

Stimulating Factors for the Integration of Georgia's Economy into the European Union

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(Presented by Academy Member Vladimer Papava)

At the current stage of the Deep and Comprehensive Free Trade Area (DCFTA), considering the reforms carried out by Georgian government towards the Association Agreement and European integration, the emphasis is placed on the development between Georgia and European Union trade and economic relations. Therefore, the determination of weaknesses and strengths in terms of trade interaction between international policy actors is predefined. The research aims to analyse the integration opportunities between Georgia and the EU, particularly in terms of trade relations. The importance of sharing European values and economic reforms to achieve sustainable economic development was emphasized. In addition, trade relations between the subjects were analysed, highlighting the fluctuations caused by global crises. The main export products and trade partners of Georgia among the European Union countries were also examined, and the importance of diversifying the product range and achieving faster growth was emphasised to reduce the risks of economic fluctuations. This study contributes to new knowledge in the context of the study of modern integration processes, as well as provides a different perspective on the processes of international economic interaction between Georgia and the EU. © 2023 Bull. Georg. Natl. Acad. Sci.

trade relations, integration, international relations, commodity grouping

International integration is an important factor for economic development in the modern world. It represents the process of uniting national economies and creating close ties between countries in various areas such as trade, investment, finance, and technology. Georgia's pursuit of integration into the European Union not only signifies a primary goal, reflecting the collective will of its people, but also represents a path toward cultivating political stability, achieving sustainable economic growth, and enhancing regional cooperation in alignment

with international standards [1]. This initiative represents the innovative governance strategies in post-communist countries like Georgia, where the progress of development relies on a government that is responsive to the desires of her citizens [2]. International integration allows countries to expand their markets, improve the competitiveness and efficiency of their economies, and access new resources and opportunities. Thus, integration between countries allows them to expand markets (access new markets outside their borders and

create additional opportunities for exporting goods and services), improve a country's competitiveness, and access cheaper resources [3]. The modern globalised world even dictates the process as a necessity for economic development. However, it also faces several challenges and obstacles, such as differences in political systems, legal norms, cultural differences, and economic inequalities, which often make the development of effective cooperation mechanisms and common goals in political, economic, and social spheres as an important part of integration processes [4].

Due to the awareness of the importance of international integration, many countries are constantly looking for new opportunities for mutually beneficial joint activities with other states. One such country is Georgia, which in recent years has shown increasing interest in integrating its economy into the EU. The integration process implies profound changes in Georgia's economy, trade, institutional structures, and legislation. Integration of Georgia's economy into the European Union is an important strategic direction for the country's development. This is motivated by several factors that encourage the country to seek close relations and cooperation with the association. The first of them is economic, which is described by the benefits of international integration described above, namely gaining access to international markets, access to foreign investments, and the latest technologies. The second important factor is the desire for political stability and democratization of the country: Georgia needs to develop its institutions, strengthen civil rights, and create transparent and efficient governance systems, which can be facilitated by improved relations with the EU countries. The third factor is the country's desire to secure its security and stability in the region, which could be facilitated by rapprochement with the European Union.

Thus, the research aims to determine Georgia's trade potential by identifying the factors that stimulate the deepening of the integration of the

Georgian economy into the European Union, study the sectoral structure of the economy, as well as to identify measures to expand cooperation in the field of optimising trade and economic relations between Georgia and the European Union at the current stage, ensure the modernization of the country's economy, develop specific recommendations to accelerate and improve trade relations between Georgia and the EU in the process of the EU integration. The research object is trade and economic relations between Georgia and the European Union, as well as the reforms implemented by the government of Georgia in the direction of European integration, considering the challenges facing the country.

