FOREIGN TRADE OF GEORGIA, MOLDOVA AND THE UKRAINE WITH THE EUROPEAN UNION AFTER SIGNING THE ASSOCIATION AGREEMENT

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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 "Baltic States" had a preferential position; before long they chose the European course of development. The Course of joining the European Union was declared by three other States (Georgia, Moldova, Ukraine) only in 2014 when they signed the Association Agreement. These Agreements turned out to be quite challenging for the States as they impose 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 three 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 Moldova and the same is true about Georgia on NAFTA. In general, all the three states should concentrate their activities on exporting more competitive export products to the EU market.

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

JEL Classification: F10, F16, O52

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, 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). 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'll try to answer these questions on the samples of Georgia, Moldova and the Ukraine. All these states have the same historical background, clearly indicate European way of development and share the same goal - are striving to become members of the Euro-Atlantic structures, evidenced by signing the association agreement with the European Union. Different aspects of the research of this problem have been considered by a number of scientists listed in the bibliography below (Gaganidze, 2013, 2014, 2015, 2016; Silagadze, A., Zubiashvili T., 2015; Silagadze, A., Atanelishvili, 2014; Mekvabishvili, Atanelishvili, 2017; Papava, 2013).

II. THE ROLE OF EXPORT IN ECONOMIC GROWTH

As already mentioned above, all the three States shared some commonalities, however, other variables should also be taken into account. For Moldova and Georgia having small domestic markets, high economic growth should be definitely bound with the growth of scale of exports. The Ukraine having bigger domestic market is in a better position, however, exports play major role in its stable and inclusive growth. 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. 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, Garnsey, Penrose, 1999).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 the three states; we’ll consider exports as the % of the gross domestic product. (Table 1).

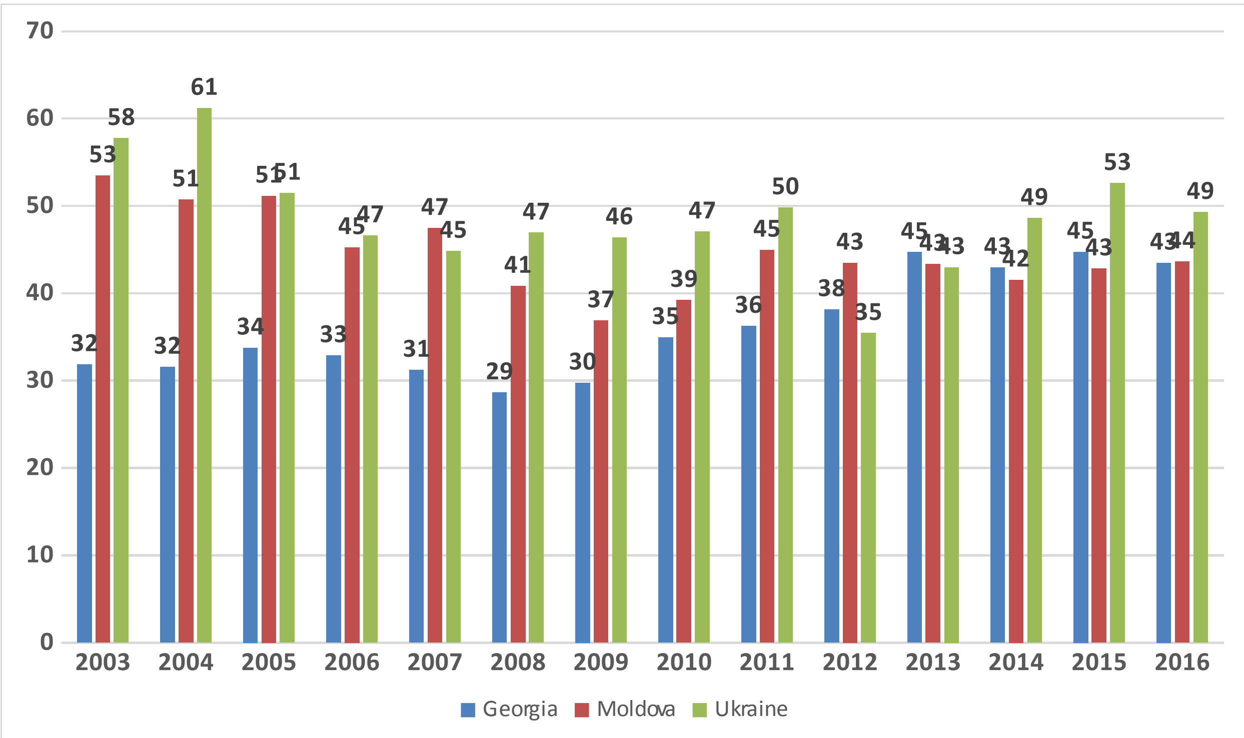
Table 1. Export % in GDP

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Georgia	31.84	31.56	33.75	32.87	31.21	28.62	29.74	34.95	36.24	38.15	44.69	42.94	44.74	43.48
Moldova	53.48	50.71	51.14	45.26	47.45	40.82	36.87	39.22	44.97	43.48	43.34	41.53	42.81	43.63
Ukraine	57.75	61.21	51.48	46.62	44.84	46.92	46.38	47.05	49.82	35.42	42.96	48.59	52.60	49.29

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 three states constitute an important segment of their economies playing a significant role in their economic growth. However, 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 Ukraine and Moldova have higher figures than Georgia. Ukraine had the max in the 2004 (61%), which decreased by 2016 to 49%;

2). 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 2003-2016, in Thousand $

	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
Moldova	790,297	985,173	1,091,255	1,051,601	1,341,798	1,591,416	1,282,981	1,541,487	2,216,815	2,161,879	2,428,303	2,339,530	1,966,837	2,045,341
Ukraine	23,066,846	32,666,132	34,227,974	38,367,609	49,294,390	66,952,306	39,695,648	51,430,286	68,393,034	68,694,495	63,320,469	53,913,302	38,127,040	36,838,979

Computed: http://www.trademap.org/tradestat/Bilateral_TS.aspx?nvpm 17.07.2017.

