

FOREIGN POLICY & SECURITY PROGRAMME

***Prospect of Deep and Comprehensive
Free Trade Area (DCFTA) – Is there a
European Way for Georgia?***

Tamar Khuntsaria

PhD Student of International Relations
Ivane Javakhishvili Tbilisi State University

*CSS project “Graduate Programs at the Faculty of Social and Political Sciences
at Iv. Javakhishvili Tbilisi State University”
Grant Code: E0476*

Contents

Introduction.....	3
Georgia’s Current Development Model.....	4
The EU’s DCFTA	6
Convergence “a la carte”	7
“Paper partnership”	10
Conclusion	12
About the Author	13
References:.....	14

Introduction

The negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) with the European Union (EU) are an important element of the current agenda of the EU-Georgia relations. Political dialogue between the Government of Georgia and the European Commission on DCFTA commenced soon after the August war in 2008 and aimed at opening official negotiations on DCFTA once structural and policy reforms set forth as preconditions by the EU were launched in Georgia. Early in 2010, official Tbilisi asserted that it had made a substantial progress with respect to the Commission's preconditions. Nonetheless, the Commission postponed the opening of official negotiations to January 2012 and announced DCFTA to be an integral part of the projected Association Agreement (AA) with Georgia – a far reaching and ambitious, and therefore, a lengthy document to conclude.

DCFTA together with AA represents the bilateral dimension of the EU's Eastern Partnership (EP) initiative launched at the Prague Summit in May 2009 with the objective to support political and socio-economic reforms in the EU's six eastern neighbours: Georgia, Armenia, Azerbaijan, Belarus, Moldova and Ukraine. The EP embodies the Eastern dimension of the EU's European Neighbourhood Policy (ENP) and Action Plans (AP) extended individually to the EU's eastern partners to help fulfil the provisions of the EU's earlier foreign policy instrument, the Partnership and Cooperation Agreement (PCA). Compared to the EU trade scheme currently offered to the Eastern European states, Generalised System of Preferences + (GSP +), the DCFTA envisages not only mutual lifting of all trade barriers but also harmonization of economic laws and regulations with those existing in the EU. Therefore, it has strategic importance for the countries interested to engage in free trade with Europe.

This paper offers analysis of the possible impediments to concluding a DCFTA with Georgia. My arguments are based on three major factors hindering the process: First and foremost, Georgia's long term economic development model is uncertain. The country's ruling elite, dominated by an influential libertarian group, maintains the government's ambivalent attitude towards the two fundamentally different 'European' and 'Singaporean' models of country's development. It is argued here that becoming a second Singapore is an obscure prospect for Georgia and that the best possible alternative for the country's long-term sustainable development is to follow the European path. Second, the Government of Georgia is unenthusiastic about implementing the EU preconditioned 'deep and comprehensive' regulatory reforms due to high convergence costs. Instead of targeting long-term sustainable economic growth, official Tbilisi proceeds with marginal reforms and uses the possibility of the EU approximation as a political tool to sustain the EU's political support and aid. Third, the EU's 'enlargement-lite' and technocratic policy along with its limited conditionality towards unfulfilled reforms in Georgia further encourages the government's "selective convergence" and hesitance to decide firmly and ultimately on the European way.

The paper first discusses the current mode and direction of the country's economic development and offers analysis of the two fundamentally different development models of Singapore and the EU in the context of Georgia. Next, the paper reviews the background of launching DCFTA negotiations and the level of the governing elite's commitment to the reforms required under DCFTA process. Finally, it discusses the EU's various programmes in Georgia and the extent to which these programs have influenced the reform process in the country.

Georgia's Current Development Model

Georgia's late Prime Minister, Zurab Zhvania's words "I'm Georgian, therefore I am European" stated at the Council of Europe as the chairman of the Parliament back in 1999, charted Georgia's foreign policy agenda for the next decade. Since the "Rose Revolution" in 2003, Georgia's new government has proclaimed its European identity and made EU integration a major foreign policy objective. The "Rose Revolution" in Georgia raised expectations and hopes in the West. However, a few years after acquiring political power, President Mikheil Saakashvili and his cabinet altered the pro-European discourse.

Presently, the mode and direction of development of Georgia is unclear. The President and high ranking officials promote the so called 'Singapore' model of development, which implies maximum deregulation of the market aiming to attract investors and tourists. But, on the other hand, the government takes steps to become compliant with the EU for the final goal of European integration. President Saakashvili regularly voices his and his government's aspiration to take Georgia back to historically beloved Europe and at the same time build a state following the example of Singapore.

