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FDI-attraction from non-EU countries: The role of the EU-Georgia DCFTA and tariff rate differentials

Veronika Movchan, David Saha

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The German Economic Team Georgia (GET Georgia) advises the Georgian government and other Georgian state authorities such as the National Bank on a wide range of economic policy issues. Our analytical work is presented and discussed during regular meetings with high-level decision makers. GET Georgia is financed by the German Federal Ministry for Economic Affairs and Energy. Our publications are publicly available at our website (www.get-georgia.de).

German Economic Team Georgia
c/o Berlin Economics
Schillerstr. 59
D-10627 Berlin
Tel: +49 30 / 20 61 34 64 0
Fax: +49 30 / 20 61 34 64 9
E-Mail: info@get-georgia.de
www.get-georgia.de

FDI-attraction from non-EU countries: The role of the EU-Georgia DCFTA and tariff rate differentials

Executive Summary

Apart from contributing to increased EU-Georgia trade, the EU-Georgia DCFTA can serve another important economic policy objective: To attract more FDI to Georgia. Investors from non-EU countries may be interested in using Georgia as an "export platform" to produce goods destined for export to the EU, benefiting from tariff-free full access to the EU markets. Their investment decision would be made because of "tariff jumping" for their goods due to a *tariff differential*, i.e. a difference between the tariffs faced by the investor exporting to the EU from its home country in comparison to exporting from Georgia, or because of non-tariff barriers (NTBs) faced in their home country but not in Georgia.

This policy paper investigates Georgia's potential for export-platform investments driven by both tariff differentials and NTBs in the investors' source countries. We identify goods and source countries with the best potential for export-platform FDI.

Source countries and potential goods
Source countries are selected based on present access to the EU market, geographical proximity and economic ties with Georgia, as well as economic wealth. For FDI eight countries were identified as the most promising potential source countries of investors interested in export-platform investments in Georgia to serve the EU market. These countries are Azerbaijan, China, Iran, Kazakhstan, Kuwait, Russia, Saudi Arabia and the United Arab Emirates.

First, potential goods are identified upon the criterion of the magnitude of EU MFN tariffs applying to the investors' home countries. We also verify the availability of Georgia's duty-free access to the EU market and whether rules of origin requirements are lenient enough to realistically permit investors to use Georgia as an export platform for the EU. We further consider NTBs applying to source countries such as tariff rate quotas, trade remedies or food safety measures as a further incentive for export-platform FDI.

Many agricultural and food industry goods feature very high tariff protection and non-tariff barriers on the EU market and thus constitute potential for export-platform investment. However, most of these goods need to be wholly produced in Georgia or the respective inputs used need to be wholly produced in Georgia in order to be eligible for tariff-free trade. Thus, investment projects must be economically feasible under these conditions. Also, export-platform investments in animal origin goods will be feasible only in the medium-run, as the Georgian food safety system has not been authorized by the EU yet. The number of industrial goods featuring high tariff differentials is smaller, yet interesting options exist, primarily in textiles and footwear, chemical goods, and the production of ceramic and glass articles.

Country-product combinations
We identify combinations of source countries and products that investors from these countries may be especially interested in, taking into account which products the potential source countries already export to markets other than the EU market.

China already is an active exporter to the EU for the majority of goods, but China has been trading under GSP preferences until 2015 when it "graduated" from the preferences. Now it has been facing higher MFN duties ever since. This may provide a vast incentive for export-platform FDI in order to surmount newly established tariff walls, especially for industrial goods, and to keep benefiting from the expertise gained in producing these products.

For the other potential source countries, the EU agri-food market is generally closed, although they supply other markets. Thus, they might be interested in export-platform investments in the agri-food sector. Exports of industrial goods are more widespread already. Most potential source countries are already supplying both EU and non-EU markets, but some interesting single product lines remain,

particularly in the textile industry. Some highly interesting country- product combinations are:

Azerbaijan:

- Agri-food: Sugar, vegetable oils and selected fresh vegetables and fruits
- Industrial products: Bags, some leather products and textiles

China:

- Agri-food: Meat, dairy products, some vegetables and ethyl alcohol
- Industrial products: Textiles, leather products, chemical products
- Multiple trade remedy measures by the EU may create additional incentives

Iran:

- Agri-food: Cucumbers, sugar and selected dairy products (strong NTBs)
- Industrial products: Footwear, tableware, carpets, sacks and bags, and ceramic sinks.

Kazakhstan:

- Agri-food: Cereals and dairy; animal origin products subject to NTBs
- Industrial products: Footwear, sanitary towels, tableware, leather and textile

Kuwait:

- Agri-food: Dairy products and flours; NTBs on Kuwaiti side provide further incentive
- Industrial products: Tents, glass fibers products, some clothes and shoes

Russia:

- Agri-food: animal origin products
- Industrial products: tire cord fabric and textile floor covering

Saudi Arabia:

- Agri-food: Juices, sugar and dairy products
- Industrial products: Textile products

United Arab Emirates:

- Agri-food: Dairy products, preparations used in animal feeding, meat
- Industrial products: Clothing and floor tiles

The government of Georgia should use the exact identification of by-product potential for export-platform potential provided here for targeted investment attraction, both as a criterion for seeking out potential investors and in order to communicate the benefits of an investment in Georgia to investors. However, it should be borne in mind that tariff-free access to the EU market is not unique to Georgia. Hence, to mobilise investments, Georgia must ensure to be competitive as a place to invest vis-à-vis other DCFTA countries and new EU member states.

Authors

Veronika Movchan	movchan@berlin-economics.com	+380 50 95 18 49 6
David Saha	saha@berlin-economics.com	+ 49 30 20 61 34 64 0

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Contents

1. Introduction

Apart from bringing economic benefits from increased EU-Georgia trade, particularly through the opening of the EU and other markets for Georgian goods, the EU-Georgia Deep and Comprehensive Free Trade Agreement (DCFTA) can serve another important economic policy objective: To attract more foreign direct investment (FDI) to Georgia. As labour productivity and hence wages in Georgia, although they are rising, remain relatively low when compared to the EU countries and domestic saving is limited, FDI is required to increase the capital stock, boost productivity and wages.

The DCFTA can attract FDI to Georgia in two ways: Firstly, FDI from EU countries can be attracted by lower production costs in Georgia and by the possibility to export back to the EU without trade barriers. Secondly, it may also attract FDI from non-EU countries without a DCFTA with the EU. Investors from these countries may be interested to use Georgia as an "export platform" to produce goods destined for export to the EU, benefiting from tariff-free access to the EU markets. Their investment decision would be made because of "tariff jumping" for their goods due to a *tariff differential*, i.e. a difference between the tariffs faced by the investor exporting to the EU from its home country in comparison with exporting from Georgia. High tariff barriers could stimulate investors to search for potential to 'jump over tariff wall' and launch a production in the country that has a duty-free access to this market.

This policy paper investigates Georgia's potential for export-platform investments and gives recommendations on how to proceed in order to exploit this potential. To determine the potential, two questions need to be answered:

1. For which goods would Georgia be an attractive export platform?
2. Which countries would potential investors come from?

Here, we aim to provide a first assessment of the potential for export-platform investments by focusing on the benefits of improved EU market access from Georgia. Therefore, we concentrate on the tariff differentials, take the "rules of origin" requirements into account, which determine the minimum extent of Georgian (or EU or EU DCFTA) value added within the production of a good in order to make it eligible for tariff-free trade under the DCFTA, and consider other non-tariff barriers.

Here, we do *not* consider whether further conditions in Georgia – such as cost and quality of labour, infrastructure or climate – are suitable for certain goods production. Thus, the range of goods that we discussed in this study should be subjected to further scrutiny to exactly determine Georgia's potential before actually approaching potential investors from those countries, which have also been identified in this study.

The policy study is structured as follows. Chapter 2 briefly reviews FDI to Georgia and describes the concept of export-platform investments in greater depth. In chapter 3, potential source countries for export-platform investments to Georgia are selected. Chapter 4 is devoted to the identification of goods with high tariff-jumping potential and lenient rules of origin; and Chapter 5 reviews non-tariff barriers applied both at home and destination markets. Chapter 6 reviews the most favourable country-product combinations, and Chapter 7 provides policy recommendations on how the government can support exploiting Georgia's potential for export-platform investments.

