ASPECTS OF POST-SOVIET ECONOMY AGAINST THE BACKGROUND OF THE ASSOCIATE AGREEMENT WITH THE EUROPEAN UNION

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Abstract
After the collapse of the Soviet Union, at the beginning of the 1990s, Georgia regained its independence and began the process of building a market economy. It went quite painfully and was compounded by internal and external conflicts. There were dismal failures and successes in the economy. In 2012, as a result of democratic elections, new forces came to power in the country. From then on, business was no longer subject to political pressure, confiscation of private property by the government and people close to it ended, the court was given the opportunity to make fair decisions, the medium-term program for socio-economic development was formulated, and more attention was paid to the development of economy's real estate sector. The integration with the European Union has gained an irreversible nature: the growth rate of GDP hovered around 3% and the average annual inflation rate did not exceed 2-2.4%. Since 2008, the volume of foreign direct investment reached its highest level, export indicators significantly increased, the share of foreign trade in the EU increased, the employment rate increased 12.4% (from 16.3% in 2010), and the volume of state debt and the ratio to the GDP became stable. Particular attention was paid to the realization of social programs in the condition of small incomes and pension. Unfortunately, due to low incomes, a large part of the population is employed abroad, and the volume of their remittances is growing. According to the 2015 population census, there was a 17% reduction in population size. The integration into the European Union opens up new opportunities for the country, but only through hard work will it be possible to achieve the “economic convergence criteria.”

Keywords: Post-Soviet economy, Georgia, associate agreement with the European Union, Maastricht, convergence criteria.

JEL Classification: O1, O5, P2,

I. INTRODUCTION

Soviet Georgia in the former Soviet Union was distinguished by its advanced economy. At the beginning of the 1990s, at the early stage of the restoration of independence, the country’s economy contracted approximately 3 times and, finally, the country reached the 1990 level too late. This was the most difficult stage of building a market economy, which was accompanied by a lack of experience, internal conflicts, violation of territorial integrity, interrupted traditional ties, the most acute financial problems, disrupted monetary system, mental reasoning, etc. (Atanelishvili, 2006, 2013; Basilia, Silagadze, Chikvaidze, 2001; Silagadze, Beridze, 1996; Silagadze, Tokmazishvili, Atanelishvili, 2014; Silagadze, 2011, 2012, 2013; 41).

The situation has improved in recent years, and the vector of European integration has become more definite - Georgia became an associate member of the European Union. Under these conditions, the country faces new challenges, including the achievement of the level of European competitiveness, among others. (Silagadze, 2010, 2014; Silagadze, Atanelishvili, 2010, 2014; Silagadze, Tokmazishvili, 2008, 2009; Silagadze, N., 2011).

Against this background, what are the current trends in Georgia’s economy? A lot of scientific works are dedicated to the study of various aspects of this problem (1-40).

II. GENERAL ANALYSIS

Georgia is an ancient country with a rich history and a small size of territory. It is located at the crossroads of Asia and Europe and occupies a very important geo-strategic area of the Great Silk Road. The country’s territory is about 70 thousand square kilometers. Unfortunately about 20% of its territory is occupied by Russia. As of January 1, 2016, the country’s population comprised 3.7 million persons, which is 15.3% less than the same period in 2006). (42). Unfortunately, over the years, the reduction in population size was conditioned by acute economic and political processes and unemployment.
Initially, post-Soviet Georgia was within the Commonwealth of Independent States (CIS), and later in the light of the significant political controversies, it withdrew from the CIS and took a course towards integration into the European Union. This path was taken by the Baltic former Soviet Republics (Estonia, Latvia, Lithuania) after regaining their independence and, through these transformations, they achieved substantial progress – they were able to successfully join the European Union. (Silagadze, 1996, 2001, 2006; Silagadze, Gelashvili, 2009; Silagadze, Tokmazishvili, Atanelishvili, 2014);

In other post-Soviet countries, the building of a market economy was somewhat similar. (Silagadze, 2008, Basilia, Silagadze, Chikvaidze, 2001). Under these conditions, the exporter countries, which are rich in fuel and energy resources, advanced more significantly. In 2014, compared to 1990, GDP increased in Turkmenistan 14.4 times, in Azerbaijan - 8.5 times, in Kazakhstan - 7.8 times, in Russia - 3.6 times. The export of fuel and energy products played a big role in rapid economic growth of these countries (Silagadze, Tvalchrelidze, Zubiashvili, Atanelishvili, 2014; Silagadze, 2014, Silagadze, Zubiashvili, 2015; Силагадзе, 1991,2013; Tvalchrelidze, Silagadze, 2013).

