

THE MAIN CHALLENGES OF GEORGIA'S ECONOMY AND PROSPECTS FOR EXPANDING GEORGIA-EU RELATIONS

GÜRCİSTAN EKONOMİSİNİN TEMEL ZORLUKLARI VE GÜRCİSTAN-AB İLİŞKİLERİNİN GENİŞLEMESİ ÜZERİNE BEKLENTİLER

ОСНОВНЫЕ ВЫЗОВЫ ЭКОНОМИКИ ГРУЗИИ И ПЕРСПЕКТИВЫ РАСШИРЕНИЯ ОТНОШЕНИЙ ГРУЗИЯ-ЕС

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ABSTRACT

The association agreement between the EU and Georgia (the country) was signed as early as 2014 and this agreement fully entered into force in July 2016. The agreement represents the foundation for political association and economic integration.

Just now, Georgia made one more step toward Europe. On November 8, 2023, the European Commission recommended granting Georgia the status of candidate. Besides the fact that it is an important event of political significance, the economic benefits also should be mentioned. Many economists in Georgia mention this in their assessments though there are the opposite views. Some of the Georgian economists consider this opinion as excessive.

The European Union, based on common values, supports the peace and stability for Georgia, as well as the necessity of the programs for the political and economic reforms needed for the social and economic development of the country.

Granting the status of the candidate is a guarantee for the well-being of the country. It will have positive influences on investments, exports, and broader marketing between the European countries and Georgia. This is the aim for Georgia to which the country has been aspiring for several years.

Besides the above-mentioned, we see that the EU firmly supports Georgia, in its territorial integrity. The EU is involved in the solution of the territorial problems existing with the self-announced regions of Abkhazia and so-called South Ossetia. Georgia has prolonged territorial conflicts with the mentioned regions.

Keywords: European Union; economic benefit. European perspective, economic integration, export potential.

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ÖZ

2014'te Avrupa Birliği ve Gürcistan arasında "Ortaklık Anlaşması" imzalandı ve Temmuz 2016'da tamamen yürürlüğe girdi. Söz konusu anlaşma, her iki taraf için siyasi birlik ile ekonomik entegrasyonun temelini oluşturmaktadır.

Gürcistan bu kez Avrupa'ya yönelik büyük bir adım daha atmış oldu. 8 Kasım 2023'te Avrupa Komisyonu tarafından Gürcistan'a adaylık statüsü verilmesini önerildi. Siyasi öneme sahip olan bu gelişmenin yanı sıra adaylık statüsünün verilmesi Gürcistan'ın elde edebileceği ekonomik faydalar da dikkat çekicidir. İktisatçıların bir kısmı bu faydalardan bahsederken, uzmanların diğer kısmı da bu durumun gereksiz olacağı fikrini savunmaktadır.

Ortak değerlerinin rehberliğinde AB, Gürcistan'da barış ve istikrarın yanı sıra sosyal ve ekonomik kalkınması için gerekli siyasi ve ekonomik reform programlarını da desteklemektedir.

Adaylık statüsünün verilmesi Gürcistan'ın ekonomik refahının garantisini olacaktır. Bu durumun Gürcistan'ın yıllardır çabaladığı yatırımlara, ihracata, AB ülkeleriyle ticari ilişkilerin daha da genişletmesine yönelik olumlu etki sağlayacağı düşünülmektedir.

Ayrıca AB, Gürcistan'ın uluslararası camiası tarafından kabul edilen sınırları dâhilinde toprak bütünlüğünü destekleme politikasına sadık kalarak uzun vadeli kalkınmayı desteklemek için kendi kendini bağımsız bir devlet olarak ilan eden Abhazya ve Güney Osetya bölgelerinin sorunlarıyla ve çatışmanın çözüm süreci ile ilgilenmeye devam etmektedir. AB gözlemci ekipleri ise 2008'den bu yana adı geçen sözde devletlerin idari sınırlarının yakınlarında görevlerini sürdürmektedirler. 1 Ekim 2023'te Gürcistan'daki AB İzleme Misyonu 15. yıl dönümünü kutlayacak.

Anahtar Kelimeler: Avrupa Birliği; ekonomik faydalar, Avrupa perspektifi; Ekonomik bütünleşme, ihracat potansiyeli;

АННОТАЦИЯ

Европейский Союз и Грузия подписали Соглашение об ассоциации еще в 2014 году, а в полную силу оно вступило в июле 2016 года. Соглашение является основой политической ассоциации и экономической интеграции.

