

DCFTA and Georgia: Means or End?

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Abstract

Georgia's historical aspirations for an European affiliation could be largely met through further political association and economic integration with the EU. Both of these tracks could proceed simultaneously with an emphasis on either track depending on the particular circumstances of Georgia's ongoing internal and external developments. With the Partnership and Cooperation Agreement (PCA; concluded in 1996 and enacted in 1999) and the European Neighborhood Policy (ENP, launched in 2004) with its respective Action Plan (adopted in 2006) and Eastern Partnership (EaP, inaugurated in 2009) serving as appropriate platforms for Georgia's Europeanization for years, the dramatic changes on the ground both in the EU and Georgia prompted adjustments that resulted in an extensive review of ENP policies (especially, with the Danish EU presidency starting on January 1, 2012). Among the most important principles underpinning those policy tools are conditionality and a country-tailored approach, providing Georgia with the foundation for choosing the pace and determining the ambition with which to engage in integration processes with the EU.

Value System

While in the long-run economic integration would most likely yield positive outcomes for Georgia—particularly through establishing the Deep and Comprehensive Free Trade Area (DCFTA)—Georgia's European aspirations are more driven by political (and/or security) considerations since Georgia's leaders perceive ties to Europe as a way to preserve a self-identity that they associate with European values. Indeed, it could be argued that the root causes behind the disagreements dividing Georgia and Russia, which in August 2008 escalated into all-out war, did not pertain to economic, trade or even geo-strategic interests, but rather in widening differences in the values to which each government aligned itself. More specifically, had Russia adhered to a Western system of liberal values since the collapse of the Soviet Union, it is highly likely that Georgia would never have found itself at loggerheads with her.

Security Considerations

Therefore, the Common Foreign and Security Policy (CFSP) and European Security and Defense Policy (ESDP) components of the would-be Association Agreement (AA; launched in mid-July 2010) envisaged by EaP as a successor to the PCA tend to occupy larger sections of Georgia's political discourse than do Comprehensive Institution Building (CIB) and DCFTA. Indeed, both the National Indicative Program (NIP; 2007–2010) that included peaceful settlement of Georgia's internal conflicts, and especially the Country Strategy Paper (CSP; 2007–2013), which stressed priority areas like the resolution of internal conflicts and cooperation on foreign and security policy, clearly identify the focus of Georgia's Europeanization drive. In addition, such considerations as the historical and legal precedent of a split country joining the EU (Cyprus); the pacifist nature of

the EU as a recipient system advocating so-called soft (and increasingly smart) power that does not pose a military or geostrategic threat to geopolitically anxious third countries like Russia; the manageable territory and population of Georgia and its cultural proximity to the EU; the accelerated pace of systemic reforms in Georgia; the clearly western orientation of its value-system and lifestyle, and the EU's strategic interest in the Caucasus, of which Georgia is a gatekeeper, make Georgia's accession to EU membership time and energy consuming, but a realistic possibility in the eyes of the Georgian polity.

At the same time, the Russo–Georgian August 2008 war, although relatively small-scale and short, exposed serious security breaches that call into question the whole post-Cold War security architecture in Europe and broader Trans-Atlantic community. While prioritizing the security component in its relations with the EU, Georgia faced a variety of challenges during the last couple of years. These included the EU's inability and/or unwillingness to counter the obstruction of the Paris Charter, which prevents changing internationally-recognized borders in Europe by force; the EU's inability and/or unwillingness to interfere when the existing agreements and pacts pertaining to international laws which were violated (by intermittent Russian air raids in the run-up to the August war, the unilateral withdrawal of Russia from the Conventional Forces in Europe treaty, etc.); the EU's inability and/or unwillingness to consolidate the post-Cold War gains (Bucharest Summit: Ukraine and Georgia); the EU's inability and/or unwillingness to broker a just peace and to enforce it (the Sarkozy–Medvedev Agreement); a split between Old Europe (France, Germany) and New Europe (Poland, Baltic countries) in terms of the extent of the measures that they can and are willing to take; and the lack of clarity in relations between the EU defense and secu-

rity policies and NATO policies. On the other hand, in facing those challenges, the EU demonstrated its willingness to act in spite of internal strife. Indeed, the EU pledged 500 million euro for post-war rehabilitation in war-torn Georgia (October 22, 2008, Brussels donor's conference); the EU presidency ably interfered and brokered the cease-fire in the August 2008 Russo–Georgian war; the EU Monitoring Mission was deployed and staffed with unprecedented speed; the monitoring tools like the Incident Prevention and Response Mechanisms (IPRM) were introduced and used with ingenuity, the EUMM service term was extended for the next several years—all these steps proved the EU's readiness and determination to become an international player upon which others could depend. One of the biggest challenges however, that Georgia has to be aware of vis-à-vis its EU-sponsored security expectations is the vagueness of relations between the emerging EU defense mechanisms and NATO, with the imperative for the EU measures not to develop at the expense of the NATO relationship.

