

ENTERPRISE GEORGIA

MANUFACTURING 2019

GEORGIA

COUNTRY OVERVIEW



Area: 69,700 sq. km

Population: 3.7 mln

Life expectancy at birth 2017: 73.5 years

Official language: Georgian

Literacy: 99.8 %

Capital: Tbilisi

Currency (code): Lari (GEL)

GDP 2018: USD 16.2 billions

GDP real growth rate 2018: 4.7 %

GDP CAGR 2013-2018 (GEL): 4 %

GDP per capita 2018: USD 4346

Inflation rate (December) 2018 (Y-o-Y): 1.5%

Total Public Debt to Nominal GDP (%) 2018: 42.2%

OVERVIEW OF GEORGIA'S MANUFACTURING SECTOR

Growing regional market - Companies operating in Georgia can benefit from the growing regional market and various regional import substitution opportunities

Access to 2.3 billion markets without Customs Duty - Georgia has Deep and Comprehensive Free Trade Area (DCFTA) with EU, Free Trade Agreements (FTA) with China (including Hong Kong), Turkey, CIS countries, EFTA.

Competitive labor costs - the average monthly salary in manufacturing industry is USD 365 including white and blue-collar workers

Low utility costs - currently up to 80% of power is generated via hydropower plants, leading to cheaper energy cost. Standard cost for 1 kWh is 6 USD cents for 30-110 kV high voltage electricity

4 Free Industrial Zones (FIZ) - In FIZ, businesses are exempt from all taxes except Personal Income Tax (20%), which is paid from employees' salaries



WHAT INVESTORS THINK ABOUT MANUFACTURING IN GEORGIA



"Georgia has transparent business climate, growing economy, acceptable labor cost and simple legislation" – **Henkel, Adhesives Factory**

"A highly qualified, technology-driven workforce and strong manufacturing capabilities are attracting high-tech businesses to Georgia" - **Elbit Systems, Manufacturing of Aircraft Composites**



"Favorable Geographic Location, transparent tax system, stable macro-economic environment, and free trade agreements with neighboring countries and EU led to the birth of steel factory in Georgia" – **JSW Group, Steel Factory**

"HeidelbergCement invests in Georgia because of its business friendly environment, attractive tax regime and highly developed and reliable infrastructure" – **HeidelbergCement, Cement Factory**



PREFERENTIAL TRADE REGIMES

- * Deep and Comprehensive Free Trade Area (DCFTA) with EU
- * Free Trade Agreement with the People's Republic of China (including Hong Kong)
- * Free Trade Agreements (FTA) with EFTA Countries (Iceland, Norway, Switzerland, and Liechtenstein), Turkey and CIS countries (Russia, Ukraine, Kazakhstan etc.)
- * GSP agreement with USA, Canada and Japan
- * Member of WTO
- * Very simple and service oriented customs policy and administration – customs clearance in 20 minutes
- * 80% of goods are free from import tariffs
- * No quantitative restrictions



UTILITY COSTS



ELECTRICITY

Government of Georgia has determined maximum rates of electricity in Georgian Lari (GEL). The rates are different according to regions of Georgia and voltages

Companies can be registered as direct consumers, purchase electricity directly from energy producers and negotiate on price

Connection fee is abolished, if the company needs 35-110 kV voltage level



WATER

Maximum rates of drinkable water and water for sewerage system are also determined by Government



GAS

Natural gas rates are deregulated for industrial use and companies can negotiate the price with supplier. Average cost of gas per cubic meter amounts to around USD 0.3-USD 0.4 cent

UPPER MARGINAL RATES OF POWER

Category	GEL kWh including VAT (18%)	USD kWh including VAT (18%)
Tbilisi		
220/380 volt (average)	0.213	0.084
3,3-6-10 kV	0.169	0.067
35 – 110 kV	0.161	0.064
Other parts of Georgia		
220/380 volt (average)	0.211	0.083
3,3-6-10 kV	0.163	0.064
35 – 110 kV	0.149	0.059

