

**FOREIGN TRADE OF GEORGIA AND EAST AND CENTRAL EUROPEAN STATES COMPARATIVE ANALYSIS****Giorgi GAGANIDZE***Ivane Javakhishvili Tbilisi State University, Georgia**Giorgi.gaganidze@tsu.ge***Badri RAMISHVILI***Ivane Javakhishvili Tbilisi State University, Georgia**badri.ramishvili@tsu.ge***Abstract**

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

**Keywords:** *European Union, export markets, export potential, trade intensification index.*

**JEL Classification:** *F10, F14, F16*

**I. INTRODUCTION**

In the modern world globalization stiffed competition, thus the battles for the new export markets have become very tough indeed. This problem is common for the former Soviet Republics as well as for the former “soviet block” member States, who opted for the European vector of development recently. The growth of exports became a major factor for economic development. In the case of the tough competition many authors underlined importance of market openness, thus it’s easily understandable why governments seek for the free trade agreements with the EU (also with the North America Free Trade Agreement – NAFTA member States). The major assumptions advocated for the liberalization of the foreign trade was the ideas, that trade would fuel economic growth, new exporting products would be created on the basis of the Foreign Direct Investments. How valid was the assumptions that FTA’s would fuel the economic development? How pragmatic was the decision to base economic development model on the market openness? We tried to answer these question based on the own methodology, where utilization of the export potential on different markets and the growth of exporting products are used as major indicators. In this article we’ll try to answer these questions on the samples of Georgia and some of the Central and East European States. All these states have the same historical background, they clearly indicate European way of development and achieve the same goal - became members of the Euro-Atlantic structures, for Georgia same goals are set up and the development in this direction evidenced by signing the association agreement with the European Union. Should be noted that some States started European integration in the better initial position, such as avoiding civil and military unrest, mitigate the deterioration of the industries and etc. Different aspects of the research of this problem have been considered by a number of scientists listed in the bibliography below (Christophe, C., 2010).

**II. THE ROLE OF EXPORT IN ECONOMIC GROWTH**

As already mentioned above, all the above mentioned States shared some commonalities, however, other variables should also be taken into account. All the above mentioned States having small domestic markets, high economic growth should be definitely bound with the growth of scale of exports. A well-known export growth “Uppsala model” cannot be applied to these States, as the scale of their domestic markets is quite small. Small domestic market didn’t allow them to start export activities after they started selling on their domestic markets. Also should be noted the fact, that former soviet republics such as Georgia had no practical experience in exports, as the foreign trade in Soviet Union was fully centralized. Thus Central and East European States had some advantages. More appropriate for the exporters of these countries is the company development model created by Edith Penrose. Many researchers admitted that: “Penrose not only recognizes that managers (agents) may control and coordinate resources (structures) but also, resources exert influence over human agents and impinge upon managerial initiative” (Best, M., 1995)..Thus the basis for the creation of the export strategy were the resources controlled by the firm; resources played a major role in designing and realizing the competitive advantage. This statement is fully in line with the reality, when limited resources and small domestic markets dictate companies to be oriented towards fewer export markets and export a limited number of export products. Just review the export role in the economy for all these states; we’ll consider exports as the % of the gross domestic product. (Table 1).

