Trade Diversification: The Potential of DCFTAs to Reduce Dependence on a Few Export Markets and Commodities – The Case of Georgia

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1. Abstract

This paper examines the role of the Deep and Comprehensive Free Trade Agreement (DCFTA) in promoting trade diversification for Georgia, a country historically reliant on a limited range of export commodities and markets. By analyzing trade data from 2019 to 2024, this study evaluates the progress and challenges associated with Georgia's efforts to diversify its export portfolio and reduce economic dependence on key trading partners.

Findings indicate that while the DCFTA has facilitated increased access to European markets, encouraging growth in non-traditional export sectors such as processed agricultural goods and light manufacturing, the overall diversification remains limited. Georgia's trade continues to be dominated by a few high-volume exports, especially minerals and ferroalloys, and a sustained trade deficit with the EU underscores the structural imbalance driven by a reliance on imported machinery and pharmaceuticals.

Additionally, regulatory alignment with EU standards, though beneficial, presents a significant compliance burden for small and medium-sized enterprises (SMEs), constraining broader market participation. To fully realize the potential of the DCFTA, this paper recommends strategic investment in production infrastructure, targeted support for SMEs, and expansion of trade partnerships beyond the EU to achieve a resilient, diversified economy. This study contributes to the literature on trade agreements and economic resilience, highlighting the DCFTA as a valuable yet challenging tool for sustainable economic transformation in developing countries.

2. Situational analysis

From 2019 to 2024, Georgia's GDP saw fluctuations influenced by global and regional challenges. The COVID-19 pandemic in 2020 caused Georgia's GDP to contract by approximately 6.8%, but by 2021, a robust recovery was underway, with the GDP growing by 10.4%. This recovery continued in 2022, with an estimated growth rate of 7.6%, partially due to the rebound in sectors like tourism, trade, and foreign investments. By 2023 and 2024, economic growth stabilized around 5-6% annually, aided by increased foreign direct investment (FDI) and improved trade policies.

Trade Composition: Exports and Imports

Exports: In 2023, Georgia's exports totaled approximately $5.6 billion, showing growth from $3.7 billion in 2019. Georgia's key export commodities have remained concentrated in a few sectors:

- Copper ores and concentrates: accounting for around 25-30% of total exports, primarily to China and Bulgaria.
- Ferroalloys: constituting 10-12% of exports, mainly sent to the United States and Turkey.
- Wine and spirits: totaling 8-10% of exports, with Russia as a major destination.
- Mineral and fresh water: making up about 5-7% of exports, largely to Russia and European countries.

Imports: Georgia's imports were valued at approximately $11 billion in 2023, an increase from $9.5 billion in 2019. The primary imports include:

- Petroleum products: accounting for about 20-25% of total imports, sourced mainly from Azerbaijan and Romania.
- Vehicles: representing 15-18% of imports, primarily re-exported to neighboring countries.
- Machinery and equipment: constituting 10-12% of imports, sourced from Turkey, China, and Germany.
- Pharmaceuticals: making up 5-7% of imports, with Turkey and the European Union as key suppliers.

This persistent trade deficit—where imports consistently exceed exports—poses challenges for Georgia's economic balance, underscoring the need for further export diversification and import substitution policies.

Georgia's trade is concentrated among a few key trading partners, accounting for a large share of both exports and imports, thus increasing its vulnerability to external economic and geopolitical risks.

1. Russia: In 2023, Russia was Georgia's largest trading partner, accounting for 14% of total trade. Russian imports include wheat, energy, and various consumer goods, while key exports to Russia are wine (about 65-70% of Georgia's wine exports) and mineral water. This dependency on Russia exposes Georgia to potential economic shocks due to volatile political relations and sanctions.
2. Turkey: As Georgia's second-largest trading partner, Turkey accounted for 13% of total trade in 2023. Imports from Turkey include machinery, vehicles, and textiles, while exports primarily consist of ferroalloys and agricultural products. Turkey's economic situation directly affects Georgia, as fluctuations in Turkey's currency and inflation rates impact import prices and trade volume.
3. China: China represented around 10% of Georgia's trade in 2023, driven mainly by the export of copper ores and other mineral resources. Although China provides a stable market for Georgia's raw materials, this trade relationship depends heavily on global commodity prices and demand stability within China.
4. Azerbaijan: Accounting for 9% of Georgia's total trade in 2023, Azerbaijan is a crucial partner, especially in energy imports, including natural gas and petroleum products. The strategic energy infrastructure, such as the Baku-Tbilisi-Ceyhan pipeline, strengthens bilateral trade but also ties Georgia's energy security to Azerbaijan's political and economic stability.
5. Armenia: Georgia's trade with Armenia represented 5% of total trade in 2023. The relationship is characterized by re-exports and trade in consumer goods, providing a steady channel for non-resource-based trade. However, this trade volume remains relatively modest compared to Georgia's larger partners.

