

Business services: Potential in Georgia

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In cooperation with ISET Policy Institute

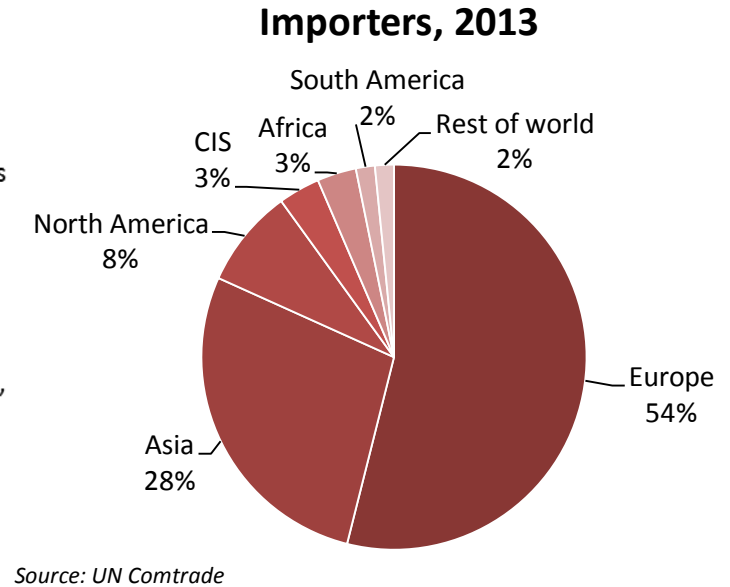
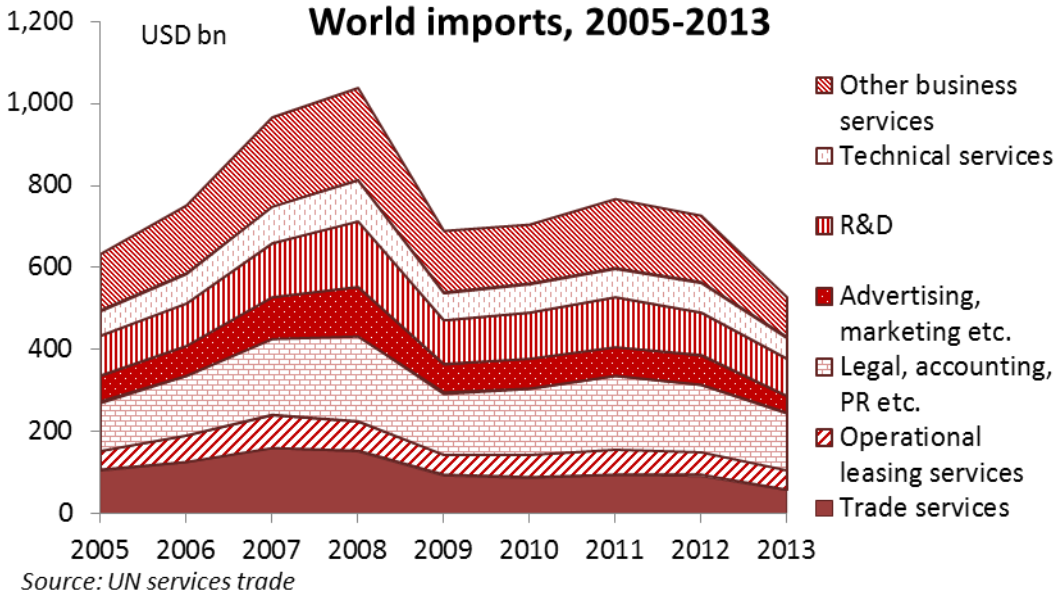
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Georgia's potential for producing business services

- We predicted potential for Georgia to specialise in the international provision of business services (PP/01/2015).
 - Potential was predicted in the service trade category of “other business services”, encompassing mainly:
 - **Operational leasing services:** International leasing of equipment
 - **Legal and accounting services, Management consulting and public relations**
 - **Advertising, market research**
 - **R&D, architectural and technical services**
 - We proceed in two stages:
 1. Analysis of current situation in Georgia and on the world market
 2. Competitive potential of Georgia for producing these goods
- **Goal: Plausibility check of predicted potential**

