

**GEORGIA'S TRADE RELATIONS WITH CIS AND EU MEMBER STATES****Babulia MGHEBRISHVILI,***Ivane Javakhishvili Tbilisi State University, Georgia  
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zubtamaz@yahoo.com***Abstract**

*The article provides analysis of Georgia's trade relations with the countries of the Community of Independent States (CIS) and the European Union. The authors attempted to demonstrate that Association Agreement with EU and its fulfillment does not prevent Georgia's trade relationships with the CIS countries, among them with Russia. This was evidenced by the results of analysis of factual figures of trade relations. After making Deep and Comprehensive Free Trade Area Agreement with the European Union, Georgia's trade relationships have expanded with both, CIS and EU countries. Foreign trade growth rates with CIS countries exceeded that with the EU countries. The authors regard that this is result of high visibility and Georgian products. At the same time, competitiveness of Georgian goods corresponds to the requirements at CIS markets. Goods of independent Georgia, with Georgian named as the country of origin find their way to the European markets only now. Their visibility level is low. Authors of the article regard that to improve products visibility at the EU markets, Georgian businesses should, primarily rely on the markets of the countries of former socialist countries. In addition, attention should be paid to development of export and import strategies and high professionalism of the trade personnel.*

**Keywords:** *CIS, European Union, import, trade relations*

**JEL Classification:** *F10, P33, P45*

**I. INTRODUCTION**

After the dissolution of the Soviet Union, most former union republic continued their political and economic relationships in a form of the Community of Independent States (CIS). Lithuania, Latvia and Estonia did not join CIS. Georgia joined CIS from 1993, when, in its fight for territorial integrity, it was forced to leave Abkhazia. Georgia's relationships, within CIS scopes, lasted up to August War in 2008 between Russia and Georgia. After this war Georgia left CIS and continued relationships with the mentioned alliance members, based on bilateral, among them, trade agreements. Though, Georgia's trade relationships with CIS member states rely on the other legal bases as well. Since 1992, Georgia, Armenia, Azerbaijan, Moldova, Russian Federation and Ukraine are members of Black Sea Economic Cooperation Organization (BSEC). Within the scopes of this organization, one of the spheres of cooperation between the member states includes the issues of economy and trade development. In addition, most CIS countries (Armenia, Kazakhstan, Kirgizstan, Moldova, Russian Federation, Tajikistan and Ukraine) are WHO members, and some of the countries (Azerbaijan, Belarus, Turkmenistan, Uzbekistan) have the observer status. Within WTO the work between member states is conducted to manage trade barriers and eliminate discrimination, development of legal framework to resolve trade disagreements. All above is intended to ensure production and sale of products safe for humans. Today the population of developed countries pays great attention to this. In this respect, most part of Georgian population has sound position (Todua N., 2018); (Todua N. 2019), and this impacts the process of sale of the products imported into Georgia.

Simultaneously with CIS countries, Georgia actively cooperates with EU member states. European Union has recognized Georgia as an independent state as early as in 1992 and commenced extensive collaboration with it. In 1996, European Union and Georgia signed the partnership and cooperation agreement that entered into force in 1999. One of the goals of this agreement is support of trade between the parties and ensuring stable economic relationships. In further development of the idea of Georgia's joining to EU a new stage commenced within the scopes of European Neighborhood politics. European Neighborhood politics has plaid great role for

modernization of the country, implementation of economic reforms and formation of the state institutes. Though European Neighborhood policy covered Georgia in June 2004, the action plan was received only in 2006. Within the scopes of European Neighborhood Policy the incentive of Eastern Partnership originated and led Georgia to execution of Association Agreement. On 27 June 2014, in Brussels, EU signed Association Agreement with Georgia, Moldova and Ukraine. This Agreement commenced the new stage in Georgia's trade relationships with EU member states and this was reflected in details in the components of Deep and Comprehensive Free Trade Area (DCFTA). Association Agreement focuses on the obligations under WTO and interprets such disagreements resolution between the countries that resolution of disputes within the scopes of Association Agreement did not impact the disputes resolution procedures within WTO scopes. As all EU member states are WTO members as well, they trade with one another in the preferential mode; they are protected from discrimination, have no barriers between one another and at their markets the imported and domestic goods are subject to similar taxation and sale.