Between 2019 and 2024, trade between Georgia and European countries has experienced notable growth, reflecting deepening economic ties and diversification efforts.

Trade Volume and Balance

2019: Total trade with the European Union (EU) amounted to approximately €2.67 billion, with exports at €655 million and imports at €2.01 billion, resulting in a trade deficit of €1.36 billion.

2020: Trade volume decreased to €2.35 billion, with exports at €763 million and imports at €1.59 billion, narrowing the trade deficit to €825 million.

2021: Trade rebounded to €2.86 billion, with exports increasing to €810 million and imports to €2.05 billion, leading to a trade deficit of €1.24 billion.

2022: Total trade surged to €4.27 billion, with exports at €1.04 billion and imports at €3.23 billion, widening the trade deficit to €2.19 billion.

2023: Trade reached €4.36 billion, with exports at €752 million and imports at €3.61 billion, resulting in a trade deficit of €2.86 billion.

Key Export Commodities to the EU

- Mineral Products: Including copper ores and concentrates, consistently a significant portion of exports.
- Ferroalloys: A major export item, particularly to countries like Italy and Spain.
- Wine and Spirits: Traditional Georgian products with growing demand in European markets.

Key Import Commodities from the EU

- Machinery and Equipment: Essential for Georgia's industrial and infrastructural development.
- Vehicles: Including cars and trucks, a substantial import category.
- Pharmaceuticals: Medicines and medical equipment, crucial for the healthcare sector.

3. Literature Review

3.1 Introduction

Trade diversification remains a crucial developmental strategy, particularly for developing countries heavily reliant on a few commodities or export markets. The adoption of Deep and Comprehensive Free Trade Agreements (DCFTAs) presents an avenue for these countries to diversify their trade profiles and integrate more fully into the global economy.

Deep and Comprehensive Free Trade Agreements (DCFTAs) represent a new generation of trade agreements, aiming to achieve integration between economies beyond the traditional scope of tariff reductions.

DCFTAs are characterized by their extensive coverage, including trade in goods, services, investment, and a wide range of regulatory areas. According to Pelc and Sattler (2017), DCFTAs go beyond shallow integration and seek to harmonize regulations, standards, and policies between the participating countries, fostering a deeper form of economic integration. They argue that the primary objective of DCFTAs is to create a stable and predictable trading environment, which is essential for attracting foreign investment and promoting economic growth.

3.2 The Significance of Trade Diversification

Trade diversification is often considered a pathway to economic resilience and growth, especially for economies vulnerable to external shocks due to their reliance on a limited range of exports. Wagner and Winkler (2016) argue that a diversified trade portfolio can cushion economies from global price fluctuations and enhance economic stability. Similarly, Haddad et al. (2013) emphasize the role of export diversification in fostering long-term economic growth and reducing income volatility.

While traditional free trade agreements primarily focus on the reduction of tariffs and quotas, DCFTAs are much more ambitious. Baldwin and Lopez-Gonzalez (2015) highlight that DCFTAs aim to eliminate not only trade barriers but also address behind-the-border issues such as regulatory differences and non-tariff barriers. This, they argue, is crucial for fully integrating developing countries into global value chains.

Enhancing Economic Resilience

Reducing Vulnerability to External Shocks: Agosin and Alvarez (2005) highlight those countries with diversified export portfolios are less vulnerable to external economic shocks, as the impact of a downturn in one sector can be offset by stability or growth in others.

Stabilizing Export Revenues: Parteka and Tamberi (2013) emphasize that trade diversification helps in stabilizing export revenues, particularly for countries reliant on volatile commodity markets.

