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## The Influence of European neighbouring policy upon the economic development of Georgia

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### Abstract

**Purpose:** The main goal of the paper is to evaluate the impact of the effective neighbouring policy of Europe on the economy of Georgia.

**Methodology:** During the working processes there were applied the methods of analysis, synthesis, induction, deduction, statistical observation and grouping.

**Results:** Under the existing conditions for the relationships between Georgia and European Union there will be outlined the sharply defined legislative frames, the regulations of the inner market will introduce the modern standards in the field of industrial product and food safety, and the trade system will be formed to be compatible with the requirements of the market of European Union; Georgia will become the attractive country for investments. There will be revealed new possibilities in the direction of trade not only between Georgia and European Union but among other countries of the world as well.

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### Introduction

The resolutions adopted under the European neighbouring policy and Eastern partnership and the reforms conducted in accordance with these resolutions are focused on creating the deep and comprehensive free trade area. Besides trading with goods this space includes the service trade and capital turnover. It means harmonizing the

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customs procedures and the legislation, which could regulate the companies, protect the sanitary and phyto sanitary norms. In order to be integrated with European market it is necessary to approximate the procedures of state purchases and the investment legislation to that of European, to provide with competition and to meet the standards of protecting the international environment and labour, to harmonize the energy industries, to protect the consumers' rights and intellectual property and so on.

Euro-integrative processes and the neighbouring policy of Europe are the subjects of a lot of scientists' researches, among them V. Papava, A. Silagadze, R. Putkaradze, N. Abesadze, N. Paresashvili, T. Atanelishvili, T. Kandashvili, L. Dzebisauri and others, but at the modern stage the great importance is attached to revealing the real tendencies characteristic to these processes. The works of these scientists consider the urgent issues of the Georgian economy, European convergent criteria, issues of realization of the Action Plan in Georgia in line with the European Neighborhood Policy and Eastern Partnership Initiative and so on.

The major goal of the study is to identify the major indicators of the impact of the European Neighborhood Policy on Georgian economy and provide their statistical analysis.

## Methodology

The article applied qualitative and quantitative methods of the data analysis, including treatment of statistical data, groups of data and inductive and deductive methods of the data analysis. Scientific researches apply consideration, supervision, as well as comparative, analytical, and graphical methods. Of the analytical methods, the method of absolute values and relative values, mean-value method, simple and analytical methods were used to show a tendency of a temporary row, and analytical indicators of a temporary row were calculated. The accent was made on the mean absolute increase and mean annual growth rate. After levelling the dynamic series levels, the prognostic indicators were calculated. Together with the simple methods of forecasting, so called ARIMA-type model of logarithm found by means of computer software Eviews-6 was also used.

## Results

Creating the deep and comprehensive free trade space between Georgia and European Union conditions to form the trade system, which would be compatible to the market of European Union. This will provide with establishing the transparent and stable environment for business; accordingly, there will be increased the investment attractiveness, which will cause the growth of the foreign investments. This will result in creating the new enterprises and export production; On the basis of increasing the scales of local production there will be created the new jobs and so on. Generally, the economic growth will be stimulated and the country will be developed economically: in the short-term perspective it is envisaged that the entire inner products (EIP) will be increased by 1,7%, and in the long-term perspective – by 4,3%. In the short-term perspective the export will be increased by 9%, and the import – by 4,4%, and in the long-term perspective export will be increased by 12%, and the import – 7,5%.

Association Agreement envisages gradual approximating of the Georgian legislation concerning trade to European legislation, which will provide with the free distribution of Georgian agricultural and industrial products at European market and also the delivery of the harmless and safe products to the local market. (Atanelishvili, Tamar 2014).

