THE TRENDS OF PRODUCING AGRO-FOOD PRODUCTS AND EXPORT INNOVATIVE MARKETING STRATEGY IN GEORGIA

Introduction. Historically, agriculture has been a traditional sector for Georgia and the country has favorable natural and resource potential for its development. However, the rate of development of this sector has been below the corresponding indicators of the other sectors of the economy for many years, the level of self-sufficiency for local agricultural products is low, the import of food products exceeds export by four times on average and therefore, the country faces serious challenges in this regard. So in the paper discusses about the agro-food products in Georgia and its export potential in order to reveal the relevant export stimulation economic policy as the country has the rich natural resources to develop and export.

Aim and tasks. The purpose of the research is to develop the recommendations for the export stimulating economic policy based on the assessment of the agro-food products and export potential in Georgia.

Results. The economic influence of stimulating export and importing the economy is assessed by the justification of the positive influence of international trade on the development of the agro-food sector. The article studies the determinants of innovative marketing in agribusiness. It is proved the role of innovative marketing in elaborating export strategy of agro-food products in the international markets. Based on bibliographic research and empirical materials, the possibility of diversification of production and export of agro-food products is revealed.

Conclusions. In the agricultural sector of Georgia in recent years there has been a tendency to increase production; however, the volume of import still significantly exceeds export. It is believed that export diversification will enable Georgia to overcome the limited market capabilities and promote productivity. To achieve these goals, the use of relevant stimulating economic policy tools is offered: subsidizing export; export credits; optimization of trade barriers; effective management of exchange courses; export insurance; offering the special financial services and more.

Key words: agroproducts, trends, export, diversification, innovative marketing, economic policy.
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ТЕНДЕНЦІЇ ВИРОБНИЦТВА АГРОПРОДОВОЛЬЧИХ ТОВАРИВ ТА ЕКСПОРТНО-ІННОВАЦІЙНОЇ МАРКЕТИНГОВОЇ СТРАТЕГІЇ В ГРУЗІЇ

Вступ. Історично сільське господарство було традиційним для Грузії, і країна має сприятливий природний та ресурсний потенціал для свого розвитку. Однак темпи розвитку цього сектора протягом багатьох років були нижче відповідних показників інших галузей економіки, рівень самодостатності місцевої сільськогосподарської продукції низький, імпорт харчових продуктів перевищує експорт в чотири рази в середньому, і тому країна стикається з серйозними проблемами в цьому плані. Так у статті обговорюється агропродовольча продукція Грузії та її експортний потенціал, щоб виявити відповідну економічну політику стимулювання експорту, оскільки країна має багаті природні ресурси для розвитку та експорту.

Мета і завдання. Метою дослідження є розробка рекомендацій щодо стимулювання експорту економічної політики на основі відповідних агропродовольчих товарів та експортного потенціалу Грузії.

Результати. Економічний вплив стимулювання експорту та імпорту економіки оцінюється обґрунтуванням позитивного впливу міжнародної торгівлі на розвиток агропродовольчої галузі. У статті досліджуються детермінанти інноваційного маркетингу в агробізнесі. Доведено роль інноваційного маркетингу в розробці експортної стратегії агропродовольчої продукції на міжнародних ринках. На основі бібліографічних досліджень та емпіричних матеріалів розкривається можливість диверсифікації виробництва та експорту агропродовольчих товарів.

Висновки. В сільськогосподарському секторі Грузії в останні роки спостерігається тенденція до збільшення виробництва; однак обсяг імпорту все ще значно перевищує експорт. Вважається, що диверсифікація експорту дозволить Грузії подолати обмежені можливості ринку та підвищити продуктивність. Для досягнення цих цілей пропонується використання відповідних стимулюючих інструментів економічної політики: субсидування експорту; експортні кредити; оптимізація торговельних бар'єрів; ефективне управління курсами обміну; експортне страхування; пропонуючи спеціальні фінансові послуги та інше.

Ключові слова: агропродукція, тенденції, експорт, диверсифікація, інноваційний маркетинг, економічна політика.
Introduction. Historically, agriculture has been a traditional sector for Georgia and the country has favorable natural and resource potential for its development. However, the rate of development of this sector has been below the corresponding indicators of the other sectors of the economy for many years, the level of self-sufficiency for local agricultural products is low, the import of food products exceeds export by four times on average and therefore, the country faces serious challenges in this regard [1].

