.2%), Azerbaijan (10.3%), Russia (7.4%), China (7.3%), Ukraine (6.0%), Germany (4.7%), Armenia (4.4%), Bulgaria (3.3%) and Japan (3.2%).

Import of Georgia by Countries, 2014



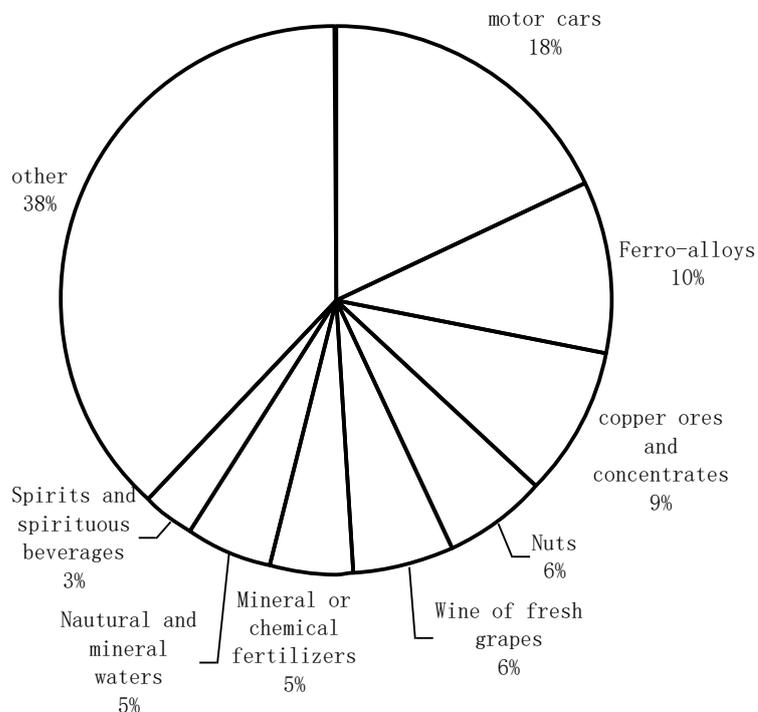
Export of Georgia by Countries, 2014



Graph 2-3 Import and Export by Countries, 2014

Source: National Statistics Office of Georgia

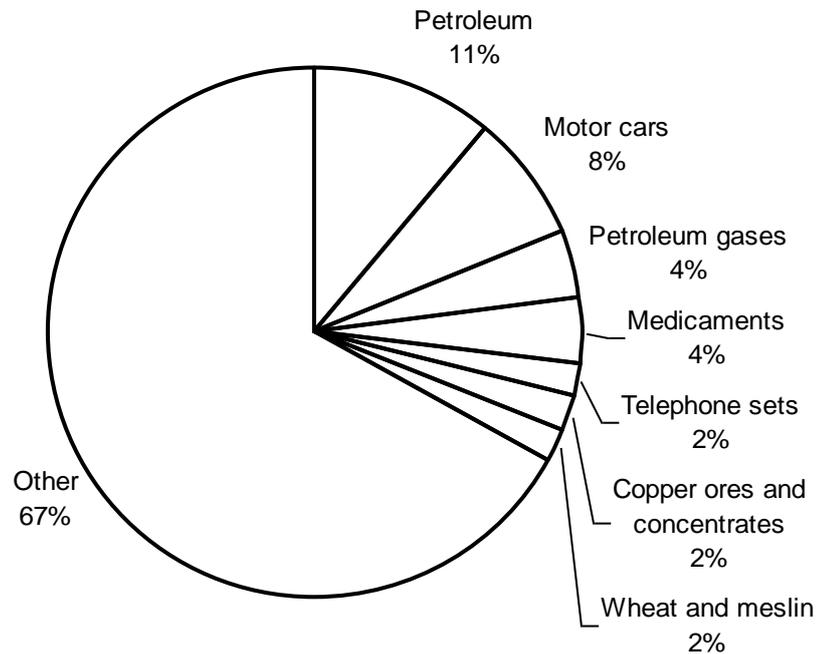
In 2014, the main exported commodities from Georgia were motor cars, ferro-alloys, copper ores and concentrates, nuts, wine, mineral or chemical fertilizers, nitrogenous, waters, natural or artificial mineral and aerated waters.



Graph2-4 Registered Export by Commodities, 2014

Source: National Statistics Office of Georgia

In 2014, the main imported commodities to Georgia were Petroleum and petroleum oils, motor cars, petroleum gases and other gaseous, medicaments, telephones for cellular networks or for other wireless networks, copper ores and concentrates, wheat and cigarettes.



Graph 2-5 Registered Import by Commodities, 2014

Source: National Statistics Office of Georgia

2.2.2.2 Trade in Services

In 2008-2014, the total turnover of services had increasing trend and in 2014 this indicator reached 4.7 bln USD. During 2010-2014 the external trade turnover increased on average by 15.8% annually.

Table 2-9 Turnover of Services, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Turnover (mln USD)	2517.05	2306.94	2733.36	3284.13	4009.38	4545.67	4780.05
Growth (%)	23.27%	-8.35%	18.48%	20.15%	22.08%	13.38%	5.16%
Export (mln.USD)	1270.86	1329.30	1640.85	2018.92	2561.98	2983.84	3064.13
Growth (%)	14.70%	4.60%	23.44%	23.04%	26.90%	16.47%	2.69%
Import (mln.USD)	1246.19	977.64	1092.51	1265.21	1447.40	1561.83	1715.92
Growth (%)	33.32%	-21.55%	11.75%	15.81%	14.40%	7.91%	9.87%
Balance (mln.USD)	24.67	351.66	548.34	753.71	1114.58	1422.01	1348.22

Source: UCTADSTAT

In this period, the export as well as the import of services had increasing trend. In 2014, the export of services reached 3,0 bln USD, which exceeds the indicator of 2013 by 1.9% and the import of services reached 1.7 bln.USD, which exceeds the indicator of 2013 by 7.6%.

The following two tables provide the values for the exports and imports by service categories.

Table 2-10 Export by Service Categories in mln. USD, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Services (Total)	1270.86	1329.30	1640.85	2018.92	2561.98	2983.84	3064.13
Goods-related services							
Manufacturing services on physical inputs owned by others	9.48	11.78	18.72	8.39	14.82	15.39	23.78
Maintenance and repair services n.i.e.	0.92	3.91	23.36	2.37	3.49	4.42	0.44
Transport	615.31	624.43	697.50	799.45	852.86	964.28	985.17
Travel	446.65	475.89	659.25	954.91	1410.90	1719.70	1798.86
Other services							
Construction	2.19	6.34	9.61	8.57	7.55	9.06	5.06
Insurance and pension services	15.11	15.38	38.38	21.05	18.30	18.46	19.82
Financial services	9.66	13.26	16.91	17.40	19.83	8.61	5.82
Charges for the use of intellectual property n.i.e.	6.20	7.46	4.73	4.56	3.47	3.34	1.71
Telecommunications, computer, and information services	25.46	31.75	32.49	39.14	49.66	54.51	52.77
Other business services	27.10	36.46	41.62	53.68	68.43	67.57	62.41
Personal, cultural, and recreational services	8.95	14.07	13.67	17.23	15.89	19.67	17.91
Government goods and services n.i.e.	103.83	88.57	84.61	92.16	96.77	98.83	90.36

Table 2-11 Import by Service Categories in mln. USD, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Services (Total)	1246.19	977.64	1092.51	1265.21	1447.40	1561.83	1715.92
Goods-related services							
Manufacturing services on physical inputs owned by others	1.16	0.20	2.49	0.55	0.32	0.16	0.93
Maintenance and repair services n.i.e.	5.61	3.56	4.69	3.97	4.28	3.11	8.58
Transport	642.44	491.59	554.98	692.46	804.66	889.04	969.30
Travel	203.49	181.48	199.09	213.43	256.40	294.07	297.87
Other services							
Construction	17.76	20.91	9.69	6.36	6.05	8.64	6.71
Insurance and pension services	150.69	107.98	120.06	137.31	136.77	122.92	147.12
Financial services	17.42	17.20	14.55	19.66	21.12	11.97	13.15
Charges for the use of intellectual property n.i.e.	8.40	8.56	7.40	7.96	7.59	13.44	18.74
Telecommunications, computer, and information services	23.27	20.58	17.89	27.67	32.13	38.00	46.98
Other business services	74.25	50.85	60.66	85.07	86.70	86.85	93.32
Personal, cultural, and recreational services	17.89	10.54	11.84	11.22	12.58	12.14	13.08
Government goods and services n.i.e.	83.81	64.20	89.15	59.57	78.81	81.50	100.15

Source: UCTADSTAT

The major exported service categories include transportation (32%), travel (58.7%) and government goods and services (3.0%). The major imported service categories are transport (56.5%), travel (17.3%) and government goods and services (5.8%).

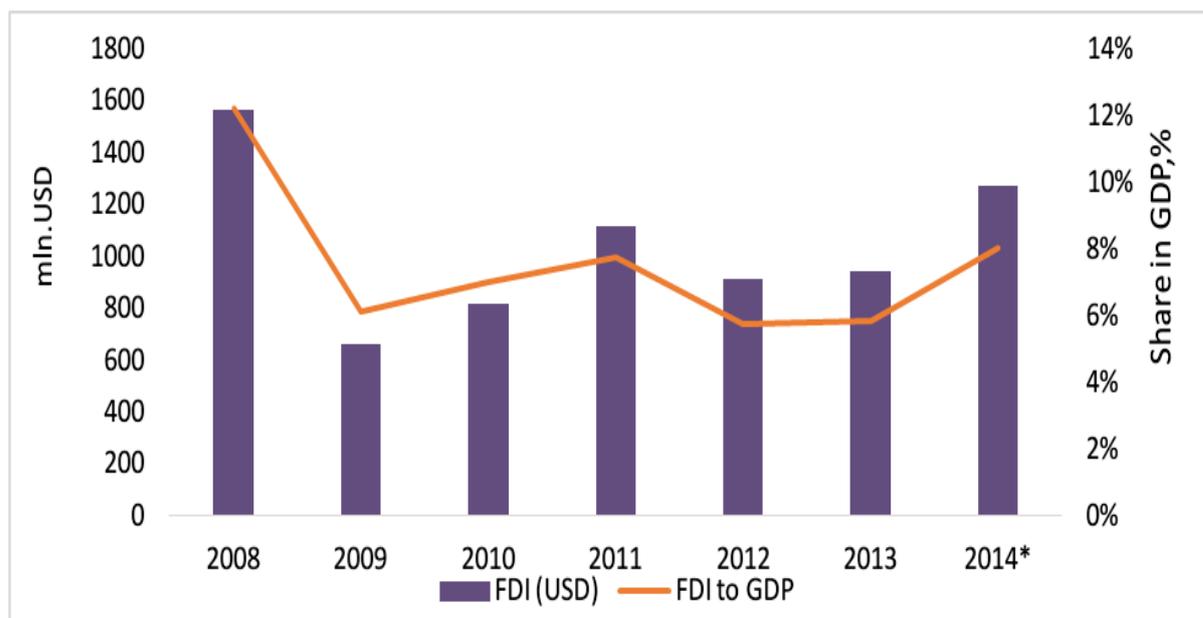
2.2.3 Foreign Direct Investment

Table 2-12 Foreign Direct Investment (FDI) Inflow in Georgia, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
FDI (mln. USD)	1,564.00	658.4	814.5	1,117.20	911.6	941.9	1 272.5
Growth (%)	-22.4	-57.9	23.7	37.2	-18.4	3.3	39.1
Share in GDP (%)	12.2	6.1	7	7.7	5.8	5.8	7.7

Source: National Statistics Office of Georgia

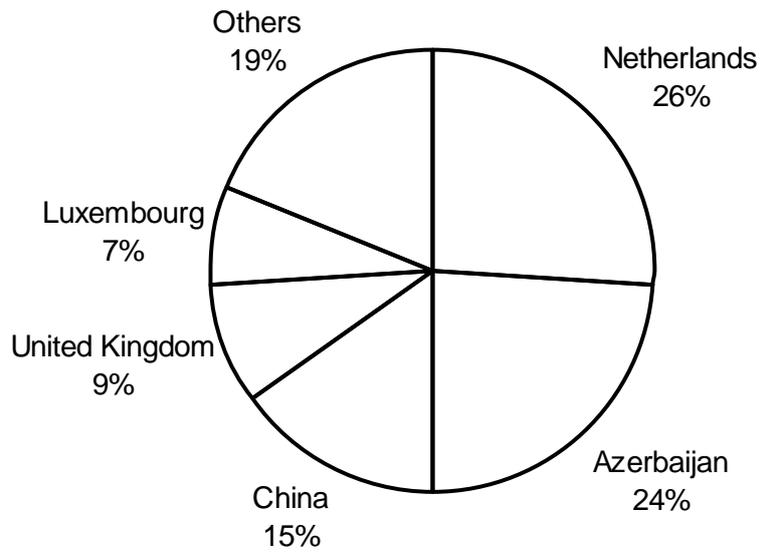
FDI inflow in Georgia sharply increased since 2004 and reached \$2 billion in 2007, which is 19.8% to GDP of 2007. FDI shrank after the Russian-Georgian military conflict in 2008 and global financial crises in 2008-2009. In 2014, the volume of FDI is 1 272 mln.USD, 8% to GDP.



Graph 2-6 Foreign Direct Investment in Georgia, 2008-2014

Source: National Statistics Office of Georgia

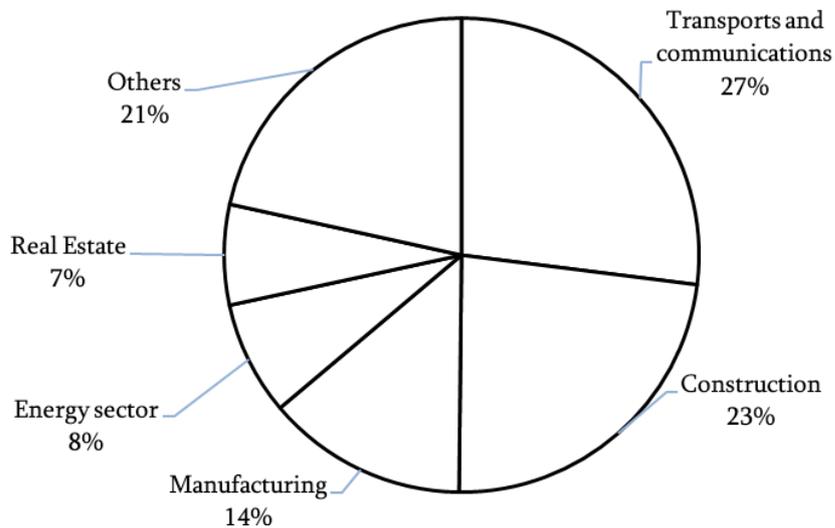
In 2014, Netherlands (26%), Azerbaijan (23.7%), China (15.3%), Great Britain (9%), Luxemburg (6.7%) are top investors in Georgia.



Graph2-7 Foreign Direct Investment by Countries, 2014

Source: National Statistics Office of Georgia

In 2014, the largest inflows of FDI was in transports and communications (27%), construction (23%), manufacturing (13%), energy (8%), real estate (7%) and financial sectors (6%).



Graph 2-8 Foreign Direct Investment by Sectors, 2014

Source: National Statistics Office of Georgia

FDI growth is accompanied by increase of employment opportunities, as well as the demand for qualified workforce

2.2.4 Georgia's Foreign Economic Policy

Today, as a result of reforms carried out by the Georgian Government, Georgia pursues one of the most liberal foreign trade policies in the world. This includes a liberal foreign trade regime and customs procedures, low import tariffs, and minimal non-tariff regulations.

The reforms have contributed to the creation of competitive market conditions and a business enabling environment. Additionally, these reforms have diversified international trade and Georgia's economic ties, thus generating growth and development.

The basic objectives of Georgian trade policy are defined as follows:

- ☐ Integration into the world economy, including the implementation of WTO membership obligations and obligations under other international agreements;
- ☐ Trade policy liberalization, including simplification of export and import procedures and tariff and non-tariff regulation;
- ☐ Diversification of trade relations by establishing preferential regimes with main trade and regional partner countries;
- ☐ Enhancement of transparency in the policy making process.

Trade liberalization continues to be one of the key objectives on Georgia's economic policy agenda. Georgia undertook a number of reform initiatives targeted at streamlining, liberalization and simplification of trade regulations and their implementation.

2.2.5 Georgia's FTA Practice

2.2.5.1 European Union (DCFTA)

On 27 June 2014, Georgia signed the Association Agreement, including the Deep and Comprehensive Free Trade Area (DCFTA), with the European Union. The DCFTA that provisionally entered into force on 1 September 2014, includes the following chapters: Trade in Goods; Global Safeguard Measures; Technical Barriers to Trade, Standardisation, Metrology, Accreditation and Conformity Assessment; Sanitary and Phytosanitary Measures; Customs and Trade Facilitation; Establishment, Trade in Services and Electronic Commerce; Current Payments and Movement of Capital; Public Procurement; Intellectual Property Rights; Competition; Trade-Related Energy Provisions; Transparency; Trade and Sustainable Development; Dispute Settlement; General Provisions of Approximation.

Under the the DCFTA, all products originating in Georgia (garlic with quota) enter the EU market free of customs' duties..

The DCFTA promises to enhance Georgia's trade prospects and to boost economic growth by bringing its legislation closer to that of the EU. It will also remove the existing barriers of trade of goods and services with the EU. The DCFTA covers trade in goods, including tariff elimination, provides for further opening of the services market and improvement of establishment conditions for investors. It contains provisions on the facilitation of customs procedures, on anti-fraud measures and trade defence instruments. A bilateral dispute settlement procedure is envisaged to solve issues in an expeditious manner. The DCFTA also sets a path for further reforms in trade-related policies, such as approximation of legislation to the EU aquies in the fields of food safety, technical barriers to trade, intellectual property rights, public procurement, customs and services.

2.2.5.2 Commonwealth of Independent States (CIS)

In 2009, Georgia terminated its membership of the CIS organization, while maintaining its right to remain a member of the CIS free trade area arrangement since 15 April, 1994 and the bilateral agreements. Georgia has eight bilateral FTAs with Azerbaijan, Turkmenistan, Armenia, Ukraine, Kazakhstan, Moldova, Uzbekistan and Russia. The bilateral agreements provide for duty-free trade in industrial and agricultural goods but do not cover trade in services, investment or government procurement. In 2014, the CIS countries accounted for just over half of Georgia's exports and a quarter of imports.

Protocols on exceptions from a mode of free trade were concluded only with the Russian Federation and Kazakhstan. Later in 2004, according to the bilateral negotiations, Kazakhstan abolished exceptions.

2.2.5.3 GUAM

One of the important priorities for Georgia is the cooperation within the framework of GUAM -Organization for Democracy and Economic Development. In the period of 2011-2015, Georgia became the chair of the Organization for Democracy and Economic Development – GUAM. One of the common successes of the Organization is the agreement of the free trade area signed in 2002.

2.2.5.4 Turkey

Turkey has been an important trading partner, accounting for 20% of Georgia's imports in 2014, since a free trade agreement between Georgia and Turkey came into force in 2008. According to this agreement, customs tariffs on industrial products have been fully eliminated. Both countries maintain certain types of tariffs on agricultural products. Also, on the Turkish side some agricultural products are subject to tariff quotas.

2.2.5.5 Prospective Agreements

2.2.5.5.1 European Free Trade Association (EFTA)

In November 2014, EFTA expressed its intention to start negotiations in 2015 on a free trade agreement with Georgia. The first round of negotiations will be held in September 2015, the whole process of negotiation will last approximately one year.

2.2.5.5.2 United States

Georgia has been able to export many products duty-free to the US under the GSP programme. In 2007, Georgia and the US signed a Trade and Investment Framework Agreement (TIFA), which set up a joint US-Georgia Council on trade and Investment that addresses trade and investment issues, including trade capacity building, intellectual property, labour and environmental issues. In 2012, the US and Georgia established a High-Level Dialogue on Trade and Investment aimed at identifying measures to increase bilateral trade and investment, including possible FTA. Expert level discussions are ongoing on different trade policy areas.

3. Bilateral Trade and Economic Relations between China and Georgia

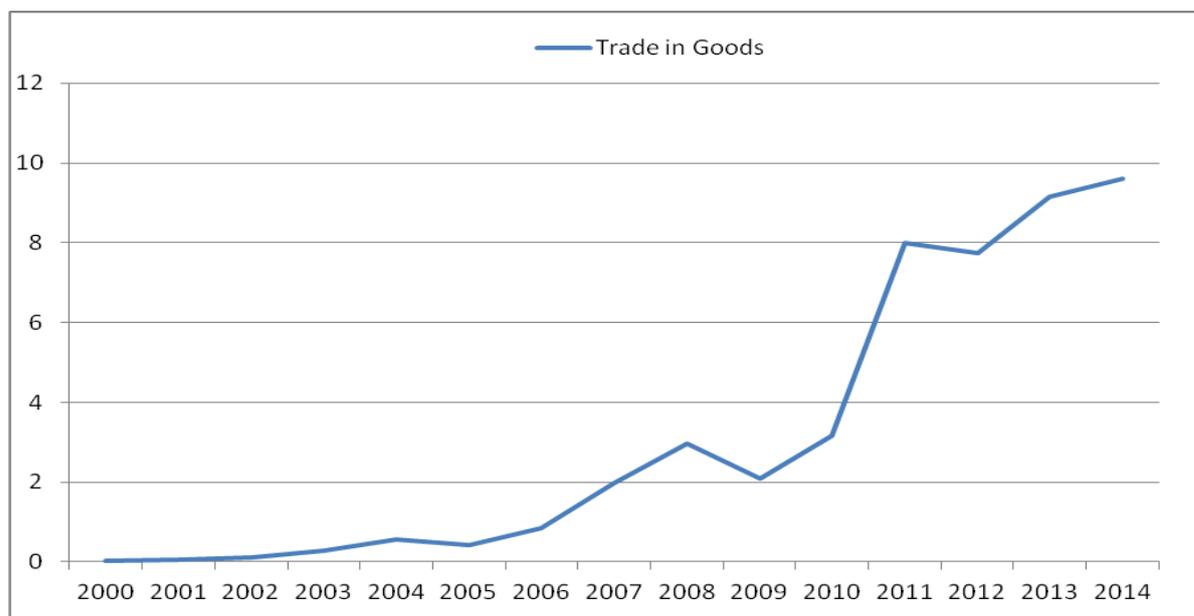
3.1 Overview of Bilateral Trade and Economic Relations

China established diplomatic relations with Georgia on June 9, 1992. In 1993, China and Georgia built modern bilateral trade relationship, and they had signed ten bilateral agreements, such as Bilateral Trade Agreement, Encouragement and Mutual protection of Investment Agreements, etc. According to the data of Georgia National Bureau of statistics, the trade volume between China and Georgia was up to 960 million dollars in 2014, and the non-financial direct investment volume was 530 million. China has become the fourth largest trading partner and the third largest investor to Georgia.

By the end of 2013, the turnover of China's contracted projects for Georgia has reached 212.26 million dollars.

3.2 Two-way Trade in Goods

China and Georgia began the exchange of goods from the ancient silk road. After the establishment of diplomatic relations between China and Georgia, bilateral trade in goods has hit a new level, the depth and breadth of cooperation expanding. Figure 1 shows the rapid growth of the trade in goods between China and Georgia, and the bilateral trade volume in 1992 was just \$3.68 million. When the 10th anniversary of establishment of diplomatic relations between China and Georgia, bilateral trade exceeded the \$ 10 million in 2002. It reached \$ 823 million in 2014, increased by 250 times.



Graph 3-1 The chart of bilateral trade in goods between China and Georgia trend, 2000-2014

(Unit: one hundred million USD)

Source: United Nations, Comtrade Database

In 2014, China was on the 4th place among the main trade partners of Georgia, trade turnover between Georgia and China increased by 27.6% in comparison with 2013 and reached to 823.3 million USD.

Table 3-1 Trade in Goods, Georgia-China, 2009-2014

	2009	2010	2011	2012	2013	2014
Turnover (mln.USD)	180.71	361.97	553.69	636.89	645.32	823.35
Growth %	-41.2	100.3	53.0	15.0	1.3	27.6
Share in Total Turnover (%)	3.2	5.2	6.0	6.1	5.9	7.2
Export (mln.USD)	5.96	26.76	28.88	25.61	33.86	90.39
Growth %	-33.7	349.0	7.9	-11.3	32.2	167.0
Share in Total Export (%)	0.5	1.6	1.3	1.1	1.2	3.2
Import (mln.USD)	174.75	335.21	524.81	611.28	611.46	732.96
Growth %	-41.4	91.8	56.6	16.5	0.03	19.9
Share in Total Import (%)	3.9	6.4	7.4	7.6	7.6	8.5
Balance	-168.8	-308.5	-495.9	-585.7	-577.60	-642.57

Source: International Trade Statistics Database, UN Comtrade

In 2014, the major products exported from Georgia to China were copper ores and concentrates (74%), copper waste and scrap (19%) and wine (5%).