1. Current situation in Georgia and on the world market

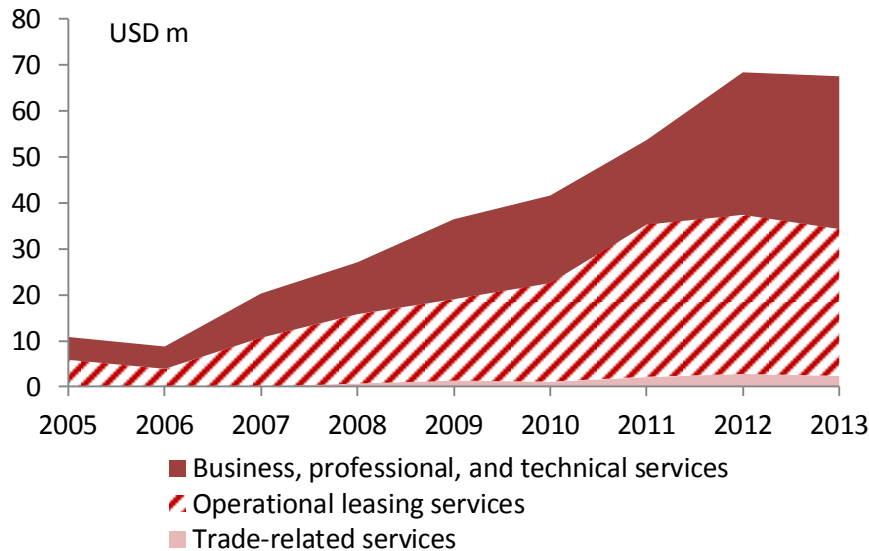
World market for business service exports



- World market volume of ca. USD 800 bn
- Services that are a pure by-product of goods trade may make up a large share
- Strong role of Europe in imports, what share is pure goods-trade byproduct is uncertain
- World market has been declining since the financial crisis
- Nevertheless, the stand-alone part of business services export is likely to grow in future as outsourcing of services is likely to grow