2. FDI in Georgia

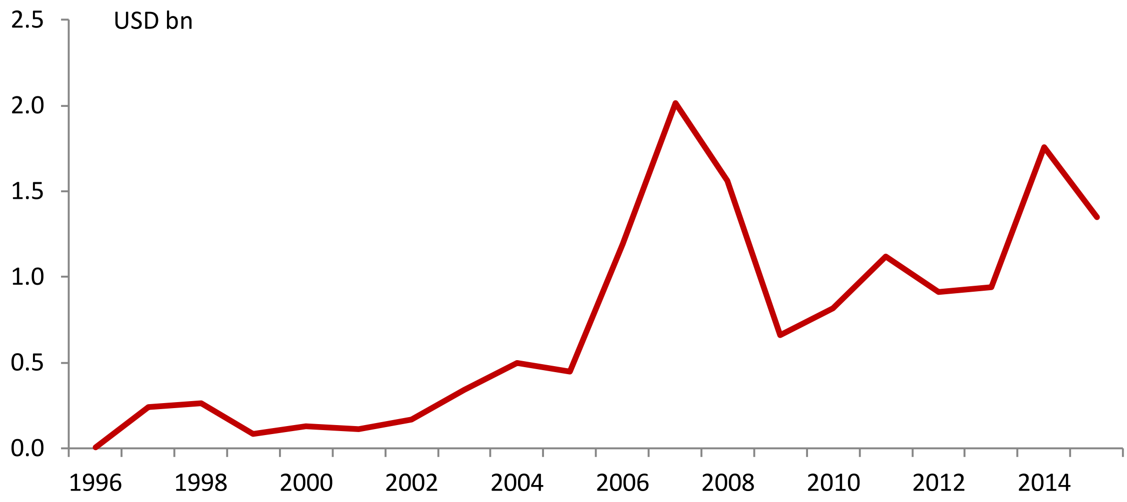
Obtaining large inflows of FDI is of major importance for Georgia as it presents the best way to both increase the standard of living for the population and overcome its main macroeconomic weakness, which is the high current account deficit stemming from low exports. In order to achieve this, the country requires investments, but domestic saving is low – also due to the low standard of living at present – which is limiting the potential for investments by domestic agents. Thus, FDI represents a way of overcoming this savings gap leading to the desired increase in the capital stock of Georgia's economy.

2.1 Current trends

FDI has been very strong in the last few years, recovering robustly after the 2009 global financial crisis. In 2015, FDI net inflows of USD 1.35 bn corresponded to 9.7% of GDP.

Figure 1

FDI inflow to Georgia



Source: Geostat

This massive FDI inflow – by far the strongest performance relative to all countries in the region – is not least due to the macroeconomic and political stability of Georgia as well as due to the excellent business environment. It is clearly visible that FDI strongly picked up in the early 2000's when large-scale economic reforms transformed Georgia from a failing state into one of the most promising transition economies. In 2015, the main source countries of FDI to Georgia were Azerbaijan (40%) and several EU countries, in particular the United Kingdom, the Netherlands (8%) and Luxembourg (6%) (see the Annex for details). Though the Netherlands and Luxembourg not necessarily indicate the presence of large "round-tripping" capital owned by Georgians in financial havens since countries like these are generally attractive for *any* investor as a base for conducting foreign investments for legal reasons.

Table 1

Top 6 FDI projects in Georgia, 2015

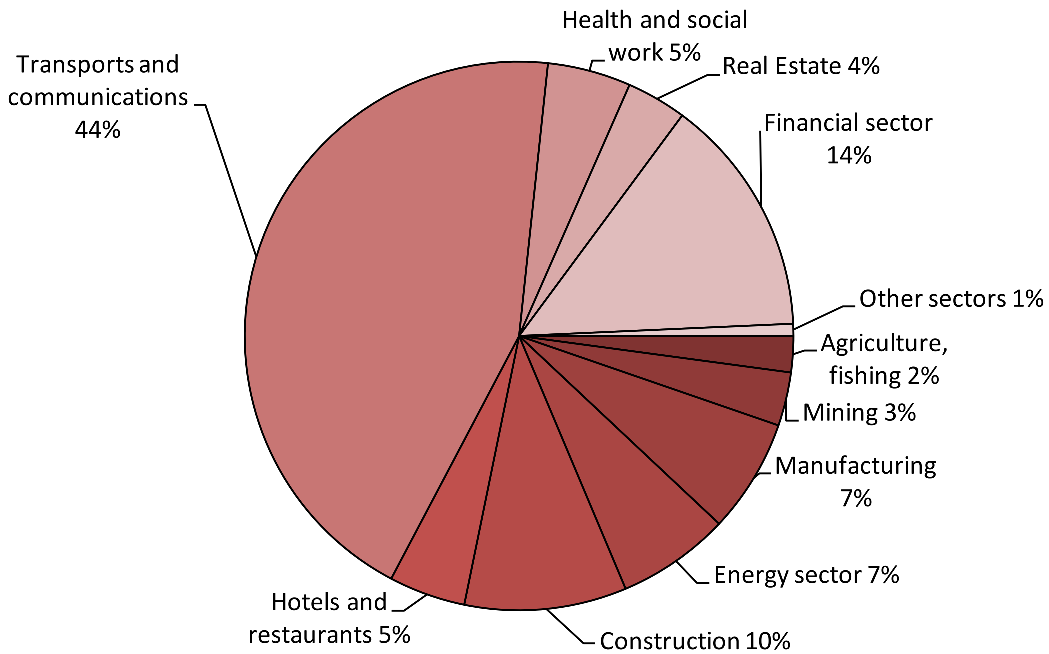
Project	2015 volume, USD m (approx.)
South Caucasus Pipeline Expension (SCPX)	556
IPO of Georgia Healthcare Group on London Stock Exchange	100
Construction of EastPoint Tbilisi mall	100
Construction of Shuakhevi HPP	100
Baku-Tbilisi-Kars railway project	66
Construction of Nenskra HPP	30
Sum	**952**

Source: Project websites, own estimations

One key feature of FDI to Georgia is that most of it can be attributed to a short list of large projects. Indeed, in 2015 around 70% of the total FDI to Georgia could be attributed to the top 6 FDI projects, which are dominated by infrastructure investments. The largest single project, the South Caucasus Pipeline Extension financed by Azerbaijan (explaining the 40% share of Azerbaijan in Georgia´s FDI inflow composition) is wholly related to the transit of gas through Georgia. Also, the Georgia Healthcare Group IPO does not represent a real inflow into Georgia as its classification as FDI is essentially an accounting and ownership shift rather than a real investment. The two HPP construction projects are the only two projects in the top 6 FDI projects which are likely to directly increase Georgian exports through energy exports. This fact points at an important feature of FDI to Georgia: Although infrastructure investments such as the Baku-Tbilisi-Kars railway are clearly very important for Georgia, there is currently relatively little investment in export-oriented production in Georgia. This is confirmed by looking at the breakdown of the destination sectors of FDI.

Figure 2

FDI flow to Georgia by sectors, 2015



Source: Geostat

The production sectors that will be the country's workhorse in boosting exports and wages in the end (e.g. manufacturing, tourism, agriculture, mining and energy) only received around 25% of the total FDI in 2015. Although total FDI to Georgia is very high and all of it should be seen as a confirmation of international confidence in Georgia, increasing FDI in the form of real investment in export-oriented production in Georgia must remain an objective.

2.2 The potential of export-platform investments due to tariff rate differentials

Export-platform FDI is generally defined as investment in production, of which the output is sold primarily on third markets and not on the markets of the source (investor) or host country.[1] It usually combines both market- and resource-seeking motives. Investments are usually made to serve large markets; such markets were frequently established through regional integration agreements, but the actual FDI location within these markets is chosen based on cost considerations. Examples of export-platform FDI are the American investments in Ireland to serve the EU market or the EU investments in Mexico to serve the NAFTA market.

For Georgia, which has duty-free EU market access due to the DCFTA as well as highly competitive wages and an attractive business environment, this is a clear potential. It can market itself to potential investors from countries that do not have preferential access to the EU market by first highlighting the tariff differential that the investors face: How much of a tariff on the good the investor can save, gaining more competitiveness as a result. In addition, if exporters face non-tariff barriers at home or in the destination market, it should be emphasised that Georgia does not face

[1] Ekholm K., Forslid R., Markusen J. (2003) Export-Platform Foreign Direct Investment. NBER Working Paper 9517

these measures or, in the case of product safety rules, that Georgian regulations will be brought into conformity with EU norms in the near future. Secondly – as the tariff differential would be the same for an investment in any EU or EU-FTA country – Georgia should highlight its cost competitiveness and the attractiveness of its business environment.

Hence, Georgia should seek out goods with high EU tariffs and investors from countries not benefiting from preferential EU market access. At the same time, it should be taken into account that export-platform investments may work in two ways:

- Companies in third countries might relocate the *final stage or stages* of a production process to Georgia. Such companies would import an intermediate good or several intermediate goods from their home country to Georgia and only assemble the final good in Georgia such that it than can be exported to the EU under the DCFTA.
- Companies, whose main comparative advantage lies in know-how for the production of a good, could then produce their export goods in Georgia destined to the EU market, again benefiting from tariff-free EU market access and low costs of production in Georgia.

A specific decision which approach is chosen depends on comparative advantage of the investor regarding the production of particular goods as well as on availability of factors of production and intermediate inputs in Georgia. If the key comparative advantage of an investor is the know-how/technology and the product would be wholly produced in Georgia, it will unambiguously qualify for the DCFTA preferences. Therefore, for investors oriented towards "wholly obtained" goods, the key factors for their investment decisions are a high tariff differential and other market access conditions like food safety requirements.

However, other investors will seek to relocate only final stages of a production process to Georgia in order to benefit, for example, from competitive inputs produced in their home countries or because they depend on inputs not produced in Georgia. For these investors, the *rules of origin* regulations are crucial as they determine whether their goods qualify for duty-free access to the EU market. This requires a minimum degree of value added, input or manufacturing content from Georgia or another eligible country. Inputs produced in the EU of course also qualify the good; and as soon as Georgia joins the regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention), goods of other countries having FTAs with both Georgia and the EU will also qualify. This implies that a company, which is planning to export to the EU market from Georgia, could import inputs from the EU or other eligible countries and still satisfy the rules of origin.

