

Dependence on Russia – Statistically Critical Goods

Lia Dzebisauri

Assistant Professor

Ivane Javakhishvili Tbilisi State University

Georgia's highest economic dependence on Russia and a high concentration of the market is threatening, as Russia has repeatedly used economic leverage against Georgia and other countries since the collapse of the Soviet Union. As historical tendency of Georgia's trade shows that Russian market is extremely attractive for Georgian exporters and importers with the view of prices of products and logistical issues. But at the same time it's highly risky from the perspective of sustainability of partnerships. For example, in 2006 Russia first cut off natural gas and electricity supplies to Georgia, then virtually banned the export of products from Georgia to Russia. In this abstract two critical goods are analyzed for Georgia's exports and imports such as wine and wheat by reviewing the top producers and consumers of the given products in the world. According to the official statistics, at the end of 2021 Russia ranked 1st place in export of Georgian wine with the share of 54.7% in total export of wine, while The share of the top 10 countries amounted to 92.6% of the total wine export. Observing the dynamics of imports of wheat from Russia to Georgia throughout the last year (2021) reveals that imports of wheat from Russia (93.7%) has been the main source of imported wheat by a considerable margin. Therefore, it is extremely important to know the level of dependence of the Georgian economy on Russia and the tendency to strengthen resilience in the face of possible threats.

Keywords: Statistics, export, import, dependence, Russia

Introduction

Considering Georgia's historically high dependence on exports and imports of essential goods it is noteworthy to analyze Georgia's reliance on external market with regards to major food products. Also to take into account that Russia is the prominent player in the global trade of food and agricultural products and top trading partner of Georgia, it is worthwhile to see the dependence of Georgia on Russia.

In January-June 2022, the export of Georgian products to Russia decreased by 2.8% and amounted to USD 256 million, while the import increased by 51% and reached USD 706 million. Despite such an increase, the share of trade with Russia in the total trade balance of Georgia decreased from 11.8% to 11.4%. The reason for this was the greater growth of Georgia's foreign trade with other countries. However, the share of imports from Russia taken separately was 11.9% of total imports, which is the highest in the last 15 years.

In this abstract we would analyze two critical goods for Georgia's exports and imports such as wine and wheat by reviewing the top producers and consumers of the given products in the world.

As households' expenditure on food consumption is growing y-o-y (for instance, share of food consumption expenditure in total household consumption expenditure increased from 41.4% in 2017 up to 47.4 % in 2020¹) in Georgia, to have a comprehensive picture of the pattern of a country's food supply during a specified reference period, extremely important to analyze food security issue and namely food balance sheets in order to find out weaknesses in self-sufficiency ratio and accordingly to search of alternative markets for ensuring secured food provision of population and reducing dependence of Georgia on Russia and to define where and how selected products can be diversified.

Diversification of export and import is vitally important for the further development of Georgian economy.

Georgia has the highest dependence on exports and imports from Russia and a high concentration of the market. As historical tendency of Georgia's trade shows that Russian market is extremely attractive for Georgian exporters and importers with the view of prices of products and logistical issues. But at the same time it's highly risky from the perspective of sustainability of partnerships. The war that started in Ukraine at the end of February 2022 made the monitoring of Georgia's economic dependence on Russia even more relevant. The harsh sanctions imposed on Russia are leading to a decrease in its economy, which also affects the countries that have close economic relations with it.

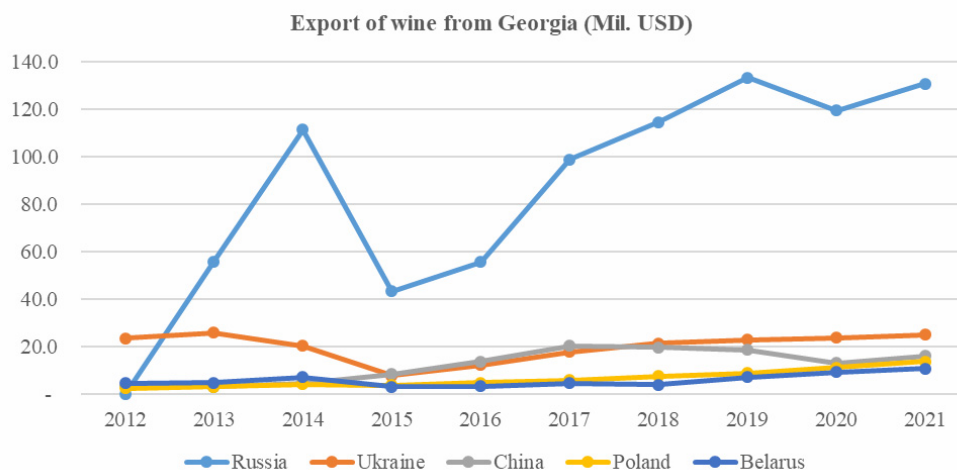
Results

Export of wine. We well remember the embargo imposed by Russia on export of Georgian wine, mineral waters and agricultural products in 2006 and its dire consequences for our country. At that time, Russia was Georgia's largest trading partner and the most attractive foreign market for the effective realization of the country's export potential. That is why there was a heavy blow from Russia to a sudden embargo on Georgian exports. Both the government and the exporters met this circumstance unprepared. As a result, most wine exporters suffered. The embargo was a push for the government of our country to take active actions to explore new export markets. In this regard, Georgian government started negotiations with the EU and signed Deep and Comprehensive Free Trade Agreement in order to minimize economic damage caused by the embargo. The embargo was canceled in 2013 and since that time Georgian wine has returned to Russian market.