The post-Soviet countries of Moldova, Georgia, and Ukraine, which are new associate member countries of the European Union (Silagadze, 2013-2014; Silagadze, Atanelishvili, 2010, 2014), were faced with difficult problems in the conditions of the violation of territorial integrity and complex economic development, such as low macroeconomic indicators and devaluation of national currency. In Ukraine, the volume of GDP and GDP per capita in 2014, compared to the previous year, decreased by 28% and 23% respectively. Moldova is also characterized by a difficult economic development. (Table 1 and 2) (Silagadze, Atanelishvili, 2010). According to the preliminary calculations, these countries in the medium term (until 2020) will not reach the economic parameters of integration, which are established for the EU Member States.

### Table 1. GDP in the post-Soviet countries in 1990 and the 2007-2014. (Billion USD.)

<table>
<thead>
<tr>
<th>Years</th>
<th>Armenia</th>
<th>Azerbaijan</th>
<th>Belarus</th>
<th>Estonia</th>
<th>Georgia</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Moldova</th>
<th>Russia</th>
<th>Tajikistan</th>
<th>Turkmenistan</th>
<th>Ukraine</th>
<th>Uzbekistan</th>
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<tbody>
<tr>
<td>1990</td>
<td>2.26</td>
<td>8.86</td>
<td>17.37</td>
<td>0.00</td>
<td>7.74</td>
<td>26.93</td>
<td>2.67</td>
<td>7.45</td>
<td>10.51</td>
<td>3.59</td>
<td>516.81</td>
<td>2.63</td>
<td>3.23</td>
<td>81.46</td>
<td>13.36</td>
</tr>
<tr>
<td>2007</td>
<td>9.21</td>
<td>33.05</td>
<td>45.28</td>
<td>21.99</td>
<td>10.17</td>
<td>104.85</td>
<td>3.80</td>
<td>28.77</td>
<td>39.10</td>
<td>4.40</td>
<td>1299.71</td>
<td>3.72</td>
<td>12.66</td>
<td>142.72</td>
<td>22.31</td>
</tr>
<tr>
<td>2008</td>
<td>11.66</td>
<td>48.85</td>
<td>60.76</td>
<td>23.78</td>
<td>12.80</td>
<td>133.44</td>
<td>5.14</td>
<td>33.67</td>
<td>47.25</td>
<td>6.05</td>
<td>1660.85</td>
<td>5.16</td>
<td>19.27</td>
<td>179.99</td>
<td>27.92</td>
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<tr>
<td>2009</td>
<td>8.65</td>
<td>44.29</td>
<td>49.21</td>
<td>19.12</td>
<td>10.77</td>
<td>115.31</td>
<td>4.69</td>
<td>25.88</td>
<td>36.85</td>
<td>5.44</td>
<td>1222.65</td>
<td>4.98</td>
<td>20.21</td>
<td>117.23</td>
<td>32.82</td>
</tr>
<tr>
<td>2010</td>
<td>9.37</td>
<td>52.91</td>
<td>55.21</td>
<td>18.85</td>
<td>11.64</td>
<td>148.05</td>
<td>4.79</td>
<td>24.01</td>
<td>36.31</td>
<td>5.81</td>
<td>1487.52</td>
<td>5.64</td>
<td>22.15</td>
<td>136.42</td>
<td>39.33</td>
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<tr>
<td>2011</td>
<td>10.14</td>
<td>65.95</td>
<td>59.74</td>
<td>23.17</td>
<td>14.44</td>
<td>188.05</td>
<td>6.20</td>
<td>28.39</td>
<td>43.51</td>
<td>7.02</td>
<td>1904.79</td>
<td>6.52</td>
<td>29.23</td>
<td>163.16</td>
<td>43.33</td>
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<tr>
<td>2012</td>
<td>10.62</td>
<td>68.73</td>
<td>63.62</td>
<td>23.14</td>
<td>15.85</td>
<td>203.52</td>
<td>6.61</td>
<td>28.03</td>
<td>42.85</td>
<td>7.29</td>
<td>2016.11</td>
<td>7.63</td>
<td>35.16</td>
<td>175.78</td>
<td>51.18</td>
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<tr>
<td>2013</td>
<td>11.12</td>
<td>73.56</td>
<td>73.10</td>
<td>25.25</td>
<td>16.14</td>
<td>231.88</td>
<td>7.34</td>
<td>30.24</td>
<td>46.41</td>
<td>7.99</td>
<td>2079.03</td>
<td>8.51</td>
<td>41.01</td>
<td>183.31</td>
<td>56.80</td>
</tr>
<tr>
<td>2014</td>
<td>11.65</td>
<td>75.20</td>
<td>76.14</td>
<td>26.49</td>
<td>16.53</td>
<td>217.88</td>
<td>7.41</td>
<td>31.29</td>
<td>48.35</td>
<td>7.96</td>
<td>1860.60</td>
<td>9.24</td>
<td>47.93</td>
<td>131.81</td>
<td>62.65</td>
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Table 2. GDP per capita in 1990 and 2007-2014. (USD)