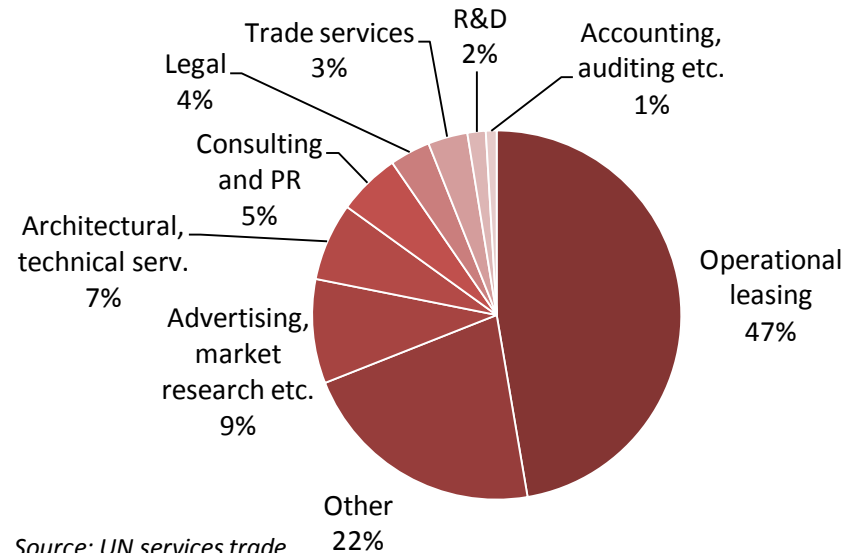
Current exports of Georgia

Georgian exports, 2013-2014



Source: UN services trade

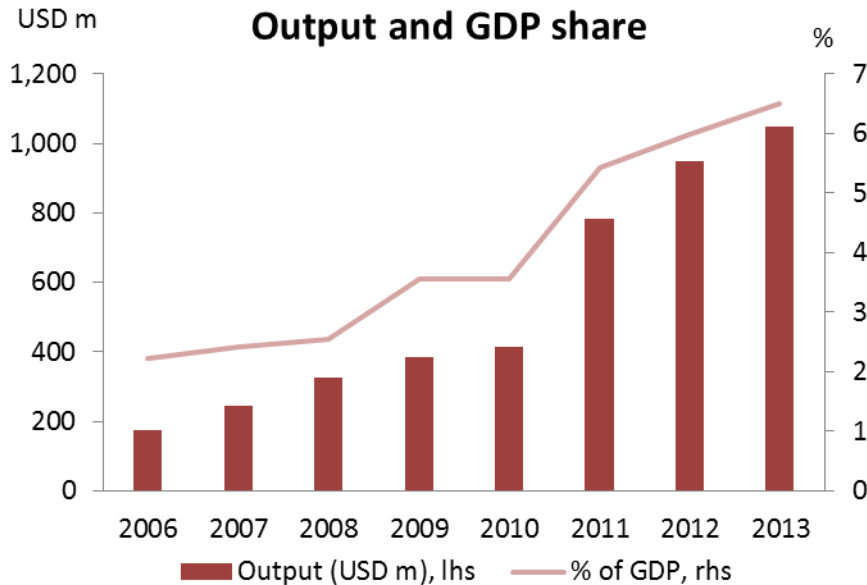
Georgian exports, 2013



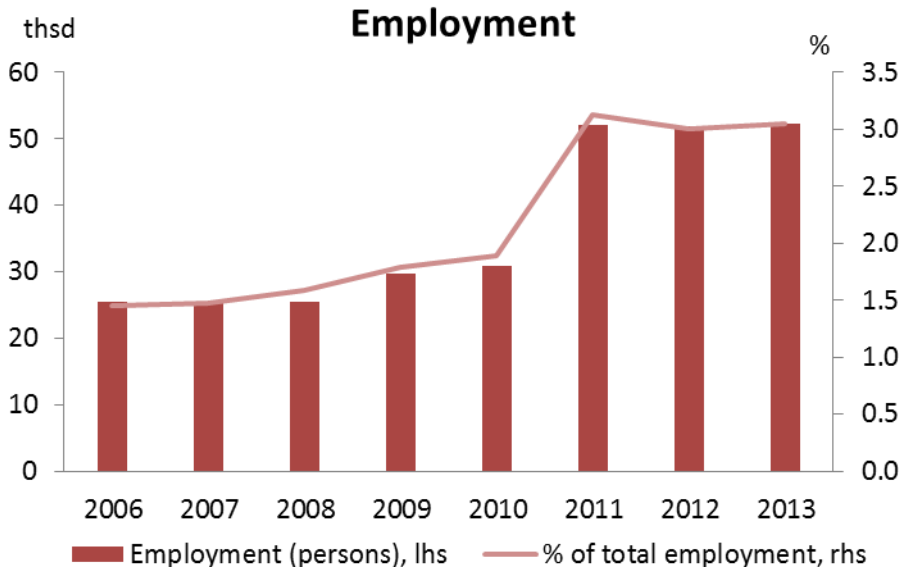
Source: UN services trade

- **Large operational leasing share due to tourism and transit role of Georgia**
- Rental of transportation equipment (including containers) to non-residents
- **Legal, accounting and PR services currently mostly provided by international companies to foreign investors in Georgia**
- Business and policy consultancies provide services to companies and governments in Central Asia – first genuine exports of services

The surrounding industry in Georgia: The “Real estate, renting and business activities” sector



Source: Geostat

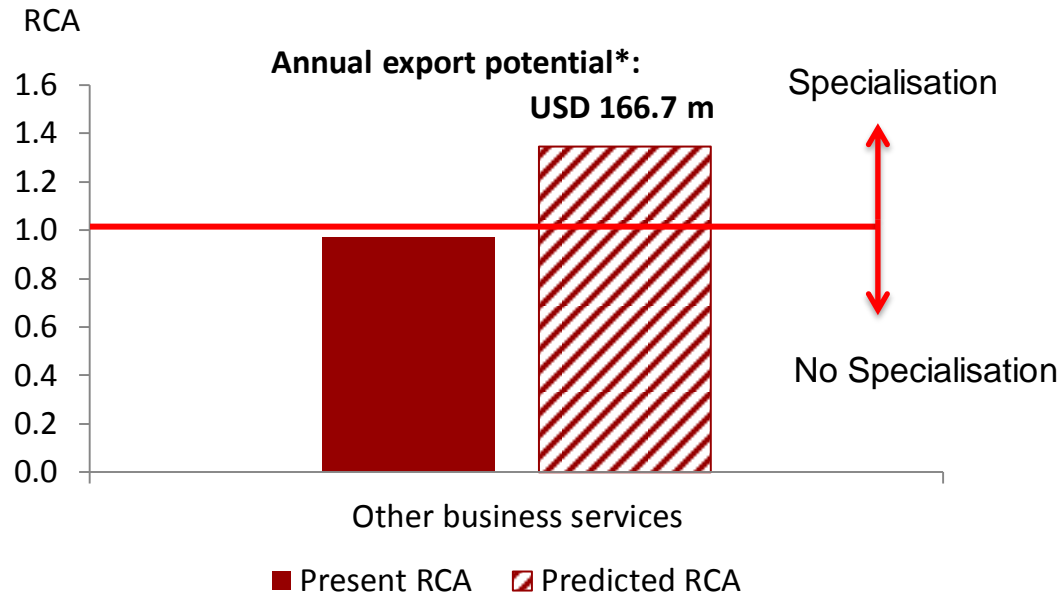


Source: Geostat

- Part of “real estate, renting and business activities” sector
- Significant share in GDP (6%) and total employment in the country (3%)
- High growth of sector over past years due to high FDI inflows creating demand for consultancy and other business services
- Key employer for many recent graduates with social science degrees