MAXIMUM RATES OF WATER

Category	GEL/m3 including VAT	USD/m3 including VAT
Tbilisi:		
Drinkable water	3.328	1.313
Sewerage system water	1.073	0.423
Other parts of Georgia (there are few exemptions):		
Drinkable water	3.375	1.332
Sewerage system water	0.932	0.368

(Average official GEL exchange rate in 2017: 1 USD - 2.5086 GEL)

YOUNG, SKILLED AND COMPETITIVELY PRICED LABOR FORCE



COMPETITIVE LABOR COSTS

- * Average monthly salary in manufacturing industry amounts to USD 365
- * According to Heritage Foundation, Georgia ranks 20th globally on Labor Freedom Index



FLAT LOW TAXES

- * Only two types of payment based on the employee salary - Personal Income Tax and Pension Contribution.
- * Personal Income Tax is flat 20%
Pension Contribution 6% (2% paid by Employer, 2% paid by Employee, 2% by Government)



YOUNG LABOR FORCE

- * 54% of the unemployed population is in the 20-40 age category
- * Unemployment rate is 12.7% (2018)



FAVORABLE LABOR CODE

- * The country doesn't have minimum wage regulations and compensation for labor depends on the agreement between employee and employer
- * All ILO core conventions are ratified by Georgia



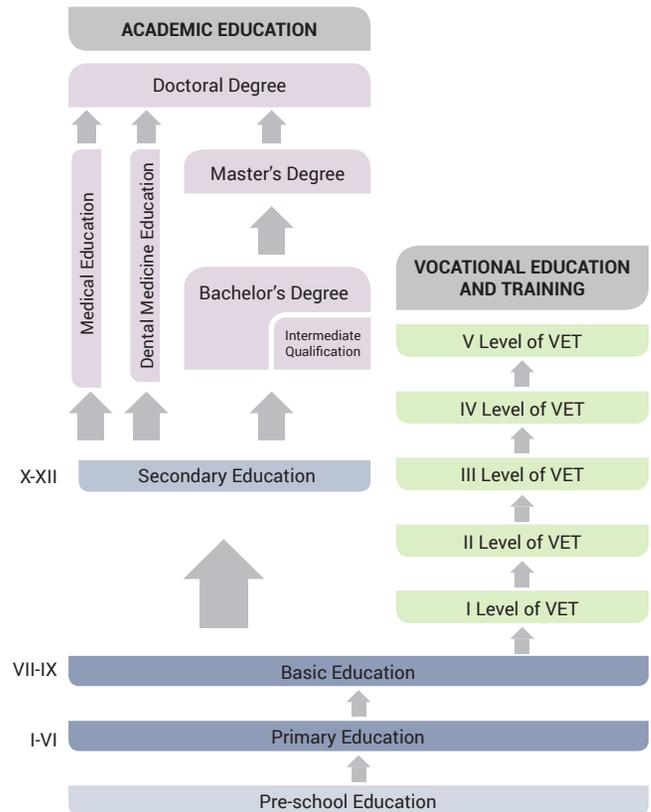
FLEXIBLE REGULATIONS

- * No working permits are required
- * Citizens of 95 countries can stay in Georgia without visa during whole 1 year, which helps attracting professional employees from other countries in the wider region

EDUCATION SYSTEM AND SKILLS

- * Georgia has 75 higher educational institutions and over 125 professional education centers
- * Higher education in Georgia consists of three stages:
 - ✓ Bachelor program (4 years)
 - ✓ Master program (2 years)
 - ✓ Doctorate program (3 years)
- * 113759 students graduated from bachelor, master and professional programs during last 5 years
- * According to KPMG Research and Analysis:
 - ✓ Around 60% of young population and 40% of overall population know English
 - ✓ Vast majority of the population have some knowledge of Russian
- * Government promotes vocational education and Vocational Education Training Centers around Georgia provide professional courses in different types of practical subjects and most of the course's fees are financed by the Government of Georgia

