



How to increase competitiveness of Georgian products in **export markets**

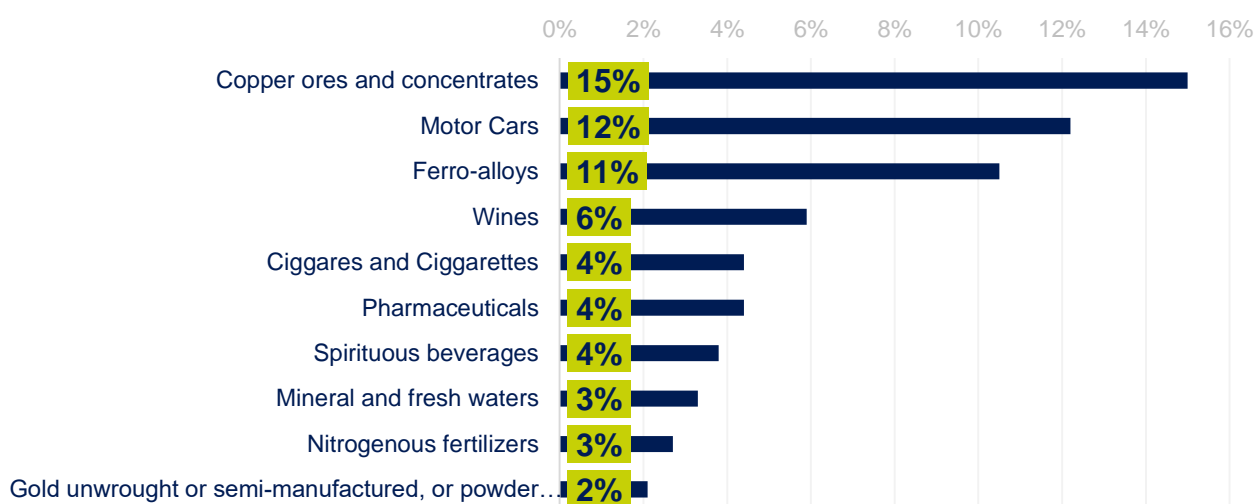
How to increase competitiveness of Georgian products in export markets

Author: Mariam Chachua

According to many economic theories, international trade brings benefits all nations involved in trade, regardless of level of economic development. However, as gains from trade are not always immediately visible many states with underdeveloped economies become concerned that national production will not be able to withstand the pressures of international competition. Problematically, both schools of thought can be true. International trade does improve the long-term economic welfare of nations, whilst simultaneously creating a market in which established domestic firms may fail.

Georgia is heavily dependent on imported products. By the end of 2018, exports made-up a 27% share of the country's total trade turnover. Georgia's commodity export structure has remained constant for many years. Automobiles, copper ore, and ferro alloy remain the largest export commodity groups – despite the fact that these products are not produced in Georgia and therefore must be re-exported. The share of domestic production in the export structure is moderate: wine and mineral waters are traditional export commodities and take a modest share in country's export totals. The static nature of Georgia's export structure and its focus on re-exporting goods indicates that local production has not developed to the point that it can truly compete in the international market.

Major commodity groups exported in 2018



Source: National Statistics Office of Georgia

There are many factors that make domestic products competitive in the international market and analyzing these goes beyond the scope of this report. Instead, this article is focused on the core factors that need to be developed in order to enhance the export capacity of domestic industries and make local production more internationally competitive.



Of central importance to Georgia moving forwards is the proper selection of trade partners. For sustainable development Georgia needs to partner with countries with stable economies and growing market demand for goods which Georgia domestically produces. Without a stable market, it is impossible to construct a long-term strategy and increase the competitiveness of national products in export markets.

For a number of years now the main export markets for Georgian products were CIS countries. In 2018, exports to CIS countries took a 50% share of Georgia's total exports, while exports to the EU only made up 22% of the total..

