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TRADE RELATIONS AND EXPORT ORIENTATION PROSPECTS OF GEORGIAN ECONOMY ON EU MARKET

Abstract:

On the basis of country`s economic increase, analysis of employment and export potential, in the article, there are revealed the challenges of global economy and evaluated the competitiveness of economy of Georgia. There are studied the reasons causing negative balance of foreign trade. On the basis of generalization of increase theories oriented on the export, there are assessed the significance of offer the manufacture of new export products and service relating the export products and the intensity of their sell, extension of export geography and increase of export potential of the country. Besides, there is confirmed the state`s role in increase of production`s efficiency by rational distribution of resources. There are worked out the references regarding the acceleration and improvement of trade and economic relations between the Georgia and EU during the process of integration in EU.

Keywords:

trade relations, economic growth, export potential, competitiveness, export-oriented growth.

JEL Classification: F00

Introduction

On the background of global economic challenges, it's quite urgent to deepen the trade relations between EU and Georgia. Signing an Association Agreement with EU and reforms implemented in the country by this direction makes irrevocable the acceleration of process of integration in EU.

Globalization process grants an opportunity to the countries and companies involved in competition battle to settle themselves on the largest markets by revealing their supremacies, strengthening and via economic integration. An Agreement about Deep and Comprehensive Free Trade Area (DCFTA) itself promotes the export's diversification in geographical scope and under the commodity mark. Coming out of the mentioned, it's quite important to reveal Georgia's export potential and define that benefit, which might receive the country by using a number of benefits of Agreement about Deep and Comprehensive Free Trade Area (DCFTA), by overcoming the tariff barriers and export's diversification on EU market.

By foreseeing the above mentioned and in order to increase the efficiency of trade and economy policy of Georgia and EU, it's quite urgent to reveal the factors promoting Georgia to integrate in EU and definition of export potential of the industries of Economy of Georgia on the basis of analysis of main export production's structure and dynamics. From the above and on the basis of the study of Georgia – EU integration processes, the priorities of trade relations were shaped, also there is worked out the specific references in order to improve the trade, investment and scientific-technical relations.

Georgia's economic integration process with the EU

The economic globalization, integration and internationalization processes currently existing in the modern world, cause the increase of competition. The mentioned issue is urgent for Georgia as well as the competitiveness of production manufactured by Georgian companies significantly impacts the development of the country. On the modern stage, by foreseeing the reforms of government of Georgia related to cooperation with EU, Agreement about Deep and Comprehensive Free Trade Area (DCFTA) and integration in EU, also by foreseeing the challenges existing in front of the country, the special attention is drawn towards the development of trade and economic relations between Georgia and EU and definition of future perspectives.

The results acquired during the implementation of agreement between Georgia and EU, also the importance of Agreement about Deep and Comprehensive Free Trade Area (DCFTA) (as an integral part of Association Agreement EU) are the main priorities of our country regarding the trade with EU, removal the tariff and non-tariff barriers, liberalization of trade with commodity and service also investment and scientific-technical cooperation of Georgia.

Agreement about Deep and Comprehensive Free Trade Area (DCFTA) with EU exactly covers the mechanism of economic integration with EU, which opens the EU internal market for Georgia by liberalizing the trade by commodity and service as well. It also ensures transformation of Georgian economy on the new quality condition by implementing the structural changes, increasing an investment activity and effective increase of investments creating the capital.

Coming out of the mentioned, the capacities of increasing an international competitiveness of Georgian companies in modern global business-environment are directly connected to assessment of existing condition of export potential. Extension of export's potential is especially prioritized by those companies, which operate on foreign markets to increase their competitiveness. Realization of export's potential allow them to integrate in global values and reach the technical modernization, extension of the market; increase the productivity and profit (Silagadze, 2016).

The average increase rate of GDP in Georgia during of 2009-2018 years was defined by 3.9 percent. For the mentioned period, the lowest increase rate of GDP was revealed in 2009 year (3.7 percent), which was caused by Russia – Georgia war and sharp decrease of investments on the background of global financial crisis. The increase of GDP in 2009-2018 years had reached its peak in 2011 year (7.2 percent). The economic activity in the country was mainly caused by increased output in trade, construction, transport, processing industry, financial mediation, hotels and restaurants, also the increase of income gained from export.