На этот раз Грузия сделала еще один большой шаг навстречу Европе. 8 ноября 2023 года Еврокомиссия рекомендовала предоставить Грузии статус кандидата. Помимо того, что это событие политического значения, примечательны и экономические выгоды, которые страна может получить от предоставления статуса кандидата. Одна часть экономистов говорит об этих преимуществах, однако другая часть специалистов считает эти возможности избыточными.

Руководствуясь общими ценностями, ЕС поддерживает мир и стабильность в Грузии, а также программы политических и экономических реформ, необходимые для социального и экономического развития.

Предоставление статуса кандидата является гарантией экономического благополучия Грузии. Это окажет положительное влияние на инвестиции, экспорт, углубление торговых отношений со странами ЕС, к чему Грузия стремится уже много лет.

Кроме того, ЕС по-прежнему твердо привержен своей политике поддержки территориальной целостности Грузии в пределах ее международно признанных границ, а также продолжает участвовать в вопросах самопровозглашенных регионов Абхазии и Южной Осетии в поддержку долгосрочного процесса по разрешению конфликта. С 2008 года обсерватория ЕС работает вблизи административных границ. 1 октября 2023 года Миссия наблюдателей ЕС в Грузии отметит свое 15-летие. Европейский Союз является крупнейшим торговым партнером Грузии и ежегодно выделяет Грузии более 100 миллионов евро на техническую и финансовую помощь.

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Ключевые слова: Евросоюз, экономическая выгода, европейский взгляд, экономическая интеграция, экспортный потенциал.

Introduction

In November 2023, the European Commission gave a recommendation to the Council of Europe about granting the status of the candidate country to Georgia, taking into consideration that some additional steps should be made. On June 23d, 2022, the European Commission admitted the European perspective for Georgia and expressed readiness to grant Georgia the candidate status after completing by Georgia those 12 priorities which are mentioned in the conclusion of the commission in connection with the membership. The association agreement came into force in July 2016. This agreement aims to the political association and economic integration between the EU and Georgia. There exists a deep and all-included space of free trading between the EU and Georgia, and besides that, the citizens of Georgia, beginning from March 28, 2017, have the right to free movement within the Schengen zone. The European Union is the biggest trading partner of Georgia. Besides the above mentioned, every year, the EU gives on average 100 million Euros as technical and financial help to Georgia.

Trading between the EU and Georgia has been developing over the years. Today, the EU is the main trading partner of Georgia. [DCFTA](#) deepens the economic ties between Georgia and the EU. This includes such kinds of partnerships as common state procurements, customs regulations, technical and sanitary standards of food, the issues of intellectual property, and the rules of concurrence.

The European Union supports the governments of the countries in widening the export potential of the country, strengthening the abilities of concurrence and other abilities through creating systems to increase the levels of infrastructure and guarantee compliance with modern standards.

One of the most important factors that should be mentioned in Georgia-EU relations is the economic sphere. Georgia already signed with EU DCFTA agreement, which is considered as one the most influential agreements that the EU signs with third countries. If we accurately look at this agreement: “high degree of inclusion in the single market for three of the four freedoms: free movement of goods, service and capital” [Emerson, 2016: pg.6].

The Goal

The purpose of the presented topic is a broad analysis of the existing economic problems between Georgia and the European Union and the development of measures and recommendations to promote economic activity in the conditions of granting Georgia the status of a candidate country.

The Research Methods

The appropriate special literature available in Georgian and foreign languages was used in the process of researching the mentioned issues along with the legislative and statutory acts, statistical information; also the methods of analysis and synthesis, induction and deduction, empiric method, sociological questionnaires and mathematical statistics were used during the researching process.

The European Union is the main partner of Georgia. Both Georgian and foreign scientists study the economic relations between Georgia and the European Union These problems are studied by practical workers as well. Our main contribution is the study of the economic potential between Georgia and the European Union and the issues of its perspective, and we make several recommendations based on the example of Georgia.