It is worth noting that in the process of negotiations the Georgian part achieved the unprecedented agreement with European Union in regard to the tariff liberalization. As soon as the agreement is enacted, all the products of Georgian origin (except garlic, which will be affected by the quantitative restriction), will be free of customs tariff when imported to European market. In the field of state purchases the approximation of the legislations will provide with the maximum transparency of the state purchases of Georgia and at the same time the admission of the products manufactured in Georgia and services to the market of purchases of the member countries of European Union. As a result of the approximation of legislations in the field of customs, the corresponding regulations of Georgia will be approximated to the progressive regulations of European Union, which will provide with simplifying the export/import procedures between Georgia and European Union and creating the transparent and predictable environment. In the field of service trade the approximation of the legislations allows to implement the further liberalization of the service markets, which envisages creating more favorable conditions for admitting the

Georgian companies to the appropriate markets. (Silagadze Avtandil 2013).

The issues of improving the sanitary and phyto – sanitary system, the approximation to European standards and its implementation are extremely important, as they will increase the quality of Georgian products and raise its reliability at the world market, which will provide with the increase of export and protect the country from the invasion and spread of the harmful organisms which will allow the country to provide with the veterinary safety and promote the Georgian manufacturers to export the products of herbal and animal origin to the market of European Union.

This issue is particularly urgent in Georgia, because the present production rate of Georgia fails to yield the export potential for the European market. It is suffice to note that 659 business operators out of 50,000 registered through the inspection of the National Food Agency of 2014 failed to meet the set standards. 6 business operators were forbidden to operate, while 33% of the registered business operators were fined to 400 Gel.

On the other hand, as our forecasts suggest (the prediction values were calculated as a linear function), a regular growth of export with the EU countries is expected for the next 10 years, in particular, in 2024 the export volume will be 48,4% more than in 2014 and 20,4% more than in 2020. Therefore, on the background of the growing export, manufacturing safe product will still be an actual issue and one of the most important questions of the economic integration of Georgia with the EU.

One of the indicators of the economic integration is the foreign debt of the country. In 2014, the total foreign debt of Georgia was 13.1 mlrd. USD what was 150 mln. USD less than in the previous year. As per the data of the National Bank of Georgia, the foreign debt of the economic sector of Georgia is 5.9 mlrd. USD making 35.8% of the country's GDP. As the predictions suggest, by 2020, the total foreign debt will be around 40% of GDP, and maintaining this value is one of the necessary conditions to approach the EU.

It should be noted that the realized reforms and initiatives to improve the investment environment have yielded positive results for the country. The size of investments has increased. As the preliminary data suggest, in 2014, the volume of the direct foreign investments in Georgia was 1272 mln. USD being 35% more than the same indicator of the previous year. In addition, reinvestment made 21% of the total direct foreign investments. In 2014, the investments of the EU was 640,507.4 mln. USD being 64% more than in 2013, 45% more than in 2012 and 158% more than in 2010. The most direct foreign investments were made in transport and communication – 343 mln. USD making 27% of the total direct foreign investments. This is followed by building (with 295 mn. USD investments) and processing industry (with 174 mn. USD investments).

Following the above-mention, along with the gradual abolition of the existing customs tariffs and regulatory barriers there will be increased the types and quality of the products available for customers. In addition, the competitive pressure resulting from the liberalization of admission to market will promote specialization, which in turn reduces the cost and promotes the innovation. Better products improve the overall quality of life.

The import tariffs will be reduced and the export tariffs will be abolished. Despite the fact that nowadays the import tariffs are too low with respect to the world tariffs, the abolition of only import tariffs will not be sufficient for effective trade any more. That's why the free trade space is theoretically and even practically much deeper, and its real purpose is to eradicate the existing non-tariff barriers and accept the very part of the legislation of European Union which provide with the growth of trade and investment potential of Georgia.

And finally, this will result in the fact that Georgia will be involved in the entire trade space of Europe and after concluding the conformable agreement in the certain fields concerning the trade, Georgia, as a member country of European Union, will participate in the inner market. And this means that within the free trade space Georgia will be gradually integrated with the inner market of European Union. This integration has been attached the vital importance for Georgia, because, first of all, there will be established the just and favorable business environment for local and foreign investors, which will increase the degree of reliability and reduce the corruption. As a result, Georgian market will become more attractive for foreign investors and help Georgian economics with diversification, technology and spread of the know-how.

