

BRIEF REPORT FROM THE FIELD

Policy approaches to stimulate exports: The case of Georgia

Andreas Klasen^{1,2}  | Tengiz Lomitashvili³ | Kristian Rosbach⁴ | Kiyoshi Taniguchi⁴¹Oxford Smith School, University of Oxford, Oxford, UK²Institute for Trade and Innovation, Offenburg University, Offenburg, Germany³TBSC Consulting, Tbilisi, Georgia⁴Asian Development Bank, Manila, Philippines

Correspondence

Andreas Klasen,
Email: andreas.klasen@ouce.ox.ac.uk

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Abstract

This report examines exporters' challenges and possible solutions for public intervention to promote foreign trade. Based on fieldwork conducted in Georgia, we explore which policy approaches can help to stimulate Georgian exports further. Our outcomes show that exporters face substantial barriers such as navigating complex trade regulations, lack of knowledge about target markets, trade finance gaps, as well as new export promotion programs (EPPs) in competitor countries. Other upper-middle-income countries can learn from our results that exporters can significantly benefit from a comprehensive export promotion strategy combined with an ecosystem-based "team" approach. EPPs related to awareness and capacity building in Georgia should be part of this strategy, focusing on challenges such as a lack of knowledge about trade practices and international business skills. Other EPPs must help to mitigate related market failures, as information gathering is costly, and firms have no incentive to share this information with competitors. Furthermore, targeted marketing support and customer matchmaking can answer Georgian exporters' challenges, such as lack of market access and low sector visibility. Our results also show that public intervention through financial support and risk mitigation is essential for firms with an international orientation. The high-quality, rich outcomes provide significant value for other upper-middle-income countries by exploring the example of Georgia's contemporary circumstances in an in-depth manner based on extensive interviews and document analysis. Limitations include that our work primarily relies on qualitative data and further research could involve a quantitative study with a diverse range of sectors.

KEYWORDS

economic diversification, exports, Georgia, trade promotion, value chains

1 | INTRODUCTION

Exports are an essential driver for foreign exchange accumulation and broad economic growth. Businesses engaging in exports are more productive and efficient than their counterparts who only

operate domestically. Critical factors for a country's economic growth include trade openness and integration in global value chains, export development and composition, market reach and shares, as well as trade partners and the nature of export relationships (Mania & Rieber, 2019). Exports also play an essential

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role for Georgia, a small transitional, upper-middle-income country in the Caucasus. With a population of 3.7 million and gross domestic product per capita of \$6628 in 2022 (Table 1), the country has an improving business environment and benefits from its strategic geographical position between Central Asia, Russia, Europe, and Türkiye. Important sectors are agriculture, minerals, manufacturing, and tourism. Horizontal export diversification into new sectors in Georgia can generate positive externalities as newly export-oriented sectors gain from contacts with importers and exposure to international competition. Vertical diversification out of primary into enhanced manufactured exports can be linked to growth due to more substantial spillovers. Export diversification might thus facilitate additional structural transformation. Georgia serves as an exemplary case study for investigating policy approaches to stimulate exports. With its strategic location at the crossroads of Europe and Asia, coupled with a dynamic economic landscape, Georgia offers a rich context for examining the efficacy of export promotion programs (EPPs). Its recent economic reforms, including liberal trade policies and an investment-friendly environment, make it an ideal candidate for analyzing the impact of such measures on export growth. Furthermore, Georgia's diverse export sectors such as apparel, jewelry, pharmaceuticals, and almonds provide a comprehensive backdrop for exploring various policy interventions' effectiveness. Conducting research on Georgia's export promotion (EP) strategies can offer valuable insights applicable to other economies seeking to boost their international trade. The research question underlying this field report is: *What policymaking approaches can help to stimulate Georgian exports further?*

The aim is to provide empirical evidence and advanced analyses for strategic directions regarding overall EP elements and detailed EPPs in Georgia, filling a significant research gap in upper-middle-income countries. The report informs the country's future economic diversification and the Government of Georgia's competitiveness strategy through the specific proposed actions, solving the problem how to improve a country's global competitiveness position, limited linkages with global value chains, low productivity, and difficulties in creating high-quality jobs. The report is organized as follows: First, it assesses the background

and gives an overview of the apparel sector in Georgia to provide a concrete example for a sector with export potential. Then, the relevant literature related to public export promotion and the research method that is applied to the Georgian case study are discussed. In the discussion of findings and the analysis in section five, the report outlines various strategies, policies, agreements, and EPPs that could enhance export performance. The conclusions highlight policy implications and summarize long-term measures for the Georgian government to enhance export performance and strengthen global competitiveness effectively, thus contributing to both knowledge and practice. The final section also provides limitations and opportunities for further research.

