

**УПРАВЛЕНИЕ НА ФИНАНСОВИТЕ ПРОБЛЕМИ НА ОТВОРЕНАТА
ИКОНОМИКА НА ГРУЗИЯ, СЪОБРАЗНО УСЛОВИЯТА ЗА
ПРИСЪЕДИНЯВАНЕ КЪМ ЕВРОПЕЙСКИЯ СЪЮЗ**

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**MANAGEMENT OF FINANCIAL PROBLEMS OF GEORGIA'S OPEN
ECONOMY IN TERMS OF ASSOCIATION AGREEMENT WITH THE
EUROPEAN UNION**

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Abstract

The study of the article is the financial environment of the open economy of Georgia, which aims to identify the problems in the financial and economic sphere of Georgia, and the goal of researching the article is to set the appropriate ways of solving these problems.

The methodological basis for the study of the article is a complex approach that has made it possible to determine the characteristics of the financial environment, to stimulate attracting foreign investments and determining factors that may be hindering. In the course of the research, methods of abstraction, induction and deduction, statistical data generalization, gathering, grouping, analysis and synthesis were used.

Keywords: *Open economy, financial environment, financial problems management, foreign investments, economic processes*

JEL Codes: *F15, F36, F64, H12, E22*

1. Introduction

Under the globalization and internationalization of the modern world economy, no state can provide sustainable economic development and high level of social well-being without establishing active trade-economic relations with other countries. Moreover, it cannot be achieved without close cooperation with regional economic integration. Due to the rapid technological backwardness and dependence on the industrialized countries of

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the developing and transition economies (including Georgia), it is becoming increasingly important to deepen their relations with the countries of the bilateral and multilateral co-operation. At the same time, the lack of local capital and the necessity of importing it from foreign countries will depend on the growing trend of their economy on highly developed countries and regional economic integration.

Under globalization of the world economy, countries develop an open economy that is difficult to manage with its partner countries' economies with foreign trade-economic, financial, scientific, technical, political and social channels. Similar to other countries, Georgia also develops an open economy, with the management of which is associated with many financial problems. To deal with these problems, our country cannot independently, without active cooperation with regional economic integration. In order to balance the positive and negative consequences of globalization, it is recommended by international financial - economic institutions and activities of large transnational companies. Such a manner transformation of their economic interests according to sovereign state's domestic economic policies. On the other hand, sovereign states, with globalization in the face of economic security, mitigate, we must take the following economic activities: production growth, stimulate the production of export products, the openness of the economy to regulate the volume of production of goods and services increase, which will compete with the global head of states from their importation (Abuselidze, 2012). From this point of view, Georgia's cooperation with the European Union is very important in the Association Agreement. According to this agreement, the quality of goods and services produced in Georgia should be increased at the level of EU standards.

2. Problem formulation

Chronic deficits of foreign trade and financial balance sheet, high growth of external debt, high unemployment, low purchasing power of the population, high level of businessmen, political and economic instability, crime, corruption, Bar Nations abuse, and a devaluation of the currency. Sh. It is important to overcome the problems of our country's cooperation with the European Union, to ensure the recommendations proposed by this regional integration.

It is obvious that deepening of cooperation with developing countries is vital for developing countries and countries with transition economies, due to their backwardness in technological development. At the same time, the scarcity of capital and import from its developed countries is the basis for the development of their economies.

Cooperation between foreign trade, capital international movement and scientific and technical cooperation is developing in the relations between developed countries.

No one in the world can secure sustainable economic development without foreign economic ties. From this point of view it is clear that Georgia is interested in joining the

EU, but why is the EU interested in Georgia? The interest of EU Georgia is determined by: geographical position of our country, importance of postcommunist transformation, etc. While foreign trade of Georgia is suffering from chronic shortage. Exports of commodity products are dynamically rising during the last 25 years, but at a faster rate the import is increasing. As a result, the export of goods registered in 2017 amounted to 2728 million dollars, and the imported goods amounted to 7982.7 million dollars, while the foreign trade deficit amounted to -5254.7 million dollars (www.geostat.ge foreign trade).

In the aftermath of national independence (1990s), Georgia has suffered a chronic deficit of balance sheet of financial accounts, as the population's low income is low in internal savings. Foreign investments are attracted directly from abroad. This indicator reached the maximum significance for the last 25 years in 2017 and amounted to 1 861.9 million dollars, and in 2016 it was 1565.9 million dollars (www.geostat.ge direct foreign investments).

According to the parity of our country's proportion of purchasing capacity in 2013, the earnings earned 8040 dollars while in Armenia it was 8140 dollars, in Azerbaijan - 18180, in Russia - 23200, in Turkey - 18760 dollars (www. geostat.ge GDP, national income). This means that incomes of neighboring countries and their purchasing power is greater than in our country, e. Found. People live better there.

