

The Eastern Partnership and Its Effects on Georgian Political Economy

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ABSTRACT Georgia is an important partner for the European Union (EU) in the European Neighborhood Policy (ENP) and its eastern dimension under the Eastern Partnership (EaP). In a wider context, the EaP supports delivery on key global policy goals set by the UN 2030 Sustainable Development Goals and the Paris Agreement on Climate Change. The overall framework guiding the relations between the EU and its six Eastern Partners is provided by the relevant bilateral agreements. Within the framework of the European Neighborhood Policy, the EU and Georgia signed an Association Agreement. The main objective of this study is to answer the following research question: What are the effects of the EaP on the political economy of Georgia? It is argued that the formulation of the EaP provided an impetus for the push for the Association Agreements with Georgia. Since the independence of Georgia, the influence of the EU has been slight in the implementation of the bilateral agenda of reforms, but the impact of the EU on this area has increased in recent years. The impact of the EaP can be measured in the three dimensions of the liberalization of trade, opening goods markets, and visa liberalization. The findings indicate that the impact of the EU is slowly increasing; and moreover, the economic impact of the EaP will not be immediate. In the short-term, its implementation poses more challenges to Georgia than gains. In the long-run, Georgia hopes that the convergence to European standards will make it easier for Georgian firms to access the European market.

Keywords Deep and Comprehensive Free Trade Agreement (DCFTA); European Neighborhood Policy; Eastern Partnership (EaP); Economic Integration; Georgia

Introduction

Relations between the EU and Georgia have evolved significantly since the launch of the European Neighborhood Policy (ENP) by the European Commission in 2004. The EU's increased engagement in the South Caucasus region focused largely on Georgia, particularly by supporting the transition process of the country after the 2003 Rose Revolution, which brought to power new pro-Western elites.

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Institutional and legal reforms were perceived by the EU and its member states as fundamental and indispensable steps for Georgia's democratic consolidation, its transformation as a stable partner, as well as an important European contribution to fostering peace in the Caucasus region (Simao, 2013: 1). During the Saakashvili administration, normative divergence became an important cause of the rejection of the EU's conditionality in this area. Other international and domestic factors such as the lack of socio-economic linkage to the EU and domestic obstacles are constantly present, but the relative importance of ideas and the lack of legitimacy of the EU as a model in the economic development of Georgia became prominent between 2005 to 2008.

The Eastern Partnership (EaP) program was inaugurated on 7 May 2009 in Prague (See, Table 1). The Eastern Partnership project was presented by the foreign minister of Poland with assistance from Sweden at the EU's General Affairs and External Relations Council in Brussels on 26 May 2008. Its aim is to enhance the EU relations with the six former Soviet Republics involved in the program (i.e., Armenia, Azerbaijan, Belarus Georgia, Moldova, and Ukraine). The EU is especially interested in achieving a high degree of cooperation with its neighbors to tackle specific cross-border issues in the political, economic and security realms (Parliamentary Question, 2002).

Table 1- The Timeline of the EaP, dating from its initiation to 2017

Year	Events
2004	The European Neighborhood Policy (ENP) is formulated.
2009	The EaP program is officially launched at the Prague Summit.
2013	Vilnius EaP Summit held, the association agreements with Georgia and Moldova were initiated.
2014	Moldovan citizens receive visa-free access to the EU.
2015	Riga EaP Summit held.
2017	Georgian and Ukrainian citizens received visa-free access to the EU; the EaP Summit held in November under the auspices of Estonia's presidency of the Council of the European Union.

The EaP replicates the ENP in being composed of both bilateral and multilateral arrangements. The key bilateral arrangement through which the EaP is to be realized is through the new-style association agreements. The trade aspect of these agreements is intended to enact

bilateral free trade areas between the EU and its partners and seek convergence with EU laws and standards. Other aspects of the agreements include Comprehensive Institution-Building Programs to improve administrative capability via the provision of training and technical assistance and increased cooperation in the field of energy security through cooperation on stable and secure energy supply and transit for the long term, as well as helping with better regulation, energy efficiency and the use of renewable energy sources (Whitman and Juncos, 2011: 194).

