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**Trade relations between Georgia and the United States of America in the
global business environment**

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General description of the dissertation thesis

Relevance of research

The active aspirations of countries for globalization in the twenty-first century intensified economic interdependence. Despite the fact that Georgia and the US have a long history of collaboration in political, economic, and cultural realms, the topic of strengthening cooperation between the two nations is relevant from a geopolitical, socioeconomic, cultural, and trade standpoint.

In a globalized world, it is critical to strengthen future trade connections between Georgia and the United States, which includes the signing of a free trade agreement (FTA) between the two nations.

Georgia currently has a unilateral preferential partnership with the “GSP-Generalized System of Preferences” of the United States. Georgia would face significant challenges as a result of the Free Trade Agreement.

Goals and objectives of the research

The goal of the dissertation research is to examine Georgia-US trade ties in the context of the global economy. Investigate the variables influencing the development of commerce between the two countries, identifying prospects for cooperation and opportunities for its expansion, as well as appraising the potential of Georgia's foreign trade with the US, including the possibility of free trade (FTA).

Based on the main purpose of the dissertation research, the following objectives are defined in the thesis:

- Studying the phenomenon of business globalization and presenting its driving forces; analyzing theoretical-methodological issues of trade between countries; and describing the place and role of Georgia and the United States in international business;
- Discussion of the reasons and legal grounds for cooperation between Georgia and the United States, a comparative PESTEL analysis of the business environment of Georgia and the United States, and a retrospective analysis of Georgia and US exports and imports and their dynamics in the context of globalization;
- Defining an empirical research strategy and model, data collection and database creation, data processing and analysis, interpretation of results, and development of recommendations

The theoretical-methodological foundations of research

The theoretical-methodological base of the dissertation research is classical and modern concepts of international trade, works of scientists, and studies conducted by international organizations.

To study the business environment of Georgia and the United States in a global context, we applied the PESTEL analysis method, which is the best mechanism for presenting political, economic, socio-cultural, technological, ecological, and legal factors affecting the macroenvironment of the country.

The economic and financial ratings for 2017–2021 published by international organizations were used for factor analysis. The sample consists of 44 countries and Georgia. All data were gathered between the years 2000 and 2021, and there were a total of (22 + 44) 968 observations. In the empirical study of the potential of foreign trade and the determinants affecting it, three assessment techniques are used: EGLS, two-stage EGLS, and GMM.

Scientific novelty of research

The thesis is a novelty carrier as well as a contributor to the theoretical-methodological knowledge existing in the field of trade between countries in the context of the global business environment. The general scientific novelty of the work is the complex analysis of the factors affecting Georgia's foreign trade using the gravity model and the assessment of Georgia's foreign trade potential with the United States in the conditions of globalization. It should be emphasized that the findings of the empirical research on trade between Georgia and the United States have contributed to international understanding of the factors influencing trade between small and major economies.

Therefore, the scientific novelty of the dissertation is:

- The driving forces of globalization in the economic, political, and public spheres of countries have been determined;
- Based on the analysis of the literature, the gravity model is highlighted as a useful tool for empirical research on factors affecting trade between countries with large and small economies and assessing trade potential;
- Priority areas of cooperation between Georgia and the United States have been established, prospects for their development have been determined, and the legal framework for cooperation between the two countries has been studied;
- Based on the comparative PESTEL analysis, a meta-matrix is built that reflects the main challenges facing the business environment of the two countries in the global context and makes recommendations for their solutions;
- The objective foundations of trade relations between Georgia and the United States are revealed, and the modern economic situation of the two countries and the factors affecting it are analyzed;

- Based on the retrospective analysis of exports and imports between Georgia and the United States, the modern situation of the preferential trade system (GSP) is analyzed and the possibilities of its deepening are revealed;
- It has been empirically established that GDP and the common border between the countries have a statistically significant positive impact on Georgia's trade flows with partner countries;
- Based on the empirical analysis of the data, it was revealed that trade openness, free trade agreements, geographical distance, religion, and the population of Georgia have a negative impact on Georgia's trade flows with partner countries;
- It is determined that the population of the partner country has a statistically significant positive effect on the trade flows of Georgia;
- It has been revealed that Georgia's trade potential with the U.S. is weak, despite its large and attractive market.

The theoretical and practical significance of the work

In the rapidly changing world of the 21st century, international trade relations between countries are becoming increasingly important. Many international studies confirm that free trade agreements contribute to the growth of the national economy.