Free Trade

It is worth noting that the PCA has largely prepared the ground for the launch of the DCFTA. Indeed, through the PCA, which also eliminated trade quotas and provided protection for intellectual, industrial and commercial property rights, the parties—Georgia and the EU—have accorded each other the Most Favored Nation (MFN) treatment and Georgia has already (since 1999) benefitted from the EU's General System of Preferences.

The EU companies which invested in Georgia were supposed to receive treatment at least as good as any Georgian or any third nation company (whichever is better); likewise, any Georgian company which invested in the EU should be treated as well as European companies. The treaties included provisions, like the PCA, such that: legally-employed workers from the EU and/or Georgia should benefit from non-discriminatory working conditions; neither EU governments nor the government of Georgia can stop current payments for goods and services nor block direct capital movements from the EU to Georgia and vice versa; and the owners of intellectual property can expect to have the equivalent legal protection of their rights in the European Union and Georgia within five years.

However, even if Georgia reaped some fruits from the CIB (e.g. civil service, police, and army reforms), the challenges posed by DCFTA look more formidable, though some progress has been made in this regard as well (for instance, agreements on Geographical Indications and Intellectual Property). Most importantly, Georgia is likely to face systemic difficulties in

implementing and sustaining the commitments that the DCFTA would require. Indeed, although Georgia's World Trade Organization (WTO) membership since 2000 and the bilateral AA may serve as facilitating factors for successfully kick-starting the DCFTA, overcoming the technical obstacles, like compliance with the Agreements on Conformity Assessment and Acceptance of Industrial Products and the recognition of equivalence achieved by partners related to sanitary and phyto-sanitary standards for agricultural and food products and the standards for capital and the supply of services (especially in banking), will take considerable time. In addition, while striving for EU integration, the Georgian government ought to make a strategic policy choice between libertarian and more regulations-based economic models: policy swings between the US-style free market and the more socially-responsible market advocated by the EU are not helpful. Indeed, as in the case of the criminal justice system, the Georgian authorities need to finally make up their minds as to which economic model to adhere to—an European one that is based on the EU founding Treaties or the Anglo-American one with its belief in purely free market principles. Interestingly enough, depending on the extent to which at particular stages of international development Georgia finds itself predominantly affected by either EU or US legal and economic models, switching between one or the other causes, if not the loss of institutional memory, then at least conceptual, practical and institutional confusion. Since after the August 2008 war, EU influence in Georgia has steadily grown to a certain extent at the expense of the US, currently the Georgian polity looks more inclined to embrace European rather than Anglo-American legal and economic paradigms with the political system still largely residing in the US-dominated framework. Making declarations of not seeing principled contradictions between the two does not go beyond mere exercises in political correctness.

Finance

With the ongoing EU financial difficulties and the near-collapse of the Greek financial system severely threatening the integrity of the whole euro-zone and European Monetary Union (EMU), before proceeding further with the DCFTA, both the EU and Georgia have to rethink their respective strategies to accommodate drastically-changed realities on the ground. True, Georgia has been taking the right steps since September 2008 to keep its financial stability intact (and was greatly helped by massive financial injections intended for post-war rehabilitation). For instance, through a new bond issue (April 2011) the Georgian government redeemed USD 417 million from its USD 500 million five-year

Eurobond (issued in April 2008), which was due in 2013—a step approved by international financial institutions¹. However, although Fitch has increased Georgia's sovereign-credit rating one notch up to BB-, its net external debt is still among the highest among BB-rated sovereigns at 47% of GDP and this credit rating is still three points short of the investment grade so vital for the struggling Georgian economy in times of global financial turmoil. Sound monetary policies, however, are not enough for Georgia to benefit from joining the DCFTA unless it successfully managed to stick to credible, healthy and sustainable macro- and micro-economic fundamentals. There is no alternative to revitalizing agriculture and internationally competitive industries in the sectors traditionally pursued in Georgia since these are capable of creating large-scale employment for the local labor force that generates value marketable internationally. Otherwise, an already massive gross external debt worth USD 10.8 billion, will by 2023 accumulate to reach figures technically impossible to cover through any monetary solutions and gov-

ernment default and bankruptcy would seem inevitable irrespective of previous deals made with the EU and/or other partners.

Conclusion

The DCFTA is certainly an appropriate instrument for the EU to stimulate Europeanization in Georgia. Georgia has no viable alternative to Europeanization (or more generally, Westernization). The EU's approach to EaP countries generally, and Georgia particularly, is adequately ("country-tailored") conditioning their political association and economic integration on the pace of reforms and individual ambitions. Taking into account that Georgia is currently more interested in the security aspect of the EU's role in the post-war context than in the economic benefits of a DCFTA, it will take more time for Georgia to reap the fruits of those benefits. Due to the dramatically increased role of the EU in Georgia, the government tends to implement "Eurocentric" reforms even if they contradict its libertarian doctrine and practices.

About the Author

Badri Kochoradze is an independent expert specializing in international politics, social sciences and European studies. With a PhD in psychology and Master's degree in public administration, he accumulated extensive experience in academia as well as in the area of development assistance while working with different international organizations.

1 Prior to the buyback Georgia's sovereign external amortization was scheduled to increase from USD126m in 2011 and USD294m in 2012 to USD947m in 2013, before declining to USD320m in 2014.