Obedying the rules of European inner market provide with the introduction of the modern standards of manufactured products and food safety. And as a result, the growth of volume of commodity at market will provide with better quality of the product and lower price. No doubt, this is one of the most painful issues in Georgia today and its actual realization may turn into the promising indicator of the raise of life conditions and welfare of the population.

Nowadays, Georgia benefits from the European Union by unilateral preferences, so called the General System of Preferences + (GSP+). This system is different from the deep and comprehensive free trade space, as it envisages

certain preferences. It's natural, that gradually these preferences will be abolished and its system will be replaced by the deep and comprehensive free trade space. As a result, almost all the products will be removed the import barriers of European Union. This means that the interested parts will work on the hindring barriers to grocery – products of animal origin- so as to enter the market of European Union. Nowadays these products are not permitted to the market of European Union, as they don't meet the standards concerning the food safety of European Union. Exactly this will be the main advancement in comparison with the general system of preferences, which is unilateral and temporary. Hence, the approximation to the legislation of European Union will increase the competitiveness of Georgian products and improve the investment climate meaning attracting more direct foreign investments to the country and strengthening the standards of protecting the consumers' rights. Establishing of the deep and comprehensive free trade space and the reforms connected to trade, which is envisaged by signing this agreement, will help Georgia to maintain the pace and direction of these reforms. This will become the guarantee for the further "modernization" of the country. And this in turn will be positively reflected on the social and economic development of Georgia and promote the formation of Georgia as a modern and developed state.

It is worth mentioning that the standards similar to regulatory standards of European Union are being applied in many countries, especially in Turkey, Balkan countries, and so on. So the protection of these standards promote not only the collaboration with European Union but the process of reforms will be gradually continued and agreed with other partners of Georgia.

The process of reforms is selective, so it will not involve all the fields and sectors. The purpose of the deep and comprehensive free trade space is to help Georgia to improve the economic conditions, although it doesn't aim at replacing the sectors of the inner policy such as health care, education or social policy, which is the most significant to increase the competitiveness of education and people through investing

European Union is the biggest trade partner. In 2014 the foreign trade turnover with the countries of European Union increased by 43% in comparison with 2008 and made US \$ 2990159,6 and occupied 22,0% of the trade turnover of Georgia. At the same time the export increased by 85,3%, made US \$ 620 804,6 and occupied 22,0% of the entire export, and the import increased by 35,2 %, made US \$ 2 369 355,0 and occupied 28% of the entire import.

In 2014 Georgia conducted the trade operations with 28 countries of European Union There was marked the negative trade balance – US \$ 1 748 550,3 thousands. The share of the top- ten export countries of EU makes 19,6 % of the entire export, 90% of export is to European Union and 18,7% of the trade turnover with the countries of EU.

The major exported products to the countries of European Union are copper ore and concentrates, walnut, fresh or dry grapes, natural wines, mineral and fresh water, ferroalloys and so on. In 2014 among the imported products there exceeded oil and oil products, remedies, cars, wheat and muslin, cigars, cigarillo and cigarettes, tobacco and its constituents and others.( Abesadze Nino 2014)

The leader of the ten major import countries to European Union is Germany, the share of which makes 19,7 % of the entire export to European Union, it is followed by Romania and Italy, accordingly having got the share of 13,1% and 9,4%. Generally, the share of the countries of this top- ten in the entire import is 20,4%, their share in the import to European Union makes 74%, that makes 15,3% of the entire foreign trade turnover and 58,7% of the foreign trade turnover with the countries of European Union.

## Conclusions

Statistical analysis of the bilateral cooperation between the EU and Georgia has shown that the EU is one of the reliable partners of Georgia, and the bilateral cooperation with it is being developing quite dynamically as a result of the thorough free trade space between EU and Georgia. In addition, the quality of the Georgian production is being improved, the EU share in the export relations with Georgia permanently increases, the protection of sanitary and phyto-sanitary rules is strictly monitored, the customs and trade procedures are being simplified, the volume of direct foreign investments increases, etc. All the above-mentioned is being implemented within the scope of Eastern Partnership and supports the economic development of Georgia.

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