

TRENDS AND DEVELOPMENTS IN THE GEORGIAN LOGISTICS INDUSTRY

1. Introduction

Development of logistics services and communication technologies have dramatically changed production and distribution processes and created the global market. In parallel with an increasing global competitive pressure, suppliers and vendors require efficient logistics services that can move their goods to the right place, at the right time, in the right condition, and for the right price.

It is therefore of great importance that regional linkages in Georgia are strengthened in order to facilitate trade, enhance regional economic integration and develop logistics for better access to the global market. Logistics is emerging as a new development priority in Georgia. It is acknowledged that an efficient logistics system can support Georgia for economic integration and strengthen competitive position in the global logistics sector.

Logistics has been becoming an important part of a global economy. In 2011, the total revenue of the logistics market in EU reached 800 billion EURO. Germany is ranked first in the logistics industry in European Union (EU), with 223 billion Euro revenue and 2,8 million employees. An annual growth rate of logistics in the western EU countries amounts 5%, in the East- 15% which is 3-4-times higher than the GDP growth in this region. Logistics turns out to play a major role in the international competitiveness between the regions and companies which influences their strategic positioning on the global market.

2. Role of Logistics in the Economic Globalization

Georgia's strategic location at the crossroads between Europe and Asia makes the country an important transit route in the Eurasian Transport Corridor, which is the world's fastest growing corridor.

The globalization of trade and production is an issue that is affecting all countries including Georgia. Those countries that create most favourable conditions for trade and production will attract companies that are part of the global economy. This is particularly important for developing countries and the ones with transition economies to which an access to world markets is an absolutely critical part of their drive for prosperity.

In the globalization process, companies make conscious decisions as to where to produce their goods, where to sell them, and how to move them from one place to another. There are many aspects to that decision, but one important aspect is the quality and cost of logistics. It is useless to have low production costs if the finished product cannot be moved easily, cheaply, and reliably to the

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customer. There are two principal aspects to good logistics. The first is a cost: lower costs are self-evidently attractive to firms. The second is a quality: logistic reliability is paramount for many companies.

3. Logistics as a Key Factor for Georgian Economy

Logistics is a key pillar of Georgia's competitiveness as a business location in East Europe. It is an important part of the Georgian economy. The share of the logistics industry in the country's GDP amounts 12%.

The globalization and growing economic integration between the companies in East and West and the further internationalization of the markets creates unique opportunity for Georgia to be integrated in the international trade. Sophisticated logistics improves effectiveness of the supply chain and makes it cheaper, which is an important factor for the strengthening of the competitiveness of the country and companies acting there.

The development of the logistics plays an essential role in the prosperity of Georgia's most important industries: Agriculture, manufacturing, trade and tourism. Post harvest spoilage of fruits and vegetables in Georgia amounts 40-50%, which is caused by absence of the appropriate warehouse infrastructure and technological decline. Logistics plays a key role in the supply chain of the modern agriculture industry. Its efficient management defines product quality at the international market. Logistics is therefore decisive factor for establishment of the Georgian agriculture products on the international market.