The Results

- It has been already over a quarter of a century since Georgia has had a successful collaboration with the EU. The association agreement between Georgia and the EU entered into force in July 2016. The main importance of the agreement was political association and economic integration. In July 2016 the agreement on the association between Georgia and the European Union entered into force and its core meaning was political association and economic integration. Based on the mentioned, and as for the interrelations between Georgia and the EU, the deep and all included space of free trading, and beginning from the 28th of March 2017, the citizens of Georgia have the benefit of moving within the Schengen Zone without a visa. The EU is the biggest trading partner of Georgia and allocates more than 100 million Euros to aid Georgia in its technical and financial needs.

- Besides the European Union, the corresponding programs for help are also ready by the US government as well. The main courses of aiding Georgia are determined by the charter about the strategic partnership. As for the direct help programs, they are planned and fulfilled by the International Development Agency of the USA (USAID). We should properly use the mentioned helps and make them effectively and interactively to use the above-mentioned programs properly and usefully for fulfilling the task of rebuilding our country.

- In our opinion, receiving the status of the candidate country is the warranty of rebuilding our country economically. This will have a positive influence on investments, exporting, the trade interrelations. Increasing the deeper interrelations with the other countries of the EU – this is the aim to which Georgia is looking forward.

- When we speak about how to become a member of the EU we should know that the most necessary things are to have the right infrastructure, new Cargo flows, taking the cargo in our sea-ports, and so on. The effect of the port of Anaklia should be used for the above-mentioned aims. The perspectives of our country depend on the above-mentioned. Here we should also add transferring on the digital platforms, and we have already large reserves to fulfill the noted tasks. Surely, the improvement of health and education spheres are also very important and have great perspectives.

- The potential of local exporting depends on the development of the real sector. The real sector involves the extractive industry, recycling industry, energetic industry, and agriculture. The local export mostly depends on the development of the mentioned branches. The more we manage to produce let it be the agriculture sector or industry, anyway, the results will give us a larger potential to be represented on export. It is well known that the agreement about “deep and all-included free trading” is signed namely the agreements about “The mutual common procedures of transiting”, The mutual administrative document”, and the document “About connecting to the convention of the new computerized (digital) transit system.” So, the private sector will be able to represent only one transit declaration and one guaranteed cargo transportation to the administration of the Georgian cargo office with one declaration and one guarantee in order to fulfill the cargo export to the EU countries and other countries that are members of the transiting convention. This fact is of great help to fulfill simple and reliable procedures when transiting the cargo to the different countries from Georgia by the rapid, guaranteed, and simple way of transiting.

The status of a candidate country does not imply growing the economic activities rapidly. Being a member country is a necessary condition but we have to move through the long way to achieve it. But it could be said that the help from the EU and Euro Commission will support our country by means of grants for institutional reforms. Supporting through giving the grants does not and cannot mean rapid growth though, there are such kinds of financial help from the EU and the European Commission as grants given for institutional

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reform The support for the institutional projects will grow, it is real, but this cannot be quite significant until we are not the members of the EU. However, we do not say either that being a member of the EU automatically means great benefits. We know that it depends on our hard work in fulfilling the structural reforms, in achieving great development in service of the high technologies, so that our products can be sold all over the world which will give us real success. There are no other ways to be seen.

Discussion

On November 8, 2023, the Euro Commission gave a recommendation to the EU about giving Georgia the status of candidate country. The commission edited the report based on the policy of widening the EU which implied the basic conclusions about Georgia, in connection with the widening policy of the EU in which the necessary 9 steps were mentioned for Georgia to be made for achieving the status. To have the status of a candidate country is an important step made towards the goal. The goal of the EU is to widen the number of member countries and Georgia is mentioned.

First of all, the status will bring pure economic benefit to the country. Let us begin with the reminder that when a country becomes a candidate for the EU it is a good signal for many countries, especially for the European countries. The new status of the country will underline that this country is reliable and firm and this will affect its ratings, its reliability will achieve high grades in the view of many other countries and their companies.

„ In sum, the EU has at best inconsistently applied political conditionality vis-à-vis its Eastern neighbors (Börzel and Pamuk, 2012). Its focus has been on ensuring stability in the region by building the state capacities of EaP countries through promoting changes that shall assist governments in adopting EU policies. By focusing on building state capacities, the EU has often compromised on democratic reforms.” (Börzel and Lebanidze, 2015:13)

We are facing a serious fact, namely, Georgia has become one of the strategic partners in the region and this view is also very important as this means that we have a chance to become a center in Caucasus. This had been our country's position earlier, many times ago but unfortunately, we lost it and this status can again be ours. Thus, we become a member of the European civilization within our region.