In February 11, 2011 during his appearance in front of the Georgian Parliament, President Saakashvili made contradictory statements. On one hand he stated that Georgia would need 6-7 years to reach what Singapore has reached, which meant that in 2017-2018 Georgia would have a Singapore type of economy, while simultaneously he added in his speech that the country will reach a free trade regime with the European Union by 2015. As Georgian economic expert Lado Papava notes "one target precludes the other, if in 2015 Georgia achieves a free trade regime with the EU then very clearly the country will not be able to achieve a Singapore type model country in 2018".¹

For more clarity the two radically different Singaporean and the European development models are discussed in the context of Georgia the next section.

Singapore

Building "the Singapore of the Caucasus" sounds catchy and interesting, but if one takes a closer look it is nothing but propaganda. Georgia has no possibilities to become a Singapore for a number of reasons. First, Georgia may be a small country, but it is by no means a city-state and hence it faces entirely different infrastructural, demographic and social challenges than Singapore. Second, the foundation of the Asian Tigers' economies was technological breakthrough, which Georgia will not be able to make on its own. For example, there is no such scientific, technological and educational basis in the country yet.² Third, although it is true that Georgia has the potential to become a transit country for energy resources and other goods, unlike Singapore it can be done only on a very small scale. Fourth, Georgia is not independent financially, rather it depends greatly on the large amounts of international aid (the flow of which is currently declining) that it receives by portraying itself as democratic and pro-Western. Last, the political stability and security that made Singapore the place of choice for investors and tourists remains an immense concern in Georgia.³ No matter how much the government spends on spectacular commercials in international media, or to what extent Georgia's 12th place in the World Bank's 2010 "Doing-Business Report" and 26th place in the "Index of Economic

¹ Lado Papava, The Messenger, http://www.messenger.com.ge/issues/2314_march_11_2011/2314_econ_one.html, March 2011

² Giorgi Khukhashvili, Sergey Demidenko, Georgian Times: <http://www.georgiatimes.info/en/interview/37841.html>, July 2010

³ Zbigniew Dumienksi, "Georgia: Singapore of the Caucasus", <http://www.eurasiareview.com/21022011-georgia-singapore-of-the-caucasus/>, Eurasia Review, July 4, 2012

Freedom” compiled by the American Heritage Foundation is publicised, Georgia may not easily convince the outside world that it is a stable and safe place to make long-term investments.

A recent report by Thomas De Waal, a Caucasian expert at the Carnegie Endowment for International Peace notes that the idea “...envisaging Georgia as another “Singapore” open to worldwide investment, has many supporters, especially from the still influential libertarian group who believe that Georgia needs maximum deregulation. But foreign investment is currently falling in Georgia and this model would not solve deep problems such as rural poverty and high unemployment.”⁴

Obviously, the strategy of building another Singapore does not seem sustainable. Although Georgia has had considerable success in emulating Singapore’s political model, the economic side of the model is failing due to investor uncertainty. Foreign investment worried about the country’s institutional weakness and political risk is rapidly shrinking. The World Bank data indicators suggest that FDI in Georgia declined from \$1.75 billion in 2007 to \$973 million in 2011.⁵

The rationale behind the government’s preoccupation with the Singaporean model based on attraction of FDI and tourists is to benefit from immediate economic gain allowing the ruling elite to portray Georgia as fast-growing and viable economy. Unfortunately, though, such economic strategy does not always generate enduring economic impact. Tourism and FDI are unstable revenue sources given that they are vulnerable to instability in the global economy. Therefore, diversification of economic activity (e.g. development of agriculture and export, replacement of imports with domestic production) is essential for Georgia’s long term economic stability.

However, the country’s present administration hardly follows such a strategic development path. The European Commission latest progress report on Georgia is pessimistic about Georgia’s agricultural development, stating that production has continued to decline in 2010 and that “the major constraints (e.g. lack of consistent sector strategy, weak public services, fragmented supply chains, limited access to credit, outdated production techniques, etc.) remain so far unaddressed.”⁶ Matthias Jobelius, the Friedrich-Ebert-Stiftung’s Regional Representative for Georgia, Armenia and Azerbaijan in his April 2011 report also posits that: “As Georgia’s resource situation favours an agrarian economy, one would expect the government to focus on developing the agricultural sector. However, this sector’s yields continue to dwindle from one year to the next... Whilst the import of agricultural products has more than doubled between 2004 and 2008, there has been a decline in exports over this period.”⁷

Thus, in a short term perspective the Singapore’s development model looks attractive: It does not require extensive reforms and regulations and at the same time brings immediate economic gain. However, in long run this economic model is unstable and unpromising in the given Georgian context.