<table>
<thead>
<tr>
<th>Years</th>
<th>Armenia</th>
<th>Azerbaijan</th>
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<th>Georgia</th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Latvia</th>
<th>Lithuania</th>
<th>Moldova</th>
<th>Russia</th>
<th>Tajikistan</th>
<th>Turkmenistan</th>
<th>Ukraine</th>
<th>Uzbekistan</th>
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<tbody>
<tr>
<td>1990</td>
<td>637</td>
<td>1237</td>
<td>1705</td>
<td>1611</td>
<td>1647</td>
<td>609</td>
<td>2796</td>
<td>2841</td>
<td>972</td>
<td>3485</td>
<td>496</td>
<td>881</td>
<td>1570</td>
<td>830</td>
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</tr>
<tr>
<td>2007</td>
<td>2995</td>
<td>3851</td>
<td>4667</td>
<td>16393</td>
<td>2318</td>
<td>6771</td>
<td>722</td>
<td>12688</td>
<td>11584</td>
<td>1231</td>
<td>9146</td>
<td>563</td>
<td>2606</td>
<td>3069</td>
<td>830</td>
</tr>
<tr>
<td>2008</td>
<td>3787</td>
<td>5575</td>
<td>6328</td>
<td>17739</td>
<td>2920</td>
<td>8514</td>
<td>966</td>
<td>14858</td>
<td>14071</td>
<td>1696</td>
<td>11700</td>
<td>3918</td>
<td>1023</td>
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<tr>
<td>2009</td>
<td>2803</td>
<td>4950</td>
<td>5176</td>
<td>14264</td>
<td>2441</td>
<td>7165</td>
<td>871</td>
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<td>8616</td>
<td>734</td>
<td>4059</td>
<td>1182</td>
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<tr>
<td>2010</td>
<td>3031</td>
<td>5843</td>
<td>5818</td>
<td>14062</td>
<td>2614</td>
<td>9070</td>
<td>880</td>
<td>10723</td>
<td>11046</td>
<td>1632</td>
<td>10481</td>
<td>820</td>
<td>2974</td>
<td>1377</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>3417</td>
<td>7190</td>
<td>6306</td>
<td>17454</td>
<td>3220</td>
<td>11388</td>
<td>1124</td>
<td>13781</td>
<td>14367</td>
<td>1971</td>
<td>13324</td>
<td>841</td>
<td>5725</td>
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<tr>
<td>2012</td>
<td>3566</td>
<td>7394</td>
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<td>17491</td>
<td>3529</td>
<td>12121</td>
<td>1178</td>
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<td>962</td>
<td>6798</td>
<td>1182</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>3717</td>
<td>7812</td>
<td>7722</td>
<td>19156</td>
<td>3597</td>
<td>13612</td>
<td>1283</td>
<td>15026</td>
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<td>14487</td>
<td>1049</td>
<td>7827</td>
<td>4030</td>
<td>1377</td>
</tr>
<tr>
<td>2014</td>
<td>3874</td>
<td>7884</td>
<td>8040</td>
<td>29162</td>
<td>3670</td>
<td>12602</td>
<td>1269</td>
<td>15719</td>
<td>16507</td>
<td>2239</td>
<td>12736</td>
<td>9302</td>
<td>3082</td>
<td>1546</td>
<td></td>
</tr>
</tbody>
</table>


