

**Joint Master in EU Trade and  
Climate Diplomacy**

***Navigating Trade: A Comparative  
Analysis of Georgian and  
Armenian Exports to the EU  
Post-2004***

**Supervised by Prof. Dr. Ebru Turhan**

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**2024**

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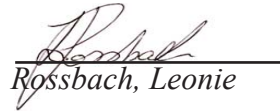
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## **Abstract**

This thesis investigates the impact and evolution of European Union (EU) trade policies on the export of goods from Georgia and Armenia within the context of geopolitical developments from 2004 to July 2024. The primary research question explores the effectiveness of these trade integration policies in fostering sustainable exports to the EU amidst regional tensions. The study examines key trade frameworks, including the Generalized Scheme of Preferences (GSP), the Deep and Comprehensive Free Trade Area (DCFTA) for Georgia, and the Comprehensive and Enhanced Partnership Agreement (CEPA) for Armenia. Employing a comparative case study approach, the research utilizes data from primary and secondary sources. Findings indicate that while both countries experienced increases in trade volumes with the EU, the impacts and dynamics diverged due to differences in trade agreements. The DCFTA facilitated substantial benefits for Georgia, including tariff liberalizations and enhanced market access, though challenges remain in regulatory compliance and export diversification. Armenia, despite benefiting from GSP+ and CEPA, faces limitations due to its membership in the Eurasian Economic Union, affecting its ability to negotiate independent trade agreements. The thesis concludes that while EU trade agreements offer significant benefits, Georgia faces challenges in aligning with EU standards, and Armenia's potential remains constrained by its EAEU membership.

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## **Introduction**

At the crossroads of economic ambition and geopolitical complexity, the European Union's (EU) evolving trade relationships with Georgia and Armenia since 2004 to July 2024 offer a captivating lens into the intricate dynamics of regional integration. This thesis explores these trade relations, focusing on the specific trade policies in place and examining the impact and evolution of EU trade laws and agreements on the export of goods from Georgia and Armenia within the context of geopolitical developments.

Georgia and Armenia were chosen for this comparative study not only due to their geographic proximity in the Caucasus but also because both countries are integral parts of the European Neighbourhood Policy (ENP) (Strategic Communications 2021) and the Eastern Partnership (EaP), the ENP's Eastern dimension established in 2009 (DG NEAR n.d.a). The year 2004 serves as a pivotal starting point due to the introduction of the European Neighbourhood Policy (ENP) (Strategic Communications 2021). Furthermore, both nations have also benefited from the Generalized System of Preferences Plus (GSP+) treatment, enhancing their trade opportunities with the EU (Deen, Zweers, and Linder 2023). Additionally, both Georgia (General Secretariat of the Council 2023) and Armenia (Volpicelli 2024) have expressed aspirations to become EU Member states, which would grant them access to the Single Market and significantly affect their trade dynamics (DG TRADE n.d.e). Despite these similarities, there are crucial differences in their political alignments and economic strategies that make their comparison particularly insightful. For example, Georgia's active pursuit of the Deep and Comprehensive Free Trade Area (DCFTA) (EIB/ EBRD 2021) contrasts sharply with Armenia's membership in the Eurasian Economic Union (EAEU), which restricts its ability to independently negotiate trade agreements with the EU (Kostanyan and Giragosian 2017).

Analysing how EU integration policies influenced and continue to influence trade and political stability in Georgia and Armenia offers valuable insights into the broader challenges and opportunities facing the EU's eastern expansion. Georgia officially applied for EU membership in March 2022 and was granted candidate status by the European Council in December 2023, contingent upon fulfilling specific steps (General Secretariat of the Council 2023). However, the accession process stalled by the European Council in June 2024 due to concerns about a new "foreign influence" law, which the European Council



sees as a setback for Georgia's EU path (Press and information team of the Delegation to 2024). In March 2024, Armenia's Foreign Minister Ararat Mirzoyan expressed the country's consideration of a formal EU membership application (Grigoryan 2024).

The examination of past trade policies, such as the GSP+ treatment, even if no longer applicable (DG TRADE 2021), provides context for understanding current trade dynamics and prospects. They shaped the initial trade environment and highlighted the challenges and opportunities that subsequent policies, like the DCFTA and CEPA, needed and still need to address. Therefore, studying these policies helps in comprehensively understanding the evolution of trade relations and the potential trajectories of Georgia and Armenia's integration with the EU.

The central problem addressed in this thesis is the effectiveness of the EU's trade integration policies in fostering sustainable trade of goods exported from Georgia and Armenia amidst regional geopolitical tensions. This issue is particularly significant given the different political alignments and economic strategies of Georgia and Armenia, which shape their respective paths towards EU integration. By conducting a comparative analysis, this study aims to identify the similarities, differences, and evolving dynamics in EU-Georgia and EU-Armenia relations, contributing to a deeper understanding of the complexities and opportunities within these diplomatic and economic interactions.