Coming out of the diversified trade relations of the countries, the competitiveness of economy is influenced by efficient real exchange rate. On the high dollarization background of financial system in Georgia, the main interest of society was caused by short-term fluctuation of Lari's nominal exchange rate towards USD. Though, the mentioned has no significant impact on the economy, in particular – on investments, trade competitiveness and long-term investments. In such terms, the medium and long-term dynamics of exchange rate has acquired an essential meaning for the economy. Coming out of the mentioned, the priority of the National Bank of Georgia is exactly the increase of Lari's nominal exchange rate, which is considered as precondition to decreased macroeconomic and financial risks, also the increase of sustainability against the foreign vulnerability in the country (Bakhtadze, Kakulia, 2013).

On the basis of country's economic increase, analysis of employment and export potential in the article, there are revealed the challenges of global economy and evaluated the competitiveness of economy of Georgia. There are studied the reasons causing negative balance of foreign trade. On the basis of generalization of increase theories oriented on the export, there are assessed the significance of offer the manufacture of new export products and service relating the export products and the intensity of their sell, extension of export geography and increase of export potential of the country. Besides, there is confirmed the state's role in increase of production's efficiency by rational distribution of resources. There are worked out the references

regarding the acceleration and improvement of trade and economic relations between the Georgia and EU during the process of integration in EU (Funke, Ruhwedei, 2003).

On the background of global economic challenges, it's quite urgent to deepen the trade relations between EU and Georgia. Signing an Association Agreement with EU and reforms implemented in the country by this direction makes irrevocable the acceleration of process of integration in EU.

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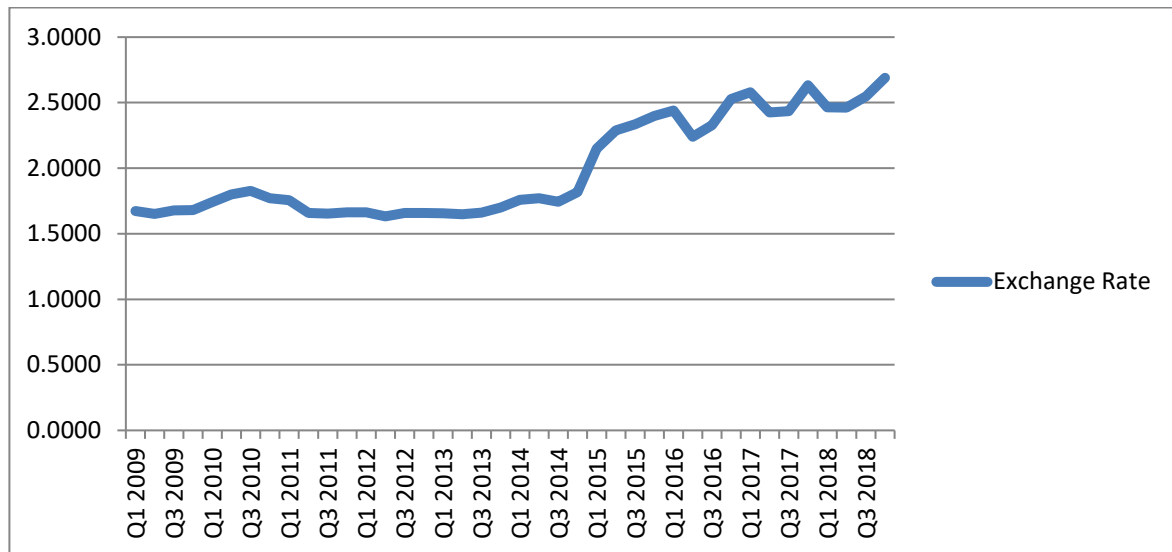
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It should be mentioned, that Georgian export is only focused on the commodity of lesser nomenclature, thus increasing the risk of repeat of recent economic fluctuations. According to the above mentioned, the country should take care of increased diversification by diversifying the commodity nomenclature by so-called extensive increase, thus international economic fluctuations would less-likely impact on its economy.