The dissertation's heuristic relevance is in assessing the possibilities of trade interactions between nations with small and large economies and stressing the theoretical foundation of study on factors influencing them.

The dissertation's theoretical and practical value is significantly strengthened by the findings of an empirical study on factors influencing trade between Georgia and the United States. The research will supplement present theories and notions in economic science, as well as provide an important foundation for scientists interested in the topic to perform additional

research. The research findings can be utilized to shape the country's foreign trade policy and to create bargaining strategies. It may be further applied to the educational process of international trade courses.

Approval and publication of research results

The research results are presented at the International Conference, and individual dissertation research materials are published in Georgian and international peer-reviewed journals.

Volume and structure of the dissertation

The dissertation consists of an introduction, three chapters, eight paragraphs, and a conclusion. A list of used literature is attached to it. The main part includes 138 pages in A4 format printed on a computer.

The content of the thesis

- I. **The first chapter** of the thesis - "International trade in conditions of globalization", consists of three paragraphs.

1.1 **In the first paragraph**, the phenomenon of business globalization is studied and the mechanism of influence of its driving forces is defined.

✚ The global business climate is complicated. Globalization processes, in general, are

defined by a sharp strengthening and complication of interrelationships and interdependencies in the major domains of economic, political, and public life, gaining a planetary size.

Globalization can be observed in the growing interdependence regarding different countries around the world, which is due to the movement of increasing volumes of goods and services and the significant expansion of the scale of their distribution, as well as the rapid and widespread spread of various technologies. In terms of globalization paradigm changes, we can compare the modern world with the 90s of the "Cold War."

Globalization is the greatest and most important phenomenon that has changed the world since World War II. Economic globalization can be defined as the process of forming global markets for goods and production factors.

The KOF index covers the economic, social, and political dimensions of globalization and draws on the annual reports of the World Bank and the United Nations' concept on trade and development. Despite a number of negative impacts of globalization, it contributes to the economic, social, and political development of a country.

According to the indicators of economic globalization, the main driving forces of globalization are prioritized: international trade, foreign direct investment, the activities of multinational (transnational) firms, and the production of technologies for international dissemination. Inter-firm Trade is one of the most important indicators of the intensity of globalization.

1.2 The second paragraph is devoted to the analysis of theoretical and empirical studies of international trade. Classical and modern theories of international trade are discussed, as are the results obtained by empirical research. Based on the analysis of the literature, the gravity model is highlighted as a useful tool for empirical research on factors affecting trade between countries with large and small economies and assessing trade potential.

✚ The most developed form of cooperation between states is international trade.

Classical theories of international trade were followed by modern theories, the necessity of which was due to changes in the world in the second half of the twentieth century. Notable among these are Porter's Diamond Theory of National Advantage, the Double Diamond, Porter's Five Forces, The Gravity Model of Trade, Value Added Chain paradigm, and more.

Competitive principles provide a more sophisticated analysis of the elements influencing international trade. It is critical to recognize that competition is an essential component of the market economy. Michael Porter's Diamond of National Competitive Advantage is well known in competitiveness theory. G. Moon, A. Rugman, and Verbeke transformed the double diamond into a generalized double diamond as the best way to analyze the position of small countries with open economies.

External PESTEL factors: political, economic, socio-cultural, technological, environmental, and legal affect the country's macroenvironment. Special role in the study of international trade issues and the integration of countries with the world market belongs to the gravity model.

Although some researchers believe that the gravity equation has no theoretical justification, the model is actively used to test hypotheses and has significant empirical validity in the study of bilateral trade. In many scientific studies, the gravity equation has been used to assess geographic location, demographic parameters, border barriers, population, tariffs, exports, imports, common religion, trade sanctions, foreign aid, foreign direct investment, cultural ties, trade agreements, and other impacts on bilateral trade. The gravity equation has been successfully used in the study of the effects of free trade agreements (FTA) on trade flows.

1.3 The third paragraph analyzes Georgia's and the United States' positions in the global business environment.

✚ Following its independence, Georgia pursued liberal politics, establishing partnership relations with other countries based on the ideas of equality and a market economy. Georgia experienced challenges in achieving independence. It became vital to implement timely changes and reach bilateral international agreements with nearly every country on the planet. It is worth underlining the significance of the FTA for the country's economic progress. Georgia has inked FTAs with practically all Commonwealth countries, the European Union, Turkey, and China.