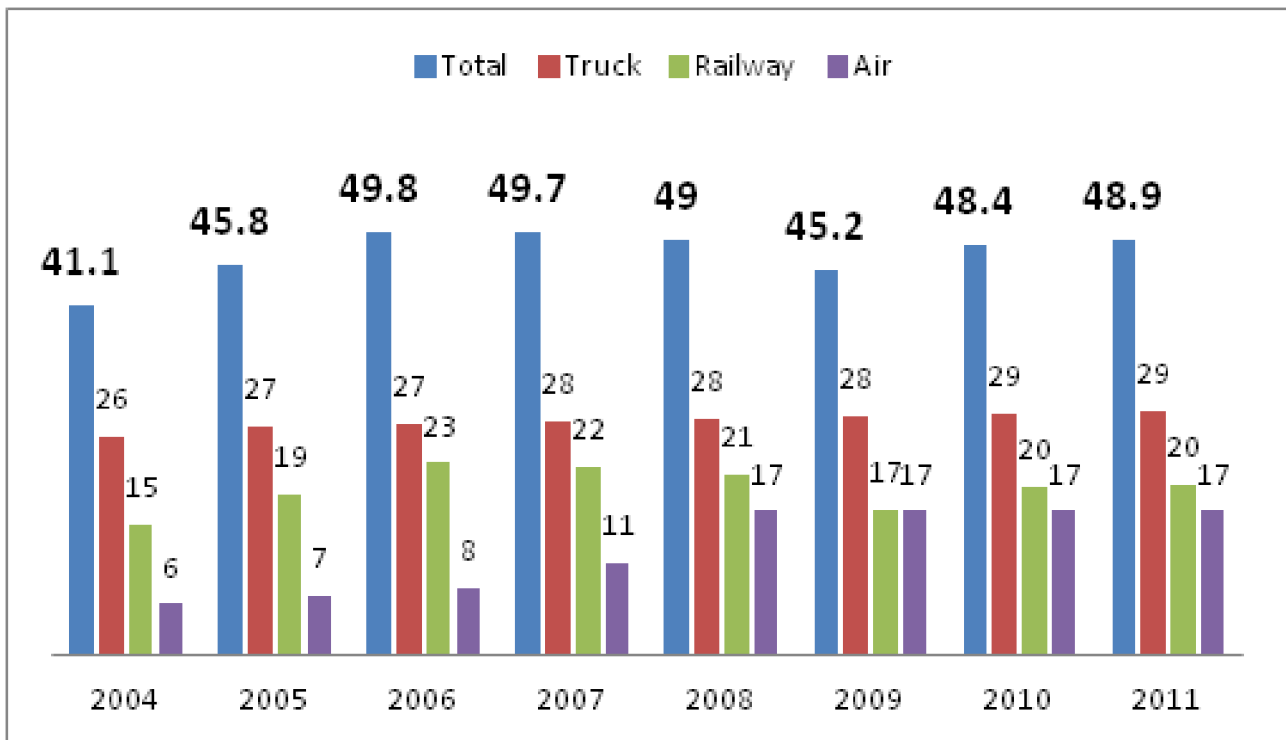
4. Tendencies of the Georgian Freight and Logistics Market

The freight transport in Georgia has been grown dynamically since 2009. An average annual growth rate amounts 10%, which is almost two times higher than GDP growth. According to the prognosis of the Department of Logistics at Georgian Technical University, this trend will continue in the future. In 2001 total freight in Georgia reached 49 million tons.

The growth of the container transportation in the Georgian ports are significant. 2011 was a record-breaker for Poti and Batumi Ports. The number of handled containers reached ca. 300,000 TEU, an in-

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Figure 1: Total Cargo Revenues in Georgia in million ton