This research is structured around one central question and two sub-questions. The primary research question is: "To what extent have the European Union's trade integration policies towards Georgia and Armenia been effective in fostering sustainable trade of goods exported to the EU amidst regional geopolitical tensions?" The two sub-questions that will guide the analysis are "What are the key trade policies between the EU and Georgia, and between the EU and Armenia?" and "What factors account for the differences in the nature of the trade policies the EU has with Georgia compared to those with Armenia?"

The thesis is structured as follows: Chapter 1 introduces the European Neighbourhood Policy (ENP) and the Eastern Partnership (EaP), establishing the foundational frameworks through which the EU engages with neighbouring countries, including Georgia and

Armenia. It explores how these partnerships aim to enhance political and economic cooperation, fostering closer ties between the EU and its eastern neighbours.

Moving on, Chapter 2 examines the evolution of EU trade relations with Georgia. It begins by examining the impact of the GSP on Georgia, providing insights into how this preferential tariff system has influenced Georgian exports to the EU. The chapter then moves on to analyse the DCFTA, exploring its effects on Georgia's trade dynamics, export performance, and enterprises. Specific aspects such as the Public Procurement Reform, the Rules of Origin, and the influence of oligarchs on Georgia's export composition are scrutinized to offer a comprehensive view of the challenges and opportunities presented by the DCFTA. The chapter concludes by addressing Georgia's EU membership application and the associated political challenges.

Chapter 3 begins with an overview of the Partnership and Cooperation Agreement between the EU and Armenia, then traces Armenia's transition from the GSP+ to the MFN treatment and its implications. Furthermore, the chapter discusses the failed Association Agreement and DCFTA, and the eventual signing of CEPA. The chapter also covers Armenia's interest in EU membership and concludes with a summary of the trade integration challenges Armenia faces.

Chapter 4 presents a comparative analysis of the EU's trade relations with Georgia and Armenia. This chapter identifies similarities and differences in the trade policies, agreements, and outcomes for both countries, offering insights into how each country's geopolitical context shapes its trade relationship with the EU. The comparative analysis helps to highlight the distinct challenges and opportunities that Georgia and Armenia face in their paths towards deeper integration with the EU.

Finally, the conclusion synthesizes the findings from the previous chapters, addressing the primary research question regarding the effectiveness of the EU's trade integration policies in fostering sustainable trade with Georgia and Armenia amidst regional geopolitical tensions. The conclusion also reflects on the broader implications of the research, offering recommendations for future EU trade policies that can better support the unique needs and aspirations of both countries.

## Literature review

The literature on EU trade relations with Georgia and Armenia is extensive, including academic journals, policy papers, government reports, and news articles. Journals like the *Journal of European Integration*, *European Foreign Affairs Review*, and *East European Politics* frequently cover this subject. Think tanks such as the European Council on Foreign Relations and Carnegie Europe have also produced numerous reports. However, because the literature on EU trade relations with Georgia and Armenia is so extensive, I decided to focus specifically on the impact of EU trade policies on the exports of these countries to the EU. This proved to be more challenging than anticipated. For example, understanding the impact of GSP+ on Armenia revealed limited consistent data since 2006, the year Armenia received GSP+ status. However, I found a comparison between tariffs during the GSP+ period and the subsequent MFN status, demonstrating how GSP+ tariffs were more favorable than MFN tariffs.

Overall, the topic of EU relations with Georgia and Armenia is widely covered in journalistic literature, highlighting its relevance in discussions on EU trade policies and regional geopolitics. Websites like EurActiv, Politico Europe, and the European Council on Foreign Relations regularly provide updates and analyses. Given the dynamic nature of international trade and geopolitical developments, recent literature is crucial. Most relevant studies have been published in the last decade, reflecting ongoing changes in EU policies and regional dynamics. For example, recent publications have addressed the impact of CEPA with Armenia (Dovich 2023) and the DCFTA with Georgia (Welton 2021). However, older literature, such as the 1999 "Partnership and Cooperation Agreement Between the European Communities and Their Member States, and the Republic of Armenia," provides valuable context regarding foundational agreements that have shaped current trade relationships. This blend of recent and older literature ensures a comprehensive understanding of the topic.

Assessing the credibility of literature requires careful consideration of the authors' qualifications and affiliations. Most authors cited in this review are associated with esteemed universities, research institutions, and think tanks. For example, Tamara Kovziridze holds a Master's degree in political science, economics, and English philology from the University of Heidelberg and a Ph.D. from the Free University of Brussels. She has also

served as a professor at the Free University of Tbilisi (3dcftas n.d.). Salome Topuria is a PhD candidate in Political Science at the University of Kassel and the Berlin School of Economics and Law (Institute for International Political Economy Berlin n.d.).

