Competitive advantages of Georgian non-agricultural products on the EU market

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Competitive advantage, export competitiveness index, market potential, market growth rate, EU non-Agri product market conditions, EU import market potential.

Abstract

Signing the Deep and Comprehensive Free Trade Agreement with EU, Georgia seeks to fully utilize export potential of the Georgian products. Thus the competitive advantages of Georgian products should be carefully identified. Several studies identified different Georgian agro sectors as having competitive advantages, mainly these are the potential advantages.For identification of the competitive advantages of various Georgian agro products we used the methodology determining their competitiveness based on the major characteristics of the target market and the existing export conditions of the agro products.

On the first stage there have been identified product groups, (based on the ITC 4 digit trade statistics) demonstrating good export performance, as well as product groups (based on the same 4 digit trade statistics) of the EU import market demonstrating high economic performance.

The next step was to establish a competitiveness index. The index of competitiveness was calculated by combining the growth of the EU imports (in per cent multiplied by five times), the share of non-EU exporters by EU imports (in per cent multiplied five times) and their qualitative rating.

1. Introduction

Seeking sustainable economic development Georgia tries to intensify trade relations with the EU. EU market with its outstanding import potential gave good opportunities, same time the attractiveness of EU market make the competitive situation very tough. This article was based on the research of the competitiveness of Georgian non-Agro products on the EU market; research could help Government and business community to have more tailored approach to the EU market.

2. History brief review

Georgia was industrially well developed state and exported non-agro products during the period of the USSR. However, after Georgia's gained independence, the industrial sector faced dramatic problems, as traditional markets and value added supply chains were interrupted. Upon becoming independent, Georgia suffered ethnic conflicts and civil war.

However, even in a relatively peaceful period, there still was any significant growth in industrial production and quality even decreased in some instances. The dismal performance of Georgian industrial stems from a combination of post-transition fragilities (small scale of production, lack of economies of scale, destruction of previously existing value added chains) and Georgian Government was not in a position to provide any type of assistance to the Georgian industrial producers. Dominating approach to market liberalization brings some advantages but same time put industrial sector under the strong pressure.

Georgian industrial producers have had to compete with both highly subsidized and/or highly efficient producers in EU and of other leading industrial producers (Ukraine, Russia, and Turkey). Thus the industrial sector was declining and their input in the GDP is quite moderate.

The Deep and Comprehensive Free Trade Agreement with the EU gives chances to revitalize Georgian industrial production. EU non-agro products market is one of the biggest and fastest growing; in some specific product groups EU imports exceed 50% of the world imports. Geographical proximity of the EU market could also be considered an additional advantage. Thus the EU market would be a major target market for the Georgian non-Agro products. Highly competitive and very tough EU non-agro products market needs very careful and tailored approach to utilize all the existing or potential advantages.

3. Seeking to fully utilize export potential.

For identification of the competitive advantages of various Georgian non-agro products we used the methodology determining their competitiveness based on the major characteristics of the target market and the existing export conditions of the agro products.
On the first stage there have been identified product groups, (based on the ITC 4 digit trade statistics) demonstrating good export performance, as well as product groups (based on the same 4 digit trade statistics) of the EU import market demonstrating high economic performance. (See the technical annex 1)

The next step was to establish a competitiveness index. The index of competitiveness was calculated by combining the growth of the EU imports (in per cent multiplied by five times), the share of non-EU exporters by EU imports (in per cent multiplied five times) and their qualitative rating.(see technical annex 2). The growth of EU import market was calculated for the period between 2009 and 2013, based on the "mid-point growth rate"; the share of non-EU exporters was defined for the 2013. Qualitative rating for Georgian non-agro products was defined as the combination of two sub-indicators. The first sub-indicator indicated the existing export performance of Georgian non-agro products on the EU market. Number 2 was assigned to the non-agro products which had stable export performance between 2010 and 2012; number 1 was assigned to the groups of non-agro products which had export presence of any kind for the same period. By number 0 were indicated groups without any export presence on the EU market. Second sub -index indicated the export performance of all exported Georgian non-agro products in 2013. For this reason was calculated the share of the group of non-agro products within the whole export (products 24-99 by the HS system) of non-agro products for 2013. 1 was the rate for the product groups which represent the share up to 5%; 2 for the product groups with the share ranging from 5 to 10%; 3 for the product groups with the share above 10%. For further analyzes could be used different market grouping methods, By providing insight into structural similarities, these methods enable firms to standardize their offerings and marketing strategies across markets (Sakarya et al., 2007:213).

For all calculations were used the joint UNCTAD/WTO International Trade Centre (ITC) 4 digit trade statistics (http://www.intracen.org/tradstat) to analyse the global market trend for these sub-sectors, the EU market trend, and for identifying the key players in the EU market. Also for the qualitative rating were used the 4 digit trade statistics of the Georgian Statistics Department (http://www.geostat.ge).

Initially were defined non-agro product groups based on the above mentioned methodology, results of the 13 (4 digit) product groups are presented in the annex 1; after the careful calculations number of groups have been decreased to 6 (4 digit) product groups, results are presented in the annex 2.