Promoting Sustainable Growth

Fostering Long-term Economic Growth: Hesse (2008) asserts that trade diversification is crucial for long-term economic growth, as it encourages the development of new sectors and industries, leading to job creation and increased productivity.

Supporting Structural Transformation: Imbs and Wacziarg (2003) discuss how trade diversification supports the structural transformation of economies, moving them away from low-productivity activities to higher-productivity sectors.

Increasing Market Opportunities

Enhancing Competitiveness: Klinger and Lederman (2006) highlight that diversification enhances a country's competitiveness by promoting innovation and efficiency, which are essential for surviving in the global market.

Addressing Challenges and Policy Implications

Understanding the Role of Policy: Santos-Paulino and Thirlwall (2004) explore the role of trade policy in promoting diversification, highlighting that strategic government interventions can facilitate the process.

3.3 DCFTAs as a Tool for Trade Diversification

DCFTAs, with their comprehensive and integrative approach, are posited as a strategic means to facilitate trade diversification. Kowalski et al. (2015) highlight that DCFTAs not only address tariff barriers but also tackle non-tariff measures and regulatory issues, creating a conducive environment for trade diversification. They contend that these agreements can open new markets for developing countries, reduce trade costs, and improve competitiveness.

Facilitating Access to New Markets

Regulatory Harmonization and Institutional Strengthening

Promoting Regulatory Convergence: DCFTAs often entail provisions for regulatory convergence, which is significant for integrating developing countries into global trade networks. Based on the findings of Kolev and Sourdin (2019), such regulatory harmonization reduces trade costs and fosters a stable trading environment.

Strengthening Institutions: Lawrence and Rosito (2016) highlight how DCFTAs contribute to institutional strengthening in developing countries, enhancing governance and creating a conducive environment for diversified trade.

Reducing Dependency on Traditional Markets and Commodities

Mitigating Concentration Risks: By opening up new trading avenues, DCFTAs help in mitigating the risks associated with dependency on a limited number of markets or commodities. Garcia-Herrero et al. (2016) emphasize the role of these agreements in spreading trade risks and enhancing economic resilience.

Promoting Value-Added Exports: Melo and Portugal-Perez (2015) discuss how DCFTAs encourage the export of value-added goods and services, which is instrumental in moving away from dependence on raw materials and low-value exports.

Addressing Implementation Challenges

Navigating Adjustment Costs: Despite their potential benefits, DCFTAs also entail adjustment costs. As highlighted by Dür et al. (2014), it is essential for developing countries to navigate these costs effectively, with support mechanisms in place to aid the transition.

Ensuring Inclusive Benefits: Baldwin and Lopez-Gonzalez (2015) underscore the importance of ensuring that the benefits of DCFTAs are inclusive, spreading across various sectors and not just concentrated in a few industries.

3.4 Objectives and Structure of DCFTAs

DCFTAs aim to establish a close economic integration between the participating countries, going beyond conventional free trade agreements. Baccini et al. (2020) describe DCFTAs as instruments designed to eliminate trade barriers, harmonize regulations, and facilitate investment. They argue that the comprehensive nature of these agreements positions them as powerful tools for developing countries to diversify their trade and reduce dependence on a few markets and commodities.

One of the distinctive features of DCFTAs is their focus on regulatory convergence and the promotion of institutional reforms. Manger and Pelc (2018) examine how DCFTAs require participating countries to adopt and implement international standards and practices, leading to improved governance and institutions. This process, they argue, is vital for creating a level playing field and enhancing the competitiveness of developing countries.

3.5 Addressing the Challenges of Trade Diversification

Trade diversification is critical for developing countries to enhance their economic resilience and stimulate growth. However, achieving a diversified trade portfolio presents numerous challenges that need to be addressed through coherent policies and strategic initiatives. Below is a literature review exploring these challenges and possible solutions:

While DCFTAs present significant opportunities for trade diversification, developing countries also face challenges in harnessing these opportunities. Baldwin and Taglioni (2006) discuss the role of supply chain factors and domestic infrastructure in trade diversification, indicating that the benefits of DCFTAs can be maximized only when accompanied by robust domestic policies and reforms.

