FOREIGN TRADE OF GEORGIA AND EAST AND CENTRAL EUROPEAN STATES COMPARATIVE ANALYSIS

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Abstract - After disintegration of the Soviet Union and subsequent collapse of the traditional system of foreign trade, former soviet Republics and now newly Independent States faced acute problems, which had a tremendous negative impact on all of them. Formation of the new economic relations was a tough process, in which former "Soviet Bloc" States had a preferential position; before long they chose the European course of development. The Course of joining the European Union was declared by Georgia after some period and only in 2014 was signed the Association Agreement.This Agreements turned out to be quite challenging for Georgia as it imposes huge obligations:in the field of Foreign Trade among others.What is the current situation,? And how can we benefit from the Free Trade Agreements? These are the topics of major interest for the present article, in which we use the techniques of comparative analysis. The Analysis is focused on several aspects of foreign trade, such as export geography, major exporting products, changes in foreign trade, based on the assumption that Association Agreement would positively influence export potential and scales of export on the EU market. In addition, Trade Intensicification Index in all the above mentioned States is computed in order to find out the export potential utilization on the major markets – the EU, CIS and NAFTA. Trade Intensicification Index allowed us to compare the export potential utilization of all the three States. The research led us to the following conclusions: association agreement didn't support creation of new export products, major exporting groups in every State are stable, the TII revealed that the EU market export potential is best utilized by Eastern and Central European States and the same is true about Georgia on NAFTA.

Keywords - European Union, export markets, export potential, trade intensification index.

I. INTRODUCTION

In the modern world globalization stiffed competition, thus the battles for the new export markets have become very tough indeed. This problem is common for the former Soviet Republics as well as for the former "soviet block" member States, who opted for the European vector of development recently. The growth of exports became a major factor for economic development. In the case of the tough competition many authors underlined importance of market openness, thus it's easily understandable why governments seek for the free trade agreements with the EU (also with the North America Free Trade Agreement – NAFTA member States). How valid was the assumptions that FTA's would fuel the economic development? How pragmatic was the decision to base economic development model on the market openness? We'll try to answer these questions on the samples of Georgia and some of the Central and East European States. All these states have the same historical background, they clearly indicate European way of development and achieve the same goal - became members of the Euro-Atlantic structures, for Georgia same goals are set up and the development in this direction evidenced by signing the association agreement with the European Union. Different aspects of the research of this problem have been considered by a number of scientistslisted in the bibliography below[1-23].

II. THE ROLE OF EXPORT IN ECONOMIC GROWTH

As already mentioned above, all the above mentioned States shared some commonalities, however, other variables should also be taken into account. All the above mentioned States having small domestic markets, high economic growth should be definitely bound with the growth of scale of exports. A well-known export growth "Uppsala model" cannot be applied to these States, as the scale of their domestic markets is quite small. Small domestic market didn't allow them to start export activities after they started selling on their domestic markets. More appropriate for the exporters of these countries is the company development model created by Edith Penrose. Many researchers admitted that:"Penrose not only recognizes that managers (agents) may control and coordinate resources (structures) but also, resources exert influence over human agents and impinge upon managerial initiative" [2].Thus the basis for the creation of the export strategy were the resources controlled by the firm; resources played a major role in designing and realizing the competitive advantage. This statement is fully in line with the reality, whenlimited resources and small domestic markets dictate companies to be oriented towardsfewerexport markets and export a limited number of export products. Just review the export role in the economy for all these states; we'll consider exports as the % of the gross domestic product. (Table 1).

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Georgia	32	32	34	33	31	29	30	35	36	38	45	43	45	43
BiH	30	32	32	35	27	27	25	30	32	32	34	34	35	
Croatia	39	39	39	40	39	38	35	38	40	42	43	46	50	51
Macedonia	28	31	35	38	44	43	33	40	47	45	43	48	49	49
Slovenia	51	55	60	65	68	66	57	64	70	73	75	76	78	79
Slovakia	62	69	72	81	83	80	68	76	85	91	94	92	93	94

Table 1. Export % in GDP

computed:
http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?end=2016&locations=GE-MD-UA&start=1987& view =chart ; 17.07.2017.

