Working Paper

Free Trade Agreements: Remedy for (under-) Development? The Case of Georgia and the European Union[1]

Salome Topuria[2] and Tato Khundadze

Introduction

The collapse of a socialist model, massive deindustrialization, and the loss of means of production in the 90s left Georgia in socio-economic disarray. Transition governments - especially after the mid-2000s - started to seek fast solutions for promoting economic growth through extensive liberalization and seizing foreign capital through the privatization of public assets (Gugushvili 2016). Openness to free trade and negotiating multiple free trade agreements became one of the main principles of the economic development agenda. State reforms were inspired by neoliberal economic thinking and since 2004 deregulation, large-scale privatization, and labour market reforms have been on the policy agenda for attracting foreign direct investment (FDI).

The Association Agreement (AA) between the European Union, its Member States, and Georgia came into force in 2014 provisionally, and fully in 2016. AA consists of 8 parts, referred to as 'Titles I-VIII' with the corresponding 432 Articles provisioning regulatory approximation of Georgia to the EU-selected norms and standards. Deep and Comprehensive Free Trade Area (DCFTA)[3] is only a part of the AA, specifically regarding trade and trade-related matters. Most of the DCFTA and parts of the AA related to economic cooperation "impose a binding obligation on the partner country to apply, implement or incorporate in their domestic legal order a predetermined selection of EU *acquis*[4], which is annexed to the agreement" (Van der Loo & Akhvlediani, 2020, p. 4). While the AA is an extensive document covering issues on foreign and security policy, political and economic cooperation, justice, transportation, energy, etc., DCFTA is the largest and the most meticulous part of the AA. "The general purpose of the AA is to deepen political association and economic integration between the EU and its associated partners. To achieve this objective, the DCFTA provides far-reaching and progressive regulatory alignment with EU legislation in trade-related areas and foresees gradual reciprocal market opening" (CEPS, 2022, p. xi).

[1] This working paper is based on the outcomes of the research project: "Neoliberal Lock-in: Why Georgia-EU Free Agreement Doesn't Work" conducted in 2022 by Khundadze and Topuria
[2] Presenting author
[3] Hoekman, (2016) notes that what the letter A in the DCFTA acronym stands for is not always clear, as both the European Commission and analysts interchangeably use either 'areas' or 'agreements'.
[4] As defined by Hoekman: EU norms and legislation—i.e., competition policy, social norms, provisions to support free trade in services, etc.

To this date, the European Commission lists[5] 78 countries with bilateral trade agreements that are already in place, 24 countries with adopted agreements that are not in place yet, and 5 countries with the on-going negotiations. It is important to highlight that these agreements are not identical and the EU's trade policy has changed over time. While it is beyond the scope of this paper to analyse the EU's legislative norms, trade regimes or economic mechanisms it uses in the broader context, we aim to scrutinize *to what extent has the DCFTA been a right trade and economic policy tool in the context of Georgia.*

Against this background, the paper is organized as follows: Chapter 1 provides a macroeconomic overview of the post-Soviet Georgian economy. This is followed (Chapter 2) by trade dynamic analysis. Chapter 3 pinpoints the four most critical clauses of the DCFTA, namely, Technical Barriers to Trade (TBT), Sanitary and Phytosanitary (SPS) Measures, Liberalization of Services, and Public Procurement, to reveal their role for Georgia's exports and broader economic development. After asking, (why) was DCFTA important? Chapter 4 analyses the domestic class dynamics and reveals deeper structural struggles that have shaped (and maintained) Georgia's post-Soviet development path. Finally, the paper concludes.

1. Georgia in the post-Soviet Reality: Macroeconomic Overview

Since gaining independence, Georgia has been under the permanent neoliberal lock-in, characterized by a high unemployment rate, massive outward migration, persistent negative trade balance, and heavy reliance on FDI and tourism. Theoretically, the lock-in effect is a state of equilibrium, which is difficult to replace even if it is detrimental to the developmental goals of a nation. The concept originates from natural sciences, also frequently used for describing technological and policy changes.