Overall, the total volume of the post-Soviet countries' economies increased. The countries of one group have already become full members of the EU. The volume of the economies of the second group of countries, especially of those rich in fuel and energy resources, increased significantly, but the increase in fuel prices also sharply limited the volume of their economies and they were faced with the urgent tasks of carrying out economic modernization. The countries of the third group became associate members of the EU and face great challenges.

III. GEORGIA’S MACROECONOMIC INDICATORS

The economic reforms, carried out at a rapid pace in Georgia at the first stage of the restoration of its independence, especially since the mid-1990s, produced positive results and created the institutional fundamentals of a new economic system. Economic growth stalled in the late 1990s. The second wave of reforms, which started after the “Rose Revolution” in 2003, was reflected in market liberalization, tightening the administrative methods, reduction in the number of taxes, and simplification of business start-up procedures. Unfortunately, this stage of the reforms was accompanied by many facts of violent infringement on private property from the side government and also rapidly increased foreign debts. (Tvalchrelidze, Silagadze, A., Keshelashvili, Gegia, 2011: 41.).

The GDP’s growth rate in Georgia was relatively high in 2010-2012 compared to the following years, but the opposite picture was observed in the total volume of GDP and the GDP per capita (Table 3).


<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015*</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP’s real growth, percentage change</td>
<td>6.2</td>
<td>7.2</td>
<td>6.4</td>
<td>3.4</td>
<td>4.6</td>
<td>2.8</td>
</tr>
<tr>
<td>GDP per capita (in current prices), USD</td>
<td>2623.0</td>
<td>3230.7</td>
<td>3523.4</td>
<td>3599.6</td>
<td>3676.2</td>
<td>3743.1</td>
</tr>
<tr>
<td>GDP in current prices, mln. USD</td>
<td>11636.5</td>
<td>14438.5</td>
<td>15846.8</td>
<td>16139.9</td>
<td>16507.8</td>
<td>13959.9</td>
</tr>
</tbody>
</table>


The share of trade in the GDP’s sectoral structure is the highest one. In this light, it seems that the total share of real sector is not presented modestly (33.7%), but the point is that the large part of the demand for products of this sector is satisfied by imports (Figure 1).
Unfortunately, in recent years, Georgia has paid less attention to the development of agriculture, and the focus was shifted to the import of its products, while there are unique opportunities for the development of this field in the country. It is not incidental that the volume of agricultural production decreased drastically in 2009-2010, and its share in the Gross Domestic Product dropped to 8.4% at a time when, according to the official statistics, about half of the employment is presented in this sector. (Figure 2). (Silagadze, 2011; Silagadze, Atanelishvili, 2011; Silagadze, 2009, 2011, 2013; Silagadze, Atanelishvili, 2010; Kharitonashvili, 1997; Kharashvili, Erkomaishvili, Chavleishvili, 2015).

In previous years, one of the main sources of economic growth in Georgia was state investment (Figure 3), mostly to infrastructure projects. Very little investment was made in the real sector of economy, which has led to
negative consequences. The situation improved in the last two years as a result of the investment made in the agricultural sector. (Figure 3).