2. Competitive potential of Georgia

Predicted potential for specialisation of Georgia



Source: UN Comtrade, own calculations

*: Calculated on the basis of 2014 export volumes

- Empirical paper by GET Georgia predicted large potential for Georgia to develop specialisation in business services
- Driven primarily by Georgia's competitiveness in providing insurance services: Same comparative advantages should make business services viable
- Is this really a potential for Georgia? => Analyse competitive factors

Competitive factors for business service provision

- We concentrate on the competitiveness of Georgia for outsourced business services including:
 - Accounting and consulting
 - Advertising and market research
- Require qualified labour at competitive wages, but no large capital investments
- We therefore identify three key competitive factors:
 - Human Capital (Qualification and labour costs)
 - Business Environment
 - Communication infrastructure
- Other possible destinations of services outsourcing include for example India, Ukraine, Moldova
- **Is Georgia able to compete with these countries?**

Competitive Factor 1: Human Capital

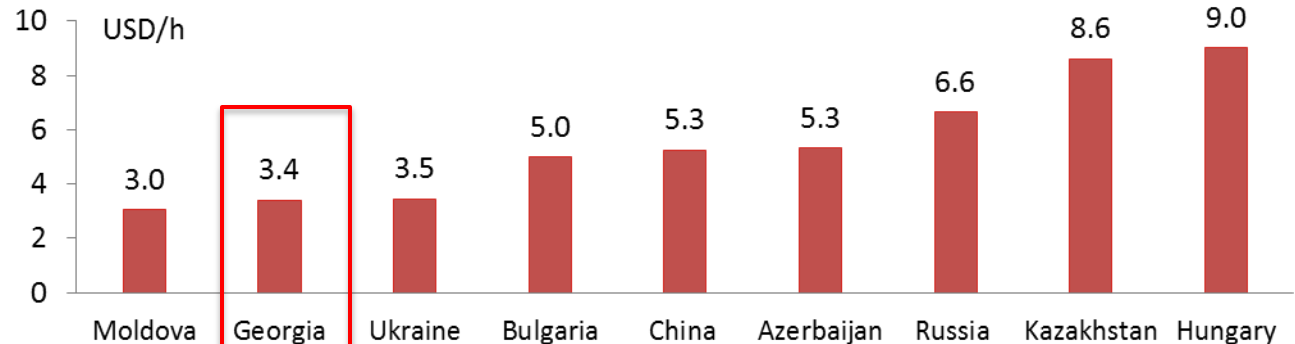
Importance

Competitiveness of Georgia

The bottom line

- Wage cost is 70-80% of total cost to firms

Average hourly wage in service sector



Source: National Statistics offices

- Competitive wages compared to other countries in the region
- More than 2,000 graduates in social sciences per year
- Quality of academic education varies
- English competence is frequent among young generation
- Good competence in Russian, can be an asset for some markets
- Legal system very similar to German system

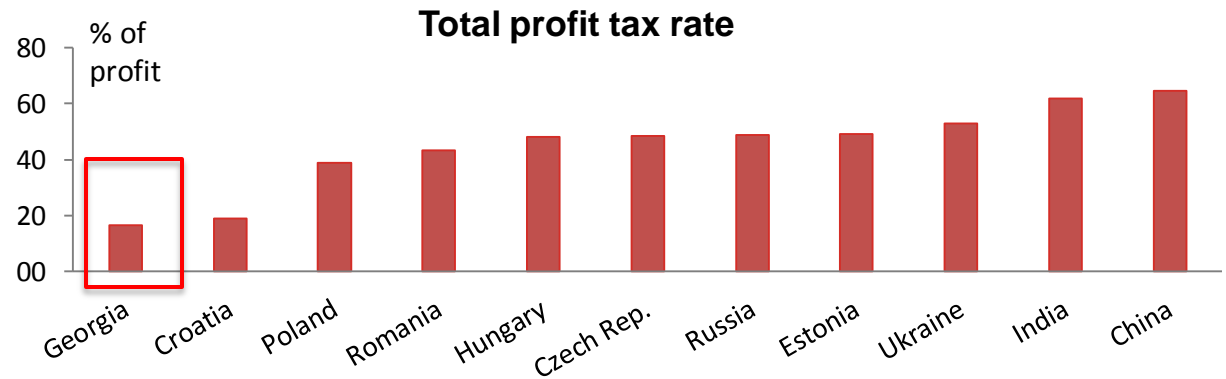
- **Competitive wages in service sector**
- **Additional training will often be required**

