

УДК 339.564(4:779.22)=111

**Paata Aroshidze, Gela Mamuladze**  
*Batumi Shota Rustaveli State University, Georgia*  
**Vitaliy Serzhanov**  
*Uzhhorod National University*

**EXPORT PROBLEMS OF NATIONALLY PRODUCED GOODS  
IN THE TERMS OF DEEP AND COMPREHENSIVE FREE TRADE AREA  
WITH THE EU: GEORGIA CASE STUDY**

*The paper argues that optimal use of the Deep and Comprehensive Free Trade Agreement with the EU is of critical importance for the participating countries. Only Georgia, Moldova and Ukraine have signed the Association agreements with the European Union out of post-communist former USSR member countries. The aim of the research is to study export potentials and factors affecting the growth of export of post-socialist and European integration supporting countries participating in this agreement. The paper also attempts to identify the benefits of deep and comprehensive trade with the EU for economic development of the countries. At this stage of research, it has been revealed that Georgia cannot benefit from the advantages that the contract provides due to certain subjective and objective factors that underpin the development of export potential of the national production. A shift to new goals has led to the disruption of industrial forces in most of the countries, and also eliminated the traditional manufacturing fields in which these countries had a comparative and absolute advantage. In order to determine whether a local producer is ready to benefit from the EU's Deep and Comprehensive Trade Regime, in July-September, 2017, a survey among the entrepreneurs was carried out. The results evidenced that the major problem for local producers was the lack of awareness on the preferences that the EU market provides. Besides, most manufacturers fail to produce the number of products that will satisfy the customers and most of them do not have quality assurance certificates. To improve the situation, the study seeks to suggest measures and develop marketing recommendations to be implemented by the country, which are supposed to become universal to those countries that have signed the FTA with Georgia and face similar problems.*

**Keywords:** Georgia, EU, free trade, export potential.

**Паата Арошидзе, Гела Мамуладзе**  
*Батумський державний університет імені Шота Руставелі, Грузія*  
**Віталій Сержанов**  
*Ужгородський національний університет*

**ПРОБЛЕМИ ЕКСПОРТУ ВІТЧИЗНЯНИХ ТОВАРІВ В УМОВАХ ПОГЛИБЛЕНОЇ І  
ВСЕОСЯЖНОЇ ЗОНИ ВІЛЬНОЇ ТОРГІВЛІ З ЄС: ПРИКЛАД ГРУЗІЇ**

*У статті обґрунтовується, що оптимальне використання Угоди про поглиблену і всеосяжну зону вільної торгівлі з ЄС є критично важливим для країн-учасниць. Лише Грузія, Молдова і Україна з посткомуністичних країн колишнього СРСР підписали Угоди про асоціацію з Європейським Союзом. Метою дослідження є вивчення експортного потенціалу та факторів, що впливають на зростання експорту постсоціалістичних країн та країн-учасниць угоди про євроінтеграцію. Особливий акцент зроблено на виявленні переваг поглибленої та всеосяжної торгівлі з ЄС для економічного розвитку країн. На цьому етапі дослідження виявлено, що Грузія не може скористатися тими перевагами, які передбачені даною угодою, в силу певних суб'єктивних та об'єктивних факторів, що лежать в основі розвитку експортного потенціалу вітчизняного виробництва. Перехід до нових цілей призвів до певних виробничих дисбалансів у більшості країн, а також сприяв вилученню традиційних*

сфер виробництва, в яких ці країни мають порівняльні та абсолютні переваги. Для того щоб визначити, чи готові місцеві виробники отримувати вигоди від режиму створення глибокої і всеосяжної зони вільної торгівлі з ЄС, у липні-вересні 2017 року було проведено опитування серед підприємців. Результати свідчать, що основною проблемою для вітчизняних виробників є відсутність поінформованості щодо преференцій, які надає ринок ЄС. Крім того, більшість виробників не виробляють продукцію, здатну задовольнити потреби клієнтів, а також багато з них не мають сертифікатів якості. Щоб поліпшити ситуацію, в дослідженні поставлено завдання запропонувати заходи та розробити маркетингові рекомендації, які, як передбачається, можуть стати універсальними для країн, що підписали Угоди про поглиблену і всеосяжну зону вільної торгівлі з Грузією і стикаються з аналогічними проблемами.

**Ключові слова:** Грузія, ЄС, вільна торгівля, експортний потенціал.

**Паата Арошидзе, Гела Мамуладзе**

**Батумский государственный университет имени Шота Руставели, Грузия**

**Виталий Сержанов**

**Ужгородский национальный университет**

**ПРОБЛЕМЫ ЭКСПОРТА ОТЕЧЕСТВЕННЫХ ТОВАРОВ  
В УСЛОВИЯХ УГЛУБЛЕННОЙ И ВСЕОБЪЕМЛЮЩЕЙ ЗОНЫ  
СВОБОДНОЙ ТОРГОВЛИ С ЕС: ПРИМЕР ГРУЗИИ**

