



საქართველოს პოლიტიკის ინსტიტუტი
GEORGIAN INSTITUTE OF POLITICS

POLICY BRIEF

April 2017 / Issue #6

Georgia's European Integration: What Comes After The Eastern Partnership?

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Executive summary

This policy brief explores future avenues for EU-Georgia relations going beyond the Eastern Partnership (EaP) but short of full EU membership. Enlargement fatigue coupled with economic and migration crises and the resultant rise of far-right groups puts additional pressure on the EU's relations with its Eastern Partners. Georgia's longtime goal of joining the EU is off the table, and the gap in expectations between what Georgia aspires to and what the EU is capable of offering is growing. However, the history of EU relations with third countries offers a number of creative solutions that go beyond the exhausted framework of the EaP initiative but stop short of full membership. This policy brief focuses on such intermediate solutions for enhanced integration that may guide EU-Georgia relations through the uncharted waters of the post-EaP era. The brief concentrates on three core areas of EU-Georgia relations: democracy and rule of law; economic integration; and security and military affairs. It is argued here that, whereas democratic consolidation is a precondition for further deepening of relations with the EU, Georgia's government and society should temper their expectations regarding full membership in the Union anytime soon and instead concentrate on more immediate goals such as: completing Georgia's integration into the EU single market by implementing labor mobility with the EU; and establishing and deepening institutional relationships with EU military and security structures.

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Key findings and recommendations

Democracy and rule of law

- The Georgian government should ensure the sustainability of Georgia's democratic development, without which the country's European integration aspirations are without basis. Integration will become even more difficult to fulfill given that Georgia has received all available incentives from the EaP but has not set new targets regarding democratic development.
- In addition to democratic consolidation, managing public expectations and preventing the rise of Eurosceptic moods among the Georgian population shall remain priorities of the government.
- Georgia's civil society with the backing of the EU and international community should act as a guardian of Georgia's democratic institutions. In particular, it should work to prevent the government from attempting to roll back Georgia's democratic development.

Military and security

- NATO integration shall remain a priority for Georgia. However, the Georgian government should carefully observe the growing gap between the US and the EU and attempt to integrate into any alternative military structure that may be created by the EU in the future.
- Georgia should attempt to establish institutional relations with EU military and security agencies including the European Defense Agency and the newly-established Military HQ for Military Missions.
- Georgia should closely coordinate with Ukraine its Euro-Atlantic integration efforts, as Ukraine shares common concerns with Georgia but due to its size and strategic location is far more important for the EU and NATO.

Economic integration and social mobility

- Accession to the European Economic Area (EEA) which includes free labor mobility may be the best-case medium-term scenario for Georgia. The Georgian government should seek a special arrangement with the EU that allows Georgian workers to enter the EU labor market for limited periods of time.
- Not every possible configuration of future economic integration with the EU will be profitable for Georgia. Since Georgia is pursuing a liberal trade policy oriented at signing free trade deals with third countries, the country should avoid entering economic treaties that limit freedom of external trade, such as the Customs Union (CU) with the EU.
- Georgia should complement its attempts at further economic integration with the EU with a multilateral track. The Georgian government should cooperate closely with Ukraine and Moldova to establish an EFTA-like organization which could pave the way for the three EaP countries' limited access to the EEA, which would include labor mobility.

Introduction

“Georgia is returning to the European family” – Georgian Prime-Minister Giorgi Kvirikashvili tweeted on 28 March 2017 when the visa-free regime with the EU was officially launched (Civil Georgia 2017). Indeed, and unlike the Agreement on Deep and Comprehensive Free Trade Area (DCFTA) – the positive results of which will only be visible in the long-term – the visa waiver is the first and most important tangible benefit of Georgia’s European integration process. At the same, however, it marks the end of the current era in relations between the EU and Georgia. With the visa waiver now officially in force, Georgia has eaten the last “juicy carrot” offered by the Eastern Partnership (EaP) Initiative and thus exhausted the potential benefits of the current framework of relations.

