

Economic impact of a possible change in Russia's trade regime vis-à-vis Georgia

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Structure

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Contact

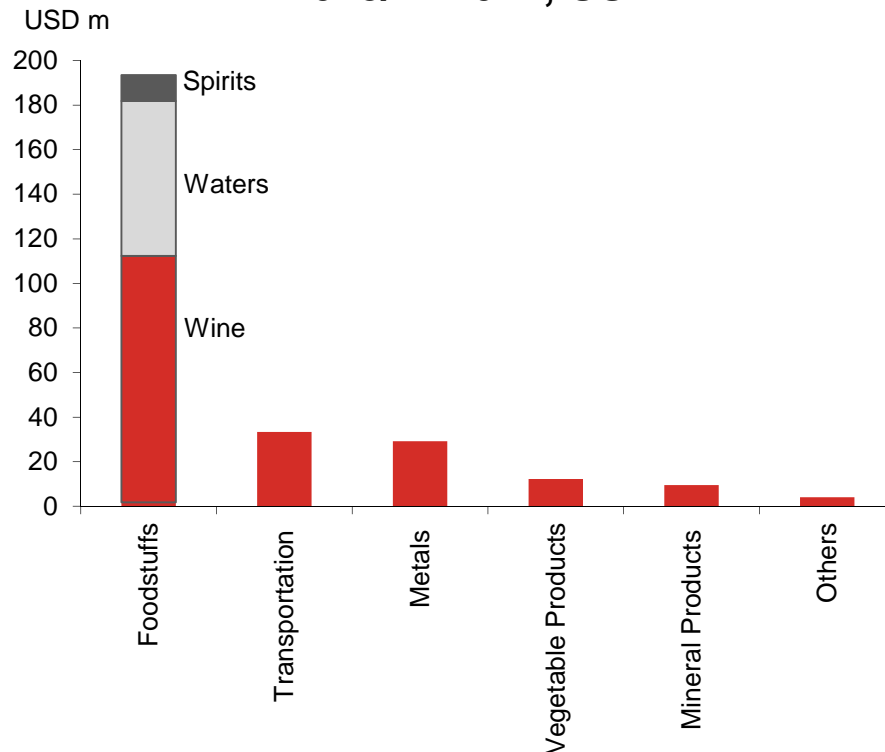
Appendix

1. Background

- The Russian Federation announced it will unilaterally change its trade regime with Georgia from free trade to Most-Favoured-Nation (“MFN”) status; so far, this change has not been conducted
- The unilateral termination of the 1994 bilateral free trade agreement would come into force just after the trade relations normalised in 2013, when the import ban for wine, mineral water and agricultural products was lifted
- In this policy briefing we present the results of our estimation of the economic impact (i.e. the short-term effect) of a possible change of the trade regime on Georgian exports to Russia and on the Georgian economy as a whole

2. Georgia's exports to Russia

Exports to Russia by product group, 2H2013/1H2014, USD m

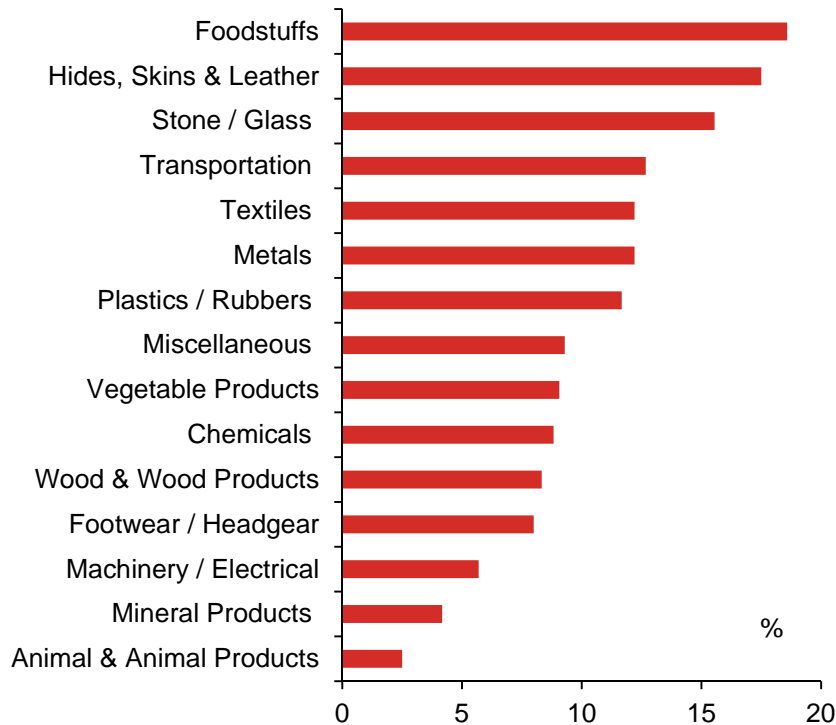


Source: Own calculations basen on UN Comtrade data

- From July 2013 to June 2014 Georgia exported USD 282 m to Russia
- We constructed this “year” to have a time period without trade restrictions, as reference for calculation
- Exports to Russia accounted for ca. 9.1% of all exports and to 1.7% of GDP in this period
- Structure of exports to Russia concentrated in foodstuffs sector with wine (USD 111 m) and water (USD 70 m) accounting for almost 2/3 of total exports

3. Tariff increase for main sectors

Tariff increase for main product groups



Source: Own calculations based on TRAINS data

- Russia plans to cancel the bilateral FTA with Georgia and to introduce MFN status for imports from Georgia
- If FTA is suspended the average MFN tariffs would be around 10% compared to 0% under FTA
- Most tariffs now lie in a range between 5% and 20%
- The highest tariff increases would apply to foodstuffs, including wine 20%, mineral water 15% and spirits 38%*

Questions:

- What is the impact on Georgia's exports to Russia?
- What is the aggregated impact on exports and GDP?