В статье обосновывается, что оптимальное использование Соглашения об углубленной и всеобъемлющей зоне свободной торговле с ЕС является критически важным для стран-участниц. Только Грузия, Молдова и Украина из посткоммунистических стран бывшего СССР подписали Соглашения об ассоциации с Европейским Союзом. Целью исследования является изучение экспортного потенциала и факторов, влияющих на рост экспорта постсоциалистических стран и стран-участниц соглашения о евроинтеграции. Особый акцент сделан на выявлении преимуществ углубленной и всеобъемлющей торговли с ЕС для экономического развития стран. На данном этапе исследования выявлено, что Грузия не может воспользоваться теми преимуществами, которые предусмотрены данным соглашением, в силу определенных субъективных и объективных факторов, которые лежат в основе развития экспортного потенциала отечественного производства. Переход к новым целям привел к определенным производственным дисбалансам в большинстве стран, а также способствовал исключению традиционных сфер производства, в которых эти страны имеют сравнительное и абсолютное преимущество. Для того чтобы определить, готовы ли местные производители получать выгоды от режима создания глубокой и всеобъемлющей зоны свободной торговли с ЕС, в июле-сентябре 2017 года был проведен опрос среди предпринимателей. Результаты свидетельствуют, что основной проблемой для отечественных производителей является отсутствие осведомленности о преференциях, которые предоставляет рынок ЕС. Кроме того, большинство производителей не производят продукцию, способную удовлетворить потребности клиентов, а также многие из них не имеют сертификатов качества. Чтобы улучшить ситуацию, в исследовании поставлена задача предложить меры и разработать маркетинговые рекомендации, которые, как предполагается, могут стать универсальными для стран, подписавших Соглашения об углубленной и всеобъемлющей зоне свободной торговле с Грузией и сталкиваются с аналогичными проблемами.

**Ключевые слова:** Грузия, ЕС, свободная торговля, экспортный потенциал.

**Introduction.** After gaining independence, Georgia is going through the difficult ways of development. Economic and political problems are of vital importance from many problems. The most important basis of political problems is tense relations with Russia, resulting in 20% of the country being occupied by Russia. The main problem with Georgia's northern neighbor stems from the fact that Georgia has a favorable geopolitical location, which is expressed by the existence of many international pipelines and gas pipelines. Largest transit potential of country is obviously clear – it enables Europe to cheaply and uninterrupted get Caspian, Asian oils in general and natural gas bypassing Russia. Russia's attempt to return Georgia to its own influence orbit has no consequence, because Georgia has historically chosen the European way of its development.

Georgia's aspiration for European integration has not only political but also economic importance – Georgia has been depended on Russian market for years. Since 2006 the country export potential has been reduced dramatically, as Russia banned Georgian export to Russia in 2006, that caused necessity for diversification of foreign markets and first of all for adopting European markets. Regarding this, it is very important to note that since September 1, 2014, a large part of the Association Agreement has entered into force, including part of the Deep and Comprehensive Free Trade Area (DCFTA) of the Association Agreement. In December 2015, the ratification process for the Georgia-EU Association Agreement was completed by the EU member states.

The purposes of this particular research are to:

1. Provide comparative characterizing of export potential of Georgia, determining the range of products that Georgia can offer to the EU markets.
2. Identify the relative advantages of producing goods for export in the post-communist/post-socialistic countries which are currently supporting the idea of European integration.
3. Determine those factors due to which Georgia cannot fully use the advantages the Agreement grants.
4. Study the actual willingness of Georgian entrepreneurs to export their products to the EU markets.

**1. Research methodology.** During the preparation process of the work the normative acts have been elaborated and analyzed, which was published by the Government of Georgia after the Association Agreement has been signed, for the research Export data of Georgia carried out in 2007–2016 was used. Realized export per person of population is calculated and is compared with the similar figures in Ukraine and Moldova. The basic method of research are grouping statistical information and analysis method, comparison method. In the process of research, the data from 2007–2016 were worked out, and the trend was identified for the ongoing processes. The information was taken from the website of the National Statistics Office of Georgia, in the theoretical part of the thesis general data is analyzed, in the practical part – tables, graphs and dynamics indicators, which are compared to each other. Based on the survey conducted it is analyzed that Georgian manufacturers are ready to export products produced on the EU market. The final conclusions conform to the tasks set out at the beginning of the research.

**2. Current Situation of Export Potential of Georgia.** After gaining independence Georgia's main challenge is to increase the export potential of nationally produced goods. Improvement of country's socio-economic situation, local currency stability and employment growth is depended on this. In 1999 Georgia became the WTO member country. In 1996 Georgia applied for the WTO membership. The document was signed on 6 October 1999 and after the ratification act by the parliament on 14 June 2000 Georgia became a full 137<sup>th</sup> member of the WTO.

As a result of joining the WTO:

- Georgia's integration into the world economic system has been strengthened.

- By joining the WTO, Georgian legislative base has been harmonized with European, which is vital for achieving a strategic goal of integration with EU.
- International market conditions for Georgian export products have been improved. Georgian entrepreneurs are protected from discrimination by the WTO multilateral agreements on these markets.
- Georgia received opportunity to fairly solve the disputed issues raised in the goods and service trade field.
- Environment for attracting foreign investments was improved, because the investor got a guarantee of long-term trading policy and international markets were open for Georgian products.
- Georgia received a full member vote for participation in the WTO bilateral and multilateral negotiations.

Prior to DCFTA Georgia enjoyed benefited from the EU's Generalized System of Preferences (GSP +) regime. It allowed privileges on 7200 products, which means in trade with the EU, 90% of trade turnover used advantage of zero tariffs.