The unemployment rate in Georgia has been persistently high, on average 18% since 1998. Some experts claim this figure is underestimated and it conceals the unemployment problem by including subsistence workers in the employment category (Kakulia and Kapanadze, 2016). The share of self-employed workers in total employed was 30% in 2021, which is double the self-employment rate in the EU, where it was 15% in 2019. Besides that, Georgia persistently has suffered from underutilization of labour supply: the composite measure of labour underutilization was 39,3% in 2021, which includes time-related unemployment and actual unemployment. This composite measure of labour underutilization captures the underutilization problem of labour supply more thoroughly in developing countries due to the high informality level in comparison to developed countries (ILO, 2018). Furthermore, in its reports, IMF (2021) indicates a mismatch between drivers of GDP growth and employment. Four sectors (finance and insurance, construction, real estate, accommodation and food services) contributed around 40% to Georgia's output growth in 2021, employing less than 13% of the working population. This indicates that Georgia's economic development model is structurally inclined toward jobless growth. Alongside a dramatic decline in industrial production FDI is perceived as the most important source of

[5] For more details, see EU's Trade Negotiations and Agreements

investment and job creation in the country. However, the manufacturing sector received only 5% of total FDI in 2017, while the share of the financial sector and the construction sector in total FDI reached 16 and 15 %, respectively (Godar et al 2018). Furthermore, tourism industry that has been prioritized by the Georgian government only contributed to 5.2% of GDP, financial sector 5,1%, construction sector 8,5 % in 2019.

The macroeconomic and demographic consequences of such a model are highly problematic. On the one hand, domestic socio-economic hardships have induced the so-called 'brain drain', depriving the country of productive labour. Destruction of the local economic core, large-scale privatization and political instability contributed to massive outflow of population of Georgia. It has shrunk by 25 % since 1994. On the other hand, stagnating domestic production, low foreign exchange earnings due to low exports and over-reliance on imports left the country with annual current account deficits. Georgia constantly needs to seek ways for external finance. In addition, it is highly dependent on remittances. Remittances in Georgia reached 14,2 % of GDP in 2021, which was much higher than the FDI relative to GDP same year (6,3 % of GDP) (World Bank 2021). As a matter of fact, the role of remittances has been so important for the economy that in 2015 Georgia went into economic recession as the remittances from Greece, Italy and Russia dropped significantly. Remittances - together with FDI and earnings from tourism - have been a primary source of foreign exchange in Georgia. While this tendency helped Georgia to avert the balance of payments (BoP) crisis, it is crucial to question the long-term feasibility of such a model.

Figure 1 shows the GDP of Georgia by categories of use. It demonstrates that the final consumption expenditures occupy the core of the national economy, while the share of investment is modest. Plus, consumption-to-GDP ratio was increasing in recent years, and growth of consumption in real terms was higher than growth of real GDP[6]. In other words, Georgia follows a type of economic model, where the main driver of the GDP growth is consumption, which in turn is backed by foreign remittances and household credit-boom.

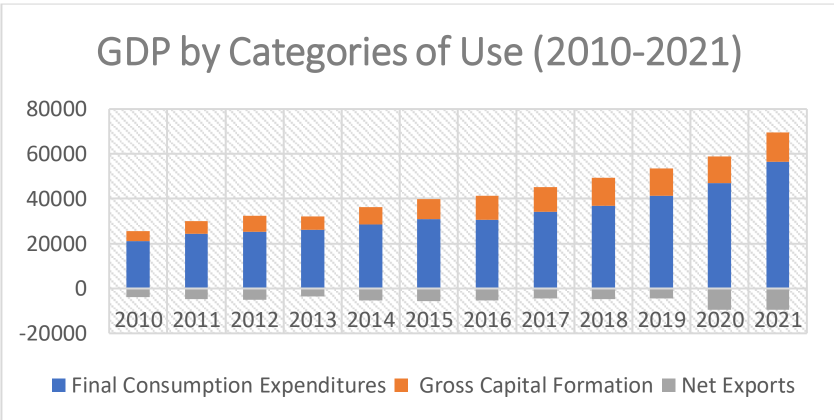

Figure 1. GDP by Categories of Use, source: GEOSTAT, 2022

The existing model of economic development is unable to solve the unemployment and underemployment problem. The country is overly reliant on tourism, foreign remittances and