Georgian politicians, academics, and civil society activists are now contemplating what the next steps in EU-Georgia relations should look like. It is obvious that the South Caucasus as a region has become irrelevant, and the EU itself has largely given up on regional “one-size-fits-all” thinking (Börzel and Lebanidze 2015). Rather, it is now acknowledging the importance of bilateralism in its relations with EaP countries, a fact reflected in its recent

review of the European Neighborhood Policy (ENP) (European Commission 2015). On the other hand, there is a group of pioneer EaP countries – Georgia, Moldova, and Ukraine – who have been frontrunners of the EaP Initiative and are the only EaP countries with clearly expressed wishes to join the EU. Except for a common geopolitical interest in containing Russia, however, the domestic conditions and needs of these countries are diverse enough to preclude a common approach. Thus, Georgia may need a bilateral track with the EU which will focus on its needs and exclude those aspects that may be important for other EaP states but are irrelevant to its own situation (for instance, combatting petty corruption). However, such a bilateral track may be unappealing to the EU as, unlike Ukraine, Georgia's political importance is relatively low. Hence, in the best-case scenario Georgia would seek to establish both bilateral and multilateral (i.e., in cooperation with Ukraine and Moldova) mechanisms for cooperation with the EU that go beyond the current EaP framework.

In reality, however, there is little Georgia can do to facilitate the process of Euro-Atlantic integration. The speed and intensity of EU-Georgia relations depends more on currently-unfolding shifts inside the Euro-Atlantic alliance. NATO is in crisis and it's not yet clear if and how the EU will survive its multiplicity of crisis including: Brexit; the rise of the far right; the migration crisis; and Russian revisionism. Uncertainty surrounding the future of the EU and NATO keeps the Eastern Partnership (EaP) countries in limbo as they've based their future plans on integration into organizations that may not exist in the near future in their current form. This policy brief analyzes scenarios for the future development of relations between the EU and Georgia in three key areas: democracy and rule of law; security and military cooperation; and economic relations. For Georgia, the process of European integration has two interlinked dimensions – domestic and external. Democracy and rule of law belong to the domestic dimension of Georgia's Europeanization process, lying within the responsibilities of Georgia's government and society. It is important for the Georgian government to understand that enhanced forms of EU integration with third countries, which go beyond the EaP framework, go hand-in-hand with democratic development and good governance in those countries. One is not possible without the other. On the other hand, there is an external dimension to Georgia's European integration – the further deepening of economic and political ties, on which Georgia has no leverage.

As the crisis-wracked EU is politically unable to offer a membership perspective to the EaP countries, it's worth taking a closer look at the different models of enhanced integration that lie between the EaP framework and full membership. Those may involve the prospect of access to the EEA, something which could include a special arrangement covering labor mobility or close cooperation with newly-evolving EU military structures.

Democracy and rule of law

How can the Georgian government contribute to Georgia's European integration processes? How can it prevent diversion from Georgia's European path? There are two main domestic obstacles that could derail Georgia's European integration and that fall within the responsibilities of the Georgian government: the degree of democratic development in Georgia and rise of Eurosceptic attitudes among the Georgian population.

With implementation of the Association Agreement (AA) and visa-free regime, Georgia has reached a level of integration with the EU at which the Union will find it difficult to tolerate any significant deviation from democratic norms. That is even more true of future EU-Georgia relations. Of the countries which are more deeply integrated with the EU than Georgia, all are more democratic in comparison. Hence, if anything about future EU-Georgia relations is certain, it is the indivisibility of the democratization-Europeanization nexus: Without further democratization there will be no further integration with the EU.

The challenge of democratic consolidation of Georgia is further complicated by the fact that, at least as of early 2017, all "juicy carrots" have already been eaten and there are no new external incentives to induce the Georgian government to follow democratic norms. The problem is exacerbated by a new power equilibrium established after the recent parliamentary elections, which gave the ruling Georgian Dream party a supermajority in parliament. Georgia's political landscape lacks the maturity to secure adherence to democratic norms on its own. In the past it has required public mobilization and protest to impose discipline on Georgian governments, thus avoiding state capture and various other autocratic practices. The international community and especially the EU have played key roles in encouraging democratic processes by putting pressure on incumbent regimes whenever necessary. Yet there are concerns that, after consuming all the benefits of the EaP – such as the DCFTA and the visa-free regime – the Georgian government will be less keen to constrain itself with democratic rules and procedures. However, recent events surrounding the private TV station Rustavi2 clearly demonstrated that the international community can and will exert pressure on the Georgian government when it deviates from democratic norms.