I made a concerted effort to include reports authored by individuals from Georgia and Armenia or those who have worked or studied there. However, due to language constraints, I only reviewed reports available in English, as I am not proficient in Georgian or Armenian. Irina Guruli, for example, is the deputy director of the Economic Policy Research Center and an associate professor at Ilia State University in Tbilisi (Langbein and Guruli 2021), while Anna Barseghyan while Anna Barseghyan has an MA in Regional Studies and a BA in Political Science from Yerevan State University (Barseghyan n.d.).

An examination of publishers and authors reveals no significant concerns about radical or interest-driven tendencies. Reputable sources such as the European Commission, CEPS, and academic publishers ensure reliability. However, it is essential to remain aware of potential biases. Policy-oriented publications might reflect the interests of their sponsoring organizations, and articles from news outlets like Politico, Eurasianet, and Civilnet may carry editorial biases influenced by their target audiences and political alignments

The literature selected for this thesis is based on relevance, credibility, and recency. Academic publications and policy reports were prioritized for their rigorous methodologies and empirical data. News articles provided contemporary context and highlighted recent developments. Older literature offered historical context and traced the evolution of EU trade policies. Potentially biased sources were critically assessed and used selectively to ensure balance.

While substantial research exists on EU trade relations with Georgia and Armenia, significant gaps remain regarding the impact of EU trade policies on their exports to the EU. Firstly, there are few studies directly comparing the trade policies and outcomes for Georgia and Armenia in the last seven years. Secondly, although the impact of the Generalized Scheme of Preferences (GSP) on Georgia and its export performance to the EU under the DCFTA has been thoroughly examined, the impact of the Generalized Scheme of Preferences Plus (GSP+) and CEPA on Armenia remains under-researched. For instance, there is no literature explaining why Armenia experienced an increase in exports to the EU after

graduating from GSP+ treatment, despite the increased tariffs under MFN, which were predicted to lead to a 20% reduction in exports to the EU on a year-on-year basis (Dovich 2021b). As a result, I formulated my own theories to address this gap.

One reason for the extensive research on the impact of EU trade policies on Georgia's exports is Georgia's formal application for EU membership, which has likely drawn more academic and policy attention. This application signals a commitment to integrating with the EU, making it a subject of interest for researchers studying potential economic and political impacts. The application process involves meeting specific EU criteria and standards, prompting more studies to evaluate Georgia's progress and the effects of EU trade policies on its economy. In contrast, Armenia has not formally applied for EU membership, resulting in less focused research on its trade relations with the EU. Additionally, CEPA only entered into force in 2021 (Strategic Communications 2022a), whereas the DCFTA between Georgia and the EU has been in effect since July 2016 (EIB/ EBRD 2021, 47). This longer timeframe has allowed more opportunities to study the DCFTA's impact on Georgia's exports, resulting in a more comprehensive understanding of its effects. Furthermore, because the DCFTA has been in place longer, it has had more time to influence trade exports, making its impact more evident and measurable.

These gaps highlight the need for more comprehensive and comparative research on the trade policies affecting Armenia and Georgia. Such studies are essential for a deeper understanding of the economic implications and for formulating effective trade strategies for both countries in their dealings with the EU.

## **Methodology**

This thesis employs a comparative case study analysis, focusing on Georgia and Armenia as the primary cases. The design chosen is known as the "Most Similar Systems Design" (MSSD), which is particularly suitable for comparing cases that are similar in many aspects but differ in one variable of interest (Steinmetz 2021). Both Georgia and Armenia share a similar geographical position in the South Caucasus region, are integrated into the ENP (DG NEAR n.d.b) and the EaP (Strategic Communications 2022b), have received Generalized Scheme of Preferences Plus (GSP+) treatment from the EU<sup>1</sup>, and are

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<sup>1</sup> Further elaborated upon later in 2.1 The Impact of the Generalized Scheme of Preferences on Georgia and 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

significantly influenced by Russia in their trade relations with the EU.<sup>2</sup> However, they differ in their trade agreements with the EU, with Georgia having a DCFTA (EIB/ EBRD 2021). while Armenia has CEPA (DG TRADE n.d.a) and is a member of the EAEU, which restricts its ability to independently negotiate free trade agreements (Kostanyan and Giragosian 2017). By comparing two cases with similar backgrounds but potentially different outcomes, this design helps to highlight how variations in EU trade agreements and their implementation can lead to different economic results.

The study utilizes both primary and secondary sources. Primary sources include trade agreements, official documents, treaties and policy papers from EU institutions, Georgian, and Armenian governments. Secondary sources encompass academic journals, policy think-tank reports, government publications, and credible news articles. These sources provide a broad spectrum of data, from legislative texts to empirical analyses and expert commentaries.

The empirical research in this thesis employs primarily qualitative, complemented by quantitative data where available. The qualitative analysis involves a detailed examination of the legal texts of trade agreements, policy documents, and expert analyses. Quantitative data, such as trade volumes and export values, are used to support the qualitative findings and provide empirical evidence of the impact of EU trade policies.

