

Prospects of Georgia becoming EU member in context of economic development trends

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Abstract. In this article we discuss accession criteria for EU membership - the Copenhagen Criteria. We largely focus on and critically analyze Georgia's the economic development level and modern trends. Using the recent data published by international, regional, and local institutions we analyzed macroeconomic measures and international rankings of EU countries and Georgia.

Based on qualitative and quantitative research approaches, we conclude that Georgia's recent economic levels and economic development trends, unfortunately, don't satisfy the Copenhagen economic criteria and it can be a delay factor for Georgia's EU integration. In this paper, we present recommendations, a satisfaction of which will facilitate fulfillment of the Copenhagen Criteria by Georgia and speed up the process of Georgia joining the EU.

Keywords: European Union (EU), Integration, Copenhagen Criteria, GDP, GDP per Capita, Unemployment Rate, Inflation, Human Development Index.

One of the main aspirations of Georgia at this stage of state-building is to occupy a worthy place in the civilized world. The main objective of the Georgian society - full integration in the European and Euro-Atlantic space - is clearly stated in the constitution and remains an unshakable position. The latest poll published on January 16, 2020, by the US National Democratic Institute once again confirms that 82% of the Georgians support EU membership [1]. For this reason, despite the several government changes over the last 30 years, Georgia's foreign policy has not changed. Every government promises the Georgian society to join the European Union as soon as possible.

Since its independence, Georgia has moved forward toward EU integration. The main achievements are the signing of the Georgia-EU Association Agreement on June 27, 2014, including its key component - the Deep and Comprehensive Free Trade Area and visa liberalization, supported by the European Parliament on February 2, 2017, based on which the visa-free travel in the EU/Schengen Zone was introduced on March 28, 2017 [2]. Nevertheless, the timing and dating of

full-fledged EU integration (EU membership) are still unclear for several reasons. The final decision on whether to admit new members is made by the EU itself. Nevertheless, it largely depends on the willingness of the candidate country (in this case, Georgia) to meet the eligibility requirements. Among such requirements, the most important is the accession criteria (the so-called Copenhagen Criteria), agreed at the Copenhagen Convention of the European Council (Denmark, Copenhagen June 1993). The Copenhagen criteria are divided into three groups: political, economic, and legal. In this article we will focus on the economic criteria, which evaluates [3]:

- ✓ Functioning market economy;
- ✓ A level of economic development with the capability to cope with competitive pressure and market forces within the EU market

A functioning market economy requires:

- ✓ High quality of economic governance;
- ✓ Macroeconomic stability (price stability, as well as the sustainable public finances and foreign accounts);
- ✓ Proper functioning of the market of goods and services (including business environment, state influence on the product market, as well as privatization and restructuring);
- ✓ Proper functioning of financial markets (financial stability and access to finance);
- ✓ Effective functioning of the labor market

As for the second group of economic criteria related to being competitive in the EU market, it requires:

- ✓ a sufficient human capital, education, research, innovation, and future developments in the field;
- ✓ a sufficient quantity and quality of infrastructure and physical capital;
- ✓ relevant enterprise structure in the economy and changes in the sector, including the role of Small and medium-sized enterprises;
- ✓ a sufficient degree and pace of economic integration with the EU and price competitiveness.

It is crucial for the country wanting to join the EU to approximate its economic indicators to the EU countries. Therefore, to study Georgian economic development trends, comparative analysis of economic indicators, and the assessment of the degree of compliance of Georgia with the Copenhagen criteria based on economic development indicators is a very important issue.

To assess Georgia's economic development trends and prospects for EU membership, we used macroeconomic indicators such as gross domestic product (GDP), GDP per capita, core inflation, and unemployment, also, analysis of Georgia's positions in the rankings published by authoritative international institutions, such as the United Nations Human Development Index.

First, we analyzed macroeconomic indicators of EU member states and Georgia from 2015, to 2019.

