

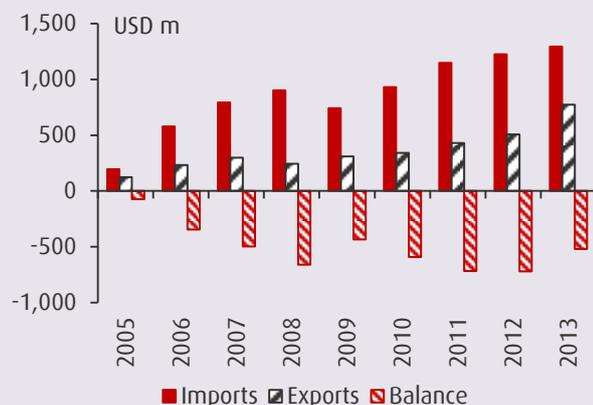
## Georgia's agricultural exports – opportunities and risks

Agriculture plays an important role in the Georgian economy, but Georgia's agricultural exports have been underperforming. One key problem is that these exports are highly concentrated on a small number of products and destinations, especially CIS countries. Investments in a promotions programme for Georgian agricultural exports in high-income markets such as the EU could contribute to increasing and diversifying agricultural exports. The Deep and Comprehensive Free Trade Agreement (DCFTA) signed with the EU in June 2014 could also contribute, but reaping the benefits of this agreement will largely depend on Georgia's ability to comply with EU food standards.

### Agriculture: Important but underperforming

Agriculture is an important component of the Georgian economy, accounting for 9.3% of GDP and over 50% of employment in 2013. Agriculture also provides the raw materials for the food, beverages and tobacco processing industries, which together generate roughly one-third of value added in manufacturing in Georgia. Finally, agriculture accounted for over one-quarter of Georgia's export earnings in 2013.

### Georgia's agricultural trade (2005-2013, USD m)



Source: Ministry of Finance

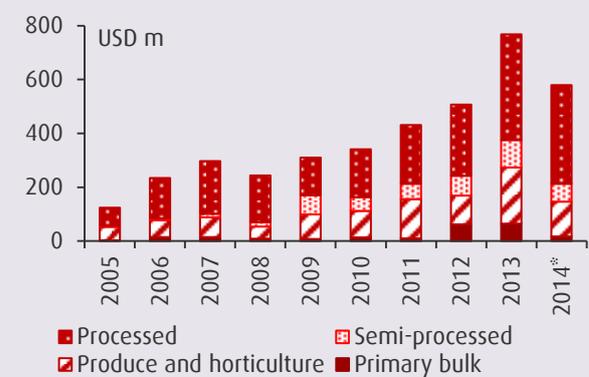
Georgia has consistently run an agricultural trade deficit over the last decade. This poor trade performance is surprising, because Georgia is widely perceived as having a comparative advantage in agriculture. According to a study published by the OECD in 2011, Georgia's revealed comparative advantage in agriculture ranks 15<sup>th</sup> out of 193 countries.

### Agricultural exports: strengths and weaknesses

A closer look at the structure of Georgia's agricultural exports reveals important strengths, but also important weaknesses. On the positive side, processed

agricultural products make up the largest share of Georgia's agricultural exports, accounting for an average share of 57% between 2005 and 2014. This is comparable to the shares attained by typical high-income countries in the EU and North America, and considerably higher than the 10-30% attained by most middle- and low-income countries. Primary bulk commodities account for less than 10% of Georgia's agricultural exports.

### Georgia's agricultural exports (2005-2014, USD m)



Source: Ministry of Finance, note that 2014 data only includes the months up to August

The high share of processed products in Georgia's agricultural exports should be welcomed because this is the fastest area of growth in global agricultural trade. Furthermore, exporting processed agricultural products generates employment and value added in the food processing industry and in packaging, logistics and quality control.