In this methodological chapter, it is essential to acknowledge the limitations of the chosen methods. The lack of consistent longitudinal data on the impact of GSP+ on Armenia since 2006 necessitated a focus on comparative analyses of available data. Additionally, potential biases in qualitative data due to reliance on self-reported information and the inherent subjectivity in interpreting policy documents are considered. By combining both qualitative and quantitative approaches, this methodology aims to provide a comprehensive and balanced analysis of the impact of EU trade policies on the export dynamics of Georgia and Armenia.

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<sup>2</sup> Further elaborated upon later in 2.2.2.3 Analysis of Georgia's Export Composition and Oligarchic Influence, 2.3.2 Geo-Political Developments and Russian Influence, 3.3. Failed Association Agreement and Deep and Comprehensive Free Trade Area and 3.5 Armenia's Interest in a European Union Membership.

## Chapter 1 - The European Neighbourhood Policy and Eastern Partnership

The European Neighbourhood Policy (ENP), established in 2004; manages the EU's relationships with 16 neighbouring countries, including Georgia and Armenia, providing crucial context for this thesis (DG NEAR n.d.b).

The ENP aims to strengthen ties between the EU and its neighbouring countries, fostering stability, security, and mutual prosperity in both Southern and Eastern regions. Central to this partnership are shared values such as “democracy, [the] rule of law, respect for human rights, and social cohesion” (Strategic Communications 2021). Of relevance to this thesis is the Eastern dimension of the ENP, launched in 2009 as the Eastern Partnership (EaP). The EaP aims to enhance political and economic relations between the EU, its Member States, and “six Eastern European and South Caucasus partner countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine” (Strategic Communications 2022b). This partnership's geographical scope is illustrated in Figure 1.



Figure 1: *The Eastern Partnership. Stronger together* (General Secretariat of the Council 2024).

The EaP aims to enhance the “stability, prosperity, and resilience” (Strategic Communications 2022b) of the EU's neighbouring countries, aligning with the goals set out in the Global Strategy for the EU's foreign and security policy (DG NEAR n.d.a). The EaP employs both bilateral and multilateral cooperation frameworks (Strategic Communications 2022b). Since this thesis focuses on the trade relations between the EU and the countries

of Georgia and Armenia, the analysis will specifically address the relevant trade aspects of the EaP in relation to these countries.

### **1.1 The Eastern Partnership and Georgia**

A key milestone of the EaP in Georgia's trade relations with the EU is the Association Agreement, which entered into force in July 2016 (General Secretariat of the Council 2024). Initially signed in June 2014, this agreement established a Deep and Comprehensive Free Trade Area, aiming to align Georgian industrial and agricultural standards with those of the EU. This alignment surpasses the preferential tariffs Georgia previously benefited from under the Generalized Scheme of Preferences Plus (GSP+), which will be discussed in section 2.1. The DCFTA was anticipated to enhance Georgian exports to the EU market and attract increased foreign direct investment, thereby accelerating economic growth (EIB/ EBRD 2021). A detailed examination of the DCFTA will be presented in section 2.2. The evolution of EU trade relations with Georgia will be analysed in a chronological sequence to provide a clear and structured understanding of their progression.

### **1.2 The Eastern Partnership and Armenia**

A significant milestone in Armenia's relations with the EU under the Eastern Partnership (EaP) is CEPA, which came into force in 2021 (General Secretariat of the Council 2024). Initially signed in November 2017, significant parts of this agreement began provisional application on June 1, 2018. While CEPA targets various sectors such as job creation and business opportunities, legislative improvements, public safety, environmental sustainability, and advancements in education and research (DG COMM 2021), it also addresses trade (DG TRADE n.d.a). A detailed analysis of the trade relation under CEPA will be provided in section 3.2.3. To ensure a comprehensive understanding of their development, the evolution of EU trade relations with Armenia will also be analysed chronologically.



## **Chapter 2 - Evolution of European Union Trade Relations with Georgia**

In this chapter, I will explore the progression of Georgia's trade policies with the EU, along with an assessment of the impact on Georgian exports to the EU.

### **2.1. The Georgia-European Union Action Plan**

On October 2, 2006, the EU and Georgia issued a joint statement confirming the Georgia-European Union Action Plan within the European Neighbourhood Policy (ENP). This Action Plan was officially ratified during the EU-Georgia Cooperation Council session held in Brussels on November 14, 2006 (DG COMM 2009). The plan set forth strategic objectives to enhance political, security, economic, and cultural ties between the EU and Georgia, forming part of the broader ENP framework.

One aim was to strengthen trade and economic relations by harmonizing economic legislation, opening markets, and reducing non-tariff barriers. These initiatives were designed to stimulate investment and growth, thereby fostering sustainable economic development. Key actions included the adoption and implementation of a new Customs Code, aligned with both EU and international standards. This entailed simplifying customs procedures and bolstering the administrative capacity of Georgia's customs administration to enhance transparency, ensure accurate customs valuation, and improve overall trade efficiency.