HIGHER EDUCATION SYSTEM OF GEORGIA



BENCHMARK ANALYSIS OF GEORGIA WITH COMPETITOR COUNTRIES

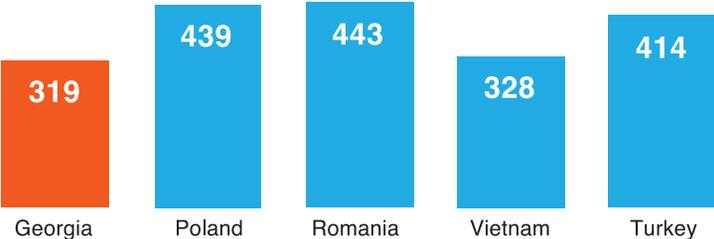
Average Gross Salary in Manufacturing Sector, 2018



Electricity Tarrifs, 2018



Construction costs per square meter, 2017



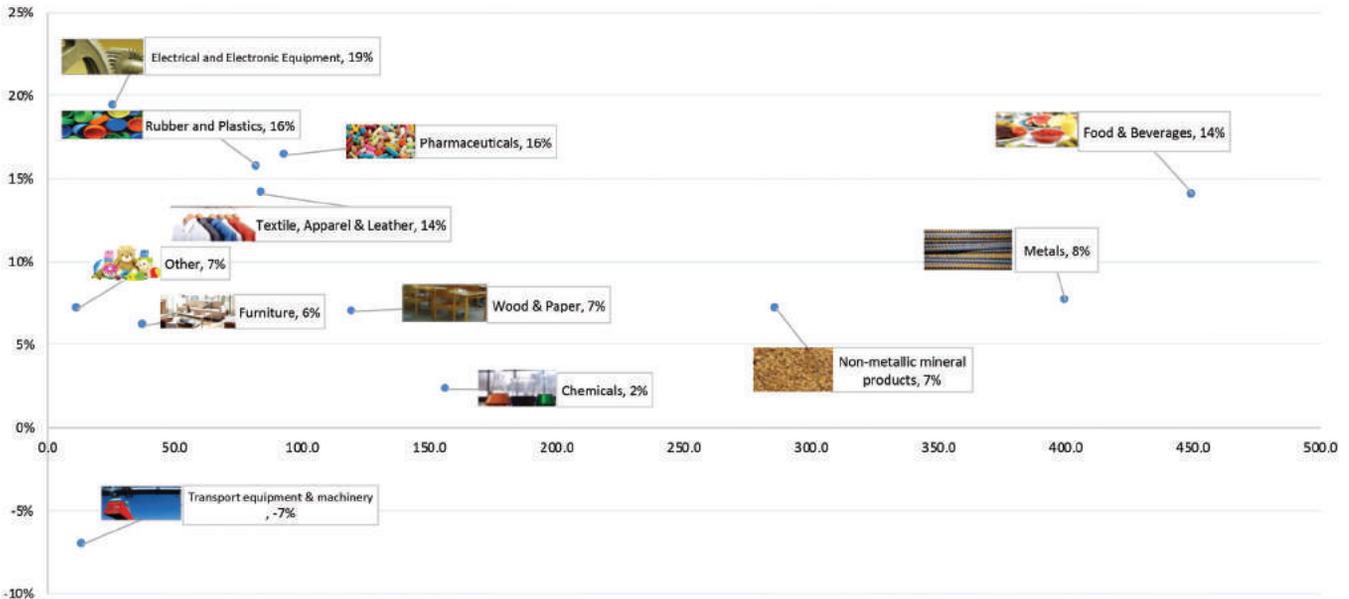
Source: KPMG; World Bank

MANUFACTURING SECTOR

INDUSTRY	PRODUCTION VALUE (USD MILLIONS, 2017)	VALUE ADD (USD MILLIONS, 2017)	TOP 3 PRODUCTS (VALUE ADD, USD MILLIONS, 2017)	TOP 3 COMPANIES BY PRODUCTION 2017
 Food & beverages	1465	439	<ul style="list-style-type: none"> Mineral waters & soft drinks (100) Wine (98) Bread, fresh pastry goods and cakes (33) 	<ul style="list-style-type: none"> IDS Borjomi Georgia Coca-Cola Bottlers Georgia Agara company
 Metals	667	205	<ul style="list-style-type: none"> Ferro-alloys (110) Tubes (50) Structural metals (25) 	<ul style="list-style-type: none"> Georgian Manganese GeoSteel Rustavi Steel
 Non-metallic mineral products	436	113	<ul style="list-style-type: none"> Ready-mixed concrete (42) Cement (31) Concrete products for construction purposes (13) 	<ul style="list-style-type: none"> Heidelbergcement Georgia Heidelbergbeton Georgia Mina
 Chemicals	146	62	<ul style="list-style-type: none"> Fertilisers (47) Industrial gases (3) Soap, detergents cleaning preps (1) 	<ul style="list-style-type: none"> Caparol Georgia Rustavi Azoli MN chemical Georgia
 Rubber and Plastics	127	33	<ul style="list-style-type: none"> Plastic packing goods (12) Builders ware of plastic (9) Plastic plates, sheets, tubes & profiles (8) 	<ul style="list-style-type: none"> LTD Alfa Pet JSC Caucasian Pet company Polimer 1
 Wood & Paper	126	48	<ul style="list-style-type: none"> Articles of paper/paperboard (13) Wood, cork, straw & plaiting materials (8) Planning of wood (5) 	<ul style="list-style-type: none"> Star RG Sharavandi LTD Shunsiang
 Textile, Apparel & Leather	86	33	<ul style="list-style-type: none"> Wearing apparel (27) Textiles (5) Leather & related products (2) 	<ul style="list-style-type: none"> Ajara Textile Fast Track Textile LTD Geofibre