Table 3-2 Major Exported Commodities to China, 2014

Copper ores and concentrates	67.39 mln.USD;
Cooper waste and scrap	17.37 mln. USD;
Wine	4.66 mln. USD;
Aluminum waste and scrap	0.28 mln. USD;
Alcoholic beverages	0.22 mln. USD;
Non-alcoholic beverages	0.074 mln. USD;
Motor cars	0.036 mln. USD;
Mineral waters	0.016 mln. USD.

Source: International Trade Statistics Database, UN Comtrade

In 2014, the major commodities imported from China to Georgia include articles of iron and steel (8%), automatic data processing machines (5.8%), footwear (4.2%), telephone sets (3.5%) and flat rolled products of iron or non-alloy steel (2.9%)

Table 3-3 Major Imported Commodities from China, 2014

Articles of iron or steel	61.24 mln. USD;
Automatic data-processing machines	43.03 mln. USD;
Footwear	31.32 mln. USD;
Telephone sets	25.90 mln. USD;
Flat-rolled products of iron or non-alloy steel	21.53 mln. USD;
Fibreboard of wood or other ligneous materials	21.09 mln. USD;
Refrigerators	18.89 mln. USD;
Furniture and parts thereof	18.33 mln. USD;
Household or laundry-type washing machines	17.71 mln. USD;
Transmission apparatus for broadcasting	14.90 mln. USD.

Source: International Trade Statistics Database, UN Comtrade

3.3 Two-way Trade in Services

China and Georgia have been the steady development in the bilateral service trade since the two countries first established relations in 1992. In 2013, the service trade imports and exports between China and Georgia reached USD 47.68 million, with year-on-year growth of 2.1 percent, and the total export of services from China to Georgia has grown by 7.8% year on year to USD 29.151 million¹⁶. Then, the bilateral service trade imports and exports experienced a decreasing trend. In 2014, the value was USD 42.016 million, of which USD 27.811 million exports, down 4.6% year on year¹⁷. We expect more trade to happen.

At present, bilateral service trade cooperation of China and Georgia mainly concentrates on the field of finance, telecommunications and tourism.

In the financial field, Xinjiang HuaLing Industry &Trade (Group) Co., Ltd acquired a stake of 90% of Georgia Basis Bank with \$98 million. The bank will provide a full service set of business to companies and customers with a solid foundation in Georgia market through the partnership with Xinjiang branch of Agricultural Bank of China, and it was evaluated by International Rating Agency to have “a stable prospect” in 2013.

In the field of telecommunications, the Chinese participated enterprises are mainly ZTE Corporation and HUAWEI Technology Co., Ltd. The two companies both have set up branches or representative offices in Georgia, with businesses involving in network upgrades, terminal sales and operation maintenances, etc. Besides, they also fully participate in IT construction of Georgia.

In terms of tourism, China has set up three Chinese travel agencies and a professional consultancy in Georgia, which is responsible for promoting Georgian tourism to China and providing marketing promotion and information consult service respectively.

¹⁶ Source: Ministry of Commerce of the People’s Republic of China

¹⁷ Source: Ministry of Commerce of the People’s Republic of China

Additionally, in recent years, China's contracted project in Georgia has developed rapidly whose turnover reached \$23.85 million in 2008. In 2013, the newly signed 15 copies of the contracts valued \$138.21 million and the turnover completed reached \$210 million¹⁸. In the same year, China sent all kinds of labor service personnel with 727 people to Georgia, and the dispatched labor of Chinese contracted projects in Georgia rose to 572 people by the end of 2013¹⁹.

For Georgia, to undertake an analysis on bilateral Trade in Services, no data are available.

3.4 Two-way Investment

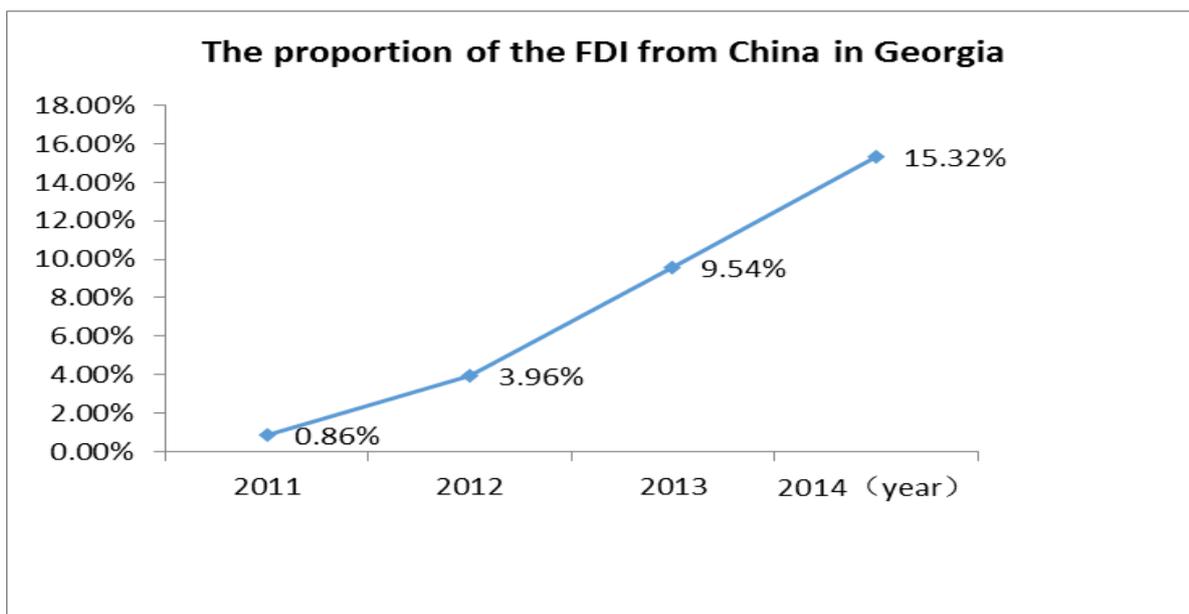
In recent years, China - Georgia continued close economic and trade exchanges between the two countries, the amount of Chinese investment in Georgia is increasing. Since 2011, direct investment from China increases significantly, and direct investment from China in 2014 was \$ 195 million in Georgia, particularly in the hydroelectric project, railways and other infrastructure as well as tourism and manufacturing sectors. Investment cooperation between the two countries continued to be deepened. The proportion of the FDI from China in Georgia, rose from 0.8% in 2011 to 15.3% in 2014, and in 2014 China's direct investment in Georgia amounted to \$ 195 million, which was twice as that of the previous year. China has become the third largest investor in Georgia. Georgia has no direct investment in China in most of the years since 2001, and only a small amount of investment in 2012 and 2013. The amount of direct investment from Georgia in China is \$4.2 million in 2012 and \$4.0 million in 2013.



Graph 3-2 Direct investment from China in Georgia

¹⁸ Source: National Bureau of Statistics of China The 2014 China Statistical Yearbook

¹⁹ Source: National Bureau of Statistics of China The 2014 China Statistical Yearbook



Graph 3-3 The proportion of the FDI from China in Georgia

Source: National Statistics Office of Georgia

Such as Sinohydro Corporation Limited, China Railway Construction Group Co. Ltd, Sichuan Electric Power Imp. & Exp. Corp., Xinjiang Hualing Group, Chongqing Jinlan Group, a number of Chinese companies that have made investments in Georgia continue to have an in-depth development of bilateral cooperation. Not long ago, Georgia signed the "Hualing Free Industrial Park" project agreement with China Xinjiang Hualing Group representatives. Hualing Industrial Park's construction will drive economic development in Georgia, promote local employment, as provide better conditions for more Chinese enterprises' investment in Georgia. While China and Georgia have signed a cooperation agreement to build economic zone of the Silk Road together, investments between China and Georgia will continue to increase at the same time, and Georgia's auto parts manufacturing and agro-industry will widely attract Chinese investment.

3.5 Two-way Economic cooperation

Because of its unique geographical location, Georgia is the transport and the international trade since ancient times, thus through the famous Silk Road, opened the history of friendly exchanges between China and Georgia. China has always attached great importance to developing relations with Georgia. China and Georgia prioritized peaceful development of their countries. Nowadays as the world economic development is in a relatively vulnerable period, both China and Georgia hope to strengthen cooperation, overcome difficulties and achieve the common goal with regard of developing economy and improving people's livelihood. At present China's cooperation with Georgia is still mainly confined to areas of the economy, but is growing very quickly.

The results of economic correlation coefficients, are presented in the table 3-4. High degree of Georgia associated with the economy of the commonwealth of independent states (CIS), and at the same time it is also very high correlation with China's economy. Anyway, China and

Georgia economic cooperation will have broad prospects.

Table 3-4 GDP correlation matrix of Georgia and its top ten trading partners

	Georgia	Turkey	Azerbaijan	Russia	China	Ukraine	Germany	Armenia	United States	Bulgarian	Japan
Georgia	1.00	0.93	0.96	0.98	0.92	0.97	0.84	0.93	0.78	0.94	0.49
Turkey	0.93	1.00	0.96	0.96	0.94	0.92	0.96	0.98	0.92	0.98	0.66
Azerbaijan	0.96	0.96	1.00	0.98	0.98	0.93	0.89	0.94	0.85	0.95	0.66
Russia	0.98	0.96	0.98	1.00	0.95	0.97	0.91	0.95	0.82	0.95	0.62
China	0.92	0.94	0.98	0.95	1.00	0.87	0.88	0.91	0.88	0.93	0.69
Ukraine	0.97	0.92	0.93	0.97	0.87	1.00	0.86	0.93	0.74	0.91	0.48
Germany	0.84	0.96	0.89	0.91	0.88	0.86	1.00	0.94	0.89	0.94	0.72
Armenia	0.93	0.98	0.94	0.95	0.91	0.93	0.94	1.00	0.91	0.98	0.58
United States	0.78	0.92	0.85	0.82	0.88	0.74	0.89	0.91	1.00	0.91	0.63
Bulgarian	0.94	0.98	0.95	0.95	0.93	0.91	0.94	0.98	0.91	1.00	0.62
Japan	0.49	0.66	0.66	0.62	0.69	0.48	0.72	0.58	0.63	0.62	1.00

Source: Calculated on United Nations data

3.5.1 Economic Cooperation and Development

Bilateral relations between Georgia and China are being developed dynamically towards various ranges of directions.

The mechanism for regular political consultations is being operated between the foreign entities of the two countries which represents the important format for cooperation and discussion of pending matters in various fields.

In recent years, Georgian economy witnessed the significant growth of Chinese investments; about 25 Chinese companies operate successfully in Georgia in sectors such as: construction, roads and infrastructure, energy, banking and etc.

Also, the bilateral trade and the number of Chinese visitors in Georgia are being significantly increased; relations in the fields of culture and education are being developed.

Besides, the important format in bilateral relations is intergovernmental economic commission, where the actual matters of trade-economic cooperation are discussed. China is among Georgia's 5 biggest trade partners.

Georgia successes in the field of political, economic, social, and foreign affairs are impressive. It has a good business environment, and reforms are undergoing in different industries. China

and Georgia are developing countries and have high development potential and strong complementarity. Therefore, China and Georgia will have a deepening of economic cooperation and development prospects in the following areas.

Transportation

A transportation service is the second largest category within the services sector. Georgia's geographical location plays important role in country's economic and political life. It is located on the crossroad of Europe and Asia, where transportation of strategic cargoes is conducted. Therefore, one of the top priorities for the Government of Georgia is coordinated functioning of transport fields, modernization-construction of transport infrastructure in accordance with international standards and approximation of country's legislation with international law.

Energy and Environment

In the energy sector, Georgia also plays a huge role. Georgia has abundant water resources, according to per capita possession of water to count the words, Georgia ranked second in the world. Meanwhile, Georgia in this area is a top green energy, clean energy supplier. Georgia currently uses 20% of its reserves of water energy. And it has a connection to all neighboring countries transmission.

In China, environmental services have been developed as a key industry. China will promote the development of environmental services, particularly in the urban waste disposal, gas aspect desulfurization, hazardous waste and medical waste disposal, water pollution treatment, massive pollution reduction, environmental infrastructure construction. So it will provide Georgian companies with broad opportunities.

China is not only a big country seeking for energy, but also an energy exporting country. China is focusing on the development of environment services. Therefore, China and Georgia have great opportunities for cooperation in the fields of energy and environment.

Infrastructure

In the framework of Silk Road economic belt, two countries will further expand cooperation in key infrastructure and other fields. March 28, 2015, Georgia announced to apply to join the Asia Infrastructure Investment Bank first in the area. On April 12th Georgia was officially accepted as a founding member of intention. Deputy Prime Minister of Georgia visited China in March 2015, signed an agreement with the Chinese Ministry of Commerce for cooperation in the "one-belt-one-road" framework to accelerate the development of infrastructure interoperability in the two countries, and enhance infrastructure interconnectivity level. China participated in the Tbilisi city rail, Like Ti tunnel repair works, road rehabilitation project in western Georgia and the construction of government buildings. Georgia will invest heavily, including airports, ports and roads and other infrastructure transformation efforts. Therefore, China and Georgia will have broad space for cooperation in the field of infrastructure.

3.5.2 Tourism Cooperation

Georgia was known as "God's garden". The famous Black Sea resort of Batumi, Georgia has become a tourist destination for Chinese citizens, tourism between the two countries also have great potential for development. There are millions of foreign tourists each year.

It is also important, that since 9 June 2011 the direct air service was designated on the route of Tbilisi-Urumchi, which significantly contributes as to the development of trade-economic relations between Georgia and China so to the consolidation of ties between the two nations.

It is also noteworthy, that since February 2012 the Government of China granted to Georgia the "Approved Destination Status in Tourism", which will assist in growth of Chinese tourists in Georgia.

In 2014, China outbound tourists reached 117 million. Outbound still mainly short-haul destinations, but the number of visitors to Southeast Asia fell sharply, more than 34%. Vast majority of Chinese people do not know Georgia is a tourist destination. Therefore, if Georgia plans to strengthen tourism policy efforts and other aspects of in-depth cooperation, tourism cooperation between Georgia and China will get a great opportunity.

3.6 Existing Legal and Institutional Framework of Bilateral Trade and Economic Cooperation

3.6.1 Legal and Institutional Framework of Bilateral Economic Cooperation

In June 1993, the Governments of China and Georgia signed *the Trade and Economic Agreement*, which strengthens the friendly cooperation between the two countries and develops economic and trade relations on the basis of equality and mutual benefit.

In June 1993, Chinese government signed *the Agreement on Scientific and Technological Cooperation* with Georgia to promote the scientific and technological cooperation boosting the economic development of the two countries.

In June 1993, the two governments signed *the Agreement on Maritime Cooperation*, elevating bilateral friendly relations and consolidating the maritime cooperation.

In January 1994, the two governments signed *the Visa Exemption Agreement on Official Travel*, and it entered into force on February 13, 1994.

In April 2001, Chinese government signed *the Agreement on Technical and Economic Cooperation* with Georgia. After that, the two governments respectively signed the economic and technological cooperation agreement in December 2005, July 2012 and December 2013.

In June 2005, the two governments signed *the Agreement on the Avoidance of Double Taxation on Incomes and the Prevention of Tax Evasion* in order to avoid double taxation.

In June 2011, the two governments signed *the Agreement on Civil Air Transport*, opening the

new route between Urumchi and Tbilisi.

Based on the Trade Agreement signed in 1993, the Governments of China and Georgia established the Georgia-China Joint Committee for Economic and Trade Cooperation in 1994, which provided a broader framework for economic cooperation. At the sixth session of the Georgia-China Joint Committee for Economic and Trade Cooperation was held in October, 2014 in Chengdu, China, the two sides exchanged views on expanding the scale of bilateral trade, strengthening the investment and economic cooperation..

3.6.2 Legal and Institutional Framework of Bilateral Investment

On purpose of encouraging enterprises in the two countries to increase mutual investment and creating a favorable environment for the two-way investment, in June 1993, the Governments of China and Georgia signed *the Agreement on the Encouragement and Reciprocal Protection of Investment*.

3.6.2.1 Legal Framework of Investment of China

China has established a relatively complete legal system for foreign investment, which includes Constitution of the People's Republic of China, the Law on Chinese-Foreign Equity Joint Ventures, the Law on Sino-foreign Cooperative Enterprises, the Law on Foreign-capital Enterprises, Company Law, Contract Law, Labor Contract law, Customs Law, Foreign Exchange Management Regulations and so on.

3.6.2.2 Legal Framework of Investment of Georgia

The key legislations facilitating investments in Georgia are:

- Law on Promotion and Guarantee of Investment Activity (November, 1996)
- Law on State Support of Investments (June, 2006)

Other legislation governing foreign investment includes the Constitution, the Civil Code, the Tax Code, the Law on Entrepreneurs, the Bankruptcy Law, the Law on Common Courts, the Law on Competition, the Accounting Law, and the Securities Market Law.

3.6.3 Legal and Institutional Framework of Tourism

In May 2012, China National Tourism Administration and Georgia Ministry of Economy and Sustainable Development signed *the Memorandum of Understanding Implementation Plan for Group Travel by Chinese Tourists to Georgia* aiming to facilitate the bilateral cooperation in tourism. Hereafter the government of China officially granted Georgia Approved Destination Status (ADS) for Chinese citizens.

3.6.4 Legal and Institutional Framework of Intellectual Property

At present, no bilateral cooperation agreement in the area of intellectual property has been concluded with China, while the bilateral cooperation agreement in this field can be expected soon along with the deepening cooperation in the field of intellectual property in recent years.

3.6.4.1 Existing Legislation in the field of IPR in China

The legislations in the field of IPR in China mainly include: Patent Law, Trademark Law, Copyright Law, Computer Software Protection Law, the Customs Protection Regulations of Intellectual Property Rights and so on.

3.6.4.2 Existing Legislation in the field of IPR in Georgia

The provisions related to intellectual property include Georgian Patent Law; Georgian Law on Trademarks; Georgian Law on Appellations of Origin and Geographical Indications of Goods; Georgian Law on Topographies of Integrated Circuits; Georgian Law on Copyright and Neighboring Rights; Georgian Law on New Breeds of Animals and Varieties of Plants; Georgian Law on Border Measures Related to Intellectual Property.

3.6.5 Other Legal and Institutional Frameworks

In 1992, Georgia and China established diplomatic relations, which actively pushes for development of bilateral friendly relations. The two countries established bilateral consultation mechanism of diplomatic officials providing a platform for exchange of views on cooperation in various fields.

Moreover, In June 1993, the two countries signed the Agreement on Cooperation in the fields of Food Industry and Agriculture, which was in force from the date of signing.

Furthermore, in the cultural field, the governments of China and Georgia signed *the Agreement on Cultural Cooperation* in June 1993, which encourages the cooperation of relevant authorities in the aspect of culture, art, education, journalism, publishing, tourism and so on. In September 2012, China Ministry of Culture and Georgia Ministry of Cultural and Historic Site Protection signed *the Agreement on cultural cooperation in 2012-2015*, to promote literature, drama, music, and art exchanges among the professional personnel of the two countries, and strengthen the cooperation of cultural industries and cultural trade.

In the term of educational filed, in April 2001, the Ministry of Education of China and the Ministry of Education of Georgia signed *the Agreement on educational cooperation* in order to expanding the educational cooperation of the two countries. In 2012, Volunteer Center of Chinese Language Council International and Georgia National Teachers' Career Development Center signed *the Memorandum of Understanding Sent Chinese Volunteers*, aiming to promote Chinese education and culture project.

In addition, in April 2006, the Ministry of Informational Industry of the People's Republic of China and the Ministry of Economic Development of Georgia signed *the Agreement on Cooperation in the fields of information and Communication*, which was in force from the date of signature.

4 Trade in Goods

4.1 Trade Policy

4.1.1 Tariff

4.1.1.1 China

According to its commitment to the World Trade Organization, China has completed the tariff concession promise in 2010. All tariffs have been incorporated into the category of the WTO regulations. In 2013, China's average MFN applied rate is 9.8%, 15.2% for agricultural products and 8.9% non-agricultural products.

Table 4-1 Summary of Bound tariffs and Applied tariffs in China, 2013 (%)

Product	Tariff	Duty-free	0 – 5	5 – 10	10 – 15	15 – 25	25 – 50	50 – 100	>100
Agricultural products	Final bound	8.0	1.5	6.8	69.4	11.9	2.1	0	0.3
	MFN applied	49.8	2.4	0.6	46.2	0.5	0.3	0.1	0
Non-agricultural products	Final bound	24.4	19.8	22.6	32.9	0.3	0	0	0
	MFN applied	93.0	1.5	0	5.2	0	0	0	0

Source: WTO Statistics Database

In manufacturing products, Clothes has the highest average MFN applied duties (16%), followed by Leather, footwear, etc. (13.5%), Manufactures, n.e.s. (12.1%), Transport equipment (11.4%), and Fish & fish products (10.6%). Wood, paper, etc. have the lowest duties (4.5%).

Table 4-2 Tariffs by Product Groups in China

Product Groups	MFN Applied Duties		
	AVG (%)	DUTY-FREE IN (%)	MAX (%)
Animal products	14.1	13.8	25
Dairy products	12.3	0	20
Fruit, vegetables, plants	14.8	4.9	30
Coffee, tea	14.9	0	32
Cereals & preparations	23.0	8.8	65
Oilseeds, fats & oils	10.9	9.1	30
Sugars and confectionery	28.7	0	50

Beverages & tobacco	23.5	2.1	65
Cotton	22.0	0	40
Other agricultural products	11.8	8.5	38
Fish & fish products	10.6	5.0	23
Minerals & metals	7.8	5.9	50
Petroleum	5.3	16.7	9
Chemicals	6.8	0.4	47
Wood, paper, etc.	4.5	35.8	20
Textiles	9.6	0	38
Clothing	16.0	0	25
Leather, footwear, etc.	13.5	0.6	25
Non-electrical machinery	8.2	9.2	35
Electrical machinery	8.9	23.9	35
Transport equipment	11.4	0.8	45
Manufactures, n.e.s	12.1	10.0	35

Source: WTO Statistics Database

China implements quota on some agricultural and fertilizer products. The total amount on tariff quota, distribution rules and related procedures are released annually. In 2013, tariff quota are implemented on 8 product groups, covering 47 tariff lines. Wheat, corn, rice and rice, sugar, wool and woolen sliver, cotton and chemical fertilizers are included. The in-Quota interim duty rates remain the same from 2013-2015. Tariff quota are implemented on imported goods in Table 4-3 from all countries except for wool and wool top from New Zealand, which apply tariff quota according to the arrangement in China-New Zealand FTA.

Table 4-3 In-Quota Interim Duty Rate on Imported Goods, 2013

No.	Product	Number of HS 8-digit	M.F.N Duty Rate (%)	In-Quota Duty Rate (%)
1	Wheat	7	65	1-10
2	Maize	5	20-65	1-10
3	Rice	14	10-65	1-9
4	Sugar	7	50	15
5	Wool	6	38	1
6	Wool top	3	38	3
7	Cotton ²⁰	2	40	1
8	Fertilizer ²¹	3	50	4

²⁰ For a certain amount of imported cotton beyond the quota (product number 52010000), provisional tariffs in the form of sliding tax is applied.

²¹ Provisional tariff rate is 1%.

Source: Customs Import and Export Tariff of the P.R.C, 2014

China implements bound tariff rates according to its Preferential Trade or Tariff Agreements signed with relevant countries. According to Preferential Trade or Tariff Agreements and the State Councils decision, special preferential tariff rates are offered for some goods in LDCs. Meanwhile, China carries out temporary import tax rates to some imported goods within a certain period, more than 700 imported commodities²² are included in 2015.

4.1.1.2 Georgia

Georgia has the one of the worlds most liberalized and competitive trade regime. According to the legislative amendments, since September 1, 2006, import tariff rates have gone down from 16 to 3 (0%; 5%; 12%). Import tariffs were abolished on almost 85% of products. In addition, there are no more seasonal tariffs. Tariff rates on imported products are set according to Chapter 28 of the Tax Code of Georgia.