As we can see, exports for all the these states constitute an important segment of their economies playing a significant role in their economic growth. However, for Croatia, Slovenia and Slovakia this ration is very high. To be more precise we could say, that Slovenia and Slovakia are fully dependant on external markets, while Croatia is driving in the same direction. This indicator for Georgia was quite low for 2003-2012 years period. From this perspective the position of Government officials seeking to identify new market opportunities is absolutely understandable. These indicators are also presented on the diagram (Diagram 1).

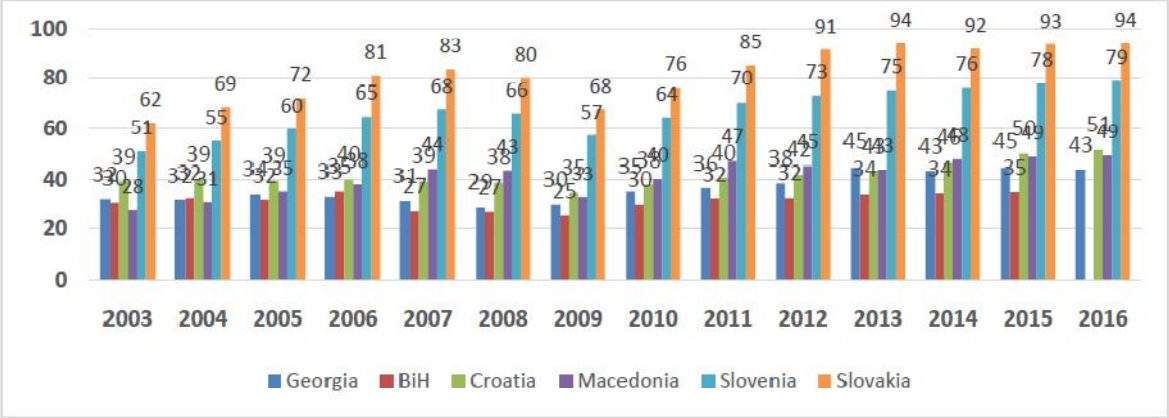


Diagram 1. Export % GDP for 2003-2016 years.

Computed:
http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?end=2016&locations=GE-MD-UA&start=1987& view= chart ; 17.07.2017.

We could easily draw the following conclusions:

1). In the above mentioned period Slovakia had a highest figures, peaking 94% in 2016.

Now we'll consider export dynamics (Table 2).

2). Georgia and BiH have the lowest figures, which partly could be explained by the similar processes, as civil war, political turmoil and etc. Georgia had a significant growth in the period 2012-2016 from 38% to 43.4%.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Georgia	401,40	645,90	865,46	935,13	1,232,3	1,497,4	1,133,6	1,677,2	2,160,4	2,375,6	2,910,5	2,861,0	2,204,6	2,113,7
BiH	1,400,2	1,912,3	2,366,4	3,427,7	4,151,3	5,321,0	3,953,9	4,603,1	5,696,0	5,161,6	5,657,4	5,592,1	5,099,1	5,326,7
Macedonia	1,363,2	1,675,1	2,041,2	2,460,7	3,355,2		2,691,5	3,351,4	4,476,3	4,015,4	4,298,7	4,964,1	4,489,9	4,734,6
Croatia	6,186,6	8,021,1	9,772,5	10,376,	12,360,	14,123,	10,491,	11,810,	13,364,	12,363,	12,741,	13,843,	12,843,	13,547,
	30	57	53	964	222	675	835	676	022	983	618	900	529	534
Slovenia	12,766,	15,878,	17,896,	20,982,	26,551,	29,252,	22,405,	24,434,	28,984,	32,182,	34,019,	35,978,	31,948,	32,880,
	871	766	024	713	122	924	415	752	136	746	952	422	955	680
Slovakia	21,916,	27,864,	31,852,	41,686,	58,036,	70,188,	55,553,	63,998,	78,487,	79,866,	85,184,	85,976,	75,051,	77,565,
	964	034	134	247	003	697	022	613	243	996	158	289	295	009

Table 2. Export Dynamics 2003-2016, in Thousand $

Computed:
http://www.trademap.org/tradestat/Bilateral_TS.aspx ?nvpm 17.07.2017.

