

# GEORGIA'S TRADE POLICY AND FREE TRADE AGREEMENT WITH THE EUROPEAN UNION, REALITY AND FUTURE

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## Abstract

The track of Georgia's integration with the West crosses several basic goals. First and foremost, of course, it is membership in NATO and the European Union. Europe supports those countries which are considered as its strategic partners politically. Today, when the EU really sees that less a developed country tries to follow democratic standards and does not give up important principles of the European civilization, as an encouragement, it creates opportunities to sign a free trade agreement with such country. Today, Georgia is considered in such an aspect. Signing of a free trade agreement with any particular country is definitely oriented to some positive result. However, cooperation of this scale with such conglomerate as the European Union can be viewed also as a kind of indirect guarantee of Georgia's security. It is worth emphasizing that a free trade agreement is one of the components of the association agreement. Presumably, until the end of 2013, the dates when formal negotiations could start on this issue will be agreed upon. It looks like it will be the second half of 2014. The very fact that free trade with Europe may become real is very positive.

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**Keywords:** Free trade, trade policy, integrtrion, European support

## Introduction

The curve of Georgia's integration with the West passes through several basic signposts. First and foremost, it is apparent that before membership in NATO and the EU, it is a special status of associated membership. To get this status, the so called 'new roadmap', a kind of a 'MAP' of the EU was called on. Its role was vested into the East European Partnership Agreement that the European Union signed back in 1999 with six nations (Georgia, Armenia, Azerbaijan, Belarus, Ukraine and Moldova) and provided intensive economic interaction between the European Union and these countries.

As opposed to other countries, Georgia has enjoyed for a long time the Generalised Scheme of Preferences plus system (GSP+). It stipulates partial or entire removal of tariffs on two thirds of all product categories on the European market. The Georgian products on the European market have serious preference rights. From 10000 tariff positions as specified by the Unified Customs Code of the EU, today about 9300 denominations of goods are covered by this scheme, but notwithstanding this, Georgia exports only tens of denominations of commodities to the EU. From them only 34 denominations of commodities are covered by the privileges of the GSP+ regime. Starting from 2008, the European Union has offered Georgia to sign Deep and Comprehensive Free Trade Area Agreement (DCFTA).

Europe supports and encourages those countries that are deemed to be its politically strategic partners. If the EU sees that a less developed nation tries to arrange its development on the path of democracy and its standards and does not betray important principles of European civilization to support these countries, the European Union offers

them an opportunity to sign a Free Trade Agreement. Today Georgia is viewed within this vein. The point is how timely and right will our response to this opportunity be? According to international practice, Free Trade Agreement is not a simple paper to sign. Its preparation entails a long and daunting process within which the parties make up and negotiate particular liabilities and regulations.

In March of 2009 was published a report of a special mission of experts from the EU. The report delicately and in diplomatic language describes necessity of carrying out relevant reforms in Georgia and provides meaningful recommendations which are a must for signing of this agreement.

In November of 2010, at the meeting with the President of Georgia, the President of the European Commission, Mr. Jose Manuel Barroso openly hinted that the country to carry recommendations out needs 'more efforts'. It was the first warning for the Georgian authorities. He also emphasized that 'determination of time for trade negotiations is in Georgia's hands.' 2 more years passed and it turned out that our country was not ready not only for signing of Free Trade Agreement but for negotiations. It was the heritage of the newly elected government. In spite of intensive activity, the European Union has not finished its assessments and consultation process. In spite of the fact that the previous Georgian government stated a lot of times about its desire to sign such agreement, it has made no real and particular steps in this direction. Evidence to this is that despite of a lot of reminders from the EU and its Commission, for several years the Georgian government stubbornly refused to fulfil all 4 requests. These requests are taken by the European Union as preconditions to the signing of the Free Trade Agreement. These four requests are as follows: reform of the statistics agency and statistics system, amendments in the Labor Code, resolution of the food security problem and introduction to anti-monopoly regulation. Neither direction was addressed by viable steps from the Georgian authorities until 2013. Supported by well-organized PR campaigns, within these requests only 'some' insignificant and 'show-offish' changes have been introduced. Anti-monopoly laws have been formally amended, but articles and paragraphs which were included in the laws in reality cannot and will not deliver change in the existing setting. All these things have been easily seen by the EU experts. Before and during discussions of the bill and many recommendations have been issued, but... The leeway of negotiations is not big but the outcome depends on the implementation of vested liabilities. The task is to do things right.