The second major domestic challenge that of preventing a rise in Eurosceptic attitudes among a Georgian public which currently aspires for nothing less than full EU membership. To address this problem, Georgia needs effective expectation management. The previous government under Mikheil Saakashvili was notorious for making unrealistic promises in order to gain domestic support. The current government has been more reserved in this

regard. However, that may not necessarily be a sign of political maturity; rather, it could also be a product of its policy of accommodating Russia's interests. The Georgian population has begun to display dissatisfaction with stagnating European integration processes. A recent poll conducted by the National Democratic Institute (NDI) indicated that 31% of Georgians would trade European integration for better relations with Russia, which in their opinion would be more beneficial for the country (NDI 2017). Recent success stories such as accomplishment of the visa-free regime with the EU might temporarily forestall growing Eurosceptic attitudes. However, in the medium-term perspective, the absence of an EU-membership perspective and the lack of immediate positive effects from the DCFTA threaten to cause the public mood to take an anti-EU swing.

Quest for sustainable security

Security remains the primary concern for all EaP states, including Georgia. Georgia has attempted to improve its vulnerable geopolitical position by joining NATO. However, the process has stagnated since 2008 due to politically-motivated resistance by certain European NATO members, most notably France and Germany. Realistically, Georgia cannot expect acceptance into NATO anytime soon, as support for its membership has also gradually eroded in Washington, Georgia's leading Western ally. Therefore, Georgia needs to seek alternative—even if provisional—solutions. By doing so, it should carefully follow the unfolding NATO crisis which has been further fueled by US President Donald Trump's approach toward the Alliance, which questions the utility of the US commitment to defend its European allies. In reaction to mixed signals from Washington, the EU has begun to take its security more seriously, taking steps to strengthen its military and security institutional structures. For instance, EU members recently agreed to establish joint military headquarters (HQs) for the "planning and conduct of non-executive military missions" (EUbusiness 2017)—a move seen by many as a precondition for establishing a "European army" that could rival NATO (Kanter 2017). Regardless of recent changes, the EU remains a reluctant regional hegemon in terms of engaging or confronting Russia in the military and security spheres. However, things are changing. The highly institutionalized nature of the EU has allowed it to run a consistent foreign policy regardless of changing circumstances, whereas the long-term reliability of the US is being tested by the growing impression that it may drastically alter its policy preferences based on who sits in the White House.

To be sure, a country like Georgia does not have the luxury to choose between different Western military settings. It must adapt to changing circumstances in the West and seek

close ties with current and future US- and EU-led military structures. It was a mistake of the previous government to focus solely on military and political ties with the US to the exclusion of the EU. Georgia's political estrangement from the Western European members contributed to the NATO decision not to grant a Membership Action Plan at the NATO summit in 2008. Since then, Georgia has worked to diversify its military and security ties with some success, for instance the acquisition of advanced air defense systems from France (Kucera 2015). Although it may not be an easy road, Georgia should work to establish institutionalized ties with the EU in the military and security realms. The Association Agreement already provides explicit provisions on Georgia's participation in several sector-specific EU agencies, including the European Defense Agency (Emerson 2016, 12). Georgia has also been actively involved in EU-led peacekeeping missions, demonstrating that it's not just a consumer but also a provider of security. It was the only non-EU country to participate in the European Union peacekeeping mission in the Central African Republic. Yet, the current level of relations with the EU is barely enough to contribute to Georgia's long-term security and stability, let alone help restore its territorial integrity. The Georgian government should attempt to integrate into any new security or military arrangement that may develop under the auspices of the EU in the coming years. On a concrete level, this may take the shape of Georgia's full or associated membership in EU military structures, participation in EU-led missions and joint military drills, acquiring defensive lethal weapons on the EU market, and participating in EU-wide defense procurements.

Recently there has also been much hype about the Intermarium—the concept of a new security alliance encompassing several Eastern European states (Umland 2016; Dostál 2016). Yet without commitments from Germany and other Western European countries, any European alliance structure will lack substance and sufficient capacity to defend itself from Russian hybrid warfare or provide an effective deterrent against Russia. Moreover, it's unclear whether the EU's Central and Eastern European member states will commit to a new alliance. The idea has thus far been mostly discussed in academic circles in Ukraine and Poland. In addition to questions of feasibility, the concept also lacks a clear vision of what such an alliance would look like. Andreas Umland, a German expert working in Ukraine, argues that the strategic alliance between NATO-member Turkey and non-member Azerbaijan might serve as a model for the Intermarium (Umland 2016). However, it is questionable to what extent this model can contribute to the stability and security of EaP countries. So far, strategic alliance with Turkey has failed to strengthen Azerbaijan's security and stability, let alone resolve the Nagorno-Karabakh conflict.