Currently, with the goal of sustainability of the external position, the country’s government takes into account the support for long-term capital inflows, such as foreign direct investment (FDI) (40). The government’s proposal for tax exemption from the profit made on refinanced funds in production will encourage the investment process.

Currently, Georgia’s largest investor countries are Azerbaijan, the Netherlands, Turkey, United Kingdom, and China. (Figure 4). Most of the foreign direct investments were made in the following sectors: transport and communications, financial sector, construction, manufacturing industry and others. (Figure 5).

Figure 3. Foreign Direct Investment (FDI), million USD

* Preliminary data

![Figure 3. Foreign Direct Investment (FDI), million USD](image)

Figure 4. Foreign direct investment in Georgia, by countries, 2015. * (Million USD)

* Preliminary data

1. Azerbaijan
2. United Kingdom
3. Netherlands
4. Luxembourg
5. Turkey
6. China
FDI plays an important role in GDP. (Figure 6). However, the growth of the total volume of FDI was not accompanied by the corresponding increase in the total number of employed. This is a Georgian “phenomenon” caused by the shortage of investment in the real sector. In the business sector (2011-2013), employment increased. (Figure 7).

**Figure 5. Foreign direct investments in Georgia by the sectors of economy, 2015.* (%)**

* Preliminary data

1. Transport and Communications
2. Financial Sector
3. Construction
4. Manufacturing industry
5. Power engineering
6. Health care
7. Hotels and restaurants
8. The rest of the sectors

**Figure 6. The ratio of foreign direct investment (FDI) to GDP (%) in Georgia, 2010-2014**

FDI did not encourage innovations for long term growth that would become preconditions for the growth of export, diversification and creation of new jobs. Only 20% of officially registered subjects are operational. According to the official date, the highest unemployment rate (16.9%) was in 2009. In following years, this rate dropped to 12.4% in 2014. (Figure 8).

The economic policy, which was carried out in previous years, did not provide the country export competitiveness. The scale of export diversification was insufficient; the growth of import volume significantly outpaced the growth in exports, which led to the increase of a negative balance of foreign trade, a macro-economic risk for the country. (Figure 9).
Figure 9. Georgia’s foreign trade, 2007-2015, mln USD.

1. The foreign trade turnover
2. The registered exports (FOB)
3. The registered imports of goods (CIF)
4. Foreign Trade Balance

* Preliminary data

IV. THE MAIN EUROPEAN ECONOMIC INDICATORS AND THE POTENTIAL OPPORTUNITIES

According to the “Copenhagen criteria,” established by the European Council in 1993, candidate countries for EU membership must be a competitive market economy, and they must recognize the common rules and standards, including political, economic and monetary relations.

It can be said directly that it will take quite a long time to build a competitive market of the European level, and in Georgia it cannot happen in the medium term. Georgia recognizes the common standards of the EU. Legitimization of those standards is one thing, but another is the achievement of the quality standards for locally produced products, which are difficult to carry out and require a long term approach.

Further calculations show that in the medium term Georgia will not be able “to fulfill the Maastricht convergence criteria,” namely, per capita GDP must be about 10-12 thousand US dollars, and the unemployment rate must be maintained in the vicinity of 6-10%.

V. CONCLUSION

One group of post-Soviet countries have already become full members of the EU. The volume of the economies of the second group, especially of those rich in fuel and energy resources, increased significantly, but the increase in fuel prices also sharply limited the volume of their economies, and they were faced with the urgent tasks of carrying out economic modernization. The countries in the third group have recently become associate members of the EU, and they face the most difficult challenges.

The building of a competitive market of the European level will take quite a long time, and it cannot happen in Georgia in the medium term. Although Georgia recognizes the European Union’s common standards, their implementation will not be possible in the medium term. In the same period of time, the main products produced in Georgia cannot be equally competitive with the European ones. Finally, with the current pace of development, in the medium term Georgia will not achieve per capita GDP in the vicinity of 10-12 thousand US dollars and will not maintain the unemployment rate within 6-10%.
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