The export potential's realization issues on different stages of economic development was urgent in many countries of the world. It was especially acute in the countries with transitional economy, where the foreign economy policy's realization became the most important term to economic and political self-determination of the country to participate in global economic system and acquire the equal partnership rights (GAGANIDZE, 2016).

The stability of national currency exchange rate plays significant role in maintenance of inflation's low rate. Coming out of the fact, that in Georgia we have the high dollarization level and the financial markets are weakly developed, the changes in money supply are transferred to the price level mainly via exchange rates. The excess money amount as a rule heads to the currency market, which somehow endangers the stability of the prices. Because of that, whilst regulating the money mass by the National Bank of Georgia, the attention is drawn on internal currency market condition considering the money demand, which avoids the sharp fluctuations in Lari's exchange rate, ensures the maintenance of stable condition and inflation's low rate.

Figure 1: Quarter dynamics of national currency's exchange rate in 2009-2018 years.



Source: National Bank of Georgia

Coming out of the above mentioned topics, the development of Georgia's export potential through the transitional period was hindered by crisis events, low rates of economic increase, decreased demands on the internal market and other. High level of employment in less dynamic fields indicates the low productivity of labor in the country (Georgia). Besides, in 2009-2018 years, on the background of economic increase, those industries had increased rates, which possessed the ability to increase the limited amount of working places. Thus, as a rule, development of labor market by promoting the small and medium business should be based on the activation of human's labor potential, at the same time, which should become the instrument for them, allowing to lighten the tax burden, granting availability to bank credits, also implementing a new technologies and improving the efficiency of vocational education system, under which the labor's productivity and labor market's optimal development might be reached.

Table 1: Dynamics of Foreign Trade Indicators with EU Countries

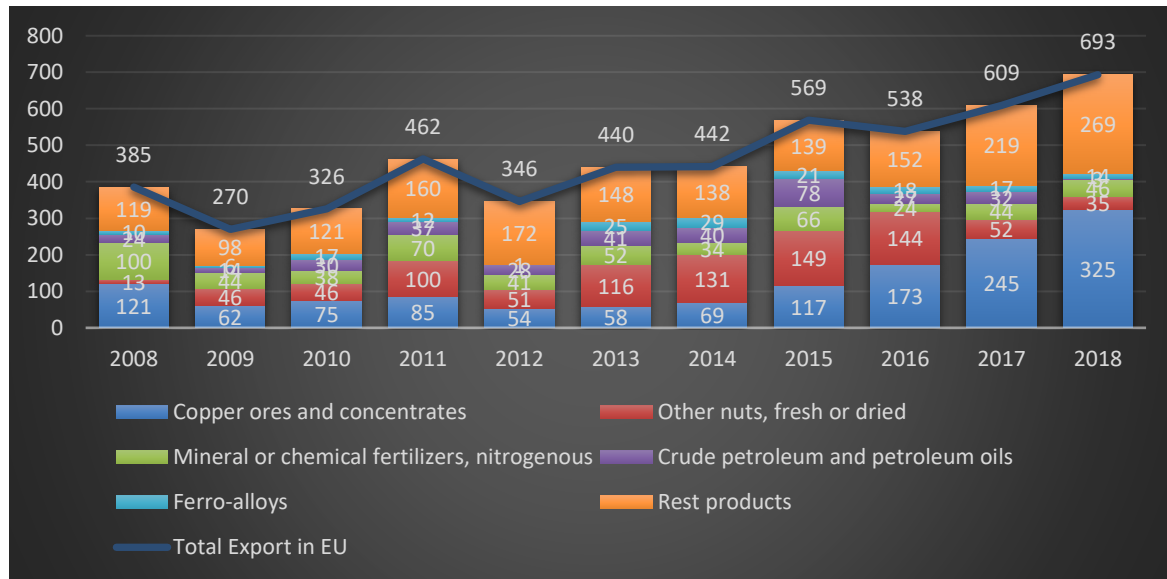
	Trade Turnover (mln. USD)	Export (mln. USD)	Import (mln. USD)	Trade Balance (mln. USD)
2008	2091.6	335.2	1756.4	-1421.2
2009	1567.8	237.7	1330.1	-1092.4
2010	1775.8	309.2	1466.6	-1157.4
2011	2445.3	424.5	2050.8	-1626.3
2012	2781.7	353.0	2428.7	-2075.7
2013	2873.3	607.2	2266.1	-1658.9
2014	2996.2	624.2	2372.0	-1747.8
2015	2726.1	645.2	2080.9	-1435.7
2016	2780.3	565.5	2214.8	-1649.3
2017	2855.4	655.1	2200.3	-1545.2
2018	3363.2	730.3	2632.9	-1902.6