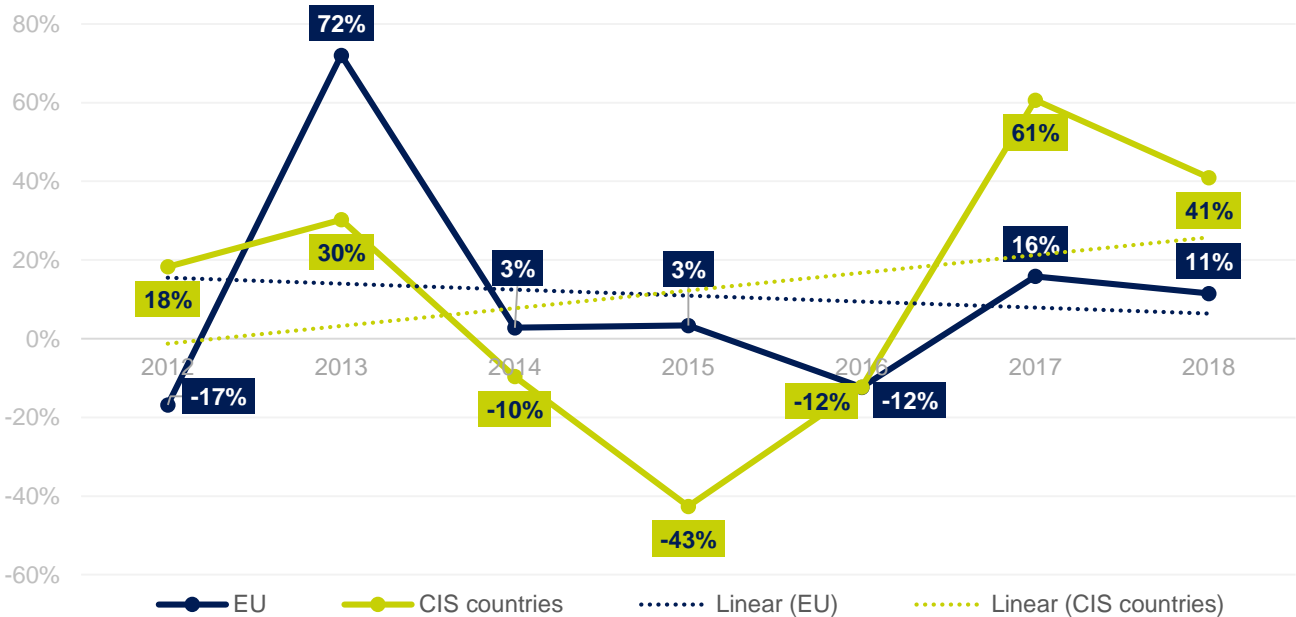


Common history, cultural similarities and proximity explain Georgia’s market ties with CIS states. However, EU market is substantially more attractive for Georgia due to greater political and market stability.

Ukraine is a potent example of this. In 2018 Ukraine was the third largest export partner of Georgia taking a 7.6% share in Georgia’s export total. However, this has not been a stable relationship over the last five years. The Ukrainian conflict with Russia in 2014 had significant economic consequences for Georgia. Ukrainian markets suffered, which was in turn reflected in the Georgian economy. Georgian exports to Ukraine declined by 27% in 2014 and 57% in 2015, Ukraine was no longer the largest export market for Georgia with its share of Georgian exports declining to just 3% between the years 2014-2015.

The graph below shows exports to CIS countries are characterized by high variation. Economic shocks and conflict are more common in CIS states, making them volatile trade partners.

Export growth trend to EU and CIS countries



Source: National Statistic Office of Georgia

In 2018, Russia was Georgia’s second largest export market, taking a 13% share in the total exports. However, Russia has shown a willingness to use trade restrictions to gain regional political influence. Furthermore, due to aggressive foreign policy Russia often falls under sanctions, limiting its purchasing power in the international market-place. Both of these factors make Russia a problematic trade partner for Georgia as stability cannot be promised making potential for trade growth fickle and hard to predict. The development of export-oriented industry in Georgia should start from focusing on stable export markets.

The DCFTA with the EU offers an excellent export opportunity, opening one of the world's largest markets to Georgian products. In 2018, Georgia's exports to the EU amounted to 730 million USD, and EU-Georgia trade relations are expected to grow in the coming years.

Currently Georgia primarily exports processed agricultural products to the EU and Georgian products are gaining popularity amongst European customers. Despite some initial successes, Georgia is yet taken a stable and competitive position in the EU market yet. The EU is the one of the world's largest importer of fruits and vegetables, honey (and its byproducts), and fish. . Considering the resource endowment of Georgia, the country can become one of the main suppliers of the aforementioned products to the EU market.



Together with private sector the state policy also should take its contribution to popularize Georgian products in export market

Despite the opportunities, there exist several constraints that hinder domestic production. These need to be overcome in order to become competitive, not only in the EU but in other export markets also.

Local production is heavily dependent on imported inputs. For example, in agriculture farming inputs -such as fertilizers, pesticides, and animal feed products - are imported which increase production costs for local farmers. This, in turn, constrains Georgian farms from applying a low pricing strategy when entering in foreign markets. The dependence on imported inputs is not only a problem for the agriculture industry. Many manufacturing industries are using imported materials that make domestic production expensive by international standards. To solve this problem, a national strategy of developing factories which produce farming inputs and other materials used in the manufacturing industry should be adopted. This will decrease production costs and enable local industries to apply a low pricing strategy to entering foreign markets.

The second issue that hinders Georgian products from being internationally competitive is the stability of supply. Currently, only a few firms are able to ensure a stable supply of products to export markets. This


problem is most acute in agriculture. Small farmers and cooperatives do not have enough production capacity to meet the growing demand and ensure a stable supply of goods to export markets. One possible solution is to enhance the collecting and sorting factories and intermediary companies that collect, sort, verify local agricultural products, and prepare them for export. Strengthening these types of firms will be one step forward to ensure stable supply of goods.

The final and most important aspect of the export strategy is marketing and branding. Doing this will increase awareness of foreign consumers about the “Georgian brand” as a mark of quality. The state should partner with the private sector to help popularize Georgian products in the export market and gain the loyalty of foreign customers.

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www.pmo.ge
(+995 32) 2 37 73 07
contact@pmo.ge
7 Niko Nikoladze St.



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