Theoretical and Methodological Aspects of the Study

The main approach used in the study was systematic. It was used to describe the factors that influence the integration of Georgia's economy into the EU by presenting them as separate flows that form a single system in which they interact with each other and behind certain laws and rules. Therefore, many scientific methods were used in the study. One of them was the analysis, which was used to examine various sources, both qualitative and quantitative, that would characterize the process of integration of Georgia's economy into the European Union from one side or another. With the help of forecasting, options for future developments in the context of the development of this type of international relations were formed. Qualitative analysis was used to assess such factors that could not be considered in terms of quantitative indicators but also had an impact on the integration between Georgia and the European Union. Quantitative analysis was also conducted, particularly in the context of analysing changes in trade between the two subjects of international relations. The deduction was used to identify the factors that most strongly influence the state of integration processes based on the general current state of integration between the associations. The method of comparative analysis

was also used, in particular – the trade performance of Georgia in different periods.

Results

The transition of Georgia-EU relations to a qualitatively new stage and modern challenges of trade and economic cooperation in the era of globalization creates the need to enhance and expand integration processes. That makes sharing European values and carrying out appropriate economic reforms necessary to utilise the country's economic potential reasonably and efficiently. After signing the Association Agreement with the European Union, some indicators of Georgia's trade with EU countries have improved significantly [5]. For its part, Georgia's accession to the European Union requires the development of a liberal economic model, an approximation to European standards, unified functioning, and affirmation of European values, which will ultimately ensure sustainable development of the country's economy.

Thus, Georgia's strategic goal in the long term is to join the European Union, which provides a solid basis for change in the country based on European values. Georgia's rapprochement with the European Union requires such a transformation of the country, which, through the development of effective economic systems and institutions in the process of European integration, will ensure the sustainable and stable economic growth of the country in the medium and long-term, as well as the restoration and creation of a worthy place for it in the international community [6]. In turn, financial assistance mechanisms are actively used in the realization of the goals set by the countries, which contributes to the unified functioning of the EU countries. The Eastern Partnership aims to deepen trade and economic relations, accelerate economic development and regional integration between the EU, its Member States, as well as Azerbaijan, Moldova, Georgia, Armenia, and Ukraine, and improve the welfare of their citizens.

It is important to investigate the reasons for the negative balance of foreign trade. At the same time, based on the generalization of export-oriented growth models, it is important to determine the importance of export production and the intensity of its implementation, expansion of export geography and obtaining better market conditions, production of new export products, and supply of goods and services. All this can be seen in Table demonstrated below:

Table. Georgia's external trade with EU countries in 2003-2022, USD mln

Year	Exports of Georgia, USD mln	Imports of Georgia, USD mln	Trade turnover, USD mln	Trade balance, USD mln
2003	54.59	313.77	368.36	-259.19
2004	96.31	480.91	577.22	-384.61
2005	184.50	661.24	845.74	-476.75
2006	204.71	997.96	1202.66	-793.25
2007	241.71	1363.23	1604.94	-1121.52
2008	289.71	1581.71	1871.42	-1292.00
2009	229.54	1276.35	1505.89	-1046.81
2010	291.36	1403.60	1694.96	-1112.24
2011	410.63	1965.58	2376.21	-1554.94
2012	332.16	2313.89	2646.05	-1981.73
2013	577.65	2175.12	2752.77	-1597.47
2014	599.53	2277.24	2876.77	-1677.71
2015	553.06	2163.44	2716.50	-1610.38
2016	529.12	2648.40	3177.52	-2119.28
2017	603.75	3023.09	3626.84	-2419.33
2018	682.30	1945.75	2628.05	-1263.45
2019	755.77	2078.60	2834.36	-1322.83
2020	664.94	1551.91	2216.85	-886.97
2021	664.70	1922.27	2586.97	-1257.58
2022	780.17	2453.22	3233.39	-1673.05

The data are taken from the Geostat.

As can be seen from the Table, amid the global financial crisis of 2008-2009 and the negative consequences of the Georgian-Russian war, there was a significant reduction in Georgia-EU exports and imports, which reduced the trade balance deficit. From 2010-2018, trade turnover was largely characterized by an upward trend, which was due

to an increase in both exports and imports. It should also be noted that the average growth rate of imports from the EU countries was higher than the same growth rate of exports to the EU countries. The average annual growth rate of trade turnover was set at 11%.