Source: National Statistics Office of Georgia (GeoStat) and calculations of authors

As we see from the table, on the background of global financial crisis in 2008-2009 years and negative results caused by Russia and Georgia war, there was shaped the significant decrease in export (decrease by 29.1 percent) and import (decrease by 24.3 percent) indicators between Georgia and EU, which decreased the deficit of balance of trade by 328 Million USD.

During 2010-2018 years, the trade turnover mostly were characterized with ascending dynamics, which was caused by export`s and import`s increase as well. It should be mentioned, that average rate of import`s increase from EU countries exceeded by 4.1-times to the export`s similar indicators in EU countries. Annual average increase rate of trade turnover was defined as 6 percent.

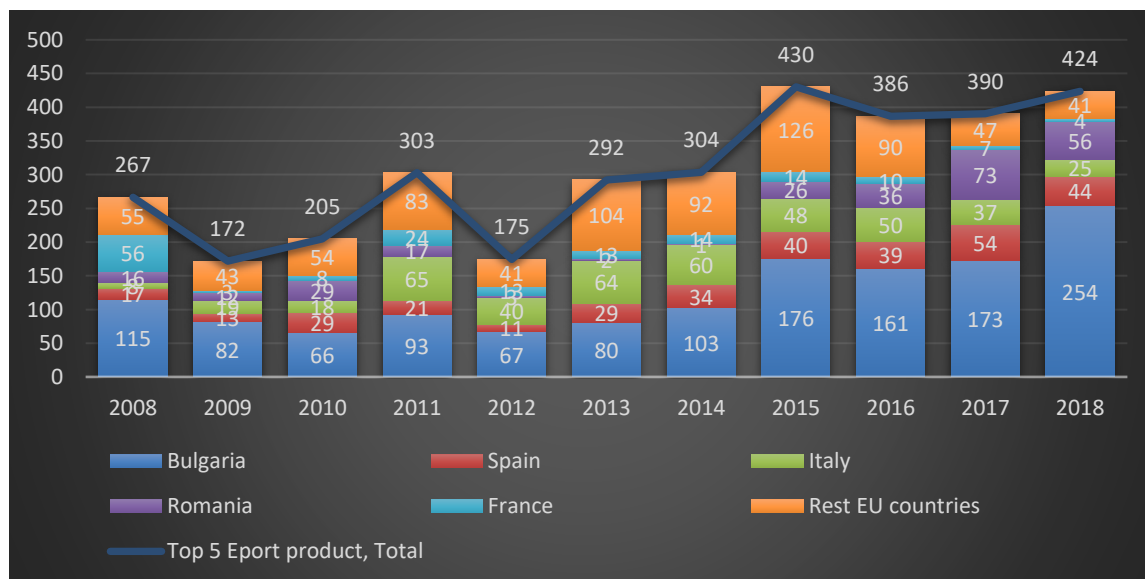
Figure 2: Dynamics of export production top five EU countries among all EU countries during of 2008-2018 years (Mln. USD)



Source: National Statistics Office of Georgia (GeoStat) and calculations of authors

Total export production of Georgia entered EU countries during 2008-2018 years were shaped in 5 main commodity groups, which is led by copper ores and concentrates with highest share amongst them. Notwithstanding the more or less descending rate revealed during the analysis period, the second places is taken by mineral or chemical fertilizers, nitrogenous. The third place is taken by other nuts, fresh or drier, the fourth – ferroalloys and crude, the fifth – petroleum and petroleum oils.

