

## Opportunities for the Use of Commercial Diplomacy in Municipalities (Using the Example of Kutaisi City)

Nikoloz Chikhladze

*Kutaisi University, Faculty Social Sciences, Kutaisi, Georgia*

[nikoloz.chikhladze@unik.edu.ge](mailto:nikoloz.chikhladze@unik.edu.ge)

Nana Rusadze

*Akaki Tsereteli State University, Faculty of Business, Law and Social Sciences,  
Kutaisi, Georgia*

[nana.rusadze@atsu.edu.ge](mailto:nana.rusadze@atsu.edu.ge)

### Abstract

*In the Georgian scientific space there is a lack of works on commercial diplomacy. Commercial diplomacy gets a shade of economic diplomacy when it deals with the political, geopolitical goals and security, which always has been increasingly touched upon by traditional diplomacy. Economic diplomacy is a broad term and includes financial diplomacy and development diplomacy. Despite the fact that the recent economic growth in the number of works on economic diplomacy, particularly on commercial diplomacy, there is still not enough knowledge of the issues of the development opportunities of commercial diplomacy at a municipal level. In the presented article, we have tried to identify these problems with the specific municipality of Georgia – Kutaisi Municipality and suggest the areas for increasing the effectiveness of activities in this regard.*

**Key words:** Commercial diplomacy, Municipality, Economic Policy, Export.

**J.E.L. classification:** H0, H4, H7, F5

### 1. Introduction

In the context of globalization, commercial diplomacy plays an important role in world trade, investment activities and research activities. The main goal of commercial diplomacy is to enhance business opportunities of national companies, minimize barriers, increase and develop competitiveness of the national economy. Its role and importance are insufficiently explored in relation with foreign economic relations between countries, particularly in connection with the involvement in these relations at the regional and municipal levels and socio-economic conditions in territorial units.

Commercial diplomacy is one of the means of implementing foreign economic policy of the state in the areas of trade and investment. It can be realized at the micro and macro levels.

Commercial diplomacy is trade and investment diplomacy that focuses on the development and modification of international rules in this field, creating an enabling environment for trade and investment cooperation. On the micro or transaction level, commercial diplomacy should provide support for enterprises in the area of foreign trade and investment, to search for new contracts and markets. (Kopp, 2004, p.34) However, many researchers believe, and quite appropriately in our view, that this division is conditional. That is what the focus of work we presented, which addresses opportunities for development of commercial diplomacy in territorial units that is at the meso level. This allowed by the stable situation and favorable macroclimate existing in Georgia.

In real circumstances, Georgia has the export supporting mechanisms and institutions, but they are not able to replace the role of the State in supporting the export for the following reasons: the non-universality of services; they do not provide free or privileged assistance on a significant scale;

they are not seeking to introduce the priority areas of foreign economic policy, and they do not make full use of the official diplomatic instruments for support.

## **2. Literature review**

Georgian authors working on problems of economic diplomacy point out that one of the main tasks of this type of diplomacy is to facilitate the implementation of this type of inclusive and sustainable economic policies that provide all strata of the country's population the results of the country's development. It plays a special role in Georgia's economic development and involvement of the country in international economic processes (Kipshidze, 2014, p.25).

Studies by foreign scholars directed towards commercial diplomacy are of high importance. Commercial diplomacy continues to play a leading role in international business development; there are some 20,000 commercial diplomats and their staff across the world and no fewer than 500 million US dollars are spent on such activities annually. The coverage and nature of the commercial diplomat activities has been evolving over the last two decades in response to shifting government priorities, technological change and developments in the trading system. The change in coverage signifies, in particular, an increasingly active attitude of governments and their commercial diplomats in attracting FDIs. It also means a growing role in the promotion of research and development (R&D), country image or country branding ('made-in') and tourism. (Kostecki and Naray, 2007, p.4).

Commercial diplomacy of different countries significantly varies in terms of organization and implementation: each country seeks the combination of organizational elements and tools of commercial diplomacy that will most effectively assist promotion of trade and investment. Nevertheless, actual practice of commercial diplomacy allows identifying the features common to the key trading regions of the world. It concludes that there are four conventional models of commercial diplomacy - North American, European, Asian, and Latin American. The African model of commercial diplomacy is in the state of formation, taking shape in the course of economic development of the region. (Bezverkha, 2017, p.16)

## **3. The main areas of commercial diplomacy in the municipalities of Kutaisi City**

Over the centuries, States have always tried to create favorable conditions for export and foreign direct investment. Such an attempt had been considered to be a prerequisite for the enhancement and retention of jobs, as well as for achievement of economic growth.