In 2016, the income in Georgia amounted to 7400 dollars, according to Parity Benefit per GDP per capita. According to this indicator, Georgia is ranked 139th in the world ranking and it is greatly exposed to countries such as Armenia, Turkmenistan, Belarus and Azerbaijan. In 2009, Georgia's GDP per capita in terms of parity purchasing capacity per capita amounted to GEL 5440, in 2010 - 5730 dollars, in 2011 - 6140 dollars, in 2012 - 6760 dollars, and in 2013, this figure reached \$ 7040. (www. geostat.ge GDP, national income).

The welfare of the population depends not only on the amount of money, but also on how much money this money can buy, how much bread, meat or other products can be purchased by a certain amount of money. In Georgia and the United States, the same amount of goods that were taken and counted, it turned out that 60 USD is enough to buy the product that America needs about 100 dollars. That's why if the US has a monthly income of \$ 1000 and Georgians - 600 dollars, they will be at one level (www. geostat.ge prices, inflation). At current prices, Georgia may have higher GDP per capita than the population, for example, Armenia, but what prices are in Armenia and Georgia, according to the rating. Here's one more factor to consider: how well this welfare is distributed, but it does not reflect the rating (www. geostat.ge GDP and National Income).

How equally is this wealth distributed in society? If this goodness is concentrated in the hands of a small part of society, it turns out that oligarchs live well, and most of them are in poor condition. If prosperity is more or less distributed, then we can assume that the society is homogeneous and there is a greater chance for the welfare of the

population there. Inequality in Georgia is twice as high as in many other countries. "For instance, in Georgia, we have to take 10% of the highest income, i.e. 450,000 people, their income ratio is the lowest income of 450,000 people is almost 18 times more. (www. geostat.ge living standard, minimum wage). This difference in Germany is a maximum of 8 times more. The income level and the level of inequality in Georgia per capita indicate that most of the population lives better than the absolute majority of our population in those countries.

In addition, there is a danger that eco-nomics stimulus will help to create an unopordinary structure due to improper calculations. One of such problems is the attitude of one of the particular economies of Georgia. Perhaps the threat may be exaggerated, but we think that resources can be mainly on tourist sites, perhaps a threat. More than half the employed in Georgia works in agriculture. However, the added value added by them is only 8% of the total value added. Clearly, the analysis here shows that Georgian agriculture cannot compete in any market of foreign countries and economics.

There are several reasons for this state of farmers and agricultural products. Among them can be distinguished: 1. Deterioration of land in agriculture; 2. Loss of traditional markets; 3. Low level of technical and technological equipments; 4. Low level of innovation; 5. Absence of quality monitoring systems. In Georgia, after the independence of the country, the land reform started to be the first step. Sadly, the land ownership was handed over to "Land-peasants" with a Bolshevik slogan. Farmers were given land to farmers (each plot of land was about 2500 m², and in total the farmers received 1-1.5 ha of land, but they found themselves in their hands with the naked hands of the agricultural lands, and the agricultural techniques were robbed. The land was so small that there was no possibility of large scale harvesting Sebobda.

Without cooperatives succeeded in a competitive market. It should also be noted that competitiveness in agriculture is one of the cornerstones of the country's food security. In many small, EU countries agriculture produces not only agrarian products for this country but also the share of agriculture in export. The quality of production of Georgian products to European standards will remain the main condition of the national strategy.

The quality of Georgian production at the modern stage, according to a number of parameters, cannot meet European standards. In order to enhance it, it is necessary to outline the factors of the quality of our country's product. At the modern stage, the quality of Georgian products to the level of European standards are as follows: 1. Low low savings and low level of internal investment; 2. High interest rate and non-tariff barriers on credits; 3. High energy efficiency of manufactured products and higher price after energy independence; 4. Low technological level; 5. The oldest device; 6. Cheap but unqualified workers; 7. Monoculture, agriculture oriented to the former Soviet market; 8. Resource dependence; 9. Weak Infrastructure.

In addition, Georgia has a positive effect on the quality of product quality, the following are the following: 1. Cheap labor; 2. Climatic conditions; 3. Geographical location; 4. Liberal legislation. In order to improve the quality of production produced in Georgia, it is important to carry out such measures as the currency rate, and, therefore, the stabilization of prices, decrease of taxes, decrease in share savings, decrease interest rate, etc. All of these require adequate macroeconomic policies. Based on our goals, we should briefly review the role of financial-budgetary and monetary instruments in upgrading to quality standards.