Table reveals that in all States export followed the dynamics of the world economy, it continued to grow till 2008, then slowed and then recovered for the period of 2013-2014. For Croatia, Slovenia and Slovakia EU is the major market. For BiH and Macedonia EU market is playing the role of the major vector for development. Regarding Georgia, absence of the new exporting products restricts the growth opportunities presented by the EU market. In Georgia after the 2013-2014 years of growth, exports slowed. We could assume with a high degree of probability: growth of export was related to the growth of exports in the EU; however, after some period exports are not increasing due to lack of new competitive export products. It would be interesting to review the Trade deficits in the same period. Table 3. Presents External Trade Deficit for the three States.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Georgia	-679,759	-1,198,652	-1,624,498	-2,739,334	-3,981,770	-4,558,190	-3,341,689	-3,558,454	-4,885,202	-5,677,238	-5,111,679	-5,740,764	-5,525,406	-5,122,036
BiH	-3,423,369	-4,068,084	-4,665,288	-4,131,474	-5,568,091	-7,167,526	-4,409,794	-4,419,891	-5,200,496	-4,857,268	-4,607,724	-5,098,318	-3,894,780	-3,802,879
Macedonia	-936,669	-1,229,948	-1,186,733	-1,362,000	-1,871,328		-2,351,587	-2,123,056	-2,548,849	-2,506,985	-2,320,820	-2,337,211	-1,909,889	-1,972,418
Croatia	-8,022,405	-8,565,015	-9,787,814	-11,125,530	-13,469,239	-16,603,312	-10,713,016	-8,256,329	-9,350,672	-8,465,279	-9,190,376	-9,062,973	-7,736,942	-8,182,331
Slovenia	-1,085,537	-1,690,679	-1,730,276	-2,030,715	-2,925,068	-4,732,620	-1,496,416	-2,156,956	-2,252,707	128,020	645,630	2,025,029	2,114,075	2,390,821
Slovakia	-683,801	-1,592,642	-2,373,695	-3,072,375	-1,171,790	-2,422,861	393,077	-383,358	1,796,979	3,007,644	3,889,049	4,622,122	2,093,613	2,408,639

Table 3. Dynamics of the Trade Balance in 2003-2016, in thousand $

Computed:
http://www.trademap.org/tradestat/Bilateral_TS.aspx ?nvpm 17.07.2017.

The Trade balance dynamics couldn't clearly answer the questions interesting to us. Thus, in Georgia deficit is increasing, due to the high consumption of the imported materials in the exporting products; Macedonia, Croatia and BiH indicating a strong tendency of negative balance decrease, while in Slovakia and Slovenia positive trade balance is decreasing. In both States are very high import figures, which could be explained by the export specialization of these States, where imports played significant role.

It would be interesting to review the figures of Foreign Direct Investments.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Georgia	334972291	492732940	453107292	117029239	187761575	159130032	652921300	869115646	108434957	831254884	956323490	174965589	157104877	3
BiH	381784637	889597295	623812852	845962876	184197223	100485266	138511020	443840207	471610992	391976946	313295008	523013851	293449282	259405862
Croatia	182623975	129308552	179431762	329903809	456737735	518784480	319881503	142410832	141760025	146510004	937309760	395985773	158968738	3
Macedonia	119041753	309137639	145329602	427444589	733466879	611688379	259530321	301441682	507920733	337911248	402458310	608790915	296604200	573060169
Slovenia	535600000	763100000	970800000	691588429	188493287	108108020	-346269217	319054953	875544802	335480088	103977239	101929146	168044087	107808666
Slovakia	969200519	406086368	392468200	569644044	505952785	464189869	151906124	211745735	542662404	177675394	100381030	-362446779	115141653	354847266

Table 4. FDI in thousand of $

Also we could review the diagrame.
It could be easily identified that FDI are closely linked with export figures. As we already mentioned all these States have the small domestic markets, thus the exports and FDI are naturally linked to each other. Only with export growth could be achieved overall economic growth goal.
The next step in research would be directed towards major export products and export markets.