Based on the afore-mentioned data, Georgia's foreign trade turnover increased by 25% in 2022 compared to the previous year, which was mainly caused by a 27% increase in imports from the EU countries. At the same time, the trade balance became significantly more negative, which is generally a negative trend for foreign trade. At the same time, the spread of the coronavirus in 2020-2021 posed the greatest threat to the modern world, which was particularly reflected in the economic sphere. Because of this, the trade turnover with EU countries decreased in 2020: this was due to a decrease in both exports and imports. In 2022, however, due to Russia's invasion of Ukraine, exports increased, which is probably due to finding new opportunities for trade in products, which was not possible due to the outbreak of war.

Therefore, it is essential to identify Georgia's export potential and to determine the benefits that the country can derive by utilizing the range of

advantages of the Deep and Comprehensive Free Trade Area, overcoming non-tariff barriers and diversifying exports to the EU market.

Considering the aforementioned, to improve the efficiency of the Georgia-EU trade and economic policy, it is essential to identify the factors that stimulate the integration of the Georgian economy into the EU, as well as to determine the export potential of the Georgian economy based on the structure and dynamics of the main export goods, shown in Fig. 1.

Generally, in the EU countries in 2003-2022, 5 main commodity groups were identified in Georgia's export products, which were exported by the country more than others. Ores, slag, and ash were the most popular. The category "beverages, spirits and vinegar" was gaining more popularity. The role of iron and steel also increased. At the same time, despite more or less decreasing over the period under analysis, mineral fertilizers ranked fourth. The fifth position was taken by the category "dairy products; bird eggs; natural honey; food products of animal origin, not elsewhere included". Thus, in 2020-2022 the main goods exported from Georgia to the EU countries were as follows: ores, slag and ash, beverages, alcoholic beverages and

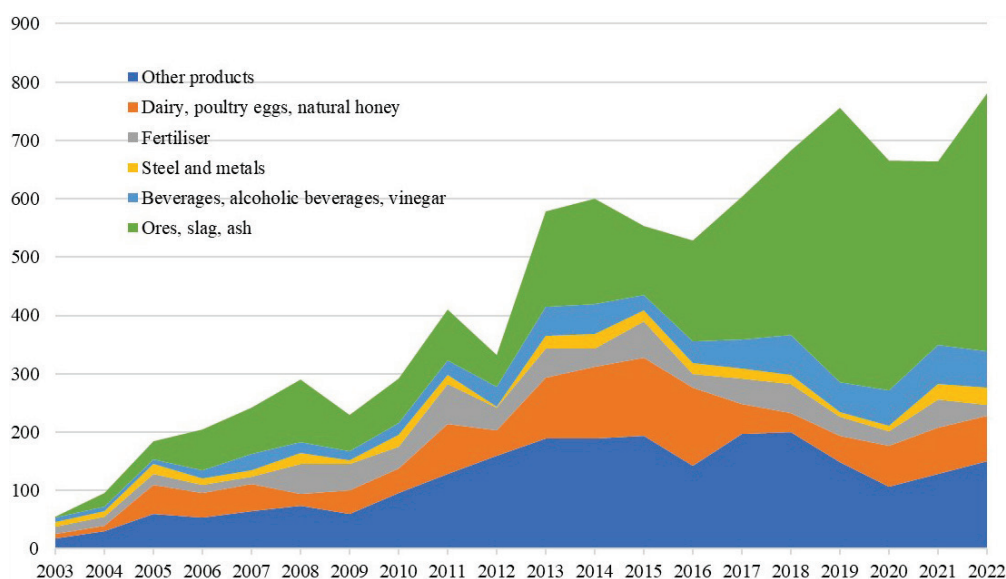


Fig. 1. Top 5 commodity groups in terms of exports from Georgia to the EU in 2003-2022 (USD mln.).

vinegar, iron and steel, fertilizers, dairy products; bird eggs; natural honey; foodstuffs of animal origin. Unlike previous years, the top five exports in 2019-2020 did not include crude oil and petroleum products. It is also noteworthy that exports to the EU decreased by 11.8% in 2020 compared to 2019, due to the global pandemic, and increased significantly (by 17%) in 2022, the reasons for which were partly mentioned above.

It is also necessary to consider who are Georgia's main trading agents among EU countries. This is illustrated in Figure 2 below.