3. Possible source countries

3.1. EU trade regimes

To identify countries that could be potentially interested in tariff differential driven export-platform investments in Georgia, we group countries by the status of their access to the EU market. The EU has several types of trade treatment with different partners:

- Most favoured nation (MFN) treatment. The MFN is the highest tariff level applied by the EU both to WTO and non-WTO members.
- Unilateral tariff preferences. These preferences include the generalized system of preferences (GSP) and autonomous trade preferences. Since 2014, the EU has introduced a revised GSP focusing on countries-most-in-need. As a result, the number of beneficiaries reduced from 177 to 90. Out of former GSP beneficiaries, the majority of countries will continue to enjoy preferential access to the EU market through alternative trade arrangements. However, 20 high and upper middle-income countries have "graduated" from the programme and their trade preferences were removed. Several other countries were excluded from the list of beneficiaries later on.[2] Currently, these countries have to trade with the EU under MFN tariff rates and could certainly be interested in gaining better access to the EU market.
- Reciprocal tariff preferences. The reciprocal arrangements take a form of free trade agreements, economic partnership agreements, association agreements etc. Currently, the EU has free trade arrangements with over 50 countries and more are being negotiated.

Thus, the countries could be tentatively grouped into three large categories depending on the level of tariff protection they face on the EU market:

- MFN countries: countries with no tariff preferences;
- GSP countries: countries with partial tariff preferences (66% of tariff lines are duty free);
- Duty-free countries: countries with duty-free or close to duty-free access to the EU market obtained through unilateral or reciprocal trade preferences.

For the purpose of this study, we will focus on the first category – that is, countries without preferential access to the EU market. These countries face the highest tariffs. Countries with partial tariff preferences might considered in a subsequent study.

The number of countries in each category is subject to change. Some countries may conclude FTAs and thus get preferential access while others may graduate from the GSP scheme and lose their preferential status. We are referring to the situation as of beginning of 2016.

3.2. Selection of countries

Using information about EU trade preferences, we identified 33 countries that currently trade with the EU under the MFN tariffs and thus could be most interested in exploring tariff differential opportunities:

- Former GSP beneficiaries: Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Brunei Darussalam, Macao (territory), Argentina, Brazil, Cuba, Uruguay, Venezuela, Belarus, Russia, Kazakhstan, Gabon, Libya, Malaysia, Palau, Azerbaijan, Iran, China, Ecuador, Thailand, Maldives;[3]

[2] http://trade.ec.europa.eu/doclib/docs/2016/january/tradoc_154180.pdf
[3] http://europa.eu/rapid/press-release_MEMO-13-1187_en.htm; http://trade.ec.europa.eu/doclib/docs/2016/january/tradoc_154180.pdf

- Other countries: Australia, Canada, Hong Kong, Japan, New Zealand, Singapore, United States of America.[4]

We aim to focus on the most realistic source countries for potential investors to Georgia, intending to use Georgia as an export platform for EU markets, motivated by tariff differentials and better market access. Hence, we apply three criteria:

- To have relative geographical proximity and, preferably, developed economic ties with Georgia,
- To have a sufficient level of economic development, and
- To not being negotiating a FTA with the EU.

A fulfilment of these criteria allows focusing on countries that know the Georgian economy, have relatively low logistic costs if supplying intermediate and capital goods, are wealthy and developed enough to invest abroad and will not gain preferential access to the EU market in the near future.

Based on these criteria, we narrowed the list to eight countries: **Azerbaijan, China, Iran, Kazakhstan, Kuwait, Russia, Saudi Arabia, and the United Arab Emirates.** These countries could be considered as the most promising home countries of potential investors interested in tariff-jumping export-platform investments in Georgia to serve the EU market.

After identifying the promising source countries of investments, in the next step, we need to identify promising goods that exhibit high tariff differentials between the source countries and Georgia and lenient rules of origin for EU market access. These products will later be matched with the exports profiles of potential source countries and the non-tariff restrictions faced by exporters on their home markets and in the EU to identify the most promising "country – goods" combinations for export-platform FDI from the selected source countries.

4. Goods with high tariff differentials and lenient rules of origin

Relevant goods bearing the potential for export-platform FDI in Georgia are chosen primarily with respect to a large tariff differential arising from different trade regimes faced when exporting from Georgia versus exporting from other countries of origin to the EU. Hence, we sort goods by the level of MFN tariff rates as these are faced by the potential source countries identified above; and the rates for exports from Georgia to the EU are zero for all goods. The higher the tariff rates for exports from the home countries of potential investors, the more likely it is that they can trigger export-platform investments in Georgia for the production of these goods. We also consider whether the rules of origin (ROO) requirements for the goods in order to qualify for the tariff-free trade from Georgia are sufficiently lenient for the goods under consideration in order to permit investments of realistic magnitudes. This is particularly relevant for industrial goods as these are more complex and may require a larger number of inputs and complex supply chains.

[4] http://ec.europa.eu/trade/policy/countries-and-regions/

Of course, the sensitivity of investment decisions to tariff rates also depends on product-specific factors such as intensity of price competition, transferability of technology and several other factors of production. We entirely focus on identifying goods by the extent of tariff differentials and leniency of ROO regulations in this paper. However, we stress that the feasibility of export-platform investments, regarding the goods identified in this paper, should be verified through a subsequent analysis and that, especially for very low-margin commodities, tariff differentials lower than required in this paper may in some cases provide sufficient incentives to trigger export-platform FDI.

4.1 Methodology

Tariffs are defined on a very detailed level of goods identified by the 10-digit Harmonised System (HS) code (around 15,000 goods). To enable a lucid presentation for policymakers, we here refer to the maximum tariffs of individual goods within and the average tariff rates within groups of goods or within more general product categories, either 6-digit HS goods (so-called HS sub-headings, around 5200 codes) or the most general 1-digit product categories (HS sections, 21 codes).

We sort the groups of goods by the size of the tariff rates they are subject to if they were exported to the EU under the most favoured nation (MFN) regime, which exhibits the least favourable tariff rates. We disregard goods with MFN rates below 5% (i.e. no tariff above 5% within the group) as a minimum threshold. Export-platform FDI targeted at these goods is not impossible as particularly for low-margin commodities a low tariff rate corresponds to a relatively large share of possible profit margin. However, within this study we want to concentrate on the most promising goods without being able to do an analysis of the tariff sensitivity of investment decisions for each separate product.

We further disregard goods for which, despite the DCFTA, Georgia does not enjoy *unconditional duty-free access* to the EU market. There is one case of duty-free exemptions, namely a tariff rate quota. Quotas are usually set relatively tightly, that is, a large scale increase in the production of affected goods will quickly lead to the exhaustion of the quota. With respect to Georgia´s DCFTA, there is one such product. The EU applies a tariff rate quota on garlic. The duty-free volume is set at 220 tonnes; any exports above this volume are subject to import duty.

We do not exempt goods facing *entry price* requirements as these requirements are considered to be relatively mild for those Georgian goods to which they apply. There are several agricultural goods for which an ad valorem part of tariff is abolished under the DCFTA, but a variable specific import duty applies if the export price is below a specified EU market entry price. Selected vegetables and fruits, grape juice and grapes are subject to such regulation.

Furthermore, some animal origin goods currently cannot be exported by Georgia due to food safety / inspection issues. We do not exclude these goods from our analysis as these problems can be solved in the medium term. However, we explicitly mark these goods, as they require additional efforts by the government and potential investors to ensure EU market access.

Regarding the goods identified as potential candidate for export-platform investments in Georgia, we analyse the rules of origin (ROO) applied in the DCFTA. First, it helps us to figure out more about what type of investment – full production in Georgia or in other eligible countries or the use of inputs from the home country of the investor – these goods would be attractive for. Second, we select goods for which the ROO could be implemented relatively easily.

The ROO can be tentatively divided into two categories. First, there are goods, which must be entirely produced in Georgia for duty-free access to the EU market. This requirement is usually applied to agricultural and food goods. Second, there are goods which must be sufficiently transformed in Georgia to satisfy the ROO. This may require a different HS heading for inputs and the final product, a maximum value of "non-originating" inputs in the product price, specific types of non-originating inputs permitted for production process etc.