III. MAJOR EXPORT PRODUCTS AND EXPORT MARKETS

Future analysis would be based on the analysis of the exporting products and export markets. We'll take 5 major groups of the exporting products on the HS 4 digit level

	2012	2013	2014	2015	2016
Georgia	%-in total exports 44,18	% - in total exports 47,80	%- in total exports 49,47	% - in total exports 41,61	% - in total exports 44,47
2603	53,535	161,633	248,008	270,601	311,703
0802	83,658	166,735	183,399	176,632	178,904
7202	260,578	230,748	285,806	194,766	169,265
8703	587,296	703,817	517,787	179,646	166,634
2204	64,828	128,299	180,402	95,796	113,497
BBiH	% in total exports 37,8	% in total exports 41,56	% in total exports 41,71	% in total exports 38,68	% in total exports 39,15
94 (9401 da 9403)	521,997	587,361	619,891	548,121	601,434
44	321,706	382,128	429,727	372,795	403,290
64	307,347	370,937	443,459	353,781	369,617
27	462,566	647,749	566,000	357,575	362,510
84	337,474	375,601	398,647	337,205	348,661
Macedonia	% in total exports 52,15	% in total exports 55,13	% in total exports 59,71	% in total exports 61,45	% in total exports 60,06
38	500,262	642,856	868,424	864,436	976,997
84	212,508	305,295	465,001	516,764	599,255
85	140,630	206,231	441,393	450,435	531,928
62	484,982	492,452	526,129	417,109	404,496
72	755,478	723,148	663,119	510,421	360,984
Croatia	% in total exports 40,28	% in total exports 42,85	% in total exports 41,23	% in total exports 38,79	% in total exports 40,16
27	1,691,367	1,782,717	1,873,692	1,400,630	1,295,745
84	1,090,964	1,250,622	1,351,361	1,221,352	1,240,705
85	1,119,991	1,191,194	1,116,268	1,026,584	1,222,565
30	501,846	521,000	524,055	575,932	932,856
44	578,664	714,180	842,518	758,094	789,415
Slovenia	% in total exports 47,49	% in total exports 49,08	% in total exports 50,24	% in total exports 50,75	% in total exports 51,11
87	4,184,461	4,473,353	5,310,201	4,993,109	5,591,559
85	3,739,686	4,112,142	4,331,664	3,976,616	3,663,487
84	3,403,293	3,567,245	3,735,489	3,229,221	3,356,018
30	2,679,024	3,058,683	3,146,723	2,661,361	2,748,425
39	1,276,505	1,486,574	1,551,521	1,355,043	1,445,334
Slovakia	% in total exports 66,58	% in total exports 67,93	% in total exports 67,73	% in total exports 67,77	% in total exports 68,75
87	18,874,579	20,929,316	21,432,637	20,299,707	21,973,896
85	16,420,321	17,714,906	18,161,632	15,474,217	15,992,556
84	8,883,633	10,264,019	10,513,961	9,196,572	9,718,278
72	4,275,275	4,195,254	4,058,707	3,129,973	3,040,129
27	4,725,014	4,764,277	4,067,827	2,759,982	2,597,955

Table 5. Major Export products on the HS 4 digit Level in thousand $ for the 2012-2016 years.

Computed:
http://www.trademap.org/tradestat/Product_SelCountry_TS.aspx?nvpm 17.07.2017.

According to the figures presented in the Table, 5 major export product groups are stable, and their share in the total exports increased. Georgia, Croatia

and BiH enjoyed the same figures of export concentration, while in Slovenia figure is higher, for Slovakia and Macedonia the figures are the highest. For contrary to Georgia where major groups are presented by commodities or re-export, European States have the exports of high value added products. All these States finded out niches on the EU market, also having high import figures companies from these States are well fitted in the existing value chains. For Georgia we could say, that Free Trade Agreements with the EU increased the exports of the existing export products. So to increase export potential Georgian companies should identify market niches and find out there positions in the existing value chains. To further explore this assumption we'll analyze the export geography. Thus, we could answer the following questions: did the association agreement fuel the export growth? if the answer to the question is yes, we will proceed to answer the next set of questions: a) did it increase the exports of the existing products? b) did it increase the exports of the existing products by higher prices? c) did it increase the exports of the new export products?

For the export geography analysis we consider three major markets: the EU; the Commonwealth of the Commonwealth of Independent States (CIS) and NAFTA.