Upgrading economic relations

The economic sphere represents the most advanced area of EU-Georgian relations, with DCFTAs being the most comprehensive free trade agreements the EU has signed with any third country. The agreements ensure a “high degree of inclusion in the single market for three of the four freedoms”: the free movement of goods, service, and capital (Emerson 2016, 6). However, the fourth and arguably most important freedom—labor mobility—is excluded from the DCFTAs. Under conditions where full EU membership is not in sight, the pioneer EaP countries, including Georgia, should concentrate on two main objectives: further deepening of economic integration; and achieving free labor mobility with the EU. As unrealistic as it seems amidst the migrant crisis and rise of the far right in many EU countries, in the long-term future the opening of the labor market may be a win-win for both parties: demographically-aging EU countries need to develop more sophisticated mechanisms for controlled immigration in order to sustain their social systems; and the EaP states can provide skilled, low-cost workers with relatively minimal problems integrating. To alleviate public anxiety in EU member states, additional control mechanisms can be established to put temporal and segmental limits on labor migration from the EaP states. On their part, the opening of the European labor market will allow the EaP countries to reduce their dependency on remittances from Russia. In Georgia’s cases, that currently accounts for between 5 and 10% of GDP annually.

In recent decades the EU has developed a number of models for economic relations with third countries that involve different degrees of integration. In addition to the DCFTAs, the EEA and CU are the two most advanced forms of economic integration, hence it is worth comparing the three models for economic integration.

EFTA

The best-case scenario for advancing Georgia’s European integration in the areas of economic and social mobility would be membership in the EEA, which was launched in 1994 to “extend the EU’s internal market to countries in the European Free Trade Area (EFTA)”¹ (European Parliament 2017). Membership in the EEA is contingent on full implementation of all EU single market legislation, the bulk of which is already covered by the DCFTA. A key difference between the EEA and the DCFTA is the former’s incorporation

¹ EFTA was founded in 1960 in Stockholm. It does not belong to the EU but is an independent intergovernmental organization “set up for the promotion of free trade and economic integration to the benefit of its four Member States” (EFTA 2013). It currently includes four countries: Norway, Iceland, Liechtenstein, and Switzerland.

of all four freedoms of the EU's internal market: free movement of goods, people, services, and capital. On the other hand, the EEA does not include membership in the CU, hence it doesn't limit the freedom to negotiate free-trade agreements with third states. For instance, EFTA members have already negotiated 31 such agreements (Emerson 2016, 3).

One path to membership in the EEA is to first apply for membership in the EFTA; however this may prove even more difficult than full EU membership. According to the EFTA convention, "any State may accede to the Convention provided that the EFTA Council decides to approve its accession, on such terms and conditions as may be set out in that decision" (EFTA 2013, 29). Moreover, unlike the EU, the EFTA lacks formal criteria for accession and. Accession depends only on the political will of the Council, the organization's highest governing body. The fact that political preferences dictate decision-making processes inside the EFTA Council was exemplified by post-Brexit discussions when Norway threatened to block the UK (a founding member) from rejoining the EFTA, an act that would "shift the balance" inside the organization (The Guardian 2016). In the case of the EaP countries, including Georgia, there are even less obvious reasons why the developed Western European states would want to accept poorer and less developed EaP countries into their exclusive club.

Instead of entering long negotiations with the EFTA, the pro-EU EaP countries may be advised to launch negotiations on a similar framework agreement modeled on the EFTA. All three AA countries (Georgia, Moldova, and Ukraine) have already taken the first step by achieving visa liberalization, and since 2014 have the most comprehensive free trade regimes the EU has signed with any third country. That combination creates the preconditions for negotiating membership in the EEA in the long-term future. That may happen under the umbrella of an "EFTA-East" which might include the EaP states which already exhausted the initiative's full potential by eating its two major carrots – the DCFTA and the visa-free regime.