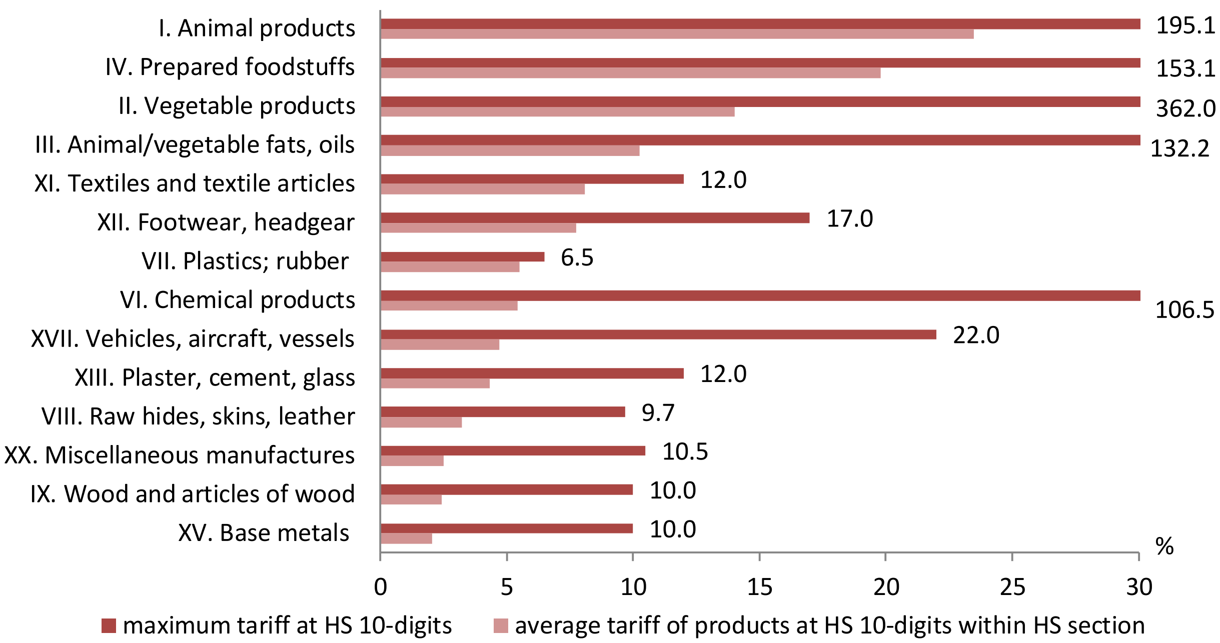
In this study, we distinguish between goods that need to be "wholly obtained" in Georgia and goods requiring "sufficient transformation". For the latter, we focus only on goods for which no maximum values of "non-originating" materials are set: as these generally apply to industrial goods and impose strict limits on non-EU and non-Georgian inputs to be used in the production process, it would be too difficult for investors from non-EU countries to fully comply with those maximum values regarding their inputs. As "wholly obtained" goods usually are from the agri-food sector, we do not exclude them as these production processes tend to be geographically concentrated and less complex than for industrial goods. Hence, we assume that for these goods investors will be ready to bring their technologies and set up complete production processes in Georgia.

4.2 Results

We identified **1394** *specific* categories (out of 5205) specific product categories at HS 6-digit level within **14** *broad* categories (out of 21) at HS-1d level that have MFN tariffs above the 5% threshold and lenient rules of origin, for which Georgia enjoys unrestricted duty-free access to the EU market.

Figure 3

Maximum and average MFN tariffs of the EU

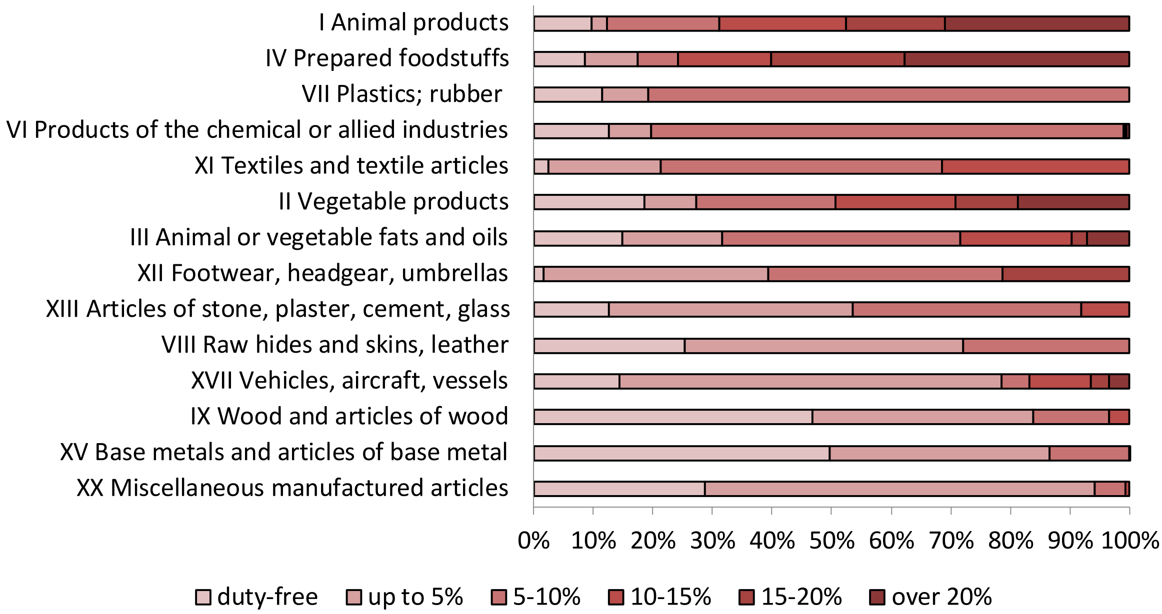


Source: WITS, authors' calculations

There are two distinct groups of goods with different characteristics of tariff barriers: agriculture and food industry goods are protected with high tariffs across the board while industrial goods on average have lower tariffs but exhibit with some tariff peaks. As the rules of origins for these two groups also differ, we analyse them separately.

Figure 4

Broad product categories: tariff rate frequencies, % of tariff lines within HS 1-digit level



Source: WITS, authors' calculations

Analysis of tariff structures of broad product categories confirms the conclusion that tariff peaks are much more common for agri-food goods: 19% of agricultural goods and 58% of industrial goods have tariffs below 5%. Moreover, for base metals, machinery and equipment, and instruments and apparatus, the share of tariffs below the 5% threshold reaches 90%.

Agriculture and food goods

Based on the tariff differential approach, exports of most of the agricultural and food goods to the EU could be potentially interesting for investors. The highest tariffs are registered for primary agricultural goods, for which Georgia has a huge potential for productivity growth.

Goods of animal origin feature the highest average tariff (23%), making them particularly attractive for tariff-jumping export-platform investments. However, to be able to export animal origin goods to the EU, Georgia has to develop its food safety system and invest into respective infrastructure. It will take at least several years to get the EU authorization to enter its market. Importantly, not only the state system itself has to be authorized, but also individual establishments are to get an authorization after quite cumbersome verification procedures.

Tariffs for prepared foodstuff are also very high with average tariffs at 20% with over 80% of tariffs lines exhibiting a tariff rate above the 5% threshold. Export-platform investments in the preparation of vegetables, fruits and nuts, the processing for the animal feed industry and in the processing of meat could be very attractive.

For most of agriculture and food goods, the ROO requires materials to be “wholly obtained” in Georgia. So export-platform investments in the agri-food sector could be interesting primarily for companies with a main comparative advantage in know-how, which thus could set up entire production in Georgia.

To sum up, agriculture and food industry goods feature the highest tariff protection in the EU and thus provide good potential for export-platform investments if several preconditions are fulfilled. First, most of goods have to be wholly produced in Georgia or use inputs which were wholly produced in Georgia. Consequently, investment projects must be designed accordingly and must be economically feasible under the requirement of full production in Georgia. Second, the access of animal origin goods to the EU market is closed at the moment as the Georgian food safety system has not yet been authorized by the EU; and the authorization could be received only in the medium term. Thus, investments in plant-origin goods may be more attractive in the short term.

Industrial goods

On average, industrial goods are characterised by lower average protection as well as fewer and more moderate tariff peaks compared to agri-food goods. Thus, there are fewer cases of large tariff differentials. Still, interesting opportunities exist in many sectors, except for the production of wood pulp and paper and the production of precious metals and stones. Stringent ROO requirements further rule out some industrial goods, including most of the machine building goods.

The most attractive potential for export platform FDI due to tariff differentials can be found for the production of shoes, headgear (i.e. hats and caps) and other clothing, for the textile industry, for selected goods of chemical industry, and for the production of non-metal mineral goods such as ceramics and glass.

Textile industry goods feature the highest average tariff (7%), with more than 75% of tariff lines exhibiting a tariff rate over 5%. Investment in the production of apparel and accessories is especially attractive in Georgia given that the ROO requirements are quite lenient. For most of the textile goods, the ROO stipulate that permissible imported inputs are low-stage processed inputs such as fibres, yarn etc. This permits a realistic level of investment in Georgia. And in fact, a thriving textile industry driven primarily by investments from Turkey already exists in Adjara region.

Selected goods of the chemical industry like dextrin and other modified starches and glues also feature relatively high tariff protection and lenient ROO. The production of footwear could be also very attractive with respect to the corresponding tariff differential. The maximum tariff is 17% and about two thirds of tariff lines within this group exhibit tariffs above the 5% threshold. The ROO are very attractive for this type of goods allowing any inputs except for assembling from sole components. Ceramic and grass articles constitute the fourth group of industrial goods with reasonably high tariff differential. Tariff peaks for these goods reach 12%, and the ROO generally require only a sufficient treatment (i.e. a change in the HS heading).

To conclude, industrial goods provide comparatively fewer opportunities for export-platform investments driven by tariff differentials. Still, interesting options exist, primarily in the textile, the footwear and the chemical industry as well as in the production of ceramic and glass articles.

5. Non-tariff barriers faced by exporters

Overcoming non-tariff barriers (NTBs) to trade with the EU faced by exporters in their home countries could create further incentives for export-platform FDI in Georgia. In principle, the existence of NTBs could be also a sufficient motive for export-platform investments if these barriers are high enough. However, in this study we consider NTBs as a complementary factor to high tariff differentials that reinforces the motivation of investors to "jump over" trade barriers and to set up production in the country with the most tolerant export regulations.