As shown in Fig. 2, in 2023, the five main EU exporting countries were Bulgaria, Germany, Italy, Spain, Poland, and Germany. The share of these countries in total exports was 81.5%; the trend of increasing export concentration to these countries is also observed (Geostat, 2021). It is noteworthy how much the role of Bulgaria has increased over this period. In addition, a significant change occurred in 2023, when the role of Spain decreased and exports to the country fell from 89.22 million USD to 50.48 million USD.

Modern processes of globalization, integration and internationalisation of the world economy led to increased competition in the world market [7].

This problem is also acute in Georgia, as the competitiveness of products manufactured by Georgian companies has a significant impact on the development of the country.

Thus, based on the data analysed above, Georgian exports are focused only on small commodities, which significantly increases the risk of a recent economic fluctuation recurrence. Given the aforementioned, the country should ensure the diversification of the increased commodity mixed by achieving the so-called leading growth. Hence, international economic fluctuations have less impact on the national economy [8]. At the same time, it is advisable to develop Georgia's export potential in the near future to increase the competitiveness of export-oriented industries by implementing structural reforms in the economy. At the same time, changes in the specialization of labour in highly productive spheres should be oriented towards increasing exports of innovative and traditional Georgian products. Full-fledged economic relations, good neighbourly relations and Georgia's membership status in the EU and its member states play a decisive role in establishing and deepening trade and economic relations.

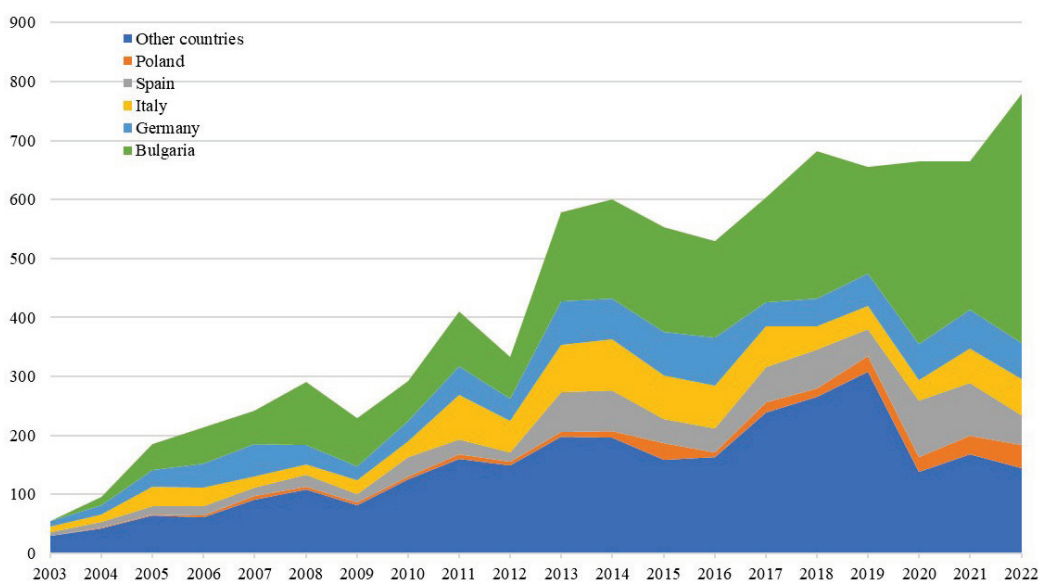


Fig. 2. Top 5 commodity groups by exports to the EU by main partner countries in 2008-2020 (USD mln).

Conclusions

Thus, the study emphasized the importance of deepening and broadening integration processes between Georgia and the European Union for the development of both international actors. Although the signing of the Association Agreement with the EU led to significant improvement in the trade figures between Georgia and the association countries, there is still a need for the authorities to secure the advancement of integration processes between the countries. Full economic relations, good neighbourly relations and Georgia's potential EU membership are crucial for establishing and deepening trade and economic cooperation. In turn, the EU has global mission to share its values and promote compatible internal systems with other countries. The interest of transformational economies in integrating into the European Union stems from the vast opportunities and potential offered by the integration process.