There are numerous different levers to facilitate the entry to the target foreign market, among which commercial diplomacy has become more common during the recent decades. The key role in the development of commercial diplomacy is to implement Reforms implemented in the country and favorable macroclimate, in general, have played a crucial role in the development of commercial diplomacy.

From the territorial aspect of commercial diplomacy, the Belgian experience would be of special interest. According to constitutional reform implemented here in 1993, the issues of export and attracting foreign investment have been passed to the hands of the regions of Flanders, Walloon and Brussels. Belgium's diplomatic missions in foreign countries directly communicate with the regions regarding investment. The federal government has established the International Relations Coordinating Committee, which is led successively by representatives of regions. As a rule, regional actors establish their own export agencies. They have their own economic and trade attaches' networks in foreign countries.. (Rusadze, 2019, p.132)

Georgia has undertaken a number of the WTO commitments, on the basis of which it has implemented reforms. Their were aimed at the major restructuring, liberalization and simplification of trade regulations. Reforms have become particularly intensive since 2004. They facilitated the formation of a competitive market environment in the country, creating a favorable business environment, international trade diversification and deepening economic linkages, contributing also to economic and development of the country.

According to the UN classification, Georgia remains a country with economy in transition. (World Economic Situation and Prospects 2018 UN, p.141) According to the World Bank's Doing Business 2019 report, Georgia has achieved unprecedented success and ranked 6th among 190 countries of the world. Compared to the previous year, the country has risen 3 places in ranking, while ranking scores have risen by 0.48 points, and as a result the country has a historic high of 83.28 points in 2019. According to the 2019 report, Georgia was once again named a leader country on implemented reforms.

Since 2003, Georgia has been the top reformer - 50 reforms have been implemented in the country on improving both the institutional and regulatory environments. Of particular interest is the positive assessment of reforms implemented in the country regarding international trade. The Government of Georgia has undertaken significant reforms for enhancing international trade, including border procedures, which is one of the most important prerequisites for strengthening the positions of local products on international markets. Notable in this respect are the minimum time required for the preparation of documents and zero-cost for ensuring the conformity of the above mentioned documents, and besides, time and expenses related to the border requirements were significantly reduced, particularly, time spent on export was reduced by 42 hours (from 50 hours to 8 hours), while the export costs were reduced by \$306 (from \$418 to \$112). (MOFG, 2018)

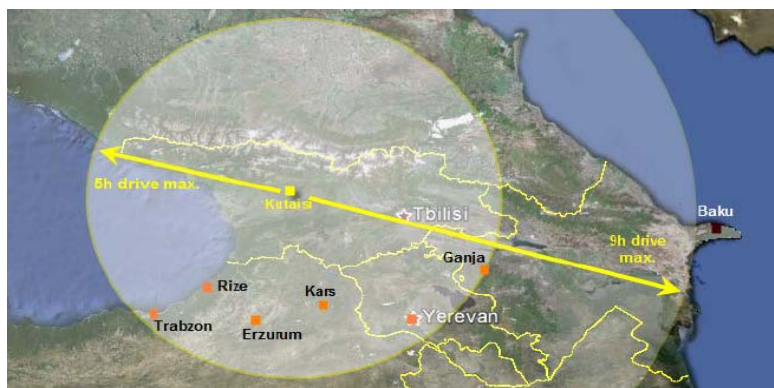
We believe that Georgia is not taking full advantage of economic diplomacy, including commercial diplomacy. The decision had taken by the Government of Georgia in recent years on the appointment of trade attachés, is welcome. However, trade diplomacy is still able to encourage the export of products having a comparative advantage.

The main priority of the country's foreign economic policy is the active participation of foreign companies in the Georgian market, as well as the promotion of the successful functioning of Georgian companies in international markets. Economic issues of Georgia abroad are dealt with by economic services existing in diplomatic missions, the main purpose of which is to promote the measures to be implemented the framework of Georgia's economic policy in the host countries. These services are directed persons appointed to diplomatic posts - persons responsible for economic issues whose position is at the advisor level. (Kipshidze, 2014, p.29).