Table reveals that in all three 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.

It's clear that exports from the Ukraine are under pressure caused by the civil war and a large scale military operation in the east Ukraine. In Georgia and Moldova, 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 thousand $

	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
Moldova	-612,145	-783,361	-1,201,037	-1,641,562	-2,348,070	-3,307,347	-1,995,289	-2,313,802	-2,974,456	-3,051,049	-3,064,090	-2,977,429	-2,019,984	-1,975,01
Ukraine	46,408	3,669,348	-1,894,023	-6,654,012	-11,306,191	-18,496,075	-5,717,296	-9,306,849	-14,214,503	-15,962,172	-13,665,544	-468,107	610,887	-1,443,546

Computed: 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; Moldova indicates a strong tendency of negative balance decrease, while no valid judgments can be made for the Ukraine due to political turmoil there.

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 4. Major Export products on the HS 4 digit Level in thousand $ for the 2012-2016 years.[8]

	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
Moldova	% in total exports 21,22	% in total exports 26,37	% in total exports 25,74	% in total exports 29,87	% in total exports 34,66
8544	166,961	213,096	216,842	212,556	224,841
1206	72,648	136,153	105,569	143,692	178,713

[8]. HS codes are presented in the Annex 1.

2204	142,128	149,590	111,830	97,719	107,942
9401	61,067	75,701	86,687	80,953	100,905
1001	16,019	65,879	81,310	52,491	96,518
Ukraine	% in total exports 28,73	% in total exports 28,43	%in total exports 31,26	% in total exports 3,71	% in total exports 35,57
1512	3,933,975	3,281,272	3,554,343	3,023,550	3,533,520
1001	2,330,541	1,891,519	2,290,754	2,238,182	2,672,986
1005	3,892,991	3,833,302	3,350,704	3,002,493	2,363,964
2601	3,131,694	3,739,104	3,315,420	2,091,975	2,314,380
7207	5,423,069	5,254,782	4,342,053	2,495,830	2,217,285

Computed: 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. In Georgia this share is the highest. This proves the above-mentioned assumption that Free Trade Agreements with the EU increased the exports of the existing export 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 5. Export Geography in thousand $

	2012	2013	2014	2015	2016
Georgia	2,376,634	2,910,582	2,861,043	2,204,676	2,113,734
EU	353,016 9(14,85)[9]	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)
Moldova	2,161,879	2,428,303	2,339,530	1,966,837	2,045,341
EU	1,016,667(47,02)	1,138,677(46,89)	1,245,978 (53)	1,217,588(62)	1,332,417(65)
CIS	946,519(39,83)	951,267(39,17)	760,140(32)	510,224(26)	431,076(21)
NAFTA	31,049(1,44)	26,487(1,09)	33,446(1.00)	24,632(1.00)	19,465 (1.00)
Ukraine	68,694,495	63,320,469	53,913,302	38,127,040	36,838,979
EU	17,123,290(24,93)	16,764,059(26)	17,009,278(32)	13,019,306(34)	-
CIS	25,843,358(37,62)	22,610,765(36)	15,378,206(29)	8,208,861(22)	-
NAFTA	1,322,191(1,92)	1,075,784(2)	892,844(2)	630,346(2)	-

Computed: http://www.trademap.org/tradestat/Bilateral_TS.aspx?nvpm 17.07.2017.

We could easily identify two interdepandant tendencies: share of the EU market is increasing, while the share of CIS market is decreasing. Thus, our assumption, 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.

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 two 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: Xij - I country export in j country; Xi - I country total export; Mj - j country total imports; M –world import. Formula is: Iij=(Xij/Xi)/(Mj/M). If the figure Iij 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.

[9]. In brackets are indicated shares in total exports

Table 6. Trade Intensification Index

	EU	CIS	NAFTA
Georgia	0.84	13.5	0.32
Moldova	2.03	10.5	0.19
Ukraine	1.09	11	0.1

Computed: http://www.trademap.org/tradestat/Bilateral_TS.aspx?nvpm 17.07.2017.

The analysis of the figures presented in the table clearly indicates the importance of CIS as the export market, which could be easily explained by existing traditional economic ties. Regarding the EU export potential, it is better utilized by Moldova; Georgia and Ukraine should make more efforts to reach the same level of export potential utilization. NAFTA has the highest potential for the utilization of the export for all the three States, however. Georgia has better results.

For a better utilization of the export potential on the EU market, new export products are needed, for which all the three States should attract additional FDI. The decrease of the CIS share is an objective reality; this tendency will remain unchanged in future. In the case of NAFTA, seeking FTA with the USA is the clearest and most important tool for better utilization the potential of this market. In the case of NAFTA, as in case of the EU, new export products are urgently needed, and thus are needed new additional FDI-s.

IV. CONCLUSION

The Foreign trade of Georgia, Moldova and the Ukraine 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 three 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 under way. At the Same time, the Association Agreement doesn't have much to do with creation of new export products; major exporting product groups in all the three states are stable. Trade Intensification Index analysis gave the way for these judgments: the EU market is better utilized by Moldova, while 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.

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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 of 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, …
1512	Sunflower-seed, safflower or cotton-seed oil and fractions thereof, whether or not refined, …
1001	Wheat and meslin
1005	Maize or corn
2601	Iron ores and concentrates, incl. roasted iron pyrites
7207	Semi-finished products of iron or non-alloy steel