We analyse NTBs applied by potential source countries *and* by the EU. In particular, we consider such export regulations of potential source countries as quotas, licenses, permits, and duties.[5] The EU import regulations that we analysed include tariff rate quotas (TRQs),[6] anti-dumping and anti-subsidy measures (so called trade remedies)[7] and an authorization for animal origin products exporters.[8]

It should be highlighted that the EU-Georgia DCFTA does not imply that no NTBs remain for the trade between the EU and Georgia. In particular, product safety requirements on the EU market are firm. The implementation of the DCFTA will be successfully concluded once the EU and the Georgian product safety systems have become equivalent (at least for some products) and the Georgian system has been recognised as equivalent by the EU. Then, producers complying with national requirements in Georgia also comply with EU requirements so that no further checks will be needed for exports. This will constitute a competitive advantage for producers in Georgia as they only have one consistent set of standards and checks to meet and to pass for servicing both the domestic and the EU markets.

At the same time, the DCFTA does not alter the EU product safety regulations which have to be obeyed by any exporter targeting the EU market. The product safety compliance does not alter with the location of production – same regulations are applied if investors produce in their home country or in Georgia. Therefore, we do not include product safety regulations as non-tariff barriers that can be surpassed by export-platform investments in Georgia.

The only exemption is done for a food safety system for animal origin goods. This system is much more costly than other product safety systems as it does not only concern a specific product or a specific process, but the entire national control system must be authorized. Therefore, we consider the issue of access for animal origin goods to the EU market as a potential future advantage of Georgia that could be promoted as soon as Georgia completes the food safety system reform and compliance process.

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5 Export prohibitions are not taken into account in the analysis as we presume that countries that do not export goods will have insufficient expertise to invest in these goods' production abroad

6 https://docs.wto.org/dol2fe/Pages/FE_Search/.../q/G/AG/NEU24.pdf

7 http://trade.ec.europa.eu/tdi/completed.cfm

8 https://webgate.ec.europa.eu/sanco/traces/output/non_eu_listsPerCountry_en.htm#

Table 2

Review of NTBs faced by exporters in potential source countries at home and the EU markets

Country	Export regulation at home	EU import regulations
Azerbaijan[9]	**Export prohibition**: metal scrap **Export duty**:[10] selected metals and goods thereof **Export permit**: arms, nuclear materials, narcotics and psychotropic substances, chemical toxins etc. **Export contract registration**: wild animals and plants, some medicine ingredients, works of art, ozone depleting materials and goods **Export licensing**: ethanol, tobacco goods, precursors, some special dual-purpose equipment	**Access to EU market for animal-origin products exporters**: fishery products exporters are authorised **Anti-dumping / anti-subsidy**: no measures **Global TRQs**: meat and meat preparations, dairy products, etc.
China[11]	**Export prohibition**: goods related to protection of moral, environment, health, natural exhaustible resources **Export quota**: rice, maize, wheat, cotton, coal, maize flour; rice flour; wheat flour; sawn timber; coke; crude oil; processed oil; selected mineral goods, Chinese iris and its goods; talc lump (powder); liquorice and its goods **Export licensing**: beef, pork and chicken meat; paraffin wax; platinum (through processing trade only); automobiles (including completely knocked down) and chassis; motorcycles and their engines and frames; vitamin C; industrial salts of penicillin; disodium sulphate; coke; carborundum; bauxite; fluorspar and some other metals and their goods (excluding ferroalloy); substances depleting the ozone layer; natural sands (including standard sands); molybdenum goods; and citric acid **Export duty**: fish, mineral goods and fuels, chemical goods, fertilizers, hides and skins, wood goods, metals	**Access to EU market for animal-origin products exporters**: poultry, meat, fishery products, eggs, casing exporters are authorized **Anti-dumping / anti-subsidy:** 61 measure in force, including chemical products, metal products, glass and ceramic products, wires, solar panels etc. **Global TRQs:** meat and meat preparations, dairy products, etc.
Iran[12]	**Export prohibition**: wheat, flour, unprocessed sugar, red meat, barley, soy bean press cake, oil seeds, butter, cooking oil, livestock, rawhide, baking soda, sodium carbonate, firewood, coal and vinyl acetate monomer **Export duty**:[13] iron ore	**Access to EU market for animal-origin products exporters:** fishery products, casing exporters are authorized **Anti-dumping / anti-subsidy:** no measures **Global TRQs:** meat and meat preparations, dairy products, etc.
Kazakhstan[14]	**Export prohibition**: lumber, saw timber, certain wood goods, reusable paper, cardboard, raw paper materials and paper **Export duty**: livestock raw skin and wool, ferrous and non-ferrous metal scrap and waste, and oil goods	**Access to EU market for animal-origin products exporters:** fishery products exporters are authorized **Anti-dumping / anti-subsidy:** no

[9] http://www.cis.minsk.by/page.php?id=18166

[10] http://www.az-customs.net/rus/4658.htm

[11] https://www.wto.org/english/tratop_e/tpr_e/tp400_e.htm

[12] http://www.iran-daily.com/News/120574.html

[13] http://www.metalindex.ru/news/2014/04/01/news_49119.html

[14] https://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm#kaz; http://www.tsouz.ru/db/entr/norm-prav-doc/ediniy_perechen/Pages/default.aspx

Country	Export regulation at home	EU import regulations
	Export licensing: hazardous waste; drugs; wild animals and plants; endangered species, precious metals and gems; mineral raw materials, toxic substances, etc. **Export quota**: metal scrap	measures **Global TRQs:** meat and meat preparations, dairy products, etc.
Kuwait[15]	**Export prohibition**: wheat flour, arms, live sheep and goats, maize, barley, bran, fish, some metals, cables, rice, sugar, sunflower oils, milk and cream, tomatoes etc. **Export licensing**: most of food and agriculture waste of plastics, ferrous metal waste and scrap, oils, etc.	**Access to EU market for animal-origin products exporters:** no exporters are authorized **Anti-dumping / anti-subsidy:** no measures **Global TRQs:** meat and meat preparations, dairy products, etc.
Russia[16]	**Export prohibition**: lumber, saw timber, certain wood goods, reusable paper, cardboard, raw paper materials and paper waste **Export duty**: fish, wheat, soya beans, sunflower seeds, mineral goods and fuels, skins and leather, wood and its goods, metals and metal scrap, railway equipment components **Export quota**: metal scrap **Export licensing:** hazardous waste; drugs; wild animals and plants; endangered species, precious metals and gems; mineral raw materials, toxic substances, etc.	**Access to EU market for animal-origin products exporters:** poultry, meat of farmed game, meat products, fishery products, dairy products, collagen, casing exporters are authorized **Anti-dumping:** steel, pipes and tubes, ferro-silicon **Global TRQs:** meat and meat preparations, dairy products, etc.
Saudi Arabia[17]	**Export prohibition**: Livestock and horses, animal feeds, e.g. barley, poultry feeds, e.g. yellow corn and soya beans, etc. **Export licensing**: horses, wheat, barley, corn, soya beans, wheat flour, selected mineral goods, medicines, agriculture machinery, etc.	**Access to EU market for animal-origin products exporters:** fishery products exporters are authorized **Anti-dumping / anti-subsidy:** no measures **Global TRQs:** meat and meat preparations, dairy products, etc.
United Arab Emirates[18]	**Export prohibition:** psychotropic substances; endangered species; items offensive to Muslim culture; items that cause corruption and disorder; irradiated food goods **Export licensing**: dual-use goods, selected chemicals, endangered species, defense and nuclear material, fuel, drugs and medical devices **Export SPS certificate**: meat, seeds, fruit, vegetables, and marine goods **Export tax**: steel scrap	**Access to EU market for animal-origin products exporters:** fishery products, camel milk exporters are authorized **Anti-dumping / anti-subsidy:** no measures **Global TRQs:** meat and meat preparations, dairy products, etc.

Sources: WTO, EAEU

[15] https://www.wto.org/english/tratop_e/tpr_e/tp358_e.htm

[16] http://www.tsouz.ru/db/entr/norm-prav-doc/ediniy_perechen/Pages/default.aspx; https://www.wto.org/english/thewto_e/acc_e/completeacc_e.htm#rus

[17] https://www.wto.org/english/tratop_e/tpr_e/tp433_e.htm

[18] https://www.wto.org/english/tratop_e/tpr_e/tp362_e.htm

As Table 2 shows, export regulations are relatively widespread and extensive in potential source countries, creating potential for NTB-motivated export-platform FDI. Export duties are particularly pervasive, extensively used by China, Russia, and Kazakhstan and – to lesser extent – Azerbaijan and the UAE. However, most of such measures are focused on mineral goods, chemicals and metals, which are not on the list of products with high tariff differentials. Also, no export limitations exist on textiles or shoes, which exhibit the highest tariff differentials among industrial goods. At the same time, some countries restrict exports of agriculture and food products that have high tariff-jumping potential.

Most of the EU import regulations concern the agriculture and food industry. Notable exemptions are anti-dumping and anti-subsidy measures on industrial products. These restrictions are relevant for two countries on our list, Russia and China.

Finally, for most of the selected potential source countries, *only* agriculture and food products constitute a category featuring *both* high tariffs and non-tariff protection.