Table 1. Macroeconomic indicators of EU countries and Georgia (2015,2017,2019)

country		GDP, billion USD [4]			GDP growth, Annual % [5]			GDP per capita, USD [6]		
		2015	201 7	2019	2015	201 7	2019	2015	201 7	2019
1.	Germany	3361	3666	3 846	1.7	2.5	0.6	45 321	46 916	47 628
2.	France	2438	2595	2 7 16	1.1	2.3	1.5	41 793	43 015	44 317
3.	Italy	1836	1962	2001	0.8	1.7	0.3	33 961	35 086	35 613
4.	Spain	1195	1313	1394	3.9	2.9	2.0	30,550	32 283	33 350
5.	Netherlands	765	834	909	2.0	2.9	1.8	51 871	53 942	55,690
6.	Poland	478	526	592	3.8	4.9	4.1	14 646	15 845	17 387
7.	Sweden	505	515	5 31	4.5	2.6	1.2	56 340	57 467	57 975
8.	Belgium	462	504	530	2.0	1.9	1.4	45 503	46 638	47 540
9.	Austria	382	418	446	1.0	2.3	1.6	47 789	49 112	50 654
10.	Ireland	292	336	38 9	25.1	8.1	5.6	65 433	71 756	79 703
11.	Denmark	302	329	3 48	2.3	2.0	2.4	60 402	62 733	65 147
12.	Finland	234	255	269	0.5	3.1	1.0	45 657	45 087	49 241
13.	Romania	178	212	2 50	3.9	7.1	4.08	9 712	11 029	12 131
14.	Czechia	187	216	24 7	5.3	4.4	2.6	21 382	22 755	23 834
15.	Portugal	199	221	238	1.8	3.5	2.6	22 018	23 381	24 590
16.	Greece	197	204	21 0	-0.4	1.5	1.9	22 615	23 053	24 024
17.	Hungary	125	142	1 62	3.8	4.3	4.9	14 746	15 810	17 466
18.	Slovakia	89	96	105	4.8	3.0	2.4	18 897	19 830	21 039
19.	Luxembourg	58	64	71	4.3	1.8	2.3	107500	109,000	111062

20.	Bulgaria	51	59	70	4.0	3.5	3.4	7 661	8 351	9 026
21.	Croatia	50	55	61	2.4	3.1	2.9	14 112	15 350	19 906
22.	Lithuania	41	48	54	3.5	4.2	3.9	15 350	16 855	18 427
23.	Slovenia	43	49	54	3.1	4.1	2.4	23826	25 722	27 152
24.	Latvia	27	30	34	3.3	3.8	2.2	14 347	15 430	16 697
25.	Estonia	23	27	31	1.8	5.7	4.3	17 634	19 109	20 742
26.	Cyprus	20	23	25	3.4	4.4	3.2	27 898	30,650	32 093
27.	Malta	11	13	15	10.9	6.5	4.5	25 898	27 751	28943
28.	Georgia	15	16	18	3.0	4.8	5.1	4 186	4 512	4 986
29.	European Union	13547	14736	15932	2.1	2.7	1.5	34357	35 890	37 104
30.	World	75199	81229	87698	2.9	3.2	2.5	10247	10817	11 429

GDP. In terms of GDP, Georgia is ahead of Malta, a territorially small country located on the Mediterranean islands, and has a 7.5 times smaller population than Georgia (Table 1; Fig 1A). (514,564 and 3,720,392 people in 2019, respectively) [7,8]. The GDP of the second smallest EU state, Cyprus is 7 billion US dollars more than the GDP of Georgia (39% smaller). Georgia lags the former Soviet republics, Estonia, by \$ 13 billion (72.2%) in terms of GDP, Latvia - by \$ 16 billion (88.9% smaller), and Lithuania - \$ 36 billion (3 times smaller). Not to mention the large EU states, the lag is even more striking in relation to other small member states.

GDP annual growth rate. Georgia's annual GDP growth rate constituted 5.1 % in 2019, thus surpasses many EU countries (Table 1). A relatively high GDP growth rate is satisfactory but translated to the actual growth, the Georgian economy grew by only USD 2 billion from 2017 to 2019, and in four years, from 2015 to 2019 by only USD 3 billion (Fig 1B). In the same period, Estonia's economy grew by USD 8 billion (2.7 times more), Latvia - USD 7 billion, Lithuania - USD 13 billion, Bulgaria - USD 18 billion, Romania - 72 billion US dollars. The growth rate of most EU member states is even higher. Poland's economic growth rate is the same as in 2015-2019 amounted to USD 114 billion.

We conclude that Georgia's economic development trends aren't sufficient to meet the EU economic accession criteria.

GDP per capita. GDP per capita measures a product value per person and is considered one of the best measures of prosperity. According to the data presented in Table 1, Georgia's GDP per capita was USD 4986. It is currently a fraction of what it is in the leading EU countries. Comparing to Bulgaria, with the lowest GDP per capita in the EU with USD 9,026 in 2019, the GDP per capita of Georgia is two times smaller. Georgia has 2.4 times smaller GDP per capita than Romania, 3.3 times smaller than Latvia, 3.7 times smaller than Lithuania, 4.2 times smaller than Estonia, 9.6 times smaller than Germany, 13 times smaller than Denmark, 22.3 times smaller than Luxembourg, and 7.4 times smaller than the EU average (in 2019, GDP per capita was USD 37,104). Georgia also lags far behind the world average (according to 2019 data, world GDP per capita was 11,429 USD).