Source: Department of Logistics, GTU

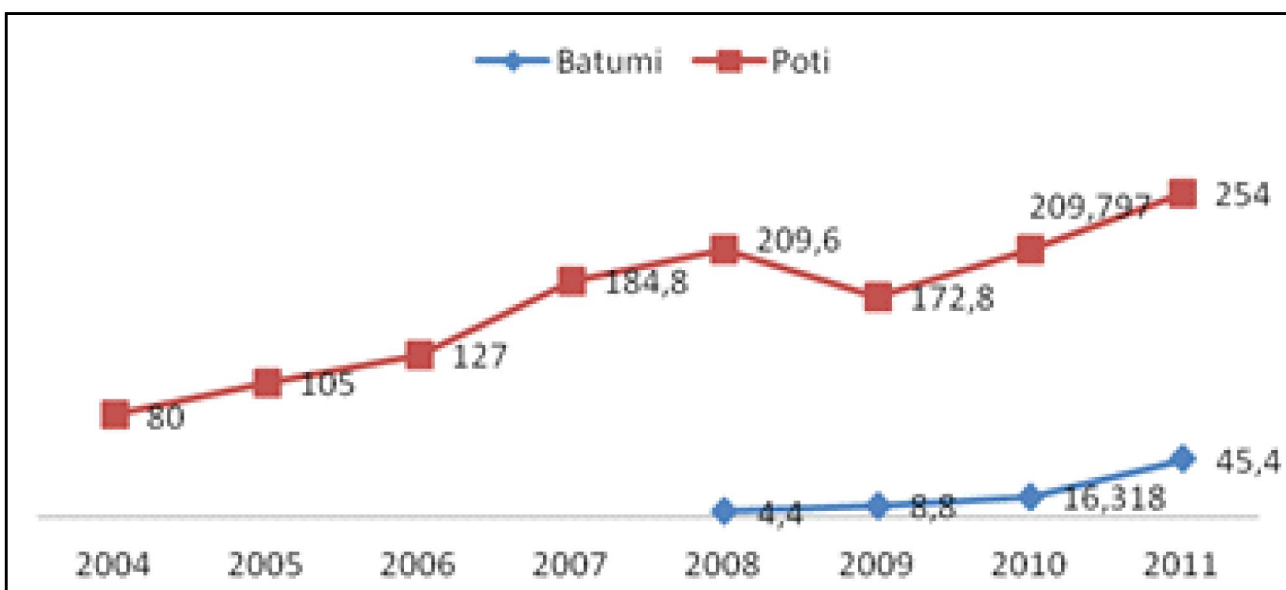
crease of 33% over 2010. The number of handled containers is forecasted to be 370,000 TEU in both ports in 2012.

The modal split of the freight transport shows that road transport carries greater freight share in Georgia than rail. The main reason of this development is the relatively high tariffs, inefficient rail infrastructure and

low level of services of the Georgian Railway, which makes the road haulage more competitive than the rail.

The share of air cargo in freight transportation in Georgia is insignificant. The main part of the cargo is domestic and belly freight. However, air cargo is characterized by constant growth in recent years in Georgia. This positive trend will accelerate over the next five years.

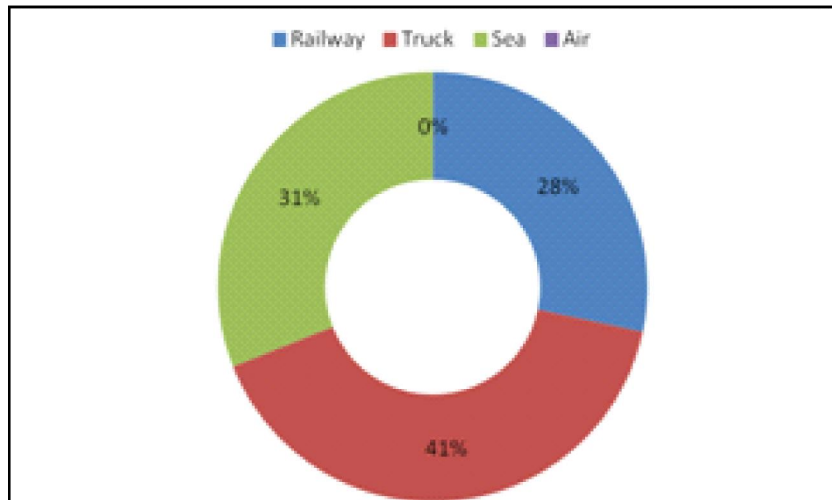
Figure 2: Container Handling in Georgian Ports, in thsd. TEU, Source : Department of Logistics, GTU



Source: Department of Logistics, GTU

Figure 3: Modal Split of Freight Transport

Source : Department of Logistics, GTU



Source: Department of Logistics, GTU

5. Main Bottlenecks in Transportation and Logistics Industry

Underdeveloped logistics infrastructure and lack of logistics knowledge are the main bottlenecks in the Georgian logistics industry. One of the main reasons of the inefficiency of the existing transportation infrastructure in Georgia is that it does not have a network effect.

