

The effect of the DCFTA on Georgian exports to the EU

Georgia and the EU established a deep and comprehensive free trade area (DCFTA), which came into force in 2014. In a recent comparative study, which also includes Ukraine and Moldova, we look at the effect of the DCFTA on Georgian exports to the EU.

Between 2013 and 2018, exports to the EU – as defined in our study – increased by a rather moderate 9% in US dollar terms. However, in the same period prices for key Georgian export products declined heavily. In real terms, i.e. using constant prices of 2013, Georgian exports to the EU increased by 115%. Having said that, the EU was not able to increase its share as an export destination for Georgian products: the share remained flat at 16%. All in all, we conclude that the DCFTA had a positive, but moderate effect on Georgian exports to the EU.

At the same time, we found out that the DCFTA had a very positive effect on the commodity composition of Georgian exports. New products account for 12% of total exports to the EU, which is quite high. Furthermore, the concentration of exports declined from 2013 to 2018 by 43% and the share of processed goods increased from 34% to 61%.

Thus, despite Georgia's focus on exports of services (mainly tourism) and its distance from EU markets, the DCFTA had a positive effect on exports of goods, in particular with regard to its commodity composition. Time will tell, if the improved export structure will also lead to more exports in the future.

The DCFTA comes into force

In 2014, the EU and Georgia established a deep and comprehensive free trade area (DCFTA). As an integral part, the DCFTA abolishes practically all tariffs and – even more importantly – spells out an alignment process with EU standards concerning product safety among other things.

A key motivation of Georgia behind the DCFTA was to increase exports to the EU. Almost 5 years after the introduction of the DCFTA, we analyse where Georgia stands in terms of reaching its goal. We do this by comparing relevant indicators in 2013 (before the DCFTA) and in 2018 (last full year after the DCFTA). More specifically, we analyse the effect on exports of goods and on the commodity composition of exports.

The issue of re-exports, copper ores and hazelnuts

Before comparing indicators in 2018 and 2013, one has to make sure that an appropriate data set for exports is used. There are three challenges: First, usual export

data includes re-exports. However, the value of re-exports does not depend on trade agreements. Therefore, re-exports need to be excluded. Thus, we focus on domestically produced exports only.

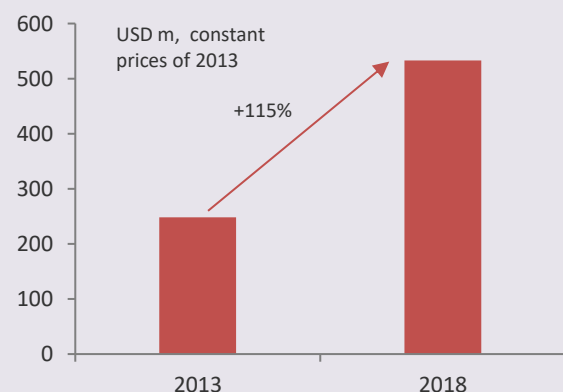
Second, there is reasonable ground to think that a lot of the exports of copper ores are actually re-exports, even if they show up as domestic goods in some official statistics. Therefore, we dismiss copper ores from the equation.

Third, back in 2013, hazelnuts amounted to 32% of Georgian exports to the EU. However, in 2017/2018, the harvest of hazelnuts has been decimated by the marmorated brown stink bug. As a result, exports to the EU dropped. However, this supply shock has no relation whatsoever with the DCFTA. For that reason, we also exclude hazelnuts from our analysis.

The effect on exports to the EU

As a first indicator, we consider the value of exports in USD terms in 2013 and in 2018. It can be seen that exports in that category increased moderately by 9%. However, at the same time, commodity prices dropped strongly in this period. Thus, it is more telling to look at exports in constant prices of 2013. What can be seen is that exports (in constant terms) increased very strongly, by 115%.

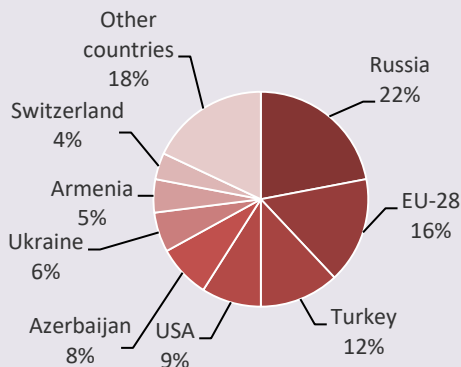
Exports to the EU in constant prices, 2018 vs 2013



Source: WITS, authors' estimates; exports of domestically produced goods, excl. hazelnuts and copper ores

At the same time, it is worthwhile to also consider the share of the EU as an export destination. This indicator, however, shows no change and remains constant from 2013 to 2018, at 16%.

GEO exports as a share of total exports in 2018



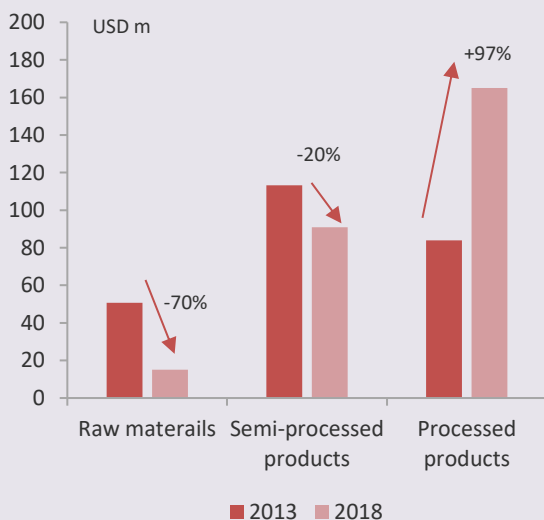
Source: WITS, authors’ estimates; exports of domestically produced goods, excl. hazelnuts and copper ores

Taking into account all three indicators, we conclude that so far, the DCFTA has had a moderate positive effect on exports to the EU.

The effect on the commodity composition of exports

Additional information can be gained by comparing the number of different exported goods to the EU in 2013 with 2018. This number increased from 499 products in 2013 to 627 in 2018. Also, the share of new products in the export composition to the EU is, with 12%, very high. At the same time, the concentration of exports to the EU decreased by 43%. Thus, the DCFTA seems to have stimulated the diversification of exported products. Importantly, also the share of processed products increased from 34% to 61%. This is positive, because processed products usually have a higher value added, thus generating more income in the country.

GEO exports to EU, 2018 vs 2013, by level of processing



Source: WITS, authors’ estimated based on WTO multilateral trade negotiations classification, exports of domestically produced goods, excl. hazelnuts and copper ores

Against this background, we conclude that so far, the DCFTA has had a clear positive effect on the commodity composition of exports to the EU.

Conclusion and outlook

Georgia’s goods trade has a clear focus on its regional partners. Moreover, the export of services (such as tourism) is much stronger than of goods. For these two reasons, the expectations of the effect of the DCFTA on exports of goods should not be too ambitious in the first place.

However, despite these circumstances, our analysis shows that the DCFTA has had a positive effect on exports of goods and especially on the commodity composition of exports. This is a positive feature, given the fact that Georgia’s exports by products used to be quite concentrated. In the end, it remains to be seen, whether the export of new products can develop well in the future.

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A more comprehensive analysis is provided by the Policy Study “[The economic effect of the DCFTA on Ukraine, Moldova and Georgia - A comparative analysis](#)”

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