There is a fixed tax rate on alcoholic beverages which varies from 0.2 Euros to 1.5 euros per liter. The import of light automobiles is subjected to specific taxation. The import tax rate is 0,05 GEL on every cubic centimeter of automobile engine capacity added by the 5% of import tax for every year an automobile has been in exploitation.

The following products are under the 12% taxation regime: meat and meat products, dairy products, eggs, honey, fruits, vegetables, tea, wheat flour, prepared meat products and cans, fruit and vegetable cans, fruit juices, plastic products, construction material, jeweled products and parts, and timber.

The following products are under the 5% taxation regime: pork, cheese and cottage cheese, prepared chocolate products, hair products and cosmetics, surface active organic materials, other sorts of plastic products, and electric cables. The following are exempt from import taxes:

- Imports from the EU, CIS countries and Turkey, except for the products on the exception lists of free trade regimes with the Russian Federation and Turkey;
- Imports aimed at humanitarian support or in times of natural calamities or catastrophes;
- Imports funded by grants or by preferential credit provided by a foreign country state body or an international organization, which includes not less than 25% of the grant;
- Imports valued at 500 GEL and weighing up to 30kg of overall weight by natural person, which is not destined for economic activities;
- When mailing imports under HS groups 28 and 97 with a value of 300 GEL and up to 30kg of overall weight, which is not destined for economic activities;

²² Provisional tariff rates of products under import tariff quota like cotton are not included.

- Imported children's products and diabetic food products marked and ready for wholesale and retail trade;
- Imports aimed at implementing international aviation and international maritime trips;
- Imports of facility-equipment, facility transportation, spare parts, and material destined for oil and gas production operations in line with the Law of Georgia on "Oil and Gas";
- Imports of tobacco raw material and products until January 1, 2015;
- Temporary imports.

According to Georgian legislation, exports (except iron scrap) and re-exports from Georgia are exempted from custom taxes.

Since September 1, 1997, according to the principle of the destination country, Georgia has used the taxation for value added tax (VAT). Respectively, exports from Georgia are exempted from VAT taxation.

The service rate is set for the export of black and light metal scrap or for the waste of black and light metal:

- For the export of black and light metal scrap or the waste of black and light metal – 160 GEL per ton;
- For the export of black metal production waste – 40 GEL per ton;
- For the export of light metal crude alloy – 50 GEL per ton.

According to Georgian Tax Code, the rates of value added tax and excise tax on domestic and imported production is equal to:

- Value added tax (VAT) -18%;
- Excise – fixed tax according to differentiated product.

According to Article 188 of the Tax Code of Georgia, the following products fall under the excise category:

- Beer;
- Ethyl spirits;
- Alcoholic beverages;
- Tobacco products (except for tobacco raw material);
- Automobiles;

- Oil gas and natural gas (except for transported in pipes);
- Other oil products.

In 2013, simple average MFN applied tariff rate was 1.5% in Georgia. The rate for agricultural products is 5.9%, and 0.7% for non-agricultural products.

Table 4-4 Summary of Bound tariffs and Applied tariffs in Georgia, 2013 (%)

Product	Tariff	Duty-free	0 – 5	5 – 10	10 – 15	15 – 25	25 – 50	50 – 100	>100
Agricultural products	Final bound	8.0	1.5	6.8	69.4	11.9	2.1	0	0.3
	MFN applied	49.8	2.4	0.6	46.2	0.5	0.3	0.1	0
Non-agricultural products	Final bound	24.4	19.8	22.6	32.9	0.3	0	0	0
	MFN applied	93.0	1.5	0	5.2	0	0	0	0

Source: WTO Statistics Database

Table 4-5 Tariffs by Product Groups in Georgia, 2013

Product Groups	MFN applied duties		
	AVG (%)	DUTY-FREE IN (%)	MAX (%)
Animal products	8.4	27.0	12
Dairy products	5.4	40.8	12
Fruit, vegetables, plants	9.0	25.2	12
Coffee, tea	4.6	54.2	12
Cereals & preparations	6.7	45.1	25
Oilseeds, fats & oils	0.1	99.4	12
Sugars and confectionery	10.6	11.8	12
Beverages & tobacco	11.9	5.1	52
Cotton	0	100	0
Other agricultural products	0.3	97.8	12
Fish & fish products	0	100	0
Minerals & metals	2.2	81.5	12
Petroleum	0.0	100	0
Chemicals	0.7	90.0	12
Wood, paper, etc.	1.7	86.2	12
Textiles	0	99.3	5
Clothing	0	100	0
Leather, footwear, etc.	0	100	0
Non-electrical machinery	0.2	98.7	12

Electrical machinery	0.1	98.6	5
Transport equipment	0	92.4	0
Manufactures, n.e.s	0.1	99.5	12

Source: WTO Statistics Database

At present, China's MFN tariff in all product groups are higher than in Georgia. Besides, considering Georgia's zero-tariff product coverage is much higher than China (Table 4-1 and 4-4), it is very likely that after forming bilateral FTA, Georgia's exports in goods to China will increase greatly.

4.1.2 Non-tariff Measures

4.1.2.1 China

The regulation on import license system are covered in the 2004 revision of the "Foreign Trade Law". The Ministry of Commerce releases the specific items that are covered by the <Catalog of Import License Administration> and <Automatic Import License Administration>. The license shall not be transferred.

Non-automatic licenses issued in accordance with China's obligations in international treaties. Applicants must first obtain import permission before applying for import license. Permit shall be valid throughout the calendar year. License can be extended one time, valid for three month at most.

Products do not belong to import restriction are not subject to the limitation of import quantity and price, and are covered by the automatic licensing system management for statistical purposes only.

Table 4-6 Summary of Non-tariff Measures in China after joining WTO²³

Measures	ADP		CV		QR	SG		SPS		SSG	TBT	
	I	F	I	F	F	I	F	I	F	F	I	F
Number	14	112	2	4	21	0	1	724	119	0	1026	26

Note: I: Initiated, F: In force

Source: WTO Statistics Database

4.1.2.2 Georgia

The Law of Georgia on Licenses and Permits does not consider non-tariff limitations in foreign trade (licenses, quotas, prohibitions, and other) except when restrictions are necessary

²³ Non-tariff measures are counted for the two countries during the date of accession to the WTO to June, 1st, 2015.

for healthcare, security, and environment protection purposes. Specifically, the following licenses and permits are issued:

Table 4-7 Import Restrictions and Licensing

Products	Permissio n/licence	Agency	Validity
(a) Products of floral origin subject to phytosanitary control;	Permission	National Food Agency legal entity of the public law of the Ministry of Agriculture	6 months
(b) Products subject to veterinary control;a	Permission	National Food Agency legal entity of the public law of the Ministry of Agriculture	1 month
(c) Endangered wild flora of fauna specimens;	Permission	Ministry of Environment	12 months
(d) Nuclear, radioactive objects, nuclear materials, radioactive substances, radioactive wastes, minerals (subsoil) from which it is practically possible to extract nuclear materials, also nuclear technologies, all that is made of nuclear materials or radioactive substances or contains them as a component;	Permission	Ministry of Energy and Natural Resources	12 months
(e) Military equipment and technique;	Permission	Ministry of Defence	No period of validity
(f) Pharmaceutical products under special control;c	Permission	Ministry of Labour, Health and Social Affairs	Period required for the specific operation for the predetermined amount
(g) Product of dual purposes;	Permission	Revenue Services, Ministry of Finance	12 Months
(h) Non-ionic salt;	Permission	Ministry of Agriculture	Unlimited duration
(i) Surveillance equipment;	Licence	Ministry of Internal Affairs	Not defined by the legislation
(j) Materials of limited	Permission	Ministry of Environment	Up to 2 year For import of ozone depleting

circulation			substances – December 31 of the same year; For export, re-export or transit of ozone depleting substances – one year after the date of issue
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The regulation of the export and import of goods of cultural property is implemented based on permits given by the Ministry of Culture and Monument Protection in line with the Law of Georgia on export and import of goods of cultural property.

According to Georgian legislation, the transit, export, re-export and import of any radio-active waste with any objective on the whole territory of Georgia is prohibited.

Table 4-8 shows Georgia's Non-tariff measures after joining WTO.

Table 4-8 Summary of Non-tariff Measures in Georgia after joining WTO

Measures	ADP		CV		QR	SG		SPS		SSG	TBT	
	I	F	I	F	F	I	F	F		F	I	F
Number	0	0	0	0	15	0	0	22	1	0	53	36

Note: I: Initiated, F: In force

Source: WTO Statistics Database

4.2 Other Trade Policies Affecting Trade in Goods

4.2.1 Rules of Origin

4.2.1.1 China

China applies non-preferential rules of origin in accordance with *the Regulations on Rules of Origin of Import and Export Commodities*. For goods wholly obtained within one country or region, that country or region shall be regarded as the origin of the goods. For goods of which the production involves two or more countries or regions, the country or region where the last substantial transformation has been made shall be regarded as the origin of the product. Substantial transformation shall be determined based on the changes in tariff classification criterion. In cases where the changes of tariff classification cannot reflect the substantial transformation, the percentage of ad valorem, working procedures of manufacturing or

processing, etc. shall be used as supplementary criteria. *The Regulations on Rules of Origin of Import and Export Commodities* also provides the legal framework for the administration of Rules of Origin matters in the field of China's non-preferential trade measures.

Preferential rules of origin of China are applicable to products originating from countries or regions with which China has concluded preferential trade arrangements (PTAs), such as Free Trade Agreements (FTAs) and Regional Trade Arrangements (RTAs). The criteria of Preferential Rules of Origin include the wholly obtained or produced criterion, changes in tariff classification criterion, regional value content criterion, manufacturing process criterion, or the others.

Table 4-9 Summary of Preferential rules of origin of China

Agreement	Rules of Origin
APTA	1) Wholly obtained or produced in the exporting Participating State; 2) the value of non-originating materials, parts or components used in the manufacture must be no more than 55% of the FOB value of the final product; 3) product-specific criteria.
ASEAN	1) Wholly obtained or produced in a party; 2) the content of products originating in - a party should be no less than 40% of the total value; or the value of the non-originating parts or components used in the manufacture of the products must be no more than 60% of the FOB value of the product; 3) product-specific criteria.
Hong Kong, China	1) Wholly obtained in one side; 2) goods have undergone substantial transformation in one side, including “manufacturing or processing operations”, “change in HS 4-digit tariff classification”, “value-add content of at least 30%” and other criteria or combination of the above criteria.
Macao, China	1) Wholly obtained in one side; 2) goods have undergone substantial transformation in one side, including “manufacturing or processing operations”, “change in HS 4-digit tariff classification”, “value-add content of at least 30%” and other criteria or combination of the above criteria.
Chile	1) Wholly obtained or produced; 2) the good is exclusively produced from originating materials entirely in the territory of one or both Parties; 3) a regional value content not less than 40%; 4) product-specific rules
Pakistan	1) Wholly obtained or produced in a party; 2) the content of products originating in - a party should be no less than 40% of the total value; or the value of the non-originating parts or components used in the manufacture of the products must be no more than 60% of the FOB value of the product; 3) product-specific rules.

New Zealand	1) Wholly obtained or produced in the territory of a Party; 2) the good is exclusively produced from originating materials entirely in the territory of one or both Parties; 3) the good is produced using non-originating materials that conform to a change in tariff classification, a regional value content, a process requirement or other requirements specified in Annex 5 (Product Specific Rules of Origin).
Singapore	1) Wholly obtained or produced; 2) the regional value content shall not be less than 40%; 3) product specific rules
Peru	1) Wholly obtained or produced in the territory of a Party; 2) the good is exclusively produced from originating materials entirely in the territory of one or both Parties; 3) the good is produced using non-originating materials that conform to a change in tariff classification, a regional value content, a process requirement or other requirements specified in Annex 4 (Product Specific Rules of Origin).
Costa Rica	1) Wholly obtained or produced in the territory of a Party; 2) the good is exclusively produced from originating materials entirely in the territory of one or both Parties; 3) the good is produced using non-originating materials that conform to Product Specific Rules.
Iceland	1) Wholly obtained or produced in the territory of a Party; 2) the good is exclusively produced from originating materials entirely in the territory of one or both Parties; 3) the good is produced using non-originating materials that conform to a change in tariff classification, a regional value content, a process requirement or other requirements specified in Annex 4 (Product Specific Rules of Origin).
Switzerland	1) Wholly obtained in a Party; 2) non-originating materials used in the working or processing of the product have undergone substantial transformation in a Party (product specific rules); 3) a product has been produced in a Party exclusively from originating materials of one or both Parties.

Preferential rules of origin also cover related operational procedures, including issuance of certificates of origin, checking of certificate of origin and the goods at the time of importation and exportation, as the case may be, and verification based on negotiated procedures between the Parties. For preferential rules of origin, direct transportation is usually required and the article of cumulation is also included.

For goods exported from China, Certificates of Origin are issued by:

- Local Entry-Exit Inspection and Quarantine Bureaus subordinate to General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ)

- China Council for the Promotion of International Trade and its local sub-councils

4.2.1.2 Georgia

Georgia applies non-preferential rules of origin in accordance with the national legislation, which is in full compliance with relevant rules of the World Trade Organization, in particular, with the Tax Code of Georgia and the Decree of the Government of Georgia #420 on “approval of criteria for the originating country, form of origin certificate and rules for issuance and filling in of certificate” dated by December 29, 2010. The above mentioned Decree of the Government of Georgia provides for the legal framework on administration of rules of origin matters. It sets out the four criteria determining the country of origin of product. For goods wholly obtained within a country, that country shall be regarded as the origin of the goods. For goods the production of which involved two or more countries, the country where the last substantial transformation has been made shall be regarded as the origin of the product. The provisions of the Decree also provide for determination of originating status of a product through the method of changes in tariff classification on 4 digit level and the criterion of ad valorem (value) rule. It specifies the working and processing operations that are insufficient for product to obtain originating status in a country and regulates the issuance of Certificates of Origin.

Preferential rules of origin of Georgia are applicable to products originating from countries with which Georgia has concluded preferential trade agreements, such as Free Trade Agreements (FTAs) and Regional Trade Arrangements (RTAs). The primary criteria of Preferential Rules of Origin are the wholly obtained and substantial transformation criteria. Substantial transformation criteria include changes in tariff classification criterion, ad valorem (value) share criterion, special working and processing rule, or combination of the criteria mentioned above. For several cases product-specific rules-of-origin (PSR) list sets out rules for products to be granted originating status.

Preferential rules of origin are regulated according the corresponding agreements:

- ☐ Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part (Protocol I)
- ☐ Protocol II of the Free Trade Agreement between the Republic of Turkey and Georgia
- ☐ Decision of the heads of state of Commonwealth of Independent States on rules of origin (November 30, 2000)
- ☐ GSP Directives
- ☐ Article I of the Free Trade Agreement between the Russian Federation and Georgia

Table 4-10 Summary of Preferential rules of origin of Georgia

Agreement	Rules
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<p>CIS (excluding Russia)</p>	<p>All imports from CIS partners have been duty-free and quota-free to enter Georgia. A good is originating from CIS countries, if it is:</p> <ul style="list-style-type: none"> a) wholly obtained in that country; b) where raw materials, or materials which originate in one or more countries are subject afterwards to a stage-by-stage processing in other countries, are used in production of the final goods in one of the signatory States of the Agreement, the country of origin of such goods are the country where it was subject to the last substantial processing/transformation; c) where third countries are involved in the production of the goods, the country of origin of the goods are determined in compliance with the criterion of substantial processing / transformation of the goods: (i) a change in the tariff clarification at the heading level; (ii) specific conditions for manufacturing and processing operations are specified for a large number of products (mainly food and chemical products) in a List of Conditions annexed to the Rules; these conditions determine whether the goods can be considered to originate from the country where the operations took place; (iii) the rule of <i>ad valorem</i> percentage, whereby the value of the materials to be used or the added value must reach a fixed percentage in the price of finished products. <p>The goods must be shipped directly from the territory of one of the Parties, and they must be purchased directly from an enterprise or incorporated company in one of the Parties.</p>
<p>CIS (Russia)</p>	<p>Following goods are considered to have originated in the territory of Parties:</p> <ul style="list-style-type: none"> a) goods fully produced in the territory of the other Party; b) goods produced from raw materials originating in third countries which have been processed sufficiently to have undergone a change in tariff classification based upon the harmonized system of tariff classification . and c) goods in paragraph (b) provided that the finished total value does not exceed the fixed share of the export part of the final goods or the value of the non-originating goods does not exceed 50% ex-works price of the final product.

EU	<p>Products are generally considered as originating in a Party: if they are wholly obtained in a Party; or if they are obtained in a Party, incorporating materials which have not been wholly obtained there, provided they have undergone sufficient working or processing in the Party. Sufficient working or processing must satisfy product-specific rules of origin listed in Appendix II of the Association Agreement. Specific rules are defined for textile and textile articles and "basic textile materials".</p> <p>Direct transport is required. Cumulation of origin is allowed. No outward-processing authorized (except for a tolerance rule of up to 10% of the ex-work price. Does not apply to textiles and clothing). Drawback prohibited.</p>
Turkey	<p>Products are generally considered as originating in a Party: if they are wholly obtained in a Party; or if they are obtained in a Party, incorporating materials which have not been wholly obtained there, provided they have undergone sufficient working or processing in the Party. Sufficient working or processing must satisfy product-specific rules of origin listed in Annex II of the Free Trade Agreement Between Georgia and the Republic of Turkey. Specific rules are defined for textile and textile articles and "basic textile materials".</p> <p>Direct transport is required. Cumulation of origin is allowed. No outward-processing authorized (except for a tolerance rule of up to 10% of the ex-work price. Does not apply to textiles and clothing). Duty drawback permitted under specific conditions.</p> <p>Duty drawback permitted under specific conditions.</p> <p>No outward-processing authorized (except for a tolerance rule of up to 10% of the ex-work price. Does not apply to textiles and clothing).</p>

The Association Agreement between the European Union and Georgia provides for an opportunity to the Government of Georgia to start negotiations to join the Pan-Euro-Mediterranean Convention on Preferential Rules of Origin which will allow Georgia, as a contracting party, to benefit from the Diagonal Cumulation between the Euro-Mediterranean states.

Preferential rules of origin also cover related operational procedures, including issuance of certificates of origin, checking of certificate of origin and the goods at the time of importation and exportation.

For goods exported from Georgia, Certificates of Origin are issued by:

- ☐ Ministry of Economy and Sustainable Development of Georgia
- ☐ LEPL Revenue Service of the Ministry of Finance of Georgia
- ☐ LEPL Georgian Chamber of Commerce and Industry
- ☐ Ministry of Finance and Economy of the Autonomous Republic of Adjara

- ☐ LEPL The National Wine Agency under the Ministry of Agriculture of Georgia (this institution issues Certificates of Origin only for winery products in accordance with the regulation determined by the Ministry of Agriculture of Georgia. except when exporting to the EU and Turkey under the Movement Certificate EUR.1)

4.2.2 Customs Procedures and Trade Facilitation

4.2.2.1 China

China joined several conventions on clearance facilitation sponsored or administered by the World Customs Organization (WCO), such as *Convention on the Harmonized Commodity Description and Coding System (HS Convention)*, *International Convention on the simplification and harmonization of Customs procedures (Kyoto Convention)* (as amended), *Customs Convention concerning Facilities for the Importation of Goods for Display or Use at Exhibitions, Fairs, Meetings or Similar Events*, *Customs Convention on the ATA carnet for the temporary admission of goods (ATA Convention)*, *Convention on Temporary Admission (Istanbul Convention)* and *Customs Convention on Containers*.

China has implemented all the agreements related to customs under World Trade Organization (WTO). In December 2013, WTO members concluded negotiations on a *Trade Facilitation Agreement* at the Bali Ministerial Conference. WTO members adopted on 27 November 2014 a *Protocol of Amendment* to insert the new Agreement into Annex 1A of the WTO Agreement. The *Trade Facilitation Agreement* will enter into force once two-thirds of members have completed their domestic ratification process.

To enforce the relative conventions and fulfill its international obligations, China Customs has been taking actions on reform of customs procedures to simplify clearance procedures, improve clearance efficiency and reduce clearance costs. Customs procedures are regulated under the *Customs Law of the People's Republic of China* (issued in 1987, and amended in 2000 and 2013), *the Regulations of the People's Republic of China on Import and Export Duties* (issued in 2003, and amended in 2011 and 2013) and related regulations, rules and by-laws. The General Administration of Customs of the People's Republic of China (GACC), the national authority responsible for customs administration in China, issues administrative customs ordinances and announcements as required to introduce and enforce changes in customs procedures.

In 2006, China reformed its regional and customs transit system, under which Customs authorization could be given, at the port of entry, for goods to be transported to the final destination, where customs clearance would take place. In 2006, China's E-Port, an electronic platform, was also launched. China's E-Port connects 13 major port authorities. Through the E-Port, traders can, inter alia, file on-line customs declarations and make payments in duties. The first Single Window System for International Trade was put into operation on a trial basis in Shanghai Yangshan Free Trade Port in June, 2014 and will be promoted to all sea ports in the coastal areas in 2015.

Since 2009, China has launched a series of reforms to make customs procedures more efficient both for imports and exports. In 2009, China launched a pilot programme on the Reform of Classified Customs Clearance, referring to the classification of imports (and exports) according to risk level of enterprises based, inter alia, on credit rating, and compliance with the law. In December 2014, GACC adopted Interim Provisions of Customs Management on Enterprise Credit (GACC Decree No. 225 of 1 December 2014), aiming to put differentiated treatment to the import and export enterprises, such as Classified Customs Clearance, establish an credit management system and guarantee trade security and convenience, and set up China's authorized economic operator (AEO) system.

In 2012, GACC began to launch pilot program about paperless reforms on clearance for imports and exports via air, sea and land. In 2014, more than 80% of customs declaration forms were dealt with on a paperless basis.

In response to WTO Trade Facilitation Agreement, GACC introduced a series of measures to further improve trade facilitation in 2014. To improve harmonized and integrated clearance during different customs districts, the reform program on clearance integration has been executed in Beijing-Tianjin-Hebei region, the Yangtze River Economic Belt, four provinces in the Pearl River, Silk Road Economic Belt, and North-east area of China. In October 2014, GACC introduced the General Program for Comprehensive Reform of the Customs, which put forward a series of reform measures to construct the integrated clearance management pattern of the whole country and to promote trade facilitation and security.

In February 2015, the State Council adopted the Reform Program of Integrated Clearance Based on 3M (“Mutual Sharing of Information, Mutual Recognition of Control and Mutual Assistance of Enforcement”) to promote connectivity among border management bodies, integrated clearance process and accessibility of International logistics channels.

In recent years, China Customs has launched some new supervision policies on cross-border E-commerce to regulate the sector and guarantee the operations.

While China is making efforts to harmonize customs procedures across the country, it is also promoting and creating new “special customs supervision areas” that are governed by special regulations. There are 122 such areas in China, aiming to facilitate processing trade and entrepot trade. On 17 August 2013, the State Council officially approved the establishment of the China (Shanghai) Pilot Free Trade Zone (CSPFTZ) to test policies to further promote trade and investment facilitation and integrate all the special customs supervision areas. In March 2015, Guangdong, Tianjin and Fujian Pilot Free Trade Zone were established and the open-policy and reform programme of Shanghai Pilot Free Trade Zone was deepened.

According to the OECD Trade Facilitation Indicators, comparing with the average of Asian and upper middle income countries, China performs better in the areas of advance rulings, appeal procedures, fees and charges and governance and impartiality.

4.2.2.2 Georgia

Since 2005, the Customs of Georgia has been taking actions to simplify its clearance procedures and to facilitate trade with different countries through conducting relevant paperless reforms to shorten the releasing time of goods and to enhance the clearance in an efficient manner. Customs procedures are regulated under the Tax Code of Georgia and secondary regulations, instructions and by-laws. According to the Deep and Comprehensive Free Trade Area (DCFTA) under the Association Agreement between the European Union and Georgia, which came into the provisional application on 1 September 2014, the Georgian side undertook the obligation to approximate its customs regulations in line with the EU. There are two main state institutions, which directly conduct the border related procedures in Georgia. In particular, the Legal Entity of Public Law – “Revenue Service” under the Ministry of Finance of Georgia is the agency responsible for the implementation of the Tax Code which, inter alia, conducts customs clearance and other border related procedures, including SPS related inspections, licensing procedures at the border and passport control of drivers of trucks.

Since 2009, a number of changes were made to the import and export procedures, these were mainly targeted at the simplification and streamlining of the process; and also towards the refinement of control mechanisms employed by the customs officers.