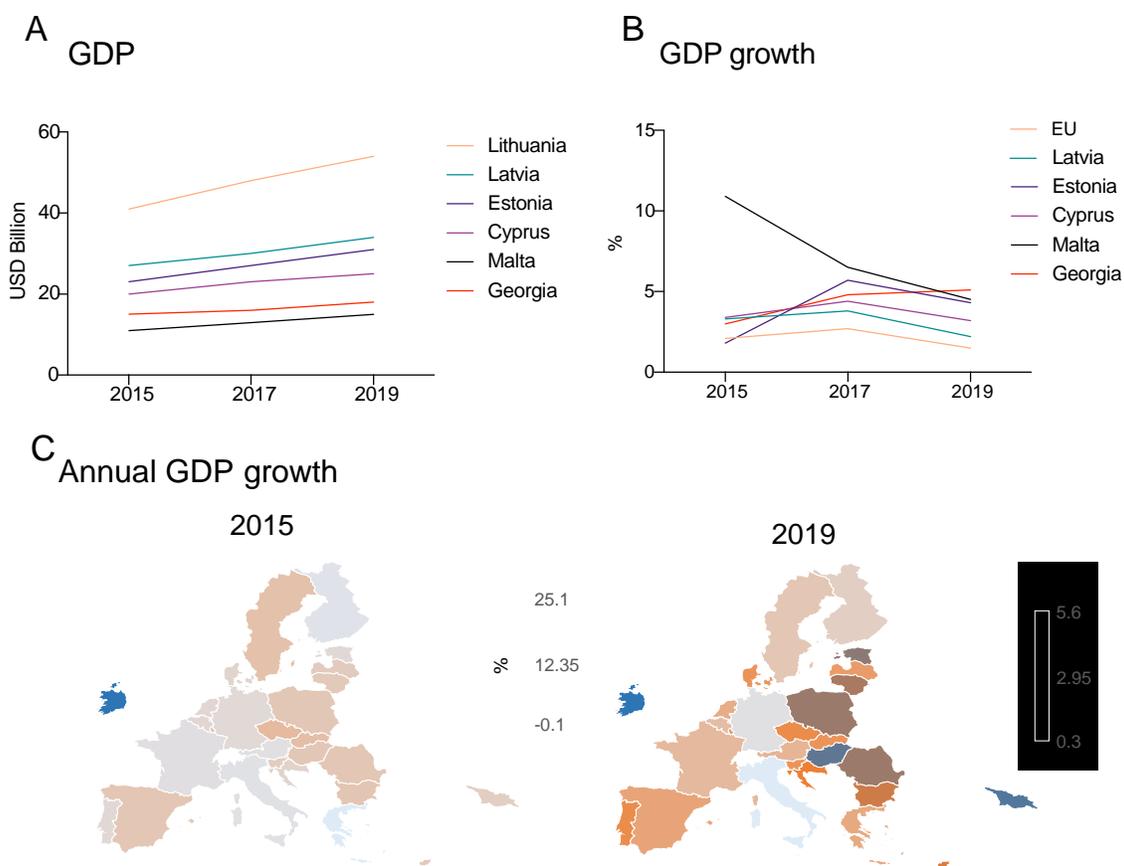


Fig 1. GDP and annual GDP growth in EU and Georgia. A. Comparison of GDP between Georgia and EU states in 2015-2019. B. Graph represents annual GDP growth of Georgia and EU states in 2015-2019 years. C. Annual GDP growth geographic heatmap in 2015 and 2019.

The GDP per capita in Georgia increased by \$ 800 from 2015 to 2019, while in the EU it increased by an average of 2747 USD (3.4 times more than in Georgia), and the world average - by 1182 USD.

The presented materials show that the values of GDP per capita and growth rates are significantly lower than the EU, its member states, and the world average.