Agricultural products have particular importance in export potential of Georgia. Although agriculture is only 9.1% of gross domestic product, its export potential is noteworthy. Hazelnuts and other types of nuts are the basic export products and for 2016 it accounted 8.5% of the whole exported products. The largest export market for Georgian hazelnut (60% of market) includes the European countries. Apart from Georgia, unbroken nuts and hearts of nuts are exported to the EU by Turkey, Chile, France, the USA, Azerbaijan, Italy and Holland. In the European market Georgia with Turkey is considered one of the largest suppliers of nuts. In 2009–2012 Georgia was held on the fifth place among exporting countries to the EU, by unbroken nuts – at the third place. The exception was in 2011 when Georgia took the second place by export volume of unbroken nuts among exporting countries in the EU. In spite of Georgia is considered one of the biggest suppliers of nuts in the European countries, it does not participate in determining of the market price. At the same time Georgian unbroken nuts and hearts of nuts are sold on the European market at the lowest price. If 1kg of Turkish nuts cost 7.2 \$ on the EU market, the cost of 1 kg of Georgian nuts is not more than 6.5 \$.

According to data from January-September 2017, the main Georgian export products are copper ores, ferro-alloys, re-export of sedan automobiles, wine and medicines.

The Figure 1 shows that the main export potential of the country is the natural resources and re-export of sedan automobiles. Such kind of situation is typical for the countries with less developed manufacturing process. They can not create the export products and are satisfied with only exporting resources. About wine export, its volume is increasing year by year. Despite the free and comprehensive trade regime with the EU, Georgian export is directed to the close foreign countries and first of all Federation of Russia, according to the data of 3rd quarters in 2017 it holds 14.1%, followed by Azerbaijan – 8.6%, then Turkey – (8.5%) and Armenia (7.5%), the only country which represents a distance abroad is China, which holds 8.3% of Georgian product export. Such distribution of the export directions is mainly derived from the fact that the Russian Federation market, despite the lack of diplomatic relations with Georgia, remains in the historical memory and is attractive for the local manufacturers. The main Georgian product exported to the northern country is alcoholic drinks, subtropical fruits and mineral water. The war between Russia and Georgia in 2008 changed the situation, this relationship was practically reduced but in 2012 after parliamentary elections, Russian market became more or less accessible for Georgian manufactures.

In terms of exporting, Russia, Turkey and China are the main trading partners of Georgia. 26% of total export is made by these countries. The EU member countries have the next situation.

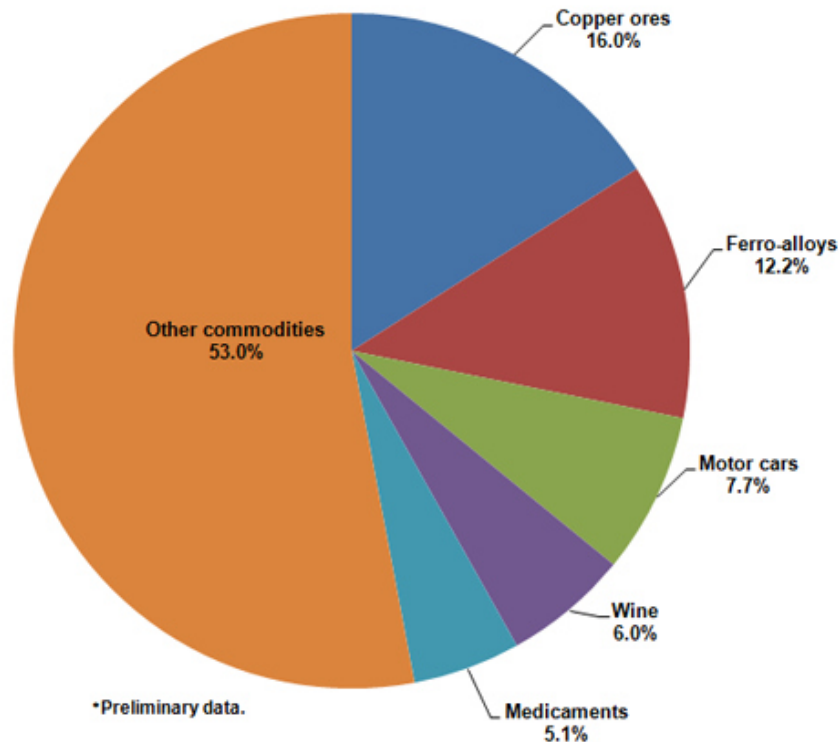


Figure 1. Share of major commodity positions by exports January-September 2017

Table 1

**External trade of Georgia by European Union countries**

	2012	2013	2014	2015	2016
Total Exports	2376.6	2901.3	2861	2204.7	2113.1
of which:					
European Union countries	353	607.2	624.2	645.2	572.1
	14.90%	20.90%	21.80%	29.30%	27%

As the table shows, export to the EU countries is growing annually but it is insufficient, because a small amount of export cannot guarantee performing the task that Georgia needs which stands in front of Georgia as the country which has aspiration of being integrated in Europe.

**3. Importance of DCFTA for increasing export potential.** DCFTA is a mechanism of Georgia's economic integration with the EU and allows Georgia to receive gradually three out of four freedoms of the EU internal market: free movement of goods, services and capital. As for the fourth – visa liberalization, changed regulation N539/2001 of European Union Council which was published on March 8 2017 in the official journal of the European Union, according to which Georgia has moved into the list of countries with a visa-free regime. DCFTA is capable to change the situation on the local market too. As manufacturing is being developed according to the EU standards, it means that the local customers are consuming the products produced by European standards.

Generally, free trade promotes abolishing of tariffs and the most common barriers of trading and establishes them only if export surpasses the respective quota (if any) or exceeds the agreed number of exported products which are determined by the anti-counterfeiting mechanism. The main barrier is technical and these barriers are: technical regulations, standards, certification procedures, etc. which differs by countries and primarily aims consumer health care. Accordingly, the export product has problems in the country with strict regulations. This list also contains agricultural

products produced in Georgia, which in some cases fail to meet the EU regulations and standards and endanger health of their country's population too.