⁴ Thomas De Waal, “Georgia’s Choices. Charting a Future in Uncertain Times”, Carnegie Endowment for International Peace, 2011

⁵ World Bank data: <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>

⁶ Implementation of European Neighbourhood Policy in 2010. Country Report: Georgia, the European Commission, May 2011

⁷ Jobelius Matthias, the Friedrich-Ebert-Stiftung’s Regional Representative for Georgia, Armenia and Azerbaijan, Report on “Economic Liberalism in Georgia: A Challenge for EU Convergence and Trade Unions”, April 2011

The EU's DCFTA

While Singapore's development model does not seem sustainable in Georgia, the European approximation promises a long term but stable and incremental growth of the country economy.

Deepening trade with Europe and diversifying export markets has become vitally important for Georgia since the 2006 Russian embargo and 2008 war with Russia, which ultimately closed the immediate vast market for Georgia. Even if trade is reopened with Russia, it is highly probable that its market will remain unstable and unpredictable for Georgia due to the existing political/security context. Therefore, for sustainable development of Georgian export it is crucial to penetrate the EU market, which is one of the largest, relatively stable and at the same time strictly regulated market in the world.

It is important to note that currently the EU is Georgia's one of the main trading partners. At present a nearly 17.4% share in Georgia's overall external trade involves trade with the EU.⁸ According to Eurostat, total trade growth was steady in 2007 and significantly increased in 2008, in particular as regards Georgia's exports (+ 62.7%). After a decline in 2009, bilateral trade grew during 2010. The EU exports to Georgia increased by 31.6% compared to the previous year, while exports of Georgian products to the EU increased by 7.1 %. However, bilateral trade with the EU and notably Georgia's exports still remain low. Eurostat indicates that in 2011 the EU imports exceeded exports about 5 times in Georgia.⁹ There is a need for further diversification of Georgian exports, which remain concentrated in a few commodities of low value added (in particular, mineral products formed 71.8% of Georgia's exports to the EU in 2010).¹⁰

Georgia's current trade scheme with the EU, the EU Generalised System of Preferences (GSP+) which the country has enjoyed since 2005, has not had the desired impact on growth in the Georgia's exports to the EU markets. The GSP+ implies removal only of tariff barriers and does not deal with existing non-tariff barriers (such as strict food safety standards or sanitary and phytosanitary requirements) in trade with the EU. These challenges in trade between the EU and Georgia are met by DCFTA as it offers not only deeper market access but also opportunity for necessary legal and institutional reform. In order to mark its exceptional and far-reaching ambitions, the future free trade agreement with Georgia has been called 'deep and comprehensive'. Traditionally, standard free trade agreements foresee mutual opening of markets for goods and services. Deep and Comprehensive FTA will go much further – if EU recommendations are endorsed, Georgian trade and trade-related legislation and standards will be made compatible with those of the European Union, which will have a lasting economic, political and social impact.¹¹

To ascertain costs and benefits of a future DCFTA between EU and Georgia, the European Commission contracted the Centre for Social and Economic Research (CASE), which conducted a feasibility study in 2007-2008. The CASE study concluded that since the liberalization of 2006 Georgia has unilaterally eliminated most of its tariffs and already enjoys largely tariff-free access to the EU market (GSP+), an EU-Georgia Simple FTA would bring very small additional welfare effects to Georgia. At the same time,

⁸ Geostat: www.geostat.ge

⁹ Eurostat: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113383.pdf

¹⁰ Implementation of European Neighbourhood Policy in 2010. Country Report: Georgia, the European Commission, May 2011

¹¹ Ambassador Konstantin Zaldastanishvili, Eastern Partnership Community, 02.08. 2011
<http://www.easternpartnership.org/community/debate/prospects-deep-and-comprehensive-free-trade-agreement-between-georgia-and-eu>

according to CASE study, the possibility of economic benefits from the EU-Georgia DCFTA could reach 6,5% of GDP; over the next 5 years Georgia's export would increase by 13,5 %; textile production - by 55%; metallurgy – by 30%; wood production – by 21%; chemical, rubber, plastic goods – by 19%; fruit, vegetables, food products and beverages – by 4%.¹²

However, in line with a number of above stated benefits, which imply legal and institutional approximation to the EU standards, expansion of Georgia's export and overall improvement of the country's economic performance, DCFTA also sets conditional requirements, the satisfaction of which incurs high convergence costs. The Georgian government has to complete an immense reform. In addition to surrendering political and economic power, such a reform would involve the allocation of ample financial resources in order to proceed with required legislative and institutional reforms.