Furthermore, efforts were directed at aligning Georgian legislation, norms, and standards with those of the EU. This process involved establishing a modern institutional framework for technical regulation, standardization, accreditation, metrology, and conformity assessment. Such harmonization was intended to elevate the quality and competitiveness of Georgian goods in the EU market, thereby promoting sustainable trade. In addition, these policies addressed broader issues of governance, security, and regional cooperation. Collectively, these efforts aimed to create a favourable environment for the sustainable export of goods to the EU, even amidst regional geopolitical challenges (European Union and Georgia 2006).

During the period under the Georgia-European Union Action Plan, Georgia benefited from GSP+ tariffs (DG TRADE n.d.c), the impact of which is analysed in section 2.2.

While the Georgia-European Union Action Plan laid crucial groundwork for integrating Georgia into European markets, its direct impact on trade metrics is hard to quantify due to a lack of specific data. Most available data on trade performance and export growth relate to later agreements like the DCFTA. The absence of detailed statistics from the Action Plan period limits assessing its influence on trade dynamics. Conversely, the DCFTA, introduced in 2016 (EIB/ EBRD 2021) , offers more extensive tariff liberalization and market access provisions, providing richer data and clearer impacts on Georgia's trade with the EU. Therefore, this analysis focuses on the DCFTA and GSP+ tariffs for more substantial insights into Georgia's evolving trade relations with the EU.

## **2.2 The Impact of the Generalized Scheme of Preferences on Georgia**

Georgia and Armenia have both benefited from the EU's Generalized Scheme of Preferences (GSP), which was introduced in 1971 to support developing countries by lowering tariffs on exports to the EU (EUR-Lex n.d.b). This program aims to reduce poverty, create jobs, and promote adherence to international standards on labour rights, human rights, good governance and environment. The GSP+ component, one out of three arrangements of the GSP, specifically reduces tariffs to zero for countries that comply with 27 international conventions on these standards (DG TRADE n.d.b). The European Commission monitors compliance to ensure effective implementation of these commitments (Ministry of Economy of the Republic of Armenia n.d.).

In 2005, Georgia qualified for the GSP+ scheme (DG COMM 2005), which offered additional trade incentives for countries that ratified and effectively implemented international conventions related to sustainable development and good governance. This special incentive granted Georgia even better access to the EU market, with lower or zero tariffs on a broader range of products (DG TRADE n.d.c). Import duties were removed “on up to 7,200 Georgian products” (Topuria and Khundadze 2022, 24). By 2006, 90% of Georgia's trade with the EU benefited from zero tariffs due to the “EU’s Special Incentive Arrangement for Sustainable Development and Good Governance (GSP+)” (Langbein and Guruli 2021). By 2008, countries seeking GSP+ status had to ratify 27 conventions on human rights and labor standards and prove compliance by October 31, 2008. Georgia ratified the final two conventions in October 2008, maintaining its GSP+ status until 2011 (Ghaniashvili 2008).

Analysing the impact of Georgia's accession to the GSP+ scheme reveals shifts in export dynamics. Prior to joining GSP+, the country's exports were predominantly composed of mineral products. Although mineral products continued to dominate the country's exports to the EU, the export volumes more than doubled from 2004 to 2013, as shown in Table 1. In 2004, before GSP+, minerals made up 58.4% of Georgia's exports to the EU, totaling €183.7 million. By 2013, minerals accounted for 57.3% of exports, but the total export volume had increased to €382 million. This significant growth indicates that while the sector's relative share remained stable, its absolute export value benefited considerably from the trade preferences under GSP+. The agrifood sector also experienced notable growth due to EU trade liberalization. In 2004, agrifood products comprised 10.7% of Georgia's exports to the EU, amounting to €33.5 million. After joining GSP+, the export share of agrifood products rose to 19.2% (€87.9 million) in 2007 and adjusted to 18.4% (€122.9 million) by 2013, illustrating significant gains from GSP+ preferences. In contrast, the metal sector declined in significance. In 2004, metals constituted 13.3% of Georgia's exports to the EU, totaling €41.9 million. By 2007, the share had decreased to 11.9% (€54.5 million), and by 2013, it further dropped to 7.9% (€52.8 million), indicating a relative decline compared to sectors like agrifood (Langbein and Guruli 2021).