2 | BACKGROUND

2.1 | Trade and competitiveness in Georgia

Georgia's foreign trade significantly increased in recent years despite the Covid-19 pandemic. Merchandise export growth accelerated from 27.4% in 2021 to 32.3% in 2022, driven by higher vehicle re-exports, as well as exports of fertilizer and copper ore and concentrates, according to the National Statistics Office of Georgia (Geostat). Higher commodity prices in the first half of 2022 and strong domestic demand boosted imports. Top trading partners by exports were the People's Republic of China, Russia, Bulgaria, Türkiye, and the United States. The most relevant export markets regarding growth potential are Asia and Europe, with European integration as a strategic goal for Georgia. The European Council granted the status of a candidate country for the European Union (EU) in December 2023, an important step in the accession process. However, Georgia's trade openness and reliance on income from tourism make the country vulnerable to external and global shocks (Abuselidze, 2019). High dollarization and persistent reliance on external savings further amplify risks. Following the exceptional increase in exports and remittances in 2022, the current account deficit is estimated to widen to 5.9% of gross domestic product (GDP) in 2023 according to international rating agencies. Geopolitical risks related to Russia remain high, particularly in the context of international scrutiny of

TABLE 1 Georgia economic overview.

Selected contextual indicators	2018	2019	2020	2021	2022
GDP (bn USD, current USD)	17.6	17.5	15.8	18.6	24.6
GDP growth (annual %)	4.8	5.0	−6.8	10.5	10.1
GDP per capita (current USD)	4722.0	4696.2	4255.7	5023.3	6627.7
Export of goods (bn USD)	2.5	2.7	2.6	3.3	3.9
Import of goods (bn USD)	7.2	7.4	6.1	7.7	10.0
FDI inflows (bn USD)	1.3	1.4	0.6	1.3	2.0
Population (million)	3.7	3.7	3.7	3.7	3.7
Labor force (million)	1.6	1.6	1.5	1.5	1.5

Sources: ITC, 2023; National Statistics Office of Georgia, 2022, 2021; World Bank, 2024.

sanctions enforcement and Georgia's aspirations to join NATO and the EU. Although the government took steps toward diversification both regarding products and export destinations, the dependence on commodities exports and a small number of trading partners, that is, China, Russia, and Türkiye, requires additional efforts as, for example, the relative share of Georgian exports to the EU did not grow in the last decade. Previous research has shown that export dependence on a few commodities and vulnerability to negative external shocks can be reduced by facilitating productive capacities (Anwesha & Acharyya, 2007; Hausmann & Rodrik, 2003; Mania & Rieber, 2019) (Table 1).

Georgia's global competitiveness is relatively weak, and linkages with global value chains are limited. Low productivity and difficulties in creating high-quality jobs are vital challenges. Labor productivity growth represents a positive change in output volume for a given volume of hours worked. If more capital is invested in production, capital quality increases, and capital and labor together can be more efficient, higher productivity levels can be achieved. In Georgia, labor productivity continues to be behind other European and Central Asian upper-middle-income countries. On average, GDP per hour worked in Georgia amounted to only \$17.33 (GDP constant 2017 international percent at PPP in 2021, latest available data; ILO, 2023). Human capital formation is often weak, with poor learning outcomes, according to OECD's recent Program for International Student Assessment (PISA). Skilled labor shortages create problems for doing business and firm growth. The economy has become relatively less complex in recent years, falling to the 64th position in the economic complexity indicator rank based on trade data. For continuous economic growth and improved resilience against external shocks, exporting more value-added products by diversifying into sectors with higher productivity and developing innovative capabilities is imperative.