In 2010, Georgia reduced the cost of trade and simplified the documentation requirements, and opened the first customs clearance zone (CCZ). Currently there are six CCZs, offering trade facilitating services such as: filling out customs declarations; conducting customs clearance, examination, and inspection; issuing certificates and permits; providing parking areas and areas dedicated to banking service providers; and providing consultation services.

On January 1, 2011 new tax code entered into force. The code incorporates the tax and customs legislation. Accordingly, while the forms of interaction between the entrepreneur and the state had changed, the term of micro-business had been introduced. Practice of Tax Ombudsmen was introduced.

New Tax Code significantly improved the business environment, which was put in effect by considering the following approaches of international good practice:

- ☐ Reduction of tax burden – simplification of tax administration;
- ☐ Creation of steady and sustainable tax environment;
- ☐ Principle of “Good Faith”;
- ☐ Special tax regime for micro and small business;
- ☐ Special trade zone (segmentation of trade units/trading places);
- ☐ Fixed tax.

According to the OECD Trade Facilitation Indicators, comparing with the average of Europe (non OECD) and Central Asia and lower middle income countries, Georgia performs better in the areas of simplification and harmonization of documents, automation and internal border agency cooperation.

4.2.3 Sanitary and Phytosanitary Measures (SPS)

4.2.3.1 China

As one of the members of WTO, China has committed to comply with the SPS Agreement and ensure conformity with the SPS Agreement of all its laws, regulations, decrees, requirements and procedures related to SPS measures.

The administrative agencies of sanitary and phytosanitary measures in China mainly include National Health and Family Planning Commission of China, Ministry of Agriculture, Ministry of Commerce, the General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ), China Food and Drug Administration, State Forestry Administration, etc. AQSIQ is responsible for inspection and quarantine concerning the entry and exit of plants, animals, their products, and food. Based on risk analysis, AQSIQ is authorized to determine whether the import of a product is permitted, to establish inspection and quarantine conditions for the entry of imported products, and to sign agreements with related government authorities of other countries on general SPS issues or for specific products. At the same time, AQSIQ has the right to raise certain requirements on entry inspection and quarantine, and to negotiate with related government authorities of other countries on general SPS issues or inspection and quarantine requirements in details for specific products.

The legislative framework in the SPS area includes a series of laws, regulations and the implementation rules, mainly including Law on Entry and Exit Animal and Plant Quarantine, Food Safety Law, Law on Import and Export Commodity Inspection, Agricultural Product Quality and Safety Law, Law on Frontier Health and Quarantine, and their implementation rules, etc, which provides the related procedures and also the inspection, quarantine and supervision requirements for SPS.

AQSIQ has the specific entity that is responsible for the notification and enquiry of WTO/SPS.

4.2.3.2 Georgia

From the date of Georgia's accession to the WTO, Georgia has committed to comply with the WTO's SPS Agreement and ensure conformity with the SPS Agreement of all its laws, regulations, decrees, requirements and procedures relating to SPS measures. Drafting of new standards in Georgia is based on scientific grounds, following the principles established in the WTO Agreement, avoiding measures that may pose hidden barriers to trade.

To apply this policy, Georgia has an active participation at the multilateral level and is a member of the three standard setting bodies recognized by the WTO:

- ☐ the OIE (World Organisation for Animal Health), as the relevant organization for animal health and zoonoses,
- ☐ the Codex Alimentarius Commission, as the relevant organization for food safety
- ☐ the IPPC (International Plant Protection Convention), as the relevant organization for plant health

The competent authorities for sanitary and phytosanitary (SPS) regulations are the Ministry of Agriculture and its subordinating body LEPL-National Food Agency. Ministry of Labour, Health and Social Affairs contributes by defining parameters of food safety for human health. Revenue Service is responsible for Border inspection.

Inspection and testing at the Border Inspection are carried out by the Revenue Service. All consignment subject to SPS control should have appropriate veterinary/sanitary or phytosanitary certificate respectively. If a consignment is not in conformity with SPS requirements:

- ☐ it is banned to enter the territory of Georgia;
- ☐ it may be subject to treatment, sorting, packing replacement or treatment, if such actions preclude the identified risk;
- ☐ it may be subject to destruction;
- ☐ it may be subject to suspension.

Imports of animals and animal products must be accompanied by a veterinary certificate issued in the country of origin. In case of food of animal origin, the veterinary/health certificate is required. Pesticide management is governed under the Food/Feed, Veterinary and Plant Protection Code, and the Law on Pesticides and Agrochemicals, in accordance with the Rotterdam Convention, the Stockholm Convention, the Basel Convention, and the Montreal Convention, as well as the FAO International Code of Conduct on the distribution and use of pesticides. Institutions involved include: the Ministry of Environment Protection and Natural Resources, the Ministry of Labour, Health and Social Affairs, and research institutions.

Plants and plant products subject to phytosanitary control must be accompanied by a phytosanitary certificate, issued by the quarantine authority of the exporting country and in

cases established by the Georgian legislation, the consignment intended for import must be accompanied by permit for import (issued by the National Food Agency and Georgia Revenue Service).

Commodities of plant origin and other items subject to quarantine require a phytosanitary certificate issued by the quarantine service of the exporting country.

Infested or infected shipments that cannot be disinfected are returned to the country of origin or destroyed with the owner's consent.

According to the Deep and Comprehensive Free Trade Area (DCFTA) under the Association Agreement between the European Union and Georgia, which came into the provisional application on 1 September 2014, the Georgian side undertook the obligation to approximate its SPS regulations in line with the EU. As far Georgia have elaborated list of EU food safety, veterinary and phytosanitary regulation, which will be approximated during 15 years.

4.2.4 Technical Barriers to Trade (TBT)

4.2.4.1 China

China has always committed to take part in the activities of international standardization and formulate the technical regulations, standards and conformity assessment procedures based on international standards. China actively fulfils the obligations of transparency, and also exercises the right of appraisal. According to the principles set out in WTO/TBT to protect human health or safety, animal or plant life or health, or the environment, to prevent deceptive practice and protect national security, the General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ) is authorized to inspect or examine the imported or exported commodities.

The Standardization Administration of China (SAC), working under the AQSIQ, is responsible for exercising the unified management of standardization in China. SAC is authorised to develop the national planning of standardization and is responsible for formulating and revising national standards. SAC is also responsible for the review, approval, numbering and publication of national standards. SAC is required to coordinate, guide and keep a record of the standards coming from government agencies, local governments and the companies. SAC shall take part in the activities of International Standard Organization (ISO), International Electrical Commission (IEC) and other international or regional standard organizations as the representative of China.

The Certification and Accreditation Administration of China (CNCA) under the AQSIQ is responsible for exercising the unified management, supervision and coordination of certification and accreditation work in China. CNCA is also responsible for establishing and publishing a catalogue of products which are subject to compulsory certification in China (CCC), issuing certification marks and conformity assessment procedures, organizing the activities for compulsory certification and quality safety permits. Products listed in the

Catalogue of Products Subject to Compulsory Certification shall not be sold, imported or used in any commercial activities without CCC marks. Currently, the Catalogue²¹ covers 20 groups, consisting of 158 sub-categories, and includes household appliances, motor vehicles and accessories, fire-fighting products, agricultural machinery, ornaments, toys, etc.

Other government agencies involved in TBT affairs include Ministry of Commerce, Ministry of Industry and Information Technology, Ministry of Public Security, National Health and Family Planning Commission of China, Ministry of Environmental Protection, China Food and Drug Administration, etc. The laws and regulations related to TBT affairs mainly include Law on Import and Export Commodity Inspection, Food Hygiene Safety Law, Law on Product Quality, Certification and Accreditation Regulation of China, the Standardization Law, Implementation Rules of the Law on Import and Export Commodity Inspection, etc.

AQSIQ has the specific entity that is responsible for the notification and enquiry of WTO/TBT.

4.2.4.2 Georgia

Since 2009 Georgia actively continues the implementation of the reforms in TBT (standardisation, metrology, technical regulations, accreditation, conformity assessment and market surveillance) field. TBT was identified one of priority areas in the framework of DCFTA negotiations preparation.

The competent institutions in the field of national quality infrastructure are working under the Ministry of Economy and Sustainable Development of Georgia:

- ☐ **Georgian National Agency for Standards and Metrology (GEOSTM)**
- ☐ **Unified National Body of Accreditation – Accreditation Centre (GAC)**
- ☐ **Technical and Construction Supervision Agency (TCSA)**

Georgia continues to further develop national quality infrastructure according to the international and the EU best practices, based on Strategy in Standardization, Accreditation, Conformity Assessment, Technical Regulation and Metrology (TBT Strategy) adopted by the Government of Georgia's Decree # 965 of 16 July 2010 and the Programme on Legislative Reform and Adoption of Technical Regulations (TBT Programme) adopted by GoG's Decree # 1140 of 25 August 2010.

In May 2012, Parliament of Georgia adopted the Law of Georgia "Code on safety and free movement of goods". The code incorporates all relevant legislation in the field of Quality Infrastructure, as well as requirements of two EU horizontal directives - General Product Safety Directive and Liability for Defective Products - are reflected in the Code.

According to the timeframe of the TBT Programme GoG approximated technical regulations to the following 6 sectorial new approach directives:

- ☒ Cableway Installations Designed to Carry Persons (GoG decree №320, 15.8.2011);
- ☒ Lifts (GoG decree №289, 20.7.2011);
- ☒ Pressure Equipment (GoG decree №151, 19.6.2013);
- ☒ Efficiency Requirements for New Hot-water Boilers Fired with Liquid or Gaseous Fuels (GoG decree №149, 17.6.2013);
- ☒ Simple Pressure Vessels (GoG decree №150, 19.6.2013);
- ☒ Recreational Craft (GoG decree №452, 31.12.2013);

The process of approximation of the secondary legislation in the field of TBT will be further continued according to the timeframes given in the annexes of TBT Chapter of EU Georgia DCFTA.

In order to further refine and improve the process related to the notification obligation under WTO TBT agreement the governmental decree “On procedure of notification in WTO regarding standards, technical regulations, conformity assessment procedures and drafts thereof” was developed and adopted in 18 September 2009.

According to the Georgian legislation, technical regulations of other countries can be acknowledged and accepted for use in Georgia, provided that the mentioned regulation adequately fulfills the objectives of national regulation.

4.2.5 Trade Remedies

Trade remedies refer to trade policy tools that allow governments to take trade restrictive measures, in exceptional situations, against importing products which cause injury to the domestic industries and with the purpose of having remedial effects to the domestic industries. Trade remedies mainly include anti-dumping measures, countervailing measures and safeguard measures. According to relevant WTO rules, such measures are subject to procedural and substantive conditions (e. g. causing injury to domestic industry).

4.2.5.1 China

Anti-dumping Measures

China takes anti-dumping measures according to the provisions of Foreign Trade Law of the People's Republic of China and the Regulations of the People's Republic of China on Anti-dumping.

According to WTO statistics, as of 30th June 2014, there had been totally 1022 anti-dumping investigations initiated against China by other members of the WTO, including India (165 cases), United States (121 cases), European Union (115 cases), Argentina (91 cases), Brazil (82 cases), mainly targeting products of base metals and articles (Catalogue fifteenth of HS, 274 cases), the chemical or allied industries (Catalogue sixth of HS, 200 cases), machinery and electrical equipment (Catalogue sixteenth of HS, 129 cases), textile and articles

(Catalogue eleventh of HS, 84 cases), resins, plastics and articles; rubber and articles (Catalogue seventh of HS, 75 cases), articles of stone, plaster; ceramic prod.; glass (Catalogue thirteenth of HS, 61 cases) etc. According to the statistics from WTO, as of 30th June 2014, China had totally initiated 215 anti-dumping investigations, mainly targeting products of the chemical or allied industries (Catalogue sixth of HS, 119 cases), resins, plastics and articles; rubber and articles (Catalogue seventh of HS, 39 cases), Paper, paperboard and articles (Catalogue tenth of HS, 16 cases), base metals and articles (Catalogue fifteenth of HS, 16 cases) etc.

Except that Hong Kong CEPA / Macau CEPA, in which two sides undertake that neither side will apply anti-dumping measures to goods imported and originated from the other side, the Parties retains its rights and obligations under the WTO Agreement with regard to the application of antidumping measures in most of FTAs which China has signed, and some FTAs impose stricter procedural disciplines on the investigation authority of importing party.

As of June 2015, China has not initiated any anti-dumping investigation against the products from Georgia.

Countervailing Measures

China undertakes countervailing measures under the provisions of the Foreign Trade Law of the People's Republic of China and the Regulations on Countervailing Measures of the People's Republic of China.

According to WTO statistics, as of 30th June 2014, 84 cases had been initiated against China by other members of WTO, including United States (43 cases), Canada (19 cases), Australia (10 cases), European Union (5 cases), India (2 cases), Mexico (1 case), and South Africa (1 case). The relevant products are mainly base metals and articles (Catalogue fifteenth of HS, 43 cases), the chemical or allied industries (Catalogue sixth of HS, 11 cases), machinery and electrical equipment (Catalogue sixteenth of HS, 10 cases), Paper, paperboard and articles (Catalogue tenth of HS, 5 cases) etc. According to the statistics from WTO, as of as of 30th June 2014, China had initiated 7 countervailing investigations, of which 4 cases against the United States and 3 cases against European Union. The relevant products are mainly Grain Oriented Flat-rolled Electrical Steel, potato starch, White Feather Broilers, sedans and cross-country vehicles with engine displacements of 2.0 litres and above, solar-grade polycrystalline silicon etc.

Except that Hong Kong CEPA / Macau CEPA, in which two sides undertake that neither side will apply countervailing measures to goods imported and originated from the other side, the Parties retains its rights and obligations under the WTO Agreement with regard to the application of countervailing measures in most of FTAs which China has signed.

As of June 2015, China has not initiated any countervailing investigation against the products from Georgia.

Safeguard Measures

China undertakes safeguard measures under the provisions of Foreign Trade Law of the People's Republic of China and Regulation of the People's Republic of China on Safeguard Measures. According to the statistics of WTO, in the aspect of global safeguard measures, as of 31st December 2014, there were 295 cases of Safeguard initiations by Reporting Members. China had initiated only one safeguard measure on steel products without involving the products from Georgia as of 31st December 2014.

The provisions on global safeguard measures and bilateral safeguard measures are contained in most of the FTAs which China has signed. The relevant parties usually promised that possible safeguard measures should be first handled through consultation and negotiation. Bilateral and global safeguard measures should not be adopted simultaneously.

4.2.5.2 Georgia

In accordance with the obligations undertaken in the WTO framework, Georgia will not use anti-dumping, countervailing or safeguard measures until it has notified and implemented appropriate laws in conformity with the WTO rules. The relevant legislative basis has not been elaborated in Georgia.

4.3 Trade in Specific Sectors

4.3.1 Agricultural Products

In 2014, the import and export value of China's agricultural products were \$ 101.2 billion and \$ 68.8 billion, increasing by 6.0% and 6.3% respectively, and the trade surplus of agricultural products was \$ 32.4 billion. In 2014, China imported \$4.6 million of agricultural products from Georgia, accounting for 0.005% of China's total imports of agricultural products from the world. In the same year, China exported \$ 33.7 million of agricultural products to Georgia, accounting for 0.049% of China's total exports of agricultural products to the world.

According to the 'Customs Import and Export Tariff of the People's Republic China (2015)', the import tariff of China's agricultural products is 13.83% in 2015.

Table 4-11 Import and export of agricultural products between China and Georgia

	China's Trade with the World (\$ billion)			China's Trade with Georgia (\$ million)			Percentage of China's trade with Georgia in China's trade with the World (%)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Export	60.6	64.8	68.8	26.08	27.36	33.65	0.043	0.042	0.049
Import	87.2	95.6	101.2	3.42	4.42	4.63	0.004	0.005	0.005
Trade balance	-26.6	-36.4	-32.4	22.66	22.94	29.02			
Percentage of the Total Export (%)	2.96	2.94	2.95	3.52	3.17	3.70			
Percentage of the Total Import (%)	5.14	5.35	5.60	10.18	8.11	8.71			

Data source: China's customs database, UN comtrade database

China-Georgia FTA will boost the exports of competitive agricultural commodities and enhance the bilateral agricultural trade. FTA will further enhance the exploitation of comparative advantage of agricultural commodities in both sides. Consequently, the bilateral agricultural trade will increase significantly, especially for those commodities of vegetable and fruit, processed food and poultry products.

4.3.2 Textiles and Costumes

Textiles and Costumes have played a significant role in China's foreign trade and have been one of the most important sources of trade surplus. In 2014, the import and export value of China's textiles and costumes were \$ 36 billion and \$ 287.6 billion, decreasing by 10.9% and increasing by 5.0% respectively, and the trade surplus of textiles and costumes was \$ 251.6 billion. In 2014, China imported \$ 3.9 million of textiles and costumes (HS50-63) from Georgia, and exported \$ 54.98 million of textiles and costumes to Georgia.

According to the 'Customs Import and Export Tariff of the People's Republic China (2015)', the import tariff of China's textiles and costumes is 12.59% in 2015.

Table 4-12 Import and export of textiles and costumes between China and Georgia

	China's Trade with the World (\$ billion)			China's Trade with Georgia (\$ million)			Percentage of China's trade with Georgia in China's trade with the World (%)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Export	246.1	274.0	287.6	60.27	69.82	54.98	0.025	0.026	0.019
Import	40.9	40.4	36.0	0.58	2.32	3.93	0.001	0.006	0.011
Trade balance	205.2	233.6	251.6	59.69	67.50	51.05			
Percentage of the Total Export (%)	12.04	12.43	12.32	8.14	8.10	6.05			
Percentage of the Total Import (%)	2.41	2.26	1.99	1.74	4.26	7.40			

Data source: China's customs database, UN comtrade database

FTA will promote the export of textile and apparel products from Georgia to China. China keeps the relative high import tariff on textile and apparel products even after its WTO accession in 2001. The export of textile and apparel products from Georgia to China is expected to rise notably after elimination of import tariff. However, there is no significant impact on China's export of textile and apparel products to Georgia, as Georgia's market has already been liberalized and no tariff levied on textile and apparel products.

4.3.3 Machinery and Electronic products

In 2014, the import and export value of China's machinery and electronic products were \$ 807.5 billion and \$ 1179.9 billion, increasing by 1.0% and 3.0% respectively, and the trade surplus of machinery and electronic products was \$ 372.4 billion. In 2014, China imported \$ 1.6 million of machinery and electronic products from Georgia, and exported \$ 3.3 billion of machinery and electronic products to Georgia, accounting for 0.0283% of China's total exports of machinery and electronic products to the world.

According to the 'Customs Import and Export Tariff of the People's Republic China (2015)', the import tariff of China's machinery and electronic products is 9.51% in 2015.

Table 4-13 Import and export of machinery and electronic products between China and Georgia

	China's Trade with the World (\$ billion)			China's Trade with Georgia (\$ million)			Percentage of China's trade with Georgia in China's trade with the World (%)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Export	1068.3	1145.3	1179.9	285.87	320.48	333.99	0.0267	0.0280	0.0283
Import	748.2	799.8	807.5	0.80	1.17	1.60	0.0001	0.0001	0.0002
Trade balance	205.2	233.6	251.6	285.07	319.31	332.39	?	?	?
Percentage of the Total Export (%)	52.27	51.98	50.55	38.58	37.17	36.76	?	?	?
Percentage of the Total Import (%)	44.07	44.75	44.60	2.39	2.16	3.02	?	?	?

Data source: China's customs database, UN comtrade database

The exports of machinery and electronic products from Georgia to China will rise notably as the elimination of import tariff levied by China. The import tariffs on machinery and electronic products levied by China are relatively high. Therefore, China-Georgia FTA will stimulate the export of those products from Georgia to China. As the import tariffs levied by Georgia is very tiny, close to zero, it has no significant impact on China's export of machinery and electronic products to Georgia.

4.3.4 Grape Wine

In Georgia, grape wine is one of the most export products to China in recent years. And with the increasing of people's income level and the change of consumption, the grape wine industry - as a new industry, has been developing rapidly in China. The capacity of the industry has been expanding and needs some market room. The grape wine industry in Georgia shows a high competitiveness. In 2014, the import and export value of China's grape wine were \$ 1.5 billion and \$ 0.13 billion, decreasing by 3.3% and increasing by 238% respectively, and the trade deficit of grape wine was \$ 1.37 billion. In 2014, China imported \$ 4.4 million of grape wine from Georgia, increasing by 21.9%, and the trade deficit \$ 4.4 million. The China's import value of grape wine from Georgia is accounted for 0.29% of China's total imports of grape wine from the world.

According to the 'Customs Import and Export Tariff of the People's Republic China (2015)', the import tariff of China's grape wine is 21.33% in 2015.

Table 4-14 Import and export of grape wine between China and Georgia

	China's Trade with the World (\$ billion)			China's Trade with Georgia (\$ million)			Percentage of China's trade with Georgia in China's trade with the World (%)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Export	0.77	0.39	1.32	0	1.2	0	0	0.03	0
Import	15.81	15.54	15.03	2.87	3.61	4.40	0.18	0.23	0.29
Trade balance	-15.04	-15.15	-13.71	-2.87	-3.60	-4.40			

Data source: China's customs database, UN comtrade database

China-Georgia FTA will promote the export of grape wine from Georgia. The grape wine is among the highest protected products in China. Meanwhile, the grape wine in Georgia owns the high competitiveness in global market. Therefore, the export of grape wine from Georgia to China will rise remarkably after implementation of China-Georgia FTA. Moreover, the FTA will not only facilitate the export of grape wine from Georgia to China, but also provide a huge market for its future development.

4.3.5 Waste Copper

In Georgia, waste copper is the most export products to China in recent years. In 2014, the import and export value of China's waste copper were \$ 3 million and \$ 10.9 billion, decreasing by 20.4% and 57.1% respectively, and the trade deficit of grape wine was \$ 10.9 billion. In 2014, China imported \$ 25.02 million of waste copper from Georgia, decreasing by 25.4%, and the trade deficit \$ 25.02 million. The China's import value of waste copper from Georgia is accounted for 0.29% of China's total imports of waste copper from the world.

According to the 'Customs Import and Export Tariff of the People's Republic China (2015)', the import tariff of China's waste copper is 1.5% in 2015.

	China's Trade with the World (\$ billion)			China's Trade with Georgia (\$ million)			Percentage of China's trade with Georgia in China's trade with the World (%)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Export	0.08	0.07	0.03	0	0	0	0	0	0
Import	148	137	109	2332	3353	2502	0.16	0.24	0.23
Trade balance	-148	-137	-109	-2332	-3353	-2502			

Table 4-15 Import and export of waste copper between China and Georgia

Data source: China's customs database, UN comtrade database

China-Georgia FTA will increase the export of scrap copper from Georgia to China. Scrap copper is one of the most important products exported from Georgia to China. Despite of the relatively small import tariff levied by China, the export value of scrap copper from Georgia will increase remarkably after the implementation of FTA.

5 Trade in Service

5.1 Overview of Policy on Trade in Service

5.1.1 China

Service industry has become one of the most dynamic industries in China. The percentage of service industry output value in GDP has risen from 24% in 1978 to 47% in 2013 in China. The share of service employment increased from 12.2% in 1978 to 38.5% in 2013. Though the service industry has made great progress since 1978, the current situation and its importance in the national economy still lags behind other nations.

The development of China's trade in service is very quickly, but it still records a deficit. The deficit of China's trade in service was 11.85 billion US dollars in 2013. The average annual growth rate of China's export and import of service in China was 15.1% and 20.8% respectively from 1999 to 2001, while the rate was 13.9% and 17.9% from 2002 to 2013. The growth rate of China's trade in service was higher than the average growth rate of the world between 1990 and 2013. The ranking of China's export of service in the world increased from the twelfth (the percentage of China's export of service accounted for 0.7% of the global export of service) in 2001 to the fifth in 2013 (4.6%), and the import ranking rose from the tenth (the percentage of China's import of service accounted for 0.5% of the global import of service) to the second (7.6%) during the same periods. At present, China has become one of the five largest trader in service in the world. China's services mainly concentrated on the transportation and tourism, which are the two largest sectors. The total export-import volume of transportation and tourism in China were 131.97 billion US dollars and 180.24 billion US dollars respectively, accounting for 24.5% and 33.4% of China's trade in service in 2013. These two sectors are both in deficit, which are constantly expanding. The deficit of transportation and tourism in China are 56.67 billion US dollars and 76.92 billion US dollars respectively.