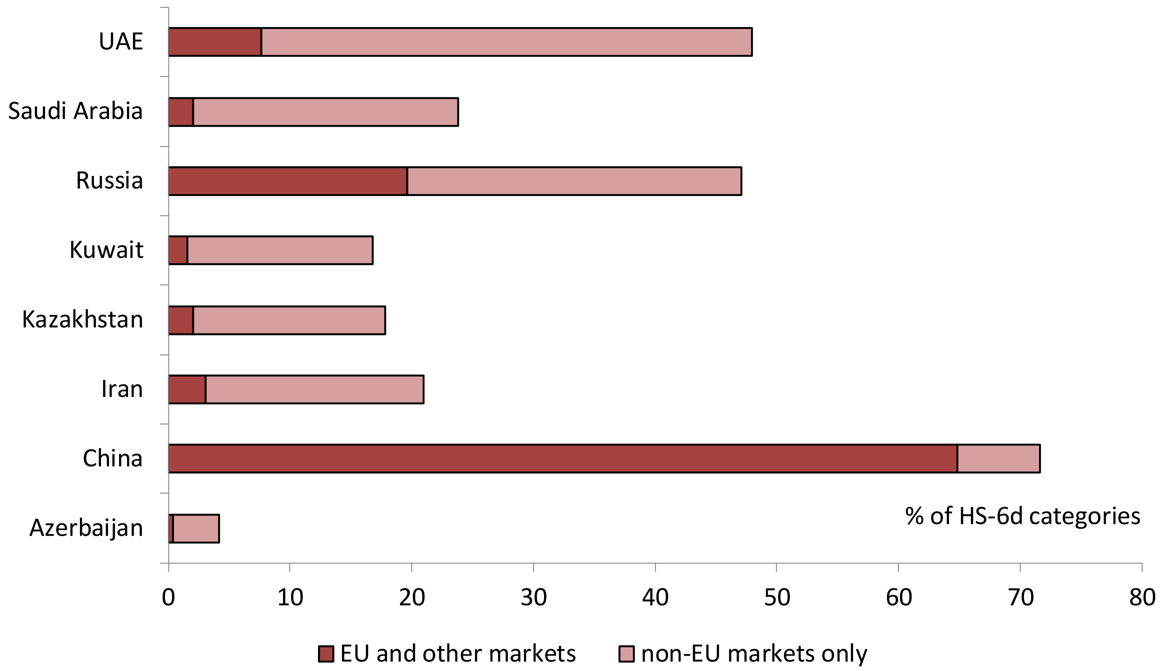
6. Source country-goods combinations

To identify the most promising country-good combinations for export-platform FDI, we first analyse the export portfolios of the potential source countries. If these countries supply high tariff differential goods to the rest of the world but not to the EU, it is an indicator that producers from these countries might be very good at producing this good, but tariffs and NTBs may prevent them from exporting their goods competitively to the EU. This would constitute a strong incentive for export-platform FDI.

Figure 5 shows that most potential FDI source countries, which are considered here, already produce and export at least some of the high tariff differential products. The scope in which they export these products ranges from below 10% of the previously identified high tariff differential goods exported by Azerbaijan to over 10-20% for most countries, 40-50% for Russia and for the UAE and to above 70% of identified products for China. Furthermore, these exports predominantly only go to non-EU markets. This is an indication that the high trade barriers of the EU market may inhibit these countries to exporting to the EU.

Figure 5

Export structure of potential source countries, % of selected HS-6d categories



*Note: * USD 100 thousand exports threshold applies*

Source: WITS, authors' calculations

In this regard China is an exception as the data shows very extensive existing export ties with the EU for the majority of goods with such high tariff differentials. However, this observation is based on exports in 2014 when China still was a GSP beneficiary. Since 1 January 2015, China graduated from the GSP program and has to export its goods to the EU under MFN tariffs. The increase in tariff protection faced by Chinese exporters on the EU market should give rise to a strong incentive for export-platform investments.

For all eight selected countries, Table 3 lists how many of the high tariff differential goods in each broad category of goods are at present exported to non-EU countries exclusively. Russia and Saudi Arabia have the most diversified non-EU exports of high potential goods among these eight countries whereas Azerbaijan has the narrowest list of potential goods.

Table 3

Non-EU exports of high tariff differential goods with lenient rules of origin, *# of preselected HS-6d categories exported exclusively to non-EU*

	# of HS-6d	CH	AZ	IRN	KAZ	KUW	SA	UAE	RU
		2014	*2014*	*2011*	*2014*	*2014*	*2014*	*2014*	*2014*
I Animal goods	*279*	11	6	38	42	36	64	51	100
II Vegetable goods	*160*	30	10	39	32	23	66	26	54
III Animal or vegetable fats, oils	*38*	3	6	8	10	8	16	16	10
IV Prepared foodstuffs	*169*	19	22	43	50	38	67	64	98
VI Goods of chemical industries	*23*	4	0	1	0	0	2	2	11
VII Plastics; rubber	*11*	0	0	1	2	0	1	2	7
VIII Raw hides and skins, leather	*19*	6	2	6	6	3	0	3	7
IX Wood and articles of wood	*18*	1	0	2	3	2	10	5	2
XI Textiles and textile articles	*577*	19	6	83	54	72	119	113	242
XII Footwear, headgear, umbrellas	*24*	0	0	12	8	10	15	8	7
XIII Articles of stone, plaster, glass	*34*	0	1	15	4	12	18	8	8
XV Base metals and articles thereof	*30*	1	0	1	5	5	2	2	10
XVII Vehicles, aircraft, vessels	*3*	0	0	0	2	1	2	0	2
XX Miscellaneous manuf. articles	*9*	0	0	1	1	2	1	3	4
Total	***1394***	**94**	**53**	**250**	**219**	**212**	**383**	**303**	**562**

*Notes: * USD 100 thousand exports threshold applies; ** Exports of Saudi Arabia to the EU is estimated using mirror statistics of the EU imports from Saudi Arabia*

Source: WITS, authors' calculations

A precise list of tariff lines that have been identified as being potential candidates for export-platform FDI from the eight source countries considered here will be provided in a forthcoming Technical Note (TN). This involves a large number of individual tariff lines as 1394 goods at HS-6d level were identified in the first pass. Nevertheless, targeted searching for – and communication with – potential investors as recommended in the following necessitates working at the level of individual tariff lines as the fit between tariff differential and the production competence of the investor must be exact. Broadly speaking, the most interesting source country-goods combinations identified in this paper, listed by countries, are:

Azerbaijan: Sugar, vegetable oils and selected fresh vegetables and fruits are most promising agri-food goods. Among industrial goods, there are bags, some leather products and textiles.

China: Meat, dairy products, some vegetables and ethyl alcohol have the best "tariff – export share" combination among agri-food goods. Among industrial goods, the textiles, leather products and some chemicals are the most promising candidates. In addition, China faces multiple anti-dumping measures in the EU that might stimulate export-platform FDI for production of e.g. bicycles and ceramics.

Iran: Cucumbers, sugar and selected dairy products are the most attractive agricultural products, and footwear, tableware, carpets, sacks and bags, and ceramic sinks are the most attractive industrial products. NTBs present an additional motive for investments as they are possibly important for food products, in particular dairy.

Kazakhstan: Cereals and dairy are the most attractive in the domain of agricultural products. For dairy and other animal origin goods, NTBs exist and may be relevant if Georgia rapidly progresses with food safety reforms. Footwear, sanitary towels, tableware, leather and textile are the most attractive industrial goods.

Kuwait: Dairy products and flours feature the best "tariff – export share" combination. As most of the agricultural and food exports in the country are subject to licensing, almost any export-platform FDI in agriculture and food industry could be potentially attractive. Tents, glass fibres products as well as some clothes and shoes are the most attractive industrial products.

Russia: Animal origin products are the most attractive agricultural products, and bicycles, clothing, tire cord fabric and textile floor covering are most attractive among industrial products. Export duties in Russia and the EU tariff rate quotas make export-platform FDI to produce animal products quite attractive as soon as Georgia can offer access to the EU market.

Saudi Arabia: Juices, sugar and dairy products are the most attractive agricultural products, and various textile products dominate the list of most attractive industrial products. Regulations pertaining to animal origin products could become an important motive for the FDI in the medium term.

United Arab Emirates: Dairy products, preparations used in animal feeding and meat are the most attractive agricultural goods whereas clothing and floor tiles are the most interesting industrial goods. For dairy products, the EU food safety regulations are a significant non-tariff barrier.

7. Conclusions and policy recommendations

The preceding analysis shows that the EU-Georgia DCFTA opens up the potential for Georgia as a destination for export-platform FDI. This is all the more necessary as the Georgian economy still runs a large trade deficit; and despite large total volumes of FDI inflows to Georgia, there is still relatively little investment in producing exportable goods. The presence of tariff differentials for EU exports between other countries and Georgia as well as overcoming other NTBs should provide an incentive for FDI due to matches between the present export portfolios of potential FDI source countries and products with high tariff differentials and lenient ROOs exist.

This potential should be further explored and mobilised by the Georgian government through a targeted investment attraction approach. The government – notably the Ministry of Economy and Sustainable Development of Georgia and the investment attraction agency "Invest in Georgia" – should use the results of this paper; particularly, it should also use the detailed lists of tariff lines coupled with information on export portfolios of the source countries and the NTBs present for those source countries to first seek out companies producing and exporting attractive goods as listed for the identified source countries and to evaluate which of them may be real potential investors in Georgia. The information about tariffs faced by the potential investors and the quality of the EU market access through Georgia as an export platform should be an integral component when communicating with investors as well as the information on the ROO regulations pertaining to the goods in question. Often, information gaps exist on the side of investors, too. These gaps can and should be bridged in order to mobilise investments.