 Pharmaceuticals	79	37	<ul style="list-style-type: none"> Pharmaceuticals (37) 	<ul style="list-style-type: none"> Aptos GMP Aversi
 Furniture	67	15	<ul style="list-style-type: none"> Furniture (27) Machinery and equipment (12) Electrical machinery and apparatus (8) 	<ul style="list-style-type: none"> MAQRO Georgian Products Embawood Georgia
 Electrical and Electronic Equipment	25	10	<ul style="list-style-type: none"> Coke & refined petroleum products (2) Other manufacturing products (3) 	<ul style="list-style-type: none"> Black Sea Trading ZD Oil Company Agrirol Caucas
 Transport equipment & machinery	19	13	<ul style="list-style-type: none"> Electrical equipment (10) 	<ul style="list-style-type: none"> Guramex Sakcable NRG Georgia
 Others	34	5	<ul style="list-style-type: none"> Transport equipment (3) Special-purpose machinery (1) 	<ul style="list-style-type: none"> Elmavalmshebelle TAM Management Tam Tbilviamsheni

MANUFACTURING SECTOR

GROWTH OF SECTOR (VALUE ADD) CAGR, 2012-2017



SIZE OF SECTOR (VALUE ADD) 2017, USD MILLION

The food/beverages and basic metal products industries provide the largest industrial base for Georgia, while Electronic Equipment, pharmaceuticals Rubber/Plastics are the fastest growing industries

SEVERAL HIGHLY ATTRACTIVE REGIONAL PRODUCTION OPPORTUNITIES



**APPAREL, FOOTWEAR
AND BAGS**



**AUTOMOTIVE AND
AEROSPACE COMPONENTS**



FURNITURE

PHARMACEUTICALS



**CONSTRUCTION
MATERIALS**

PLASTICS

MANUFACTURING OF APPAREL, FOOTWEAR AND BAGS

OVERVIEW

- * Georgia has a rich history of manufacturing apparel, footwear, bags and other leather products, dating back to Soviet times
- * Contract manufacturing of apparel is well developed in Georgia and existing factories produce apparel for famous international brands, such as Nike, Adidas, Moncler, Tommy Hilfiger, Zara, Puma, M&S, HM, etc.
- * Biggest companies in the industry are engaged in Cut, Make, Trim (CMT) operations
- * Footwear and bags manufacturing sector has emerged recently as local manufacturers started to export their products to different international markets
- * Leather production is also developing in Georgia and currently Georgian leather is exported to Italy and Turkey