Lack of clarity on the development model

The discussion of the two fundamentally different economic doctrines shows that it is impossible for the country to follow both development strategies simultaneously. Building the Singapore type of economy implies deregulation of market, disregard of production and agriculture, and accent on the attraction of tourists and investments. The European model embodies heavy regulatory convergence, and focuses on the development of production and agriculture, and export of local production.

It is therefore questionable whether the current political elite knows in which economic direction it is going. The matter is not only the government's discursive inconsistency. The Georgian administration does not have a logical and consistent gradual and solid plan which would determine the direction the country should take in terms of its incentives and challenges in any of those ways either going west or east.

Convergence “a la carte”

In addition to the lack of clarity on the development model, there is insufficient elite commitment to reforms required under the DCFTA process.

Štefan Füle, European Commissioner for Enlargement and European Neighbourhood Policy at his key address at the 8th International Conference on 'Georgia's European Way' held in Batumi, Georgia on 22 July 2011 stressed that although the 'European Way' might not be the easiest possible way for Georgia, it is the real route to political and economic stability for this country. Füle emphasised that European Way, based on deep democracy, mutual accountability, conditionality and differentiation, or the "more for more" approach, implies above all the choice of adherence to the universal values of democracy, respect for human rights and rule of law. But, importantly, Georgia's European choice is linked to its sustainable economic growth. "If Georgia seriously chooses to pursue this way, it needs to undergo very comprehensive and resolute reforms." – the Commissioner stressed. This certainly does not imply the Singapore's deregulated model.

The progress made during the DCFTA pre-negotiation phase

¹² Centre for Social and Economic Research (CASE) Feasibility Study of FTA between EU-Georgia FTA, 2008 http://www.case.com.pl/upload/publikacja_plik/20963402_rc79.pdf

During the pre-negotiation phase, the European Commission identified four key reform areas as preconditions to the launching of DCFTA talks with Georgia: the transposition of the EU acquis on technical barriers to trade; sanitary and phytosanitary measures; intellectual property rights; and competition policy. All have to be included in Georgian law. In addition, the European Commission, together with International Labour Organisation (ILO), requires a reform of the Labour Code and links this to progress in the negotiations concerning further trade integration between the EU and Georgia. The government of Georgia had committed to the reforms set as preconditions by the Commission to officially launch negotiations. However, the quality of the reforms was (and still is) dubious as the EU recommendations in key priority areas were either not met or not implemented properly.

The Country Report on Georgia – Implementation of the European Neighbourhood Policy in 2010 – published by the Commission in May 2011 summarised the state of Georgia’s preparedness for DCFTA, stating that although some progress was made in drafting and adopting strategies and preparing the necessary legislation in the key regulatory areas, in order to become ready for DCFTA negotiations Georgia would need to accomplish practical implementation of reforms in the key regulatory areas and to build adequate institutional structures and administrative capacity for the negotiating process.

Despite the government’s assertion of fully meeting the EU preconditions, none of the EU recommendations in four key areas were implemented properly and the new laws and institutions did not adequately meet the required standards of the EU regulations. Although six months and two rounds of negotiations (now discussing progress in all 15 areas/chapters) have passed since DCFTA talks were officially opened with Georgia (despite the failure to meet the EU preconditions), the progress on the required reforms is limited.