	2012	2013	2014	2015	2016
Georgia	**2,376,634**	**2,910,582**	**2,861,043**	**2,204,676**	**2,113,734**
EUEU	**353,016 9(14,85)**[1]	**607,331(20,87)**	**624,271(21,82)**	**645,2979(29,27)**	**571,102(27,02)**
CIS	**1,231,166(51,80)**	**1,607,224(55,22)**	**1,452,772(50,78)**	**814,335 (36,94)**	**738,534(34,94)**
NAFTA	**341,711(14,38)**	**221,955(7,63)**	**262,374(9,17)**	**174,693(7,92)**	**120,722(5,71)**
BiH	5,161,809	5,687,463	5,892,102	5,099,186	5,326,732
EUEU	3,751,812(72,68)	4,184,047(73,57)	4,248,857(72,11)	3,652,273(71,62)	3,797,874(71,3)
CIS	55,039(1,1)	56,402(1,0)	83,767(1,4)	67,655(1,3)	73,486(1,4)
NAFTA	28,446(0,6)	22,261(0,4)	29,163(0,5)	34,78490,7)	37,162(0,7)
Macedonia	4,015,403	4,298,766	4,964,132	4,489,934	4,784,605
EUEU	2,621,121(65,28)	3,123,064(72,65)	3,801,751(76,58)	3,465,420(77,18)	3,824,976(80)
CIS	59,098(1,5)	63,642(1,5)	61,688(1,2)	49,076(1,0)	64,631(1,4)
NAFTA	61,307(1,53)	51,985(1,2)	60,378(1,2)	47,154(1,0)	58,292(1,2)
Croatia	12,368,983	12,741,618	13,843,900	12,843,529	13,647,534
EUEU	7,195,669(58,18)	7,859,797(61,68)	8,823,495(63,74)	8,557,623(66,62)	9,055,112(66,35)
CIS	569,121(4,6)	469,194(3,7)	537,555(3,9)	316,291(2,5)	303,644(2,2)
NAFTA	435,536(3,5)	382,406(3,0)	347,904(2,5)	344,885(2,7)	564,218(4,1)
Slovenia	32,182,746	34,019,952	35,978,422	31,948,955	32,880,680
EUEU	24,136,900(75,0)	25,417,042(74,71)	27,029,713(75,13)	24,222,084(75,81)	24,725,407(75,20)
CIS	2,137,676 (6,6)	2,294,008(6,7)	2,163,254(6,0)	1,404,013(4,4)	1,267,697(3,9)
NAFTA	594,764(1,8)	629,011(1,8)	747,287(2,1)	710,899(2,2)	750,862(2,3)
Slovakia	79,866,996	85,184,158	85,976,289	75,051,295	77,565,009
EUEU	67,142,212(84,1)	70,554,446(82,83)	72,227,524(84,0)	63,898,582(85,14)	66,025,495(85,12)
CIS	4,267,754(5,3)	4,430,069(5,2)	3,561,444(4,1)	2,189,868(3,0)	2,139,316(2,8)
NAFTA	1,790,559(2,2)	1,857,857(2,2)	1,962,410(2,3)	2,093,845(2,8)	2,349,510(3,0)

Table 6. Export Geography in thousand $

[1] in brackes are % in total exports

Computed:
http://www.trademap.org/tradestat/Bilateral_TS.aspx ?nvpm 17.07.2017.

We could easily identify two interdepandant tendencies: for Georgia share of the EU market is increasing, while the share of CIS market is decreasing. For European States, members or candidates for EU membership EU is the flagship market. Other markets as CIS and NAFTA don't play any significant role. Our assumption re-Georgia, that association agreement fueled the exports of the existing products to the EU market and did not influence creation of the new export products is absolutely valid. So, Georgia would try to explore opportunities on different markets including CIS and NAFTA.

The association agreement with the EU created a new reality, where the existing export products are oriented on the EU market, rather than CIS; at thesame time there are some possibilities to create new exporting products mainly by attracting Foreign Direct Investments (FDI). We should also analyze the NAFTA direction. On the NAFTA market Georgia had better position than the other States. It should be mentioned that for Georgia North America has always been an important export market, which is why the Georgian Government is seeking to to launch a free trade agreement with the USA. In addition, we should note that even with FTA, Georgia will be able to re-allocate existing exporting products,; while for new export products the country will need solid FDI growth.