Within the framework of the European Neighborhood Policy, the EU and Georgia signed an Association Agreement (AA), which replaced the previous Partnership and Cooperation Agreement (PCA). This is the most advanced cooperation mechanism that the EU has offered to Georgia over the past twenty years. The association agreement (including the DCFTA), which was signed on the 27th of June 2014 and ratified on the 18th July 2014 by Georgia marks the beginning of a qualitatively new process in the EU-Georgia relations and is an important step taken towards the process of European integration.

The research question in this study relates to the effects of the EaP on the political economy of Georgia. It is asserted that the formulation and implementation of the EaP provided an impetus for the push for the Association Agreements with Georgia. The theory of economic integration will be used for testing the hypothesis postulating a relationship between the EaP and the economic development of Georgia. Since the independence of Georgia, the influence of the EU has been slight in the implementation of the bilateral agenda of reforms, but the impact of the EU on this area has increased in recent years. The impact of the EaP can be measured in the three dimensions of the liberalization of trade, opening goods markets, and visa liberalization.

Theoretical Framework

Regional economic integration has been one of the main trends in the development of international economic relations in the last few decades. There are multiple examples, which demonstrate that the push for such integration is not an isolated event, but an actual global phenomenon. The opportunities that are presented by the different

forms of *regional integration arrangements* along with the means and ways for their utilization are growing (Marinov, 2014: 164).

There is no clear-cut definition of economic integration in the international trade literature. Its objective is clear—it is a means to increase welfare—but its vague definition implies that there is no general agreement regarding the method to achieve this goal (Snorrason, 2012: 13). Many authors claim that economic integration theory goes through two development stages, each of which addresses the political and economic issues relevant for its time. The first stage includes the traditional theories of economic integration, which explain the possible benefits of integration and are often referred to as a static analysis. The second stage includes the new economic integration theories, which are developed in different economic conditions and trade environment – *and* they are referred to as dynamic analysis of economic arrangements (Marinov, 2014: 165).

Economist Béla Balassa in his book, *Towards a Theory of Economic Integration* which was originally published in 1961 defined integration as a process which involved the removal of trade discrimination between different states (Balassa, 1961). Economic integration thus is a ‘state of affairs’ that is best described by the absence of different forms of discrimination and implies the elimination of economic borders between countries. There are several levels of economic integration: Free Trade Agreement, Customs Union, Common or Single Market, Economic and Monetary Union.

The EaP is classified as a Free Trade Agreement. An FTA is a Preferential Trade Agreement (PTA) in which member countries do not impose any trade barriers on goods produced within the union. However, each country keeps its own tariff barriers to trade with the non-members. This is usually referred to as ‘trade integration’ (Hosny, 2013: 134).

The necessary conditions for its fullest attainment include the freedom of movement of goods and factors of production, and an absence of discrimination among members. Furthermore, in the situations where resources are allocated by the price mechanism, measures are required to ensure that the market provides the right signals, and institutions are required to give effect to the integrating force of the market (Snorrason, 2012: 15). Table 2 shows the main steps in the implementation of the economic integration of Georgia with the European Union.

Table 2- The Main Steps in the Implementation of the Economic Integration of Georgia

Steps	Action
1. Negotiations on (AA)	-Started in July 2010.
2. Negotiations on the DCFTA	-AA was ratified on 18 July 2014, entered into force on 1 Sept. 2014.
3. Visa (FRA)	- Came into force on March 2011.
4. Visa Liberalization Dialogue	-Transferred to the list of the third countries whose nationals are exempt from visa requirement on 28 March 2017.

Note: (AA) refers to Association Agreements; and (FRA) denotes Facilitation and Readmission Agreements.

Economic integration lies at the core of the *raison d'être* of the European Union. The common market and its rules form the basic components of the 'acquis communautaire' and the glue that holds together the EU member states. Understandably, the economic sphere of the EU's external relations is a cornerstone of cooperation with third countries and it is in this area that the EU has made the biggest effort in promoting compatible rules with its neighbors (Dimitrova and Dragneva, 2009: 858). For the latter, access to the single market and benefitting from free movement of goods, capital, services and people with the EU is a crucial element of bilateral relations (Dodini and Fantini, 2006: 511).