* The actual tariff for spirits is 2 EUR/l, which is around 38% if exported volume is compared to its value

4. Aggregated impact on exports and GDP

What is the magnitude of the trade shock?

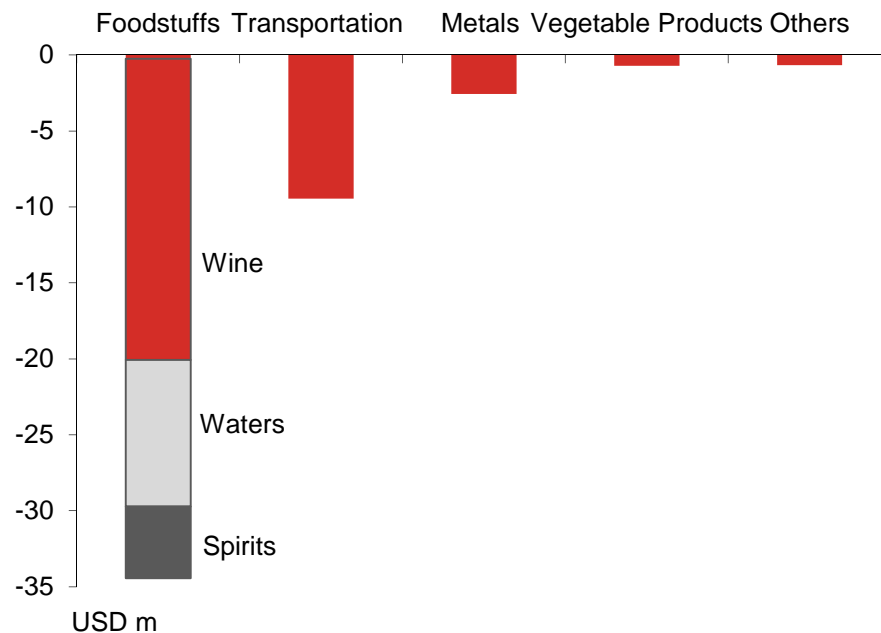
- We estimate that the tariff increase would reduce annual exports to Russia by USD 48 m
- This amounts to a 17% reduction in exports to Russia compared to 2H2013/1H2014 levels
- As a consequence, Georgia's total exports are likely to decline by 1.5%
- The export decline would cause a 0.3% reduction of GDP (2013)

	Decline in exports to Russia	Relative decline compared to 2013/14 level	Relative decline for Georgia's total exports	Export decline in relation to GDP
Estimated effect	USD 48 m	- 17%	- 1.5%	0.3% of GDP

Source: Own calculations

5. Effect on different product groups

Change in exports by product category,
USD m



Source: Own calculations basen on UN Comtrade data

- Foodstuffs account for over 2/3 of the estimated trade loss
- Wine and waters are the biggest losers: USD 20 m and USD 10 m
- This amounts to 11% of total wine and 6% of total waters exports
- Spirits exports to Russia would almost halve because of high tariffs; exports would decrease by USD 5 m or 5% of total spirits exports
- Relatively strong effect also on transportation (mainly cars); reduction of USD 9 m or 1% of total exports in the category

6. Conclusions

- The change in Russia's trade regime vis-à-vis Georgia from free trade to MFN status would have:
 - Limited aggregate impact: The aggregate decline of total exports would amount to 1.5% - the equivalent of 0.3% of GDP
 - Strong impact on individual sectors: The foodstuffs sector would be most strongly affected. Total exports of wine and water, the main export goods in trade with Russia, would shrink by 11% and 6%
- We expect that a MFN trade regime would impair further export growth towards Russia, but the effect would by far not be as severe as the import ban between 2006 - 2013
- The effects of the shock would be mainly sectoral and short-term; Georgia's economy would be able to absorb this shock without major difficulties



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Appendix

Content:

- i. Modelling approach
- ii. Comparison to Ukraine and Moldova

i. Modelling approach

Scenario

- Russia cancels its free trade regime with Georgia (1994 bilateral FTA) and henceforth treats Georgia like any other WTO country

Modelling approach

- The World Bank WITS online simulation tool provides data on how imports of Russia reacted to changes in the price of goods in the past (import elasticities)
- Based on these elasticities we estimate how Russian demand for products from Georgia would change if the tariff of a good increases by X%

Data used

- Exports data from Jul - Dec 2013 and Jan – Jun 2014 reported by Georgia, UN Comtrade database HS 6 digit level
- Tariffs are taken from the TRAINS database
- Import elasticities are provided by the WITS online data base

ii. Comparison to Ukraine and Moldova

- A tariff increase to MFN levels was also estimated for Moldova and Ukraine

	Decline in export to Russia	Relative decline	Relative decline of total exports	Export decline in relation to GDP
Georgia	USD 48 m	- 17%	- 1.5%	0.3% of GDP
Moldova	USD 122 m	- 19%	- 5.7%	1.7% of GDP
Ukraine	USD 3,000 m	- 17%	- 4.4%	1.7% of GDP

Source: Own calculations

- Relative decline of exports to Russia is comparable in the three countries
- Effect on total exports and on GDP in Georgia however much softer
- The reason is the relatively low export share of the Russian market in total Georgian exports compared to Moldova and Ukraine
- A more detailed analysis is provided for Moldova by Policy Briefing PB/02/2014 (available at: www.get-moldova.de) and for Ukraine by Policy Briefing PB/04/2013 (available at: www.beratergruppe-ukraine.de)