Customs Union

Entering the CU with the EU might be another model for future economic integration. The EU-Turkey Customs Union, which has been in force since 1995, is the best example of how the CU works in relation to third states. The CU has contributed to Turkey's economic and trade upswing, transforming it into a regional "trading state" (Kirişci and Ekim 2015, 2). Within twenty years, bilateral trade between the EU and Turkey increased sixfold and Turkey's overall annual trade volume increased from \$20 billion to \$400 billion between

1985 and 1994 (Kirişci and Ekim 2015, 2). Georgia's small economy is not comparable to Turkey, thus the economic benefits to Georgia as well as to the EU would be rather moderate. However, entering the CU would have strategic significance for Georgia. It would further anchor Georgia in the European market, reduce the number of tools available to Russia for putting pressure on Georgia's economy via non-market methods, and create fertile ground for further economic and, potentially, political integration with the EU.

However, the CU with the EU could have downsides as well. The CU's main feature is the "common external tariff", a "common system of tariffs and import quotas that apply to non-members" (BBC 2017). Hence, entrance into the CU would limit the freedom of EaP states to negotiate trade agreements with third countries. That could potentially conflict with Georgia's current liberal trade agenda which it has followed since the Rose Revolution. For instance, the free trade agreement with China, which is set to enter into force by the end of 2017, would not have been possible if Georgia were a member of the CU. However, even without membership in the CU, free trade with the EU still comes with strings attached. For instance, membership in the EEA is contingent on adherence to "rules of origin." Accordingly, Georgian exporters must demonstrate that the goods they export to the EU originate in Georgia and are therefore eligible for tariff-free import into the EU. At first glance, this appears to be a restriction. However, the rules of origin regulation may have a positive impact for Georgia's economy, for instance by attracting foreign direct investment. Application of rules of origin could motivate foreign entrepreneurs to move production to Georgia to gain the ability to export to the EU on preferential terms. Georgia's low labor costs could also support that. Yet, the main weakness of the CU remains its exclusion of free labor mobility – which remains a high priority for all EaP countries. Taking into account a number of other restrictions on free trade policies, it remains questionable whether the CU is the logical continuation of already-existing DCFTAs.

Conclusions

This policy brief analyzed the future challenges and opportunities posed by Georgia's European integration. After accomplishing all major, tangible objectives of the EaP – including the DCFTA and visa-free regime – Georgia, together with Moldova and Ukraine, enters a gray zone in its relations with the EU. All bilateral targets have been achieved and no new goals have been articulated. A wide gap exists between the expectations of Georgia's citizenry – who aspire to nothing less than full membership – and the EU's reluctance to offer any new avenues for integration. Under conditions where the possibility of EU-membership is absent, the Georgian government must focus on three challenges: first, it should ensure that there is no public backlash against the EU and there is no rolling back of democratic development at the domestic level; second, in addition to its quest to join NATO, Georgia should attempt to establish institutional cooperation with nascent EU military and security structures; and third, Georgia should look for ways to accomplish integration into the EU's single market, most notably by achieving free labor mobility with the EU.

As discussed in this policy brief, the best way to achieve labor mobility with the EU – the only remaining of the four core freedoms that remains restricted after the launch of the DCFTA – is to create an EFTA-like organization comprised by the three DCFTA-EaP states and which could pave the way toward access to the EEA. On the other hand, Georgia should avoid entering any institutional frameworks with the EU that would provide fewer benefits while imposing restrictions on Georgia's external trade, an example being the CU with the EU. In the military and security area, Georgia should continue to knock at NATO's door but at the same time closely monitor EU efforts to develop its own military capacities. In particular, Georgia should engage in military and security cooperation with the EU and its member states as much as possible. Finally, the Georgian government should attempt to consolidate democratic structures and should ensure that there is no democratic rollback in the country, as further Europeanization is not possible in the absence of simultaneous democratization.

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Tbilisi-based non-profit, non-partisan, research and analysis organization. GIP works to strengthen the organizational backbone of democratic institutions and promote good governance and development through policy research and advocacy in Georgia.



This publication was produced with the support of the National Endowment for Democracy (NED). The views and opinions expressed in this article are those of the authors and do not necessarily reflect the views of the Georgian Institute of Politics and the National Endowment for Democracy (NED).