2.2 | The apparel sector as an example

Georgia has a rich textile heritage and a growing reputation for producing high-quality apparel. The sector benefits from a skilled workforce and a competitive cost structure, attracting both domestic and foreign investment. This has contributed to the production of diverse apparel products, ranging from casual wear to high-end fashion. An important development in the Georgian apparel sector is the rise of domestic fashion brands and designers. E-commerce has also made its mark on the Georgian apparel sector. Online shopping platforms and social media have provided a platform for local brands to reach a broader domestic and international audience. Moreover, collaborations between Georgian fashion brands and international designers or brands have accelerated. The Georgian apparel sector is increasingly driven by export-oriented manufacturing. Many local clothing manufacturers cater to global markets, leveraging competitive pricing and adherence to quality standards. European countries are major export destinations.

The apparel sector in Georgia has seen substantial growth and development in recent years. According to Geostat, firm turnover

has shown a consistent upward trend, reaching \$187.6 million in 2021 and \$198.5 million in 2022. The sector experienced a sharp increase in value-added, totaling \$51.1 million in 2021. Employment in the clothing sector grew from 7767 staff to 9821 people. Currently, most producers in Georgia are "Cut, Make, Trim" manufacturers, that is, mid-stream. Some Georgian fashion houses are producing apparel under their own labels. Exports of apparel from Georgia have risen extensively with dynamic development, reaching approximately \$195.0 million in value in 2022. Although contributing with a relatively small percentage to world exports, the apparel sector in Georgia shows export competitiveness performance.

3 | THEORETICAL FRAMEWORK

Export-oriented government strategies, trade policies, and EPPs help economies leverage positive externalities and enhance economic growth. Challenges faced by exporters that hamper export performance can be addressed by public intervention. Economic policy-making, for example, for EP, needs to be embedded in a broader framework to capture all relevant policy aspects or risk negatively influencing elements of export performance. Public interventions through EPPs address market imperfections that negatively affect these elements. By offering market information, advisory, direct sales promotion support, and financing and de-risking instruments, EPPs reduce transaction costs and information asymmetries. With EP, governments help firms develop and secure economic activities in international markets (Alvarez, 2004; Catanzaro & Teyssier, 2021; Qian & Acs, 2023). Success of policy reforms is often related to ownership and participation with collective public-private action and consultation with key interest groups (Bräutigam, 2000).

Governments around the globe have introduced a variety of export strategies and trade policies to strengthen export performance. The frameworks are often associated with trade-related policies and action plans in a strategic eco(n)system, also regarding country-level institutional EP support following a whole-of-government approach. Elements include agreements, rules, and regulations related to exports, awareness of international business practices and appropriate financial and human capacities, knowledge about target markets and the ability to approach potential foreign customers, close the export deal, and the possibility to maintain relationships (Ahmed & Brennan, 2019; Ayob & Freixanet, 2014; Takyi et al., 2022). The elements of the theoretical framework also guided the research question and influenced the analytical approach: EPPs help to increase awareness and develop capacity. Knowledge about the importance of foreign trade for business development and the mechanics of international trade is essential for triggering interest in non-exporting firms. Managers, particularly in small and medium-sized enterprises (SMEs), often lack knowledge about cultural differences, export practices, documentary requirements, risks in international business, and financing needs. The same applies to knowledge about geographical distance, product specifications, or

product usage. Successful educational policies and informational support are thus related to workforce qualification, management training, business seminars, or conferences. Analyses of foreign markets through country and sector assessments are important components not only of raising awareness and building capacity but also of finding promising target markets. In addition, weak sector visibility and a lack of positive sector image can create challenges in finding customers. Operational support from the government is crucial for promoting exporters' business profiles and helping firms to grow into new and additional foreign markets (Freixanet, 2022; Wilkinson et al., 2000).

The EP also includes public support to close export deals. Exporters are often risk-averse and face challenges regarding price competitiveness. Governments in many countries thus provide direct and indirect financial incentives such as export credits and trade credit insurance. They fill gaps in financing, insurance, or guarantee coverage, which would otherwise result in barriers to exports and insufficient offerings. Public interventions also generate catalytic effects in export development. Furthermore, EPPs help exporters maintain relationships with foreign buyers (Srhoj et al., 2023; Turguttopbas, 2013).