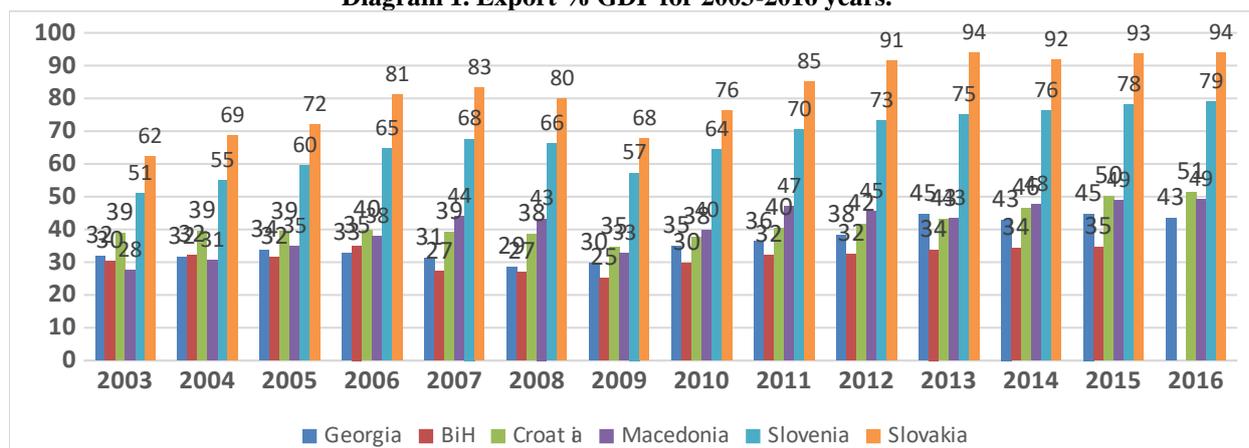
**Table 1. Export % in GDP**

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

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

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

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



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

We could easily draw the following conclusions:

- 1). In the above mentioned period Slovakia had a highest figures, peaking 94% in 2016.
- 2). Georgia and BiH have the lowest figures, which partly could be explained by the similar processes, as civil war, political turmoil and etc. Georgia had a significant growth in the period 2012-2016 from 38% to 43.4%.

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

**Table 2. Export Dynamics in 2003-2016 (in Thousands \$)**

|           | 2003       | 2004       | 2005       | 2006       | 2007       | 2008       | 2009       | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       |
|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Georgia   | 461,406    | 646,903    | 865,454    | 935,139    | 1,232,361  | 1,497,485  | 1,133,629  | 1,677,299  | 2,186,407  | 2,376,634  | 2,910,582  | 2,861,043  | 2,204,676  | 2,113,734  |
| BiH       | 1,400,284  | 1,912,379  | 2,388,483  | 3,427,782  | 4,151,965  | 5,021,083  | 3,953,920  | 4,803,107  | 5,850,079  | 5,161,809  | 5,687,463  | 5,892,102  | 5,099,186  | 5,326,732  |
| Macedonia | 1,363,252  | 1,673,487  | 2,041,265  | 2,400,715  | 3,356,248  |            | 2,691,528  | 3,351,429  | 4,478,313  | 4,015,403  | 4,298,766  | 4,964,132  | 4,489,934  | 4,784,605  |
| Croatia   | 6,186,630  | 8,024,157  | 8,772,553  | 10,376,64  | 12,360,22  | 14,123,75  | 10,491,35  | 11,810,676 | 13,364,022 | 12,368,983 | 12,741,618 | 13,843,900 | 12,843,529 | 13,647,534 |
| Slovenia  | 12,766,871 | 15,878,766 | 17,896,024 | 20,982,713 | 26,551,122 | 29,252,924 | 22,405,415 | 24,434,752 | 28,984,136 | 32,182,746 | 34,019,952 | 35,978,422 | 31,948,955 | 32,880,680 |
| Slovakia  | 21,916,964 | 27,864,034 | 31,852,134 | 41,686,247 | 58,036,03  | 70,188,697 | 55,553,022 | 63,998,613 | 78,487,243 | 79,866,996 | 85,184,158 | 85,976,289 | 75,051,295 | 77,565,009 |

Computed: [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx?nvpm](http://www.trademap.org/tradestat/Bilateral_TS.aspx?nvpm) 17.07.2017.