Hence, Georgia simultaneously trades with the CIS and EU member states. At the same time, it strives to gaining EU membership. In such situation it is natural to put the question – can integration of Georgia into EU deep and all-embracing trade space hinder free trade with the other countries, including CIS members? To this question, the first answer should be: “deep and all-embracing trade space does not impose any limitations for the free trade agreements made by Georgia with the other countries”. We attempted to prove that this is the case and that many widespread statements about EU membership is the myth and not reality based on analysis of statistics describing Georgia's trade relationships with CIS and EU countries. In addition, we would like to make emphasis on the other opinion, widespread in Georgian economic space, according to which “Russian-Georgian relationships in the sphere of trade, supposedly, will worsen after gaining access to deep and all-embracing trade space by Georgia. Answer to this wrong proposal was already given. In this article, based on statistical data, we attempted to show that fulfillment of Association Agreement has not impacted Russian-Georgian trade relationships. We support the opinion that EU and Russian markets are quite different and trade with the European Union will not be provided on account of trade with Russia.

## II. RESEARCH METHODOLOGY

Georgia's trade relationships with CIS and EU member states were analyzed based on both, practical data and theoretical sources. Information from the theoretical literature, whether directly or indirectly, has plaid the role of theoretical-methodological basis for this Article. Such theoretical sources include: Zubiashvili T., Atanelishvili T. (2019); Todua N. (2018); Todua N. (2019); Mghebrishvili B. (2009); Mghebrishvili B. (2019); Mghebrishvili B., Papava V. (2011); Seturi M. (2015); Mghebrishvili B., Urotadze E. (2016); Papava V. (2011); Seturi M. (2019); Seturi M. (2020); Silagadze A., Zubiashvili T. (2016); Silagadze A., Atanelishvili T. (2020). Studying of literature sources and taking into account the collected information in the process of work on this article was provided applying general research methods, including induction, deduction, analysis and synthesis. In the process of practical data analysis and making conclusions, we have applied statistical methods of dynamic series, grouping, comparison. Situation in practice was analyzed and evaluated with both, absolute and relative indices, and we have calculated some of them.

## III. RESEARCH RESULTS

DCFTA is a very important component of Association Agreement between EU and Georgia. It entered into force from 1 September 2014. How Georgia's export and import relations with CIS countries developed after its launching can be seen in table below. It turned out that trade relationship with CIS countries have further activated after DCFTA launching, instead of worsening.

In the period from 2015 to 2019, growth of Georgia's exports to CIS countries was USD 1202.6 million and figure for year 2019 was almost 2.5 times higher, compared with that for year 2015. In this period, imports grew as well, together with the exports, though at much lower pace. Certainly, this is better for Georgia as negative trade surplus has drastically reduced. Though trade surplus is still negative, still, negative surplus in year 2019 was only 35.2% of the similar figure for year 2015, due to growth of exports and imports.

**Table 1. Georgia's foreign trade with CIS countries in the period from 2015 to 2019**

At current prices, US \$M

Year	Exports	Imports	Trade surplus	Trade turnover
2015	840,9	1967,9	-1127,0	2808,8
2016	737,5	1981,2	-1243,7	2718,7
2017	1184,8	2317,8	-1133,0	3502,6
2018	1669,5	2694,3	-1024,8	4363,8
2019	2043,5	2440,6	-397,1	4484,1
Change in 2019, compared with 2015 +/-	+1202,6	+472,7	-729 0	+1675,3
Change in 2019, compared with 2015 %	243,0	124,0	35,2	159,6

Source: The table is based on the data from GeoStat and Ministry of Economics and Sustainable Development of Georgia

At the same time, growth of trade turnover with CIS country was 159,6%. Certainly, if DCFTA hindered Georgia’s trade relationships with CIS countries, exports, imports and total trade turnover growth would not be so high.