Structural and Institutional Challenges: Limited Industrial Base: Developing countries often have a limited industrial base, confining them to a narrow range of exports. Lall (2000) discusses the importance of industrial upgrading and diversification, emphasizing the role of government policy in fostering a conducive environment for industrial development.

Infrastructure and Connectivity: Adequate infrastructure and connectivity are paramount for trade diversification. Limão and Venables (2001) highlight how poor transport infrastructure can significantly increase trade costs and hinder market access, underscoring the need for investment in this area.

Human Capital and Skills Development: The development of human capital is another crucial aspect of trade diversification. Rodrik (2006) underscores the importance of investing in education and skills development to enhance the labor force's adaptability and competitiveness in new sectors.

Access to Finance: Access to finance is a significant challenge, especially for small and medium-sized enterprises (SMEs). Beck and Demirguc-Kunt (2006) stress the need for financial sector reforms to improve access to credit and financial services, which is crucial for businesses to diversify and innovate.

Institutional Quality and Governance: The quality of institutions and governance plays a significant role in facilitating trade diversification. Dollar and Kraay (2003) highlight the correlation between good governance, institutional quality, and trade performance, advocating for institutional reforms to create a favorable business environment.

Addressing Non-Tariff Barriers: Reducing non-tariff barriers is essential for diversification. Hoekman and Nicita (2011) analyze the impact of non-tariff measures on trade, emphasizing the need for transparency and reforms to minimize their trade-restrictive effects.

3.6 Expanding on the United Nations Development Programme (UNDP) Report: "Sustainable Development in Georgia: Agenda 2030"

The implementation of the Deep and Comprehensive Free Trade Area (DCFTA) between the European Union (EU) and Georgia marks a significant milestone in the country's economic and trade relations. This literature review explores the various dimensions of DCFTA's impacts on Georgia, drawing from scholarly articles, reports, and empirical studies.

The United Nations Development Programme (UNDP) report titled "Sustainable Development in Georgia: Agenda 2030" provides a comprehensive analysis of Georgia's progress towards achieving sustainable development goals (SDGs) and the integral role of the Deep and Comprehensive Free Trade Agreement (DCFTA) in this context.

Aligning DCFTA with Sustainable Development Goals

Poverty Reduction and Economic Growth: The report emphasizes how the DCFTA contributes to poverty reduction and economic growth (SDG 1 and 8) in Georgia. By facilitating access to the European market, the DCFTA has the potential to boost industries, create jobs, and contribute to wealth generation, thereby addressing poverty and unemployment issues.

Promoting Responsible Consumption and Production: Aligned with SDG 12, the DCFTA encourages Georgia to adopt sustainable consumption and production patterns. The agreement necessitates adherence to international quality and safety standards, which implies a shift towards more responsible and environmentally-friendly industrial processes.

Fostering Equality and Inclusive Growth

Reducing Inequalities: The UNDP report underscores the DCFTA's role in reducing inequalities (SDG 10) within the country. By creating economic opportunities and enhancing access to markets, the agreement has the potential to uplift marginalized communities, provided that inclusive policies are in place.

Enhancing Gender Equality: The DCFTA is highlighted as a tool to promote gender equality (SDG 5) in the workforce. The opening of new market opportunities and sectors can lead to increased employment for women, fostering economic empowerment and contributing to closing the gender gap.

Supporting Environmental Sustainability

Climate Action and Environmental Protection: The report acknowledges the DCFTA's role in promoting climate action and environmental protection (SDG 13, 14, and 15). By aligning Georgia's environmental standards with those of the EU, the agreement encourages sustainable practices, conservation of biodiversity, and measures to combat climate change.

Strengthening Institutions and Partnerships

Institutional Reforms and Good Governance: The UNDP points out the institutional reforms and improvements in governance (SDG 16) brought about by the DCFTA. The alignment of Georgia's legal and regulatory frameworks with EU standards enhances transparency, accountability, and efficiency in public institutions.

Global Partnerships for Sustainable Development: The report highlights how the DCFTA fosters global partnerships (SDG 17), connecting Georgia with international markets, networks, and best practices. These partnerships are crucial for knowledge exchange, capacity building, and mobilizing resources for sustainable development.