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

**Table 3. Dynamics of the Trade Balance in 2003-2016 (in thousands \$)**

|           | 2003       | 2004       | 2005       | 2006        | 2007        | 2008        | 2009        | 2010       | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       |
|-----------|------------|------------|------------|-------------|-------------|-------------|-------------|------------|------------|------------|------------|------------|------------|------------|
| Georgia   | -679,759   | 1,198,652  | 1,624,498  | 2,739,334   | 3,981,770   | 4,558,190   | 3,341,689   | 3,558,454  | 4,885,202  | 5,677,238  | 5,111,679  | 5,740,764  | 5,525,406  | 5,122,036  |
| BiH       | 3,423,369  | 4,068,084  | 4,665,288  | 4,131,474   | 5,568,091   | 7,167,526   | 4,409,474   | 4,419,891  | 5,200,496  | 4,857,268  | 4,607,724  | 5,098,318  | 3,890      | 3,802,879  |
| Macedonia | -936,669   | 1,229,948  | 1,186,733  | 1,362,000   | 1,871,328   |             | 2,351,587   | 2,123,056  | 2,548,849  | 2,506,985  | 2,3820     | 2,3211     | 1,909,889  | 1,972,418  |
| Croatia   | -8,022,405 | -8,565,015 | -9,787,814 | -11,125,530 | -13,469,239 | -16,603,312 | -10,713,016 | -8,256,329 | -9,350,672 | -8,465,279 | -9,190,376 | -9,062,973 | -7,736,942 | -8,182,331 |
| Slovenia  | -1,085,537 | -1,690,679 | -1,730,276 | -2,030,715  | -2,925,068  | -4,732,620  | -1,496,416  | -2,156,956 | -2,252,707 | -128,020   | -645,630   | -2,025,029 | -2,114,075 | -2,390,821 |

|          |      |      |      |      |      |     |      |      |      |      |     |     |      |      |
|----------|------|------|------|------|------|-----|------|------|------|------|-----|-----|------|------|
| Slovakia | -    | -    | -    | -    | -    | -   | 393, | -    | 1,79 | 3,00 | 3,8 | 4,6 | 2,09 | 2,40 |
|          | 683, | 1,59 | 2,37 | 3,07 | 1,17 | 2,4 | 077  | 383, | 6,97 | 7,64 | 89, | 22, | 3,61 | 8,63 |
|          | 801  | 2,64 | 3,69 | 2,37 | 1,79 | 22, |      | 358  | 9    | 4    | 049 | 122 | 3    | 9    |
|          |      | 2    | 5    | 5    | 0    | 861 |      |      |      |      |     |     |      |      |

Computed: [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx?nvpm](http://www.trademap.org/tradestat/Bilateral_TS.aspx?nvpm) 17.07.2017.

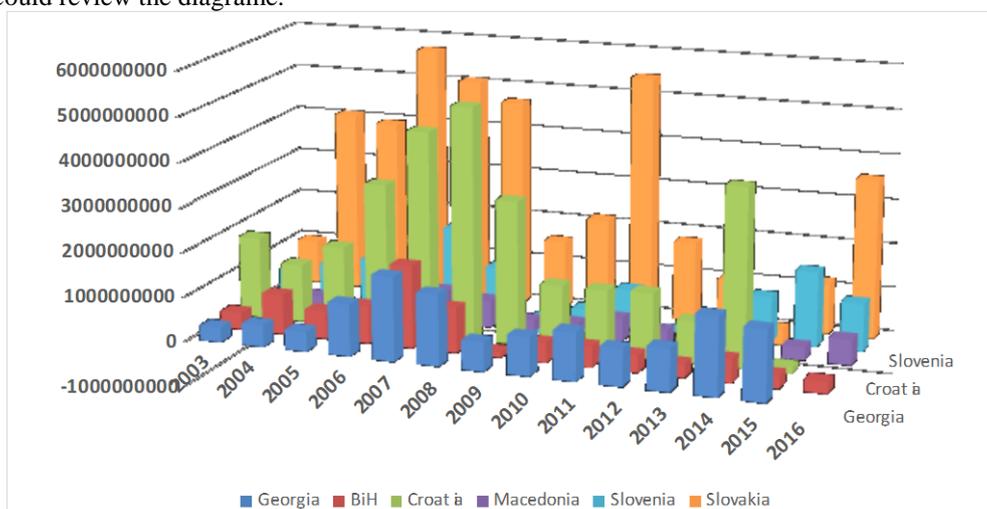
The Trade balance dynamics couldn't clearly answer the questions interesting to us. Thus, in Georgia deficit is increasing, due to the high consumption of the imported materials in the exporting products, also should be noted that Georgia more than other States depends on the imports; Macedonia, Croatia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