The U.S. economy is a driving force in the global financial system. As the world's top industrialized country and the most competitive, the most multicultural country on the planet has the highest immigration rate. According to the main U.S. government trade document, the country conducts free trade with Canada and Mexico, as well as with almost 20 World Trade Organization countries. The US has FTAs with countries located on the South American continent, as well as with developed countries in Eurasia, Australia, and some developing countries in Africa.

Georgia, because of its strategic location, has a great opportunity to advance globalization processes and develop foreign ties with both neighboring and allied partner countries. This circumstance will provide Georgia with a chance to attract more foreign direct investment, which is critical for the economic growth of a small nation like Georgia.

II. **The second chapter** of the thesis, "Fundamentals of Georgia-US Economic Cooperation," includes three paragraphs.

2.1 In the first paragraph, the reasons and administrative bases of the cooperation between Georgia and the USA are analyzed, and priority areas of cooperation between the two countries are identified.

✚ After gaining independence at the end of the twentieth century, Georgia went through

a political, economic, and social crisis. After the restoration of independence, the United States opened an embassy in Georgia and officially established diplomatic relations, after which Georgia constantly received political, military, financial, and humanitarian assistance. The United States is a supporter of Georgia's sovereignty and territorial integrity, as well as European and Euro-Atlantic integration. Georgia and the United States are member states of multilateral organizations, such as the UN, WTO, NATO, IMF, and World Bank.

The United States considers Georgia an important ally in the Caucasus region. And for Georgia, the US can be said to be the main and most powerful strategic partner, providing a lot of assistance, both in economic, humanitarian, and military terms.

Georgia receives significant assistance from the USAID agency for international development, while MCC Millennium Challenges Corporation is a major contributor to Georgia's infrastructure investments. The U.S. Agency for International Development and the Department of Agriculture represent the largest donors of humanitarian aid to Georgia.

Georgia's foreign policy priority is to deepen strategic cooperation with the United States, which includes four areas: security and defense; Economy, Trade, and energy; democratic governance; civil society; and cultural contacts.

Georgia's economic growth and future development prospects significantly depend on the investments made in Georgia. In 2016-2022, the United States of America made 638 332.1 million USD in direct foreign investment in Georgia.

Today, the trade relations between Georgia and the United States of America are based on the "GSP – Generalized System of Preferences", which provides for Georgia's duty-free import of 3,500 products to the United States. For the efficiency of Georgia's exports, it would be better to reach a free trade agreement (FTA) with the USA. For this, it is necessary to continue negotiations on the contract and finally reach a result.

2.1 In the second paragraph, a comparative PESTEL analysis of the business environments of Georgia and the United States in a global context is carried out.

The international economic and financial ratings of the countries published by the world's leading international organizations for 2017–2021 are used for the analysis. According to the results obtained, relevant conclusions are drawn, as are the rating points of the United States and Georgia. The results obtained from the PESTEL analysis are formulated in a meta-matrix with current trends, challenges, and necessary recommendations.

✚ When discussing political factors, it is important to note the democracy index and the human freedom index of the countries in the world. Regarding economic factors, it is important to note the Gross Domestic Product (GDP), Legatum Welfare Index, Doing Business, Global Competitiveness Report, and Economic Freedom Index.

Among the social factors, the human development index is significant. The global innovation index stands out regarding technological factors. The environmental performance index provides the most accurate information to best represent environmental factors. As for the legal factors, the corruption perception index and the "rule of law" index of world justice are significant.

Georgia has made significant improvements in areas such as human rights, government transparency, corruption exemption, effectiveness of governance, market efficiency, and a favorable business environment. Implementation of systemic reforms has led to a significant improvement in Georgia's position in authoritative international rankings. The most problematic issues for Georgia are market volume, innovation capacity, the financial system, healthcare, and macroeconomic stability.

Low stability of the macroeconomic environment, high inflation in the country, a low level of rule of law, a lack of fair trials, a high level of corruption, infrastructural challenges, and low rates of innovative development remain the main challenges for Georgia.

The report presented by the World Bank shows the following reforms implemented by the United States: starting a business; paying taxes; ensuring the fulfillment of contracts. The most problematic issues for the United States are healthcare, infrastructure, and macroeconomic stability.

Summarizing the results obtained by PESTEL analysis, the meta-matrix clearly shows the current trends, challenges, and recommendations of Georgia and the United States.

1.3 The third paragraph fully covers the retrospective analysis of exports and imports between Georgia and the United States.

✚ The U.S. has trade relations with more than 200 countries around the world. The United States ranks second in exports of goods and is the world's largest importer of goods.