To finalize our research and to clarifyhow the export potential is utilized, we'll use Trade Intensification Index. The Index will be computed for all the three States with all the major export destinations (EU, CIS, and NAFTA). This index gives us good opportunity to assess the utilization of the export potential re-one country or country group. The formula of the index is: Xij - I country export in j country; Xi - I country total export; Mj - j country total imports; M –world import. Formula is: Iij=(Xij/Xi)/(Mj/M). If the figure Iij is higher than 1, then your trading partner is more important to you, than you are to the trading partner. If the figure equals 1, it means, that your export utilization is proportional, if the figure is less than 1, your export potential is underutilized.

Underutilization could be computed as the difference between export figures when index equals 1, and the actual exports. Considering the index for all the three States, it should be noted that for Georgia and Moldova the index was computed on the figures for 2016, while for the Ukraine the most available figures were for 2015.

	EUEU	CIS	NAFTA
Georgia	0.84	13.5	0.32
BiHB	2.22	0.69	0.04
Macedonia	2.5	0.68	0.06
Croatia	2.07	1.11	0.22
Slovenia	2.35	1.93	0.12
Slovakia	2.66	1.38	0.16

Table 7. Trade Intensification Index

Computed:
http://www.trademap.org/tradestat/Bilateral_TS.aspx ?nvpm 17.07.2017.
It would be interesting to compare States by Enabling Trade Index (ETI), which was presented by Worls Economic Forum.

	2016	2014
Georgia	41	46
BiH	83	75
Macedonia	56	59
Croatia	44	47
Slovenia	32	31
Slovakia	34	40

Table 8. States by ETI

Should be noted that ETI catch the major trends for the majority of States,thus if any State seek to improve Foreign Trade, should be oriented on the details of the ETI pillars. Also would beneficiary to look closely to the major problems identified by the index. Just for the sake of clarity would be interested to compare States by other indices closely linked with the Foreign Trade.

	HDI	GCR	DB	Ec. Freedom
Georgia	71	66	16	13
BiH	82	111	81	92
Macedonia	83	60	10	31
Croatia	46	77	43	95
Slovenia	25	59	30	97
Slovakia	40	67	33	57

Table 9. Different Indices

The indices have been choosed based on one criteria the relation with the Foreign Trade and overall development. Should be noted that the picture is unclear and thus we have the room for future researches.

CONCLUSION

The Foreign trade of the above-mentioned States mainly follows the major directions of the world economy. The 2002-2008 increase in investments and trade influenced all the three States. The Association agreement with the EU seriously influenced foreign trade figures in all the states. It is obvious that the share of CIS market is decreasing, while the share of the EU market is increasing. So, the reallocation of

the existing export products is under way. At the Same time, the Association Agreement doesn't have much to do with creation of new export products; major exporting product groups in all the states are stable. Trade Intensification Index analysis gave the way for these judgments: the EU market is better utilized by European Staes, while NAFTA potential is better utilized by Georgia. All the three States need additional activities to create new export products. In this respect the export promotion and FDI activities should be better coordinated.

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http://www.trademap.org/tradestat/Product_SelProduct _TS.aspx?nvpm=1|||||TOTAL|||2|1|1|1|2 ; 17.07.2017.

Annex 1.
HS codes

2603	Copper ores and concentrates
0802	Other nuts, fresh or dried, whether or not shelled or peeled (excluding coconuts, Brazil nuts . . .
7202	Ferro-alloys
8703	Motor cars and other motor vehicles principally designed for the transport of persons, incl. . .
2204	Wine of fresh grapes, incl. fortified wines; grape must, partly fermented and of an actual . .
8544	Insulated "incl. enamelled or anodised" wire, cable "incl. coaxial cable" and other insulated . . .
1206	Sunflower seeds, whether or not broken
9401	Seats, whether or not convertible into beds, and parts thereof; n.e.s. (excluding medical, . . .
9403	Furniture and parts thereof, n.e.s. (excluding seats and medical, surgical, dental or veterinary . .
44	Wood and articles of wood; wood charcoal
64	Footwear, gaiters and the like; parts of such articles
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral . . .
30	Pharmaceutical products
38	Miscellaneous chemical products
39	Plastics and articles thereof
62	Articles of apparel and clothing accessories, not knitted or crocheted
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television . . .

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