To improve the trade and economic policy of Georgia and the EU, it is necessary to identify the factors that stimulate the integration of Georgia's economy into the EU and determine the country's export potential. The existing Deep and Comprehensive Free Trade Area plays an important role in diversifying exports and overcoming non-tariff barriers between the countries. However, it is not enough. The government should focus on developing Georgia's export potential, diversifying products, and increasing the competitiveness of export-oriented industries. Structural reforms in the economy along with a focus on innovative and traditional Georgian products can help achieve these goals. The long-term orientation of the government in this direction will make it possible to achieve significant results in terms of economic development, political stability, and improvement of the living standards of citizens.

ეკონომიკა

საქართველოს ეკონომიკის ევროკავშირში ინტეგრაციის ხელშემწყობი ფაქტორები

თ. სართანია

ივანე ჯავახიშვილის სახ. თბილისის სახელმწიფო უნივერსიტეტი, ბიზნესისა და ეკონომიკის ფაკულტეტი, თბილისი, საქართველო

(წარმოდგენილია აკადემიის წევრის ვ. პაპავას მიერ)

თანამედროვე ეტაპზე DCFTA-ს, ასოცირების შეთანხმების და ევროინტეგრაციის მიმართულებით საქართველოს ხელისუფლების მიერ განხორციელებული რეფორმების, ასევე, ქვეყნის წინაშე არსებული გამოწვევების გათვალისწინებით, განსაკუთრებული ყურადღება ეთმობა საქართველო-ევროკავშირის სავაჭრო-ეკონომიკური ურთიერთობების განვითარებასა და სამომავლო პერსპექტივების განსაზღვრას. აღნიშნულიდან გამომდინარე, სტატიაში თანამედროვე ეტაპზე საქართველო-ევროკავშირის სავაჭრო-ეკონომიკური პოლიტიკის განზოგადების საფუძველზე გამოკვეთილია მისი ძლიერი და სუსტი მხარეები ძირითადი საექსპორტო პროდუქციის მიხედვით. ამასთან, გამოკვლეულია საქართველოს ექსპორტის წლიური სტრუქტურა და დინამიკა. მოცემულია ეკონომიკის საგარეო ვაჭრობის კონკურენტუნარიანობის ძირითადი მაჩვენებლების დინამიკის ანალიზი. ნაშრომის მიზანია საქართველოს ეკონომიკის ევროკავშირში ინტეგრაციის გაღრმავების მასტიმულირებელი ფაქტორების გამოვლენის, ეკონომიკის დარგობრივი სტრუქტურის შესწავლისა და გამოკვლევის საფუძველზე საქართველოს სავაჭრო პოტენციალის განსაზღვრა. კვლევის ამოცანად განისაზღვრა თანამედროვე ეტაპზე საქართველო-ევროკავშირის სავაჭრო-ეკონომიკური ურთიერთობების ოპტიმიზაციის მიმართულებით თანამშრომლობის გაფართოების ღონისძიებების დასახვა. ამასთან, ქვეყნის ეკონომიკის მოდერნიზაციის უზრუნველსაყოფად შემუშავდა კონკრეტული რეკომენდაციები ევროინტეგრაციის პროცესში საქართველო-ევროკავშირის სავაჭრო ურთიერთობების სრულყოფის მიზნით. ევროკავშირსა და მის წევრ ქვეყნებთან საქართველოს სრულფასოვანი ეკონომიკური ურთიერთობები, კეთილმეზობლური დამოკიდებულება და წევრის სტატუსი გადამწყვეტ როლს ასრულებს სავაჭრო-ეკონომიკური ურთიერთობების ჩამოყალიბებასა და გაღრმავებაში. გრძელვადიან პერსპექტივაში საქართველოს სტრატეგიულ მიზნად სწორედ ევროკავშირში გაწევრიანება მოიაზრება, რაც, თავის მხრივ, ევროპულ ფასეულობებზე დაყრდნობით ქვეყანაში ცვლილებების განხორციელებისთვის მყარ საფუძველს ქმნის.

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