The benefit resulting from DCFTA means:

- GDP growth by 1.7% in a short term perspective and 4.3% growth in a long term perspective;
- export growth by 9% in a short term perspective and 12% growth in a long term perspective;
- for next five years, there is a great prospect for exporting of raw and processed vegetable products, which increase may count 4%; the average salary increase by 3.6% in a long term perspective;
- consumer price reduction by 1% and 0.6% in a long term perspective;
- annual saving about 10.8 million Euros by the EU importers and saving about 84.2 million Euros by their Georgian partners;
- diversification of the sales market by Georgian manufactures in the countries having most stable, open and transparent game rules and growing demand;
- increasing of investments in Georgia and new work places; promoting of new enterprises and supporting of increasing of export products;
- Improvement of agro-food safety standards not only for the export products but also for the products placed on the local market;
- Export of Georgian products to the EU (if technical requirements are met) with zero customs tariff; increasing competitiveness of Georgian companies on the international market. Meeting with the strict regulations of the EU, they will pave the way to other countries of the world; accessing Georgian goods/services in the state procurement of the EU member countries; provision of services from Georgia to the EU market without opening the branches in the EU.

The Benefit received by DCFTA is not so obvious yet. However, within DCFTA, allowance covers 9 600 titles, including agricultural products that previously did not use the EU preferences. Such products are for example: wine, live animals, mutton and goat meat, tomato, wool etc. According to DCFTA, customs duty is canceled for the products made in the EU and imported in Georgia, as well as for Georgian products made in Georgia and exported in the EU. There are also exceptions which must be taken into consideration when exporting to the EU. Such as:

1. Customs duty on Georgian produced garlic is established only in that case if export volume from Georgia to the EU countries exceeds the tariff quota of 220 tons. Garlic produced in Georgia will be imported in the EU without customs duty at the given volume only within one calendar year.

2. There are 28 types of agricultural products that are only subject to customs duties in some cases, so called paying "entry price" without any ad valorem component. Ad valorem is annulled on Georgian origin products, while it can be added to the group of 28 items listed above in an usual trade regime.

4. ***The first results of Association Agreement with the European Union: export data comparison.*** On 27 June 2014, Moldova and Georgia signed Association Agreement with the EU in Brussels; according to the agreement the countries adopted deep and comprehensive free trade regime (DCFTA). According to the EU Commission statistics, Moldavian product export in Europe was increased by 20.4% and reached 1 billion 159 million Euros in the same year comparing with the previous year, while Georgian export was on the contrary, it fell by 1.5% and counted 657 million Euros. The EU introduced the ENP action plan to Moldova (as with Georgia) in 2005 and also granted with the additional autonomous trade preferences (ATP) after three years. The reason was Romania's access to the EU. Moldova has a special relationship with a neighboring country: during the period of the First and the Second world wars Moldova was a part of Romania

but after the World War II it became one of the Soviet Union republics. Moldova was Romania's subject of interest after gaining its independence in 1991. Moldova was the main partner of Romania with a free trade regime until January 1 2007. The negative results caused by Romania's access to the EU and the restrictions of this regime were balanced when the new preferences were given to Moldova in 2008. Moldova received permission to export certain products with certain quotas into the EU including meat (poultry), meat products, dairy products, wheat, maize and sugar, as for some fruits and vegetables they were exempted from the ad valorem tax (it is noteworthy that Georgia, as a member of the WTO had GSP+ trade regime, which practically was not adopted). Russia is one of the major markets for Moldavian products. Recent years Moldova has been trying to replace Russia with the EU market. Russia was withdrawn from the list of strategic partners in the country development plan of Moldova in 2009–2015, because Moldavian products (mainly wine, fruits, vegetable) had been repeatedly under the embargo in the neighboring country. Accordingly, EU share in Moldova's export was almost half – 46% in 2014, as for Russia, its share was reduced by 18% in 2014 while Russia had 31% of exports share in 2004.

Georgian exports share was 21% in the European Union countries in 2014 and it has just been increased by 2% for last ten years. Azerbaijan takes the first place (24%) among export countries, Russia's export share was 16% in 2004, but its share fell by 2% in 2008 (due to embargo) but last year it was increased to 10%.

The export of agricultural products from Moldova to the EU increased by 31% comparing with a previous year and reached 375 million Euros in 2014. Vegetables took the leading place and supply increased by 54% and reached 203 million euros. It should be noted that the territory of Moldova is twice smaller than Georgia – 34 square kilometres, though it has a good climate and is located mainly on the plains. Accordingly, agriculture holds more than 20% of the country's economy. Georgia's agricultural products exported to the EU by 2014 amounted only 155 million Euros, however, compared to the previous year 26% of growth was detected. As for the vegetables, this indicator was estimated by 113 million Euros.

Moldavian wine export indicator to EU countries is also very significant. The volume of sale of alcoholic beverages in the EU countries was increased by 7% and reached 23 million Euros. Poland is on the top of export countries with 30%, where product of 7 million Euros was exported, the Czech Republic takes the second place (5,8 million Euros) and Romania takes the third place (3,6 million Euros). It is significant that Moldavian wine price is very low – the average cost of per liter is one Euro. Moldova exceeds Georgia seven times in wine exporting in the EU. Only 3 million liters of Georgian wine was exported to the EU in 2014 and there was 10% decrease comparing with 2013, but in value it increased by 9% and was 9 million Euros. It is worth of mentioning that the average price of Georgian wine is about 3 Euros (it is 3 times expensive than Moldavian wine) its value increased by 30% compared to 2013. Poland is introduced as the main export country in the EU for Georgia, where a third of total volume is sold, next is Latvia (2,3 million Euros) and Lithuania (1,4 million Euros). We exported production of only 70 000 Euros to the Czech Republic in 2014. Georgian wine exports volume (depicted in liters) raised just by 30% in the EU, while Moldova doubled its exports in 2008–2014.