4. Define entry strategies and entry modes.

What strategies could be used by Georgian companies operating within these product groups 2603; 7108; 7202; 7207; 7304? It should be mentioned that Georgian companies are limited in the definition of export market entry strategies. Uppsala model couldn't be used by Georgian companies due to the very small size of the Georgian market, thus Georgian companies are born globally with all of the advantages and disadvantages. Georgian companies have quite longstanding tradition of the exports on the CIS markets. Unfortunately the differences between CIS and EU market are huge. CIS country markets with the high State regulations and corruption are totally different from EU market. Even the transfer of the knowledge from CIS market to EU market isn't possible. Thus, Georgian companies should identify the most effective strategies to fully utilize opportunities of EU market. Initially following the common theory Georgian companies should identify what indicators are playing major role for their development. First of all, we define the markets with the biggest size, in each group 5 leading countries, and later define the highest growth rate (growth rate was defined for the period 2009-2013). Due to the relevantly small size product group 8601 was excluded from further calculations. All calculations have been based on the joint UNCTAD/WTO International Trade Center (ITC) 4 digit trade statistics (http://www.intracen.org/tradstat). The five leaders in each product group are:[1]

2603	Spain	Germany	Bulgaria	Finland	Sweden
7108	Germany	Italy	UK	Austria	Netherlands
7202	Germany	Netherlands	Italy	Belgium	Spain
7207	Italy	Belgium	France	Germany	Spain
7304	Germany	Italy	UK	France	Netherlands

Table 1

Market size plays always crucial role when companies are defining their target markets. This approach is quite naive as the rationale behind is the same for all other competitors. Thus, the biggest markets are the toughest ones for the competition. Beside this fact the biggest markets are well structured with the well defined rules for all players. Thus, make sense to define markets based on the both criteria's for these reasons author defined the attractiveness index based on the market size and growth rate. The biggest market (markets have been evaluated as the average for 2009-2013 period) was ranked as 1; all others have been ranked as share of the biggest markets. Ranks have been multiplied by 0,6. Second part of the index is the growth rate where the highest growth rate for the period 2009-2013 is ranked as 1, all other markets growth are defined as share of the highest growth rate. The defined number multiplied by 0,4. Both parts are computed and the most attractive markets are defined.

2603	Spain -1	Germany–0.79	Bulgaria -0.69	Finland-0.462	Sweden-0.46
7108	UK-0.94	Germany-0.64	Italy-0.63	Austria-0.34	Netherlands-0.22
7202	Netherlands-0.92	Germany-0.91	Italy-0.77	Belgium-0.63	Spain-0.48
7207	Italy-0.97	France-0.76	Germany-0.66	Belgium-0.62	Spain-0.41
7304	Germany-0.86	UK-0.76	Italy-0.74	Netherlands-0.72	France-0.59

Table 2

It was predictable that biggest markets are the most attractive, but nevertheless growth rate also plays important role. It would be useful to define additional criteria to identify the

[1] The all calculations are in the Technical Annex 3.

target market. In this case would be important to additionally define what type of business relations would be initiated (B2B; B2C). In case of B2C relations majority of European consumers are not informed on Georgia. In this respect Baltic States are different, as awareness about Georgia in Baltic States is quite high. This opportunity should be utilized to the highest possible extent. Also companies from Baltic States could be used as the market providers for Georgian Agro products in Nordic Community. Awareness of Georgian products would increase gradually step by step.

Another possible resource for utilization could be companies from the former Soviet Block countries. The same approach should be used and Czech and Slovakian companies could play a role of market providers for the Georgian products for the central Europe. Bulgaria could play the same role for the Mediterranean community.

The signing of the Deep and Comprehensive Free Trade Agreement (DCFTA) between EU and Georgia would fuel the trade relations and first of all EU trading companies should be welcomed in Georgia. Georgian companies should define entry strategies also based on their experience. The new exporters should use the well known “safest” entry strategy. In this regard the markets with the high growth rates could be the most attractive for Georgian newly established exporters. Georgian companies should gain experience from the export markets and thus the safest entry modes are most promising ones. At the same time Georgian newly established exporting companies should concentrate on the markets where awareness of Georgia is quite high.

Different approaches could be used by exporting companies having experience on the EU market. These companies could be more flexible and intensify exports from Georgia not only by Georgian products. DCFTA gives the unique opportunity to Georgian companies to utilize the “Made in Georgia” regime, re-exporting products from the other countries. In this term also should be noted that Georgian Legislation is giving profit tax exemption for the re-export operations. These advantages needed the intensive communication with the possible EU partners and would give additional stimulus to increase exports from Georgia.

5. Recommendations

What type of recommendations could be presented based on the findings of the research?
The clearly defined tendency is that recovery in EU is going slower than in the world. This fact proves that the market growth rates in the world for the 2009-2013 are higher than in EU. This fact is interesting taking into consideration that for the 2003-2008 EU market growth rates were higher. Despite this fact EU market is still one of the biggest in the world and clearly is strategic one for Georgian agro producers.

Taking into consideration the low level of cooperation between EU and Georgia, Georgia should clearly define product groups which have the highest potential on EU market, same time all type of obstacles should be defined to offer potential investors the best possible variants. It should be mentioned, that the small number of exporting products also plays the role in preventing the exports on the EU market. Creation of new non-agro products would be the result of the FDI, thus Government of Georgia should identify most favourable regimes for the potential investors. Due to the small volume of Georgian domestic market economies on the scale are not viable, thus Uppsala growth export model would be useless. Foreign investors should start from the green field investments in the “born globally” companies. This fact increasing the risks and amount of financial resources for the investment. In order to mitigate these risks GoG should find out the compensation mechanisms to attract the potential investors. Such mechanism could be based on the twofold approach. GoG could gave the tax incentives export oriented companies in the form of the regressive profit tax. Increasing the profit export oriented companies would pay lower percent of the profit tax. Second approach could be based on the cost sharing with the business, for instance in the vocational training, potential investor could identify the most interesting skills and GoG would provide vocational training in these fields.

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