The Labour Code, a cornerstone of DCFTA recommendations, is far from perfection. According to the EU’s latest country report “in the field of labour rights and core labour standards, the March 2010 report of the ILO Committee on Freedom of Association repeats the ILO’s concern on the implementation of two key conventions, on Freedom of Association and Protection of the Right to Organise, and on Right to Organise and Collective Bargaining.”¹³ To open the official talks on DCFTA it is imperative to comply with core labour standards. This necessitates amendment of the Labour Code and the Law on Trade Unions. If unaddressed, this even puts at risk Georgia’s inclusion in the current GSP+, to say nothing about a prospective DCFTA. Interestingly though, the government appears unconcerned about the labour code problem. The Chief Negotiator on DCFTA from Georgia, Tamar Kovziridze noted in her recent interview with “Tabula” that compared to the Soviet vintage code the current “...Labour Code is good, comprehensible and flexible – of the type Georgia needs at this stage of its development.”¹⁴

The EU’s key recommendations in the areas (preconditioned by the EU to open DCFTA negotiations) of technical barriers to trade, food safety, intellectual property rights and competition policy have been incompletely addressed even though the official DCFTA talks have already been launched.

Georgia has achieved only limited progress in the establishment of a legislative and institutional framework in the Technical Barriers to Trade (TBT) areas compatible with the EU and international standards. The government adopted a Strategy on Standardisation, Accreditation, Conformity

¹³ The conventions may be found at the ILO website: <http://www.ilo.org/declaration/principles/freedomofassociation/lang-en/index.htm>

¹⁴ Tamar Kovziridze: “Bureaucratic procedures are part of the convergence with the EU”, Tabula, 13 April 2012

Assessment, Technical Regulation and Metrology together with a Program on Legislative Reform and Adoption of Technical Regulations in 2010. The Parliament of Georgia adopted the Code on Safety and Free Movement of Products in May 2012. The Code endorsed a significant number of recommendations provided by civil society organizations and European experts, but a majority of provisions were not accepted. A detailed study of the legislation demonstrates that the Code does not greatly improve food safety and consumer rights in Georgia.¹⁵ In addition, setting up functioning institutions to enforce products' safety regulations is still a future challenge.

Serious deficiencies remain in Georgia's sanitary and phytosanitary (SPS) system. The Georgian government adopted a food safety strategy aimed at aligning this sector with the EU and international standards in 2010. The Parliament of Georgia adopted the Code on Food/Feed Safety, Veterinary and Plant Protection in May 2012. But, the results of the implemented reforms in the form of viable institutional and administrative structures are still to be seen. The National Service of Food Safety, Veterinary and Plant Protection in the Ministry of Agriculture is in charge, with responsibility over inspections and controls, but does not effectively perform this function due to inadequate resources (human as well as technical). The National Service also issues export phytosanitary and veterinary certificates, but these are not recognized internationally due to the deficiencies in Georgia's control and testing systems.

In the areas of intellectual property rights (IPR), Georgia has aligned its legislative framework with EU standards. The Parliament adopted the Law on Design in 2010. The amended Patent Law and The Trademark Law entered into force in the same year. Nonetheless, the major problem related to IPR protection in Georgia lies in a problematic implementation and weak enforcement, especially in the areas of piracy and counterfeiting. This is a complex issue related mainly to lack of capacity of law-enforcement bodies and the judiciary to deal with IPR infringements.

To proceed with the reforms in the field of competition, the Parliament of Georgia amended the Law on Trade and Competition in 2012. The Free Trade and Competition Agency (former structural department of Ministry of Economy and Sustainable Development) was reformed into the State Competition and Procurement Agency in the same year. This Agency and supportive legislation are supposed to enforce competition rules and investigate cases. The practice has yet to show how efficient, powerful and independent the reformed structure and amended legislation is. It is still early to judge, but unfair competition rules and a large number of monopolies and cartels still remain on the market (suffice it to mention e.g. the energy, communications and pharmaceutical sectors).

Thus, Georgia had made a marginal progress in all major areas preconditioned by the EU prior to opening the DCFTA talks.

Selective convergence

The concept of DCFTA involves a high level of regulatory convergence. This is the main difference distinguishing this agreement from a simple free trade agreement. However, for the countries not aiming at membership in the EU, and not motivated by this perspective, or even by a stake in the EU internal market, the limits and cost of this regulatory convergence are rather high. The Government of

¹⁵ Statement of Georgian Civil Society Organizations (CSOs) and Experts Regarding the Changes and Amendments to the Legislation on Food Safety and Consumer Rights, Eurasia Partnership Foundation:
http://www.epfound.ge/files/statement_on_food_safety_and_consumer_rights.pdf

Georgia, although inclined to reforms in its political discourse, is yet unenthusiastic in committing itself to substantial changes in its legislature and institutional structures.

