The Georgian Defense Industry - Market Opportunities and Entry Strategies, Analyses and Forecasts to 2017

Description: This report is the result of ICD Research / SDI's extensive market and company research covering the Georgian defense industry. It provides detailed analysis of both historic and forecast defense industry values including key growth stimulators, analysis of the leading companies in the industry, and key news.

Introduction and Landscape

Why was the report written?

The Georgian defense Industry Market Opportunities and Entry Strategies, Analyses and Forecasts to 2017 offers the reader an insight into the market opportunities and entry strategies adopted by foreign original equipment manufacturers (OEMs) to gain market share in the Georgian defense industry.

What is the current market landscape and what is changing?

Georgia's defense expenditure stood at US$410.2 million in 2012, having declined from its peak of US$945.8 million in 2008. The decline is due to a shift in the country's focus towards economic development. The defense budget recorded a CAGR of -18.85% during the review period, but is expected to grow at a CAGR of 6.14% over the forecast period. The country's defense budget is primarily driven by requirements to fulfill NATO's membership criteria, the threat from Russia, and the modernization of the country's armed forces. The country allocated an average of 25.8% of its defense budget towards capital expenditure during the review period. The capital expenditure budget, which recorded a CAGR of -26.94% during the review period, is expected to grow at a CAGR of 12.90% during the forecast period. The country is expected to spend US$718.5 million on capital expenditure during the forecast period. The country's homeland security expenditure, which stood at US$351.3 million in 2012, recorded a CAGR of -2.67% during the review period.

What are the key drivers behind recent market changes?

Georgia's defense expenditure is primarily driven by the need to fulfill interoperability requirements with NATO (North Atlantic Treaty Organization) forces, the threats posed by Russia, and the expenditure required to modernize its armed forces with advanced military hardware. Georgia emerged from the split in the USSR in 1991, and is determined to join NATO and the European Union. Russia is against this and wants Georgia to revert to its Russian allegiance. Georgia has two separatist regions, South Ossetia and Abkhazia, which are rebellious and identify themselves as independent countries. Georgia has had many conflicts with these regional forces, but, in 2008, with the support of Russian forces, these regions gained complete de-facto control and Russia declared their independence.

What makes this report unique and essential to read?

The Georgian Defense Industry Market Opportunities and Entry Strategies, Analyses and Forecasts to 2017 provides detailed analysis of the current industry size and growth expectations from 2013 to 2017, including highlights of key growth stimulators. It also benchmarks the industry against key global markets and provides a detailed understanding of emerging opportunities in specific areas.

Key Report Features

The report provides detailed analysis of the current industry size and growth expectations from 2013 to 2017, including highlights of key growth stimulators. It also benchmarks the industry against key global markets and provides a detailed understanding of emerging opportunities in specific areas.

The report includes trend analysis of imports and exports, together with their implications and impact on the Georgian defense industry.

The report covers five forces analysis to identify various power centers in the industry and how these are expected to develop in the future.
The report allows readers to identify possible ways to enter the market, together with detailed descriptions of how existing companies have entered the market, including key contracts, alliances, and strategic initiatives.

The report helps the reader to understand the competitive landscape of the defense industry in Georgia. It provides an overview of key defense companies, both domestic and foreign, together with insights such as key alliances, strategic initiatives, and a brief financial analysis.

Key Market Issues

Georgia has not disclosed any offset obligations imposed by the country for its arms procurement. The country's capital expenditure budget, which was US$90.1 million in 2011, is very small for the country to demand any offsets and the proposed arms embargo against Georgia further reduces the bargaining power of the country to demand any offsets.

The Georgian government, which is generally open to foreign investment, has restrictions on investment in certain sectors, such as defense. Its foreign investment policy requires that any foreign company or investor working in the manufacture and sale of weapons and explosives must have prior approval from the Parliament of Georgia. All foreign investors with an amount of US$100 or more should register with the Foreign Investment Agency attached to the Ministry of Trade and Foreign Economic Relations of Georgia. If the investment is not registered, the investor is prohibited from engaging in investment activity.

Georgia's defense budget, which reached its peak of US$945.8 million in 2008, decreased to US$410.2 million in 2012, as the country is now focusing on economic development and will use the saved funds for economic stimulus projects. Defense expenditure recorded a CAGR of -18.85% during the review period. The country is expected to spend US$431.2 million in 2013 for defense-related activities and the budget is estimated to grow at a CAGR of 6.14% during the forecast period, stabilizing at 2.5% of GDP by 2014, to reach an estimated US$547.2 million by 2017.

Key Highlights

Georgia's defense budget reached its peak of US$945.8 million in 2008, due to its response to an aggressive intervention by Russian armed forces in the country's territories of South Ossetia and Abkhazia. The defense budget was reduced to US$410.2 million in 2012, as the country focused on economic development by cutting defense spending and allocating the funds to economic stimulus projects. The country's defense budget recorded a CAGR of -18.85% during the review period, reducing to US$410.2 million in 2012. It is expected to record small growth to reach US$431.2 million by 2013, before recovering to US$547.2 million by 2017. During the forecast period, the defense budget is expected to grow at a CAGR of 6.14%, stabilizing at 2.5% of the country's GDP in 2014 from its peak of 7.4% in 2008.

Georgia’s homeland security budget is managed by the Ministry of Internal Affairs and it reached its peak at US$391.4 million in 2008. This sudden increase was due to the instability of the rebellious South Ossetia and Abkhazia regions in 2008. The internal security budget, which stood at US$351.3 million in 2012, recorded a CAGR of 6.13% during the review period. However, during the forecast period, homeland security expenditure, which is estimated at US$359.73 million in 2013, is expected to grow at a CAGR of 6.48% to reach US$462.48 million by 2017.

Georgia's defense imports increased at a robust pace in 2007, due to an increased spend on equipment to enhance the country's military capabilities, and to counter the perceived threat from Russia. In 2008 the war with Russia forced a lower allocation of the defense budget to capital expenditure, leading to a fall in imports into the country. In 2009 the country's imports recovered marginally, but fell again in 2010 and 2011 due to defense budget cuts. The country's imports are expected to recover during the forecast period due to the expected increase in its defense budget and increased allocation to capital expenditure.

Georgia does not export any arms to foreign countries as the domestic defense industry is undeveloped and relies mainly on foreign companies for its arms requirement. The domestic defense industry primarily consists of the state-owned Tbilisi Aircraft Company, which specializes in maintaining the country's fighter aircraft. The small size of Georgia's defense budget does not encourage many foreign companies to invest in Georgia.
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