Local logistics services are characterized with limited services and high costs. The term “logistics” traditionally only comprises transport. Complex logistics services as warehousing, distribution, supply chain management have been provided by industry and trade in-house.

Logistics standards have not been established yet, and there is a lack of logistics service providers. IT systems for the planning and monitoring of supply chains are still an exception. International companies in Georgia find it difficult to implement coherent strategies due to poor logistics know-how and infrastructure.

The main players in the Georgian logistics market are the classical freight forwarders, arranging mainly transport planning and road haulage. The service portfolio of these companies is very limited. There is an absence of logistics outsourcing and the Third-party logistics providers (3PL). Given this fact, the local companies (manufacturers, retailers and wholesalers) are forced to keep almost all logistics functions in-house, which make cost of capital more expensive, services costly and supply chains inefficient. The logistics costs by those companies are enormous high (ca 40-60%) and services are underdeveloped. Therefore, it is difficult for local companies to gain a serious competitive advantage and good performance without effective logistics service.

The warehouse services in Georgia are underdeveloped. Most of the existing warehouses are characterized by poor

conditions and soviet stile infrastructure, outdated equipment, low service levels and high service prices. The situation in the agricultural warehousing and cold chain segment is dramatic. The lack of cold storage and cold chain facilities are becoming one of the major bottlenecks in export growth of national agriculture products in Georgia.

6. Importance of Development of Logistics Infrastructure

The EU integration, globalization process and changing market structures in the East Europe require a fundamental restructuring and reorientation of the transportation and logistics market in Georgia. With the increasing need for competitiveness, the ability of the country to reduce logistics costs through the provision of adequate and efficient logistics system is more critical than ever.

Due to the development of the efficient transportation system and efficient logistics infrastructure Georgia has a real chance to attract international logistics providers and global players in the region, which enables Georgia for the membership in the international competition. The sufficient logistics infrastructure and consolidation of logistics know-how is to enable Georgia to get involved in the international competition of logistics locations.

7. Benefits of Logistics Centres

The international experience shows that logistics centres are one of the most effective instruments to create an efficient economic and transport cycles and increase competitiveness of the participating companies. Development of the network of logistics centres in Georgia will enable to establish competitive intermodal transportation system, which will result in the improvement of the supply chain performance and reduction of logistics costs. Finally, lo-

logistics centres will strongly support Georgia's establishment as a logistics hub for Caucasus and Central Asia.

The main benefits of the logistics centres in Georgia are:

- Development of efficient transportation system enabling Georgia to be integrated in the international logistics network;
- Development of qualified and high-level logistics services and distribution efficiency for local businesses;
- Attraction of international players into local market;
- Quick access to the market for both, suppliers as well as customers;
- Provision of suitable conditions for the development of new business opportunities through the typical mixture of companies and the logistics-oriented service spectrum;
- Direct time and cost savings which are achieved by cooperative purchases and pooling of resources.

8. Necessary Steps for Developing Logistics Sector in Georgia

According to the prognoses of Department of Logistics, the freight transportation will grow by over 10% next couple of years, which implies more outputs and more demand for specialized logistics services.

Efficient logistics system enables Georgia to be-

come a part of global logistics network and attract global players to the country. To realize this potential the following tasks have to be undertaken:

- Development of the long term logistics strategy, which will focus on the strengthening of competitiveness of Georgia as a logistics location and its integration in the global logistics network.
- Systematic development of transportation infrastructure, which will give the transportation system the network effect and increase its efficiency.
- Attraction of private investments in the development of transportation and logistics infrastructure through appropriate forms of **Public-Private-Partnerships (PPP)**.
- Harmonization of the transport and trade legal framework to support trade facilitation and attraction of foreign direct investment.
- Development of cooperation and new partnership models between freight forwarders, carriers and infrastructure operators.
- Create a powerful regional centre of excellence for the logistics in Georgia. Establishment of advanced logistics education programs at bachelor's, master's, and doctoral levels. Development of short certification programs and trainings in logistics and supply chain management.

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