[6] For more details on consumption-led growth definitions from empirical perspective, see: Kharroubi, E., Kohlscheen, E., Consumption-led expansions, BIS Quarterly Review, March 2017

FDI. Georgia's radicalism in implementing free market policies has not brought reduction in poverty or unemployment. The current condition of Georgian economic state can be best described by the metaphor 'palliative economy' (Reinert, 2006). In the Georgian context, this is the condition, when the existing economic policy does not result immediate destruction (death) of economy, but it locks nations into underdevelopment equilibrium. The hasty introduction of economic principles stipulated by the neoliberal paradigm didn't materialize into a promised, prosperous capitalist model in Georgia. Instead, a peripheral, de-industrialized, debt-driven, and import-dependent model emerged in the aftermath of the post-Soviet transition.

2. Trade Dynamics: Brief Contours

Georgia's overall export to the EU (which includes re-export) has increased by 26% since 2016. However, it is difficult to say, how much this growth tendency stems from the DCFTA itself since total export growth was much higher than the growth of exports to the EU. Furthermore, 26% seems a very small change in comparison to the growth of export to the Commonwealth of Independent States (CIS), which has increased by 172% since 2016. The growth rate dynamics depict that there was no substantial acceleration in Georgia's export to the EU since the DCFTA came into force.

Domestic export[7] is a better measure in terms of impact on local production and employment. The domestic export to the EU countries as a share of total domestic export has declined since 2014 from 22 to 20 percent (Figure 2). There was an upward drift since 2014 (the previous data is not available for the domestic export) in the domestic export to EU countries, however, this variable has stabilized and started to decline in 2020. The share of domestic export to the EU in comparison to CIS countries was consistently lower and has stayed so since the signing of the Association Agreement.

[7] In 'domestic exports', we imply exports excluding re-exports. It is an important variable for those countries where re-export of goods occupies considerable share of total exports (both quantitatively and qualitatively).

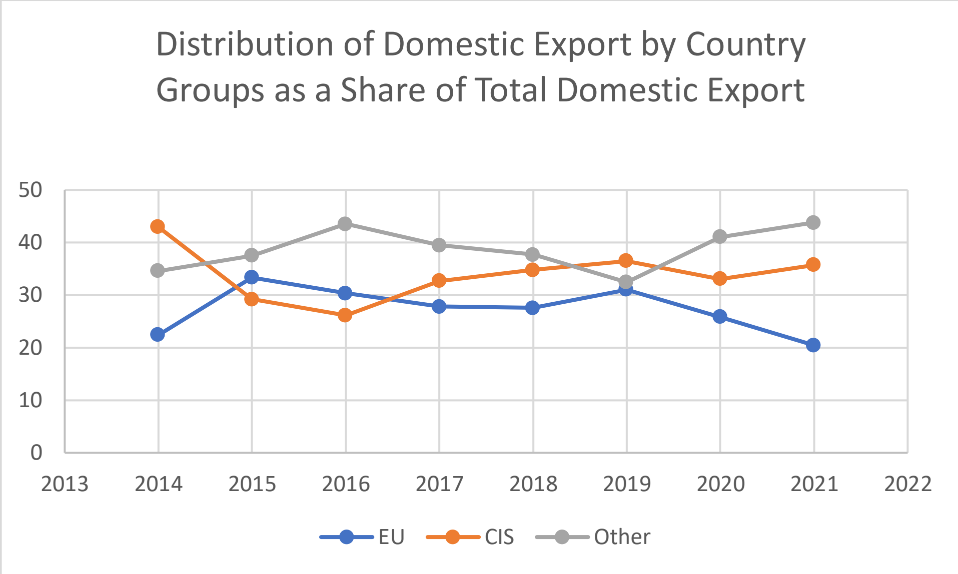

Figure 2. Total Domestic Export Shares by Country Groups. Source: GEOSTAT, Authors' Own Calculations.