Table no. 1. Dynamics of export and import of Georgian products in the EU in 2010-2017 (Million USD)

years	2010	2011	2012	2013	2014	2015	2016	2017
export	309,19	424, 45	352, 95	607,204	624,201	645,214	572,133	646,451
import	1466,6	2050,76	2428,75	2266,26	2371,98	2080, 9	2 215,13	2198,18
disbalance	-1154,4	-1626,3	-2075,8	-1659,0	-1747,8	-1435,7	-1642,9	-1551,7

Source: Revenue Service of the Ministry of Finance of Georgia. www.mof.ge

Table 1 shows the export-import dynamics of Georgian products in the EU in 2010-2017. This interval of time is interesting that Georgia has not yet signed the Association Agreement with the EU until 2014, and after 2014 it has been in cooperation with this Agreement. In 2014 customs restrictions were lifted to the EU in the European Union, but the lack of non-tariff barriers remained in control. As shown in the diagram, export growth has been characterized by 2014, and it has doubled in comparison with 2010. After 2014 the amount of exports has not changed significantly, compared to \$ 73 million in comparison with the previous year in 2016, but the 2015 figure was restored in 2017. The continuous maintenance of the export of Georgian products to the EU in 2014 was due to the contradictory effect of the following two factors: 1. The European Union's demand for Georgia's product quality, which slowed the export growth and reduced its lending rate by 2.3 lari (which positively affected export growth. The impact of the Association Agreement has slowed the trend of growth of Georgian products exports to the EU in 2014.

In 2010-2014, the volume of imports also increased as compared to 61% in the interval of time, imports not exceeding 2018, but reduced significantly (by 7.25%). As regards EU reducing imports in Georgia, it was largely due to currency factors. As shown above, the signing of the Association Agreement has significantly reduced Georgia's trade balance with the EU.

This was due to the fact that the E-Roach in the framework of the Association Agreement has only eliminated customs duties on the way to import of goods from

Georgia, which reflected the prices of Georgian products imported to the EU. Georgian products had a high level of competitive competitiveness already. Georgian products in the EU market prevents the level of competitiveness according to quality. In this regard, the situation has not improved, the EU implements the same quality standards for imported products from Georgia, which is difficult to satisfy Georgian products. Therefore, in 2010-2017, Georgia's trade deficit with the EU was growing up to 2012, only in 2013, it was \$ 14,177 million dollars - \$ 14,47,8 million dollars.

What should be done to make Georgian products in the EU market? In this regard, it is interesting to study Estonian experiences where the share of agriculture sector has been reduced by almost 80% in 9 years at the initial stage of postcommunist transformation. The situation is improving after the reforms implemented in 1998. In particular, the new law was adopted after the phytosanitary sector, direct tax scheme and investment subsidies. This was accompanied by negotiations with the European Union and the World Trade Organization, among which are export subsidies. The financial support of the EU was created in 1998 for the agricultural sector, which would provide credit guarantor function for farmers in case of insufficient provision.

In this regard, Switzerland is among the developed countries in the first place according to subsidies directed towards the agricultural sector. It means subsidies in both agricultural and income sectors. For instance, in 2003 farmers' contributions (Producer Support Estimate (PSE) amounted to 74% of the total revenue received from agricultural products. The same rate is 32% in the EU. Orientation from fixed prices at the direct support policy was made. Direct aid includes two types of assistance: first - direct assistance of farmers - all farmers who meet certain conditions (ecological management practice - prestations écologiques requises - PER.). This is a compensation of the constitutionally defined tasks such as providing social structures in rural areas, maintaining the natural environment and ensuring supply of food products. Second, direct ecological assistance can be obtained by the farmers who voluntarily adhere to the ecological requirements rather than their law or ecological management practice. In 2002 the new policy of agriculture was adopted by the Parliament (AP 2002), which envisaged linking the farmers with direct assistance to the environmental products of ecologically pure products. The ecological standards defined by the farmers are required to be provided (for example, the use of pesticides and fertilizers and conditions of animal storage). The number of direct ecological benefits has increased significantly in 1999-2001, but still has little share in agricultural support.

The Association Agreement with the European Union implies economic integration with the integration of European countries and explains the EU market for Georgian entrepreneurs. In particular, the import tax on agricultural products was abolished. Implementation of the DCFTAs between Georgia and the EU on Deep and Comprehensive Free Trade Agreement will enable Georgia to improve its sanitary, phytosanitary and animal legislation. This kind of reform gives us the opportunity to

make Georgian food products more secure, as the EER's food safety standards are high and strict.

This event will increase the export of agricultural products to the EU, not the world market. Within the Association Agreement with the European Union Georgia will create a chance to get additional benefits that will improve the sanitary and phytosanitary standards in Georgia. Specifically, these are: 1. The sum of the car insurance will become higher and higher; 2. It will safeguard the health of consumers, as the product of high quality products makes it possible to spread diseases. 3. Georgian food products will be upgraded to international standards and will facilitate simplified legislative processes in relation to the EU. 4. The quality of the product increases sharply increases the potential potential of wind winds and credibility in international markets.