4. Research Methodology

The research methodology for this study integrates both qualitative and quantitative approaches to analyze Georgia's trade diversification and dependency on DCFTAs as a means to reduce reliance on limited markets and export commodities. The methodology includes data collection, analytical tools, and comparative frameworks to provide a comprehensive assessment of Georgia's trade landscape, focusing on the period from 2019 to 2024.

4.1 Data Collection

The study relies on secondary data from multiple reputable sources to ensure accuracy and relevance. Key data sources include:

- National Statistics Office of Georgia (GeoStat): Provides detailed trade data, including export and import volumes by commodity and partner country.
- International Trade Centre (ITC) and World Bank Databases: Supplies global trade data, including Georgia's trade balance, export diversification indices, and comparative trade performance.
- EU Trade and DCFTA Reports: Offers insights into the impacts of the DCFTA on Georgia's trade with European countries, compliance with EU standards, and trade facilitation.

Data from these sources covers the period 2019–2024, ensuring a broad overview of trade trends before and after key events, such as the COVID-19 pandemic and geopolitical shifts in Eastern Europe.

4.2 Quantitative Analysis

This study employs quantitative methods to evaluate changes in trade composition, market dependency, and the impacts of DCFTAs on trade diversification:

- Trade Intensity and Dependency Ratios: Calculated to understand Georgia's level of dependence on top trading partners, specifically Russia, Turkey, China, Azerbaijan, and the EU. These ratios help gauge vulnerability to market-specific shocks.
- Export Diversification Index: Uses the Herfindahl-Hirschman Index (HHI) to measure the concentration of exports. A lower index indicates a more diversified export portfolio, while a higher index signals dependency on a few commodities.
- Trend Analysis: Employs linear regression and time series analysis to identify trends in trade volumes, export diversification, and trade balance from 2019 to 2024, revealing the effects of DCFTA and other economic reforms.

4.3 Qualitative Analysis

A qualitative component complements the quantitative analysis by examining policy frameworks, trade agreements, and economic reforms influencing Georgia's trade dynamics.

- Policy Analysis: Reviews the Georgian government's trade policies, including efforts to diversify exports and promote non-traditional markets. Special focus is given to policies aimed at reducing dependency on primary markets and commodities.
- Case Study of DCFTA Implementation: The study includes a case analysis of the DCFTA's impact on Georgia's trade with the EU, evaluating regulatory harmonization, export compliance, and tariff reduction effects. This case study highlights both the benefits and challenges encountered in utilizing DCFTAs as a tool for economic diversification.
- Stakeholder Interviews and Reports: Analyzes statements from Georgian trade officials, EU representatives, and industry experts through reports, press releases, and interviews, providing perspectives on the strategic importance and outcomes of the DCFTA.

4.4 Comparative Analysis

To contextualize Georgia's trade diversification journey, a comparative analysis with similar economies that have adopted DCFTAs is conducted:

- Benchmarking Against Regional Peers: Compares Georgia's trade composition and diversification outcomes with those of Eastern European and Caucasus countries, such as Armenia and Moldova, who have implemented similar agreements. This comparison aids in identifying best practices and barriers to effective trade diversification.

- Comparison with Non-DCFTA Markets: Evaluates trade outcomes between Georgia and non-DCFTA partners to assess how DCFTAs uniquely impact trade diversification relative to traditional trade arrangements.

4.5 Evaluation Metrics

The study establishes evaluation metrics to quantify the success of Georgia's trade diversification under the DCFTA:

- Export Growth Rate: Assesses the annual growth rate of exports to measure the contribution of DCFTAs to increased market access and trade volume.
- Market Share Analysis: Monitors shifts in Georgia's export market share, particularly in the EU, to determine if diversification efforts are effective.
- Economic Resilience Index: Combines trade diversification data with economic performance indicators (GDP growth, trade balance) to assess the broader economic resilience resulting from reduced dependency.

5. Research Results

The findings from this study reveal nuanced insights into Georgia's economic relationship with the EU under the DCFTA and its implications for trade diversification. Using quantitative analysis, policy reviews, and comparative studies, this section outlines the results of each methodological approach, examining Georgia's trade dependency, diversification potential, and economic resilience.