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

**Table 4. FDI in thousand of \$**

|           | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Georgia   | 334  | 492  | 453  | 117  | 187  | 159  | 652  | 869  | 434  | 831  | 956  | 1749 | 1571 |      |
|           | 972  | 732  | 107  | 239  | 575  | 032  | 921  | 115  | 957  | 254  | 323  | 6558 | 0487 |      |
|           | 291  | 940  | 292  | 3    | 6    | 5    | 300  | 646  | 6    | 884  | 490  | 93   | 73   |      |
| BiH       | 381  | 889  | 623  | 845  | 197  | 485  | 138  | 443  | 471  | 391  | 313  | 5230 | 2934 | 2594 |
|           | 784  | 597  | 812  | 962  | 223  | 266  | 511  | 840  | 610  | 976  | 295  | 1385 | 4928 | 0586 |
|           | 637  | 295  | 852  | 876  | 0    | 0    | 020  | 207  | 992  | 946  | 008  | 1    | 2    | 2    |
| Croatia   | 182  | 129  | 179  | 329  | 456  | 518  | 319  | 142  | 141  | 146  | 937  | 3959 | 1589 |      |
|           | 622  | 308  | 431  | 903  | 737  | 784  | 881  | 410  | 760  | 510  | 309  | 8577 | 6873 |      |
|           | 397  | 552  | 762  | 809  | 735  | 480  | 503  | 832  | 025  | 004  | 309  | 760  | 37   | 8    |
|           | 5    | 2    | 0    | 2    | 9    | 9    | 7    | 8    | 9    | 5    | 760  |      |      |      |
| Macedonia | 119  | 309  | 145  | 427  | 733  | 611  | 259  | 301  | 507  | 337  | 402  |      | 2966 | 5730 |
|           | 041  | 137  | 329  | 444  | 466  | 688  | 530  | 441  | 920  | 911  | 458  | 6087 | 0420 | 6016 |
|           | 753  | 639  | 602  | 589  | 879  | 379  | 321  | 682  | 733  | 248  | 310  | 9915 | 0    | 9    |
| Slovenia  | 535  | 763  | 970  | 691  | 493  | 108  | 346  | 319  | 875  | 335  | 103  | 1019 | 1680 | 1078 |
|           | 600  | 100  | 800  | 588  | 287  | 020  | 269  | 054  | 544  | 480  | 977  | 2914 | 4408 | 0866 |
|           | 000  | 000  | 000  | 429  | 3    | 7    | 217  | 953  | 802  | 88   | 239  | 65   | 77   | 67   |
| Slovakia  | 969  | 086  | 468  | 644  | 505  | 464  | 151  | 211  | 542  | 177  | 100  | -    | 1151 | 3548 |
|           | 200  | 368  | 200  | 044  | 785  | 869  | 124  | 735  | 404  | 394  | 030  | 4677 | 4165 | 4726 |
|           | 519  | 7    | 9    | 6    | 3    | 7    | 2    | 2    | 3    | 1    | 9    | 9    | 30   | 64   |

Also we could review the diagraph.



It could be easily identified that FDI are closely linked with export figures. As we already mentioned all these States have the small domestic markets, thus the exports and FDI are naturally linked to each other. Only with export growth could be achieved overall economic growth goal. Also should be noted that in Central and East European States their NATO aspirations (membership or MAP) played the crucial positive role in the attraction of the FDI. Georgia should solve this very tough topic and only after could be rationale to expect FDI growth.

The next step in research would be directed towards major export products and export markets.

### III. MAJOR EXPORT PRODUCTS AND EXPORT MARKETS

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

**Table 5. Major export products on the HS 4 digit level in thousand \$ for the 2012-2016 years.2**

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

2 HS codes are presented in the Annex 1.

|    |           |           |           |           |           |
|----|-----------|-----------|-----------|-----------|-----------|
| 27 | 4,725,014 | 4,764,277 | 4,067,827 | 2,759,982 | 2,597,955 |
|----|-----------|-----------|-----------|-----------|-----------|

Computed: [http://www.trademap.org/tradestat/Product\\_SelCountry\\_TS.aspx?nvpm](http://www.trademap.org/tradestat/Product_SelCountry_TS.aspx?nvpm) 17.07.2017.