As for Ukraine, despite Association Agreement with the EU, country's investment and export index was deteriorated. The key reason for this is the armed conflicts in Donbass and the political crisis. According to the data of 2014, export of Ukraine to the EU was raised only by 5%. Nearly half of Ukrainian exports are metallurgical industry products, agricultural products and raw materials. Industrial products, chemical industry, mechanical engineering and oil refining products export are very significant as well.

It is worth of noting that in Ukraine it is considered that reduction of customs duties, taxes and exempting on some products is negatively impacted on development of internal producing. The

same situation was with Georgia when the customs duties were abolished on import; there was fear that the local product might have been replaced by the imported product totally, because it was considered that the local product was unable to endure competition, but it occurred on the contrary, quality of Georgian manufactured products was improved within competition terms. The fear of Ukrainian side is caused by the fact that if a large number of industrial raw materials are exported to the EU without export taxes, it will have an impact on development of Ukrainian industry as well as the revenue of the state budget will be reduced. It is possible to note that such reasoning is logical because indirect taxes take a significant place in Ukraine's budget revenues (like in Georgia), but the revenue deficit can be compensated by the benefits of free trade regime with Europe. In the short run perspective, revenues can be reduced, but the fact is that in the long term perspective, the increased export will create additional jobs and that will grow the direct taxes in the budget. Strategic calculation, the advantage of free trade with the EU – is clear. It can benefit more than short-term budgetary losses.

Table 2

**Export for 1 person 2007–2016 Years**

Years	Country	EXPORT (Billion \$)	Population (million)	Export for 1 person (\$)
2007	Georgia	1,113	4,394	253,3
	Ukraine	58,3	42,5	1371,7
	Moldova	1,97	3,581	550
2008	Georgia	1,326	4,382	302,6
	Ukraine	78,7	46,2	1703
	Moldova	2,21	3,572	618
2009	Georgia	0,990	4,385	225,7
	Ukraine	49,3	46,0	1072
	Moldova	1,62	3,567	454
2010	Georgia	1,380	4,4	311,1
	Ukraine	-	45,7	-
	Moldova	1,93	3,56	541
2011	Georgia	1,7	4,52	378,8
	Ukraine	82,1	45,6	1799
	Moldova	2,77	3,56	778
2012	Georgia	1,606	4,6	357,1
	Ukraine	82,3	45,6	1807
	Moldova	2,74	3,6	769
2013	Georgia	1,812	4,483	404,1
	Ukraine	63,3	45,4	1393
	Moldova	2,91	3,56	817
2014	Georgia	1,873	3,714	504,3
	Ukraine	53,9	43,0	1253,5
	Moldova	2,97	3,557	834
2015	Georgia	1,637	3,720	440
	Ukraine	38,1	427,6	891
	Moldova	2,4	3,555	675
2016	Georgia	1,657	3,718	445,6
	Ukraine	44,9	42,6	1054
	Moldova	2,01	3,553	565



As it is shown on the table, the export indicator is growing annually in Moldova and in Georgia. In Ukraine, its indicator has been reduced recently, caused by the war situation, political and economic crises and a tense relationship with Russia. For comparison, the export index is calculated for per capita. According to which among three countries Ukraine holds the first place followed by Moldova and Georgia, but this growth of Georgia is due to decrease of population not to growth of economic and export potential. Population of Georgia has been reduced nearly by 1% recent years.

**5. Local entrepreneurs readiness for free trade regime with the EU-Research analysis.**

Association Agreement with the EU allows Georgian entrepreneurs to get into the EU markets which is stable with growing demand on natural and organic products and the most important thing for Georgian entrepreneurs is that there are consumers with high buying power. According to the analysis, the main direction of export to the EU is agriculture products. Currently, up to 50 Georgian companies meet with the requirements of Food Safety Management – ISO 22000. Wine and alcoholic beverages are the main source of agricultural products. These products enter to the European markets every year, but there are also some seasonal products that do not get into foreign market with a large number. For example: hazelnuts and other types of nuts.

For the EU market, only those manufacturers are interesting that guarantee to provide continuous supply, production quality and quantity. According to these three criteria, Georgian Companies' readiness can be analyzed to meet these requirements and have the quality certificate. In July-September 2017, we surveyed people from more than 100 companies in Georgia, especially on the territory of Ajara Autonomous Republic, they operate not only on the local market but also export their products abroad but not to the EU markets. The key reason to research Autonomous Republic of Ajara was its favorable location: Ajara owns a seaport, important international highways lie on its territory, the nearest location to the state border is an advantage for entering foreign countries' market, international tourism is developed, which promotes local products' awareness on the international market.

The key goal of research was to determine willingness of Georgian manufacturers to use free trade component and export their product to the EU markets.

According to the size terms, we divided companies into three categories: small – number of employees not more than 50 people, average – 50–100 and large – more than 100 people. Most of the respondents are from small and medium companies.

According to manufacturing 30% is a service enterprise, 40% – manufactures products and the others are mixed trade companies. Among product manufacturing, agricultural companies hold a large place, which are mainly focused on seasonal subtropical production, including 7 nut processing enterprises. The table was made based on the obtained results, which display enterprises' readiness to export their products to the EU markets and also there were revealed hindering factors that have to be overcome by joint working of the state and enterprises.

