

M. Tepnadze
Ph,D, student of Faculty
of Economics and Business
Ivane Javakhishvili Tbilisi State University
m.tepnadze@iset.ge

WINE AND FOOD CLUSTERS: A BRIEF LITERATURE REVIEW

***Summary.** The research paper discusses the importance of cluster approach in light of globalization and growing international competition. The author highlights the main challenges among wine and food clusters which are the lack of strategic development plans, weak innovation potential, institutional imbalance and weakness of research institutions.*

***Key words:** Regional development, wine cluster, food cluster.*

Introduction. Growing globalization and upward pressure on international competition require more concentrated development strategies toward social-economic development in countries and its sub-regions. Agri-food clusters are among those effective structural approaches, which promote complementary economic activities and ensure the competitiveness of integrated economic systems. Cluster policy framework uses effective instruments to promote regional development which boosts job creation, competitiveness of regional production systems, revenue growth and other multiplication effects. The structure of the work is the following: We reviewed the relevant literature addressing to the analysis of successful wine and food clusters, in-depth analysis of country competitiveness policies with the special focus to cluster approach.

Purpose. The purpose of the literature review is the overview of the experience of advanced countries in cluster policy approach, capture useful insights and implement them in Georgia.

Results. It should be mentioned that the foreign experience of the countries (Italy, France, Australia, Czech Republic and Croatia) specialized in wine and food clusters are diverse. Cluster structures as a tool for regional development are mostly shaped on a country's specific cultural and political background. Nonetheless, the results of the literature review can be spited into several discussion topics shared and debated in each study. One of them is that cluster approach with its microeconomic nature has multiplication effects especially in

wine and agri-food sector. By integrating local economic activities, it promotes competitiveness of sub-regional markets, adding value to the agriculture sector, boosting job creation and increasing standard of living for local population. For example, Porter et al.(2010) say that the most significant supporting clusters to the South Australia Wine Cluster are Food and recreational tourism [1].In a research paper “Wine Cluster key Driver of Success for Wine Tourism in the Czech Republic” Prokes et al.[2] discuss the importance of local complementary networking between business partners, as well as internalization plan in wine tourism and agri-food clusters. They think that new planting, increased number of grape growers and wineries are closely interlinked with each other. However, as a strategic approach, authors see the sector development on the basis of strategic cooperation between associations involving customers, suppliers, research and academic establishments. The similar concerns have Musso et al. in their research study “Agri-food Clusters, Wine Tourism and Foreign Markets. The Role of Local Networks for SME’s Internalization”. Authors talk over the impact of network relationships on firms’ internalization with the specific reference to the wine industry. Also, empirical evidence from research paper “Regional Food Clusters and Government Support for Clustering: Evidence for a Dynamic Food Innovation Cluster in Alberta, Canada” by Steiner et al. [6] suggests that network communications technologies are particularly important to productivity growth in the Canadian food manufacturing sector. There are significant financial resources and supporting institutions and organizations available to the Alberta food-processing sector aimed at promoting networks, innovation and food cluster growth [6]. Similar to the previous research, Musso, et al.[3] emphasize the importance of network between wine sector partners and give a few strong arguments in favour of their statement. Thanks to network relationships, firms have the possibility to use some of their partner’s resources and develop the competences and capabilities for starting and expanding their international activities [3]. Moreover, firms can have the opportunity to obtain experiential knowledge without having to go through the same experiences, acquire information about their partners’ business conditions and consequently reduce market entry costs, time and risk and identify new business opportunities [3].

As an example of weak collaboration and lack of diversified distribution channels in export markets Wine Brand Australia has a declining perception on the global market [1]. However, Porter, et al. [1] state that Australia wine cluster, as a largest producer and exporter

of wine has historically benefited from economic growth premised on its rich natural endowments, despite its relative isolation from old World Markets[5]. If the South Australia Wine cluster is to remain competitive, it must deepen collaboration across value chain to address an oversupply of uneconomic grapes and low quality wine, which has undermined “Brand Australia” in key export markets [1].

Researchers emphasize also significant deficiencies in cluster policy and predefined strategic plans. For example, Prokes et al. [2] conducted structural analysis of the wine tourism sector for the sub regions in Czech Republic and found out that two of those studied wine tourism clusters have not any strategic development plan. The authors used the macro-analytical tools like the Localization quotient and Concentration Quotient and proposed mapping for the development strategic plans for local wine clusters. Based on the results, of three wine regions in Czech Republic, it was concluded that the Czech Republic meets the conditions for wine tourism development [2] Similarly, the weak innovation potential, lack of transparency, institutional imbalance and poor strategic vision are common limitations of cluster policies across countries [1][4]. For example, cluster strategy 2011-2020 of the Republic of Croatia sets well targeted ambitions, in line with the aspirations of the EU growth strategy 2020. However, effective implementation of strategy in many areas did not achieve the desired objective. According to the research, Croatia has an estimated 90 clusters diversifying different sectors of the economy including food, and employing over 35 000 people in companies [4]. However, many of these clusters largely dependent on government subsidies, so that with the decrease in the levels of grant aid over the past 2 years many clusters have been forced to curtail their activities and cease their operations [4]. Notwithstanding with Croatia, Proter & Baibakova et al.[5] in their research “The French Wine Cluster” discuss the particularity of French Wine Cluster. France which is the leading wine export country as the third largest exporter in volume behind Italy and Spain with 14 % of market share, the French Wine Cluster focuses on higher quality wines roughly 67% of its vineyards producing high quality premium wines and grubbing programs occurring predominantly in lower quality vineyards [5]. From 2000 to 2010 while exports by volume have declined, French wine exports by values has conversely increased by 20% over the same period [5]. Part of today’s role of France in the global wine markets as well as the importance of the wine cluster for the French Economy can be explained by developing several unique research institutions, IFCs, and strong network of clusters like specialty food,

wine and the tourism. Authors conclude that the increase in price per litre and growth in exports by values are all positive indicators of vibrant and competitive cluster.

Ceasing subsidization of loss making industries are one of those common challenges which discuss researchers in their literature [4,5,6]. While Croatia have a clear absence of world class clusters, South Australia underwent significant economic reforms and still suffers from oversupply, market position and climate change. In addition, increased production costs because of scarce water resources and rapid planting of uneconomic grapes are those factors which forces Australia wine cluster to leave world competition, fall below the sustainability margins and exit the global marketplace [5]. Likewise, Steiner et al.[6] state that the Alberta's food manufacturing industry faces several key challenges, among which are high transportation costs relative to its major consumer markets as well as labour shortage, particularly of skilled and educated people[6]. Authors emphasize that the labour constraint could possibly be the single most important constraint for the successful food cluster development in Alberta [6].

In general, Georgian authors write about the necessity of reforms and cluster policy implementation in the economy of Georgia, namely: Gagnidze [7,8,9] Gogorishvili [10], Lekashvili [11], Papachashvili [12], Sepashvili [13,14,15], Tsetskhladze [16].

Conclusions. The development of world class wine and food clusters in Georgia requires effective strategic plans for internalization, as well as strong linkages with research institutions, local and international business partners. Intensive linkages with research institutions and local business partners increase efficiency and sustainability gains and create competitive network of complementary economic actors which promote multiplication effects for the country's regions economic development including job creation in tourism and agriculture sectors.

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