At the level of the individual large municipalities of Georgia (Kutaisi, Batumi, Poti, Rustavi), these activities are being carried out by the foreign relations services/departments. In this regard, we found interesting opportunities for development of commercial diplomacy for the city of Kutaisi.

Due to its 3500-year history, Kutaisi is one of the top ten oldest cities in the world that still continues to develop today. Kutaisi is located in the central part of western Georgia and represents the administrative center of Imereti region. It is the second largest city in Georgia after the capital and its area is 70 sq.km. Kutaisi is linked to all strategic locations of Georgia through the road network. The distance to the port of Batumi is 139 km, and to the port of Poti - 105 km.

Figure no. 1 Cities that are 5 and 9 hours from each other, which can become the target markets.



Source: MP for Imereti Region, 2012

The main railway station is located 10 km from the city, and the Kutaisi Davit Aghmashenebeli International Airport is 18 km away from the city. The distance to the capital is 225 km. Kutaisi has an estimated 147.2 thousand people. 56% of city residents are available for work, 43% of whom are women. The average age of women is 77.2, and of men - 68.6 years. The main reason for decline in the number of city residents is migration of the population both inside and outside the country. As of 2014, 52.4 thousand people were reported as emigrated from Kutaisi. (Kutaisi development strategy "Kutaisi 2021")

We have conducted a SWOT analysis of the Kutaisi municipality in the context of economic diplomacy (see Table 1), which has shown significant problems in this area.

The documents with regard to the development of Kutaisi and which are in close connection with the development of commercial diplomacy are as follows:

1. The Local Economic Development Plan (LEDP), which was developed within the Mayors for Economic Growth initiative (M4EG);
2. Municipal budget of Kutaisi City;
3. Kutaisi City Development Strategy "Kutaisi 2021";
4. Kutaisi City Sustainable Energy Action Plan (SEAP);
5. Kutaisi Municipality Anti-Corruption Strategy Implementation Action Plan for 2017-2019 (within UNDP project);
6. Kutaisi Municipality Adaptation Concept to the Climate Change;
7. Kutaisi and its adjacent areas competitiveness study (2019);
8. Tourism Development and marketing Plan for Imereti Region (Georgia). Marketing Plan – Final Report. Barcelona/Tbilisi, 2012.

Table no. 1. SWOT analysis of Kutaisi municipality in terms of economic diplomacy

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>- favorable macro-economic environment for investors;</li> <li>- Kutaisi is twinned with 27 cities;</li> <li>- experience of holding the business forums in regions/municipalities;</li> <li>- The Local Economic Development Plans (LEDP), developed within the Mayors for Economic Growth initiative (M4EG) for several municipalities (including Kutaisi);</li> <li>- closeness to the transport corridor linking Europe and Asia;</li> <li>- existence of two free industrial zones;</li> <li>- Imereti is a member of European regions assembly;</li> <li>- locally produced products are exported to up to 20 countries throughout the world.</li> </ul>	<ul style="list-style-type: none"> <li>- the regional development strategies of Georgia were obsolete (they were developed in 2014 and cover a period of six years);</li> <li>- the new Local Economic Development Plans are not adapted to the regional development strategies;</li> <li>- absence of general plans of development;</li> <li>- insufficient city brand awareness;</li> <li>- poor quality of public services;</li> <li>- inadequate local infrastructure;</li> <li>- lack of innovations and new technologies;</li> <li>- the slight trends in the green economy;</li> <li>- absence of the city branding concept.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>- formation of university city with operationalization of the planned University of Technology;</li> <li>- establishing a logistics center through the expansion of the Kutaisi International Airport;</li> <li>- tourism development.</li> </ul>	<ul style="list-style-type: none"> <li>- the unevenness/asymmetry in regional/municipal development;</li> <li>- the migratory processes;</li> <li>- the deterioration of the demographic situation;</li> <li>- mistrust or/and unrealistic expectations of society towards the possible changes.</li> </ul>

Source: Authors' contribution

In March 2019, we conducted a survey of exporters. It covered a total of 50 exporter entrepreneurial entities. Among them are 15 (30% of interviewed) large enterprises, 18 medium (36.7%), and small 16 (33.3%) small enterprises. In Georgia, company with the number of employees is more than 249 persons or an average turnover of GEL 60 million, is regarded as a large company; a medium enterprise is a company with the number of employees varies from 50 to 250 persons and the turnover varies from GEL 12 to GEL 60 million; and a small enterprise is a company, where the number of employees does not exceed 50 persons, and the turnover is not

higher than GEL 12 million (the annual average of GEL exchange rate against the US dollar is \$ 0.403).