ADVANTAGES THAT GEORGIA OFFERS IN MANUFACTURING OF FOOTWEAR AND BAGS

- * Proximity to strategic markets and possibility to save up to 12-30% duty - with Free Trade Agreements, apparel, footwear & bags originated in Georgia, can have zero import tax to EU, Turkey and CIS countries.
- * Average monthly salary in apparel and footwear manufacturing is USD 230
- * Government's support with training and vocational education - there are 12 State owned Vocational Educational Institutions around Georgia that provide professional courses in shoemaking, cutting, sewing and other practical subjects used in the industry

INTERNATIONAL BRANDS PRODUCED IN GEORGIA



■ Average gross salary in the sub-sector of garment and footwear, 2017



AUTOMOTIVE & AEROSPACE - PARTS AND COMPONENTS MANUFACTURING



OVERVIEW

- * Georgia has rich history of manufacturing of auto, aircraft and locomotive products. During Soviet Union period auto, aircraft and locomotive manufacturing companies were operating in Tbilisi and Kutaisi.
- * Since the collapse of the Soviet Union, these enterprises redesigned the operating activities via manufacturing various spare parts:
- * **Kutaisi Auto Mechanical Plant** produces different spare parts for agricultural products; ropeway, railway and mining products.
- * **Locomotive manufacturer company** – Elmaval-mshenebeli assembles electric locomotives and plans with Skoda Electrician to create a double tact and eight-axis induction motor locomotive.
- * **Tbilisi Aircraft Manufacturing (TAM)**'s activities comprise production, modernization, overhaul and repair of military aircrafts and production of different military products.

RECENT DEVELOPMENTS OF AUTOMOTIVE & AEROSPACE INDUSTRY IN GEORGIA

- * In the recent years, Georgia saw gradual revival of Aerospace Industry.
- * **Aero-Structure Technologies Cyclone (ATC)**, joint venture between the Israeli firm Elbit Systems and the Georgian state-owned Partnership Fund opened a production facility for composite aircraft parts in Georgia in 2018
- * ATC produces composite parts for the major players of the World air industry, such as Boeing, Bombardier, Airbus, etc. The certification process has already been completed at the factory and Boeing has already bought the first products produced in Georgia.

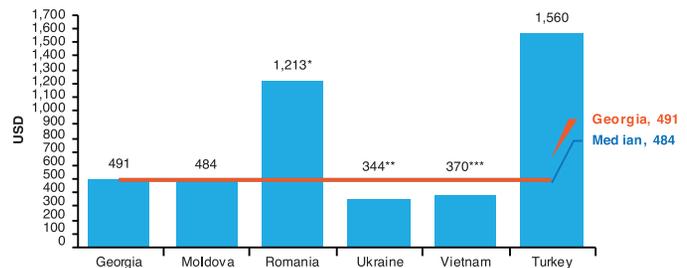
AUTOMOTIVE & AEROSPACE - PARTS AND COMPONENTS MANUFACTURING

- * **Georgia's preferential trade regimes** - Georgia is the only country in the region with FTAs with the European Union, EFTA, Turkey, CIS, Ukraine, China and Hong- Kong providing excellent opportunities for exporting of Auto and Aircraft parts and components from Georgia preferentially
- * **Skilled and low cost labor** – Average gross salary per month for in auto industry ranges between USD268 –USD741 in Georgia, however the actual starting level of average gross salaries amounts to USD240
- * **Availability of raw materials in Georgia and/or neighboring countries** – The territory of Georgia is rich in deposits of copper, manganum and lead ore. In addition, some other raw materials such as Plastic, Steal, Aluminum, Nickel, Lithium are available in neighboring countries with which Georgia has 0% import tax
- * **Availability of Trainings for labor** – Trainings for specialist in auto industry are available in different cities of Georgia: Tbilisi, Kutaisi, Batumi, Poti, Kobuleti, Akhaltsikhe and Gurjaani. Training centers can provide special short-term training courses per investor's request and the terms and cost of training vary upon the requirements. The programs are mainly financed by the Government.