According to the figures presented in the Table, 5 major export product groups are stable, and their share in the total exports increased. Georgia, Croatia and BiH enjoyed the same figures of export concentration, while in Slovenia figure is higher, for Slovakia and Macedonia the figures are the highest. For contrary to Georgia where major groups are presented by commodities or re-export, European States have the exports of high value added products. All these States found out niches on the EU market, also having high import figures companies from these States are well fitted in the existing value chains. For Georgia we could state, that Free Trade Agreements with the EU increased the exports of the existing export products. So to increase export potential Georgian companies should identify market niches and find out their positions in the existing value chains. Also special attention should be paid for the creation of the new exporting products. To further explore this assumption we'll analyze the export geography. Thus, we could answer the following questions: did the association agreement fuel the export growth? if the answer to the question is yes, we will proceed to answer the next set of questions: a) did it increase the exports of the existing products? b) did it increase the exports of the existing products by higher prices? c) did it increase the exports of the new export products?

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

**Table 6. Export Geography (in thousands \$)**

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

Computed: [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx?nvpm](http://www.trademap.org/tradestat/Bilateral_TS.aspx?nvpm) 17.07.2017.

We could easily identify two interdependent tendencies: for Georgia share of the EU market is increasing, while the share of CIS market is decreasing. For European States, members or candidates for EU membership EU is the flagship market. Other markets as CIS and NAFTA don't play any significant role. Our assumption re-

3 in brackets are % in total exports

Georgia, that association agreement fueled the exports of the existing products to the EU market and did not influence creation of the new export products is absolutely valid. So, Georgia would try to explore opportunities on different markets including CIS and NAFTA.

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

To finalize our research and to clarify how the export potential is utilized, we'll use Trade Intensification Index. The Index will be computed for all the three States with all the major export destinations (EU, CIS, and NAFTA). This index gives us good opportunity to assess the utilization of the export potential re-one country or country group. The formula of the index is:  $X_{ij}$  - I country export in j country;  $X_i$  - I country total export;  $M_j$  - j country total imports;  $M$  –world import. Formula is:  $I_{ij}=(X_{ij}/X_i)/(M_j/M)$ . If the figure  $I_{ij}$  is higher than 1, then your trading partner is more important to you, than you are to the trading partner. If the figure equals 1, it means, that your export utilization is proportional, if the figure is less than 1, your export potential is underutilized. Underutilization could be computed as the difference between export figures when index equals 1, and the actual exports. Considering the index for all the three States, it should be noted that for Georgia and Moldova the index was computed on the figures for 2016, while for the Ukraine the most available figures were for 2015.

**Table 7. Trade Intensification Index**

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

Computed: [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx?nvpm](http://www.trademap.org/tradestat/Bilateral_TS.aspx?nvpm) 17.07.2017.

It would be interesting to compare States by Enabling Trade Index (ETI), which was presented by Worlds Economic Forum.

**Table 8. States by ETI**

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

It Should be noted that ETI catch the major trends for the majority of States, thus if any State seek to improve Foreign Trade, should be oriented on the details of the ETI pillars. Also would beneficiary to look closely to the major problems identified by the index.

Just for the sake of clarity would be interested to compare States by other indices closely linked with the Foreign Trade.

**Table 9. Different Indices**

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

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

#### IV. CONCLUSION

The Foreign trade of the above-mentioned States mainly follows the major directions of the world economy. The 2002-2008 increase in investments and trade influenced all the three States. The Association agreement with the EU seriously influenced foreign trade figures in all the states. It is obvious that the share of CIS market is decreasing, while the share of the EU market is increasing. So, the reallocation of the existing export products is the major trend. At the Same time, the Association Agreement doesn't support creation of the new export products; major exporting product groups in all the states have stable development figures. Trade Intensification Index analysis gave us opportunity to formulate some findings: the EU market potential is better utilized by European States, in the same time NAFTA potential is better utilized by Georgia. All the three States need additional activities to create new export products. In this respect the export promotion and FDI activities should be better coordinated. In the case of Georgia should be noted the crucial role of NATO aspiration, which could play most important role in the attraction of FDI.