Figure 3: Dynamics of export production top five EU countries between all EU countries according to partner countries and during of 2008-2018 years (Mln. USD)

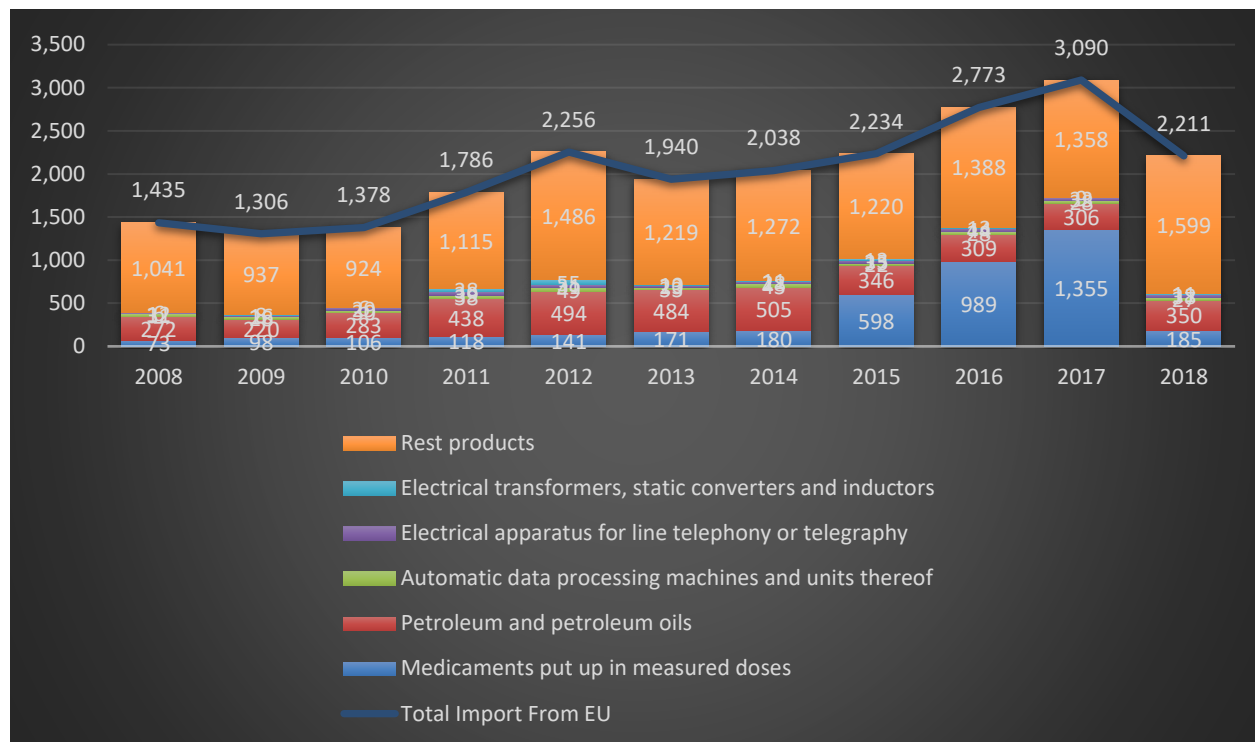


Source: National Statistics Office of Georgia (GeoStat) and calculations of authors

Top 5 export production EU countries during the analysis period are as follows: Bulgaria, Italy, Germany, Spain and Romania. As we see from the table, in the group

of commodity imported from all of EU countries, the highest share had: medicaments put up in measured doses, petroleum and petroleum oils, automatic data processing machines and units thereof, electrical apparatus for line telephony or telegraphy and electrical transformers, static converters and inductors.

