



# BULLETIN

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## The EU–Georgia FTA: A Chance to Boost Polish–Georgian Economic Relations

**Damian Wnukowski, Konrad Zasztowt**

*The implementation of a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Georgia after the planned signature in June may create attractive conditions for Polish exports and investments in Georgia. For its part, Georgia needs to enhance its economic cooperation with European countries in order to strengthen its still fragile economy. Even if Poland is now not a significant economic partner of Georgia's, both countries may still benefit from the DCFTA. The Polish and Georgian governments should encourage Polish entrepreneurs to enter the Georgian market and provide them with the necessary support and information.*

The EU has been deepening economic relations with Georgia following the Rose Revolution of 2003 and EU enlargement to the east a decade ago. As a sign of support for Georgia's political and economic reforms, the EU embraced the country by granting it General System of Preferences+ (GSP+) status since 2005 (from 1999, Georgia had benefitted from a general GSP scheme). The main aim of GSP+ is a deep, one-way reduction of duties on Georgian commodities exported to the EU (more than 60% of all tariffs) to support job creation and GDP growth in Georgia. Within the framework of the Eastern Partnership (EP), both partners sought to strengthen bilateral ties and started negotiations on an Association Agreement (AA) in July 2010, then on a Deep and Comprehensive Free Trade Area (DCFTA) in February 2012, concluding in July 2013. At the EP summit of 29 November 2013, EU leaders initialled the AA with Georgia, which includes establishing the DCFTA.

**DCFTA Impact.** The goal of the DCFTA is to upgrade EU–Georgia economic ties by facilitating trade and investment. It covers a wide range of issues, such as the elimination of custom duties on nearly all goods on both sides and adopting EU standards regarding such things as IPR and consumer protection. In contrast to GSP+, the DCFTA reduces non-tariff barriers (NTBs), including technical or sanitary and phytosanitary standards, which could bring significant benefits to Georgian exporters. Overall as an Ecorys–CASE study for the European Commission anticipates, the DCFTA could increase Georgia's exports to the EU by 12% and imports by 7.5%, as well as propel Georgia's GDP by more than 4%, or €290 million in about 5–10 years' time.

Currently, the EU is the main trade partner for Georgia and accounts for 26.6% of the country's overall goods and services exchanged in 2012. In that year, Georgia exported to the EU goods worth €600 million (about 5.6% less than a year earlier) and total imports amounted to €2.1 billion, which resulted in a trade deficit of €1.5 billion (12% of Georgia's GDP). Georgia's main export goods to the EU are mineral products, chemicals, metals, and food (e.g., vegetables and beverages such as wine). From the EU perspective, Georgia is perceived as a minor trade partner, as its share of total EU trade is about 0.1% (similar to Armenia). Yet, Georgia has attracted EU attention chiefly as a transit route for energy supplies from the Caspian Sea basin, as reflected in the DCFTA's energy security chapter. This includes the Southern Gas Corridor, which will link Azerbaijan's gas fields with the EU's energy system. Moreover, the reforms implemented in Georgia in the last decade and DCFTA provisions make it a prospective EU partner in terms of investment.

**From a “Neoliberal” Economy to an EU-Style Free Market.** The economic system built under the rule of the United National Movement (UNM) party and presidency of Mikheil Saakashvili (2004–2013) was often dubbed “neoliberal.” Indeed, Georgia became one of the world leaders in terms of simplicity of registration of new enterprises. In each of the country’s regional centres, special offices were established in order to enable citizens to quickly register their new businesses. Georgia under Saakashvili’s presidency became a country with a very low level of perceived corruption, according to Transparency International rankings. All of these elements contributed to the country’s impressive 8<sup>th</sup> position in the World Bank’s “Doing Business 2014” ranking.

However, critics of Georgia’s political and economic model point to the fact that some negative phenomena have continued, such as close connections between political and business elites. Although corruption is nearly absent in citizens’ everyday contacts with the administration, business people were often forced to establish informal contacts with officials. This led in fact to corruption at a “high” level. Thus, Georgia’s system was often described by its critics as “authoritarian liberalism.” Another immanent feature was also the absence of laws protecting workers’ basic rights.