The main problem of Georgian manufacturers' can be divided into three parts: qualitative-quantitative, informational, financial and marketing type.

Most of enterprises fail to continuously provide a large number of products to the EU markets and guarantee international and European standards of product. The means of majority enterprises do not correspond to the modern manufacturing needs, most of them are outdated that result in product quality and quantity. The reason is not only absence of quality certificates but also low standards of the products, which don't correspond to the recognized standards. As the survey showed, most of manufactures do not have the standard certificate, it is impossible to export to the EU without that certificate. All entrepreneurs have a desire to own the certificate, but low revenues do not allow them to do that. At the same time a big number of manufacturers had no idea on preferences given by free trade agreement with the EU.

Table 3

**Manufacturers Survey Results**

Types of enterprises	The number of respondents	Do you export or not?	Do you Have a desire to export?	Do you have a quality certificate?	problems	solutions
Small scale	48	only 3	yes – 20, no – 15, I do not know – 13	0	Financial; lack of production	1. Providing more information. 2. State participation in stimulation. 3. State assistance for dealing with quality issues
Medium scale	40	Only 7	yes – 30, no – 10	3	Lack of information	
Large scale	12	only 2	yes – 12	4	Cannot meet with client's need of quantity	

- It turned out that only 15% of the interviewed respondents were more or less familiar with the issues of the EU partnership. The rest of the enterprises do not have information on benefits, they will get from the export to the EU. There is another topic too- some manufacturers do not want to produce export products. That itself hinders the process of innovative improvement that is fully reflected on developing of innovative, competitive economy in the country. The lack of information is also evident in that fact that the enterprises do not have the direct contact with the customer, do not study market needs and do not plan manufacturing on the bases of relevant preliminary studies;

- The key financial problem is that most of enterprises do not have a working capital. The solution is to take business loans that are less available for enterprises because they do not have the right amount of the main resources that can afford the loan. The majority of Georgian banks are funded by European Bank of Reconstruction and Development and they issue “European Business loans”, the loan volume is from 100 000 \$ to \$ 3 million, the main period is 5–10 years. According to the data of World Bank, the average interest rate for business loan in Georgia is 12.5% , which is 5–5.5% less than in Azerbaijan and Armenia, although 8–9% higher than in the USA, Israel and the Czech Republic. In such circumstances, it is unfavorable to take loans for the local companies because the risk factor is quit high.

- The key marketing problem is that the new marketing approaches are needed to grow export potential of the company in order to identify the export markets where the production can be exported successfully. The essential term for increasing the export potential in our economic practice is to master the methods and techniques of modern international marketing by the management and the staff of the company, in another case it is not possible to conduct successful activities on the foreign markets without knowing the market situation. The marketing manager should know the international market conjuncture, the level of competition on the export market, goods and other significant rules related to goods, management and competitiveness. Getting acquainted with this specific knowledge assists to be conducted relevant marketing activities easily and effectively. Many companies having all technological potential to manufacture quality goods are not capable to work effectively on the foreign markets. Partially, it is caused by the fact that the company does not have the relevant marketing strategy that can be focused on the target groups of foreign countries, competitive advantages and suited to existing opportunities of the enterprise.

The bases to be successful on the foreign market is the competitive advantage and rationality, to think and act more quickly and appropriately than the competitor, so the manufacturer should provide the customers with the better terms than the competitor. The methods to research foreign markets should be used in this direction, which will determine the key factors of success to hold the best portion than the competitor. To perform above mentioned the specific action plan should be created and the following strategic issues should be formed: new product development strategies; pricing policy; sales and distribution policy and so on.

Depending on the above, we can conclude that the Georgian manufacturer is not ready yet to fully use deep and comprehensive trade conditions with the EU. This situation demands different actions to be carried out.

**Conclusions.** In order to get the Georgian manufacturer ready to export the products to the EU markets, it is necessary to carry out the specific activities with maximum results. In this respect, the policy pursued by the state is important. One of the expressions of this is that since 2018, the Agency will be established in Georgia that will insure the risks associated with export transactions of products or services. The agency will promote to increase export potential of Georgia and enhance Georgian companies competitiveness on the international markets by insuring of the credit risks, offering of financial instruments and generally by opportunities accessing the finances. With the help of the agency, the exporters will solve the major problems faced by them. In particular, they will be able to insure the risks associated with the international trade transactions and a rapid deal with the problem referring the lack of working capital. On this purpose, the agency will offer the export insurance to the export companies as well as the guarantees that will provide additional support during the period of attaining the working capital from the commercial banks. Apart from these, it is necessary to carry out such activities where the state authorities will be involved on one side and the enterprises themselves will express their readiness on the other side. These activities can be divided as state stimulating and enterprise marketing activity:

- The state have to enhance informing the manufactures, for assuring them of advantages of adopting of deep and comprehensive trade regime with the EU. It is favorable because enterprises revenues will grow that will indirectly raise the country budget, will facilitate the introduction of innovative economics and by the way, product quality according to European standards is very important for developing the local market too.

- Promoting the manufacturers quality assurance means to assist in obtaining of European standard certificate. As the study has showed, the part of enterprises cannot get to the EU markets, because they cannot deal with the organizational issues to obtain the quality certificate. The state can solve the organizational issues and assist the enterprises to overcome this.

- The financial provision of the manufacturers will be acceptable if the state sets an exporting financial support fund that will provide long-term, low-cost loans to those enterprises which have a prospect to export its products to the EU.