According to statistical data, trade relations between Georgia and the United States are developing dynamically. Total exports from Georgia during 2012–2022 are characterized by a growth trend, which can be seen from the analysis of the indicators reflecting trade relations. The specific weight of the United States in the total volume of exports and imports from Georgia is quite solid. A comparative analysis of Export-Import indicators between Georgia and the United States shows that 2012–2022 is characterized by a growth trend. In addition, compared to 2015, the export reduction rate exceeded the import reduction rate by 1.54 times, which significantly changed the Export-Import balance for Georgia this year.

The balance of trade (BOT) for 2016 increased compared to 2015. In 2012–2022, exports from Georgia to the United States were characterized by growth, while imports experienced a leap year. Accordingly, the negative balance of trade amounted to sharply increased indicators.

Despite the list of several dozen different products in Georgian exports to the United States, ferroalloys are clearly leading. Pipes and tubes made of seamless ferrous metal, wine, fruit and vegetable juices, alcoholic beverages, cheese, nuts, plastic products, furniture, its


parts, etc. are also sent to the U.S. Despite the decrease in ferroalloy exports, the volume of total exports from Georgia to the United States was marked by an increasing trend.

Inconsistent changes were detected in the main commodity groups imported from the United States to Georgia. Georgia's imports from the United States are significantly diversified; however, the category of vehicles is dominant, the rate of which is relatively reduced, while the import rates of telephone equipment and portable digital machines are significantly increased. There was an increase in the import category of turbojet engines.

III. **The third chapter** - "Research Strategy and Data Analysis," presents an empirical study that aimed to study the factors affecting Georgia's foreign trade based on the results of the gravity regression equation and calculate Georgia's trade potential with the United States.

3.1 The first paragraph defines the research methodology and describes the specifics of data collection. The variables used in the study are explained, such as GDP, exports, imports, trade turnover, free trade agreements, common borders, religion, the openness of the economy, population, distance, and the sources of their extraction.

A conceptual framework for research is formed. The modern econometric and statistical forecasting program EViews 12 is used to analyze trade relations between Georgia and 44 partner countries.

 The empirical study consists of Georgia and 44 partner countries. All data were gathered between the years 2000 and 2021, and there were total of $(22 \times 44 = 968)$ observations.

The standard framework of analysis for the gravity equation in its general form is as follows:

$$X_{ij} = GS_i M_j \phi_{ij}$$

While $M(j)$ stands for every factor unique to the importer that comprises the entire amount demanded from the importer (such as the importing country's GDP), $X(ij)$ represents the cash value of exports from (i) to (j), and S_i includes factors specific to the exporter that make up the total amount of supply that exporters are willing to offer. G is a variable, like the degree of global liberalization, that is independent of i and j . Finally, ϕ_{ij} indicates the inverse of bilateral trade costs, or how easy it is for exporter i to reach market j .

According to a theory and empirical research expressed in the above section, the concept of gravity is primarily influenced by the variables comprising countries' (i and j) GDP in USD billions, the population in USD millions, religion (Dummy), and trade openness in states i and j , as well as distance in kilometers, a shared border, and a free trade agreement.

The gravity equation's specified model of bilateral commerce is as follows:

$$\log Btrade_{ijt} = \alpha_0 + \alpha_1 \log GDP_{it} + \alpha_2 \log GDP_{jt} + \alpha_3 \log Dist_{ijt} + \alpha_4 TO_{it} + \alpha_5 TO_{jt} + Indicators_{ijt} + \varepsilon_{ijt}$$

3.2 The second paragraph is devoted to data analysis and highlighting the results of empirical research.

✚ The cross-section dependence test was performed in evaluating the gravity equation. It suggests that data from panel time series show strong evidence of cross-sectional dependence.

To assess bilateral trade in Georgia, we used the following econometric techniques: EGLS, Two-Stage-EGLS, and GMM. The GDP coefficient is statistically significant for all models at the 1% level. This variable has a positive effect on trade flows. Trade openness, as measured by the proportion of (imports + exports) to GDP, appears to have an adverse effect

on Georgia's bilateral trade. Over the 2000–2021 periods, this factor had negative and statistically significant coefficients. Obviously, in the conditions of globalization, the liberal trade policy of the country, reflected by the openness of foreign trade, is connected with the transfer of intense international competition to the domestic market of the country. This makes it difficult for trading partners to further increase sales. It may also be related to the switch from export strategies to direct investment strategies by companies from trading partner countries.