<b>Georgia's top export sectors to the EU, 2004–2013</b>			
<b>Rank</b>	<b>2004, before GSP+ (export share, total export volume)</b>	<b>2007, after GSP+ (export share, total export volume)</b>	<b>2013 (export share, total export volume)</b>
1	Minerals (58.4%, €183.7m)	Minerals (55.8%, €256m)	Minerals (57.3%, €382m)
2	Metals (13.3%, €41.9m)	Agrifood (19.2%, €87.9m)	Agrifood (18.4%, €122.9m)
3	Agrifood (10.7%, €33.5m)	Metals (11.9%, €54.5m)	Metals (7.9%, €52.8m)

*Table 1: Georgia's top export sectors to the EU, 2004–2013 (Langbein and Guruli 2021).*

Despite the shown advantages provided by the GSP+ scheme, Georgia faced significant challenges in fully capitalizing on these benefits. By 2012, Georgian exports under GSP+ were notably limited, with only 34 products utilizing the scheme. Notably, nuts and mineral fertilizers dominated these exports, constituting nearly 73% of the total. This lack of

diversification was not an isolated incident; in 2011, these products made up 84% of exports, and in 2010, they accounted for over 70% (Topuria and Khundadze 2022). This persistent concentration of exports under the DCFTA underscores deeper, systemic challenges within Georgia's economy, particularly structural issues that hinder broader economic diversification and resilience. The inability to diversify export products also signifies the need for comprehensive reforms to enhance the competitiveness and variety of Georgian exports in the global market.

Georgia continued to enjoy GSP+ benefits until December 31, 2016 (DG TRADE n.d.c). However, with the full implementation of the Association Agreement, including the DCFTA, on July 1, 2016, Georgia transitioned to a more comprehensive framework for trade and economic cooperation, marking the end of its participation in the GSP+ scheme (EIB/ EBRD 2021, 47).

### **2.3 The Impact of the Deep and Comprehensive Free Trade Area on Georgia**

The DCFTA, introduced as part of the EaP and the Association Agreement, represents a significant advancement in trade relations between Georgia and the EU. Aiming to reduce tariffs and enhance customs efficiency, the DCFTA goes beyond traditional trade agreements by embedding dense and prescriptive policy mechanisms that influence legal harmonization in Georgia. This section analyzes the specific impact of the DCFTA on Georgia, focusing on its implications for trade, economic diversification, and SMEs, while also providing an overview of the agreement's content.

The Georgia-EU DCFTA agreement closely follows the World Trade Organization (WTO) rules and the General Agreement on Tariffs and Trade (GATT), while also extending beyond these frameworks in certain areas (Hoekman 2016). The DCFTA mandates that Georgia adhere to stringent standards for food and industrial goods to align with EU product standards and fully access the EU market (Topuria and Khundadze 2022). George Welton's assessment of the challenges in enhancing Georgian trade with the EU highlights three critical areas for aligning with EU standards. Firstly, the development of government institutions is necessary to support EU-standard production, certification, and enforcement. Secondly, local Conformity Assessment Bodies (CABs) must be established to perform product testing and issue the required EU certifications. Lastly, the private sector must modernize its production processes to comply with EU standards and obtain

product certification (Welton 2021, 74–75). This alignment is crucial for Georgian products to be treated the same as EU products but requires significant institutional and economic adjustments.

Despite the removal of most customs tariffs under the DCFTA, numerous EU non-tariff barriers (NTBs) remained, potentially impeding Georgian exports. CEPS evaluated that 414 non-tariff measures imposed by the EU in 2022 may limit Georgia's full participation in the single market. To overcome these barriers, Georgia must align its legislation with EU regulations (Topuria and Khundadze 2022).

### 2.3.1 A Trade Analysis of Georgia's Export Performance to the European Union under the Deep and Comprehensive Free Trade Area

This section evaluates the impact of the DCFTA on Georgia's exports to the EU from 2014 to 2022, focusing on trends in export values, growth rates, and the overall dynamics of trade as seen in Table 2.

Trade between Georgia and EU countries (\$ million) 2014-2022									
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total turnover	11,463	9,508	9,459	10,803	12,747	13,318	11,396	14,346	19,131
Growth (%)		-17%	-1%	14%	18%	5%	-14%	26%	33%
Turnover EU-GE	2,877	2,614	2,635	2,768	3,166	3,110	2,547	3,031	3,922
Growth (%)		-9%	1%	5%	14%	-2%	-18%	19%	29%
Share (%)	25%	27%	28%	26%	25%	23%	22%	21%	21%
Total exports	2,861	2,204	2,117	2,746	3,380	3,798	3,343	4,242	5,583
Exports to EU	599	623	550	642	713	806	697	717	862
Growth (%)		-23%	-4%	30%	23%	12%	-12%	27%	21%
Share (%)	21%	28%	26%	23%	21%	21%	21%	17%	15%
Total imports	8,602	7,304	7,342	8,057	9,362	9,519	8,053	10,104	13,547
Imports from EU	2,277	1,991	2,084	2,126	2,453	2,304	1,850	2,314	3,060
Growth (%)		-13%	5%	2%	15%	-6%	-20%	25%	32%
Share (%)	26%	27%	28%	26%	26%	24%	23%	23%	23%
Balance with the EU	-1,678	-1,368	-1,534	-1,484	-1,740	-1,499	-1,153	-1,597	2,197

Table 2: Trade between Georgia and EU countries (\$ million) 2014-2022 (European Business Association Georgia 2023, 19.).