- Applying international marketing methods, that is the inevitable for successful product sales on the foreign markets. It is impossible to conduct any kind of successful activities without knowing the situation of the foreign markets. So, the firms which export their products should use the market research methods, on the research bases, market conjunctive indicators will be determined and current situation on the market will be analyzed. As a result, the key issues, the factors of success will be set, which is the bases of gaining advantages over the competitors. On this purpose, a specific action plan should be developed and the following strategic issues should be formed: firms' orientation on clients' needs, use of lots of mixed marketing tools, purposeful coordination of all activities which have been carried out in the field of sales.

- Adjusting the right price policy, is the key of marketing program and significantly impacts on goods competitiveness and at the same time, is the peculiar guarantee of maintaining the

commercial risk. That is why while the enterprises are forming pricing policy they must take into consideration existing prices and trends of pricing policy of those markets where they have already exported or plan to export.

- Continuous improvement of the product quality, which supports increasing of the product competitiveness and export potential on the foreign markets. The product quality which must be consistently high and that is the thing we are committed to the full membership of the World Trade Organization. Therefore, it is necessary to develop the product quality constantly, to assess product quality objectively requires the state examinations of the product, as well as improvement of the certification process and to be conducted it correctly and smoothly.

- It is significant that the companies exporting goods must think of product packaging. In many cases the products made in Georgia are better with quality and taste, but due to inappropriate packaging they cannot attract such big attention as the imported products. This prevents the company to be established appropriately on the foreign market and increase the export potential. The product must be packaged in the way to meet all the market criteria.

- Increasing of awareness, that should be reflected on the consistent advertising of the products and services, of creating of brand long-term values and the advantage of customer acquisition and sales stimulation. The goal of the enterprise is to provide the customer with information about the brand or a specific product model and to provide its selling. For this purpose, the enterprise can use the following tools: 1) creating and providing the customers with the booklets and the posters with enclosed information about product, price and advantages; 2) using of various advertising tools in which the main focus should be on product characteristics and advantages. Currently, without innovative approach of advertising, it is almost incredible to have an efficient functioning and to enhance competitiveness on the market; 3) spreading information by using of internet sources. Participating in business forums and arraigning the trade exhibitions are one of the best ways to increase awareness. Over 4,300 trade exhibitions are held annually in the world, which attract more than 85 million viewers and give the seller a chance to introduce the new products and meet the new buyers. Implementation of above mentioned activities will increase brand awareness and customer confidence.

- First of all, gaining a competitive advantage is the ground of success on the foreign markets which demands the strategic marketing analyses. Development prospects of the company and evaluation of the export products' potential will have to be determined by the strategic marketing analyses. The firms which export goods must always think to which marketing tools can be used for getting the maximum from the customers and what to do for this. Accordingly, the entrepreneurs should think on creating and providing customer with the value which will make their life easier and more comfortable. Any company should know that the good relationship with each client is the most important asset to achieve the long-term results.

Implementation of these activities will facilitate nationally produced goods export to the deep and comprehensive free trade area (DCFTA), which will be the ground for Georgia to be integrated in Europe.

### References

1. Aroshidze, P. (2016). Georgia's role in the transportation of energy resources of the Caspian Sea. *Innovation economics and management*, No. 3.
2. Asatiani, R. (2014). *Where Does Georgia Go to*. Tbilisi.

### Література

1. Aroshidze P. Georgia's role in the transportation of energy resources of the Caspian Sea / P. Aroshidze // *Innovation economics and management*. – 2016. – No. 3.
2. Asatiani R. *Where Does Georgia Go to* / R. Asatiani. – Tbilisi, 2014.

3. Chavleishvili, M. (2013). Food Safety and Security Issues of Georgia. Economics and Business, No. 3.
  4. Erkomaishvili, G. (2010). Economic Policy of National Competitiveness, Collection of Scientific works. Tbilisi.
  5. EU Neighbors Center News: ENPARD. Retrieved from: [www.enpi-info.eu/maineast.php?id\\_type=1&id=32372](http://www.enpi-info.eu/maineast.php?id_type=1&id=32372).
  6. Deep and Comprehensive Free Trade Area Agreement with The EU (DCFTA) and Georgia – The Economic Policy Research Center, 2014. Retrieved from: [http://eeas.europa.eu/delegations/georgia/index\\_en.htm](http://eeas.europa.eu/delegations/georgia/index_en.htm).
  7. EU office to Georgia. Retrieved from: <http://www.economy.ge/ge/dcfta>.
  8. Deep and Comprehensive Free Trade Area Agreement with The EU (DCFTA).
  9. Gurova, I.P. (2014). World Economy. Translator Sh. Veshapidze. Tbilisi, 2014.
  10. Jibuti, A. (2014). Basis of Georgian Agrarian Policy.
  11. Concept of Long-term Development of Georgia – Georgian Business Association, 2013.
  12. Government of Georgia (2014). Country Main Data and Directions for 2014–2017. Tbilisi.
  13. Agriculture Strategy: International experience and Georgia. The Economic Policy Research Center, 2014.
  14. Khaduri, N. (2010). Analyses and Perspectives of Competitiveness of Georgian Economy. USAID-Research materials.
  15. Kharashvili, E. (2011). Problems of Competitiveness and Competition at Agro-Food Sector. Tbilisi.
  16. Mamuladze, G. (2013). Marketing Problems of Georgian Agrarian Sector and its Solutions. Tbilisi Teaching University. Globalization and Actual Problems of Science in the 21 Century, Science and Life, Vol. 7, # 1, Materials of international scientific conference. Tbilisi.
3. Chavleishvili M. Food Safety and Security Issues of Georgia / M. Chavleishvili // Economics and Business: Journal. – 2013. – № 3.
  4. Erkomaishvili G. Economic Policy of National Competitiveness: Collection of Scientific works / G. Erkomaishvili. – Tbilisi, 2010.
  5. EU Neighbors Center News: ENPARD. Retrieved from: [www.enpi-info.eu/maineast.php?id\\_type=1&id=32372](http://www.enpi-info.eu/maineast.php?id_type=1&id=32372).
  6. Deep and Comprehensive Free Trade Area Agreement with The EU (DCFTA) and Georgia – The Economic Policy Research Center, 2014. Retrieved from: [http://eeas.europa.eu/delegations/georgia/index\\_en.htm](http://eeas.europa.eu/delegations/georgia/index_en.htm)
  7. EU office to Georgia. Retrieved from: <http://www.economy.ge/ge/dcfta>.
  8. Deep and Comprehensive Free Trade Area Agreement with The EU (DCFTA).
  9. Gurova I. P. World Economy / I. P. Gurova. Translator Sh. Veshapidze. – Tbilisi, 2014.
  10. Jibuti A. Basis of Georgian Agrarian Policy / A. Jibuti. – 2014.
  11. Concept of Long-term Development of Georgia – Georgian Business Association, 2013.
  12. Government of Georgia. Country Main Data and Directions for 2014–2017. – Tbilisi, 2014.
  13. Agriculture Strategy: International experience and Georgia. – The Economic Policy Research Center, 2014.
  14. Khaduri N. Analyses and Perspectives of Competitiveness of Georgian Economy / N. Khaduri. – USAID-Research materials, 2010.
  15. Kharashvili E. Problems of Competitiveness and Competition at Agro-Food Sector / E. Kharashvili. – Tbilisi, 2011.
  16. Mamuladze G. Marketing Problems of Georgian Agrarian Sector and its Solutions. Tbilisi Teaching University / G. Mamuladze // Globalization and Actual Problems of Science in the 21 Century. – Science and Life. – # 1(7), Materials of international scientific conference. – Tbilisi, 2013.