As a member of the World Trade Organization, China promised to open services gradually. China promised to open 10 departments of the General Agreement on Trade in Services (GATS). From the view of the subsectors, China promised to open 102 subsectors, and the coverage was about 63.75%. It is very close to the level of developed countries. China has actively promoted the liberalization of service trade by means of strengthening the bilateral cooperation in recent years. At present, China has signed 14 Free Trade Agreements (FTAs) or agreement on trade in services separately and the FTAs cover the trade in service.

5.1.2 Georgia

Georgia has one of the most liberal services schedule among the WTO members. It should be mentioned that today Georgia's services market is highly liberalized and is even more open than defined by country's GATS commitments. Moreover, Georgia further opened its services market in the framework of Georgia-EU Association Agreement for the EU service providers.

Since its accession into the WTO in 2000, Georgia has progressively liberalized its services sectors in accordance with its commitments. The commitments cover 11 services sectors of 12 under General Agreement on Trade in Services (GATS).

In its Schedule of Specific Commitments Georgia has horizontally fully liberalized Cross-border supply and Consumption abroad in limitations on Market Access. There is a horizontal reservation on Commercial presence, which indicates that an organisation, in which the Government's share exceeds 25%, has no right to participate as a buyer in privatisation process. There are also reservations on presence of natural persons in the limitations on Market Access. In horizontal limitations on National Treatment Georgia has made reservation on commercial presence, specifically on the real estate purchase and subsidies.

Foreign trade balance in services for 2009 - 2013 years was positive and had an upward trend. In 2013, compared to previous year, exports of services increased by 16.5 % and import - 8.0 %, Resulting in increase of balance of services in 2013 by 27.7 % compared to 2012, and exceeded the highest level during the last 5 years - 1.4 billion USD, which is 8.7 % of GDP.²⁴

5.2 The Trend of Specific Service Industry

5.2.1 China

5.2.1.1 Tourism

The number of China's domestic tourists was 3.26 billion in 2013 and the total expenditure is 2.63 trillion RMB. The number of inbound tourists was 129 million, among which the number of foreign inbound tourists was 26.29 million (the Asian inbound tourists are the most), the number of inbound overnight visitors was 55.69 million. The international tourism foreign exchange revenue achieved 51.7 billion US dollars. The number of Chinese citizens outbound was 98.19 million.

Tourism is one of the most important service sectors in China, which accounts for 33.4% of total service trade. The total export and import volume on tourism was 180.24 billion US dollars in 2013. China's tourism service trade is still in deficit in recent years and it is enlarging. The deficit was 76.92 billion US dollars in 2013, which is the largest among China's service sectors. In the Schedule of Specific Commitments under tourism and travel related services, China's commitments have covered 2 sub-sectors.. *Travel Agencies Regulations*, which came into force on May 1st, 2009, reduced the minimum amount of registered capital, the requirements of investors and establishing branches. Most trading partners expanded the level of opening the tourism to China on the basis of the GATS in the FTAs signed by China.

The cooperation of China and Georgia in tourism has made great progress in recent years. China Southern Airlines (Headquarters) added the direct flight from Urumqi to Tbilisi in

²⁴ Balance of Payments of Georgia 2013

2011. China and Georgia signed Memorandum of Understanding on Group Travel by Chinese Tourists to Georgia (hereinafter referred to as ‘the ADS memorandum’), and Georgia became one of the destinations of Chinese citizens outbound tourism since then. In addition, Tbilisi and Guangzhou signed a Memorandum of Understanding on "Friendly City", which laid a good foundation for tourism services between China and Georgia.

The number of outbound tourists of China has risen rapidly in recent years. There were nearly 9000 Chinese tourists to Georgia in 2013, and the number is limited compared with more than 9800 outbound travel of China, which indicates that there will be larger development space of the cooperation between China and Georgia on tourism service. Signing the FTA agreement will strengthen the cooperation and communication between China and Georgia and promote the development of bilateral tourism trade. Georgia can seek for breakthrough in relation to commercial presence. According to the *Travel Agencies Regulations*, Georgia can establish the travel agencies in China, which will increase the number of tourists to Georgia, and then increase the income of Georgia’s tourism trade.

5.2.1.2 Transportation

China's transportation mainly includes road transport, rail transport, air transport, waterway transport, pipeline transport and so on. China railway mileage is 103.1 thousand kilometers, highway mileage is 4.36 million kilometers (high grade road highway mileage is 104 thousand kilometers), inland river channels mileage is 125.9 thousand kilometers, the regular flight routes mileage is 4.11 million kilometers (international route line mileage is 1.5 million kilometers), pipeline (gas) mileage is 98.5 thousand kilometers.

Transportation service trade is one of the most important components in China’s service trade. At present, the proportion of China’s transportation service is about 24.5%, which is only lower than the tourism. China’s tourism is in deficit and it is enlarging in recent years. The deficit of transportation service trade is 56.7 billion US dollars in 2013. China owns China Shipping (group) Corporation, China Ocean Shipping (Group) Company, China Sinotrans Limited Corporation and other large transport enterprises at present.

Transportation service is very important for China and Georgia, and both sides’ transportation fields cover five categories. China and Georgia have signed the cooperation agreement of railway transportation and marine transportation. After signing the FTA, both sides can deepen the cooperation on railway transportation and marine transportation, and it can also strengthen the cooperation on road transport, air transport and pipeline transport.

5.2.1.3 Communication

Communication service is a very important field in the national economy and foreign trade. The income of Chinese telecommunication business is 1.15 trillion RMB in 2014, with year-on-year growth of 3.6%. The total amount of telecommunication business achieved 1.8 trillion RMB, with year-on-year growth of 16.1%. The telecommunication composite price index fell 14.9% year-on-year.

The total amount of telephone subscriber throughout the country was 1.536 billion in 2014, and the net increase was 39.436 million, with year-on-year growth of 2.6%. The total amount of mobile phone subscriber is 1.286 billion and the net increase is 56.98 million. The 2G mobile phone subscriber reduced 124 million, and the development of 4G mobile phone subscriber is faster than 3G. The newly increase subscriber of 4G and 3G is 97.284 million and 83.644 million respectively, and the total amount is 97.284 million and 485.255 million respectively. Mobile internet access traffic and cell phone internet traffic rose 62.9% and 95.1% respectively year-on-year. The cell phone internet accounts for 86.8% in the mobile internet traffic. It has become the main driving forces for the mobile internet traffic growth. The access time of fixed internet grew with year-on-year rate of 29.6%.

The proportion of telecommunication service in China's trade in service is only 0.6%. The scale of China's telecommunication service trade was 3.31 billion US dollars in 2013. The trade balance was in surplus and the surplus was 30 million US dollars. China made commitments on telecommunication service in GATS.. At present, there are 55 sino-foreign joint ventures and wholly foreign owned enterprises (including Hong Kong and Macao information). In addition, the investment of China telecom operation and equipment enterprises overseas also achieved some results. China Telecom, China Mobile and China Unicom have established representative offices or branches in hundreds of countries and regions. They have gained the operating license related the telecom in United States, Japan, Korea, Singapore and many other countries and regions. At the same time, they have entered into the market of Pakistan, Romania, Africa and many other countries and regions. Chinese communications equipment enterprises involved in the operation of Africa and American by means of the participation. At the same time, China owns many excellent communication equipment companies, such as Huawei, ZTE and etc. This also provides good guarantee for Chinese communications industry participating the international competition and cooperation.

Signing the FTA between China and Georgia will strengthen the cooperation on telecommunication. The market of China's telecommunication is very large and the openness is high, so Georgia can participate in the operation of China's telecommunication by means of commercial presence. In addition, China's telecommunication equipment companies can also be involved in the operation of Georgia by means of equity participation as China has built up the advantages. And China can provide the high quality service for Georgia by using its advantages.

5.2.1.4 Education

In recent years, the input of education by China is increasing, and the education funding has been increased from 5.48 billion RMB to 2.77 trillion RMB from 2002 to 2012, which accounted for 5% of China's GDP, and the average annual growth was 15%. The expenditure of state financial education was about 2.22 trillion RMB in 2012, which accounted for 80% of the total education funds.

China opened five subsectors in the commitments of GATS, the width of which is higher than American, Britain and Australia, and the depth of which is lower than these developed

countries. In terms of China's education service trade, consumption abroad is the most important mode of supply. In 2014, the total number of going abroad to study from China increased by 11.09% compared with 2013. China is the largest source of outwards overseas students at present. The total number of the students going abroad to study was 3.52 million from 1978 to 2014. There were 377054 foreign students studying in China from 203 countries and regions in 2014, up 20555 people compared with 2013 and the growth ratio is 5.77%. The overseas students coming from Asian are the most in number and that from Africa show the largest increase. The commercial presence of China's education service is mainly in the form of importation. The partners are mainly the countries whose language is English, such as United States, Britain, Canada and so on. The scale of running schools abroad is not large, the main forms of which is Confucius institute. Some universities held degree projects and institutions, most of which is non-profit.

The number of Chinese overseas students is increasing in recent years (including outwards and inwards), among which the number of students studying in Georgia and from Georgia is very limited. At present, the cooperation of both sides in education service has been strengthened. China and Georgia signed cooperation agreement on education, which requires that there will be no more than 20 people with scholarship in other country. There are more than 100 students from Georgia studying in China in 2014, while there are less than 10 students from China studying in Georgia at the same time. China sends 15 Chinese volunteer teachers to Georgia every year. Though the scale of cooperation in the field of education is very small, the cooperation space is large. After signing the FTA, the number of overseas students will increase in terms of consumption abroad. In addition, it will increase the cooperation on commercial presence, and the Georgia's education institutions can run schools in China, including higher curricula education and non-curricula higher education, secondary academic education, self-study exam, preschool education and etc.

5.2.1.5 Financial sector

Over the past thirty years, China's financial system developed fast, including the capital market, money market, foreign exchange market, gold market and other financial market. China employs separated supervisions for financial industries. To strengthen the coordination of supervision, China sets up a joint system of financial supervision and coordination led by the central bank.

The banking industry accounts for a large share in the financial system, and the proportion of banking assets in all financial assets is more than 80%. There are 4,000 banks in China, including state-controlled banks, joint-equity commercial banks, city commercial banks, rural credit cooperatives and rural cooperative financial institutions, private banks and foreign banks. By the end of 2014, Shanghai and Shenzhen Stock Exchange had a total number of 2613 listed companies, with the total market capitalization of 37.26 trillion yuan. In 2014, the two exchanges have accumulated turnover of 74.24 trillion yuan. Foreign institutions can invest in China's securities market by QFII and RQFII. The Shanghai-Hong Kong Stock Connect program between Unicom Shanghai Stock Exchange and Hong Kong Stock Exchange was started in November 2014, and the Mainland and Hong Kong investors can

buy and sell within a predetermined range of the stock market through this mechanism. In Chinese insurance market, there exists a total of 10 insurance group holding company, 82 life insurance companies (including joint venture companies), 70 property insurance companies (including joint ventures) and 9 reinsurance companies (including foreign companies).

Chinese financial institutions are entering more and more overseas markets, to provide support for Chinese enterprises operating overseas. In addition, the use of the RMB overseas expands steadily, and the trade and investment activities using RMB settlement are increasing. As of April 2015 the RMB has become the world's fifth-largest payment currency, the fifth most-traded currency, and there are 174 countries having national cross-border RMB payment with China. Hong Kong, Macao, Taiwan, Singapore, London, Frankfurt, Toronto, Sydney, Johannesburg and other 17 regions have established the RMB clearing arrangements, and therefore better support cross-border use of the RMB.

According to the WTO commitments in the service sectors, China allows Foreign Service providers to set up a joint venture company, engaged in domestic securities investment fund management business, but foreign equity shall not exceed 33%. Within three years after China's accession, foreign equity ratio is allowed to increase to 49%. In addition, China allows foreign securities firms to set up joint ventures with the limit of foreign share-holding of being less than 1/3.

Having had a solid strength, Chinese finance and banking firms are vigorously launching and implementing overseas investment. In the circumstance, some Chinese enterprises have invested Georgian banking and also achieved good results. Within a relatively free and favorable financial environment, Georgian banking is developing dramatically and making great efforts to attract foreign capital, meanwhile, actively promotes investment overseas. The China- Georgian Free Trade Agreement therefore will effectively accelerate the two countries' cooperation in the field of financial services.

5.2.2 Georgia

5.2.2.1 Travel and Tourism

In the Schedule of Specific Commitments under tourism and travel related services Georgia's commitments has covered 3 sub-sectors: (a) Hotels and restaurants (including catering); (b) Travel Agencies and Tour Operators Services; (c) Tourist Guides Services. All above mentioned sub-sectors are fully liberalized.

Domestic and international tourism are important factors in the Georgian economy. The expenditures of foreign guests in Georgia have a significant effect on the balance of payments.

International arrivals to Georgia have been growing rapidly over recent years. In 2013, their number reached 5 392 364, representing growth of 22%. The highest growth rate was registered in 2012, when the number of international arrivals grew by 57%.²⁵

As for the 2014, the number of international arrivals amounted to 5 515 559, 2.3% higher compared to 2013. Top 5 countries by the number of arrivals for 2014: Turkey (1 442 695), Armenia (1 325 635), Azerbaijan (1 283 214), Russia (811 621), Ukraine (143 521).

Number of arrivals from China amounted 8 632 for 2014, decreased by 2% compared to 2013. The highest number of arrivals from China was registered in 2012.

Table 5-1: Flow of Visitors from China, 2009-2014

Years	2009	2010	2011	2012	2013	2014
Visitors from China	2,013	2,725	6,522	9,995	8,830	8,632
Total number of Visitors	1,500,049	2,031,717	2,822,363	4,428,221	5,392,303	5,515,559

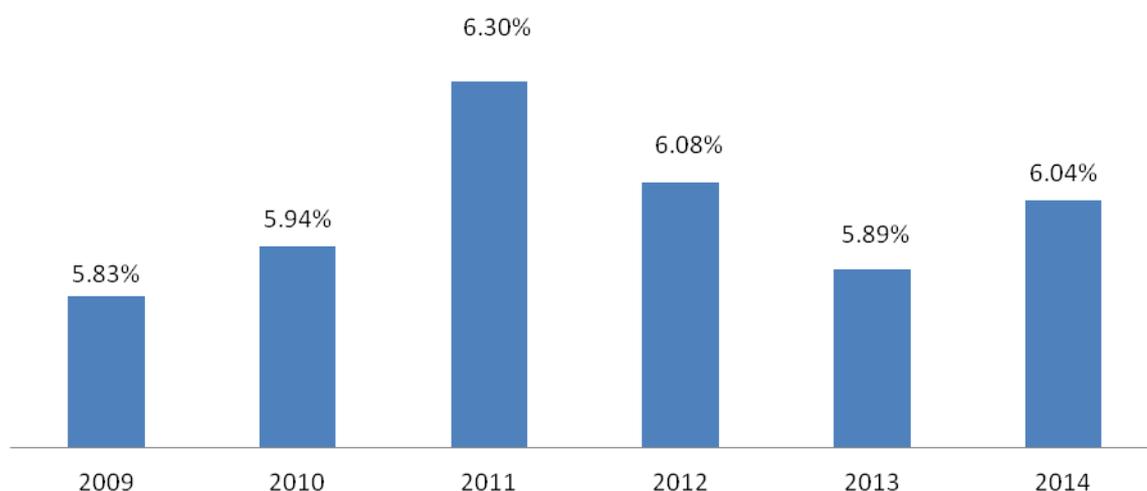
Source: Georgian National Tourism Administration

A comparison of global growth rates and that of Georgia shows that in the past five years international arrivals in Georgia increased considerably faster than in the rest of the world. Even during the global financial crisis of 2008 when arrivals worldwide fell by 4%, the number of international arrivals to Georgia increased by 16%. This recent high growth rate has been highlighted by international organizations. According to the World Tourism Organization's report, "UNWTO World Tourism Barometer" (December, 2013), the increase in the number of international arrivals in Georgia was rated as the highest in Europe.

Tourism gross value added, as a proportion of GDP, increased from 5.89% in 2013 to 6.04% in 2014.

²⁵ Georgian National Tourism Administration - <http://gnta.ge/statistics/>

Graph 5-1: Share of Tourism Sector in GDP, 2009-2014



Source: Georgian National Tourism Administration

5.2.2.2 Transportation Services

A transportation service is the second largest category within the services sector. Georgia's geographical location plays an important role in the country's economic and political life. It is located on the crossroad of Europe and Asia, where transportation of strategic cargoes is conducted. Therefore, one of the top priorities for the Government of Georgia is coordinated functioning of transport fields, modernization-construction of transport infrastructure in accordance with international standards and approximation of country's legislation with international law.

Civil Aviation

During the last years, Georgia has gone through a comprehensive review of the air transport sector, including a reorganization of the institutional framework that derived in the separation of the functions of policy making, technical regulation, and operation of infrastructure.

Along with the reform, the country has been experienced an increase in demand for aviation services, which generated an increase of interest from foreign carriers to access the Georgian international market.

The aviation market in Georgia has demonstrated considerable growth in the past few years. Three international and one domestic airport operate in Georgia, fully complying with International Civil Aviation Organization (ICAO) standards. Georgia's aviation market is primarily international, with the majority of flights being served by Tbilisi International Airport.

Maritime Transport

Georgia's main sea ports and terminals are Batumi Sea Port; Poti Sea Port; Batumi International Container Terminal; Black Sea Terminal; Supsa Terminal.

Since independence Georgia has signed bilateral intergovernmental Agreements in Maritime Transport with 14 states. In 2013-2014 Georgia signed bilateral maritime transport Agreements with Poland, Korea and Cyprus. Mentioned Agreements shall serve as the legal basis for merchant shipping between ports of Georgia and respective states.

Shipping services are provided by companies that have dedicated services in the Black Sea. The largest operator in container market is the Mediterranean Shipping Company (57%). Important share of containers are transported by Maersk (17%), CMA-CGM (9%), Zim (5%), Norasia (5%), Evergreen (3%), Arkas (3%) and Hapag Lloyd (1%). There are direct rail-ferry services to Ukraine (Illychevsk), Bulgaria (Varna) and Turkey (Derince). There is direct Ro-Ro service to Bulgaria (Burgas).

Georgia actively cooperates with International Maritime Organization, Black Sea Memorandum of Understanding on Port State Control and International Hydrographic Organization. In 2014 Georgia became the Observer at Danube Commission.

The port dues and tariffs are set by private operators. The Government of Georgia strives to enhance competition through enhancing port infrastructure.

Pipelines

Four main pipelines go through the territory of the country. That makes Georgia the region energy hub. The pipelines transit gas from Azerbaijan to Turkey and from Russia to Armenia and oil from Azerbaijan to Turkey. The pipelines ensure the availability of the gas for the country and play role in strengthening of the energy security.

Road Transport

Due to the geographical location of Georgia, the development of country's economy is primarily related to the proper and effective functioning of transport systems and especially road and railway transport modes.

One of the main projects for the Government of Georgia is the East-West highway construction and rehabilitation project, which is of great importance not only for Georgia and its neighboring countries, but also for the EU as a strategic transit route for road transport between Europe and Central Asia. Better transport links are crucial to improving Georgia's economic cooperation with neighboring countries and its other trading partners, strengthening the competitiveness of the region and increasing transport safety and capacity with positive consequences.

As of today, approximately 81 km. of high-speed highway has already been constructed, which has been financed by central budget of Georgia and World Bank. In 2014 it is planned to conduct construction works for additional 140 km central highway. After the finalization of the works, the highway will have four lanes with the capacity to serve 50 000 vehicles per day.

According to the statistics at present 29 ml. cargo tones and 340 ml. passengers are transported by road transport.

Railway Transport

Railway transportation plays an important role in the development of the economy of the Government of Georgia and is an integral part of the Europe-Caucasus-Asia transport corridor. According to the statistics 20 ml. cargo tones and 3 ml passengers are transported by JSC “Georgian Railway”. JSC “Georgian Railway” is involved in a number of large scale projects which aim to increase the efficiency and capacity of the railway transportation system in Georgia, expand the rail network and to stimulate and enhance intermodal and passenger transportation. One of the important projects is Baku-Tbilisi-Kars Railway.

The Baku-Tbilisi-Kars Railway is a new corridor that will connect Azerbaijan, Georgian and Turkish railways. The project implementation began in 2008 and will be finished in 2015. On the territory of Georgia above 60% of works are completed. The project foresees the rehabilitation and reconstruction of 178 km-long railway between Marabda and Akhalkalaki and construction of a new railway from Akhalkalaki to the Turkish border.

The project will effectively open a new rail corridor from the Caspian Sea to Europe via Turkey. The project will be an important driver of future incremental transport volumes, particular for containerized cargo. At the first stage capacity of the project is supposed to be 5 mln. tones cargo per year with the perspective of increase up to 15 mln. tones.

5.2.2.3 Telecommunications services

The improvement and development of ICT sector is one of the main priorities of the Government of Georgia, for that the complex activities were implemented.

In 2014 was created the LEPL "The Innovation and Technology Agency". It contributes to the further development of knowledge and innovation based on national economy. Works were conducted for the creation of the first technology park, completion of which is expected in 2015. In 2015 will be set up innovation labs (ILAB) and industrial innovation labs (FAB LAB).

In 2015 will be finished transition into the digital broadcasting.

Since 2015 has been launched 4G technology broadband mobile networks, allowing customers access to high-speed Internet.

Work is ongoing on the draft concept “Broadband Internet for every citizen” and draft strategy “innovative Georgia 2020”.

Mobile cellular Market Review

Currently, Georgia’s fixed Internet data services major carriers are mainly three large enterprises. These are Silknet, Caucasus Online and New Net. Mobile Internet data services major carriers including Magticom, Geocell, Beeline and Silknet. All operators have 4G licenses. Magticom and Silknet also has owned CDMA EVDO operating licenses, the two companies were opened up voice and data card business in CDMA field to achieve mobile voice and mobile data provider. On the one hand to enhance government efficiency, while promoting the Georgian people's demand for telecommunications and IT in order to further stimulate the development of the telecommunications sector, the operators are enhancing LTE networks to meet the needs of the government and local people.

Currently four companies are operating in the mobile cellular communication market using 2G, 3-3.5G and 4G technologies. In 2014 the mobile cellular subscription reached 5 400 000, which is 30.8% higher than in 2010. In 2014 the density of Mobile cellular subscribers per 100 inhabitants composed 120.5%, while this indicator in 2010 was 90.4%.

In 2014 on the market by number of the subscription the leader is Magticom Ltd 37.6%, Geocell Ltd holds 35.2% of the market, Mobitel Ltd 22.6% and Silknet Ltd 0.6% (Silknet operates on mobile communication market since end of the 2011).

At the end of the 2014, 70.1% of retail revenues of mobile operators were from voice services, SMS - 9.9%, Internet – 4.1%, other additional services – 16.0%.

In 2014 total outgoing traffic was 8.7 billion/sec, while this indicator in 2010 was 3.2 billion/sec.

Fixed telephone market review

In Georgia on fixed telephone communications market three types of technologies are used: Switched wired technology (PSTN), CDMA (wireless) and VoIP (Voice over IP protocol). In 2014, 29 companies were operating on the fixed telephone communications market. Among them VoIP 18 operator, PSTN-13, CDMA-3. At the end of the 2014, fixed telephone subscribers reached 1 100 000.

Internet Service

By the end of the 2014, fixed Broadband subscription reached 603 000 in Georgia, which is 14.4% (76 000 subscription) higher than in 2013. In 2014 the density of fixed Broadband subscribers per 100 inhabitants composed 16.1%.

In 2014, most of fixed Broadband subscribers were using fiber-optic technology (52.2%), following DSL subscribers DSL - 34.9%, WiFi – 11.5% and WiMax – 1.2%, Other technologies (Canopy, Ethernet, dedicated line, satellite) - 0.1%

In 2014 the number of mobile internet users were 1 880 000, which rose by 137.9% compared with 2010.

5.2.2.4 Financial Service

The environment of Georgia's financial industry is very comfortable, and it carries out free financial policy. During 2010-2014, an average annual Georgia's financial industry's output growth rate was 17%. At the same time, the financial industry is also the important field of attracting foreign direct investment, and it accounted for about 18% of the total investment. In addition, Georgian implements national treatment for establishing financial institutions, merging and purchasing of local Banks and etc, and there is no prohibitive threshold. Valin Group which is a private enterprise of China has merged and purchased commercial Banks of Georgia successfully, and it runs good.

Georgia's financial service trade was deficit in 2013, and the gap was about 1 million US dollars. Georgia opened 16 subsectors of finance service in GATS commitments.