The regulatory changes imposed by the Commission in terms of development policy are considered as “burdensome” and “equivalent to taxing Georgian production – endangering her growth, the sustainability of her reforms and of her successful fight against corruption which is so crucial for her long term development.”¹⁶ It is often voiced by the Government that preconditions in sanitary and phytosanitary measures would trigger a significant average price increase for key food products, which “would greatly endanger the political stability and fuel an anti-European sentiment in Georgia.”¹⁷

When introducing the latest ENP progress report in May 2010, Stefan Füle, the European Commissioner for Enlargement and European Neighbourhood Policy expressed concerns that the “ultra-liberal economic environment” in Georgia was not in line with the “pillars” of EU-Georgia future partnership, to which the Georgian president replied that “Europe itself is saying no to what we also might be afraid of – high taxes, broad expenses, excessive regulations and bureaucracy is gradually becoming past. ... The global economic crisis hit a powerful blow to the project of social Europe. I think Europe will make more steps towards free economy and we will eventually meet somewhere in midway”.¹⁸

While the government of Georgia is preoccupied with the EU compliance cost-benefit calculation, European officials increasingly express concerns that the Georgian side went through the motions of starting DCFTA negotiations with the EU only for political reasons but without wishing to make a long-term commitment. This, they say, is why they need to show more evidence of institutional reform. As one EU official put it, “For them the start of implementation is what’s important. For us it’s ‘first action accomplished.’” Another EU official said, “We worry that they are just interested in starting the negotiations because it will attract FDI—but never actually concluding them.” A pro-European Georgian expert, Kakha Gogolashvili, has echoed these fears, saying of the government, “They need DCFTA more as a political label.”¹⁹

The intense approximation process, coupled with the high cost of convergence to EU trade standards seriously reduces the political elite’s willingness to commit fully to the European development path.

“Paper partnership”

The lack of the enthusiasm in the government to align swiftly with the EU standards is further encouraged by the EU’s technocratic policy and limited conditionality with respect to the process of structural and legislative reforms in Georgia.

¹⁶ Group D’économie Mondiale Sciences PO Paris, Centre for European Policy Studies (CEPS) in Brussels and New Economic School of Georgia, *An Appraisal of the EU’s Trade Policy towards its Eastern Neighbours: the Case of Georgia*, 2011

¹⁷ Ibid

¹⁸ “Saakashvili: Act of Economic Liberty Planned in Autumn”, *Civil Georgia*, 21 September 2010. www.civil.ge

¹⁹ Thomas De Waal, “Georgia’s Choices. Charting a Future in Uncertain Times”, *Carnegie Endowment for International Peace*, 2011

Since establishing relations in 1992, the EU has had a rather ambivalent attitude towards Georgia, as it has been undecided about what to expect or what to require from the country apart from hoping that it will be a democratic and stable state near the Union's borders.

The EU's continued "enlargement-lite" strategy offers Georgia the prospect of incremental, long-term political and economic alignment while discouraging any hopes of actual accession. The issue of Georgia's EU membership has never been, is not and will unlikely be on the table in the near future. There is no such level of preparedness in Georgia in any direction, either in democracy building and economic development or in security matters. The EU itself is quite enlargement-fatigued and faces serious challenges in dealing with a severe economic crisis at home and the fragile economies of new members. The obvious unfeasibility of the EU membership limits Georgia's incentives for the regulatory convergence to no more than economic and political cooperation with the EU.

The latest iteration of such cooperation comes in the form of the "Eastern Partnership" (EP), an enhanced version of the European Neighbourhood Policy (ENP), which was launched in 2009 to give greater institutional strength to Brussels' relationship with six of its former Soviet neighbours to the east, including Georgia. The EP aims to complete the Union's foreign policy and deepen political and economic ties with the EU's six eastern neighbours. For each country the EP initiative aims at an Association Agreement that includes: Deep and Comprehensive Free Trade Area (DCFTA); visa liberalization to allow for easier travel to the EU; and measures to tackle illegal immigration.

The past three years (since the launch of EP) have witnessed growing criticism of the EU's new cooperation framework offered to the eastern partners. First, there is a mounting apprehension that the EP is a continuation of the EU's technocratic 'one-size-fits-all' policy and does not sufficiently consider the political and security concerns of the individual partner countries. EP has even been referred to as "paper partnership" - an unfortunate coincidence of the first letters of six partner countries (Belarus, Ukraine, Moldova, Armenia, Georgia and Azerbaijan) creating acronym that in Russian reads BUMAGA. Second, apparently EP does not add to the EU's limited leverage in relations with the partner countries. The EU's top-down governance approach, which is based on socialization (rules and norms transfer) and conditionality (coercive enforcement), is clearly inconsistent with a voluntary idea of partnership. Therefore, the EU's input in the reform process in third countries is limited.