The FTA has a statistically significant negative influence on Georgia's trade flows. We suppose that the free trade agreements signed between Georgia and partner countries have not been fully enacted.

The partner country's population has a statistically significant and positive impact on Georgia's trade flows. This cannot be said about the population of Georgia, which has a negative and statistically significant relationship to trade flows. Such a situation can be explained by the relatively high rates of economic growth in Georgia and increased emigration flows.

Geographic distance also negatively affects Georgia's trade flows in a statistically significant way. However, this impact is not immense. The shared border has a positive and statistically significant effect on trade. Religious differences create a statistically significant negative effect on trade.

Georgia's trading potential with the U.S. was calculated through the results of three techniques (EGLS, Two-Stage-EGLS, and GMM). To assess Georgia's trade potential with the United States, we used the following formula: $\Delta T = \text{Potential trade value} - \text{actual trade value}$, where a positive value implies the possibility of expanding trade in the future, while a negative value indicates that Georgia has exceeded its trade potential with the United States.

The results obtained through the three techniques confirm that, despite the large and attractive U.S. market, Georgia's trade potential with the U.S. is weak and underperforming. Comprised several factors, including a weak competitive advantage, less diversification of Georgian exports, imposed high standards in the U.S., and high transportation costs. Georgia's lack of competitive advantage stems from the fact that low-value-added products dominate the country's exports.

Main results of the thesis

In the final part, we summarized the results obtained on the basis of the theoretical and empirical analysis presented in the work.

The study of the business environment of the countries in the global context revealed that according to international estimates, the main challenges for Georgia remain:

- ✓ Less stability in the macroeconomic environment:
- ✓ High inflation in the country;
- ✓ A low level of rule of law;
- ✓ A lack of fair trials;
- ✓ A high level of corruption;
- ✓ Infrastructural challenges;
- ✓ Low indicators of innovative development.

The successful implementation of systemic reforms has led to significant improvements in Georgia's position in international rankings.

Empirical studies have found that international or bilateral trade is influenced by many factors, including geographic location, the distance between countries, border barriers, the economic size and GDP of a country, as well as the sharing of a common culture and religion.

The results obtained through the gravity regression equation confirm that despite the large and attractive U.S. market, Georgia's trade potential with the U.S. is weak and underperforming. Comprised several factors, including a weak competitive advantage, less diversification of Georgian exports, imposed high standards in the U.S., and high transportation

Even though the variables used in this study reflect the influence of factors affecting bilateral trade in Georgia, we think it will be interesting for future research to add additional variables, trade restrictions, and other factors impacting exports and imports.

Scientific papers published by the PhD student

1. Irma Lang. “Retrospective Analysis of Exports and Imports Between Georgia and the United States”. *The New Economist*. 17(2), 2022. 53-58. doi:10.36962/NEC17022022. ISSN 2667-9752 (Online). ISSN 1512-4649 (Print). <http://www.neweconomist.com.ge/journal/article/retrospective-analysis-of-exports-and-imports-between-georgia-and-the-united-states-1673020311>
2. Irma Lang. “PESTEL Analysis of the Business Environment of Georgia and the United States of America”. *Economics and Business*. XIV(3), 2022. 128-149. doi:10.56079. ISSN 1987-5789. ISSN 2587-5426. <http://eb.tsu.ge/?cat=arq&leng=ge&arq=2022-11-30>
3. Irma Lang. „Georgia’s Foreign Trade Potential with the United States: A Gravity Model Approach”. *The Journal of Eastern Europe and Central Asia Research (JEECAR)* Vol.10 No.7 December 2023. (ISSN: 2328-8272 (print) | ISSN: 2328-8280 (online) Scopus and Web of Science. <https://ieeca.org/journal/index.php/JEECAR>. (Notice)
4. Irma Lang. “The Covid pandemic and contemporary trends of global trade flows“. “*2nd International Scientific and Practical Internet Conference: Impact of Covid-19 Pandemic on Development of Modern World: Threats and Opportunities*„, 2022. (pp. 37-42). 'WayScience', International Electronic Scientific and Practical Journal. ISBN 978-617-95218-9-8. <http://www.wayscience.com/en/2nd-conference-21-22-september-2022/>
5. Irma Lang. “The Repercussions the Covid-19 pandemic Had on the global economy and international trade flows”. *International scientific conference. The Problems of Development of the World and National Economy, Taking into Account the Pandemic and Russian-Ukrainian War*. *Economy - XXI Century*. 2023. (E ISSN 2587-4691) www.tsu.ge (Notice).