Financial Sector of Georgia is steadily increasing and has a huge possibility to accommodate FDI inflows from China.

5.3 Temporary Entry of Natural Persons

5.3.1 China's Temporary Entry Policies

At present, Exit and Entry Administration Law of the People's Republic of China which entered into force on 1st July, 2013 and Regulations of the People's Republic of China on Administration of the Entry and Exit of Foreigners which came into force on 1st September, 2013 are the main laws and regulations in the presence of natural person. Article 7 of the Exit and Entry Administration Law of the People's Republic of China indicated that the Chinese government may adopt corresponding equivalent measures according to the situation except there are special provisions on issuing visas for Chinese citizens and management of entry or exit by foreign governments. It is a policy foundation of the bilateral cooperation in the presence of natural person between China and Georgia.

China has established Visa Exemption Agreement with 98 countries till 9th May, 2015. China has signed Visa Exemption Agreement with Georgia, which entered into force on 3rd February, 1994 and the category includes diplomacy, official, official ordinary passport, group tours and etc. There are 11 countries and regions permitting visa-free entry and 36 countries and regions permitting Chinese citizens landing visa unilaterally till 28th April, 2015.

The FTAs signed by China involved in the presence of natural person. China-Switzerland FTA cleared the applicable scope of relevant agreement on natural person, and established the rapid application procedures, and detailed the application process and time requirements. China-Singapore FTA set up transparent standards and simplified procedures for natural person temporary entry. China and New Zealand agreed to adopt rapid application process to deal with the temporary entry application of business visitors, contract service providers, staff of internal flow company, technical workers, installation personnel or servers of opposite side in China-New Zealand FTA. In addition, New Zealand agreed to provide more preferential temporary entry policies for Chinese Medicine practitioners, Chinese chefs, Chinese teacher assistants, Chinese martial arts coaches and Chinese tour guides.

5.3.2 Georgia's Temporary Entry Policies

Georgia implements the new visa policy since 1st September, 2014, which stipulates that Georgia's port no longer issues visa upon arraival, and the foreigners visiting Georgia have to obtain the appropriate category visa at embassies overseas or consular in advance. Besides, foreigners can obtain electronic visa (for short term purposes) on the basis of a visa application submitted through a special webpage of the Ministry of Foreign Affairs of Georgia e-VISA PORTAL. Foreign citizens shall carry the relevant entry documents if they want to go to the third country by Georgia otherwise they will not be allowed to enter Georgia. China doesn't belong to the countries with visa-free. Foreign citizens should pay a certain amount of fine if their lawful stay is exceeded. Chinese citizens should apply for visa before they travel to Georgia. Chinese citizens with diplomatic, special or official passport can enter territory of Georgia without visa for 30 days. If they go to Georgia for a long-term work or study purpose, they should apply for long-term immigration visa. Besides, under new regulations, those foreign citizens, who possess visa or residence permits of particular countries listed in Government resolution, are exempted from obtaining visas to Georgia and are free to enter the country. Moreover, visa issuing process has been significantly simplified, namely, foreigners who apply for Georgian tourist visa, despite of their nationality, should only submit passport and pay consular fee. No additional documents are required.

6. Investment

6.1 China and Georgia's investment policy

6.1.1 China

6.1.1.1 The Overall Background of China's Opening up Policy

Chinese President, Xi Jinping, put forward the construction of economic zone 'Silk road economic belt' and '21st Century Maritime Silk road' strategic vision (hereinafter referred to as 'One Belt And One Road') in September and October, respectively, in 2013, indicating that China will follow the peaceful cooperation, openness and inclusiveness, mutual learning, mutual benefit and win-win spirit of the silk road, and carry out cooperation with the countries along the belt in the field of transport infrastructure, trade and investment, energy cooperation, regional integration, the internationalization of RMB. In particular, "One Belt And One Road" construction is not limited to capital and technology, but also the idea of reform and development and the operation concept of openness and inclusiveness, and from which derived investment and financing arrangement, optimized the structure and toughness of Chinese and foreign economic and trade cooperation, therefore speed up various advantageous resources flow within and across borders.

In November 2013, the Third Plenary Session of the Eighteenth Central Committee of Communist Party of China passed 'Communist Party of China Central Committee on deepening reform of the overall number of major issues' (The following refers to 'the Third Plenary Session of the Eighteenth Central Committee Decision'), which pointed out that in order to adapt to the new situation of economic globalization'. We should promote the coordination of opening inside with the opening outside, and bring in with going out to promote both the domestic and international factors free orderly flow, resources efficient allocation, market depth integration. Under the circumstances, we will accelerate the development and the leading of new comparative advantages of international economic cooperation and competition, and promote reform by opening up.

6.1.1.2 The Overview of China's FDI Policy

Foreign Investment Legal System

China has established a relatively complete legal system for foreign investment, which has provided foundation to protect the legitimate rights and interests of Chinese investors and foreign-invested enterprises. The first is the "Constitution of the People's Republic of China" which defines the legal status of foreign investment. The second is the specific law system about foreign investment based on "The Three Laws", including The Law of the PRC on Chinese-Foreign Equity Joint Ventures, The Law of The People's Republic of China on Sino-foreign Cooperative Enterprises, and The Law of The People's Republic of China on Foreign-capital Enterprises, and the according implementing rules. "The Three Laws" and its

implementation rules determine the legal status and characteristics of joint ventures, cooperative enterprises, foreign-funded enterprises, and the conditions for establishment of companies, the approval process for registration, change, termination, and other decision-making institutions, and provide detailed provisions on financial accounting, labor, taxation, import and export, foreign exchange, dispute resolution. China is gradually to unify the laws for foreign firms and domestic firms, keep policies on foreign investment stable, transparent, and predictable. Thirdly, the National People's Congress and the State Council promulgated a number of domestic laws and regulations which are also applicable to foreign-invested enterprises, such as the "Company Law", "Contract Law", "Customs Law", "Foreign Exchange Management Regulations" and "Labor Contract law". In the last place, in order to protect the legitimate rights and interests of foreign investors and foreign-invested enterprises, China has signed more than 130 investment agreements with other countries/regions, which also constitutes an important part of China's foreign investment law system.

Industrial Policies

In order to keep healthy and stable development of foreign investment, China formulated and promulgated the "Guidance of Directions of Foreign Investment Provisions" and "Catalogue for the Guidance of Foreign Investment Industries." According to "Guidance of Directions of Foreign Investment Provisions ", foreign investments are classified into encouraged, permitted, restricted and prohibited, and the "Catalogue for the Guidance of Foreign Investment Industries" clearly outlines the encouraged, restricted and prohibited industries entries, and the rest which are not included belong to the permitted category. The encouraged foreign investment can enjoy duty-free import of equipment and other preferential policies.

Regional Policies

To encourage foreign investment to central and western regions and promote regional economic coordinated development, in 2000, China published "The catalogue of foreign investment industries in central and western regions ", and made revisions in the year of 2004, 2008, and 2013. The catalog lists the encouraged advantageous industries in all provinces, municipalities and autonomous regions in the Midwest and northeast old industrial bases. All foreign investment in the listed industries enjoy the preferential policies in the "Catalogue for the Guidance of Foreign Investment Industries."

Taxation Policies

The main applicable taxes in China for foreign-invested enterprises, foreign enterprises and foreign individuals (including Hong Kong, Macao and Taiwan compatriots) include: corporate income tax, personal income tax, transfer taxes (including value added tax, consumption tax and business tax), land tax, stamp duty , vehicle license tax and urban real estate tax. Imports and exports are subject to customs duties and import VAT according to customs tariff regulations. For foreign investment in the encouraged catalogue in the "Catalogue for the Guidance of Foreign Investment Industries" (2015 Revision), the imported self-use equipment for the project within the total investment value and the import of

technology and spare parts will enjoy preferential policies of exempting from import duties, unless they are listed in the “List of imported goods by foreign invested projects that are not exempted from tariffs” and the “List of imported key technological equipment and product that are not exempted from tariffs”. Since January 1st, 2008, the new "People’s Republic of China Enterprise Income Tax Law" was implemented. The Law unified the Enterprise Income Tax for all firms with the tax rate of 25%.

6.1.1.3 Further Liberalization of Foreign Investment Access Areas

Since April 10, 2015, China adopts the new ‘Guiding Catalogue for Foreign Investment Industries’. The main policy orientation: First, stretch the foreign access. Further liberalization of general manufacturing; cancel the equity ratio requirements in the fields of steel, vinyl, paper, lifting machinery, power transmission equipment, liquor and other famous. Liberalize the service trade in orderly way, making a series of liberalization measures in commerce and logistics, e-commerce, transportation, social services, finance, culture and other fields. Second, guide foreign investment. Foreign investment flow should be encouraged to modern agriculture, high and new technology, advanced manufacturing, energy conservation and environment protection, new energy, modern service industries and other fields. Third, change the management style. Strengthen the decisive role of markets in resource allocation, reduce the categories of “restricted to joint-ventures and cooperation” in the Catalogue, and the restriction (if necessary) must be lawfully recognized. In principal the categories for which the market is workable or which can be regulated ex post through energy saving, environment protection and technology, should not be limited.

The establishment of the foreign investment projects and foreign-invested enterprises needs to obtain the record and approval from the Chinese government or local government departments, in which most of them are filed by the local government. Currently, many Chinese provinces are able to provide one-stop service and each province is set up the investment promotion center to help investors.

China started to establish Pilot Free Trade Zones. In August 2013, the Chinese government set up the China (Shanghai) Pilot Free Trade Zone, and later set up China (Guangdong) Pilot Free Trade Zone, China (Tianjin) Pilot Free Trade Zone, China (Fujian) Pilot Free Trade Zone in 2015. The Pilot Free Trade Zones will focus on institutional innovation and aim at building an international, market-oriented, and ruled-by-law business environment, pilot negative-list foreign investment management style and for fields outside the negative-list try the filing management style, and further open the investment fields, including manufacturing of car parts, oil processing, shipping, traveling, culture, etc. Chinese State Council in April 2015 issue “Special Administrative Measures for the entry of foreign investment in the pilot free trade zone (negative list)”, which is applicable to all four Zones. The negative list includes 122 special management measures, which have 85 restrictive measures and 37 prohibiting measures.

6.1.1.4 Further Improve Investment Facilitation

First, the Chinese government speeds up in changing the role, simplifying the administration and release the power. In the past two years the government cancels or decentralizes the examination and approval authority 8 times over about 800 types of projects, which including matters of foreign investment. Second, in the pilot free trade zones the government tries pre-establishment national treatment and negative list management mode, and for fields outside the negative-list tries the filing management style. Third, promote reform of business record and management institutions, and change the ex ante examination and approval to ex post for most business record activities, and employ the registered capital subscribed registration system to lower down firm costs. Third, improve the management of foreign exchange, and cancel many approval requirements.

6.1.2 Georgia

6.1.2.1 Georgia's Investment Policy

There has been a broad consensus in Georgia regarding its integration into the international economy through opening up of the Georgian economy for business activities and creation of a favorable investment environment. Georgia started market oriented reforms in 1995. National treatment is applied to all investors and there is no specific regulation that foresees discrimination. Almost all sectors of the Georgian economy are open for investments.

Georgia has 31 Bilateral Investment Treaties in force and has concluded agreements for avoidance of double taxation with 46 countries.

By undertaking numerous economic reform initiatives and ensuring a strong legal system to protect investor rights, Georgia has positioned itself as an attractive destination for foreign direct investment. The government's priorities are now focused on further improving investment climate and strengthening investor confidence to attract more foreign investment and boost economic growth.

The objectives of trade and investment policies are well reflected in the socio-economic development strategy "Georgia 2020", which outlines the social and economic development priorities and targets over the period 2014-2020. The strategy was adopted by the Governmental Decree N 400 on 17 June 2014.

The guiding principle of the country's strategy for economic development is establishing the necessary conditions for a free private sector operating under an optimal, efficient and transparent government. This means the establishment of an economy in which the private sector will be free to make its own decisions, in which the supremacy of property rights will be guaranteed, and in which the private sector will be the main driving force behind economic development. Free market relations will be combined with optimal model of state regulations.

Based on the principles of optimal and efficient governance, the state's involvement in entrepreneurial activities will be minimal, and it will not seek to compete with the private sector: its participation in economic activities will be limited to sectors where the private sector remains weak and inefficient.

The Government's economic policy considers the private sector's competitiveness to be a very significant driver of economic development. The existence of competition in both the internal and external markets is a necessary precondition for a successfully functioning economy.

Mutual openness to international trade must be ensured, and free-trade areas must be expanded.

Ensuring the country's readiness and attractiveness to foreign investments will become possible through implementation of stable and predictable economic policies as well as through integration with international financial markets and the reduction of the country's financial risks.

6.1.2.2 Legal Framework

Investment-related issues are currently regulated in Georgia by two laws, these are: Law of Georgia on the Investment Activity Promotion and Guarantees dated 12 November 1996 and the Law of Georgia on State Promotion of Investments dated 30 June 2006. These legislative acts stipulate the concept of an investment, legal guarantees for protection of investments and the rights and obligations of investors.

On 24 July 2013, the Parliament of Georgia enacted a Law of Georgia on Collective Investment Undertakings which defines types of collective investment undertakings and lays down rules for their establishment and operation.

Types of Regulated Investment Funds:

- a) Unit Fund of Investment (may be open, interval or closed);
- b) Experienced Investor's Investment Fund;
- c) JSC Investment Fund (including capital venture investment fund or private corporate fund);
- d) Other types of investment funds regulated by Georgian Legislation.

6.2 Specific Sectors for Investment

According to the economic conditions and policies in China and Georgia, we identify the following specific sectors for investment cooperation: hydropower, communication and internet, transportation infrastructure, natural resources, and red wine. We think there is large

investment cooperation potential with mutual benefits for the two countries in these sectors (but not limited to these sectors) if the two countries can reach the FTA.

6.2.1 Hydropower

China

China is the no. 1 in terms of hydropower capacity, which reaches 300 million kilowatts now and accounts for 27% of the world total hydropower capacity.

China has the most advanced technology in hydropower in the world and invaluable experience in designing, constructing and operating hydropower projects. China also has the ability to produce all related equipments.

Chinese firms have cooperated with more than 80 countries in this sector.

Georgia

In Georgia, currently there are 64 operating hydro power plants with total installed capacity of 2790 MW. They account approximately for 80% of electricity generation in country. Another approximate 20% share of electricity generation comes on the three thermal power plants with installed capacity of 680 MW.

One of the most important natural resources in Georgia is water. There are 26,000 rivers in Georgia, among which 300 have valuable potential for the energy production. Around the world, Georgia is in the list of top countries for water resources per capita. It is important to note, that currently only 18-20% of the hydro resources is utilized, the Ministry of Energy with support of USAID identified another 20%. The rest potential is untapped and by estimations is more than 40 TW/h.

The 20% of hydro resources identified by Ministry and USAID have been transferred into potential power projects. On basis of this study was created a List of Potential Power Plant Projects, which is approved by the Minister of Energy of Georgia. Currently, this List includes 91 projects, installed capacity of which range from 1 MW up to 680 MW. The total installed capacity of the List is around 2,500 MW (output – 10 TW/h).

Summary

The scale of hydropower in China is the largest in globe. With the world leading technologies for hydropower construction and extensive experience in hydropower construction, operation and management, Chinese central and local governments have successful investment experience in hydroelectric industry and hydropower construction in numerous foreign countries (including in Georgia). Georgian hydroelectric industry which possesses great advantages, compared with that in neighboring countries, and has strong export ability, is given high priority by the Georgian government in the following five years. Inevitably, the rapid development of hydroelectric industry will have a need for massive funds and outstanding ability of engineering construction. The China-Georgia Free Trade Agreement will remarkably improve the cooperation in hydroelectric industry between the two countries.

It is expected that the agreement will significantly enhance the amount of investment from China to Georgia and facilitate the development of Georgian hydroelectric industry.

6.2.2 Communication and Internet Sector

China

China has the world largest population of internet users as well as mobile internet users, and the numbers are still increasing fast. China also has the largest market size of e-business and is promoting cross-border e-business.

China has strong capacity in this sector in both services providing (eg, Alibaba) and equipment manufacturing (eg, Huawei and ZTE).

China is implementing its Broadband China Strategy and the Internet Plus Plan, which implies great market potential in the future.

Georgia

Georgia emphasized the importance of information and communication technology in the “Georgia 2020 economic and social development plan” published in 2014. The 2014-2018 E-Georgia Strategy pays special attention to e-business and the development of the ICT and internet sector in Georgia. This is a great plan helpful for the long-run economic growth and social welfare of Georgia.

There is great cooperation potential for China and Georgia in this area in investment and sharing experience and technology.

Summary

Having a globally leading place in mobile communication and internet industry and a strong strength in manufacturing industry and service industry, China nowadays is implementing projects of ‘broadband China’ and ‘Internet plus’, which aim to promote the further development of these industries. Regarding to these industries in Georgia, the ‘2020 economic society development project’ and the ‘2014-2018 E-Georgia strategy’ are putting into practice, which puts emphasis on extensive application of info-communications, strengthening construction of infrastructure in the area of domestic info-communications and vigorous introduction of overseas investment. The China-Georgia Free Trade Agreement will vigorously improve the cooperation between the two countries in the field of mobile communication and internet industry. It would be deemed that the agreement will significantly increase the amount of investment from China in Georgian mobile communication and internet industry (including manufacturing and services).

6.2.3 Pharmaceutical Industry

China

Chinese government is promoting the the pharmaceutical industry. China encourages foreign investment in pharmaceutical development and production of new drugs (including bulk drugs and formulations), new vaccines, new pharmaceutical excipients, new products and new diagnostic reagents of animal-specific antibacterial API production (including antibiotics and chemical synthesis), veterinary antibiotic, anthelmintic, insecticide, Anticoccidial drugs, etc.

China prohibits processing of Chinese herbal medicine listed in Regulation on the Protection of Wild Medicinal Resources and Chinese Rare and Endangered Protection Plants List, the application of processing technology of Chinese herbal decoction pieces and production of proprietary Chinese medicine of confidential prescription. Limitation of production is put on penicillin G, lincomycin and some other antibiotics, analgin, paracetamol, vitamin B1, B2, C, E and other kinds of pharmaceutical raw materials, vaccine varieties included in national immunization programmes, narcotic drugs and psychotropic substances and blood products.

The pharmaceutical market will be huge in the future as the middle class expands fast and the aging process speeds up in China.

Georgia

In Georgia, the national healthcare environment is favorable and the government encourages the development of pharmaceutical industry. Most pharmaceutical raw materials of Georgia drug companies are imported from China, India and Belgium.

Summary

There is a big potential for growth of pharmaceutical industry in China and the trade relationship between China and Georgia in this field is well-established. It is believed that the China-Georgia Free Trade Agreement will energetically promote investment cooperation in this field between the two countries.

6.2.4 Transportation Infrastructure

China

The Chinese government has been committed to the development of infrastructure. As to fixed-asset investment, the annual national fixed-asset investment in railway, highway and waterway was about 2.5 trillion yuan, an increase of 12.6% over the previous year, accounting for 4.9% of social investment in fixed assets.

Chinese firms have successfully done different types of infrastructure projects worldwide, including highways, railways, harbors, etc.

China has opened its construction sector to foreign investment, and now encourages foreign investment in trunk railway construction and airport construction. National treatment is granted except that some construction projects are limited for wholly foreign-owned enterprises. In the latest Catalogue for the Guidance of Foreign Investment, railway trunk network construction and operation (required with Chinese party taking the holding), civil airport construction and operation (required with Chinese party taking the relative holding) are encouraged for foreign investment.

Georgia

Georgia is important as far as its geographic location is concerned for the connection between Europe and middle Asia. Georgia is an important re-export nexus for international trade. Therefore, railways, highways, airports and ports have special roles for the economy.

Georgia encourages foreign investment in highways, railways, airports and ports. For two of the most important four ports of Georgia, POTI is owned by APM of Denmark (with 100% shareholding) and Batumi is owned under 49 concession Agreement by Kaztrans Oil (Kazakhstan State owned Company). Anaklia New Deep Water Port is a preferred project in the “Georgia 2020” plan and welcomes foreign investment.

Summary

In the progress of Chinese economic development, China has accumulated rich experience and developed technology in infrastructure construction and management and implemented massive investment abroad. With the support of the ‘One belt and One Road’ initiative and the Asian Infrastructure Investment Bank, there will be a more rapid increase in China’s overseas investment in the field of transport infrastructure. Georgia, having an important geographic location, is one of the most significant centers for import and export transfer business. For Georgian government, transportation infrastructure functions as a crucial support for a further consolidation of Georgia’s pivotal status in transport and for a long-term economic boost. Georgia officially encourages foreign investment in infrastructure such as railways, highways, airports and ports. It is anticipated that the China-Georgia Free Trade Agreement will energetically promote investment cooperation in the field of transport infrastructure between the two countries.

6.2.5 Natural Resources

China

China’s fast economic growth and its role as the world factory imply huge demand for natural resources including forest and mineral resources.

There is a low per capita forest stock volume in China, belonging to relatively poor countries in forest resources. China is rich in energy and mineral resources, but the structure is not ideal, the proportion of coal resources is large, but that of oil and natural gas resources are relatively small. In particular, China is the world largest importer of Copper ore.

The latest Catalogue for the Guidance of Industries for Foreign Investment (2015) of China provides detailed policy information about foreign investment in the mineral resource area.

Georgia

Georgia possesses rich natural resources and has close trade relation with China. According to the General Administration of Customs of China, copper and related products, and ores, slag and ash ranked the top 2 in the exports from Georgia to China during 2012-2014.

Summary

Due to the high speed and wide scale of economic development in China and the status of China as the world factory, there is a massive demand for a variety of natural resources. Georgia has a wealth of natural resources. According to the resource demand and endowment structure in China and Georgia, the two countries are highly complementary in relation to forests resources, mineral resources (especially in copper mine, manganese ore etc.). It would be expected that the China-Georgia Free Trade Agreement will significantly promote investment cooperation in the field of natural resources.

6.2.6 Grape Wine

China

According to the 'Global state of conditions report: developments and trends' published by OIV, global wine consumption in 2014 was about 24 billion liters, down 2 percent from 2013. Among them, China's wine consumption was 1.58 billion liters, the world's fifth largest wine consumer and the sixth for its wine imports. The Wine Economics Research Centre of The University of Adelaide optimistically predicts that the wine imports of China will even rise to 790 million litres in 2018.

In 2015 the State Administration of Taxation revised Wine Consumption Tax Management Measures to cancel the approval management for tax rebate with "proof of purchase list of wine", and change to deduction measure of wine consumption tax to solve the problem of double taxation. The measures will reduce the tax burden and improve the taxation efficiency.

Georgia

Georgia is famous for its long history of wine production. In 2014 the exports of wine account for 22% of Georgia's total agricultural exports, and China is the sixth largest importer of Georgia's wine.

Georgia government attaches great importance to its wine sector and has been making great efforts to promote the production and exports of wine. In particular, The National Wine Agency of Georgia under the Ministry of Agriculture of Georgia has worked with its Chinese local partners to promote Georgian wine through a series of activities.

Summary

China is the fifth largest market of grape wine in the world. In 2014 China consumed 1.58 billion liter of grape wine according to OIV. With the increasing number of middle-class and strategic economic restructuring in China, there will be a soaring market demands for grape wine consumption, which implies an enormous potential. In Georgia, there is a long history of wine industry which has played a crucial role in its articulating exports and even in national economic growth. Therefore, Georgian government values China's grape wine market. At present, the fruitful cooperation has been conducted in this field between Chinese and Georgian governments. It is believed that the China-Georgia Free Trade Agreement will vigorously enhance the investment in wine industry between the two countries.

6.3 The Potential Impact of Free Trade Agreements on Direct Investment

In 2013 and 2014, China ranked no. 3 in the source countries of Georgian foreign direct investment inflows, with the value of 98 million dallors and 195 million dallors respectively, showing a rapid increase. Even though Georgia currently has little investment in China, the two economies are highly complementary. In the recent years, the pace of economic and trade cooperation has significantly accelerated within the two countries. Overall, the establishment of FTA will help the two countries to promote mutual investment.

China

First, investment treatment and investment facilitation and other contents will be the important parts of free trade agreement. China-Georgia FTA will reduce market access restrictions and barriers to investment, and improve trade and investment facilitation measures to promote mutual investments;

Second, the signing of free trade agreements will create conditions in technology, capital and expertise and other production factors flows, provide import and export profits other investment facilitation, and promote mutual investment increase;

Third, establishing a free trade zone within the region will expand market size, so that it will further enhance the attraction of the FDI level between the two countries. Specially, since the signing of a free trade agreement makes Georgia provide cheap raw materials and agricultural products, mineral resources, precious metals, and these products will be embedded in Chinese production chain, and therefore contribute to more Chinese capital.