BENCHMARK ANALYSIS OF GEORGIA'S AVERAGE SALARY WITH COMPETITOR COUNTRIES

- * The average salary in the Auto industry in competitor countries ranges from USD 344 to USD 1,560.
- * Georgia's average salary in the Auto industry is USD 491, which is 1% higher than the median value and 67% lower than the maximum value.
- * Nevertheless, actual starting level of average gross salary amount to USD 240, which is 30% lower than the minimum value

AVERAGE GROSS SALARY IN AUTO INDUSTRY, 2018



Source: (1) [statistica.md](#), (2) [t-times.ro](#), (3) [ukstat.org](#), (4) [paylab.com](#), (5) KPMG analysis

Note: *As at December 2017

**Exchange rate used - average of 4 months 2018 as at April 2018 USD/UAH 26.24

***As the General Statistics Office of Vietnam doesn't publish the average salaries by the type of economic activity, presented salary of USD 370 is an average salary for the automotive technician in Vietnam as per the Mien Nam College research

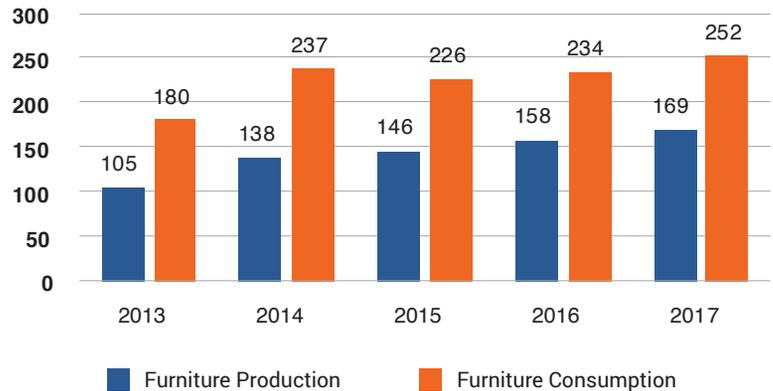
FURNITURE

OVERVIEW

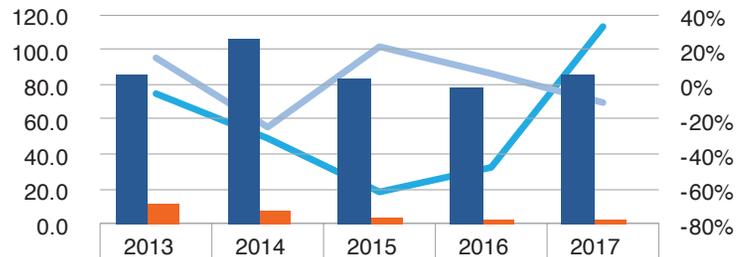


- * Consumption and production are increasing steadily
- * Average monthly salary in manufacturing of furniture - USD 230
- * Production of raw materials (Leather, Foam etc.) is starting to develop in Georgia
- * 0% import duty in Europe – relatively easy to satisfy rules of origin for DCFTA (up to 50% of the costs/raw materials from the finished product's ex-works value can be imported)
- * Government plans to train people for the furniture manufacturing sector
- * Georgian Furniture Cluster – 121 producer companies work together for economies of scale and better specialization
- * Forest cover area is 2,772,400 ha (40% of Country's territory). Main Tree Species: Beech (54%), Oak (11%), Fir (9%), other (26%)

FURNITURE PRODUCTION, MILLION USD



Source: Geostat, Trademap.org



■ Total Import	85.1	106.0	83.0	77.5	85.6
■ Total Export	10.97	.6	2.91	.5	2.1
■ Export Change %	-5%	-31%	61%	47%	33%
■ Import Change %	15%	25%	22%	7%	-10%