The mentioned status can be reflected in the investments. We mean all those priorities which are used for the European countries, for example, green energetics. Many investments can be received and consequently, we will be able to transfer energy to European countries by the under-sea cables, but also, it will become possible for us to export the energy to other countries too, not only European. The investors will produce their business in Georgia and send it through our country which will reflect in increasing working places in Georgia.

Theories of European integration point to the circumstances that have led to the development, results or prospects of cooperation within the European Union since the founding of integration. Theories have political, economic, and legal contexts. Among the theories of integration are the theories of functionalism, neo-functionalism, institutionalism, multilevel governance, and intergovernmental and legal integration. (Oğuz, 2019: 1.)

When we talk about how can we become members of the European Union from our candidate's status, we imply that we need new infrastructure to become closer to the EU, to have abilities to trans-pass cargo, receive new cargo, load the seaports with needed abilities, and fulfill other complex and necessary operations. We mean that this all will be the effect of our Anaklia seaport. The perspectives for Georgia are mainly in the above-mentioned conditions. We should add also the export of services, and move to the digital platform,

which also has great perspectives for the economy of Georgia We also can have great perspectives for the sea resorts, and we need also investments for healthcare programs. All of the mentioned are realistic and have great perspectives.

The priority of the European Neighborhood Policy Action Plan is to strengthen the rule of law, which, according to the Action Plan, includes: democracy, good governance, the rule of law and the promotion of the independence of the judiciary, public administration, and the fight against corruption. The fulfillment of the Action Plan commitments by the aspiring countries is of particular importance in the context of the EU's new understanding of the European Neighborhood Policy, according to which EU assistance to neighboring countries is conditioned by the latter's progress in building and consolidating democracy. (Rinnert, 2011: 6.)

On the background of becoming closer to the European Union, the volume of exports in the year 2023 must exceed six billion dollars. During the period of January-October of 2023 (ten months), the volume of the foreign trade of Georgia showed as much as 17 billion and 786 million dollars (in ten months) which is higher than the data of the preceding year by 16,2%. Out of this sum, 5 billion 102 million dollars belongs to export and represents the sum of 12 683.4 million dollars. As for imports, it showed the sum of 12 683.4 million dollars. So, yearly, the data of exports grew by 12,5% and imports by 12,863%. Export represents an important factor in economic growth and it increased by 10,4% as its volume is more than 495 million dollars. Georgia never had such results in exports so 6 billion dollars will make the record.

Here is the list of the products bought and sold in the EU:

Top-5 Imported products:

Cars - 328,008 million USD

- Oil and its products - 189,699 million USD
- Medical treatment products (packaged) - 175,461 million USD
- Tractors and semi-trailer trucks - 84,755 million USD
- Telephones for cell phones including some other cell products of any type – 82 625 million USD

Top-5 exported products:

Ores and concentrates of copper - 261,348 million USD

- Mineral or Chemical, nitrogenous fertilizers- 32,170 mln USD
- Nuts and other nutty products - 30,144, USD
- Ethylic alcohol, non-denaturized, the concentration of alcohol – less than 80%, - 25,075 million US dollars.
- Light cars - 22,426 million USD

The European Union is the largest financial supporter of Georgia which helps Georgia in the process of developing its further social-economic and financial aims and to carry out the needed reforms in the country using the above-mentioned financial and technological help (NDICT); the EU carries these tasks through the international partnership. The EU uses the instruments of collaboration and international development and helps Georgia achieve its development through such collaboration. The instrument through which the EU tries to help Georgia financially and technologically is the special instrument for international help. (NDICICI).

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According to the information from the European Commission, within the years 2021-2024, the finances assigned to Georgia will reach the amount of 340 million Euros. The priorities are the spheres of economics, several institutions, legislation, security, environmental security, temperature control for climate stability, digital transformation, gender equality, and inclusive society.

Again, according to the data of the European Commission, the economic and investigation plan designed for Eastern partnership in 2021, collaborating with the financial institutions, aims to mobilize the amount of up to 17 billion dollars. Within the plan which is made especially for Georgia, the EU has already prepared the sum of 1,7 billion dollars out of which 194 million dollars were used for the grants.