Figure 3 adds further weight to the argument that Georgia's domestic export to the EU needs more diversification and a push towards technological upgrade. Specifically, it shows that the top 10 domestic export products occupy around 85% of total domestic export to the EU, which is approximately 4 % points higher in comparison to the 2014 level. More importantly, as the graph shows resource-based and primary products occupy the lion share of this statistic.

HS6	Thsd. USD	Country Group	share2021	Technological Categories
260300 Copper ores and concentrates	314949,92	EU	49,24	Resource-based manufactures: other
080222 Nuts, edible; hazelnuts or filberts (corylus spp.), fresh or dried, shelled	64417,22	EU	10,07	Primary products
310230 Fertilizers, mineral or chemical; nitrogenous, ammonium nitrate, wheth	47320,6	EU	7,4	Medium technology manufactures: process
220421 Wine; still, in containers holding 2 litres or less	27993,73	EU	4,38	Resource-based manufactures: agro-based
720230 Ferro-alloys; ferro-silico-manganese	23674,77	EU	3,7	Medium technology manufactures: process
220110 Waters; mineral and aerated, including natural or artificial, (not contain	20051,2	EU	3,13	Resource-based manufactures: agro-based
080221 Nuts, edible; hazelnuts or filberts (corylus spp.), fresh or dried, in shell	15450,87	EU	2,42	Primary products
442199 Articles of wood, n.e.s.	11383,06	EU	1,78	Resource-based manufactures: agro-based
711299 Waste and scrap of precious metals; waste and scrap of precious metals	10702,12	EU	1,67	Resource-based manufactures: other
711292 Waste and scrap of precious metals; of platinum, including metal clad w	8849,83	EU	1,38	Resource-based manufactures: other

Figure 3: Top 10 Domestic Export Products to EU, data source: GEOSTAT 2022, Authors' Own Calculations

Furthermore, Figure 4 summarizes Georgia's export technological classification to the EU markets for the 2010-2021 period: the left-hand side of the graph portrays shares of different export categories, whilst the graph to the right shows the changes in the shares of technological classification of exports. There is a general tendency for growth in the export of resource-based products: its share has doubled in the export basket since 2010. The share of low-tech products increased substantially, whilst the high-tech products in the export basket stayed intact since 2010. This implies that there is no indication of technological upgrade in the Georgian export basket.

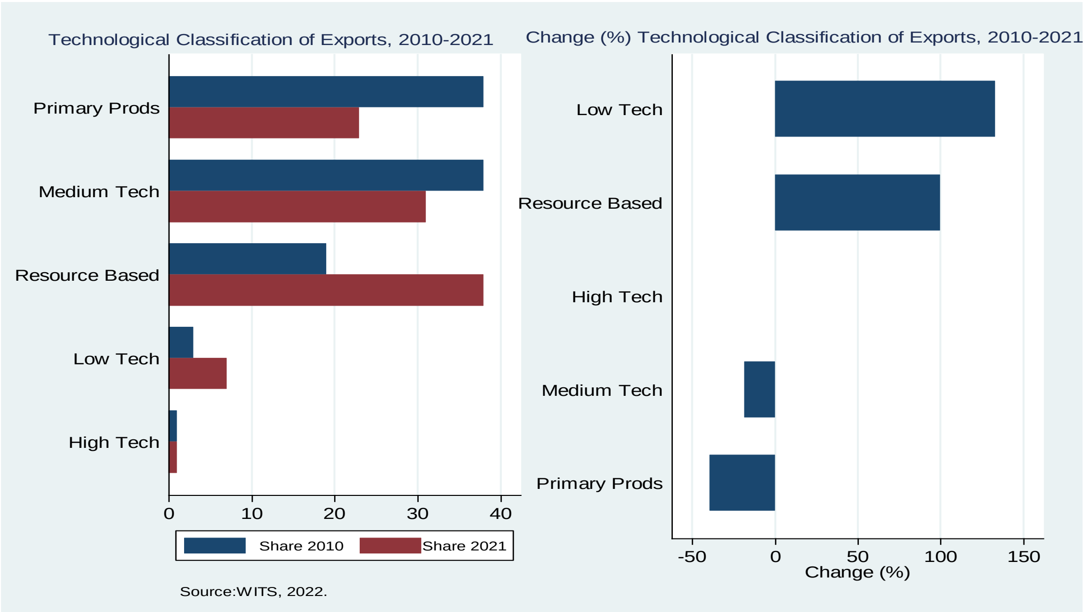

Figure 4: Georgia's export technological classification to the EU markets for the 2010-2021 period. Source: WITS 2022