Among export products (among the products brought into line with the international quality standards), special mention should be made of textiles, footwear, products produced by processing plant raw material (spices, dried fruits, laurel, tea), hazelnuts, honey, the domestic consumption items and brushes. Local products are exported to 20 countries around the world.

Most of these companies (34 entities, 68% of interviewed) are comparatively more experienced and have more than 5 years are engaged in export-related activities. Only 5 of these companies, engaged in export activities less than 1 year, have turned out the relatively inexperienced in this field. The remaining 11 entities have been active from 1 to 5 years in the export markets.

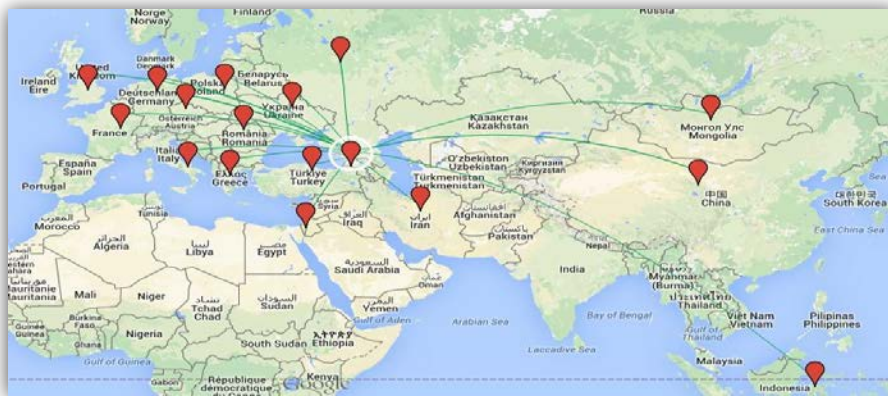
Through the questionnaire, we tried to highlight 3 most desirable types of support, strengthening and introduction of which would be desirable for exporters at this stage. These include: support to company in exhibition activities; support in finding potential partners; encouraging pre-export lending.

It is noteworthy that enhanced support from the state budget and other funds is a relatively lower priority problem for exporters – such a wish was expressed only by 6 entities.

We have received interesting results by analyzing the inhibiting factors in terms of export activities (each enterprise has chosen 3 factors). In this respect, the respondents found that the greatest challenge is the lack of information about Georgia in foreign countries. Tax and customs barriers are relatively insignificant. It is nice that none of exporters mentions the bank transfers (operations) as a barrier to its activities. Economic entities also highlight 4 types of additional inhibiting factors (logistics, brand advertising, qualified personnel, lack of raw materials).

Geographic range of export is diverse, however, the CIS and EU countries account for 74% of total exports (see Fig. 2). In the Asian region, these enterprises occupy a 14% segment. 36 enterprises (72% of interviewed) are planning to expand the export range.

Figure no. 2. Geographic range of Kutsisi exports.



Source: Foreign Relations Department of Kutaisi Municipality

The assessment score of state support to export on a scale of 1 to 5 was distributed as follows: the most popular assessment score was "4", which was fixed by 29 enterprises (58% of exporters). The lowest assessment score - "1", was fixed only by four exporters, and the highest score - "5", by seven exporters (14%).

Examination of the issue made it clear that in terms of deepening commercial diplomacy, the Kutaisi municipality, from time to time, resorted to the following measures:

- relations with the sister cities;
- relations with the partner cities;
- organizing the international business forums;
- identifying annually the best entrepreneurs in different areas of activities and nominations;
- business visits abroad;
- search for international foundations;

- supporting the involvement of Kutaisi in the international projects;
- organizing exhibits abroad.

Currently Kutaisi is twinning with 27 cities of 16 countries (see Table 2). Of them, Strasbourg and Krakow are the partner cities.