#### V. REFERENCES

1. O' Cass, Aron and Craig Juliann (2003), "Examining Firm and Environmental Influences on Export Marketing Mix Strategy and Export Performance of Australian Exporters". *European Journal of Marketing*, 37 (9314) 366-84
2. Best, M.H./ Garnsey, E., Edith Penrose, 1914-1996, *The Economic Journal*, 109,453, 1999, pp.187-201; Garnsey, E. *The Resource Based Theory of the Growth of the Firm*, in Ellis, k./ Gregory, a./Ragsdell,G. (eds) *Critical Issues in Systems Theory and Practice*, New York: Plenum Press 1995,pp. 239-244
3. Alberto Portugal-Perez, John S. Wilson, 2010, WB- Policy Research Working Paper, *Export Performance and Trade Facilitation Reform*.
4. Shoham (1999), "Bounded Rationality, Planning, Standardization of International Strategy and Export Performance: A Structural Model Examination," *Journal of International Marketing*, 7(2), 24-50
5. Lages, Sandy D. Jap, and David A. Griffith (2008), "The Role of past Performance in Export Ventures: A Short-Term Reactive Approach," *Journal of International Business Studies*, 39, (2), 304-325
6. Christophe Cordonnier, *EU Export Market Conditions for the Realization of the Competitive Advantages of Georgian Agricultural Products*. Policy Paper, 2010
7. Sakarya, S., Eckman, M. and Hyllegard, K. H. (2007). "Market selection for international expansion: Assessing opportunities in emerging markets", *International Marketing Review*, Vol. 24(2), pp. 208-238.
8. Gaganidze, G. (2016). *Georgian Export Potential Utilization on the EU Market*, *Journal of International Management Studies*, Volume16, Number 1.
9. Gaganidze, G. (2015). *Export Potential and Competitive Advantage*. Scientific and practical journal, *Economics and Business*, N3.
10. Gaganidze, G. (2015). *Export Potential of Georgian Agricultural Products on the EU Market (Based on Competitive Advantages and Market Entry Modes)*, *European Journal of Business Research*, Volume 15, Number 2, ISSN326:1945-2977.
11. Papava, V. (2013). *Economic Reforms in Post-Communist Georgia: Twenty Years After*. New York: Nova Science Publishers.
12. Silagadze, A., Zubiashvili, T. (2015). *Parameters of the European Union and the Post-Soviet Georgia's Economy*. Refereed *International Journal of Business and Management Studies (IBNS)*, pp. 441-448.
13. Silagadze, A., Atanelishvili, T. (2014). *The main economic indicators of the EU and Georgia "Ttopical Problems of the development of economy and economic science."* Collection of scholarly works of Paata Gugushvili Institute of Economics, TSU, pp. 50-52.
14. Kharaiashvili,E. (2016). *Demand for Georgian Wine and the Evaluation of Competitive Advantage Factors of Viticulture and Winemaking Sector*; TSU, scientific and practical journal, *Economics and Business*, N4.
15. Ramishvili B. (2016). *Import Substitution – The Major Reserve of the Georgian Economic Development*, scientific and practical journal, *Economics and Business*, N3
16. Ramishvili B. (2015). *Georgia's Position in the Global Geostrategic Landscape*, scientific and practical journal, *Economics and Business*, N1
17. World Bank: <http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS?end=2016&locations=GE-MD-UA&start=1987&view=chart> ; 17.07.2017.
18. International Trade Center: [http://www.trademap.org/tradestat/Product\\_SelProductTS.aspx? nvpnm=1|||| TOTAL |||2|1|1|1|2;](http://www.trademap.org/tradestat/Product_SelProductTS.aspx? nvpnm=1|||| TOTAL |||2|1|1|1|2;) 17.07.2017.

**Annex 1.  
HS codes**

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