

# BULLETIN

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## Eastern Partnership in Georgia: First Results

Tomasz Sikorski

*So far, an agreement on liberalisation of the visa regime entering into force on 1 March is the most important benefit of the Eastern Partnership for Georgia. In addition, since July 2010, the Association Agreement is being negotiated. Georgia expects from the EU deepened economic cooperation and liberalised rules on the movement of people, as well as being treated as a future EU member. The EU, on the other hand, demands from Georgia gradual implementation of the *acquis communautaire* and continuation of reforms. Negotiations are hindered by the scepticism of Georgian authorities towards the European economic model as well as unwillingness to accept EU standards.*

The Association Agreement between Georgia and the European Union, being negotiated since July 2010, is going to replace the existing Partnership and Cooperation Agreement (PCA) with Georgia. In the framework of AA, a Deep and Comprehensive Free Trade Area (DCFTA) is to be established, which in addition to freedom of trade in goods will also guarantee freedom of trade in services and the free movement of capital. In return, the EU expects the adaptation of Georgian law to EU standards. In contrast to agreements concluded in the 1990s with the states of Central and Eastern Europe, this negotiated Association Agreement does not offer any prospects for membership.

Georgia is the most developed country of the Eastern Partnership (EaP) in terms of institutional functioning. With the radical reforms introduced after the Rose Revolution, Georgia achieved great success in its fight against corruption (ranked the best among the countries of the EaP in Transparency International's CPI) and free-market reforms (ranked 12<sup>th</sup> in "Doing Business 2011"). Meanwhile, the country still faces structural problems, and despite the rapid pace of economic growth in 2003-07 remains the poorest country in the South Caucasus.

**Expectations of Georgia Towards the EU.** The basic economic problem of Georgia is a lack of capital, particularly evident in the years 2008-10. While on the one hand, war with Russia and the global economic crisis lowered the level of foreign investment in Georgia, on the other hand, internal capital has also declined. After the Rose Revolution, the small enterprise sector was quickly developing, based on small private savings, sufficient to establish small businesses. At present, however, expanding entrepreneurs have troubles obtaining credit. The small size of the capital market, insufficient development of the banking sector, lack of public confidence in banks and weak financial controls result in very high credit rates in commercial banks. What is more, the prime interest rate of the Central Bank has increased for eight months from 5 percent to 8 percent. Establishment of the DCFTA should, in the opinion of Georgian authorities, solve the problem by attracting foreign capital. The second economic postulate important for Georgian goods is freedom of export to the EU.

Apart from economic aspects, Georgia looks at the relationship with the EU through the prism of security. Pro-EU policy was given a boost after Georgia lost the war with Russia in August 2008. Good relations with the United States proved to be insufficient to defend the territorial integrity of Georgia. In the meantime, the prospect of joining NATO turned out to be no longer realistic. It was the EU, represented by President Sarkozy, that negotiated a ceasefire in the 2008 conflict, and the European Union Monitoring Mission (EUMM) played an important role in the stabilisation of an armistice line. Therefore, association with the EU is seen in Georgia as a means to strengthen

its independence and territorial integrity, despite the fact that neither the European Neighbourhood Policy (ENP) nor the EaP were established for such purposes.

It is difficult to foresee the course and length of talks. Negotiations are being hampered by the scepticism of Georgian authorities for the European economic model and their unwillingness to accept EU standards. Authorities in Georgia are very sceptical towards implementing the *acquis communautaire*. This reluctance is motivated by a fear of losing the relative competitiveness of the Georgian economy with the adoption of strict European quality standards, especially in food production. Moreover, Georgian authorities have preferred the “minimal state” model and do not see any purpose in adopting European standards. As indicated in the Court of Auditors’ report in January this year, among the Georgian government there was little interest in twinning (i.e., the posting of public sector employees from EU member states to work in similar institutions in Georgia). Also the assistance program in the field of public finance management, sponsored by the European Neighbourhood and Partnership Instrument (ENPI), was being sluggishly implemented by Georgian authorities through the first year of operation (from December 2007 to December 2008). However, the need for closer economic cooperation with the EU is forcing Georgians towards acceptance of European expectations. In the years 2011 to 2013, Georgian regulatory services (sanitary control services, centres of accreditation and standardisation offices) are to receive ENPI-financed institutional support in order to meet the requirements of the future association agreement.

**Opportunities and Challenges for the Poland and the EU.** The primary benefit of establishing DCFTA with Georgia will be the opening of a market with 4.5 million consumers to Polish goods and investments. As a result, the competitiveness of Polish goods will be increased. Duty-free imports of Georgian goods will not create serious competition, as the Georgian economy is in fact complementary to Poland’s rather than a substitute. The most competitive products are branded Georgian wines and mineral waters, which in principle have no Polish replacements.

The harmonisation of law and strengthening of democratic tendencies in Georgia will promote a stable area in the European neighbourhood. The conclusion of AA will increase opportunities for energy cooperation with Azerbaijan and the pursuit of energy transit projects in the future. There are also intangible benefits of facilitating the entry of Georgians into the Schengen area, as it will increase the EU’s soft power.

An agreement to ease traffic, which comes into force on 1 March this year, is so far the most important benefit to Georgia from the Eastern Partnership. Under the agreement, the visa fee has been lowered from €60 to €35, and free visas have been introduced for researchers, students, business people, journalists and others. The liberalisation of the visa regime—and the future abolition of visas—does not pose a serious threat to the Schengen Area. The effectiveness of the Georgian border and customs services has increased and a system of biometric passports has been established. Finally, the small number and low mobility of Georgians reduce the risk of illegal residence in the Republic of Poland. However, EU states with more attractive labour market might be more vulnerable.

The success of reforms in Georgia will verify the effectiveness and credibility of the Eastern Partnership. The EU should support changes in Georgia, both financially and with know-how, bearing in mind such important tasks as the democratisation of Georgia. There are several objections to the policy of the current authorities in relation to free media and the opposition. The recently accepted constitutional reform, which after the next presidential election will increase the prime minister’s powers at the expense of the president’s, raises concerns that President Saakashvili, after his second term expires in 2013, will continue to govern the country as Prime Minister. Another controversial idea is the transfer of the Parliament to the provincial Kutaisi, located about 200 km from the capital Tbilisi, which may result in marginalisation of the institution. Meanwhile, as Georgian opposition and NGO activists underline, the EU has the potential to persuade the authorities in Tbilisi towards democratic reforms. Therefore, the principle of conditionality should be used in negotiations, and Georgian authorities should be strongly criticised in cases when they ignore democratic principles.