4 | RESEARCH METHOD

This study is based on fieldwork conducted in Georgia and adopts a qualitative multiple-case study approach. A three-step approach was applied to establish empirical evidence: First, exemplified products or sectors with high export potential, including almonds, apparel, jewelry, and pharmaceuticals, were selected. The selection was based on the International Trade Center's (ITC's) export potential assessment (Decreux & Spies, 2016). Second, a purposive sampling method from the overall export promotion ecosystem was employed for stakeholder interviews. Third, exporters from the exemplified sectors were interviewed to create a strong research basis. The data collection process involved conducting 27 semi-structured interviews in Georgian and English between May and July 2023, both in person and through online meetings, with 40 to 63-min durations. Additionally, previous studies about high-potential sectors and constraints in Georgia were collected. The purposive sampling method used may introduce biases and limitations inherent in the chosen methodology, as it relies on specific criteria for the selection of participants, potentially excluding diverse perspectives. However, to mitigate these concerns, the combination of conducting a comparatively large number of interviews for a qualitative analysis, alongside a comprehensive review of previous studies, ensures that a wide range of viewpoints are considered, thereby enhancing the breadth and depth of the research findings through the inclusion of diverse perspectives. A thematic analysis with a two-step process was applied to analyze the cases, first coding the data accompanied by an initial data reduction and then using cross-case analysis around clusters (Braun & Clarke, 2006).

5 | FINDINGS AND ANALYSIS

5.1 | Export strategy and trade policies

Export strategies and trade policies in a strategic eco(n)system address critical challenges such as lack of government guidance, a non-level playing field, and uncoordinated interventions. Our results confirm previous research outcomes from Srhoj et al. (2023) and Wilkinson et al. (2000) that a framework with a whole-of-government approach in Georgia should be associated with trade-related policies and action plans related to country-level institutional export promotion support. For instance, there is no appropriate export ecosystem in the jewelry sector due to lack of associations or self-regulatory chambers. Interviewees from different industries also mentioned that

"a comprehensive export strategy of the government would be very useful" (Interviewee 3), and that "there is an opportunity and a need for marketing, branding, and promotion of the [apparel] industry with an 'umbrella fashion' brand" (Interviewee 12).

An "Export Promotion Strategy 2030," including national branding, would be essential to show that Georgia offers potential investors favorable conditions in terms of locations and business opportunities. Like other countries such as Norway and the United Kingdom, a strategy document of the Georgian government might include foundations like influencing factors and strategic choices, policy priorities, and concrete actions to support the export journey. An "Export Promotion Strategy 2030," along with establishing key performance indicators, would create a sound basis for an export ecosystem and concrete activities regarding EPPs. As a vital element of an export strategy, Georgia would benefit from a "Team Georgia" based on an export ecosystem policy. The "team" approach would be a government-led initiative to promote and support Georgia's businesses in international markets. "Team Georgia" would emphasize common goals, collaboration, coordination, and a strategic framework focusing on measurable results to enhance the competitiveness of Georgian exporters.

5.2 | Trade agreements and regulations

In addition, we find that new agreements and enhanced regulations can answer fundamental problems of Georgian exporters, such as barriers to temporary exports or lack of knowledge about standards. A substantial problem for exporters is dealing with tariffs and trade barriers imposed by importing countries. In the apparel sector, there is no facilitation of simplified temporary export-import procedures. The same applies for the jewelry industry. A challenge for the pharmaceutical sector is, for instance, that Georgia does not have a Mutual Recognition Agreement with the EU. Good Manufacturing Practice (GMP) certifications issued by the local regulator are not

recognized in European markets. This requires additional inspection in importing EU member states. Interviewees mentioned that

GMP is the single most important challenge for the industry (Interviewee 9).