In 2021, 55% of wine exported from Georgia (worth USD 131 million) went to Russia. Russia occupied 2nd place in top export partners after China with 14.4% of share in total export of Georgia², while the EU's (with 27 member countries) share is 16.9% in total.

At the end of 2021 Russia ranked 1st place in export of Georgian wine (see chart 1) with the share of 54.7% in total export of wine (it should be mentioned that the share is decreased by 9.4% compared to the previous year), followed by Ukraine, while the share of the EU reached its historical maximum 11.7%. The share of the top 10 countries amounted to 92.6% of the total wine export. To look at the food balance sheet, throughout 2012-2020 average share of self-sufficient ratio of grape is 147%³, accordingly Georgia has a high potential for exporting wine.

Chart 1.



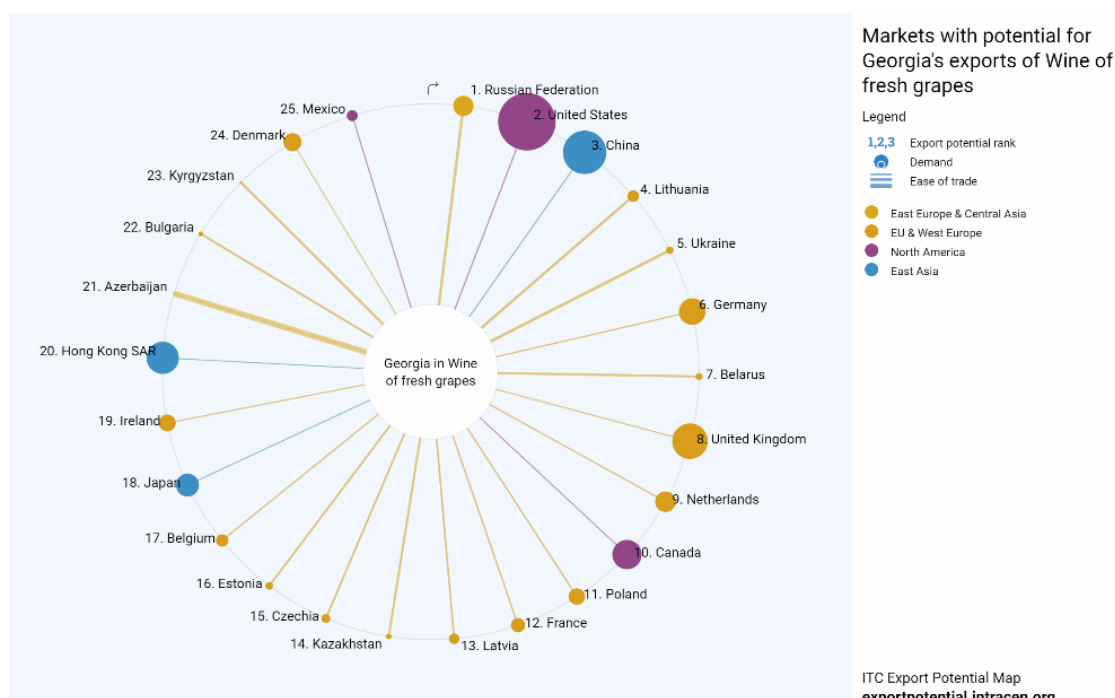
Finally, considering Georgia's lack of export diversification in the reviewed product, some of the other major global exporters of the covered products are worth mentioning. The chart below (chart 2) shows opportunities for export diversification for Georgian wine indicating demand and easiness of trade⁴.

Countries with the highest demand are the USA, China, UK, Hong Kong and Canada. Export Potential Map should be used as a starting point in a decision-making process and be complemented with further research and stakeholder consultations.

Import of wheat. Georgia's dependence on Russian wheat and wheat flour has been also traditionally high. In 2021, 319,000 tonnes of wheat worth USD 87 million were imported from Russia, which was 94% of Georgia's wheat imports.

As for the import – major and most important food product for Georgia is a wheat. According to the food balance sheet the self-sufficient ratio for wheat is extremely low not exceeding 15% during last several years and historically average ratio equaled 12%, while the same ratio for maize is 80% and potato 95%.

Chart 2.