After DCFTA launching, the trade relationships with EU countries have significantly expanded as well, exports, imports and trade turnover has significantly grown. Growth rates were much lower than those with CIS countries.

**Table 2. Georgia’s foreign trade with EU member states in 2015-2019**

At current prices, US \$M

Year	Exports	Imports	Trade surplus	Trade turnover
2015	565,7	2215,0	-1649,3	2780,7
2016	655,4	2200,7	-1545,3	2856,1
2017	730,7	2506,1	-1775,4	3236,8
2018	819,0	2407,2-	-2318,2	3226,2
2019	+174,3	+326,3	-882,0	+500,6
Change in 2019, compared with 2015 +/-	127,0	115,7	161,4	118,4
Change in 2019, compared with 2015 %	565,7	2215,0	-1649,3	2780,7

Source: The table is based on the data from GeoStat and Ministry of Economics and Sustainable Development of Georgia

Table 2 shows that in 2015-2019, Georgia’s trade relations with EU member states, compared with CIS countries have developed in somewhat different way. Though exports growth rate to CIS countries significantly exceeded that to the EU member states, no significant difference between imports growth rates was found. We regard that the most significant is the fact that Georgia’s trade surplus in 2015-2019 was much better with the CIS countries than that with the EU member states. This is normal, as most part of European population does not know Georgian product while in CIS countries people know Georgian goods and even are loyal to them. This contributed to greater growth of exports to CIS countries, compared with imports. In addition, significant growth of negative trade balance with the EU countries was recorded. In 2019, negative trade balance with EU member states (-2318.0) was 5.8 times higher than that with CIS countries. In 2015-2019, this figure with the EU member states increased, while with CIS countries decreased. So, negative impact of Deep and Comprehensive Free Trade Area Agreement on Georgia’s trade relationships with the other countries turned out to be indeed a “myth” (as stated by some researchers) rather than reality.

In 5 years after DCFTA launching, in totals of Georgia’s exports and imports the CIS countries are at the leading positions and, notably, these positions became even firmer, as can be seen from Table 3. The table clearly demonstrates also the fact that in total imports the shares of CIS and EU countries tend to even out. I.e. opportunities of selling of Georgian products in CIS countries are better but, with respect of imports, Georgia has equal opportunities with CIS and EU countries. What is the cause of equal opportunities with the CIS and EU countries for Georgia depend on the goals of importer enterprises, as well as needs of Georgian market. Though, this needs separate research.

Seemingly, the CIS and EU member states are at the leading positions for Georgian exports and imports.

In 2015-2019, share of the other countries was about one third and even further reduced. While in 2016, share of the other countries in total exports was 38.3%, by 2019 this figure reduced to 24.7%. Such reduction was caused by increase of the share of CIS countries. In the recent period, share of the other countries in imports to Georgia has been changing non-uniformly and, at the same times, it increased at account of reduction of shares of both, CIS and EU countries. While in 2016, share of the other countries was 42.5% in total imports, by 2019, this figure increased to 49.1%.

**Table 3. Changes of shares CIS and EU countries in Georgian foreign trade in 2015-2019 (%)**

Year	Exports		Imports		Foreign trade turnover	
	CIS	EU	CIS	EU	CIS	EU
<b>2015</b>	38,1	29,2	27,0	28,5	29,6	28,6
<b>2016</b>	34,9	26,8	27,1	30,0	28,9	29,6
<b>2017</b>	43,3	24,0	29,2	27,7	32,8	26,7
<b>2018</b>	49,8	21,8	29,5	27,4	34,9	25,8
<b>2019</b>	53,7	21,6	25,6	25,3	33,7	24,2

*Source: table is based on the data from GeoStat and Ministry of Economics and Sustainable Development of Georgia*