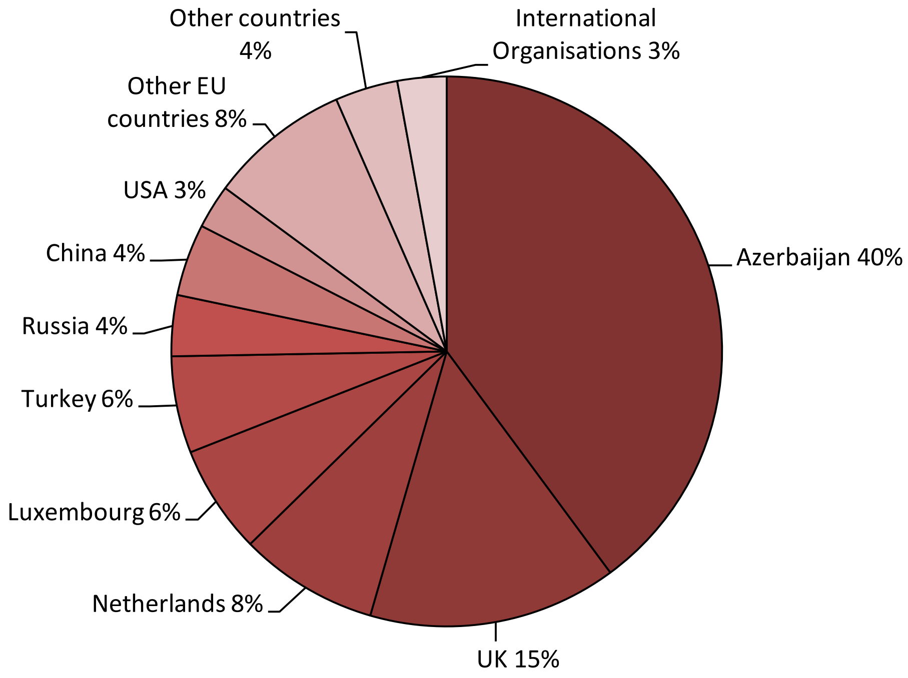
However, it also must be taken into account that the tariff-free access to the EU market is by no means a feature unique to Georgia. Georgia competes for export-platform FDI with a multitude of other countries, both immediate EU members and countries that obtained DCFTAs with the EU or other forms of tariff-free access. Potential investors will carefully consider which country offers the best altogether circumstances as an export platform. Therefore, on the one hand we have focused on potential source countries that have existing ties and proximity with Georgia. For investors from these countries, Georgia is likely to be a preferred investment destination due to the familiarity with it and its existing doing business environment. On the other hand, competition for FDI is high and the Georgian government should ensure that the competitiveness of Georgia for the FDI attraction and for doing business in Georgia is continually improved. This applies both to improving general business conditions – for example through working on known deficiencies of the Georgian business environment such as the insolvency resolution or company access to high-quality electricity supply[19] that is highly relevant for investors, particularly in the industrial field – and to streamlining the logic of potential for export-platform FDI in the development of sector policies.

[19] See PB/02/2016 for GET Georgia's suggestions on how to improve business access to electricity and /PP/02/2016 and PB/04/2016 on how and why to improve the insolvency law framework of Georgia.

Annex

FDI to Georgia by source country

Figure A1
FDI to Georgia by source country, 2015



Source: Geostat

Dataset

In the study, we use the UNCTAD Trade Analysis Information System (TRAINS) tariff database, access to which is provided by the World Integrated Trade Solution (WITS).[20] The TRAINS contains information about applied MFN tariffs at the most detailed national level, namely at 10-digit level of the Harmonised System of Trade Nomenclature (HS).

All tariff rates are presented as ad valorem equivalents (AVE), i.e. expressed as a percentage of a product value. It means that specific and compound tariff rates are converted into ad valorem rates using an average value of goods in a certain year. Therefore, the AVEs depend on a product price. Thus, the AVEs should be considered as indicative estimates.

The dataset of the most favoured nation (MFN) tariffs applied by the EU contains 14790 tariff lines, for which the AVE are available.[21] For simplicity of presentation, we use a word 'tariff' instead of the AVE.

[20] http://wits.worldbank.org/
[21] For 178 tariff lines, the database does not provide estimate of AVE. It concerns products belonging to HS code 04, 08, 17, 18, 19, 20, 21, 22, 23, 33, and 91

Examples of specific goods with high FDI potential

For each potential source country, we select goods that are most promising for tariff-jumping FDI using a combination of two factors:

- Average tariff at the level of HS-6d product category
- Share of non-EU exports of the product in total non-EU exports of the country.

As discussed before, we take into account only goods, not supplied to the EU market. If selected goods are subject to non-tariff barriers, we highlight them as an additional argument for export-platform FDI.

Table A1
Azerbaijan: examples of high-differential products

	Description	Average tariff, %	Max tariff, %	NTBs
Agriculture	Cane or beet sugar and chemically pure sucrose, in solid form (excl. cane and beet sugar containing added flavouring or colouring and raw sugar)	68.5	68.5	EU TRQ
	Edible mixtures or preparations of animal or vegetable fats or oils and edible fractions of different fats or oils (excl. fats, oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised	17.7	29.2	
	Vegetable fats and oils and their fractions, partly or wholly hydrogenated, inter-esterified, re-esterified or elaidinised, whether or not refined, but not further prepared	10.1	12.8	
	Fresh persimmons	8.8	8.8	
	Cucumbers and gherkins, fresh or chilled	28.8	61.2	EU TRQ
Industry	Sacks and bags, for the packing of goods, of polyethylene or polypropylene strip or the like (excl. flexible intermediate bulk containers)	9.6	12.0	
	Full grains, unsplit and grain splits, in the wet state "incl. wet-blue", of hides and skins of bovine "incl. buffalo" or equine animals, tanned, without hair on (excl. further prepared)	5.5	5.5	
	Hides and skins of bovine "incl. buffalo" or equine animals, in the dry state "crust", without hair on, whether or not split (excl. further prepared and full grains, unsplit and grain splits)	6.3	6.5	
	Woven fabrics containing predominantly, but < 85% silk or silk waste by weight	6.9	6.9	
	Worn clothing and clothing accessories, blankets and travelling rugs, household linen and articles for interior furnishing, of all types of textile materials, incl. all types of footwear and headgear, showing signs of appreciable wear and presented in bul	5.3	5.3	

Source: authors' analysis based on WITS, UN ComTrade

Table A2
China: examples of high-differential products

	Description	Average tariff, %	Max tariff, %	NTBs
Agriculture	Frozen meat of swine (excl. carcases and half-carcases, and hams, shoulders and cuts thereof, with bone in)	29.9	32.7	EU TRQ / EU access for animal products / CH export license
	Prepared or preserved meat or offal of bovine animals (excl. sausages and similar products, finely homogenised preparations put up for retail sale as infant food or for dietetic purposes, in containers of a net weight of <= 250 g, preparations of liver an	32.5	64.4	EU access for animal products
	Fresh or chilled potatoes (excl. seed)	9.6	11.5	
	Milk and cream of a fat content by weight of > 1% but <= 6%, not concentrated nor containing added sugar or other sweetening matter	46.9	52.4	EU access for animal products
	Undenatured ethyl alcohol, of actual alcoholic strength of >= 80%	18.8	18.8	
Industry	Woven fabrics containing >= 85% acrylic or modacrylic staple fibres by weight, unbleached or bleached	8	8	
	Multiple "folded" or cabled flax yarn	5	5	
	Hides and skins of bovine "incl. buffalo" or equine animals, in the wet state "incl. wet-blue", tanned, without hair on, whether or not split (excl. further prepared and full grains, unsplit and grain splits)	5.5	5.5	
	Stearic acid, industrial	5.1	5.1	
	Carpets and other textile floor coverings, woven, not tufted or flocked, not of pile construction, not made up (excl. Kelem, Schumacks, Karamanie and similar hand-woven rugs, and floor coverings of coconut fibres "coir")	8.0	8.0	

Source: authors' analysis based on WITS, UN ComTrade

Table A3
Iran: examples of high-differential products

	Description	Average tariff, %	Max tariff, %	
Agriculture	Cucumbers and gherkins, fresh or chilled	28.8	61.2	EU TRQ
	Cane or beet sugar and chemically pure sucrose, in solid form (excl. cane and beet sugar containing added flavouring or colouring and raw sugar)	68.5	68.5	EU TRQ
	Yogurt, whether or not flavoured or containing added sugar or other sweetening matter, fruits, nuts or cocoa	54.0	141.1	EU access for animal products
	Buttermilk, curdled milk and cream, kephir and other fermented or acidified milk and cream, whether or not concentrated or flavoured or containing added sugar or other sweetening matter, fruits, nuts or cocoa (excl. yogurt)	71.7	151.3	EU access for animal products

	Description	Average tariff, %	Max tariff, %	
	Cheese (excl. fresh cheese, incl. whey cheese, curd, processed cheese, blue-veined cheese and other cheese containing veins produced by "Penicillium roqueforti", and grated or powdered cheese)	34.9	49.1	EU TRQ / EU access for animal products
Industry	Footwear with outer soles and uppers of rubber or plastics	16.8	17.0	
	Tableware and kitchenware, of porcelain or china (excl. ornamental articles, pots, jars, carboys and similar receptacles for the conveyance or packing of goods, and coffee grinders and spice mills with receptacles made of ceramics and working parts of met	12.0	12.0	
	Carpets and other floor coverings, of man-made textile materials, tufted "needle punched", whether or not made up (excl. those of nylon or other polyamides)	8.0	8.0	
	Sacks and bags, for the packing of goods, of polyethylene or polypropylene strip or the like (excl. flexible intermediate bulk containers)	9.6	12.0	
	Ceramic sinks, washbasins, washbasin pedestals, baths, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures of porcelain or china (excl. soap dishes, sponge holders, tooth-brush holders, towel hooks and toilet paper holders)	7.0	7.0	