According to preliminary data of 2018, about 42% of the population of Georgia lives in rural areas; in addition, the indicator has a decreasing trend [2]. But the situation in production is opposite – almost half of the population living in rural areas produces only insignificant part (8.2%) of Gross Domestic Product (GDP) [3]. Comparative analysis of the indicators shows that productivity in the sector is quite low; accordingly, income is low and about 70% of the goods produced is used for self-consumption. [4]. Food products account for 30% of consumer basket in Georgia, which is twice as much as the corresponding indicator in the Eurozone. It should be also taken into consideration that the increase in food prices is higher than the increase in subsistence minimum. The burden of price increase and inflation is heaviest for low-income families and households. Poverty rate in Georgia is still high; besides, more than half of the poorest population lives in rural areas. According to the data of 2017, population below 60 percent of the median consumption was 22.3%. The share of the population below the absolute limit of poverty is high and the Gini coefficient (0.4) indicates an unequal distribution of income [5]. In such conditions, the added value in agricultural sector cannot ensure solving the food security problem and the sector faces a number of challenges.

In addition, gender inequality is high in Georgia, especially in rural areas. As statistical evidence and rigorous studies conducted by researchers and non-governmental organizations suggested gender inequalities in employment, education and income distributions still prevails in Georgia. Not all groups in society have equal access to employability and entrepreneurial opportunities [6]. The development of the sector will result in the reduction of gender inequality. In addition, achieving sustainable food security requires the study of not only economic, but also social and political support for solving this problem and other challenges [7].

Analysis recent research and publications. The study in the article is conducted based on the appropriate bibliographic research. The papers and works are analyzed of Georgian as well as the foreigner scientists. Also, there are studied the official documents and reports regarding the topic of the article.

It is revealed that the debates among the researchers are going on to the determinants of innovative marketing in agribusiness and they consider them as determinants (Cristian Geldes, Christian Felzensztein). In the case of export of Georgian agro-food products, the impact of innovative marketing is extremely large in terms of innovating the products. However, as the recent survey showed, it is advisable to use additional and radical innovations of other kinds (Silverio Alarcón, Mercedes Sánchez). As researchers note, one of the positive effects of export stimulation is that it allows countries to benefit from scale economy, while import substitution is a state strategy, which envisages replacement of imported agro-food products through increasing local production. It should be noted that, in this case, import substitution is considered as increasing local production for meeting local demand and not for entering export markets [8].

Modern researches substantiate that food sufficiency is directly related to productivity, especially in developing countries [9]. It is also proved that export and import indicators of agricultural products increase in accordance with the increasing trend in the production of agricultural sector [10]. In addition, there are studies on the terms of trade [11]. However, the views of researchers on the trends in agricultural development and the growth of export are different. The conclusions provided by the scientific opinions and findings of researchers show that the increase in export allows the developing countries to overcome limited capabilities of local market. In addition, some of the Georgian researchers consider that this process also contributes to improving of productivity and competitiveness [12].
Various instruments are used for achieving these goals, some of the important ones are export subsidizing policy; optimization of trade barriers; effective management of exchange rates; export crediting; insurance of export; offering special financial services; etc.

Agricultural Development Strategy of Georgia 2017-2020 envisages the fulfillment of the obligations undertaken under the Deep and Comprehensive Free Trade Area with the European Union. Therefore, the government program includes implementation of the policy, which will be focused on ensuring continuous increase in the production of high quality products in agricultural sector, food security, food safety and rural development based on sustainable development principles [13]. What is more, as noted in the Social-Economic Development Strategy of Georgia 2020, providing information about export markets is a priority among the measures to be implemented for stimulating export by the state [14].

What is the most important to note according to the Technical report for the post-2015 development about Sustainable Agriculture and Food Systems of the Sustainable Development Solutions Network it is revealed that the researchers substantiate that development of agricultural sector is essential for economic growth in any country and especially for developing countries. It is also shown that economic growth of agriculture is much effective in reducing poverty than any other sector [15].

As the main results of the study it is important to highlight the following findings:

– Increase in the number of population and their income will result in increasing demand for agro-food products in the long run. To meet this demand, increase in food production should be considered as a main goal of agricultural sector. This, in turn, will allow the population to overcome the problems related to health, education, economic and social development, food security, protection of environment and other issues. For achieving a long-term result, appropriate measures need to be taken not only for the private sector, but for the public sector as well [8].

– When studying the problems related to food satisfaction of the population it is of utmost importance to take into consideration the relationship between production and supply of agro-food products. Optimal interaction of industrial factors, technologies, intermediate production and delivery processes ensures meeting demand for food, while optimal integration and coordinated action of stakeholders of agricultural sector reduces losses and is considered as a tool for improving income, which leads to improving the condition of the population [16].