In addition to trading with goods, this space includes the service trade and capital turnover. It means harmonizing the customs procedures and the legislation, which could regulate the companies, protect the sanitary and phytosanitary norms. To be integrated with the European market, it is necessary to approximate the procedures of state purchases and the investment legislation to the EU's requirements, to provide with competition and to meet the standards of protecting the international environment and labor, to harmonize the energy industries, to protect the consumers' rights and intellectual property and so on (Abesadze, 2015: 558).

The Deep and Comprehensive Free Trade Agreement (DCFTA) was conceived as a tangible tool to deepen economic integration between the EU and Georgia. The DCFTA, which is part of bilateral association agreements, covers substantially all trade in goods and

services as well as the ‘behind-the-border’ issues. Since the economic objective of the EaP is the creation of FTA, the current paper mainly focuses on a concise assessment of economic EaP objectives (e.g., trade liberalization and opening of goods markets).

It should be noted that the Eastern Partnership was not meant to be an alternative to the EU membership perspective, but it aimed at encouraging deeper integration of the partner countries in the EU, spreading shared values, strengthening regional security and promoting economic development through regional and bilateral cooperation (Putkaradze, 2015: 101).

Liberalization of Trade in the EU-Georgia Relations

The economic benefits of the DCFTA for the Georgian population will not be delivered immediately. Therefore, it is necessary to develop a clear and efficient plan for deploying the DCFTA as soon as possible (Samadashvili, 2014: 65).

Creating the DCFTA between Georgia and European Union will likely establish a transparent and stable environment for business. Accordingly, it will enhance the investment attractiveness in Georgia, which in turn increase foreign investment. This will result in creating new enterprises and promoting export production. The improvement in the scales of local production will result in new job creation and more economic growth. If the trend continues, the country will have a chance for higher economic development.

In the short-term perspective, it is predicted that the entire inner products (EIP) will be increased by 1.7%; and in the long-term perspective, the corresponding percentage increase is an estimated 4.3%. In the short-term perspective, the export will increase by 9%, and the import by 4.4%. Whereas Georgia’s export will increase by 12%, and its import by 7.5% in the long-term perspective (Abesadze, 2015: 558).

Compared to the Generalized System of Preferences Plus (GSP+)¹, the DCFTA is more beneficial for Georgia, because it provides not only mutual lifting of all trade barriers but also the harmonization of economic laws and regulations with those existing in the EU. This gives Georgia a possibility to have a stable and growth-

¹ The special incentive arrangement for Sustainable Development and Good Governance GSP+ grants full removal of tariffs on over 66% of the EU tariff lines.

oriented framework of economic policy in the future. Moreover, the DCFTA is concluded for an indefinite period of time and is permanent while GSP+ is renewed every three years. Therefore, the latter is less attractive for private sector representatives who wish to make use of favorable export schemes in a sustainable manner. It has a strategic importance for the countries interested in the free trade with Europe, because it offers the prospect of gradual integration into the EU internal market. What Georgia needs now is indeed a better access to the EU market, which will be provided by the DCFTA (Apriashvili, 2015).

Potential for more growth through increased exports and additional investment are expected over the medium term, because of the creation of a free trade area, the approximation to the selected European legislation, and the drive towards internationally recognized quality of goods. Georgia has benefitted from the integration into the EU internal market since the provisional application of the Association Agreement in 2014.

It should be taken into consideration that the major problem for Georgia is an increasing negative trade balance. The growth rate of Georgian export in recent years is lower than its import growth rate. In 2003, the negative trade balance of Georgia amounted to \$679.7 million compared to \$1.5 billion in 2005, \$4.8 billion in 2008, \$3.58 billion in 2010, \$5.1 billion in 2013 and \$5.7 billion in 2014. The trade balance of Georgia with the EU is also negative (Putkaradze, 2015: 102).