Our results show that Georgia would benefit from further leverage of existing trade agreements and negotiation of new ones. In 2023, for example, Georgia agreed a trade deal with the United Arab Emirates. Due to the growing importance of the Middle East for export performance, foreign trade agreements with other Gulf Corporation Countries would have a positive economic impact on Georgia. Furthermore, the government should support the practical implementation of conventions, particularly on ATA Carnet, for temporary admission of goods. This simplifies and expedites the temporary export and re-import of goods, making cross-border trade more cost-effective. Georgian exporters could gain access to streamlined customs procedures, eliminating the need for time-consuming and complex paperwork for each temporary export.

5.3 | Export promotion programs

5.3.1 | Awareness and capacity building

Our results show that EPPs related to awareness and capacity building in Georgia should focus on challenges such as a lack of knowledge of trade practices, international business skills, and innovation. In the almond sector, for example, exporters often have limited knowledge and wrong perceptions about foreign buyers. The findings confirm previous research, for example, from Freixanet (2022), mentioning that government intervention can help to solve the issue that collecting information on foreign markets involves some costs and that firms have no incentive to share this information with potential competitors, making this a market failure that justifies government intervention. There is a need for enhanced knowledge and information about international business activities, such as dealing with legal and regulatory requirements in foreign trade. Interviewees stated that

for large companies, growth creates challenges [regarding] managerial knowledge [...] (Interviewee 12).

For instance, improving knowledge about certified production according to sustainability standards such as the Global Organic Textile Standard (GOTS) would help Georgian apparel exporters access the growing sustainable apparel market. Interviewees mentioned a general need for capacity development regarding trade-related skills in the pharmaceutical sector, and a lack of qualified workforce regarding international business skills in the jewelry sector. Given the existing gaps, exporters require increased awareness and capacity building, using additional in-house, outsourced, and

partner expertise to help resolve short-term and longer-term challenges. In addition to physical trade seminars, a comprehensive online offering in partnership with domestic stakeholders and international partners would help. A dedicated "Export Academy" with certified courses on a one-to-many basis run by Enterprise Georgia could be the most efficient solution.

5.3.2 | Market access

In line with previous findings, this research confirms that EPPs for targeted market support and finding customers can answer the critical challenges of Georgian exporters, such as lack of market access, weak sector visibility, and no positive sector image. It is a complex process for many producers in the country to find a foreign distributor and enter new markets, for example, the pharmaceutical sector or almond producers. EPPs can play a valuable role in assisting these Georgian companies. According to interviewees, there is a

"[...] need for export market support, such as exhibitions, articles, and public relation activities [...], partner search, market information, and info tours" (Interviewee 24), and that "[there is a] lack of awareness and need for marketing and promotion in target markets" (Interviewee 11).

Enterprise Georgia's export promotion activities include coordinating, organizing, and co-financing business-to-business (B2B) exhibitions, supporting local companies in making new trade connections, acquiring potential partners, and diversifying export markets. However, extended activities with an enhanced and structured "Global Trade Opportunities" program could better support businesses in sectors with high export potential in identifying promising target markets and suitable customers. Furthermore, an easily accessible, extended, and up-to-date "Buy from Georgia" online directory would enable foreign buyers to approach Georgian firms more easily, resulting in greater trading opportunities.

5.3.3 | Closing deals and maintaining relationships

EPPs for closing export deals help to solve challenges such as lack of customer relationships in addition to financing gaps and risk aversion. Interviewees mentioned that it is often difficult for exporters from the jewelry sector to participate in international exhibitions, although this would be very important. Our research gives evidence that Georgia could identify and invite international buyers, distributors, and industry representatives who have expressed an interest in sourcing products from Georgia by organizing matchmaking events. The government might create these additional opportunities through industry-specific seminars, panel discussions, and social events to close deals. Another challenge for exporters in Georgia is that low awareness (and use of) trade finance instruments results in limited

opportunities to offer extended payment terms. Our results show that public interventions through financial support and risk mitigation are crucial for firms with an international orientation. This aligns with previous findings, for instance, from Turguttopbas (2013). Critical challenges for firms in Georgia include the lack of sufficient public instruments to offer competitive payment terms, leading to financial burdens and market risks:

“SMEs do not have enough collateral [...] and risk management is a problem as well” (Interviewees 3), and “payments from clients [are] somewhat problematic. Some clients choose to delay payments” (Interviewee 14).