Examination of the issue made it clear that the city branding can play a special role in the development of the municipality's commercial diplomacy. It is based on the positive image of the city, provides its cultivation and promotion. The "city brand" concept emerged earlier than the concept of the "country brand" or "region brand". The first projects on territorial branding that are typical of Europe in XVIII and XIX centuries, as well as for the rapid development of new territories in the United States, were just of city type. The brand "invasion" in urban marketing through two business channels occurred: through the outbound tourism and exports of goods and resources. (Kavaratzis, 2008, p.39)

Table no. 2. The sister cities of Kutaisi

№	Country	City	№	Country	City
1.	Italy	Kochenca	10.	Romania	Iasi
2.	USA	Colombia	11.	Lithuania	Kaunas
3.	Belarus	Gomel	12.	Moldova	Ungheni
4.	Great Britain	Newport	13.	France	Strasbourg
5.	Estonia	- Tartu; - Valga	14.	Ukraine	- Lviv; - Kharkiv; - Sumy; - Dnipro; - Zhitomyr; - Mykolaiv
6.	Poland	-Poznan; -Krakow			
7	Turkey	Karsiyaka		Slovenia	Maribor
9	Latvia	Valka	15.	Hungary	Szombathely
8	China	- Laiwu - Nanchang	16.	Israel	- Ashkelon - Haifa
9.	Azerbaijan	Ganja			

Source: Foreign Relations Department of Kutaisi Municipality

In order to facilitate the formation of the city brand, the consumers should be informed about the quality and the unique features of products in the export market. The city's webpage, which should be updated and should contain exhaustive information, could make a great contribution to that effort.

It is necessary to form a diversified visual and verbal identity of the slogan and logotype of products produced in the region. It can be said that there are some predecessors and certain prerequisites for branding in Kutaisi. It requires more systemic approach, which is one of the goals of the concept to be developed. Self-government bodies should play a crucial role in developing a city's brand. The city hall, together with the City Council and the relevant services, should lead this process.

The emergence of the brand and approaching the image of the city to its identity depends largely on public activism in this process. In order to solicit their interest, it is advisable to do the preparatory work. (Chikhladze N., Valishvili T., and Gabelashvili K., 2014, p.87)

We believe that the improvement of commercial diplomacy at the level of Kutaisi municipality will significantly contribute to the event-economy development. Experience has demonstrated to both the government and businessmen that if there are no special events in the city, they should be promoted and organized.

The main group of the event-economy of Kutaisi City covers the measures and events as follows:

- the traditional city festivals on 2 May of each year – “The May City”;
- business-conference/forum in autumn of each year;
- Imereti Wine Festival;
- theatre festivals;

- opera music festivals;
- sanctification of holy places.

We consider that one of the main objectives of the Foreign Relations Departments in municipalities should be to contribute to increasing the investment capacities of these municipalities in the international arena, and to creating a favorable environment in these municipalities, attracting foreign investment and technical assistance, timely and active involvement of them in the and encouraging the exports in different areas (tourism, transport, energy, education, entrepreneurial sphere).

#### 4. Conclusions

Examination of the issue allowed us for generalizing the following conclusions:

1. We believe that Georgia does not make enough use of the capacities of economic diplomacy, including commercial diplomacy capacities, especially for products in which the country has a comparative advantage;
2. It is necessary to study the capacities of the cities in other countries and to find the new cities to twin with, especially with a view to continuing the trade and economic partnerships and incorporating the tourism capacities, taking into account the bilateral interests;
3. It is necessary to develop a city branding concept/strategy;
4. It is necessary to plan study visits to the sister cities in order to learn and share experience in management of the municipal economy;
5. It would be desirable to work intensively with appropriate trade and industrial cities in regions;
6. It is necessary to prepare investment packages (for proposals) for the sister cities in foreign countries;
7. It is necessary to use the capacities of the portal of a world network of chambers of commerce, which should provide dissemination of information about the legal entities and should provide the target markets with this information;
8. The city's webpage ([www.kutaisi.gov.ge](http://www.kutaisi.gov.ge)) should be updated with a view to placing more complete information there;
9. It is necessary to ensure the effective use of the capacities of economic diplomacy and the institutions of economic attaches;
10. We consider it necessary to plan visits at regular intervals to the diplomatic corps accredited in Georgia;
11. It is necessary to establish favorable conditions for foreign investors, in order to implement various projects (in compliance with legislation in force, especially on municipal property/land).

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