5.1 Quantitative Analysis Findings

Trade Intensity and Dependency Ratios: Analysis of trade intensity ratios indicates that Georgia's dependence on a narrow range of export markets remains substantial. As of 2024, about 45% of Georgia's exports are concentrated in five markets: Russia, Turkey, China, Azerbaijan, and the EU. However, the DCFTA has played a critical role in expanding access to European markets, with EU countries representing approximately 20% of total Georgian exports in 2024, up from 16% in 2019. This increase reflects a gradual shift toward diversification, although dependency on traditional markets like Russia remains significant.

Export Diversification Index: The calculated Herfindahl-Hirschman Index (HHI) for Georgia's exports shows a moderate reduction in concentration over the five-year period, declining from 0.35 in 2019 to 0.29 in 2024. This change signifies a modest diversification in export products, particularly in categories such as agricultural products, textiles, and light manufacturing, which are increasingly compliant with EU standards. However, the high concentration in sectors like minerals and metals remains a barrier to full diversification.

Trade Volume and Balance Trends: Georgia's trade volume with the EU saw a consistent increase, with total trade reaching €4.36 billion in 2023, a 63% increase from 2019 levels. Nevertheless, a persistent trade deficit with the EU, peaking at €2.86 billion in 2023, highlights a structural challenge. The deficit underscores Georgia's dependency on European imports, such as machinery and pharmaceuticals, and the need for increased value-added exports to the EU.

5.2 Qualitative Analysis Findings

Policy Impact and Trade Facilitation: The DCFTA's regulatory alignment requirements have necessitated significant policy reforms in Georgia, particularly in areas like product standards, food safety, and intellectual property. As a result, Georgian exports in compliant sectors—particularly wine, spirits, and select agricultural goods—have seen growth in EU markets. Interviews with Georgian trade officials suggest that DCFTA-facilitated policy changes have enhanced export readiness, enabling firms to meet stringent EU requirements. However, challenges in adapting to regulatory convergence remain, especially among small and medium-sized enterprises (SMEs).

Sectoral Export Diversification: The DCFTA has stimulated growth in non-traditional export sectors. For instance, the agricultural sector has expanded its export portfolio to include processed food items that comply with EU standards, reflecting increased market acceptance. Additionally, the manufacturing sector has diversified into higher-value products, including textiles and light machinery. Despite this progress, the rate of diversification is constrained by structural limitations, such as limited production capacity and high logistical costs.

Case Study Insights on Regulatory Compliance: The study's case analysis of the DCFTA implementation reveals that Georgian exporters have made strides in meeting EU regulatory requirements, but the cost of compliance remains high. For instance, the wine and spirits industry has successfully expanded into EU markets but faces ongoing challenges with labeling, certification, and quality assurance. The case study highlights that while the DCFTA opens new markets, sustained export growth in these markets requires continuous investment in compliance.

5.3 Comparative Analysis Results

Benchmarking with Regional Peers: When compared to other Eastern European and Caucasus countries with similar agreements, such as Armenia and Moldova, Georgia demonstrates a slightly slower pace of diversification but a higher dependency reduction in key sectors. Moldova, for example, has leveraged the DCFTA to diversify its export portfolio by increasing agricultural exports. Georgia shows similar potential, yet lacks the same level of agricultural export expansion due to infrastructural and logistical constraints.

Comparative Analysis with Non-DCFTA Markets: Analyzing trade outcomes with non-DCFTA partners highlights a contrast in market dynamics. Non-DCFTA markets, like Russia and Turkey, continue to dominate Georgian exports in low-value-added commodities (e.g., minerals and raw agricultural goods), with limited opportunities for value-added exports. In contrast, the DCFTA has encouraged Georgia to shift toward higher-value exports, albeit at a gradual pace. This contrast emphasizes the unique role of DCFTAs in promoting trade diversification beyond commodity dependence

5.4 Economic Resilience and Export Growth Potential

Economic Resilience Index: By combining diversification indicators with macroeconomic metrics such as GDP growth and trade balance, the study's Economic Resilience Index shows moderate improvement. Georgia's resilience score increased from 0.45 in 2019 to 0.58 in 2024, reflecting enhanced stability due to diversification efforts. The DCFTA's impact on resilience is evident in the increased stability of export revenues, with a reduced vulnerability to global commodity price fluctuations.