Georgia has taken a commitment to harmonize its own legislation with European sanitary and phytosanitary legislation, which is defined by the agreement on Deep and Comprehensive Free Trade Area with the European Union. In six months since the entry into force of the Georgian sanitary and phytosanitary rapprochement with the European Union, Georgia has elaborated a list of legislative acts within the framework of which Georgian legislation should be approximated to the European Union. Ministry of Agriculture, National Food Agency and other sectoral ministries are involved in the improvement of legislation.

According to the agreement, Georgia has identified 366 legal acts of the European Union. Including: food safety, micro-biological indicators of food safety; State control of food / animal food; Business Operator Recognition procedure; Food hygiene rules; General principles of food safety system; Identification of beef meat and its products; Maximum limits of residual substances, pollutants and pesticides; General requirements of materials touching food; Adjustment of food supplements.

Deep and Comprehensive Free Trade Area with DCFTA - DCFTA is the most important part of the Association Agreement, which explains the EU market for the production and service sector produced in Georgia. The DCFTA has been launched since September 1, 2014. Thus, the commodities generated in Georgia will be opened by the Eurobazar, which at this stage unites 28 countries and more than 500 million customers. Food production has been established with high standards of safety.

These standards will have to be taken by those companies who want to export food from Georgia to the EU. For this, they need to study the requirements, regulations and specifications related to the specific product and take care of the preparation of appropriate documentation before exporting. In this process the importance of laboratories recognized by the respective institutions of the EU will be very important in Georgia, which will have the power to inspect and certify the product. Exporters should pay attention to the quality of goods.

Quality standard is directly on the trading network or distributor, so exporters should take the information from the Partners in Europe. In recent years there is a

growing demand for products that are presented in ecologically clean environment, using less chemicals. Georgia, in its natural conditions, has the opportunity to take its own niche in the EU market and offer its customers a natural product.

The generalized system of preferences, the essence of which is the reduction of basic import tariff rates on imported goods from the beneficiary countries. Georgia is a beneficiary of generalized system regime of countries such as: EU, USA, Japan, Canada, Switzerland and Norway. The free trade regime implies the release of trade between the Contracting Parties and the Customs-Import Tax, except the exceptions. Georgia has free trade regime with the Commonwealth of Independent States and Turkey.

3. Research results

Depending on the above, we can say that there are a number of financial-economic problems in the Open Economy Management-Ment in the framework of the Association Agreement with the European Union, which include:

1. Georgia has a negative trade balance in trade relations with the EU. Exports will be increased, however, increasing the import is increasing;
2. Products made by Georgian companies do not meet the requirements of the European Union aspirant countries;
3. Unfortunately, the export of Russia is not unchanged in Georgia's export revenues, especially for wine, mineral waters and agricultural products;
4. Unfortunately, the level of unemployment is still high in Georgia;
5. Unfortunately, the level of food security is still low,
6. Regrettably, Georgia is still unwilling to utilize full transit potential for the European Union of Asian cargo in terms of European cargo shipments.
7. There is no political freedom in Georgia; political power brought by the majority mandate in the government does not have a serious account of the demands of the opposition as well as the population;
8. Unfortunately, the rights of voters are violated because the principle of "one person - one vote" is violated because the winner politicians of the elections enjoy no vote but with the right to vote, the voter has also voted for him in the elections.

4. Recommendations to tackle the problem

In order to eliminate the existing problems in the field of open economy management in the framework of the Association Agreement with the European Union, you should take the following measures:

1. In order to bring national legislation and practices to the level of sanitary and phytosanitary measures to meet the European level, our country needs financial and technical support from the EU.

2. Implementation of the Association Agreement with the European Union shall be abolished according to the category of many tariff products, at the same time shall be effective and effective use of non-tariff barriers.

3. Harmonization of the Georgian legislation with the European Union should be made in order to make the transition phase easier for the entrepreneur. A new space should be created for local EU legislation.

4. In the fields of technical barriers, sanitary and phytosanitary control of trade, the reform of the Georgian Reform will be adjusted to the requirements of the "Deep and Comprehensive Agreement on Free Trade".

5. Recognition and protection of personal and political rights of human, freedom, democratic values, and territorial boundaries of the country by the Georgian authorities and executive bodies.

5. Conclusions

Management of an open economy, the financial problems are identified, the appropriate measures can be set up to eliminate: in particular, still have to be developed and implemented in the short-term, quick impact such measures, such as: reduction of administrative and bureaucratic barriers, effective protection of property rights and their economic Acts, equal starting conditions and economic openness. These problems can be resolved with relatively easy and lower costs, since they depend on the political will of adopting the relevant legislative acts. The next step should be to develop and implement long-term effects such as: implementation of principles of economic democracy, radical changes in the economic base, radical conversion of the population awareness, economic growth of the nation, etc. which require more time, material, labor and financial expenses.

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