3. Breaking Down the DCFTA: The Anatomy of Non-tariff Barriers (NTB)

While the DCFTA implies the removal of almost all customs tariffs, the EU has multiple non-tariff barriers (NTBs) in place that affect Georgian exports. CEPS's study (2022) finds that there are 414 non-tariff measures imposed by the EU that might limit Georgia's full-scale employment of a Single Market. This chapter looks at the four most critical clauses, which not only have the capacity to shape trade dynamics between the EU and Georgia but significantly influence Georgia's overall economic development.

Technical Barriers to Trade (TBT)

The chapter on Technical Barriers to Trade (TBT) provisions Georgia's responsibility to meet EU norms for finished goods in accordance with the WTO's TBT Agreement. The chapter also serves as a good illustration of the increasing significance the DCFTA places on an adaptation of the EU *acquis*. For example, Article 47 (AA, L 261/ 20-21) states that Georgia shall: "progressively approximate its legislation to the relevant Union acquis" and it "progressively transposes the corpus of European standards (EN) as national standards" and "simultaneously with such transposition, withdraws conflicting national standards".

The main argument behind the approximating process is that EU standards will "increase the potential for Georgian industrial production to become more modernised and internationally competitive" (CEPS, 2021, p. 68). However, unlike Moldova and Ukraine, Georgia did not sign DCFTA's Agreement on Conformity and Assessment and Acceptance of

Industrial Products (ACAA) (AA, Article 48, L261/21). The latter would have alleviated some of the additional conformity assessment measures and simplified the free movement of Georgian industrial products. It is important to mention that the ACAA obligates a partner country (Georgia) to solely import those industrial products from third countries, which meet aforementioned EU standards. Considering that the vast majority of industrial goods are imported from China and CIS, a full approximation of the TBT clause (and ACAA chapter) and a consequent increase in trade costs would have made these imports more expensive[8]. The latter was also the reason why the ACAA was not to concluded (CEPS, 2021).

Sanitary and Phytosanitary (SPS) Measures

The Chapter on Sanitary and Phytosanitary (SPS) Measures provisions Georgia's approximation to the EU's health standards and safety norms regarding food, animal, and plant products. As imagined, approximating the Georgian regulatory system in the SPS measures to the one of Union's well-established norms is a complex, lengthy, and expensive process. While the government must implement the regulations and then make sure there are appropriate institutions, laboratories, or other supervisory state bodies in place, Georgian small and medium-sized enterprises (SMEs) have to make sure they adopt and comply with the EU-regulated standards regarding food product hygiene and safety. The EU is providing technical and financial assistance (EU4Georgia, 2022), however, the funds intended to help establish the 'EU-like' system are neither enough nor adequately targeted. For example, a project "Ensuring further progress of SPS and food safety system in Georgia" which runs for 2 years facilitates funding for 1,4 million euros. The financial resources are not sufficient, undeniably. Moreover, the funds are mainly dedicated to promoting 'good governance', enhancing institutions, or assisting municipalities, while tackling structural problems of the economy are often ignored.

A gradual convergence to the Union's SPS measures also implies uneven distribution of opportunities, a rise in costs for the local SMEs, and certain cases, their stagnation. Apart from the implementation of national legislative standards in food, animal, and plant products, the Agreement necessities sector-wide approximation, which is the biggest challenge both to the government and to local firms (CEPS, 2021). Basing their argument on the case study of Tunisia's DCFTA negotiations, Riahi and Hamouchene (2020) claim that the legal harmonization mechanisms put forward by such agreements give competitive advantages to the EU companies. Signing countries must adhere to the European standards if they want to export to the EU, this however, puts domestic and non-EU producers, who do not have the relevant certification, in an inferior position.