In January-August 2017, the external trade turnover of Georgia with the EU countries amounted to \$1804.4 million, which showed 7.4 percent growth rate (PGR) compared to the corresponding figure for the previous year. Exports amounted to \$400.9 million (26.6 PGR), while imports amounted to \$1403.5 million (2.9 PGR). Table 3 shows the percentage share of the exports and imports of Georgia by country groups in 2017. Based on the preliminary data from the National Statistics Office of Georgia, the share of the EU countries in 2017 external trade of Georgia amounted to 27.5 percent of imports, 23.7 percent of exports, respectively (Geostat, 2017).

The EU is a key trade partner of Georgia, and the volume and value of the bilateral trade is developing quite dynamically (Georgia's Trade, 2018). Fresh and dried nuts, mineral waters, fertilizers, copper ores and concentrates, raw and semi-processed gold are the leading products in the export structure of Georgia. As for the import, the dominant place is held by cars, medicines, sugar, oil and oil products, and computers. Trade relations between Georgia and the EU has a

potential for further development; and the realization of this potential mainly depends on the full utilization of the opportunities offered by the agreement (Putkaradze, 2015: 104).

Table 3- Georgia's Import and Export by Country Groups, 2017 (%)*

Trade Partners	Import	Export
EU Countries	27.5	23.7
CIS Countries	29.6	43.3
Other Countries	42.9	33.0
Total	100%	100%

Note: * Preliminary Data

Source: (Geostat, 2017: 5).

Georgia has undertaken two significant aspects of trade liberalization, namely tariff duties and rules of origin. First, tariff liberalization is the basic starting point for creating a free trade area. Georgia is an exceptional case in that it unilaterally and radically liberalized its external trade policies in 2006. Since the start of the provisional application of the DCFTA on 1 September 2014, the EU has completed the free trade area with its own tariff liberalization for the imports from Georgia. Unlike the DCFTAs with Moldova and Ukraine, the agreement with Georgia does not include transitional periods for the elimination of import duties. The reason is the liberal reforms undertaken earlier by Saakashvili's administration, which eliminated import tariffs for most products in 2006, made Georgia's most-favored-nation (MFN) WTO tariff rate of 1.5%, one of the lowest in the world. Quantitative restrictions on imports and exports are also prohibited by the DCFTA, except if allowed by the relevant WTO rules (Emerson and Kovziridze, 2016: 42).

With the DCFTA, Georgia and the EU now enjoy almost completely tariff free trade for exports and imports. Both parties have thus abolished import duties for almost all products. For industrial goods, the DCFTA involves the immediate removal of import duties on both sides. Trade in agricultural products will be also fully and immediately liberalised with the exception of trade in garlic imports, for which a duty-free tariff-rate quota is established. Garlic is the only vegetable item included in the so-called annual duty free tariff-rate

quota. This means that if more than 220 tonnes of garlic is exported from Georgia in a year, the exporter will have to pay custom taxes (Khurtsia, 2014).

Second, rules of origin are laid down in Protocol I of the Association Agreement. Rules of origin determine when products have been wholly produced in the territory of one of the parties, or when they have been “sufficiently worked or processed” in order to obtain a “certificate [of origin] EUR.1” (Emerson and Kovziridze, 2016: 33). For trade between Georgia and the EU, the preferential rules of origin are used. To benefit from this regime, the Georgian origin (nationality) of the goods imported into the EU must be proven.

To be granted the status of ‘Georgian Origin for Export goods’ in the EU, it is mandatory to fulfill the two following conditions set out in the first protocol of AA:

- 1- The goods must be fully produced in Georgia; or
- 2- The goods are not fully produced in Georgia, but the materials used in the production phase have undergone sufficient processing on the territory of Georgia (DCFTA, 2018).

According to Article 8.7 of the DCFTA, rules of origin is necessary: “For the purposes of covered procurement, no Party may apply rules of origin to goods or services imported from or supplied by another Party that are different from rules of origin the Party applies at the same time in the normal course of trade” (European Free Trade Association (EFTA), 2018).