Competitive Factor 2: Business Environment

Importance

Competitiveness of Georgia

- Low administrative and tax burdens are crucial to attract highly mobile services companies



Source: World Bank Doing Business 2015

- Top rankings in World Bank and other studies
- Few taxes, low rates (e.g. profit tax of 16.4%)
- Very low corruption and bureaucratic burden
- First place in World Bank ranking for ease of starting a business (2 days to set up)

The bottom line

- **Excellent business environment**
- **Lowest administrative and tax burdens in the region**

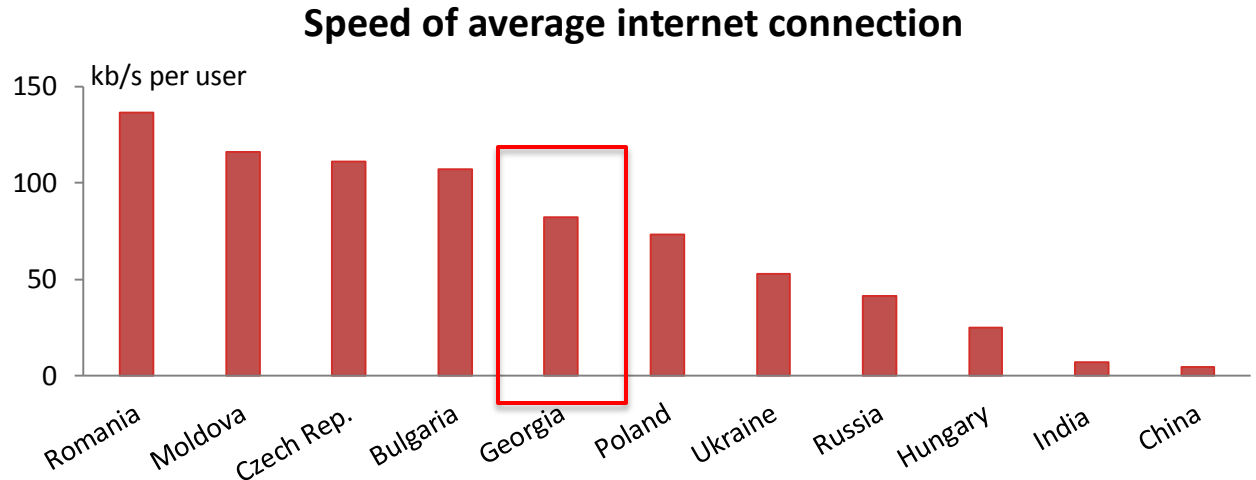
Competitive Factor 3. Communication Infrastructure

Importance

Competitiveness of Georgia

The bottom line

- Necessary to ensure efficient service delivery



Source: WEF, Global Competitiveness Report

- Good internet and telecommunication infrastructure
- 40th place in World Economic Forum ranking of 148 countries
- Increasing number of internet start-ups indicate technological competence and point to potential for IT services

➤ **No hindrance for development of sector**

Policy implications

- Continued **investment in education** required:
 - Further improve competence in foreign languages (e.g. ensure that all university graduates and most high school graduates have good command of English)
 - Subject-specific education (e.g. modernisation of academic education in management science)

- **Communicate potential to investors:**
 - Audience: Dedicated providers of services (project management, accounting, tax etc., also for SMEs) for companies in higher-wage countries (e.g. EU).

Summary and evaluation

Current situation

- Present business services exports largely byproduct of other economic activities
- Limited genuine exports

Competitiveness factors

- Highly competitive wages
- Academic and language training could be better
- Excellent business environment: Low tax burden, bureaucracy, corruption
- Adequate communication infrastructure for business services

Conclusion

- **Strong price competitiveness for outsourced services**
- **Training of workforce will be necessary**
- **Growing outsourcing of services is a real opportunity**

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