[8] For more details CEPS, 2021 pp.68-73

Liberalisation of Services

The DCFTA not only implies liberalisation of trade in goods, but also in services. A rather detailed and extensive chapter (largest chapter of the DCFTA) is dedicated to defining, explaining, and provisioning rules on liberalisation of services. While it is neither our intention nor is it feasible to address all details of the DCFTA chapters[9], we do detect a prevalent feature that spans across the entire Agreement: power asymmetry reinforced by various clauses. The chapter on liberalisation of services is no exception.

Article 79 (AA, L 261/38) necessitates both the EU and Georgia to implement national treatment (NT) and most favoured nation (MFN) treatment for establishment[10] (individuals as well as legal entities) in services. The same Article mentions the so-called 'reservations', implying that the EU has a list of sectors and economic activities where national treatment and MFN treatments do not apply or are substantially restricted. This is a critical issue because the list is long and specific. It covers horizontal reservations in investment, types of establishments, real estate acquisition and ownership, etc., as well as sectoral reservations for economic activities in agriculture, mining, manufacturing, etc. (AA, Annex XIV-A, L 261/203-216). Moreover, some of the constraints apply on the Union-wide level and some (additional) reservations are member-specific. This cherry-picked approach is a good demonstration of the asymmetric power constellations the DCFTA reinforces; it also discloses the EU's (and Member States') ability to protect sensitive domestic sectors even through a free-trade agreement.

It must be mentioned that Georgia also has a right to reservations[11] under the DCFTA (AA, Annex XIV-E), however staying loyal to neo-liberal trends and mainstream economic values, Georgia has long relaxed its regulatory framework. Consequently, the EU has 161 reservations in place regarding national or MFN treatment on the establishment in services, while Georgia has only 32 (CEPS, 2021). The implication is that while the European enterprises and / or individuals are able to carry out various economic activities in Georgia (they will be given national treatment or MFN treatment), the same cannot be achieved by the Georgian counterparts in the EU.

Public Procurement

Public procurement is one of the most important policy mechanisms countries can use in order to assist domestic companies. This is especially helpful in the case of developing countries as it enables them to provide growth opportunities for local SMEs. As a matter of fact, state procurement has been utilized as part of industrial policy for protecting infant industries and / or for developing them, in multiple cases (Chang and Andreoni, 2016).

[9] A detailed overview of the DCFTA's legislative norms has been carried out by CEPS (2021 and 2022)

[10] DCFTA defines establishment (L261/37): a) juridical persons (enterprise) - the right to take up and pursue economic activities by means of setting up, including the acquisition of, a juridical person and/or create a branch or a representative office; b) natural persons (individual) - the right of natural persons to take up and pursue economic activities as self-employed persons, and to set up undertakings, in particular companies, which they effectively control.

[11] For example, Georgia's horizontal reservation for privatization states: An organization, in which the Government's share exceeds 25 %, has no right to participate as a buyer in privatization process (market access limitation).

Exploiting this mechanism becomes cumbersome when a country concludes Free Trade Agreement (FTA) that typically contains a national treatment clause in the public procurement chapter. The reason is clear: FTAs entail opening to foreign capital, hence no longer it is allowed to give special treatment to national companies. The Georgian-EU DCFTA follows this rule.

As per DCFTA, Georgia took upon a responsibility to reflect the EU acquis in its public procurement law. This implies substantial changes in the current law, amending up to 34 legislative acts[12]. With the starting point in 2016 - the process has five phases obligating Georgia to implement pre-selected corresponding legislation. Only after the finalization of one phase has been successful Georgia is permitted to move to another phase. The latest report by CEPS (2022) reveals that the approximation process has significant delays. Georgia only managed to complete the first phase so far.

The implication for Georgia is that it has no national policy space to help domestic companies through a state procurement mechanism if it wanted to. Neither does it possess a full right to access the EU procurement market. And even if the rights were granted, Georgian companies do not have the ability to compete with their EU counterparts.