PHARMACEUTICALS

OVERVIEW

- * Georgia already produces different types of pharmaceuticals and exports some of them in regional countries: Uzbekistan, Azerbaijan, Armenia and etc.
- * Production of pharmaceuticals was 79 Million USD in 2017
- * Domestic consumption of pharmaceuticals was approximately USD 318 million in 2017 from which only 25% was covered by domestic production
- * CAGR of Georgia's export amounted to 22% during 2010-2016 years
- * CAGR of import in Georgia was 20% during 2010-2018 years

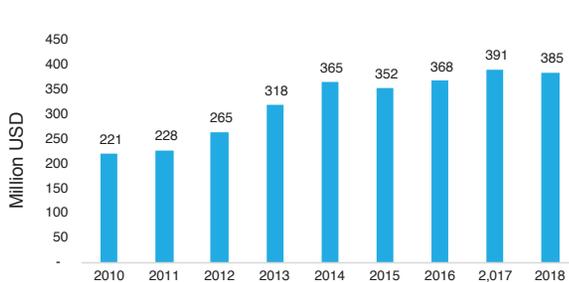
POTENTIAL FOR GEORGIA

- * Emerging markets widely considered to be focal point for growth in the global pharmaceutical market over the coming decade, and Georgia and the surrounding region have significant room for growth
- * Georgia has the state owned laboratory (biosafety level 2 and 3 laboratories and vivarium) established in 2011 (investment amount USD 200 million), which is ready to cooperate with private sector in R&D and product testing
- * Georgia has skilled & qualified labor in the pharmaceutical industry

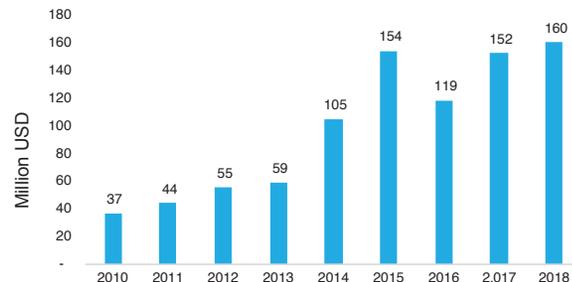
INVESTMENT PROPOSAL

- * Opportunities to invest in manufacturing, regional distribution hub, R&D and clinical testing
- * Pharmaceuticals niche sub-sectors - bacteriophages and natural/herbal medicine

IMPORT OF PHARMACEUTICALS IN GEORGIA,
2010-2018 | HS CODE 30



GEORGIA'S EXPORT OF PHARMACEUTICALS,
2010-2018 | HS CODE 30



CONSTRUCTION MATERIALS

OVERVIEW

- South Caucasus countries are developing with fast pace and demand for construction materials is growing yearly
- Global imports of worked Marble, Travertine and Alabaster amounted to 1.2 Billion USD in 2017. Georgia imported 3.4 Million USD of these products in 2017
- Georgia imported 41 million USD ceramic tiles in 2017, while Azerbaijan and Armenia imported 13 and 14 million USD respectively
- Glass wool insulation is one of the most widely used forms of insulation. The total value of import in Georgia, Armenia, Azerbaijan and Kazakhstan amounted to 12 million USD in 2017
- Georgia has small and medium sized deposits of construction materials and facing stones, 312 and 107 respectively

INVESTMENT PROPOSAL FOR GEORGIA

- There are nine marble mines in Georgia, holding 24.5 million m3 reserves. The availability of raw materials enables production capacity of 8 800 tons per year to substitute import and create export potential mainly to neighbor countries. The optimal initial investment is USD 3.5 Million
- Georgia has ceramic tiles production capacity of 132 000 tones per year thanks to clay deposits. Domestic production has a potential to replace 40% of imports and the remaining can be exported to Armenia and Azerbaijan. The optimal initial investment is USD 5.5 Million
- Additionally, Georgia has a good opportunity for production of refractory bricks, which has the robust import growth rate in South Caucasus. Georgia has 36.4 million tons reserves of fireproof clay, the main raw material for the production. The optimal initial investment is USD 3 Million
- Georgia has several mines of glass sand, the main raw material for glass wool production, with the total reserves of 132.9 million m3. The optimal initial investment is USD 6 Million for production capacity of 2 000 tons per year