17. Khundadze, T. (2017). Georgia – EU: Results of Free trade. Tbilisi.
18. Tkachev, Y. (2017). Ukraine – EU: The Agreement Without Illusions. Timer, # 25.
19. Statistica Moldovei. Retrieved from: <http://www.statistica.md/index.php?l=ru>.
20. State Statistics Service of Ukraine. Retrieved from: <http://www.ukrstat.gov.ua>.
21. European for Georgia. Retrieved from: <http://eugeorgia.info/ka/article/290/evrokavshirtan-asocirebis-pirveli-shedegebi-moldovas-eqsporti-saqartvelosas-orjer-acharbeks>.
22. The European Union for Georgia. Retrieved from: <http://www.dcfta.gov.ge>.
23. The European Union for Georgia. Retrieved from: <http://www.dcfta.gov.ge/public/filemanager/publications/pub1.pdf>.
24. The kiev times. Retrieved from: <http://thekievtimes.ua/economics>.
25. Trade with Georgia. Retrieved from: <http://tradewithgeorgia.com/en/exportcatalog?view=companies&sort&subsector=&products=&exportmarkets=&certificate=756&search=&pn=1&token>.
26. NCIB. Retrieved from: <https://ncib.wordpress.com/tag/%E1%83%99%E1%83%9D%E1%83%9B%E1%83%9E%E1%83%90%E1%83%9C%E1%83%98%E1%83%90>.
27. EPRC. Retrieved from: <http://eprc.ge/index.php?a=main&pid=226&lang=geo>.
28. BPN. Retrieved from: <https://bpn.ge/biznesi/14864-eqsportis-potencialis-mqone-21-prioritetul-produqts-shoris-thkhili-pirvel-adgilzea.html?lang=ka-GE>.
17. Khundadze T. Georgia – EU: Results of Free trade / T. Khundadze. – Tbilisi, 2017.
18. Tkachev Y. Ukraine – EU: The Agreement Without Illusions / Y. Tkachev // Timer. – 2017. – # 25.
19. Statistica Moldovei. Retrieved from: <http://www.statistica.md/index.php?l=ru>.
20. State Statistics Service of Ukraine. Retrieved from: <http://www.ukrstat.gov.ua>.
21. European for Georgia. Retrieved from: <http://eugeorgia.info/ka/article/290/evrokavshirtan-asocirebis-pirveli-shedegebi-moldovas-eqsporti-saqartvelosas-orjer-acharbeks>.
22. The European Union for Georgia. Retrieved from: <http://www.dcfta.gov.ge>.
23. The European Union for Georgia. Retrieved from: <http://www.dcfta.gov.ge/public/filemanager/publications/pub1.pdf>.
24. The kiev times. Retrieved from: <http://thekievtimes.ua/economics>.
25. Trade with Georgia. Retrieved from: <http://tradewithgeorgia.com/en/exportcatalog?view=companies&sort&subsector=&products=&exportmarkets=&certificate=756&search=&pn=1&token>.
26. NCIB. Retrieved from: <https://ncib.wordpress.com/tag/%E1%83%99%E1%83%9D%E1%83%9B%E1%83%9E%E1%83%90%E1%83%9C%E1%83%98%E1%83%90>.
27. EPRC. Retrieved from: <http://eprc.ge/index.php?a=main&pid=226&lang=geo>.
28. BPN. Retrieved from: <https://bpn.ge/biznesi/14864-eqsportis-potencialis-mqone-21-prioritetul-produqts-shoris-thkhili-pirvel-adgilzea.html?lang=ka-GE>.