Article 3 of this protocol envisages ‘diagonal cumulation’ with Turkey for industrial products. It is important to note that Georgia now has a free trade regime with both the EU and Turkey (European Free Trade Association, 2018). This means that a producer in Georgia may manufacture a product from materials imported from Turkey and export this product to the EU as a ‘Georgian product’, provided that more than the minimal processing requirements took place in Georgia and Turkey taken together. However, before this diagonal cumulation is applicable, Georgia and Turkey must first amend their bilateral free trade agreement (FTA) to align it with the EU’s system of rules of origin. According to these rules, tolerance is fixed at 10% of the ex-work price of the product for all products, except for textile and clothing for which specific tolerances in weight or value will apply (European Commission, Trade Help, n.d.).

Opening of Goods Markets in the EU-Georgia Relations

The main economic incentive relates to the access to the EU market through the establishment of the DCFTA and increased economic linkage in the form of more trade and investment that would follow. This process is subject to a conditional process of domestic adaptation of legislation, administrative strengthening and regulatory approximation with the EU's acquis.

One of the most important implications of the DCFTA for Georgia is the possibility of diversifying its export market by deepening trade with Europe. Export diversification has become vitally important for Georgia since Russia's 2006 embargo and the 2008 war, which ultimately prevented the Georgians from access to the vast Russian market. Trade is reopened but it is probable that the market will remain unstable and unpredictable due to the existing political and security situation. Therefore, for sustainable development of its exports, Georgia needs to penetrate the EU market which is one of the largest, most stable, and strictly regulated markets in the world. In addition, approximation to European norms in the long term offers the best chance of stable and incremental growth for the Georgian economy (Khurtsia, 2014: 5).

The DCFTA is of crucial economic importance for Georgia as it significantly facilitates the market access of Georgian goods and services and offers a possibility for Georgia to diversify its market. According to the Trade Sustainability Impact Assessment report commissioned by the EU, full implementation of trade-related reforms could increase Georgia's long-term GDP by 4.3%, if the DCFTA is duly implemented and its effects are sustained (Ilic and Markozia, 2015: 20).

Product diversification in terms of varieties is not very broad. Around 50 types of products have entered the EU market in 2012 and 2013. It is noteworthy that new products including processed and frozen vegetables, and frozen fish have emerged in 2013. It seems that the elimination of import duties under the GSP+ treatment has boosted exports in the product categories covered by the trade regime. Generally, it is arguable how and to what extent tariffs affect trade. Substantial number of empirical works suggest that tariff barriers explain only about one percent of the variation in trade turnover. As a matter of fact, other barriers to trade, especially technical and non-tariff

hindrances might have greater effect (Economic Policy Research Center, 2014: 12).

The key EU imports from Georgia include mineral products, agricultural products, base metals and chemical products. The EU imported goods to the value of €551 million from Georgia in 2016. For example, Black Sea fish and fish products have a high chance of making an impression in Europe and becoming one of Georgia's leading export products alongside wine, hazelnuts, blueberries, wool, and honey. The European Union (EU) has just included Georgia in the list of "third countries" allowing Georgia's Black Sea fish and fish products to be imported to the EU. This will be the third animal product to be allowed into the EU market after Georgian wool and honey (Agenda, 2017).

The DCFTA only perceives three exceptions to the full liberalization of trade in goods, all of which are agricultural products. First, the EU will apply an annual tariff rate quota on just one agricultural product, namely garlic. Georgia may export 220 tons of tariff-free garlic to the EU annually. The MFN customs duty rate of the EU shall apply to imports exceeding the limit of the tariff rate quota. Second, certain types of fruits and vegetables are subject to an 'entry price' system for imports to the EU. Third, for trade in most (processed) agricultural products, an "anti-circumvention mechanism" is foreseen (Emerson and Kovziridze, 2016: 32).

Furthermore, the implementation of the DCFTA will certainly have a positive impact on the growth of the country's attractiveness to foreign investment. The EU is an important hub for foreign investors who are attracted to its stable market and the purchasing power of its citizens. Although generally open, each EU country limits foreign investment in some economic sectors; and each one has its own rules in place for incoming investors (European Commission (EC), EU-Georgia Trade, n.d.)

