

Prospective FTA between Georgia and India: Another result of DCFTA?

Dr Tamara Kovziridze ¹



Even though the EU-Georgia DCFTA has not yet had any substantial impact on trade and Georgia's exports to the EU, it undoubtedly changed in a positive way Georgia's prospective attractiveness as a trade and investment hub. After the entry into force of the EU-Georgia DCFTA in 2014, Georgia concluded further FTAs with EFTA, China and Hong Kong. The DCFTA increased Georgia's potential attractiveness as a market where in principle its FTA partners can invest, produce and then export to the EU, taking advantage of tariff free trade as well as of comparatively attractive business environment in the country. The real benefits of these new FTAs in terms of trade and growth remain still to be seen, but Georgia continues to pursue actively its liberal trade policies and conclude more FTAs with the aim to broaden its market. The next big market after China is India, and exploratory talks are also envisaged with the CEFTA (Central European Free Trade Agreement)² region and possibly Israel as well.

¹ Senior Director and Partner, Reformatics.

² Members of CEFTA are Albania, Bosnia and Herzegovina, Croatia, North Macedonia, Moldova, Montenegro, Serbia and the United Nations Interim Administration Mission in Kosovo (UNMIK) on behalf of Kosovo.

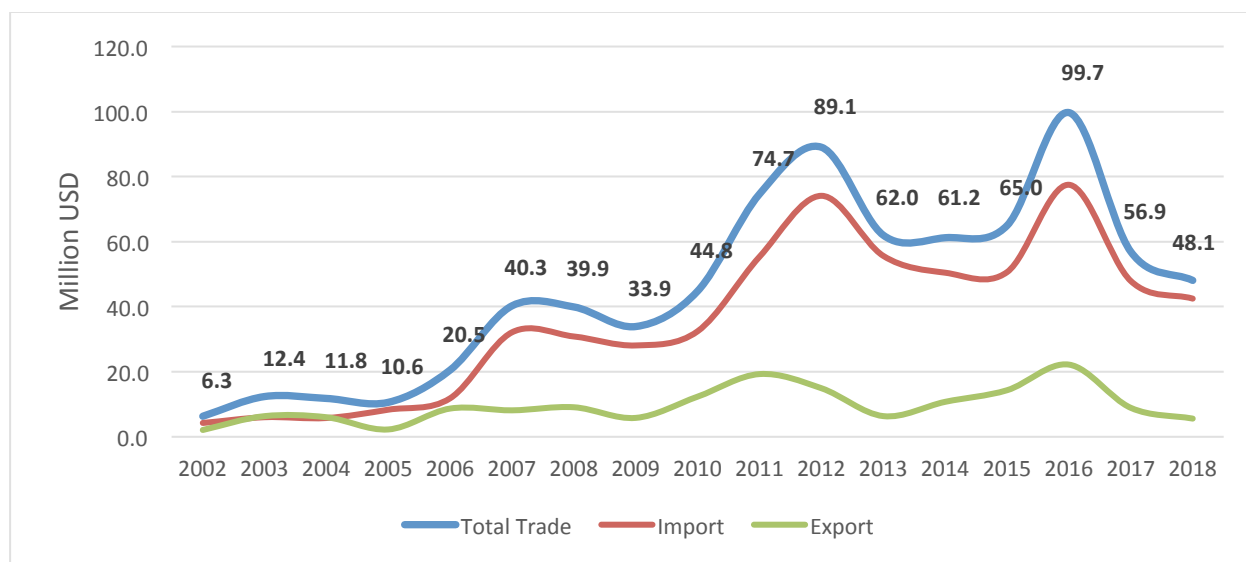
Negotiations on Georgia-India FTA have not been formally launched yet and consultations between respective governments are ongoing to plan the next steps. But a feasibility study has been conducted jointly by the Georgian and Indian governments, and after its positive conclusions, it seems that the start of negotiations is just a matter of time.

India and Georgia are two extremely different markets based on their size as well as trade and tariff policy. India's economy was 176 times bigger than that of Georgia as of 2017. In 2017, India's trade volume was almost 64 times the volume of Georgia's trade with the rest of the world. In terms of market access and openness to import, there are substantial differences as well: India's bound as well as applied MFN tariffs are much higher than those of Georgia, both for agricultural and industrial goods. India's tariff protection and support to the agricultural sector remains substantial, in contrast to Georgia. According to the WTO 2018 Tariff Profiles, in India, the simple average MFN applied tariff for agriculture is 32.8%, and for industrial products 10,7%, whereas bound tariffs are much higher. Georgia has conducted autonomous trade liberalization in 2006 abolishing most (about 80%) tariff lines. According to the same source, its simple average MFN applied tariff on agricultural goods is 6,3 % and on industrial goods 0,6 %. In parallel Georgia has concluded bilateral free trade agreements with as many countries as possible, currently comprising a market of 2.2 billion population.