4. DCFTA: (Why) Was It Important?

Agreement on trade liberalization between Georgia and the EU was in place before the DCFTA. The pre-existing Generalised Scheme of Preferences (GSP)[13], which was granted to Georgia in 1995 as well as the following GSP+[14] implied the removal of import duties for up to 7200 Georgian products (Meskhia and Seturidze, 2013). Therefore, DCFTA did not, and could not have changed much vis-à-vis import duties and market liberalization. The distinctive feature of the DCFTA was that it necessitated Georgia to initiate national policy reforms in areas that reduced the cost of trade for firms. Except, since the mid 2000's Georgia had already implemented a number of institutional and legislative reforms significantly deregulating the economy (Monasterski, 2007). Hoekman (2016) notes that adopting EU *acquis* and standardization mechanisms makes economic sense for a partner country that has a large share of trade with the EU. Georgia does not. As a matter of fact, it was observed already in 2012 that Georgia was failing to enjoy GSP+ preferences to its full extent and only 34 Georgian goods used this arrangement. Furthermore, "73% of total goods exported under this arrangement came to nuts and mineral fertilizers; in 2011 this figure stood at 84% and in 2010 – it exceeded 70%"(Meskhia & Seturidze, 2013, p.1420).

Against the backdrop of the existing economic structure, it made little economic sense for Georgia to sign the DCFTA. Why, then, was Georgia so keen to sign the Agreement?

[12] For more details, see: Law on Public Procurement, Georgia
[13] The EU's GSP removes import duties from products coming into the EU market from vulnerable developing countries
[14] Georgia's inclusion in the EU's European Neighbourhood Policy (2004). In 2008 GSP was prolonged to GSP+ which entailed further tariff reductions and support for sustainable development and good governance (Meskhia & Seturidze, 2013)

Political Elites and Discursive Power

Georgian political leaders have changed throughout the years, but their narratives on Georgia's historic mission to escape the Soviet/Russian[15] past and return to the 'European family' have remained constant. This line of argumentation was equally articulated by the former president when DCFTA negotiations were commenced in 2011 as well as years later, by the current PM when it was signed: "Today Georgia is given a historic chance to return to its natural environment, Europe, its political, economic, social and cultural space." (civil.ge). Ironically, these highly abstract and contested concepts were often used to justify very concrete but extensive economic liberalisation processes that have been unveiled in the country since the mid 2000s. Complex notions such as 'Liberalism', 'Westernisation' or 'Europeanisation' were frequently condensed into simple economic messages: in order to get closer to the EU and West, Georgia needs to further deregulate its economy.

The unconditional trust in markets and mainstream economic ethics is certainly not emblematic of the current government only, neither it is accidental. It rather spans the whole post-Soviet period and epitomizes a very specific political agenda that embodies, legitimizes, and protects the material needs of the specific political and business class that hardly can be distinguished from one another. Demeaning and reducing the role of the state in economic development has become a prevalent characteristic of the transition governments.

It is often argued that Georgia's post-Soviet development trajectory was 'natural' because of the cataclysms created by the fall of a system. This paper argues the contrary – there was nothing natural about it, rather, it came about as a result of political decisions which on the one hand ostracized complex industries, and on the other hand deliberately campaigned for services, the finance sector and tourism. In the early years of the transition, Georgia went through periods of conflict and massive chaos, during which the emergence of crime and the robbery of factories became common. However, the deliberative move not to keep the former-Soviet division of labour is connected to the 'identity' politics of nationalism and not to the theft. Bohle and Greskovits (2012) righteously show that during transition periods some countries (Visegrad group, Slovenia) chose to embrace their post-Socialist legacies, which entailed the mobilization of 'substantial resources to compensate for the transformation costs of domestic firms inherited from socialism, and to pamper in their infancy and later assist the expansion of new transnational industries'(ibid. p.22); while others (Baltic states) chose to reject all the things connected to the Soviet Union, adhering to 'national identity' politics: 'they stressed the need for leaving the East as fast as possible, emphasized the merits of a clear break with socialism's worthless or outright dangerous legacies, and belittled the economic and social losses caused by neoliberal restructuring' (ibid. p.72). These choices were legitimized by political narratives such as returning to the West, hence to 'normality'. The authors conclude that the Visegrad states embraced their past by *embedding neoliberalism*; and by rejecting it, Baltic states fell into 'pure neoliberalism'. The analysis of the Baltic 'trend' could certainly shed light on Georgia's transition as well, at least, partially. With powerful symbols playing on national identity and sovereignty (that entailed the introduction of a national currency, new national flag, national hymn, etc.) from the early 2000s, Georgia tried to scrap its Soviet past