Proportion of the CIS and EU countries in total exports and imports, according to the preliminary data for three quarters of year 2020, is still in favor of CIS. Thus, share of EU countries in the exports is 21.1% while that of 44.5%. As for imports, share of CIS countries is 30.0% while that of EU countries – 23.9%. As in previous years, in three quarters of 2020, share of the other countries is much greater than that of EU member states while in imports the share of CIS countries is higher. Consequently, Association Agreement does not hinder Georgia’s foreign trade with any of the countries in the world. Though, we should take into consideration that sales personnel, qualification of the individuals engaged in sales play significant role in export and import. Georgian enterprises, in export, should pay proper attention to professionalism of the trade personnel, issues of their training. We regard that it is significant to care about improvement of qualification of the staff working on the sites. Otherwise, people engaged in the sphere of trade will not be able to properly present the foreign goods to Georgian consumers, thus hindering the process of sale of the imported goods (Mghebrishvili and Seturi, 2015); (Mghebrishvili and Urotadze, 2016); (Seturi, 2019); (Seturi, 2020).

We regard that analysis of the Georgian-Russian trade relationships would be of significance. Studying of the statistical data showed that share of Russia in total exports of Georgia gradually grows. Since 2015, Russia is among ten largest partner countries. Though in 2015 Russia was not included in three largest partner countries with respect of exports, in 2016, it was at the first position together with Turkey, in 2017, it achieved the leading position with 14.5%. By 2018, in exports of Georgia, Russia moved to the second position, after Azerbaijan. In the mentioned period, in total imports to Georgia, Russia is among three largest importer countries and, mostly, is at second position, after Turkey. By 2020, trade relationships with Russia are still active. It is not excluded that “activation of export and import was caused by negative expectations” in development of foreign trade. Consequently, Georgia’s relationships with the European Union, and launching of DCFTA does not negatively impact Georgia’s trade relationships with the other. EU member states are not in top three largest partner countries of Georgia yet.

#### **IV. CONCLUSION**

Studying of the statistical data of Georgia’s trade relationships with the CIS and EU countries showed us the following:

- Georgia actively cooperates with CIS countries and this, on one hand, is conditioned by visibility of Georgian goods their and competitiveness at market in these countries. On the other hand, goods produced in CIS countries meet with the requirements of Georgian market.
- Growth rate of Georgian exports to the CIS countries is much higher than imports growth rate. For Georgia this is beneficial and the country must do its best to ensure formation of the CIS countries as growing and stable markets for their goods. Though, Georgia should always be ready for unpleasant surprises from the side of certain countries.
- Launching of DCFTA with the European Union has positively impacted the process of further development of the trade relationships with the EU countries. Both, import and export have grown. Though, rate of export and import growth is lower, compared with that of CIS countries. This is natural. Products of independent Georgia, with its name have occurred at EU markets for the first time. EU consumers have no information about Georgian goods (Gaganidze G., 2014). Hence, their visibility is relatively low while Georgian products are familiar to CIS population. Population of these countries consumes Georgian products and they are

favorably disposed to them. In our opinion, demand for Georgian goods will grow at the EU markets in the future. Though, this greatly depends on the attitude of Georgian entrepreneurs to the products quality and proper selection of the export strategies, by countries. It is easier to find the market niche for Georgian products in the new EU countries from former socialist system (Gaganidze G.,2014). Georgian businesses should make efforts to make these countries the platform for further entry of Georgian products to the EU markets.

- Launching of DCFTA has had only positive impact on further development of Georgia's trade relationships, beyond EU – trade turnover has increased with CIS and other countries as well.
- Fulfillment of the requirements of DCFTA contributes to improvement of competitiveness of Georgian products, and finding of the buyers for competitive products would be easier given abundance of the products at markets.

In developing export and import strategies, proper attention should be paid to supplying professionals to the trade sphere. Otherwise, export and import cannot be profitable.

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