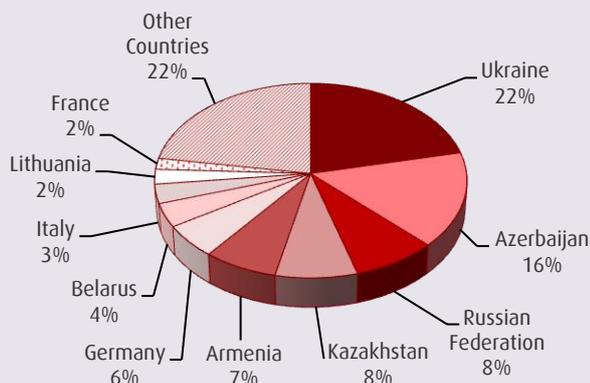
On the negative side, Georgia's agricultural exports are highly concentrated on a few products and destinations. Between 2009 and 2014 three product headings ('ethyl alcohol, spirits, liqueurs and other spirituous beverages', 'wine' and 'mineral waters') accounted for 50% of all agricultural exports and roughly 95% of all processed agricultural exports. Over the same period, 'nuts, fresh or dried' accounted for 92% of all exports in horticultural goods and 25% of all agricultural exports. Hence, Georgia mainly exports processed agricultural products, but its exports are highly concentrated in two areas – beverages and nuts.

Concentration is also apparent when we look at the destinations for Georgia's agricultural exports. Since 2009, the most important destination has been Ukraine followed by Azerbaijan, the Russian Federation, Kazakhstan and Armenia. Altogether, CIS countries account for 65% of Georgia's agricultural exports. The non-CIS country that imported the most

agricultural products from Georgia between 2009 and 2014 is Germany with a share of only 5.6%.

In summary, Georgia is competitive in exporting a small number of products to several specific markets, but Georgian agricultural exports are also correspondingly vulnerable. The effects of this vulnerability were felt when Russia imposed a ban on Georgian agricultural products in 2006. In fact, Russia's 8.1% share of Georgian agricultural exports cited above is biased downward by the effects of this ban. After Russia reopened its borders in 2013, Georgia's agricultural trade balance improved by USD 250 m. Georgian wine exports more than doubled from 2012 to 2013, and in the first eight months of 2014 Russia alone accounted for almost 70% of Georgian wine exports.

The top destinations for Georgia's agricultural exports (average 2009-2014, in %)



Source: Ministry of Finance

### Implications

To reduce this vulnerability, Georgia should strive to diversify its agricultural exports, and the destinations to which it exports agricultural products. Several measures could contribute to a diversification strategy. These include:

- A public scheme to generically promote Georgian agricultural products and to increase awareness in high income markets such as the EU.
- Investments in upgrading Georgia's agricultural education and research capacities and in training workers and managers in agricultural production and food.

In addition, agricultural export growth requires an appropriate trade policy environment. Trade agreements with current and potential trade partners can increase legal certainty for traders and investors, and

improve access to foreign markets. The Deep and Comprehensive Free Trade Agreement (DCFTA) between Georgia and the EU signed in June 2014 is a case in point. Reaping the benefits of the DCFTA will largely depend on Georgia's ability to comply with the EU's food quality standards. Compliance will not only improve access to the EU market for Georgia's agricultural exports, it will also improve access to other markets which are increasingly implementing similar standards, and it will strengthen the position of domestic agricultural and food production in Georgia vis-à-vis growing import competition.

### Conclusion

Export led agricultural growth could make a much larger contribution to income generation, poverty reduction and rural development in Georgia than it has so far. An export growth strategy should aim to reduce the current dependence on a small number of agricultural export products and destinations. Investments in promoting Georgian agricultural products in high-income markets such as the EU are required, as are investments in agricultural research, education and training. Georgia should take advantage of the opportunities provided by the recently signed DCFTA with the EU to improve its food safety systems and thus increase the competitiveness of its food industry on foreign but also on domestic markets.

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Note: A detailed analysis of the topic provides the Policy Paper PP/02/2014 "Georgia's Agricultural Exports".

Download at: [www.get-georgien.de](http://www.get-georgien.de)

### German Economic Team Georgia (GET Georgia)

GET Georgia advises the Georgian government on a wide range of economic policy issues since 2014. The project is financed by the German Federal Ministry of Economics and Energy under the TRANSFORM programme and its successor.

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