To make it short, 5 years have passed and talks have not started yet. Georgia failed to fulfil minimal requests necessary for starting of talks. Experts of the European Union openly stated about their substantiated doubtful opinion on the readiness of Georgia to the transition of intensive stage of negotiations.

It is noteworthy that parallel to these developments, in the so called pro-government paper and TV media more and more vocal became experts and specialists who stirred questions with the viewership and readership "How desirable is an agreement of the kind offered by the European Union? Europe is led only by its own interests and it needs market for its own commodities." So, insidiously the public opinion was formed against the Free Trade Agreement. Besides, the people of libertarian world outlook who were in the previous government had already placed Georgia's economy in certain frames. According to them, it was an open market principle in action with the help of which they tried to create favorable conditions for attracting investments.

Definitely, setting in effect of the Deep and Comprehensive Free Trade Area Agreement from the side of Europeans is a kind and purely political decision, since from pragmatic point of view, Georgia is a very small market, and its share in the turnover of the European trade space is likely to be about 00,01 percent.

It is worth noting that today the Europeans have a Free Trade Agreement only with South Korea.

### What will bring Free Trade Agreement to Georgia?

Export of any kind of commodity from Georgia to the European Union will be much easier. We know that the main barriers in the trade are not tariffs but legislative background, and due to that it is very difficult for the commodities to reach out to the EU markets. First of all, here we mean technical regulations. But if we have technical regulations harmonized with the European Union, it will be possible to sign an agreement on the mutual recognition of quality adequacy system. It is very important to achieve it.

It is evident for all that European standards are high and services are of high quality, therefore, if Georgia fits in into these standards, not only European but the biggest consumer market of the United States of America will be open for her. Consequently, it will be much easier to conclude a free trade agreement with the USA. Marketing of the Georgian products will also be facilitated.

After new Georgia achieves, the status of the European market participant, we will become much more attractive for bringing investments from the countries having biggest financial opportunities, like Americans and European, and also Japanese and our neighbour nations. Since Georgia has cheap workforce and local raw materials, and the Georgian agriculture manufactures ecologically pure products, Georgia will become a venue of producing international brand products. According to the logics of business, an investor will start here enterprises having high technological potential, since his products could be exported to Europe without any barriers, customs and additional formalities.

Several years ago, a well-known research group, CASE, along with Global Insight, conducted a survey showing that Deep and Comprehensive Free Trade Agreement with Europe can have an important positive impact on the Georgian economy, especially in spheres of our nation's comparative advantage. According to the survey, for example, during 5 years from signing of the agreement, textile manufacturing may grow by 55%. DCFTA may have positive impact on the mining and open-pit industry. Chemical rubber and plastic industry may have growth by 19%. Positive influence of trade regime will also tell on steel industry which may grow by 30%. It is also important that putting DCFTA into effect may also impact raise of the level of salaries and wages in Georgia. All the above-mentioned stems from the fact that perspective of expansion may have such industries that have high intensity of labor (steel industry, production of textile, etc.). At the same time, free trade regime may provide significant positive fillips to the expansion of export products. In the next five years increase in the overall Georgian export may amount to 13%. Export of metal products may also increase, as well as exports of food staples and beverages (especially natural wines and alcohol drinks). Export of textiles in the next five years may increase by 158%. Other industries, like production of furniture, leather and haberdashery, jewelery, toys sporting items and others.

What are the main requirements that Georgia should meet before the negotiations start?

We should have such developed system of standards that nears the European standards; likewise, the European level of standards should be ensured in the field of statistics; competition sphere should be regulated. Important direction is also a copyright sphere. Also very important fields at which European Union pays great attention are sanitary and phytosanitary with regards to foodstuffs.

Today the new Georgian Labor Code will play advantageous influence on the negotiations. In spite of the fact that necessity of the adoption of the new labor Code has been on the agenda since 2008, national Movement government did not even think about that.

### **Conclusion:**

Georgian production to be imported on the European markets should pass certification process at the internationally recognized certification centers. Harmonized

standards should be adopted what requires several years and serious investments. And in fact, serious investments can come only after free trade agreement.

It should be emphasized that a free trade agreement is one of the components of the agreement on association. It is exactly for the sake of this that Georgia's alertness for the Vilnius summit has a special importance. Agreement on Association is a way to the Deep and Comprehensive Free Trade Agreement.

This is not a fantasy and for Georgia its accomplishment is absolutely feasible. During the last several months most of issues have been tackled and relevant paperwork has been dispatched to the European Union. Presumably, until the end of 2013 these dates of formal negotiations will be determined. It is likely to be the second half of 2014. The very fact that a free trade with Europe is possible and it may become a reality, is very positive, but it should be achieved.

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