[15] Often used interchangeably in Georgia

and its legacies; subsequently, it started to implement rapid liberalization policies in order to overcome political and economic cleavages and get closer to the West. Yet - perhaps more importantly – a political decision to adhere to 'nationalism' went hand in hand with the implementation of an economic regime that largely benefited local political and business elites or the comprador bourgeoisie[16] (rentier oligarchs[17]).

On the other hand, the EU is often criticized for using free trade agreements in order to maintain its economic hegemony in the wider region of the European Neighbourhood. For instance, Riahi and Hamouchene (2020, p. 10) describe DCFTAs as a "tool amongst other 'cooperation instruments' being strategically deployed to reaffirm the EU's hegemony over its less-industrialised peripheries". More broadly speaking, free trade agreements are frequently regarded to be reproducing new forms of imperialism at the expense of the Global South (Chang, 2007; Chang and Andreoni, 2016;) and entail the exploitation of workers both in the Global North and Global South (Herr, 2019; Stiglitz, 2019).

5. Final Reflections

Reliance on free trade and FDI does not automatically lead to development. Developing countries lack industrial capacities and technologies (to mention few), hence imposing trade liberalization at the early stage means that these countries most certainly will end up engaged in the asymmetric distribution of power, which constantly reproduces dominance of the core economies. Academic literature (Chang 2002, Hauge & Chang 2019, Rodrik, 2004, Chang & Andreoni, 2020, etc.) has shown that throughout the history of capitalism, countries that have achieved economic development was always through industrialization. A few countries that managed to realize economic development in the post-WWII period - the "Asian Tigers" and China - did it through active and targeted industrial policies. By implementing strategic policies, which entailed both: local capability-building and R&D investments as well as usage of foreign capital and technologies, they managed to protect infant industries and diversify export baskets and manufacturing, leading to the 'catch-up' industrialization. It is crucial to have an institutionalized industrial policy for a transition country such as Georgia. However, currently, development strategy faces new challenges and constraints relating to climate change, financialization, and restrictions induced by the WTO and FTA rules. Moreover, Georgia's peripheral position and its dependence on foreign capital vastly challenges the monetary sovereignty of the country in order to mobilize domestic resources. Therefore, modern, and sustainable industrial policy must embed these issues. Additionally, the existing neoliberal paradigm has clear winners in Georgia: political and business elites who benefit from the status quo. Debates on industrial policy therefore cannot ignore state-class relations and embeddedness of broader social conflicts and struggles.

Without strong industrial policy and redistributive mechanisms, new economic activities will not emerge. It means that the FTA with the EU will not play the "magic stick" role, and it will not rescue the Georgian economy from the ruins created by the 30 years of

[16] Drahokoupil (2008) defines comprador service class as domestic forces linked to foreign capital who were transformed into major elite segments with considerable influence in the post-socialist CEE region.
[17] Riahi & Hamouchene (2020) define rentier oligarchs as the outward-looking political elite.

neoliberal economic experiments. The DCFTA may further undermine the socio-economic fabric and maintain the existing policy lock-in as the agreement often propagates those very discourses that got Georgia into a stagnant economic position in the first place. With the continuous emphasis on the technical side of the legal harmonization process, the DCFTA downplays the importance of the much-needed structural economic transformation of the country. Furthermore, some of the most critical clauses of the DCFTA reinforce economic power asymmetries – reproducing the economic hegemony of the EU while putting Georgian SMEs in an inferior position. FTAs tend to strengthen new forms of imperialism, exploiting natural resources and labour in the less-developed peripheries. The EU policy towards countries such as Georgia should be based on the idea of shared prosperity and support of inclusive economic development, specifically, via promoting industrial and income and wealth redistribution policies.

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