Table 2. Some macroeconomic and human development indexes of EU countries and Georgia (2015,2017,2019)

country		Unemployment rate [9]			Core inflation, %		Human Development Index [10]			
Year		2015	2017	2019	2020	Place	2015	2017	2019	Place
1.	Germany	4.6	3.8	3.1	0.6	15	0.933	0.938	0.939	4
2.	France	10.4	9.4	8.5	0.5	17	0.888	0.890	0.891	26
3.	Italy	11.9	11.2	10.0	0.3	19	0.875	0.881	0.883	29
4.	Spain	22.1	17.2	14.1	0.4	18	0.885	0.891	0.893	25
5.	Netherlands	6.9	4.9	3.4	1.9	6	0.927	0.932	0.933	10
6.	Poland	7.5	4.9	3.3	4.3	1	0.858	0.868	0.872	32
7.	Sweden	7.4	6.7	6.8	0.3	21	0.932	0.935	0.937	8
8.	Belgium	8.5	7.1	5.4	1.2	7	0.913	0.917	0.919	17
9.	Austria	5.7	5.5	5.4	1.2	10	0.906	0.912	0.914	20
10.	Ireland	10.0	6.7	5.0	-0.6	24	0.926	0.939	0.942	3
11.	Denmark	6.3	5.8	5.0	1	13	0.926	0.929	0.930	11
12.	Finland	9.4	8.6	6.7	0.3	19	0.919	0.924	0.925	12
13.	Romania	6.8	4.9	3.9	2.3	5	0.806	0.813	0.816	52
14.	Czechia	5.1	2.9	2.0	2.65	3	0.882	0.888	0.891	26
15.	Portugal	12.6	9.0	6.5	-0.18	23	0.843	0.848	0.850	40
16.	Greece	24.9	21.5	17.3	-1.6	27	0.868	0.871	0.872	32
17.	Hungary	6.8	4.2	3.4	4	2	0.835	0.841	0.845	43
18.	Slovakia	11.5	8.1	5.8	1.2	9	0.849	0.854	0.857	36
19.	Luxembourg	6.7	5.5	5.6	1.2	8	0.899	0.908	0.909	21
20.	Bulgaria	6.2	6.2	4.2	1.1	11	0.807	0.813	0.816	52

21.	Croatia	16.2	11.2	6.6	1.1	12	0.830	0.835	0.837	46
22.	Lithuania	9.1	7.1	6.3	2.3	4	0.855	0,866	0.869	34
23.	Slovenia	9.0	6.6	4.3	0.9	14	0.885	0.899	0.902	24
24.	Latvia	9.9	8.7	6.3	0.6	16	0.842	0.849	0.854	39
25.	Estonia	6.2	5.8	4.4	-1	26	0,871	0.879	0.882	30
26.	Cyprus	15.0	11.1	3.6	-0.9 [11]	25	0.864	0,871	0.873	31
27.	Malta	5.4	4.0	3.6	0.2	22	0.877	0.883	0.885	28
28.	Georgia [12]	14.1	13.9	11.6	5.2	-	0.771	0.783	0.786	70
29.	EU	10.7 [13]	7.6 [14]	6.3 [15]	1.4	-	-	-	-	-
30.	World	5.64	5.57	5.4 [16]	2.3 [17]	-	0.722	0.729	-	-

Unemployment rate. According to the 2019 census, the unemployment rate in Georgia was 11.6% (Table 2, Fig 2A). Georgia's unemployment rate is lower than only two EU member states - Spain and Greece, according to 2019 data, 14.1 and 17.3% respectively. The unemployment rate in Georgia was high compared to all other EU member states, almost two times higher than the EU average (6.3%) and the world average (5.4%). In 2015-2019, the unemployment rate fell by 2.5%, from 14.1% to 11.6%. In the same period, in Spain it decreased by 8%, in Greece - by 7.2%, in the EU - by 4.4%.

The study of unemployment rate indicators and trends shows the unfavorable situation in the Georgian labor market. Unfortunately, this figure still does not meet the requirements for EU membership.

Core inflation. In 2020, the core inflation rate in Georgia was 5.2% (Table 2, Fig 2C) . It is higher than the corresponding inflation rate for most EU member states. Deflation occurred in some EU countries: Greece (-1.6%), Estonia (-1%), Cyprus (-0.9%), Ireland (-0.6%), Portugal (-0.16%), and in most EU member states (in 22 out of 27 states) the core inflation rate is below 2%. Georgia's rate is about four times higher than the EU average (1.4%) and about 2.5 times higher than the world average (2.3%).

As mentioned above, one of the requirements for a country wishing to join the EU is the stable financial markets. The presented data show that at this stage of economic development, Georgia

doesn't meet the criteria of the proper functioning of financial markets of the country wishing to join the European Union.