Before launching the DCFTA negotiations with Georgia in January 2012, the EU was linking the possibility of opening the talks with reforms in four sectoral areas discussed above. However, on August 31st 2011, the European Parliament declared its open support for launching official negotiations on DCFTA with Georgia. Official supporting statements were also made at the Eastern Partnership Summit held in Poland on 29 and 30 September in the same year. President Saakashvili personally participated in the summit from which he hoped for "a very serious breakthrough" in terms of Georgia's EU integration²⁰. Despite Georgia's backsliding in regulatory approximation over the past few years, it got a ticket to DCFTA negotiations anyway. The EU's change of position had two possible interpretations. Either the EU attempted to show a strong sign of its reinforced commitment to help advance reforms in Georgia, or the EU continued the usual technocratic policy and made political decision in favour of launching free trade talks with Georgia. Either way, the EU's prevailing "paper partnership" scheme with Georgia along with the Union's limited conditionality, further reduced the incentive of the country's political administration to pay the cost of the required reforms. The EU's

²⁰ "Saakashvili Expects 'Breakthrough' in Georgia's EU Integration", Civil Georgia, 7 September 2011

attitude further accelerated the ruling elite's political manoeuvres for "selective convergence" instead of pushing towards fundamental reforms.

The EU's limited conditionality and lenience towards unfulfilled reforms in Georgia makes it difficult to use political and economic assistance as leverage. For years European officials have negotiated action plans with Georgia and have written reports from year to year that keep criticising the lack of democracy and civil liberties as well as limited commitment to regulatory convergence. Yet, the EU maintains its supportive discourse and assistance. Another reason for the lack of EU leverage is that the actual amount of assistance is rather small compared to the size of Georgia's economy, or compared to the costs of convergence. The government is therefore in no hurry to carry on onerous reforms, though it employs every possibility to use economic or political assistance that comes on its way.

The EU's technocratic policy and its limited conditionality towards incomplete reforms in Georgia is another major factor holding back Georgia's European development and prospect for free trade with the EU.

Conclusion

Concluding a Deep and Comprehensive Free Trade Area and proceeding with closer economic harmonization with the EU requires painful institutional reforms in Georgia to which the current political administration is not inclined. Nevertheless, this is the best possible development alternative currently available to Georgia. The sooner the government acknowledges this and makes relevant political commitments, the better for the country's economic future. If Georgia wants to follow the European way, stronger political commitment to the required reforms is absolutely necessary.

The EU too needs to revise its foreign policy towards Georgia. It should become more responsive to the needs of Georgia. At present, promoting economic and political reforms in return for greater integration seems insufficient to trigger the political elite's commitment to fundamental reforms. The EU should also develop more specific benchmarks for regulatory convergence, and should apply tough conditionality concerning backsliding in the reform process.

At present, the prospect of concluding DCFTA (along with on-going visa facilitation talks) is the EU's biggest carrot available to Georgia as part of continuing negotiations over the Association Agreement. As Tamar Kovziridze noted recently, "...the preparation process was protracted too long. [That was] not because of us; we tried to do everything within the shortest possible time and at the best quality. Whether we like it or not, however, bureaucratic procedures are part of the convergence with the EU. Since the preparatory period lasted so long, we assume that the negotiations will be completed quite soon."²¹ Yet, concluding DCFTA with Georgia is unlikely to be foreseen in a near future. First, the level of institutional and regulatory compliance is quite low in the country and the process of the reform is not going swiftly. Second, DCFTA is now an integral part of the Association Agreement, which implies that, even if signed, DCFTA will not come to force immediately. To conclude the Association Agreement (and therefore DCFTA) each and every EU member state and the European Parliament will have to ratify it. Moreover, an Association Agreement entails regulatory convergence not only in areas related

²¹ Tamar Kovziridze, "Bureaucratic procedures are part of the convergence with the EU", Tabula, 13 April 2012

to trade, but also in social, cultural and most importantly political and security spheres. Therefore, the government's actions in these fields will eventually spill over the outcomes of the DCFTA negotiations.