It is interesting to know for what aims these amounts of money are spent. The Euro commission writes down that the money is spent on the investments:

- Supporting 80 000 minor and medium enterprises in Georgia:

- Placing the underwater optical fiber cables in the Black Sea;

The ferry traffic on the Black Sea to guarantee the regular movement between Georgia and the EU countries;

- Improving energetic efficiency represented an important help for the development of the Georgian villages in the stable economic growth of the broad infrastructures. The fund "Green Growth" in the region of Kartli, was funded, due to which the wind electro-station was built. It was the first such help in the region aiming to reduce the influence of the windy weather and to soften the climate changes. That also supports the stability of the economic help.

According to the data of the European Commission, in the years 2015-2022, the EU allocated 22,5 million Euros to support Georgian civil society. In 2014- 2020, within the program Erasmus. In the years 2014-2020, the mentioned sum was dedicated to the program ERASMUS +, between the EU and Georgia, 11 thousand people, the students, and the professors/, were participating in the interchanging sportive projects for the students and other programs which were designed for the students and for the teachers and professors.

The EU helps us also in the direction of security mechanisms. Again, according to the data of the EU, which was mentioned above, in 2021-2023, within the peaceful mechanism, 63 million euros was allocated for medical, engineering, and logistics help to the Armed Forces of Georgia. The European Union also continues supporting Georgia in medical, engineering, and logistics for the Georgian Armed Forces.

The EU markets are open for Georgian products but first of all, we should satisfy the requirement of the European market, to keep the recommended standards. Thus, we aim to improve the concurrent abilities of the agricultural sector in our country. We should keep the standards which are set in the European countries. This process is time-scheduled and it requires corresponding continued intensive work in the agricultural sectors, with the workers and farmers which will improve and make better the existing agricultural operations and their results.

Our country tries for the farmers to become informed, of course, as many farmers as possible, to grow and gather more and better agricultural products. This is a time-consuming process but it is oriented on reaching closer.

By entering the common economic space with Europe, Georgian products will benefit from the same conditions as local products. For this, it is necessary to fulfill the strict requirements of European standards, which is a difficult and long-term process, but the improvement of products produced in the final country leads to an increase in export potential. (Giorgi Kharshiladze, February 2021, 2)

The main goal of the 2021–2024 government program – “Building a European State” created for rapid recovery from the economic crisis caused by the COVID-19 pandemic is the recovery and development of the economy, creating a stable and safe environment for each citizen. (Makasrashvili T., Giguashvili G., Orjonikidze N., 2022. Pp 54-57.)

The status of the candidate country of the EU implies participation in such useful processes as availability to the processes.

a) The countries which already have obtained the candidate status, (in the case of the potential status the mentioned results are a little different), have availability to the financial instrument funds before becoming the members, such as (IPA III-2021-2027), which include 14 billion euros and five thematic directions:

- Strengthening of institutional and administrative abilities (a candidate and a potential candidate);
- Trans-sea bordering collaboration (a candidate and a potential candidate);
- Development of the villages and communities (only candidates);
- Region development (only candidates);
- Development of the human resources (only candidates);

b) The economic and investing programs are also attached to the financial instruments before the country becomes a member (during 2021-2027). The above-mentioned takes into consideration mobilizing 9 billion Euros as grants from (EIB, KFW, EBRD, WB, IMF, and other institutions) (2021-2027), and mobilizing 30 billion Euros from the private sector as well. (9 billion grants and 20 billion from the financial institutions) Investments can be from different directions such as transport, the private sector, human resources, and others) Ⴖ;

c) The countries having the status of candidates will have to reach all programs of the EU (now we have the reach to only a few ones out of 11(such as Erasmus +, Horizon 2020, and Creative Europe).

d) The candidate countries will be able to use again the so-called neighborhood of the EU, collaboration in this sphere, and financing from the thematic funds of EU neighboring, such as financing from the instruments included in the thematic funds the amount of which will go up to 19 billion dollars during 2021-2027).

Using the above-mentioned help from the EU, and also their favorable results will have a great influence on the individual progress of the countries on their way to integration. Proper use of favorable situations will influence the well-being of every citizen of our country too and it will result in unimaginable success and progress for every citizen. This will be the great result of our work and it will influence the life of all citizens.

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