– Supporting the growth of local production is important for stimulating export in Georgia. On its part, the growth of local production is related to the growth of export. However, in this regard, there is asymmetric information on the market. Due to this reason, there is a limited interest in Georgian agro-food products by local and foreign producers.

– Removal of trade barriers is considered as one of the main measures for stimulating export. Developing, low-income countries often complain that protectionist policy in agriculture implemented by the European Union prevents growth of export. However, in reality, the main obstacle for developing countries is not the trade barriers, but their failure to meet standards and produce quality goods [14].

– Fluctuation of exchange rates can be one of the hindering factors for stimulating export. The exchange rate of the national currency of Georgia fluctuates frequently, which is directly reflected on the prices of Georgian agro-food products. It is important that the price of the local agro-food products should compete with the price of imported goods and should become stable on the international market.

– Development of the agricultural sector in Georgia is hindered by low level of agricultural lending. The risks in agriculture make commercial banks restrain from lending to this sector. This very important sector of the economy amounts only less than 2% of the bank lendings. Farmers are the subject of special attention in almost all the developed countries, which is primarily expressed in providing them with interest-free loans. Georgian farmers have experienced no such support so far [17].

– In terms of the above-mentioned trends and the needs of production, the indicators of export and import of agro-food products need to be evaluated. In general, development of
international trade has a stimulating effect on agricultural development. There are a number of researchers who substantiate the positive role of international trade in the economic development of the country. From this perspective, two alternative strategies are generally considered – 1. Export stimulation; 2. Import substitution [18]. In the modern world, some countries are more developed than others. Therefore, the countries are more focused on one of these two strategies; however, both of them can be used simultaneously.

Implementation of export stimulation programs requires significant financial resources. Export crediting and insurance can be considered from this perspective. However, such services are less developed in Georgia and therefore, effective implementation of export stimulation programs is hindered.

Aim and tasks. Based on the above mentioned, the purpose of the research is to develop the recommendations for the export stimulating economic policy based on the assessment of the agro-food products and export potential in Georgia.

Results. There are numerous factors that impact production and food security, including climate, land, manufacturing technology, etc. Also, it is necessary to study the profitability indicators, to determine the correlation of profitability and its factors [19]. Along with the efficient use of these factors, the food self-sufficiency trends should be also evaluated.

In Georgia, self-sufficiency rates for most of the agro-food products have been low for many years. Food security is one of the key factors for ensuring well-being and welfare of the population. [19-20]. The scholars believe that food security creates economic wealth that people use for health care, education, infrastructure development and protection of environment. For instance, in the developing regions of Africa, the growth in agricultural sector is 11 times effective in reducing poverty than the growth in any other sectors.

Some reforms have already been implemented in Georgia, but the desired result is not achieved so far. The reform of the second half of the 2000’s have made significant adjustments to the state policy of Georgia, but the transformational processes have not led to the emergence of the necessary sustainable institutions that would contribute to the effective and fair functioning of society. These changes have led to the fact that the state property institution, typical of the totalitarian state and command-and-control type of economic and social relations, was changed to the institute of concentrated private ownership focused primarily on the redistribution of benefits through the institutions of a market economy in the interests of the ruling elites. A dominant goal was formed - augmenting profits of large private owners [21-22].

Proper functioning of food systems and providing high quality products for the population significantly depends on appropriate economic policy of the country, which corresponds to the environmental conditions of the country. The reforms based on such policy will contribute to maintaining sustainable food security in the long term [23]. Supply of agricultural products to the population and provision of healthy nutrition is the main aim of agrarian policy [24].

The demand for food will double by 2050 compared to 2012. Increased demand for food is not a major challenge. Agricultural production can be increased in certain period of time; therefore, it is important to assess the trends in the development of production and increase productivity in the industry [25].

Meeting the standards of international markets is especially important for developing countries. The standards have significant impact on the export value of agricultural products. In addition, the impact of export stimulation on the costs should be taken into consideration [26]. Therefore, when exporting agricultural products, special attention should be paid to the instruments of economic policy mentioned above in Georgia.

In Georgia, the share of agriculture, forestry, hunting and fishing in GDP reduced from 9.3% in 2014 to 8.2% in 2017 (fig. 1). In case such a declining tendency is maintained in the nearest future, this figure will be reduced to 7.9% by 2020.
In 2017 the value of agricultural output in Georgia amounted to 3.9 billion GEL, including livestock output – 49.5%, crop output – 44.8% and agriculture services 5.7%. In terms of value of output, production of agricultural products is growing but the growth rate is very low. For example, in 2017 the added value in the agricultural sector of Georgia amounted to 5.1 billion GEL. The average absolute growth rate in 2006-2017 amounted to 339.85 million Gel (fig. 2). If this trend is maintained, the added value in this sector will reach 5.9 billion GEL by 2020.