Fourth, EU investment in diverse areas of Georgia will contribute to Georgia economic development. As for China, the investment prospect of Georgia is promising.

According to China - Pakistan's experience, we expect that after China signs a free trade agreement with Georgia, Chinese direct investment in Georgia will grow significantly.

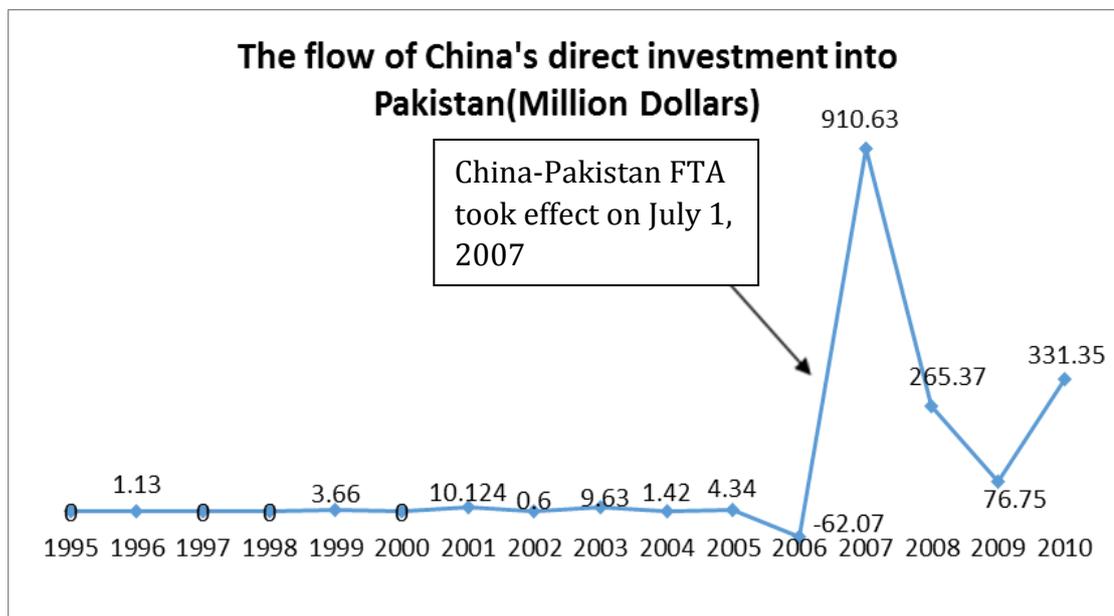


Chart 6-1 China's direct investment flows into Pakistan over the years

Description: China's foreign direct investment flows to Pakistan after the commencement of the rapid growth of China-Pakistan FTA, even though the investment has declined during the financial crisis, the cash flow had substantially grown before the implementation the Agreement. Source: Statistical Bulletin of China's foreign direct investment.

The same results are observed in the cases of China-New-Zealand and China-Singapore FTAs. The chinese FDI flows to these countries increased significantly after the commencement of FTAs.

Georgia

In the first place, China is a huge potential market, and to sign a trade agreement with China helps reduce the threshold for Georgia enterprises to enter the Chinese market. Meanwhile, it improves the system and policy guarantee, and promotes Georgia advantage investments in China.

Second, Georgia can make use of Chinese investments and the "spill-over effect" by Chinese investments, and meanwhile can learn advanced technology and management experience in the manufacturing, via China's integration into global value chains, thereby strengthening the development of related industries, increasing employment and income.

Third, China has significant advantages in the infrastructure and communication industry for Georgia's developments. In the long-term for Georgia's economic, Chinese enterprises

investments in the Georgia will promote the development of Georgia’s infrastructure and communication industry.

According to Georgia - Turkey's practical experience, we expect that China's direct investment in Georgia will grow significantly after the signing of the free trade agreement with Georgia.

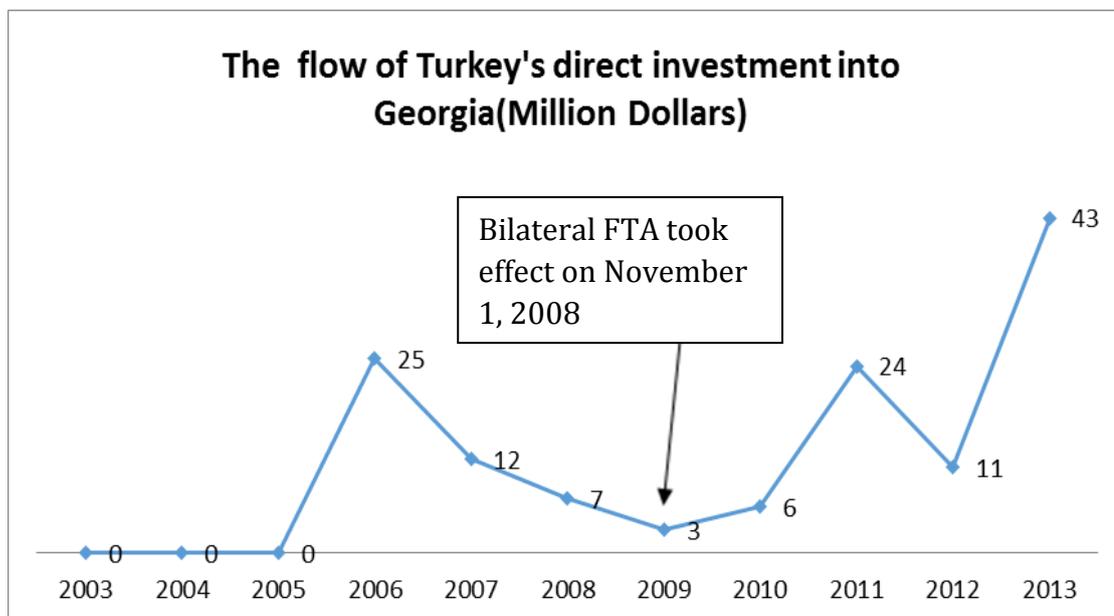


Chart 6-2 Turkey’s direct investment flows into Georgia over the years

Description: Turkey's foreign direct investment flows to Georgia after the entry into force of the FTA has decreased, but the phenomenon has the relation with the 2008 financial crisis. Since 2009, Turkish investments in Georgia began to rise, and with the 2013 high record of \$ 43 million. Source: OECD

In general, Countries benefit by reducing the tariff and non-tariff barriers under FTAs. Firms can reap economies of scale and increase the volume of investment and trade flows. There is evidence that FTAs can affect foreign direct investment (FDI) through the trade liberalization and investment liberalization processes.²⁶

²⁶ See Thangavelu, S. M. and C. Findlay (2011), ‘The Impact of Free Trade Agreements on Foreign Direct Investment in the Asia-Pacific Region’, in Findlay, C. (ed.), *ASEAN+1 FTAs and Global Value Chains in East Asia*. ERIA Research Project Report 2010-29, Jakarta: ERIA. pp.112-131.
 Stephen Kirchner, “Foreign Direct Investment in Australia Following the Australia–US Free Trade Agreement” *The Australian Economic Review*, vol. 45, no. 4, pp. 410–21
 Berger A., Busse M., Nunnenkamp P., and M. Roy, 2009. “Do Trade and Investment Agreements Lead to More FDI? Accounting for Key Provisions Inside the Black Box”. *WTO working paper*.

FTAs provides foundation to expect that FDI inflows in Georgia will increase. Free trade agreements with China can improve Georgia's location advantage to induce FDI inflows.

The sectors identified by the experts have high potential for FDI inflows in Georgia. Special interest should be paid to pharmaceutical industry. Pharmaceutical products are in Georgia's top 10 export products and FDI attraction from China can contribute to not only further development of the sector but also to initiation of exporting of pharmaceutical products to China.

FDI inflows in hydro energy sector, infrastructure, communications and internet sector are crucially important for high, stable long-run economic growth.

7. Other Areas Where Both Parties Have Interests

7.1 E-commerce

E-commerce refers to the purchase and sale of a wide range of products on computer-based networks. The new era of e-commerce has expanded from the traditional areas to the electronic funds transfer, supply chain management, mobile e-commerce, and Internet marketing, online transaction processing, electronic data interchange (EDI) and inventory management systems. And it presents four new features. Firstly, it has become a new engine of economic quality and efficiency. The producers, logistics providers and consumers have been integrated on the same platform. In the process of releasing latent demand and creating new demand, not only new service models and new commercial activities have been expedited to the birth, but also the flow of factors has been promoted and the industrial structure and regional structure have been optimized. Secondly, E-commerce is a new way to entrepreneurship and innovation. E-commerce, originated on the Internet but beyond the Internet, has become an important bridge to transactions between SMEs and users. Again, e-commerce is a new way to provide public goods and public services, significantly reducing the cost of public services. Finally, e-commerce is the effective way to co-ordinate domestic and international markets, make full use of domestic and foreign resources.

7.1.1 E-commerce Situation in China

In recent years, e-commerce has been developed rapidly in China. By the end of 2014, China's Internet penetration rate was 47.9%. Internet users reached 649 million people, and 26.1 hours per capita week online.²⁷ E-commerce activities by Chinese enterprises have been achieved through the website online display, online bidding transnational projects, 24-hour online fairs and events information portal implementation, E-commerce transactions in 2014 (including B2B and retail network) reached about 13 trillion yuan.²⁸ China's Internet services are conducted by six network operators: China Mobile, China Unicom, China Telecom, China Netcom, China Railcom and China Satcom. These operators are basically wireless network and fixed network service at the same time, but the service focus are different from each other. China Mobile mainly operates GSM network; China Unicom is the only full-service provider, while operating GSM, CDMA and fixed-line; Railcom mainly operates the national railway network; China Telecom and China Netcom are fixed network operators, and provide wireless local access of PHS communication; China Satcom provides satellite communication, broadcasting and other areas of satellite space segment operations.

China has made significant progress in legislation, policy and financial support of E-commerce.

²⁷China Internet Network Information Center (CNNIC)." 2014 China Internet Development Report"released by February 3,2015.

²⁸Data from the Commerce Department Electronics Division.

Entered into force in April 2005, "Electronic Signature Law of People's Republic of China" for the first time in China clearly defines the legal status of electronic signatures. In January 2005, "the State Council on Accelerating the development of electronic commerce" proposed to accelerate the development of electronic commerce with five basic principles: combination of government promoting and enterprise leading, combination of creating an environment and promoting the use, combination of the Internet economy and the real economy, combination of focusing on promotion and coordinating development, and combination of accelerating the development and strengthening the management. In May 2006, "2006--2020 National Informatization Development Strategy" proposed "Action Plan" of e-commerce development in China: Government departments should create a good environment and improve policies, while the enterprises should play the main role and E-commerce should be vigorously promoted; accelerating credit, certification, standards, payment and logistics construction; improving billing clearing information systems; exploring multi-level and wide range of e-commerce development. In 2012, Ministry of Commerce, Ministry of Industry and other regulatory units put the e-commerce development plan into "Twelfth Five Year Plan" category. On January 1, 2013, the "Criminal Procedure Law" and "Civil Law" were revised to include the electronic evidence in the types of legal evidence for the first time and define the legal status of electronic evidence. On April 1, 2013, the State administration of Taxation implemented "network invoice management approach" for the electric business taxation which provides a legal technical support. Subsequently, the Ministry of Finance and other 13 departments jointly issued a "further promote the healthy development of e-commerce-related work," further promoted the research on taxation of e-commerce companies.; On December 27, 2013, the NPC Financial and Economic Committee started Chinese e-commerce legislation, to be completed in June 2016.

China attaches particular importance to the use of e-commerce in cross-border trade cooperation, such as the import and export, finance and banking, customs services, company registration, securities and stock exchange, hotel reservations, air ticket booking, immigration, automobile transportation and other fields. China has actively initiated or participated in international exchanges and cooperation in e-commerce. The approval process of foreign direct investment overseas and foreign exchange registration has been simplified and cross-border direct investment with RMB in e-commerce are encouraged. China has actively developed e-commerce-oriented cooperation with the countries along "one-belt-one-road" to establish dialogue mechanisms with the governments, businesses, experts at all levels. In July 2014, "General Administration of Customs bulletin on regulatory matters on entry and exit of e-commerce cross-border trade in goods and articles" clearly specified the range of inbound and outbound goods and articles cross-border transacted on the customs network e-commerce platform, as well as data transmission, corporate filing, reporting methods, regulatory requirements and other matters. China (Shanghai) Pilot Free Trade Zone has launched a new series of pilot work to further improve facilitation of customs clearance.²⁹

In 2013, China and the World Intellectual Property Organization signed the "on the development of infrastructure services in support of patent examination work-sharing

²⁹Shanghai Customs Announcement No. 44, 2014 file.

cooperation agreement" to achieve the patent examination cloud experimental system (CPES) and the WIPO-administered centralized access search and examination (CASE) interconnected systems.

7.1.2 E-commerce and ICT Situation of Georgia

Georgia made an obvious progress in the ICT development in recent years, which is the result of latest reforms aimed at liberalization and de-monopolization of ICT Sector and simplification of business start-up procedures. The development of ICT sector is being continued in the compliance with the EU and the ITU principles.

Georgia has made progress in telecommunications markets, competitive environment and absence of majority administrative barriers on the Georgian market is promoted by the legislative environment. Recent years' (in 2006) legislative amendments has simplified licensing procedures. According to the law of "Electronic Communications" new entrants on the market only have to authorize to start an operation. Licensing is needed only for acquiring radio frequencies.

According to the international standards Georgia changed its National Numbering System of Electronic Communications. Realization of it contribute to the introduction of modern technical specifications and technologies and new types of services, it gives us opportunity to simplify numbering resources acquiring procedures and further development of business activity and long-term competition in the field of telecommunications. Now Georgia practices European model National Numbering System. After that, the provision of subscriber number portability was approved, according the provision network's subscribers got opportunity of maintaining their own number while switching to preferred telecommunication company's networks.

The Law of "E-signature and e-Document" elaborated by the MESD and on 2008 was approved by Parliament of Georgia, after that in 2008 by MESD elaborated and adopted the technical rules and Accreditation and Audit Rules for the Certification Service Providers "Elaboration of technical rules towards e-signature certificate and issuing e-signature". By the initiative of the Ministry of Finance the Law of free IT Zones was elaborated, which was approved by Parliament of Georgia and become effective since 1st January 2011. Law aims at development of information technology and creating a favorable environment for those who are in the field of information technology and are focused on creation of software products. According the Law information technology products created in virtual zone and oriented on export have not taxation on profits, tax value added, and export taxes.

The Government of Georgia pays special attention to the development of ICTs by using the innovative techniques and technologies. There is an attractive investment environment in the country and special steps are taken to support the development of entrepreneurship and competitiveness, improvement of the existing services and introduction of new ones.

In recent years Georgia made important reforms in ICT field, which facilitated development of electronic communications networks. Hence, is successfully implementing open

government program, aiming at improvement of public services, public involvement in state governance and creation of secure environment. There was established citizen portal, offering more than 300 public services, etc. Lot of Ministries and Governmental agencies introduced many e-services such as: Property registration, Business Registry, Civil Registry, eID and e-signature, Biometrical Passport, Electronic Treasury project, e-Treasury, e-Health, Electronic system for writing out VAT invoices, School National on-line exam, e-Procurement, e-Auction of the property under the state ownership; Investment Management System of National Bank, Core Banking System of National Bank etc.

Despite the absence of the legislative base, during the last few years e-Commerce has significantly developed in Georgia, supported by stable growth of internet users, accordingly increasing the demand on e-Commerce. Currently all Georgian banks offer their customers the basic range of online payment services. The active steps have been taken for development of e-Government system in the country that resulted in the introduction of various e-Services in Governmental agencies.

To build electronic service platform, improve innovation capacity, promote economic growth, improve people's livelihood are government's important goals in the next few years in the field of information and communication. Georgia ranks 15th (of 185 countries) in the World Bank's ease-of doing business survey, there is potential and opportunity to reduce costs of doing business in the country through smarter government-to-business interaction. This potential is also stressed by the 2012 UN e-Government Survey and the country's online service availability score (i.e. supply).

Georgia has implemented some e-Services for businesses, such as the mandatory use of the Revenue Services' digital declarations through www.rs.ge – providing a number of e-Services on revenue reporting with direct integration among company ICT and government systems, e-Procurement or e-Auction, which are all part of the Public Finance Management System. Another service is the e-NRMS (electronic National Resource Management System), which has been developed by the MoF. The system is designed to be used by the governmental organisations and businesses for natural resource management. The system incorporates services for private sector (e.g. bank services) and provides eServices for the following domains: G2C, G2B and B2G.

There are some legislative acts which refer to e-commerce: The Law on Protection of Personal data; Was amended Law on “Broadcasting” towards the advertisement issues; The Low on “Copyright and Neighbouring Rights”; The Low on “E-document and e-signature”; Tax Code of Georgia; MESD of Georgia works to elaborate e-commerce legislation which will support to develop e-commerce system in Georgia.

7.1.3 Cooperation Willingness for Both Sides

Currently, Georgia and China has not entered into any relevant bilateral cooperation agreements in the field of e-commerce. Both sides have recognized that the cooperation in these areas is very important.

Both sides looked forward to the expansion of cooperation in promoting international division of labor, trade in goods, trade in service, technology and innovation as well as the exchange of information and other aspects.

The E-commerce sector of both sides can sign a memorandum of understanding, cooperation agreements, e-commerce and technological exchanges, e-commerce rule-making as well as skills training and other aspects of e-commerce to deepen bilateral cooperation. These aspects may not only promote trade model innovation but also provide opportunities for the parties to play their respective comparative advantages.

With the deepening of bilateral cooperation in the field of electronic commerce, we believe the two sides will make further progress in the field of electronic commerce and to achieve win-win situation in the field of electronic commerce.

7.2 Intellectual Property Rights

Definition of Intellectual Property

“Intellectual property” comprises in particular copyrights, including the protection of computer programmes and compilations of data, as well as related rights, trademarks for goods and services, geographical indications (including appellations of origin) for goods, industrial designs, patents, plant varieties, topographies of integrated circuits, as well as undisclosed information.

7.2.1 IPR Protection in China

Consummating the system of intellectual property protection, is the important function of promoting innovative national construction and attracting foreign high and new technology industry. In November 2012, the Report of the Eighteenth National Congress of the Communist Party OF China clearly put forward to enhance the level of the open economy. We should “improve the comprehensive advantages and overall efficiency of using foreign capital, and promote the organic combination of attracting capital, technology and intelligence. And at the same time, we should speed up the pace of going out, strengthen the international operation ability of enterprises and foster a batch of world-class multinational companies. The specific implementation is to promote the perform of the administrative examination and approval system, strengthen the protection of intellectual property rights and promote investment facilitation, etc.

China has earlier formed the intellectual property rights protection system whose content is the Copyright Law of the People’s Republic of China, the Trademark Law of the People’s Republic of China, the Patent Law of the People’s Republic of China, the Audit Law of the People’s Republic of China, the Government Procurement Law of the People’s Republic of China and the Regulations on Computer Software Protection, the Customs Protection Regulations of Intellectual Property Rights, Interpretation of the Scope of Jurisdiction and the Application of Law in the Trial of the Case of trade marks. In recent years, the Chinese government is strengthening the construction of the protection of intellectual property rights.

In 2013 it promulgated Administrative Measures for the Use of Legitimate Software by Government Agencies. In 2014 it completed the revision of Trademark Law, the Regulations on the Implementation of Trademark Law, the Recognition and Protection of Well-known Trademarks Provisions and Rules of the Trademark Review and Adjudication, the Forest Products Geographical Indication Protection Measures. China promulgated the Method on Payment for Use of Written Works, Administrative Enforcement Measures for the Protection of New Varieties of Forest Plants. In April 2015, it has completed Law on Promoting the Transformation of Scientific and Technological Achievements (amendment bill)". And it is now under the process of revising the Copyright Law, the Patent Law and the Regulation on Patent agencies, and formulating the Regulations on Service Invention and the Regulations on Copyright Protection of the Works of Folk Literature and Art..

Among them, the "Patent Law" regulates that the deadline of invention patent is 20 years, and the duration of the utility model patents and industrial design patent is ten years. They are all calculated from the filing date.

Trademark Law regulates that the deadline of trademark protection is 10 years, the owner of a trademark can extend the rights protected indefinitely through the the renewal of trademark. International well-known trademark under the Paris convention can be protected without registration in China.

The objects of the Copyright Law protection include: literary works, oral works, music, drama, quyi, dancing, acrobatics, fine arts, architecture, photography, film and works in a similar method of film production, engineering design, product design drawings, maps, sketches and other graphic works and model works, computer software and other works regulated by the laws and regulations. The owners of copyright and copyright-related rights may authorize the copyright collective management organizations to exercise copyright or copyright-related rights. Copyright will be due from the date of the first published or 50 years after the death of the author (as for works with co-authors, from the death of the last surviving author).

"Trademark Law" regulates that, when a dispute arises after a party commits any of the acts infringing upon another party's exclusive right to use a registered trademark as enumerated in Article 57 of the Law, the parties involved shall settle the dispute through consultation. Where the parties refuse to pursue consultation or where consultation has failed, the trademark registrant or any interested party may institute legal proceedings with a People's Court or ask the administrative authority for industry and commerce to handle the matter.. Upon determining that trademark infringement has taken place, the administrative authority for industry and commerce shall order the infringer to cease its infringing activity immediately, confiscate and destroy the infringing goods, and any instruments mainly used to manufacture the infringing goods and counterfeit registered trademark., If the amount of illegal earnings is greater than RMB 50,000, a fine up to 5 times the amount of the illicit earnings may be imposed; if there is no illicit business revenue, or the total amount of illicit business revenue is less than RMB 50,000, a fine up to RMB 250,000 may be imposed. If there are more than two trademark infringements in five years or there are other serious circumstances, the

infringer shall be given a heavier punishment. If they don't know what they sale has been infringed, and can prove that the goods are acquired legally from legal providers, the administrative department for industry and commerce shall order them to stop sales. Upon dispute of the amount of damages arising from infringing the exclusive right of the trademark, the parties involved may request the administrative authority for industry and commerce to mediate in settling the amount of damages, or may appeal to a People's Court in accordance with the Civil Procedure Law Of the People's Republic of China.

The Copyright Law regulates that, anyone who commits any of the following acts of infringement shall bear civil liability for such remedies as ceasing the infringing act, eliminating its ill effects, making a public apology or paying compensation for damages, etc., depending on the circumstances: 1, without the permission of the copyright owner, publishing his works; 2, without the permission of the otherco-authors, publishing a work of joint authorship as a work created solely by oneself; 3, having one's name indicated on a piece of works created by others, in order to seek personal fame and gain, where one has not participated in the creation of the works; 4, distorting and tampering others' works; 5, plagiarizing others' works; 6, without the permission of the copyright owner, the exhibition, the production of films or analogous method of film production, or to use the works in the way of adaptation, translation, annotation, etc..7, the use of other people's work, which should be paid without payment. 8, without the permission of the copyright owner of cinematographic works and works created by a process analogous to cinematography, computer software, audio and video products, leasing the works or audio and video products; .9, without permission of the publisher, the use of the typographical arrangement of a book or magazine published; 10, without the permission of the performer, broadcasting on the site, transmitting in public, or recording his performance; 11, Other acts of infringement of copyright and rights related to copyright.

7.2.2 IPR Protection in Georgia

Georgia has actively participated in regional and bilateral negotiations, while its multilateral commitments and obligations. At the multilateral level, Georgia has always been committed to the establishment of a fair, equitable, transparent and progressive multilateral trading system, taking into account the needs of all developing countries. Georgia is actively involved in the negotiations on the Doha development agenda, particularly in the areas of agriculture, non-agricultural market access, intellectual property agreements related to trade, and trade facilitation.

Georgia has ratified a number of international conventions related to IP rights. In 2014, new amendments to IPR laws on trademarks, patents, designs, copyrights and neighbouring rights were drafted in order to further harmonize Georgian legislation with EU standards.

