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OPPORTUNITIES OF BUSINESS DEVELOPMENT IN THE CONTEXT OF EXPORT
SIMILARITY
(CASE OF GEORGIA)
Mikaberidze Tamta

Abstract

The process of the world economy globalization is accompanied by the changes in the world trade, in positions of its participants and manifestation of new development trends. The work is dedicated to identify the opportunities for business development of Georgia and its trade partners in the context of export similarity. The results of this study were obtained on the basis of the investigation of trends for diversification of Georgia's export markets and commodity structure, business environment in the context of liberalization of Georgia-EU trade policy and estimation of expected results of closer integration with the EU. Outcomes of the analysis gives useful findings to carry out the actions for increasing the effectiveness of foreign economic flows in practice by defining unused reserves and system approaches.

Key words: export similarity; business opportunities; trade liberalization.

Introduction

The process of the world economy globalization is accompanied by the changes in the world trade, in positions of the subjects taking part in it and manifestation of new development trends. The changes pose challenges for both developed and developing countries. Currently development and expansion of the economic potential is again on the world agenda after the 2008 crisis. That is why the modern forms and tendencies, technical instruments and means of International trade required more attention and research on the background of transnationalisation and global economic integration.

Transnationalisation of modern economics, development of interrelated trades and transfer prices policies within the corporate frames in the result had the significant influence on the organizational forms and structures of the international trade operations and in the last on the forms of international competition. The development of the world economic in global crisis conditions is characterized with special activation of integration processes. Following from the above-mentioned processes the developing countries need to support and develop the international trade more specially in order to save their economics.

The economic integration agreements between the countries are considered as effective if they lead to real increasing of trade turnover. The measures of Government and non-governmental organizations implemented in the International Trade sphere, such as the mutual liberalization of trade, the harmonization of specified spheres, common certain policy, cancellation of custom duties and of their quantity limits, implementation of common international tariffs within the cooperation

should lead to the significant results in the sphere of increasing and extension of business links. Implementation of international competition regulatory rules provides more effective distribution of resources that results the global efficiency of industry that in its turn will be reflected on the direction of world trade consumer flows and on the geographical and consumer structure. It should be specially underlined that extension of the European Union, the economic policy of which is directed to regulation of trade and competition gives the chance to the countries to enhance the mutual trade that is the one of the factors of economic growth and big opportunities for local businesses.

The relevance of research of new forms and directions of international flows is especially challenging for the countries of small open economies and Georgia is among them. A number of studies have been conducted to study peculiarities of Georgia's integration into the international trade flows (Dyker et. al.(2008), Mikaberidze et al. (2018), Papachashvili (2018), Papachashvili et al. (2018), but the research of possibilities of new structures and trends in trading flows for identification of business development prospects should become the focus of the country's further economic development.

The aim of the work is to identify the opportunities for business development of Georgia and its trade partners in the context of export similarity.

Research methods and key findings

Business Development Prospects in the Context of Export Similarity

The methodological basis contributed to the paper includes the scientific literature regarding export similarity and development prospects (Finger, J. & Kreinin, M. (1979), Kreinin, M.E. & Plummer, M. G (2000), Xinpeng, X. & Ligang, S. (2000). In order to establish the main directions of trade structure improvement, we have measured the similarity of the trade and industrial structures of Georgia and its trade partners. Similarity research of Georgia's export against the EU countries' export was conducted. The research is based on Finger-Kreinin (FK) index (offered by J. Finger and M. Kreinin (1979). The research period covers the years 2010-2015. On the one hand, Georgia's export in the world and, on the other hand, the export of EU countries being Georgia's partners in the world was analyzed for the mentioned period. As a commodity group we have considered Georgia's 30 largest exported commodities with partner countries. We have calculated the FK index with the largest

48 trade partner countries of Georgia separately in 2010 and 2015; we compared the data to each other.

Given in the work is an economic analysis of the obtained results which includes general methodological basics of analysis and synthesis, abstraction, induction-deduction and dialectics. Here it is important to see the existed situation on one side and on the other hand, the change over time.