The share of aggregate output of agribusiness in the aggregate output of the country is quite small and it has been decreasing in recent years (fig. 3). The average reduction rate is 0.18%. If this trend continues, by 2020 the indicator will be reduced to 7.9%.

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**Fig. 1. The structure of GDP, %**

Source: compiled by the author on the basis of data [26].

**Fig. 2. The growth of the value added in agricultural sector, (million GEL)**

Source: compiled by the author on the basis of data [27].

**Fig. 3. The share of aggregate output of agribusiness in the aggregate output of the country (%)**

Source: compiled by the author on the basis of data [17].
The analysis of the share of aggregate output of products received from the processing of agricultural products in the aggregate output of the country showed that its value also decreased in 2017 (fig. 4).

![Fig. 4. The share of aggregate output of products received from the processing of agricultural products in the aggregate output of the country (%)](source: compiled by the author on the basis of data [28].)

The figure shows that the share of aggregate output of products received from the processing of agricultural products in the aggregate output of the country has been decreasing for the last three years. For example, if we compare preliminary data of 2017 to the corresponding data of 2016, we will see that the indicator is reduced by 0.2% and by 1.4% compared to 2014.

Analysis of average monthly income received from realization of agricultural products also shows that it amounts to 48.8 GEL per household and amounts only 4.7% of money income of households. It is worth noting as well, that money income from selling agricultural products has been decreasing for the last two years. In particular, in 2017 average monthly income per household from selling agricultural products reduced by 29% compared to 2015 and by 23% compared to 2016. These data prove that currently; low-income agriculture is the largest employer sector in the country. Production of strategic agricultural goods, which effectively uses natural, economic, traditional and export resource potential plays an important role in socio-economic development of Georgia [23].

Structural changes have been observed in the export of agro-food products in Georgia recently. However, the share of agro-food products in total export is quite insignificant (fig. 5).

![Fig. 5. The share of agri-food products in total export in 2000-2017 (%)](source: compiled by the author on the basis of data [27].)

Comparative analysis of the indicators of export and import of agro-food products showed that by 2017 the volume of import significantly exceeds the volume of export and the dynamics of this tendency is almost unchanged (fig. 6).
Accordingly, there are two significant trends in agro-food sector of Georgia: 1. productivity is low; 2. the volume of import significantly exceeds the volume of export.

**Conclusions.** The problems related to food satisfaction of the population it is of utmost importance to take into consideration the relationship between production and supply of agro-food products. Optimal interaction of industrial factors, technologies, intermediate production and delivery processes ensures meeting demand for food, while optimal integration and coordinated action of stakeholders of agricultural sector reduces losses and is considered as a tool for improving income, which leads to improving the condition of the population;

– In order to increase the local production, the existing resource potential should be sufficiently studied and used, also find out all the alternative opportunities for achieving the bigger share of Georgian agro-food products in the international market;

– Different types of export simulation programs should be implemented which will be relevant to the existing resource potential and highlight the main priorities in order to promote the export-oriented economic policy in the framework of innovative marketing strategy.

– The present study of the trends in the production of agro-food products in Georgia revealed that the volume of production is growing, however, the growth rate and productivity is quite low. In terms of such trends of development of agricultural sector, welfare of the population cannot be improved neither in the short-term nor in the long-term periods. It is necessary to implement complex reforms in accordance with the strategic plans for the development of the country and its agriculture. By evaluating the agricultural development tendencies and the indicators of the added value in agro-food sector we can conclude that the level achieved is not sufficient for achieving food security and overcoming poverty.

The level of the added value created in agriculture is not sufficient to ensure food security and to overcome poverty. The share of Georgian agro-food products in the international market is quite small and they are less competitive. Economic relations of Georgia with European and Asian countries provide good opportunities for increasing export of agro-food products.

The study found that the existing resource potential is not sufficiently used for increasing local production. The efficient use of this potential it is possible to determine alternative opportunities of achieving positive trade balance with export. Different types of export stimulation programs and stages of implementation are not appropriately studied in Georgia. In addition, the efficiency of export stimulation programs is not evaluated. It is essential to select and implement well-grounded and efficient stimulating programs taking into account the resource potential for increasing local production. The growth of export is positively reflected on GDP and the improvement of economic situation in the country. It is essential to determine the priorities of the agro-food products for export and concentration of resources to produce these products.
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