Since the inception of the DCFTA, Georgia's total trade turnover has shown a significant upward trend, increasing from \$11,463 million in 2014 to \$19,131 million in 2022. This reflects an overall growth of approximately 67%. Despite some fluctuations, particularly a notable decline in 2015 and 2020, the trade turnover exhibited robust recovery and expansion in subsequent years, especially in 2021 and 2022, where growth rates soared to 26% and 33%.

Trade turnover between Georgia and the EU also expanded, rising from \$2,877 million in 2014 to \$3,922 million in 2022, marking a 36% increase. However, the EU's share of Georgia's total trade turnover declined from 25% in 2014 to 21% in 2022. This relative decline indicates that while trade with the EU increased in absolute terms, the EU's relative importance in Georgia's overall trade portfolio diminished.

Georgia's total exports almost doubled from \$2,861 million in 2014 to \$5,583 million in 2022, reflecting a 95% increase. Exports to the EU also grew, though at a more modest rate, rising from \$599 million in 2014 to \$862 million in 2022, which constitutes a 44% increase. The growth rates of exports to the EU varied throughout the period, with declines in 2015 and 2020, but notable increases in 2017 (30%), 2021 (27%), and 2022 (21%). Despite this growth, the share of exports to the EU in Georgia's total exports fell from 21% in 2014 to 15% in 2022, suggesting a diversification of export destinations beyond the EU (European Business Association Georgia 2023).

In contrast, exports to the Commonwealth of Independent States (CIS) grew by 172% from 2016 to 2022. This comparative analysis shows that while exports to the EU increased, the growth was less pronounced compared to other regions, particularly the CIS. This suggests that regional economic integration, global market dynamics, and trade diversification strategies have significantly driven export growth. Additionally, analysis using Binary Segmentation and Segment Neighbourhood algorithms revealed no significant structural shifts in the growth trend of exports to the EU that could be directly attributed to the DCFTA. This implies that while the DCFTA provided a framework for increased trade, other factors may be influencing export growth (Topuria and Khundadze 2022).

Domestic exports, referring to the "export of locally produced goods" (Topuria and Khundadze 2022, 15), are a crucial indicator of a country's economic development and its ability to leverage trade agreements. Initially, there was an upward trend in domestic exports

from Georgia to EU countries following the implementation of the DCFTA in 2014. However, this growth stabilized and started to decline by 2020 (Topuria and Khundadze 2022). This decline in 2020 can be partially attributed to the global economic disruptions caused by the COVID-19 pandemic. The pandemic significantly impacted global trade flows and caused a contraction in demand, affecting Georgia's export performance. Even in the first half of 2023, overall export growth was slowed by the continued decline in domestic exports (European Business Association Georgia 2023). The share of domestic exports to the EU has consistently been lower than exports to the CIS, even after the signing of the AA (Topuria and Khundadze 2022). Several factors contribute to this situation. Georgian producers face challenges in meeting EU standards and competing with established EU producers. This will be further analysed under section 2.2.2 "Impact of the Deep and Comprehensive Free Trade Area on Georgian Enterprises." Furthermore, CIS markets are more familiar with Georgian products, which may explain the continued strength of exports to these countries. The familiarity of the CIS markets with Georgian products can be attributed to historical trade relationships and established consumer preferences (Mghebrishvili and Zubiashvili 2021).

To further understand Georgia's export dynamics, it is essential to examine the specific products Georgia exports to the EU. The following section delves into the EU-Georgia trade structure by commodity, highlighting the top 10 products by value exported to the EU in 2022, as presented in Table 3.

EU–Georgia trade structure by commodity (top 10 products by value), exports to the EU, 2022			
HS	Name of the group	Export Value (\$ million)	Share in total export (%)
2603	Copper ores and concentrates	437,7	50,7%
0802	Hazelnuts and other nuts	74,0	8,6%
2204	Natural grape wines	30,7	3,6%
8703	Light vehicles	30,0	3,5%
7202	Ferroalloys	26,5	3,1%
2208	Ethyl spirits undenatured, alcohol concent. less than 80%, alcoholic beverages	23,7	2,7%
3102	Fertilizers, mineral or chemical, nitrogenous	18,6	2,2%
6307	Other finished goods, including patterns for clothing	17,7	2,1%
7112	Waste and scrap of precious metals or metals alloyed with precious metals	10,9	1,3%
2201	Mineral and fresh waters	9,5	1,1%
Total top 10 to EU		679,4	79%
Total export to EU		862,5	

*Table 3: EU–Georgia trade structure by commodity (top 10 products by value), exports to the EU, 2022 (European Business Association Georgia 2023, 20).*

In 2022, Georgia's exports to the EU were predominantly comprised of industrial minerals, specifically copper ores and concentrates, which alone accounted for 50.7% of the total export value. This substantial share underscores the critical role that industrial minerals play in Georgia's export economy. Hazelnuts and other nuts were the second most significant export, constituting 8.6% of the total. The remaining product groups had a minimal share in the total exports. Collectively, the top ten products constituted up to 79% of Georgia's total exports to the EU (European Business Association Georgia 2023). This concentration has remained relatively unchanged since 2014, when the top ten products accounted for around 81% of total exports to the EU. This concentration poses a risk to the economy; if the demand or prices for these key products fall, the economic impact could be severe (Topuria and Khundadze 2022).