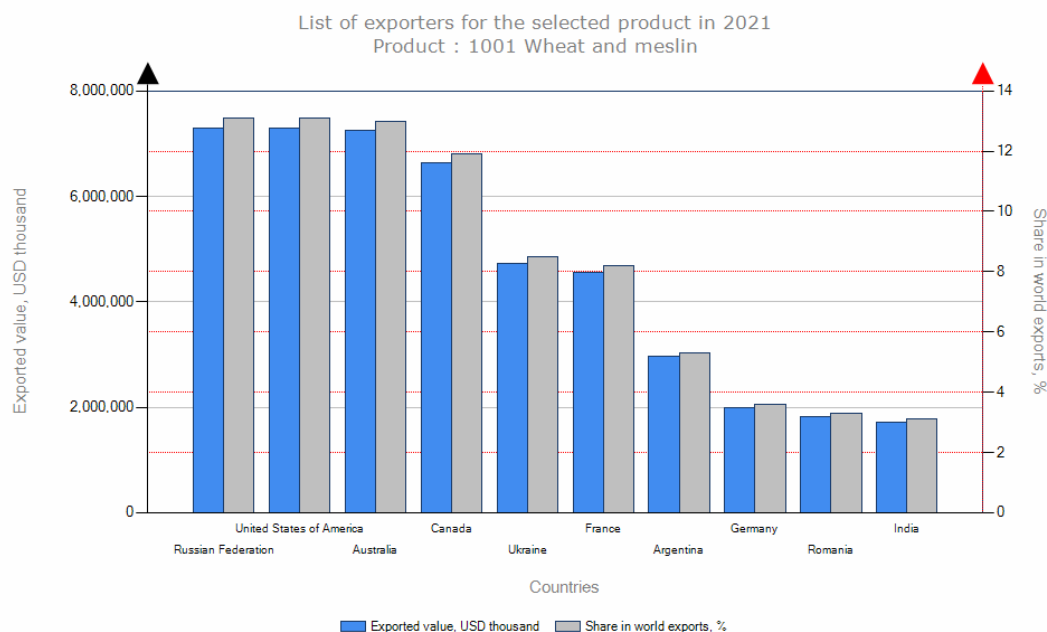
In the wheat and meslin sector, where the top seven exporters combined accounted for 79 percent of international trade in 2021, the Russian Federation stands out as the top global wheat exporter, shipping a total of 32.9 million tonnes of wheat and meslin (in product weight), or the equivalent of 18 percent of global shipments (see figure 6). Ukraine stood as the sixth largest wheat exporter in 2021, exporting 20 million tonnes of wheat and meslin and with a 10 percent global market share.

According to the UN Comtrade Database and ICT calculations⁵ as for 2021 Russia is the biggest exporter of wheat in the world (chart 3) with the share of 13.09% followed by the USA with 13.06%. Russian wheat has a relatively low average annual price (USD 0.27/KG), compared to the USA (USD 0.30/ KG).

Observing the dynamics of imports of wheat from Russia to Georgia throughout the last year (2021) reveals that imports of wheat from Russia (93.7%) has been the main source of imported wheat by a considerable margin followed by the USA with 5% of share in total import of wheat. This can be explained by

the combination of the relatively low price of wheat from Russia and the relatively low transportation costs of importing. It must be mentioned that the share of Russia is still remains at a high level, reaching the maximum of 99.9 in 2016 and 99.6% in 2020, but in 2021, compared to 2020, the value of wheat imports from Russia declined significantly by 18.6% and the absolute volume by 30.3%. Since 2022, wheat imports have been replaced by wheat flour imports. Due to Russia's increased tax on wheat exports, importers have chosen to import wheat flour instead, which was ultimately cheaper.

Chart 3.



It will be necessary to slightly increase domestic production of wheat. Russia currently has restrictions on wheat exports to other countries, including Georgia, and has already forced several countries to import flour instead of higher-priced wheat.

Focusing on Ukraine would be the best option for import diversification, but Russia's invasion of Ukraine has led to imposing restrictions on wheat exports by Ukraine.

Conclusions and Recommendations

The critical role that the Russian Federation and Ukraine play in global agriculture is all the more evident from an international trade perspective. At present, the high dependence of wine exports on the Russian market and wheat imports from Russia remain the main challenge for Georgia's economic security.

Georgia's economic dependence on Russia is not just an economic issue, it is a challenge to the country's security. The goal of the Georgian government should be to minimize economic dependence on Russia.

To reduce the trade with Russia the Government of Georgia should start working more actively and expeditiously on concluding free trade agreements with all strategic partners with whom we do not yet have such an agreement. Although such agreements will have positive effects in the long term, given the current situation, Georgia can more actively demand to accelerate the process of signing them.

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It is extremely important to know the level of dependence of the Georgian economy on Russia and the tendency to strengthen resilience in the face of possible threats.

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