Visa Liberalization

The Association Agreement sets the stage for a comprehensive dialogue and cooperation on legal migration, the trafficking and smuggling of people, border management, asylum and return policies, and the mobility of persons, including visa-free travel with the EU. A dialogue on visa liberalization between Georgia and the EU was launched in June 2012. The Action Plan on Visa Liberalization was handed over to the

Government of Georgia on 25 February 2013. The Action Plan contains the requirements that must be achieved by the Georgian side for establishing a visa-free travel regime between Georgia and the EU. The Action Plan consists of four blocks: 1. Document security, including biometrics; 2. Integrated border management, migration management, asylum; 3. Public order and security; and 4. External relations and fundamental rights (Kilasonia and Nadiradze, 2014: 5).

The implementation of the Action Plans has been closely monitored by the Commission through the publicly-accessible regular progress reports which are transmitted to the European Parliament and the Council. In addition, progress has been monitored through the regular meetings of senior-ranking officials from the European Commission and the partner countries (Chapichadze, 2017: 148). After the EU cancelled the need for visas for short-stays in the EU countries, Georgia surged overnight in the Global Passport Power Rank. Compared to its 2016 rank, Georgia jumped 14 places in 2017 to the 43rd in the world (Secieru, 2017: 1). The possession of a biometric passport is a precondition for visa-free travel to the EU. The available public data confirms that the visa-free regime led to a large rise in applications for biometric passports shortly before and right after the decision.

Georgia has been issuing biometric passports since 2010. To speed up the process, the government ran campaigns in 2015 and 2016 during which citizens could apply for passports at a discounted price. By the end of August 2017, about 37% of the population or 1.4 million Georgian citizens had received biometric travel documents. In 2016, the Georgian authorities had issued 223,000 passports, and in the first 8 months of 2017 alone they issued 218,000 travel documents. Despite the soaring demand for passports, the Houses of Justice, which provides the citizens with various administrative documents across the country, managed the influx of applications without experiencing major delays (Secieru, 2017: 2).

An examination of the historical experience of the EU-Georgian relations reveals that progress in the forming of institutions and democratic development always moves the EU-Georgian cooperation to a new level. Hence, further democratization processes in the country increase the probability and opportunity of Tbilisi advancing to a qualitatively new stage of partnership with Brussels.

In Georgia, as elsewhere, visa-free travel is seen as a tangible instrument to mobilize support for the process of closer political

association with the EU. Visa-free travel will provide an opportunity for business people to learn from best practices, explore the market, establish business relations with their counterparts throughout Europe, attract investment and compete on equal terms. Visa liberalization will make Georgia a more attractive destination for European travel agencies and airlines. It can also be expected to boost scientific and cultural cooperation and provide better opportunities for students (Emerson and Kovziridze, 2016: 34).

The fact that visa liberalization and the AA are not the final achievement of the EU-Georgia relations is also strongly supported by trends in various public opinion surveys. A question was included in a March 2016 National Democratic Institution-funded research, carried out by the Caucasus Research Resource Centers program (CRRC) asking the respondents, “[I]s the Government’s declared goal of Georgia becoming an EU member acceptable or not?” Remarkably, 77% of the respondents gave a positive response. Moreover, the survey results published by the International Republican Institute on 4 April 2017 showed that an estimated 90% of the respondents supported the idea of Georgia joining the EU (Vardishvili and Panchulidze, 2017: 3-4).

Visa liberalization also underpins the EaP in other important ways. First, the EU delivered on its promise and reinforced its credibility in a region where commitments are often overlooked for the sake of political expediency. Second, much of the anti-EU (internally or externally driven) discourse in the eastern neighborhood is centered on the narrative that the European Union does not really care about the region. In the cases of Georgia and Ukraine, critics referred to the delays in the visa liberalization process to emphasize this point. By deciding to lift visas, the EU pulled the rug from under the feet of the sceptics who argued that the European Union will never grant visa-free regimes to the eastern partners. In turn, this decision emboldened local constituencies advocating for closer integration with the EU. Last but not the least, the liberalization of visa regimes is also an answer to Russia’s strategy of exploiting the neighbors’ vulnerabilities in order to prevent deeper engagement with the EU. By eliminating visas, the EU took another step to rebuff Russia’s claims of a ‘vetocracy’ backed by hard power in the eastern neighborhood (Secrieru, 2017: 4).