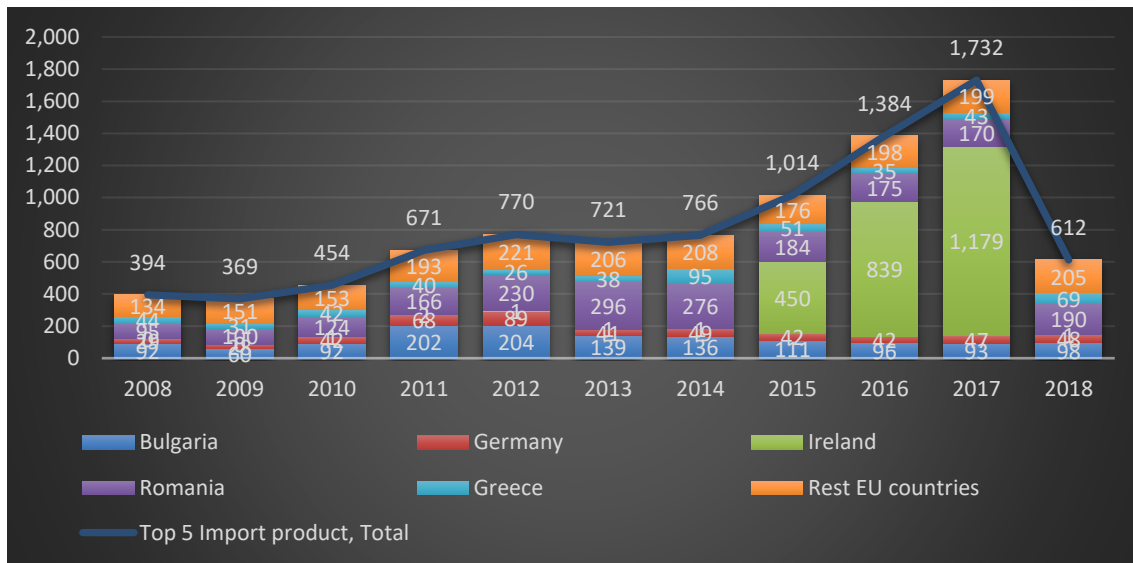
Figure 4: Dynamics of import production top five EU countries among all EU countries during of 2008-2018 years (Mln. USD)



Source: National Statistics Office of Georgia (GeoStat) and calculations of authors

As we see from the figure 4 total import production of Georgia from the EU countries during 2008-2018 years were shaped in 5 main commodity groups, which is led by Petroleum and petroleum oils with the highest share amongst them. Medicaments put up in measured doses take the second place. The third place is taken by automatic data processing machines and units thereof, the fourth - electrical apparatus for line telephony or telegraphy, the fifth - electrical transformers, static converters and inductors. It should also be noted that in the analyzed period the dynamics of the five main commodity groups imported from the EU countries were characterized by certain fluctuations.