MARBLE

CERAMIC TILES

REFRACTORY BRICKS

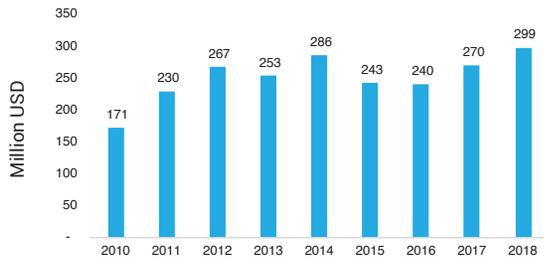
GLASS WOOL



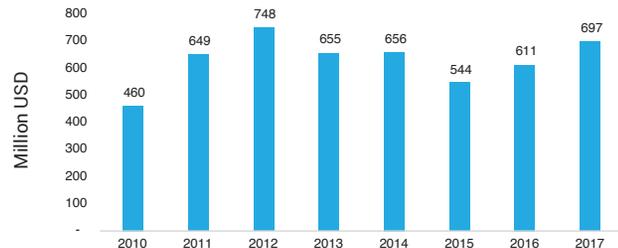
PLASTICS MANUFACTURING

- * Domestic consumption of plastic products was approximately USD 377 million in 2017 from which only 34% was covered by domestic production
- * In 2017 Georgia imported plastic products mainly from Turkey (USD 120 million), China (USD 30 million) and Iran (USD 15 million)
- * In 2017 export of plastic products from Georgia accounted USD 19 Million
- * Transportation cost of plastics, especially packaging materials is very high compared to total product price and for that reason these materials are not usually traded extensively between the countries. However in 2017 import of plastics amounted to USD 270 million in Georgia
- * In 2018 Georgia imported USD 9.9 Million tubes, hoses, and fittings therefor, e.g. joints, elbows, flanges, of plastic. Import has increased CAGR 7% since 2007. Azerbaijan and Armenia imported total USD 5.7 Million in 2017.

IMPORT OF PLASTICS IN GEORGIA,
2010-2018 | HS CODE 39



IMPORT OF PLASTICS IN SOUTH CAUCASUS,
2010-2017 | HS CODE 39



INCENTIVES AND ACCESS TO FINANCE

PRODUCE IN GEORGIA

Mission: supporting of manufacture and agriculture industries Government offers:

- Subsidies for loan interest payment
- Free lands/buildings for factory construction

FREE INDUSTRIAL ZONES

- * Four Free Industrial Zones (FIZs) operate in Poti (sea port), Kutaisi (second largest city) and Tbilisi (capital city)
- * If a company produces goods for export in FIZ, it is exempted from all taxes except Personal Income Tax (20%), which is paid from employees' salaries

PARTNERSHIP FUND

- 100% state owned fund
- Operating fields: Energy; Hospitality & Real Estate, Manufacturing, Agribusiness
- Finances up to 49% of equity in new investment projects

INTERNATIONAL FINANCIAL ORGANIZATIONS

- European Bank of Reconstruction and Development (EBRD)
- International Finance Corporation (IFC)
- Asian Development Bank (ADB)
- European Investment Bank (EIB)
- Overseas Private Investment Corporation (OPIC)



ENTERPRISE GEORGIA

- * LEPL “Enterprise Georgia” operates under the Ministry of Economy and Sustainable Development
- * “One-stop-shop” for investors to support companies before, during & after investment process
- * Moderator between investors, government and local companies



OUR SERVICES



Information

General data, statistics, sector researches



Communication

Access to Government at all levels & connection to local partners



Organization

Organization of site visits and accompanying of investors



Aftercare

Legal advising & Supporting services

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