According to the EU officials, Georgia has gone a long way on its democratic reforms, but the greatest challenge is still ahead. The EU latest progress report on Georgia reads that the country "...needs to accelerate its efforts to consolidate democracy, especially as regards political and media pluralism. The rights and integration of minorities and corruption among high-ranking officials remain areas where more efforts are needed. Other major challenges include freedom of association, labour rights, employment and social policies, poverty reduction and agricultural development."²² These and many other vital issues are at stake currently. But most importantly, it is the upcoming parliamentary elections of October 2012 that will be a litmus test for Georgia's European choice and democracy.

About the Author

Tamar Khuntsaria cooperates with CSS since 2008. Her academic background is in international relations and politics with concentrations in international organizations and public policy. As a recipient of prestigious academic fellowships (OSI, Chevening and Edmund S Muskie) Tamar graduated from the University of Edinburgh (UK) with MSc by Research in Politics and from Bowling Green State University (USA) with MPA. Currently, Tamar is enrolled in international PhD program in International Relations at Tbilisi State University researching widely on the issues of democracy and democratization, rule of law and state building, international influences on democratic development and efficacy of external promotion of democracy. Tamar's professional experience counts more than ten years and includes working at international and non-governmental organizations as a manager and director of various democratic reform and rule of law programs in Georgia. Since 2008 Tamar Khuntsaria is country representative of a Brussels-based EU-Georgia Business Council. Tamar has been actively involved in academia for the past four years. As a recipient of academic fellowship since 2008 Tamar has been teaching at Tbilisi State University courses in International Organizations, EU Institutions and Politics, Qualitative Research Methodology and Methods.

²² Implementation of European Neighbourhood Policy in 2010, Country Report: Georgia, the European Commission, May 2011

References:

“Saakashvili Expects 'Breakthrough' in Georgia's EU Integration”, Civil Georgia, 7 September 2011

“Saakashvili: Act of Economic Liberty Planned in Autumn”, Civil Georgia, 21 September 2010.
www.civil.ge

Ambassador Konstantin Zaldastanishvili, Eastern Partnership Community, 02.08. 2011
<http://www.easternpartnership.org/community/debate/prospects-deep-and-comprehensive-free-trade-agreement-between-georgia-and-eu>

Centre for Social and Economic Research (CASE) Feasibility Study of FTA between EU-Georgia FTA, 2008 http://www.case.com.pl/upload/publikacja_plik/20963402_rc79.pdf

Delegation of the European Union to Georgia
http://eeas.europa.eu/delegations/georgia/press_corner/all_news/news/2008/20080403_01_en.htm

Georgian Journal, “Georgia launches negotiations over free trade agreement”, 1 December 2010

Geostat: www.geostat.ge

Giorgi Khukhashvili, Sergey Demidenko, Georgian Times:
<http://www.georgiatimes.info/en/interview/37841.html>, July 2010

Group D'économie Mondiale Sciences PO Paris, Centre for European Policy Studies (CEPS) in Brussels and New Economic School of Georgia, An Appraisal of the EU's Trade Policy towards its Eastern Neighbours: the Case of Georgia, 2011

ILO website: <http://www.ilo.org/declaration/principles/freedomofassociation/lang--en/index.htm>

Implementation of European Neighbourhood Policy in 2010. Country Report: Georgia, the European Commission, May 2011

Jobelius Matthias, the Friedrich-Ebert-Stiftung's Regional Representative for Georgia, Armenia and Azerbaijan, Report on “Economic Liberalism in Georgia: A Challenge for EU Convergence and Trade Unions”, April 2011

Lado Papava, The Messenger
http://www.messenger.com.ge/issues/2314_march_11_2011/2314_econ_one.html, March 2011

Statement of Georgian Civil Society Organizations (CSOs) and Experts Regarding the Changes and Amendments to the Legislation on Food Safety and Consumer Rights, Eurasia Partnership Foundation:
http://www.epfound.ge/files/statement_on_food_safety_and_consumer_rights.pdf

Tamar Kovziridze: “Bureaucratic procedures are part of the convergence with the EU”, Tabula, 13 April 2012

Thomas De Waal, "Georgia's Choices. Charting a Future in Uncertain Times", Carnegie Endowment for International Peace, 2011

World Bank Data: <http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>

Zbigniew Dumienksi, "Georgia: Singapore of the Caucasus", <http://www.eurasiareview.com/21022011-georgia-singapore-of-the-caucasus/>, Eurasia Review, July 4, 2012