Section 3. Regional economy

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GEORGIA AND THE CAPACITY TO COPE WITH COMPETITION AND MARKET FORCES IN THE EUROPEAN UNION: EVOLUATION IN THE PRISM OF, "COPENHAGEN CRITERIA"

Abstract. The aim of the paper is to determine the compatibility of Georgia with the economic sub-criterion of the "Copenhagen criteria", such as the capacity to cope with competitive pressure and market forces within the Union. In this regard, a comparative analysis of the relevant economic indicators of Georgia and the candidate countries for EU membership and determination of the main directions for ensuring these criteria.

Based on the 2021 evaluations of the European Commission in the direction of meeting the economic criteria for joining the European Union by the candidate countries and the comparative analysis of the official statistical data of Georgia, an opinion is expressed that Georgia as a whole meets the economic criteria set for the candidate countries, while the pace of progress is low and it is necessary to take more effective measures.

Keywords: Economy of Georgia, Accession criteria, Copenhagen criteria, Economic criteria.

"***Copenhagen criteria*".** As it is known, for the membership of the European Union, countries must meet the political, economic and institutional criteria ("Copenhagen criteria"). The economic criteria to be eligible to join the EU are: the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union. We discussed the existence of a functioning market economy in the previous work [3, 20–22], as for the capacity to cope with competitive pressure and market forces within the Union, It includes the following issues: a sufficient amount of human capital, education, research, innovation, and future developments in this field; a sufficient amount and quality of physical capital and infrastructure; changes in the sector and enterprise structure in the economy, including the role of SMEs; a sufficient degree and pace of economic integration with the Union, and price competitiveness [2].

"Georgia and Copenhagen criteria".* Competitiveness in the European Union. *A sufficient amount of human capital, education, research, innovation, and future developments in this field. Over the past 20 years, Georgia has continuously improved its competitiveness (albeit at a slow pace) to keep up with the EU and to withstand market forces. However, the lack of entrepreneurial and technological knowledge, unmet investment needs in human and physical capital, and low costs appear to be obstacles in this way. There is a positive dynamic in the improvement of energy and transport infrastructure, in the use of digital communications. The reforms implemented during the past period have created a solid foundation in the field of education. Georgia became a part of the Bologna process in May 2005 and successfully implements measures to harmonize higher education with European standards. The country has established a policy focused on adapting training programs to business requirements. However, entering the labor market remains a challenge. The market continues to indicate a lack of relevant practical skills in the workforce. The problem remains, in most cases, the inconsistency between the education documents and the acquired knowledge.

A sufficient amount and quality of physical capital and infrastructure. As for the amount of physical capital and infrastructure, it should be noted that the share of total capital formation in GDP has decreased by 2020 (to 23.9%) compared to 2015 (26.3%), The main problem is the scarcity of new technologies, insufficient level of investment and low access to finance. By 2020, the volume of direct foreign investments reached the lowest level since 2005 (0.6 billion US dollars), by 2021 it experienced a significant increase (1.2 billion US dollars), although it still did not reach the pre-pandemic level [4, 94]. In addition, it should be noted that the growth rate of investment inflow from the European Union is low. In the last decade, the conditions for the entry of foreign investments have somewhat deteriorated, This was facilitated by the suspension of a number of ongoing large projects and the exit of the investor already in the post-launch phase. Accordingly, the share of direct foreign investment in GDP has significantly deteriorated to 1.2% (somewhat better than Turkey's – 0.6% and almost the same as North Macedonia's 1.9%) [1, 30; 60;].

Changes in the sector and enterprise structure in the economy, including the role of SMEs. The sectoral structure of the economy is stable. According to the data of 2020, the processing industry has a high share in the total output of 20.0%, the share of the industry as a whole – 25%, the share of agriculture, forestry and fish farming – 7.3%, construction – 12.7%, wholesale and retail trade – 12,0%, healthcare and social services 4.7% [8, 24]. It has not undergone significant changes during the pandemic. worth bearing in mind that small and medium-sized businesses play an active role in the country's economy, both in terms of income and employment. In particular, according to available official data, by 2020, the share of large businesses in the production of products was 40.3%, medium-sized businesses – 27.1%, and small businesses – 32.5%. 48.2%, 29.7% and 22.1% in fixed capital, and 37.2%, 21.7% and 41.2% in employees [5, 39; 96; 110].

A sufficient degree and pace of economic integration with the Union, and price competitiveness. Although Georgia has positive dynamics in the direction of trade development with EU countries, the EU is still not its main partner. The main reason is technological backwardness of Georgia and low competitiveness of products. After the association agreement, higher rates of development were expected in this direction, but this did not happen. Since 2013, the share of Russia in foreign trade has been increasing, which indicates orientation towards a less competitive market and contains a number of threats.

By 2020, the share of the EU in exports has slightly decreased compared to the pre-pandemic period (22%), however, by 2021 this decrease is significant, and the share of the EU in exports is only 16.9%. The main partners are the countries of the Black Sea Economic Community Organization (55.3%), as well as the CIS (47.6%). The EU's share in imports is 23%. In terms of foreign direct investments, the European Union is the main partner of Georgia (about 350 million US dollars). Before the pandemic, its share was 32% (2019), 2020–57%, 2021–28.5% [9].

As can be seen from the comparative analysis of the main economic parameters of Georgia and the EU membership candidate countries, the main economic indicators of Georgia are generally compatible with the corresponding indicators of the EU membership candidate countries. However, despite the positive dynamics, individual indicators are still negative. In particular, the economy of Georgia is still less competitive for the EU market, despite the economic reforms and changes implemented over the last 20 years, the level and degree of integration of the country's economy with the EU economy is lower than expected.

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