The results are as follows:

The FK index, which determines the export similarity between Georgia and its main trading partners, is quite low. The highest rate of similarity coefficient between these countries is indicated with the US (45%), which has not changed since 2010 and Armenia (43.4%) – that is decreased in comparison with the level of 2010 (48.4%), and with Turkey (43, 0%) - which is slightly decreased compared to the 2010 level (43.7%). The low, though with positive tendency is characterized the FK index with Germany, which has increased from 39.2% to 42.5% in the review period. In general, the highest FK index was recorded with Spain, which is ranked at the 17th place with the turnover in Georgia's trade partners. Next comes Lithuania (48.9%), Poland (48,4%), Romania (46.5%). Generally, the average FK index with the developed countries, especially with the EU countries, ranges between 41% and is characterized by a growing trend, indicating more efficient delivery of Georgian export trade flows and deepening trade liberalization. The low FK index by itself with Lithuania, Canada, Netherlands, Estonia and Switzerland has been slightly reduced and ranges around 33%. It is quite low, and in the most cases, the export similarity is characterized by reducing as with emerging so with fast developing markets. Small growth from 2010 to 2015 was observed only in Ukraine, Russia, China and South Korea FK index. As for other developing countries, Georgia's FK index is quite low in comparison with them, but in most cases it is increasing and amounts average 30%. In other cases, it decreases and varies between 18-30%.

Taking into consideration the import liberalization in Georgia, when we look through the details of the trade model of Georgia and its trade partners, as well as the trade and manufacture structures, we can conclude that the change of trade orientation is more balanced than the possibility of establishing new trade relations as on the European Union and so on the World Market. The EU is a very important market for Georgian export and its significance is growing within Deep and Comprehensive Free Trade Agreement (DCFTA). Association Agreement and access to the EU market will allow Georgian producers to exploit a wide range of economies. Which, in turn, should increase productivity, not just superficial, but in terms of deep integration. In our view, the

international flows of development should be promoted on a regional and global levels taking into consideration the tendencies defined after our calculations, in particular, within the commodity group frame, used during the Finger-Kreinin calculations with such goods as the agricultural products, textile and light industry products, pharmaceuticals and other industrial products. It should be mentioned that the export similarity index is higher with those countries that are not major trading partners. Often its unexpected increasing or decreasing is caused by unexpected changes in general trade flows from the least up to the largest measures that is caused by accidental, stochastic and non-trend trading flows and trade ties between the countries. Importance is that, this is not because of the barriers on the world markets (both tariff and non-tariff), but the problems in the country's manufacturing and the low level of development. The broad range of trade regulations are implemented as long as the DCFTA implies approximation of Georgian trade regulations to the European regulations. According to the European Union estimates, exports of Georgia may increase by 12% and imports by 7.5% in the longer term (5-10 years after implementation of these regulations), while GDP may be more than 4.3% ("Georgia 2020"). More stable and predictable regulatory environment, as well as free trade with the EU, will make Georgia more attractive country for direct foreign investments.

Conclusions

Based on the analysis of dynamics of export similarity Finger-Kreinin (FK) index, an increase and decrease of the mentioned indicator in the group that includes Georgia and Georgia's trade partner EU countries was revealed. Within the given group the highest FK index value was revealed with Spain, Lithuania, Poland, Romania, Belgium; the average FK index indicator with the EU countries is not high, but it is characterized by a growth trend.

Taking into account generalization of the research results and other researchers conducted on the basis of FK index, we can conclude that Georgia, on the way to economic integration with the EU, will have an opportunity of cooperation with developed and developing countries having more or less similar export structure. It should be taken into consideration that countries having a similar export structure are, at the same time, Georgia's competitors on the world market, though specific "behavior" of Georgia's national export flows gives us an opportunity to suppose that a conflict of economic interests will be avoided. At the same time, there is a basis for cooperation in production of complementary commodities and technologies.

The prospect of approximation of economic policy in the context of trade liberalization between Georgia and the European Union gives us grounds to suppose that efficiency of Georgia's export

flows will increase. This outcome is expectable as a result of intensification of Business partnership with the EU, which is expressed in reduction of the existing barriers with the EU countries. Successful development of the approximation policy with the EU will promote investment between partner countries, creation of favorable external factors and productivity increase. The mentioned will provide an opportunity for formation of a maximally profitable, diversified private sector production.

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СУЧАСНІ ТРЕНДИ РОЗВИТКУ ТЕОРІЇ СТРАТЕГІЧНОГО МЕНЕДЖМЕНТУ

Анотація. В даній ситуації розглянуто стан виноробної промисловості в Україні, показники попередніх років, а також шляхи покращення розвитку цієї промисловості. Оскільки Україна наділена високим природнім потенціалом, тому цей бізнес є досить перспективним та може вийти на міжнародний ринок. Методи покращення розвитку виноробної промисловості досить легкі, ефективні та дієві, проте потрібно докласти досить зусиль та фінансів.

Ключові слова: виноробна промисловість, розвиток, стратегія, конкурентна перевага.

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