6 | CONCLUSIONS AND LIMITATIONS




This study examined both the challenges faced by Georgian exporters and possible solutions for public interventions to promote merchandise exports. The research revolved around the central question: *What policymaking approaches can help to stimulate Georgian exports further?* The study examined Georgia's export performance and value chains to answer this question, allowing other upper-middle-income countries to learn from Georgia's experience. Through a multi-case study involving exporters and other key stakeholders in the country's trade ecosystem, we found numerous challenges to Georgia's export sector performance, as are the corresponding export promotion policies derived during this research. We thus provided significant contributions to knowledge and practice. The summary of crucial export promotion elements is shown in Table 2.

It seems imperative to address the challenges that Georgian exporters are currently facing by adopting an “Export Promotion Strategy 2030”. A comprehensive approach would lay a solid foundation for a strategic export eco(n)system and facilitate specific activities related to EPPs. In addition, “Team Georgia” could be the strategic hub for the strategy implementation. “Team Georgia” can highlight shared

objectives, cooperation, coordination, and the strategic framework based on a policy encompassing the entire export ecosystem. The emphasis should be on priorities and outcomes to enhance the competitiveness of Georgian exporters in various sectors. Most pressing challenges and important impacts and effects might drive the implementation agenda for EPPs. In particular, it is recommended to further leverage existing and negotiate new trade agreements to boost export performance in selected sectors in line with Georgia's foreign direct investment (FDI) promotion strategy. The government should also support the practical implementation of conventions and expand existing offerings for capacity development regarding regulations, standards, licensing, and certifications. Another important aspect is to further enhance trade-related educational policies. The same applies for structured programs for global opportunities to better support businesses in sectors with high export potential in identifying promising target markets and suitable customers, further strengthening existing EP activities. In line with international best practices, the government should also consider implementing a public export financing scheme and a trade credit insurance program.

This study introduced a novel dimension to the literature on export promotion in public administration by adding empirical evidence and cohesive analysis from a small transitional, upper-middle-income country. The high-quality, rich outcomes provide significant value for other upper-middle-income countries by exploring the example of Georgia's contemporary circumstances in an in-depth manner based on extensive interviews and document analysis. The field report contributes to a dynamic understanding of the demand for and application of EPPs based on a comprehensive strategy and an export ecosystem approach. Practical implications extend to policymakers and public sector executives, enhancing their comprehension of the relevance of EPPs for task fulfillment. However, this research has limitations since our work primarily relies on qualitative data. The sample selection may introduce bias toward exporters with high visibility, potentially limiting generalizability. Further research on export promotion support in Georgia could involve a quantitative study encompassing a diverse range of sectors to provide valuable insights. These additional investigations into the relevance of public

TABLE 2 Export promotion elements summary.

#	Element	Rationale	
1	Export strategy and trade policies	Export strategies and trade policies address key challenges such as lack of government guidance, a non-level playing field, and uncoordinated interventions.	
2	Trade agreements and regulations	Agreements and regulations answer crucial issues such as high tariffs, barriers to temporary exports, and lack of knowledge about standards.	
3	Awareness and capacity building	EPPs related to awareness and capacity building focus on challenges such as a lack of knowledge of trade practices and international business and management skills.	
	Market access	EPPs for targeted market support and finding customers provide answers to crucial problems such as lack of market knowledge, weak sector visibility, and no positive sector image.	
	Closing deals and maintaining relationships	EPPs for closing export deals and maintaining links look at challenges such as lack of customer relationships, price competitiveness, financing gaps, and risk aversion.	

Source: Developed for this Report.

EP support in the Georgian economic ecosystem would help to fill a gap, further contributing to knowledge and practice.

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CONFLICT OF INTEREST STATEMENT

There are no conflicts of interest to report.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from Asian Development Bank. Restrictions apply to the availability of these data, which were used under license for this study. Data are available from the author(s) with the permission of Asian Development Bank.

ETHICAL STATEMENT

The required processes for adhering to ethics standards have been followed.

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ORCID

Andreas Klasen  <https://orcid.org/0000-0003-0364-8374>

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