Source: authors' analysis based on WITS, UN ComTrade

Table A4
Kazakhstan: examples of high-differential products

	Description	Average tariff, %	Max tariff, %	NTBs
Agriculture	Wheat or meslin flour	44.2	44.2	
	Barley (excl. seed for sowing)	41.8	41.8	
	Seed of wheat and meslin, for sowing (excl. durum)	31.4	40.8	
	Milk and cream of a fat content by weight of > 1% but <= 6%, not concentrated nor containing added sugar or other sweetening matter	46.9	52.4	EU access for animal products
	Bran, sharps and other residues of wheat, whether or not in the form of pellets, derived from sifting, milling or other working	37.7	50.5	
Industry	Footwear with outer soles and uppers of rubber or plastics (excl. covering the ankle or with upper straps or thongs assembled to the sole by means of plugs, waterproof footwear of heading 6401, sports footwear, orthopaedic footwear and toy footwear)	16.8	17.0	
	Sanitary towels (pads) and tampons, napkins and napkin liners for babies, and similar articles, of any material	8.4	10.5	
	Tableware and kitchenware, of porcelain or china (excl. ornamental articles, pots, jars, carboys and similar receptacles for the conveyance or packing of goods, and coffee grinders and spice mills with receptacles made of ceramics and working parts of met	12.0	12.0	
	Full grains leather "incl. parchment-dressed leather", unsplit, of the whole hides and skins of bovine "incl. buffalo" or equine animals, further prepared after tanning or crusting, without hair on (excl.	6.5	6.5	

	Description	Average tariff, %	Max tariff, %	NTBs
	chamois leather, patent leather and patent laminat			
	Women's or girls' ensembles of textile materials (excl. of cotton or synthetic fibres, ski ensembles and swimwear)	12.0	12.0	

Source: authors' analysis based on WITS, UN ComTrade

Table A5
Kuwait: examples of high-differential products

	Description	Average tariff, %	Max tariff, %	NTBs
Agriculture	Milk and cream, concentrated but unsweetened (excl. in solid forms)	114.2	189.7	EU access for animal products / KUW export license
	Wheat or meslin flour	44.2	44.2	KUW export license
	Milk and cream of a fat content by weight of > 6% but <= 10%, not concentrated nor containing added sugar or other sweetening matter	79.7	80.3	EU access for animal products / KUW export license
	Food preparations, n.e.s.	11.1	12.8	KUW export license
	Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter	146.8	190.2	EU access for animal products / KUW export license
Industry	Tents of textile materials (excl. of synthetic fibres, and umbrella and play tents)	12.0	12.0	
	Webs, mattresses, boards and similar nonwoven products, of glass fibres (excl. mats and thin sheets "voiles")	5.0	5.0	
	Glass fibres, incl. glass wool, and articles thereof (excl. staple fibres, rovings, yarn, chopped strands, woven fabrics, incl. narrow fabrics, thin sheets "voiles", webs, mats, mattresses and boards and similar nonwoven products, mineral wool and article	7.0	7.0	
	Special garments for professional, sporting or other purposes, n.e.s., of cotton, knitted or crocheted	12.0	12.0	
	Footwear with outer soles and uppers of rubber or plastics (excl.	16.8	17.0	

	Description	Average tariff, %	Max tariff, %	NTBs
	covering the ankle or with upper straps or thongs assembled to the sole by means of plugs, waterproof footwear of heading 6401, sports footwear, orthopaedic footwear and toy footwear)			

Source: authors' analysis based on WITS, UN ComTrade

Table A6
Russia: examples of high-differential products

	Description	Average tariff, %	Max tariff, %	NTBs
Agriculture	Buttermilk, curdled milk and cream, kephir and other fermented or acidified milk and cream, whether or not concentrated or flavoured or containing added sugar or other sweetening matter, fruits, nuts or cocoa (excl. yogurt)	71.7	151.3	
	Milk and cream, concentrated but unsweetened (excl. in solid forms)	114.2	189.7	
	Bran, sharps and other residues of wheat, whether or not in the form of pellets, derived from sifting, milling or other working	37.7	50.5	
	Sausages and similar products, of meat, offal or blood; food preparations based on these products	25.4	36.3	EU TRQ
	Wheat or meslin flour	44.2	44.2	
Industry	Bicycles and other cycles, incl. delivery tricycles, not motorised	14.6	15.0	
	Parts of garments or clothing accessories, knitted or crocheted, n.e.s.	12.0	12.0	
	Binder or baler twine, of polyethylene or polypropylene	8.0	8.0	
	Tyre cord fabric of high-tenacity yarn of nylon or other polyamides, whether or not dipped or impregnated with rubber or plastic	6.8	8.0	
	Floor coverings consisting of a coating or covering applied on a textile backing, whether or not cut to shape (excl. linoleum)	5.3	5.3	

Source: authors' analysis based on WITS, UN ComTrade

Table A7
Saudi Arabia: examples of high-differential products

	Description	Average tariff, %	Max tariff, %	NTBs
Agriculture	Mixtures of fruit juices, incl. grape must, and vegetable juices, unfermented, whether or not containing added sugar or other sweetening matter (excl. containing spirit)	28.0	52.2	
	Cane or beet sugar and chemically pure sucrose, in solid form (excl. cane and beet sugar containing added flavouring or colouring and raw sugar)	68.5	68.5	EU TRQ
	Yogurt, whether or not flavoured or containing added sugar or other sweetening matter, fruits, nuts or cocoa	54.0	141.1	EU access for

	Description	Average tariff, %	Max tariff, %	NTBs
				animal products
	Buttermilk, curdled milk and cream, kephir and other fermented or acidified milk and cream, whether or not concentrated or flavoured or containing added sugar or other sweetening matter, fruits, nuts or cocoa (excl. yogurt)	71.7	151.3	EU access for animal products
	Juice of fruit or vegetables, unfermented, whether or not containing added sugar or other sweetening matter (excl. containing spirit, mixtures, and juice of citrus fruit, pineapples, tomatoes, grapes, incl. grape must, apples and cranberries)	24.4	44.2	
Industry	Glass fibres, incl. glass wool, and articles thereof (excl. staple fibres, rovings, yarn, chopped strands, woven fabrics, incl. narrow fabrics, thin sheets "voiles", webs, mats, mattresses and boards and similar nonwoven products, mineral wool and article	7.0	7.0	
	Carpets and other floor coverings, of man-made textile materials, woven, not tufted or flocked, of pile construction, not made up (excl. Kelem, Schumacks, Karamanie and similar hand-woven rugs)	8.0	8.0	
	Men's or boys' jackets and blazers of textile materials (excl. of wool, fine animal hair, cotton or synthetic fibres, knitted or crocheted, and wind-jackets and similar articles)	12.0	12.0	
	Felt, impregnated, coated, covered or laminated (excl. needleloom felt and stitch-bonded fibre fabrics)	6.7	6.7	
	Blankets and travelling rugs of textile materials (excl. of wool or fine animal hair, cotton or synthetic fibres, electric, table covers, bedspreads and articles of bedding and similar furnishing of heading 9404)	12.0	12.0	

Source: authors' analysis based on WITS, UN ComTrade

Table A8

United Arab Emirates: examples of high-differential products

	Description	Average tariff, %	Max tariff, %	NTBs
Agriculture	Milk and cream, concentrated but unsweetened (excl. in solid forms)	114.2	189.7	EU access for animal products
	Preparations of a kind used in animal feeding (excl. dog or cat food put up for retail sale)	64.3	153.1	
	Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter	146.8	190.2	EU access for animal products
	Milk and cream of a fat content by weight of > 1% but <= 6%, not concentrated nor containing added sugar or other sweetening matter	46.9	52.4	EU access for animal products
	Meat or offal of fowls of the species "Gallus domesticus", prepared or preserved (excl. sausages and similar products, finely homogenised preparations put up for retail sale as infant	71.4	79.7	EU TRQ / EU access for animal

	Description	Average tariff, %	Max tariff, %	NTBs
	food or for dietetic purposes, in containers of a net weight of <= 250			products
Industry	Men's or boys' suits of textile materials (excl. of wool, fine animal hair or synthetic fibres, knitted or crocheted, tracksuits, ski suits and swimwear)	12.0	12.0	
	Carpets and other floor coverings, of nylon or other polyamides, tufted "needle punched", whether or not made up	8.0	8.0	
	Sports footwear, incl. tennis shoes, basketball shoes, gym shoes, training shoes and the like, with outer soles of rubber or plastics and uppers of textile materials	16.9	16.9	
	Men's or boys' shirts of man-made fibres (excl. knitted or crocheted, nightshirts, singlets and other vests)	12.0	12.0	
	Floor tiles, of felt, not tufted or flocked, with an area of <= 0,3 m^2	6.7	6.7	

Source: authors' analysis based on WITS, UN ComTrade

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