Table 7-1 Legislative framework, and international conventions ratified by Georgia

Date of accession	Multilateral agreements joined by Georgia
25 Dec 1991	Convention establishing the WIPO
25 Dec 1991	Paris Convention for the Protection of Industrial Property
25 Dec 1991	Patent Cooperation Treaty
16 May 1995	Berne Convention for the Protection of Literacy and Artistic Works
20 Aug 1998	Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks
04 June 1999	Agreement on Measures for Prevention and Repression of use of False Trademarks and Geographical Indications (CIS)
04 June 1999	Agreement on Mutual Ensuring of Interstate Secrets Safety in the Field of Legal Protection of Inventions (CIS)
14 June 2000	Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement)
6 March 2002	WIPO Copyright Treaty
20 May 2002	WIPO Performances and Phonograms Treaty
28 Feb 2003	Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks
01 Aug 2003	Hague Agreement Concerning the International Registration of Industrial Designs
23 Dec 2003	Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs
23 Sep 2004	Lisbon Agreement for the Protection of Appellations of Origin and their International Registration
14 Aug 2004	Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations
30 Sep 2005	Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure
29 Oct 2008	International Convention for the Protection of New Varieties of Plants (UPOV Convention)
Year of adoption or amendments	IPR related legislation
Most recently amended in 2013	Patent Law
Most recently amended in 2010	Trademark Law
Most recently amended in 2013	Law on Copyright and Neighbouring Rights
Most recently amended in 2011	Law on Appellations of Origin and Geographical Indications of Goods
2010	Law on Design
2010	Law on Protection of Animal Breeds and Plant Varieties

Date of accession	Multilateral agreements joined by Georgia
1999	Law on Topographies of Integrated Circuits
2013	Law on Border Measures Related to Intellectual Property
Year of adoption or last amendment	IPR enforcement related legislation also includes:
1997	Civil Procedural Code
2005	Criminal Code
2010	Code of Administrative Offences
	Institutional framework
Sakpatenti	Determines the policy in the field of intellectual property. Registering IP rights.
Revenue Service	Registering IPR at the border, enforcing IPR protection at the border.
Ministry of Internal Affairs, Financial Police	Enforcing IPR protection within the country.

Georgia has brought its IPR legislation into line with international standards, The Georgian National Intellectual Property Center -Sakpatenti remains the agency formulating and implementing IPR related policies. It deals with all IP rights, including patents, copyrights and neighbouring rights, trademarks, new plant and animal varieties. The Revenue Service is responsible for enforcing IPR at the border, while the Ministry of Internal Affairs and the Financial Police are responsible for enforcing IPR within the country.

Patents

Patents are available for any inventions, whether products or processes in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application.

According to the Patent law of Georgia patent validity term for inventions is 20 years and for utility models – 10 years. The Law also provides the concept of supplementary protection certificate, which allows maximum five years extension of the protection of patents for medical products. Protection of rights related to patents (inventions and utility models) can be acquired by: filling an international application under the Patent Cooperation Treaty (international procedure), or filling an application directly at Sakpatenti.

Designs

In 2010 the Parliament passed the Design Law. The protection of industrial designs was then shifted from the Patent Law to the Design Law. A design is protected if it is new and has an individual character. Right holders are granted five years of protection, which can be renewed for one or more periods of five years, up to a total of 25 years from the date of filling the application.

The Design Law is to be amended, and provisions for effective enforcement of design owners' rights are to be introduced. In 2014 Georgia proposed amendments to the Law on Designs to bring the law in conformity with the EU standards, focusing on general procedural issues and clarification of enforcement measures.

Designs must be registered to be protected, either through a national procedure – with the Sakpatenti, or an international procedure as Georgia joined the Hague Agreement in 2003.

Copyright

In Georgia the relations formed in connection with the copyright and related rights are regulated by the Law of Georgia on Copyright and Neighboring Rights, which was adopted in 1999.

According to the Law, the copyright shall apply to scientific, literary and artistic works, which are the result of intellectual-creative activities, irrespective of appointment, value, genre, size, forms and means for its expression. Copyright protection is from the creation of a work, for the life of the author plus 70 years after his/her death. Copyright on a work, which was published or made available to the public as an anonymous or pseudonymous work, is protected for 70 years after the work is lawfully disclosed. Copyright on a work of joint authorship is protected for the life of each co-author and for 70 years from the death of the last surviving author. Where a work is published in volumes, parts, issues or episodes, the term of protection is for each such item separately. Copyright of a composite work and a derivative work, is protected for 70 years from the time when the works were lawfully published or made available to the public for the first time, and from the date of its creation (if a work has not been published or made available to the public). Copyright on an audiovisual work expires 70 years after the death of the last surviving author (co-authors). Economic right of the person who lawfully published or made available to the public a work which was not published or made available to the public previously, is protected for 25 years from the time when the work was first lawfully published or lawfully made available to the public.

Trade marks

Trademarks must be registered on the basis of formal and substantive examination carried out by Sakpatenti. Sakpatenti conducts substantive examination of trademarks on absolute and relative grounds for refusal. Before registration, Sakpatenti publishes relevant data in the Official Bulletin of Industrial Property. After three months from publication, if no appeal concerning this trademark is filed with the Chamber of Appeal of Sakpatenti, the trademark is registered. The exclusive right of a trademark holder comes into force on the day of the registration of the trademark. On 28 June 2010, amendments were made to the Law on Trademarks. The amendments provided for an accelerated procedure for the registration of trademarks. It takes approximately 10 months to register a trademark under the common procedure, and 10 business days under an accelerated procedure. Registered trademarks are protected for 10 years, and the 10-year term can be renewed indefinitely for additional periods of ten years.

In addition to filling a trademark application directly with Sakpatenti, the applicant may also register it through an international procedure following the Protocol Relating to the Agreement Concerning the International Registration of Marks - the Madrid Protocol.

Well-known trademarks are protected without registration under Article *6bis* of the Paris Convention.

The Trademark Law is to be amended further, to contain provisions on the determination and specification of new adequate provisional measures for effective enforcement of trademark right holders. New amendments intend to further harmonize Georgian legislation with that of the EU. In case of infringement, the right holder will be able to request seizure and destruction of infringing goods, destruction of all associated images and published materials on the internet, and all technical devices used for producing infringing objects. Also the law will stipulate the legal mechanisms for defining the amount of damages and reimbursement of monetary compensation.

Geographical Indications

The Law of Georgia on Appellations of Origin and Geographical Indications of Goods regulates the relations formed in connection with the registration, protection and use of appellations of origin and geographical indications of goods (services).

According to the Law, an appellation of origin is a modern or historical name of a geographical place, region or, in exceptional cases, a name of a country, used for designation of the goods: originating within the given geographical area, specific quality and features of which are essentially or exclusively due to a particular geographical environment and human factors, whereas production of the goods, processing and preparation of the raw material take place within the defined geographical area.

As distinct from the appellations of origin, in the case of geographical indications, the link of the goods with the geographical place is weaker. In this case, the preparation, processing and production of the raw material is not required to take place in one and the same place, compliance with one of the conditions shall be sufficient, but, of course it should be decisive at formation of features and building up of a reputation of the goods.

Protection of appellations of origin and geographical indications in Georgia is performed by Sakpatenti on the basis of their registration or bilateral or international agreements.

According to the Law, after the registration of the appellations of origin or geographical indication, their use shall be admissible only on the basis of the permission issued by the State controlling organization after examination of compliance of features of the produced goods and production conditions with data of the Register under the established rule and periodicity. Together with the registration, the Law provides for the protection of geographical indications of those countries, which on the basis of reciprocity principles ensure the same protection for the geographical indications of Georgia.

Some other IP rights

New varieties of plants and breeds of animals are protected under the Law on Protection of Animal Breeds and Plant Varieties. Difficulties for Georgia in registering and protecting new varieties of plants and animals come from the absence of competent laboratories. The UPOV allows member countries to use laboratories from other members of the Convention.

The Law on Topographies of Integrated Circuits was enacted in 1999.

Enforcement

In addition to legislation on various IP rights, enforcement of IPRs is also under the Civil Procedural Code, the Criminal Code, the Administrative Offences Code, and the Law on Border Measures Relating to Intellectual Property. The Civil Procedural Code stipulates that courts may order a party to desist from an infringement. The Criminal Code and the Administrative Offences Code provide for the liability for infringement of intellectual property rights. Penalties range from a fine to detention or imprisonment.

The Law on Border Measures Relating to Intellectual Property establishes the rules to enforce at the border the rights of trademarks, copyrights and neighbouring rights, rights of database producers, design rights, and rights on appellation of origin and geographical indications of goods. It does not include patents.

Public awareness

Sakpatenti undertakes various activities to increase awareness and improve enforcement of IPR: publications, training sessions for judges, various materials distributed free of charge, and databases available online to external users. According to the authorities, raising IPR awareness is part of everyday work of Sakpatenti. Sakpatenti, along with other government institutions, organizes various activities for raising awareness among right holders, business representatives, lawyers and other target groups in Georgia. In 2015 Sakpatenti, in cooperation with relevant governmental bodies, has created an IPR enforcement interagency coordination body, which will deal with IPR enforcement issues, including implementation of border measures. Sakpatenti also created IP training centre to raise public awareness and knowledge of IP protection.

7.2.3 Cooperation willingness for both sides

Currently, the two countries in the field of intellectual property has not signed any relevant bilateral cooperation agreement. It has been recognized that cooperation is very important in these areas. The two sides are looking forward to cooperation in business, legislation, production, public security, customs, drug administration, science and technology and information exchange and other aspects.

Relevant authorities can continue to deepen cooperation of both sides in the protection of intellectual property from the information exchange, personnel training, intellectual property protection support capacity building, so as to protect the intellectual property holder's

legitimate interests and promote intellectual property into the pace of productivity by signing the memorandum of understanding, cooperation agreement, bilateral IPR consultation and rules making, customs inspection and skills training support way.

We believe that with FTA provisions on IPR and the in-depth cooperation between the two sides in the field of intellectual property rights, the two sides will make greater progress in the field of intellectual property protection, and achieve a win-win situation in the field of intellectual property.

8. General Provisions, Institutional Provisions and Dispute Settlement

8.1 General Provisions

General Provisions in FTAs usually contain the provisions on the announcement of establishment of FTA, objectives, scope of application, relationship to other agreements, definitions of general application, etc.

In addition to the above provisions, seeing that transparency in legislation and regulation is an important principle for the smooth working of an FTA, the general provisions of an FTA between China and Georgia could include provisions on transparency relating, inter alia, to the publication of laws and important measures and procedures concerning matters covered by the agreement.

8.2 Joint Committee

A simple and pragmatic approach in terms of institutional set-up should be foreseen in the framework of a China-Georgia FTA. A Joint Committee would be established which could meet regularly at senior officials' level and would be in charge of monitoring the implementation, application and further development of the FTA. The Joint Committee could set up sub-committees as necessary.

8.3 Consultations

The proposed Agreement may incorporate a process of consultations for consideration and to afford adequate opportunity for, consultations regarding such representations as may be made with respect to any matter affecting the operation of the proposed Agreement within stipulated time frame.

8.4 Contact Points

It is proposed that a designated contact point to facilitate communications between the parties on any matter covered by the proposed Agreement be established.

8.5 Dispute Settlement

An FTA between China and Georgia would include a mechanism for settling disputes concerning the application and interpretation of the agreement. The parties could encourage to friendly resolve disputes through consultation in order to find amicable solutions before resorting to legal approaches of settling disputes.

9. Conclusions and Recommendations

This study aims at examining the effects of China-Georgia FTA on the consolidation and development of bilateral economic and trade relationship. The following conclusions and suggestions are made by the Joint Study Group of both sides.

9.1 General Conclusions

The study indicates that there are differences in the economic and industrial structures and production scale between Georgia and China. The China-Georgia FTA will result in both sides in additional growth of GDP, increase of social welfare and exports. Overall, the FTA which is consistent with WTO rules, with a scope covering trade in goods, trade in services, investment, which will be identified and agreed by both sides, will bring China and Georgia substantial economic and trade benefits and strengthen bilateral economic and trade relations with a mutually beneficial result. Experts from both sides share the view that all the opinions and analysis results in this report will not prejudice the specific positions of both parties in the future FTA negotiations.

9.2 Sector Specific Conclusion

9.2.1 Trade in Goods

The China-Georgia FTA will facilitate the bilateral trade and promote the economic growth. Despite of high liberalized markets in both countries, the China-Georgia FTA will still contribute to the improvement of market efficiency and further utilization of comparative advantages of both economies. While the different quantitative analytical methods were adopted to analyze the economic impacts of China-Georgia FTA, the results found consistently proved that China-Georgia FTA will promote the bilateral trade, enhance economic growth and improve the social welfare. The impact of the FTA on the trade of different commodities depends on their initial trade volumes and import tariffs. According to the research findings, the important export products of China and Georgia will increase notably. However, the future China-Georgia FTA negotiation will not be limited to the specific sectors.

The study concludes that liberalization of trade in goods will benefit and promote the development of industries in both countries. Given the different tariff rates and structures, and different industrial structures between China and Georgia, the benefit of a FTA would not be equally shared by all stakeholders, as a few sectors could be sensitive. Both sides should recognize the reciprocal principle and mutual benefit in the FTA, fully take into account interests and sensitivities of each side, and contribute to the establishment of free trade relations in the future China-Georgia FTA.

9.2.2 Trade in Services

The bilateral trade in services grows quickly and exhibits a great potential for cooperation. Currently, Chinese companies have been actively involved in upgrading Georgia's network and IT infrastructures, providing banking credit services, establishing travel agencies and contracting projects etc. In 2014, the Georgian government issued "Socio-Economic Strategy 2020", which attempts to promote the scientific and technological levels, as well as the innovative capacity through enhancing financial supports, upgrading the infrastructure and extensively adopting the advanced information technologies. With the implementation of the developing strategy and the fast growth of Georgia's economy, it will generate enormous opportunity for the bilateral trade in services. Moreover, both sides will consider the improving commitments in service sectors and appropriate modes of services supply based on the commitments in WTO. This will facilitate and promote the bilateral trade in services.

9.2.3 Cooperation in Other Fields

This study also discussed the possible cooperation in finance, water and electricity supply, communication and IT, transportation and infrastructure as well as electronic commerce. All of these are beneficial to strengthen bilateral economic and trade cooperation between China and Georgia.

9.2.4 Investment

China's investments in Georgia has grown rapidly accompanying the fast rising trade and the enhanced economic cooperation. China's FDI in Georgia reached 195 million US dollar in 2014, doubled comparing to that in 2013 and accounting for 15.3% of overall FDI in Georgia. Currently, China has become the third largest investor in Georgia. It is expected that China's FDI in Georgia will continue to grow quickly, as the deepened and extensive economic cooperation including water and electricity supply, infrastructure construction such as the railways, tourism and manufacture etc. Currently, Georgia has little investment in China. It is proposed to take effective action to encourage Georgian enterprises to make investment in China to further enhance the bilateral economic and trade cooperation.

9.3 Recommendations

This study shows that the FTA will be conducive to both countries' economic development and social welfare improvement. To ensure the interests of both sides and consolidate the friendly relationship and bilateral economic ties, the joint study proposes to launch negotiation on a FTA as soon as possible. The future negotiations should take into accounts the interests and sensitivities including differences in economic, industrial structures and tariff structures of both sides and make flexible arrangements to achieve balance of interests and win-win situation. Both sides should, at the beginning of future negotiation, further specify the final liberalization level, and items including the negotiation schedule at each phase and the product coverage. It is also recommended to commence the negotiations as per the agreed roadmap on the FTA between China and Georgia covering trade in goods, trade in services

and investment which will be identified and agreed by both sides, in order to secure benefits and elevate trade relations to new heights that would build upon the long and warm relationship between the two countries.

Experts from both countries do share the beliefs that FTA will be conducive to both countries long-run economic development and social welfare improvement. It should be noted that the potential, estimated effects measuring the consequences of FTA are based on the existing trade activities. Moreover, some differences in estimated results can be explained by different methodologies and different level of aggregation of data.

The overall potential cost/benefit analysis imply that Free Trade Agreement between China and Georgia is in both countries' best interest.

Appendix 1: Introduction of the Partial equilibrium model and its main analysis results

Based on Partial Equilibrium analysis, complete elimination of tariffs on export from china will result in 1.69% increase in Chinese export to Georgia, from 790.5 mln USD to 802.6 mln USD. Total tax revenues on import will decrease by 0.5%, by 6.8 mln USD in absolute terms. Georgian export to China will result in 9% increase in Georgian export to China.³⁰ In absolute terms, Georgian export, not considering copper ores and concentrates, will increase from 22.5 mln USD to 24.6 mln USD. Substantial increase is expected in the export of wine products, about 28.5%, from 4.6 mln USD to 5.9 mln USD. Also, the export of waste and scrap of copper and aluminum will increase by 3.3%, from 17.3 mln USD to 17.9 mln USD. 36.7% increase is expected in water, mineral water products and other non-alcoholic beverages. The export in these product lines will increase from 89.7 thousands USD to 122.7 thousands USD. Detailed results of the simulation are given in the table.

1. Effects on Import from China to Georgia

Total increase in Chinese export can be decomposed in two effects: Trade diversion and Trade Creation effects. Trade diversion effect accounts approximately 48%, and the rest out of Chinese export increase of 15 mln USD comes on Trade creation effect.

³⁰ Assuming the value of 1.5 for the elasticity of export substitution and the value of 0.8 for elasticity of demand.

Table 1: Impact of Tariff Elimination on Chinese Export and Georgia's Tax Revenues

Impact on imports:	
Imports pre	7,994,757,648
Imports post	8,009,952,324
Change in imports	15,194,676
% change in imports	0.2%
Impact on Import from China	
Imports pre	718,418,528
Imports post	730,596,739
Change in imports	12,178,739
% change in imports	1.69%
Total Tax Revenues on Imports	
Total revenue pre	1,548,118,672
Total revenue post	1,540,882,525
Change in Total revenue	-7,236,147
% change in Total revenue	-0.5%
Impact on Revenue:	
Tariff revenue pre	70,301,690
Tariff revenue post	62,079,664
Change in tariff revenue	-8,222,026
% change in tariff revenue	-11.7%

Main products affected by the elimination of tariffs are given in Table 2.

Table 2: Top Chinese Export Goods Affected by Tariff Elimination

HS Code	Import Pre	Import Post	Change	HS Code Description
Non - agricultural Product				
44182080000	6,980,259	8,350,785	1,370,526	Doors and their frames and thresholds, of Wood
73110091000	5,172,595	5,851,933	679,339	Containers of iron or steel, for compressed or liquefied gas
68029390000	1,940,524	2,380,233	439,709	Granite; articles thereof, (other than simply cut or sawn, with a flat or even,surface)
39259080000	2,981,439	3,408,854	427,415	Plastics; builders' ware
39269098000	2,671,267	3,018,984	347,717	Articles of plastics and articles of other materials of heading

HS Code	Import Pre	Import Post	Change	HS Code Description
Agricultural Product				
02071420000	6,426,971	7,475,590	1,048,620	Frozen cuts and edible offal of fowls of the species Gallus domesticus
07039000000	1,350,680	1,609,573	258,893	Onions, shallots, garlic, leeks and other alliaceous vegetables
07133900000	835,670	965,008	129,338	Dried leguminous vegetables, shelled
20031030000	752,316	874,081	121,765	Vegetable preparations; mushrooms of the genus Agaricus, prepared or preserved otherwise than by vinegar or acetic acid
20039000000	649,653	754,485	104,832	Vegetable preparations; mushrooms and truffles, other than mushrooms of the genus Agaricus, prepared or preserved otherwise than by vinegar or acetic acid

The sensitivity analysis show that the results do not change dramatically. Tariff elimination may lead to 1.6% - 2.2% increase in Chinese export to Georgia under different scenarios. The fiscal effects of trade policy reform stay mostly the same in all scenarios.³¹ Assuming infinite

³¹ In different scenarios we examine the effects of changes in elasticity of export substitution and demand elasticities. .

export elasticity of supply for Chinese export³², after accounting tariff losses, net welfare gain of Georgian consumers derived from the lower domestic prices after the removal of tariffs constitutes 0.65 mln USD.

2. Effects on Georgian Export to China

Georgian export to China constituted 90.39 mln USD in 2014. In 2013, the value of export was 33.86 mln USD and in 2012 – 25.61 mln USD. Large and sporadic increase in Georgian export to China in 2014 was largely due to increase in re-export of copper ores and concentrates, amounting 67.39 mln USD. In order to estimate the reasonable effects of the trade reform, we should neglect increase in re-export of copper ores and concentrates. Moreover, the tariff rate on copper ores and concentrates is quite low to have significant effect.

According to PE estimations, the full elimination of tariffs on Georgian export to China will result in 9% increase in Georgian export to China.³³ In absolute terms, Georgian export, not considering copper ores and concentrates, will increase from 22.5 mln USD to 24.6 mln USD. Substantial increase is expected in the export of wine products, about 28.5%, from 4.6 mln USD to 5.9 mln USD. Also, the export of waste and scrap of copper and aluminum will increase by 3.3%, from 17.3 mln USD to 17.9 mln USD. 36.7% increase is expected in water, mineral water products and other non-alcoholic beverages. The export in these product lines will increase from 89.7 thousands USD to 122.7 thousands USD.

The experts agree that the FTA will result in intensification of bilateral trade between Georgia and China. Chinese export will increase in several directions (See table). As for Georgia, trade expansion will result from increase in the following product lines: wine products, waste of scrap of copper and aluminum and non-alcoholic beverages.

Study of main export product lines of Georgia shows that the comparative advantages of Georgian exports are not well exploited in Georgia-China bilateral trade (See Table 4). PE or GE modeling tools cannot account for the effects of FTA on “trade zeros”; but it is highly probable that FTA between Georgia and China will contribute to the intensification of trade on extensive margin as well. For this reason, top export product lines from Georgia in general should not be excluded from tariff cuts.

³² which is reasonable assumption considering the size of Georgian market.

³³ Assuming the value of 1.5 for the elasticity of export substitution and the value of 0.8 for elasticity of demand.

Table 3: Top Export Commodities in Georgia, 2014

Top Export Commodity	Total		China		China's share in Export	China's share in Re-Export
	Export	Re-export	Export	Re-export		
Motor cars	517,786,814	503,067,428	36,377	0	0.01%	
Ferro-alloys	285,752,603	85,118	0	0		
Copper ores and concentrates	248,089,716	177,615,232	67,391,369	67,391,369	27.16%	37.94%
Hazelnuts and other nuts	183,398,759	888,777	0	0		
Wine of fresh grapes	180,721,806	3,349,097	4,664,887	0	2.58%	
Mineral or chemical fertilizers, nitrogenous	137,622,038	0	0	0		
Waters, natural or artificial mineral and aerated waters	137,123,586	290	16,095	0	0.01%	
Undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages	95,190,189	40,459,790	219,298	0	0.23%	
Medicaments put up in measured doses	92,065,104	47,751,786	0	0		
Other bars and rods of iron or non-alloy steel	63,735,586	0	0	0		
Semi-finished products of iron or non-alloy steel.	44,746,461	0	0	0		
Gold unwrought or in semi-manufactured forms, or in powder form	39,334,301	0	0	0		
T-shirts and other vests, knitted or crocheted	38,359,419	1,578,587	0	0	0.00%	
Crude petroleum and petroleum oils	36,178,481	0	0	0		
Live bovine animals	30,067,387	183,134	0	0	0.00%	

Appendix 2: Introduction of Global Trade analysis Project (GTAP) and its main analysis results

Georgia's export to China will increase significantly by 29.1% (24.5 million US dollar), with China's export to Georgia rising by 6.7% (53.0 million US dollar) after elimination of import tariffs in both sides. Meanwhile, the Gross Domestic Production (GDP) in Georgia will improve notably by 0.05% (7.5 million US dollar). Despite the positive impact, China's GDP will increase very small by less than 0.0001% (5 million US dollar).

The impact of the FTA on the trade of various products depends on their initial trade volumes and import tariffs. For this with a large quantity of trade volume and confronting high import tariff, its export will rise remarkably and the sector will gain from FTA. China's export of pork and poultry products, vegetables and fruits, processed foods, metal products, chemical and rubber products, manufactured products and machinery to Georgia will increase significantly by 133.0% (19.7 million US dollar), 48.4% (3.5 million US dollar), 31.6% (5.6 million US dollar), 29.5% (58.7 million US dollar), 14.5% (20.4 million US dollar), 3.8% (16.6 million US dollar) and 0.7% (8.9 million US dollar). Meanwhile, Georgia's export of vegetable and fruits, metal products such as copper and aluminum, grape wine, textile and apparel products, machinery to China will rise by 125.2% (0.9 million US dollar), 3.8% (5.4 million US dollar), 34.6% (2.4 million US dollar), 206.9% (5.4 million US dollar) and 75.5% (1.2 million US dollar).