Visiting an EU country remains a financial burden for those with monthly incomes of around €120. Those citizens, who were able to afford foreign travel in the past, would continue to do so. However,

the launch of a visa-free regime allows the Georgian Dream government that was re-elected in October 2016 to demonstrate its effectiveness and ability to deliver concrete results in the much-emphasized European integration agenda that it inherited, and to some extent hijacked from Mikhail Saakashvili's United National Movement. In addition to that, the EU visa exemption is seen by the Georgian government as potential leverage for attracting the inhabitants of the occupied territories of Abkhazia and South Ossetia to accept Georgian citizenship (Filipiak, 2017).

In political terms, visa-free travel will enhance Georgia's endeavors to reestablish ties with its citizens in the occupied territories. Georgia has declared its readiness to share the benefits of European integration with its citizens in these territories. It is notable that following Moldova's visa liberalization with the EU, many citizens in Transnistria have obtained Moldovan passports.

Conclusion

Since its inception, the EU's Eastern Partnership sought to speed up reforms and pull the countries of the eastern neighborhood closer to the European Union. Despite the incentives, transformations were often slow and painful because vested interests continue to shape domestic politics to a large degree, justice is frequently selectively applied against the opponents, and high-level corruption discourages large-scale investments. Nevertheless, integration into the European Union is one of the key priorities of Georgia's foreign policy. At the beginning of the 21st century, the EU has experienced the most developed regional integration with its economic and political potential. National economic interests of Georgia push the country towards greater integration.

In this paper, an attempt was made to analyze the effects of the EaP on Georgian political economy. The impact of the EU on the implementation of the bilateral agenda of reforms has been weak, but its influence in this area has increased lately. The impact of the EaP was analyzed by considering the three dimensions of liberalization of trade, opening goods markets and visa liberalization. Liberalization of trade has taken place in tariff duties and rules of origin. The DCFTA was signed by Georgia and the European Union to form the trade system which would be compatible to the EU market. Because of the creation of a free trade area, approximation to the selected European legislation,

and the drive towards internationally recognized quality of goods, more growth through increased exports and additional investment are expected over the medium term.

One of the most important implications of the DCFTA for Georgia is the possibility of diversifying its export market by deepening trade with Europe. Its product diversification in terms of varieties is not very broad. The key EU imports from Georgia include mineral products, agricultural products, base metals and chemical products. Furthermore, the implementation of the DCFTA will certainly have a positive impact on the country's attractiveness to foreign direct investment (FDI). The Association Agreement sets the stage for a comprehensive dialogue and cooperation on legal migration, the trafficking and smuggling of people, border management, asylum and return policies, and the mobility of persons including visa-free travel to the EU countries. Georgia has been issuing biometric passports since 2010.

The findings indicate that the impact of the EU on the political economy of Georgia is slowly increasing. However, the economic impact of the EaP will not be immediate and its implementation poses more challenges to Georgia than gains in the short-term. Georgia hopes that the convergence to European standards will make it easier for Georgian firms to access the European market in the long-run. The EaP forms the trade system, which would be compatible to the EU market. This provides an opportunity for establishing a transparent and stable environment for business. Consequently, investment attractiveness will increase, leading to the growth of FDI in Georgia, the creation of new enterprises and more export production. Increasing the scales of local production will facilitate sustainable job creation. Generally, the country's economic growth will be stimulated, and Georgia will be more developed economically.

According to the European Commission, the EU objective in this area is to provide an element of economic integration in exchange for the adoption of certain norms and rules. In the context of the ENP and EaP, the process is characterized by conditionality linked to the reward of signing a DCFTA that would include trade in services and investment in addition to trade in goods. The EaP foresees a gradual approximation of the Georgian trade-related legislation to the European legislation, which will provide for the free delivery of Georgian agricultural and industrial products to the European market, as well as the delivery of the harmless and safe products to the local market.

Author's Statement: The author declares that she has fully observed all ethical issues including plagiarism, double publication and/or submission, redundancy, data fabrication and/or falsification, informed consent, misconduct, etc.

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