Trade between Georgia and India has increased during the last years. Although, the total trade is characterized by fluctuations, overall the trend is positive. In the last decade, from 2009 to 2018, total trade increased by 42%. Average annual growth rate of total trade was 7% in this period, while exports grew by 11% and imports by 8%. Looking at the average annual growth rate of total exports (11%) and total trade (6%) of Georgia with the rest of the world in 2009-2018, it is clear that India is within the general trend of Georgia's trade dynamics.

The share of trade volume between Georgia and India in Georgia's total trade has been on average 0.7% during the last 10 years. The Figure 1 summarizes trade dynamics between Georgia and India 2002-2018, while Table 1 provides information about the percent change of Georgian export, Indian import and total trade.

Figure 1. Trade between Georgia and India in 2002-2018, in million USD



Source: GeoStat, National Statistics Office of Georgia

Table 1. Trade and Percent Change of Trade between Georgia and India in 2009-2018, in million USD

	Import in Georgia	% Change of Import	Export From Georgia	% Change of Export	Total Trade	% Change of Total Trade
2009	28.1	-9%	5.8	-36%	33.9	-15%
2010	32.5	16%	12.4	112%	44.8	32%
2011	55.4	71%	19.3	56%	74.7	67%
2012	74.1	34%	14.9	-23%	89.1	19%
2013	55.6	-25%	6.4	-57%	62.0	-30%
2014	50.5	-9%	10.8	69%	61.2	-1%
2015	50.6	0%	14.3	33%	65.0	6%
2016	77.5	53%	22.2	55%	99.7	53%
2017	47.9	-38%	8.9	-60%	56.9	-43%
2018	42.5	-11%	5.6	-37%	48.1	-15%

Source: GeoStat, National Statistics Office of Georgia

Overall, trade dynamics between Georgia and India is characterized by an unstable trend. Specifically in recent years, the increasing trend of total trade in 2014-2016 was followed by a decrease in 2017 and 2018, as it is visible in figure 1. Looking at top 10 Georgian export product categories to India in 2018 most of them did not

even exceed 1 million USD per annum, the exceptions being aluminum (2.32 million USD) and copper scrap (1.30 million USD). Export to India is dominated by low value-added products. As for imported product categories from India, in 2018 packaged medicines was the top imported product (10.69 million USD), followed by cast iron pipes (2.73 million USD) and insecticides (2.54 million USD).

All these figures indicate that the current trade relationship between Georgia and India is not strong. Despite this, concluding a FTA with Georgia might be interesting for India, as the EU-Georgia DCFTA opens up opportunities to invest and produce in Georgia and then export to the EU market, where India does not have the attractive market access conditions like Georgia's tariff free regime on both agricultural and industrial goods.

Indian FDI to Georgia is also characterized by an unstable trend and considerable fluctuations. The volume of FDI is low. India has invested annually on average 4.2 million USD in Georgia in the past ten years, whereby Indian investment was on average 0.4% of total FDI of Georgia.

Overall it is evident that Georgia's trade with India has been unstable and is imbalanced, with imports exceeding exports by about five times, and even more so in the last recorded year 2018. This imbalance is similar to the case of Georgia's trade with China (see op.ed. no.7, April 2019). The rationale of Georgia going ahead nonetheless to conclude FTAs with these major economies is quite clear. Georgia's existing general tariff liberalisation to all WTO partner states means that the negotiation of new bilateral FTAs brings asymmetric advantage in tariff reductions to Georgia as well as additional investment and export opportunities.

To summarize, India's role in Georgia's trade and FDI structure has increased but the trend remained unstable and the overall volumes low. Exports are still dominated by products with limited value-added content. In such a context, it would be unlikely to find political support for an FTA as it requires substantial effort and resources to conduct negotiations. It seems that here again, like in the case of China, the DCFTA was the game changer, increasing Georgia's attractiveness as a market. It seems that the prospective FTA is expected to change the above-described trade and investment patterns in the medium- to long-term thanks to increased export-driven FDI, which might be one of the positive results of the Georgian-Indian free trade agreement as well as the DCFTA.