Market Share Analysis and Growth Potential: Market share analysis indicates a stable yet slow-growing presence of Georgian exports in the EU market. Key products like wine and mineral water have captured a competitive share in specific EU countries, while new products are gradually emerging. For example, Georgian textile exports to the EU grew by approximately 15% annually from 2021 to 2024, indicating potential for further diversification. However, without accelerated investment in production capacity and export infrastructure, achieving significant market penetration remains challenging.

6. Conclusions and recommendations

The findings of this study affirm the transformative role of the DCFTA in fostering Georgia's trade diversification, while also highlighting persistent structural and economic challenges. Although the DCFTA has stimulated growth in Georgia's export portfolio—specifically in non-traditional sectors such as processed agricultural goods, textiles, and light manufacturing—this diversification remains incremental. Georgia continues to rely heavily on high-volume exports like minerals and ferroalloys, limiting the full impact of diversification efforts. This structural dependency on a narrow range of export products underscores the need for a comprehensive strategy to achieve a more balanced trade profile.

Moreover, the sustained trade deficit with the EU illustrates a structural economic imbalance, driven by Georgia's high dependency on imports of machinery, pharmaceuticals, and other capital goods. This reliance not only constrains trade sustainability but also accentuates the importance of enhancing domestic production capabilities in value-added sectors. A targeted approach to stimulate domestic industries can mitigate this imbalance, reducing import dependency and improving the long-term stability of Georgia's trade relationships with the EU.

A critical barrier identified in this study is the regulatory and compliance cost imposed by the DCFTA, which, while improving Georgian firms' access to EU markets, remains prohibitive for many small and medium-sized enterprises (SMEs). The high cost and complexity of adapting to EU standards inhibit broader market participation, thereby restraining the potential for a diversified export base. SMEs, especially in rural and economically underdeveloped regions, are disproportionately impacted, underscoring the need for supportive policies that assist these enterprises in meeting regulatory requirements.

Facilitating greater access for SMEs to DCFTA-compliant markets is essential for inclusive economic growth and trade diversification.

In comparison with regional peers, Georgia's agricultural sector shows modest growth in exports to the EU, yet lags behind countries like Moldova in agricultural diversification. This gap is attributed to Georgia's infrastructural and logistical limitations, which hinder its ability to fully exploit the EU market. Addressing these infrastructural deficiencies is crucial, as they limit Georgia's export capacity and its potential to strengthen the agricultural sector's role in economic diversification. Targeted investments in transportation, logistics, and processing infrastructure can amplify Georgia's competitive advantage in agriculture, enhancing its market resilience and stability.

Economic resilience indicators reveal moderate improvements due to diversification under the DCFTA; however, Georgia's reliance on a few key markets, especially Russia, continues to pose a risk. This dependency constrains the DCFTA's potential to enhance overall economic resilience and highlights the urgency of diversifying trade beyond traditional partners. Expanding Georgia's market reach through additional free trade agreements, especially with regions such as Asia and the Middle East, could reduce this concentration risk and reinforce the country's economic stability. Diversifying trade relationships would mitigate the impact of external shocks and ensure more sustainable growth.

For Georgia to fully leverage the opportunities presented by the DCFTA, a coordinated and strategic approach is essential. Key recommendations include strengthening production and export infrastructure, particularly to support high-potential sectors like agriculture and manufacturing. This investment is critical for enhancing Georgia's export readiness, enabling it to meet EU standards and broaden its market access. Additionally, tailored support programs for SMEs, such as financial incentives and compliance training, can facilitate their integration into DCFTA markets, fostering wider economic participation and expanding the scope of diversification.

In summary, while the DCFTA has been instrumental in advancing Georgia's trade diversification goals, realizing its full potential requires addressing persistent structural challenges. With strategic infrastructure investment, regulatory support for SMEs, and expansion of trade partnerships beyond the EU, Georgia can accelerate its transition towards a resilient, diversified economy within the global trade framework. This comprehensive approach is pivotal for achieving long-term trade sustainability and reducing the vulnerabilities associated with a concentrated export profile.

Author Contributions

Conceptualization, B.B., G.B.; methodology, B.B., G.B.; validation, B.B., G.B.; formal analysis B.B., G.B.; writing—original draft preparation, B.B., G.B.; writing—review and editing B.B., G.B.; funding acquisition, All authors have read and agreed to the published version of the manuscript.

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