Human Development Index (HDI). To compare and evaluate the level of economic development and trends of the country with similar indicators of EU countries, it is important to assess the capabilities, living standards, and well-being of citizens. For this purpose, we use Human Development Index (HDI), developed by the United Nations Development Program (UNDP) [18]. According to the 2019 report, Georgia lags far behind all EU countries and ranks 70th among 189 countries (Table 2, Fig 2D). Georgia currently qualifies as a country of high human development. At the same time, all EU countries are in the very highly developed group. If we look at the numbers, Georgia's human development index is 0.786. Bulgaria and Romania, EU member states with the worst performance, both with the same HDI of 0.816, rank 52nd. Even more alarming is the inequality-adjusted figure, which shows a decrease of 12% and an HDI value of 0.692. As for the trends, in 2010-2019 [19], Georgia improved by only four positions (according to the 2010 report, Georgia ranked 74th with a value of HDI 0.689) [20]. According to Louise Winton, Head of the United Nations Development Program (UNDP) in Georgia, "Georgia's performance in improved living standards for its citizens is being undercut by inequality." [21]

Thus, by analyzing the Human Development Index, we can conclude that one of the challenges of meeting EU membership criteria remains the low level of living and welfare of citizens, as well as the high degree of inequality of living standards.

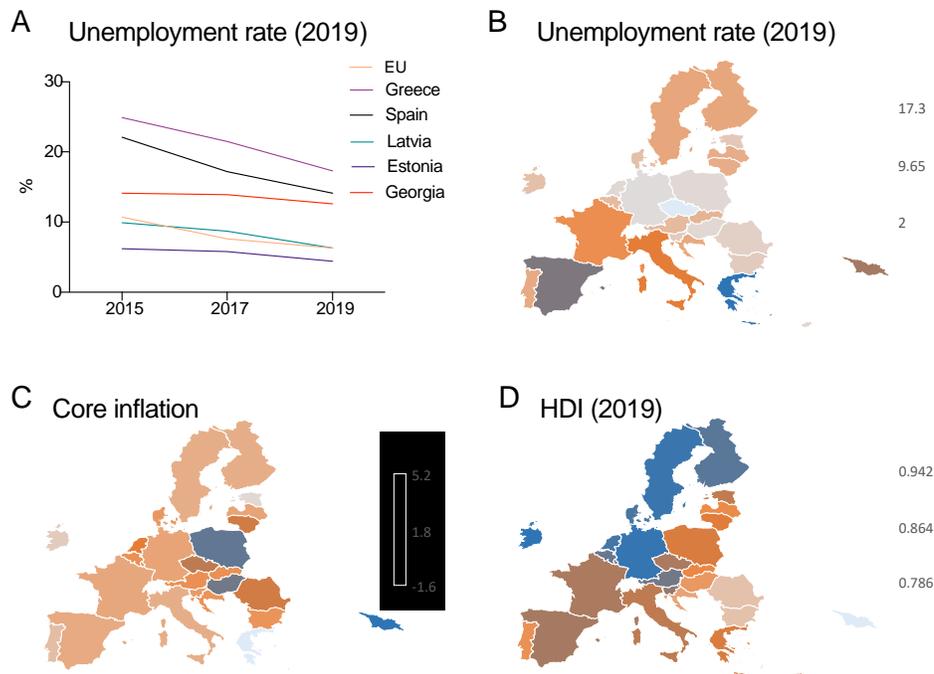


Figure 2. macroeconomic and human development indexes of EU countries and Georgia. A-B Graph representation and geographic heatmap of unemployment rates of EU countries and Georgia. C. Heatmap representation of Core inflation rates (2020) in EU and Georgia. D. Human Development index values.

The present paper does not include the analysis of the other important factors in the country's macroeconomic stability, such as national debt, government deficit, foreign trade balance, and other indicators. Georgia's struggle in this area may become a barrier to meeting the criteria for Georgia's accession to the European Union and full integration into the union.

The data presented in the paper provides an opportunity to draw some conclusions. In particular:

- ✓ terms and date of Georgia's main aspirations of EU membership, depend on our country's rapid economic development capacity, along with the fulfillment of other requirements.
- ✓ Georgia's current state and trends of economic development, unfortunately, still do not meet the Economic criteria for joining the EU.
- ✓ The Government of Georgia, with the involvement of the general public, scientists, Georgian and foreign experts, should develop a concrete strategic model of economic development, which will not change in parallel with changes of government and ensure real results in terms of both general and inclusive economic development.

Georgia must use the unique opportunities for progress in European integration (Association Agreement, Free Trade Agreement, visa liberalization) more effectively.

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