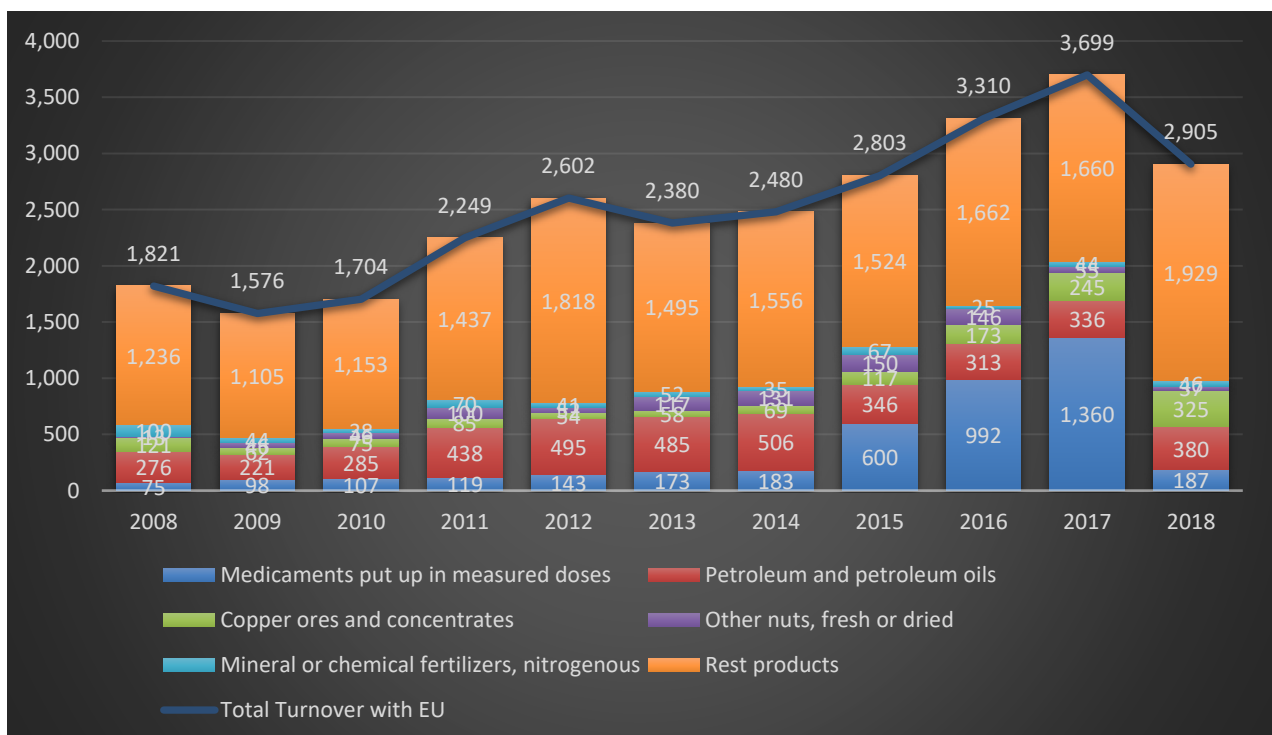
Figure 5: Dynamics of import production top five EU countries between all EU countries according to partner countries and during of 2008-2018 years (Mln. USD)



Source: National Statistics Office of Georgia (GeoStat) and calculations of authors

Top five import production EU countries during 2008-2018 years as the basic partners were Romania, Ireland, Bulgaria, Germany and Greece.

Figure 6: Dynamics of top five production of trade turnover with all EU countries during of 2008-2018 years (Mln. USD)



Source: National Statistics Office of Georgia (GeoStat) and calculations of authors

During the analysis period, the trade turnover with all of EU countries according the main 5 types of production has reached its peak amount in 2017 year – 3699 million USD. Top 5 leading production was as follows: medicaments put up in measured

doses, petroleum and petroleum oils, copper ores and concentrates, other nuts and mineral or chemical fertilizers, nitrogenous. As a whole, the trade turnover of Georgia with EU countries during the analysis period has reached its peak in 2017 year. In 2018 year, the mentioned indicator was significantly (by 21.5 percent) decreased comparing to annual image.

Under our opinion, the export potential is presented as the part of country`s whole economic potential from one side, which, by using the benefits of competitiveness on international market, ensures the acquisition of those benefits, which can be created by national economy and acquired as export income from foreign countries as a result of proper trade policy. Export potential should be directed to increase the competitive commodity`s production and realization value on international markets via efficient usage of natural resources, scientific and technical potential existed in the country, thus reaching the sustainable and safe development in the country.

Conclusion

Georgian export is only focused on the commodity of lesser nomenclature, thus increasing the risk of repeat of recent economic fluctuations. According to the above mentioned, the country should take care of increased diversification by diversifying the commodity nomenclature by so-called extensive increase, thus international economic fluctuations would less-likely impact on its economy.

As a conclusion to results, it can be said, that it is recommended, that development of Georgia`s export potential in the nearest future should be directed to increase the competitiveness of export-oriented sectors (production of products of viticulture and winery, tea and subtropical culture processing manufacture, etc.) by performing the structural reforms in the economy; by making changes of labor specialization in high-output fields oriented on increase of export of innovative and traditional Georgian production. It is necessary to work out the import strategy by modernization of national industry and by conducting an active policy of import`s replacement (limitation of imports of the goods, production of similar commodity in Georgia, and other.); Under the world`s leading experience, it is recommended to perform the indirect subsidizing of investments in agricultural sector by increase of amortization norm, setting a zero rate tax on reinvested profit, improving the state procurement system of agricultural production etc.

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