However, even under the UNM, the start of negotiations on the AA with the EU, including its economic component, the DCFTA, has resulted in a reorientation of Georgia’s economic model. The country, in fulfilling EU requirements, has to implement regulations that change the current system, such as introducing rules on fair competition. The further implementation of the DCFTA, now under the Georgian Dream ruling coalition, may increase the transparency of the state and exclude oligarchic-type monopolies. Obviously further reforms by the Georgian government are needed. EU financial and expert support for these reforms as well as monitoring, are crucial.

**Opportunities for Polish Business.** Despite good political relations between Poland and Georgia, characterised by a high frequency of high-level visits and Polish support for its partner’s Euro-Atlantic aspirations, the intensity of their economic relations has remained relatively low over the last couple of years. However, a steady increase in bilateral trade has been recorded. The value of bilateral trade amounted to \$53 million in 2009, but this number nearly doubled to \$96.4 million by 2012. Although in 2012, Polish exports to Georgia were worth \$86.8 million and imports \$9.6 million (meaning a \$77.2 million trade surplus), Georgia’s share of Polish overall trade was only about 0.05% and 0.01%, respectively. Yet, the value of Polish exports increased by 17% (and reached \$102 million) and imports surged by more than 100% (to \$19.5 million) in 2013. Polish investors in Georgia are barely noticeable, with the country ranked 37<sup>th</sup> among investment sources with \$1.37 million in 2013. The biggest Polish investor in Georgia is Asseco, an IT company that bought Onyx Consulting (now Asseco Georgia) for \$1.3 million in mid-2013.

Even though Polish–Georgian economic ties are not complex, one can identify several areas in which bilateral trade and investment cooperation seems to be beneficial. The implementation of the DCFTA could prompt companies to search for prospective niches in both markets. For Polish exporters, opportunities may emerge in such areas as agricultural machines and equipment for processing and food storage. Producers of chemical products and pharmaceuticals also could enlarge their presence in Georgia. Moreover, Polish transport vessels, electrical and home appliances, furniture, and mining equipment may successfully compete in the Georgian market. What’s more, the rising number of new businesses (nearly 14,000 in 2011) and IT centres in Georgia could spur demand for IT software and services from Poland. As the Georgian government has plans to improve infrastructure, projects involving construction and the modernisation of roads, airports, railways and hotels may create business opportunities for Polish construction firms, building materials exporters, engineering service firms and others. Additionally, as more and more Poles are interested in visiting Georgia, tourism cooperation should be enhanced. This is especially obvious for mid-range services, as the country is now visited mostly by backpackers seeking cheap stays and those who book into luxury hotels.

Polish companies, such as those in food processing, plastics or the chemical industry, may also be interested in investing in Georgia. Among the country’s assets are its pro-investment climate, relatively low labour costs, favourable location as a logistic hub and easy access to the markets in the Middle East and Central Asia. Conversely, among its drawbacks are its inefficient judicial system, insufficient IPR protection, and cultural and linguistic differences.

**Conclusions and Recommendations.** Closer EU–Georgia Cooperation would be beneficial to both parties. It could contribute to speeding-up the modernisation of the Georgian economy in the long term and adoption of high-level European standards, thus improving citizens’ living conditions. It would also contribute to the stabilisation of the Caucasus region, which takes on particularly serious meaning given the ongoing political and economic crisis in Ukraine. Fulfilling the DCFTA provisions would encourage European companies to seek untapped trade and investment opportunities in Georgia. For many Polish firms, exports to the Georgian market could be part of a diversification strategy that would limit their dependence on sales to the EU. Moreover, significant support from Polish public institutions would be very helpful in seizing these emerging opportunities.

The promotion of Polish businesses as well as the “Made in Poland” brand campaign in Georgia should be intensified, i.e., by holding frequent seminars, conferences, or exhibitions, or business travel supported by Polish authorities. Disseminating information on DCFTA provisions and close cooperation between business associations in both countries could also be beneficial. Attention should be paid to the participation of business people in high-level political meetings. Non-economic tools may also be used, such as bilateral cultural cooperation, scholarships for Georgian students, and sharing the Polish experience with establishing the rule of law, free media and effective public institutions.