Despite the relatively limited volume of exports to the EU, the number of Georgian companies exporting to the EU increased, reaching approximately 956 by 2022. In recent years, there has been a concerted effort to diversify the range of export commodities to the EU. This diversification strategy has included the introduction of new products such



as “pet furniture, honey, dried fruit, blueberries, kiwis, fruit jams, [and] glass bottles” (European Business Association Georgia 2023). However, these new export items have yet to achieve substantial volumes.

In conclusion, the evaluation of Georgia's export performance to the EU under the DCFTA from 2014 to 2022 reveals mixed results. While total trade turnover and exports have increased, the EU's share in Georgia's trade has declined, indicating diversification towards other regions like the CIS. Georgia's exports remain heavily concentrated in a few key products, notably industrial minerals, posing economic risks. Efforts to diversify have seen limited success, with new products achieving minimal volumes. Export sophistication remains low, with a predominance of low-tech and resource-based products (Topuria and Khundadze 2022). To enhance economic resilience and leverage the DCFTA more effectively, Georgia needs to address standards, competitiveness, and diversification.

### **2.3.2 Impact of the Deep and Comprehensive Free Trade Area on Georgians Enterprises**

Small and Medium-sized Enterprises (SMEs) are crucial for Georgia's economy, representing 99.7% of businesses in 2020 and employing 65% of the workforce. GeoStat (2021) reported that SMEs generated 60.7% of the value added in 2020. Although SMEs continue to be pivotal, there has been a noticeable decline in their economic impact over time (Topuria and Khundadze 2022). By 2022, their share in total business turnover had fallen to 37.3%, and they accounted for 52.8% of the value added by all companies, a decrease from the annual averages of 55.1% and 59.2% recorded during 2014-2019. Additionally, the employment percentage within SMEs dropped to 58.3% from 67.6% (European Commission 2023). Despite the large number of SMEs, only about 1,000 out of the 232,000 registered were exporting to the EU by 2022, highlighting significant export limitations due to various challenges.

A significant challenge for Georgian SMEs is meeting EU standards and safety norms, particularly the Sanitary and Phytosanitary (SPS) Measures, which require compliance with strict health standards for agricultural and animal products. According to Herr and Nettekoven, Georgian SMEs face difficulties due to limited access to finance, education, industrial clusters, global value chains, and social capital. Without a state-owned development bank, SMEs rely on high-interest commercial bank loans (Topuria and

Khundadze 2022, 13). However, the EU has been actively supporting Georgian SMEs through the EU4Business Initiative. In 2022, this initiative funded 45 projects totalling over €341 million, benefiting 30,628 SMEs. These projects created around 24,284 new jobs and resulted in an 18% increase in the total turnover of SMEs in Georgia (EU4Business n.d.). Additionally, the EU provided technical and financial assistance, such as €1.4 million for the “Ensuring further progress of SPS and food safety system in Georgia” project and €10 million for a rural development project. This financial aid was primarily directed at improving governance and institutions rather than directly helping businesses upgrade their facilities and processes (Welton 2021, 77). The focus on governance and institutions is necessary because exporters must obtain certification from a competent Georgian authority to ensure compliance with EU standards. However, aligning with EU SPS measures is complex, lengthy, and costly. The government must implement and maintain regulatory institutions, such as laboratories and supervisory bodies, which poses a significant administrative and financial burden.

Another issue SMEs face is the universal applicability of regulations within sectors: Even SMEs not aiming to export to the EU must comply with EU-aligned measures introduced by the Georgian government. This blanket approach presents difficulties, especially for the predominantly micro-enterprise-based agro sector, which often lacks the financial resources to meet stringent regulatory demands (Topuria and Khundadze 2022).

As a result, Georgia made slow progress in fully implementing EU regulations, with only 40% of SPS legislation approximated by 2021 (Emerson and Kovziridze 2021). Nonetheless, steps have been taken towards alignment with EU standards, such as the participation of Georgian policymakers, regulators, and field specialists in a 2023 workshop on EU Regulation 2017/625 held in Tbilisi (Georgia Today 2023). This Regulation focuses on “on official controls and other official activities performed to ensure the application of food and feed law, rules on animal health and welfare, plant health and plant protection products” (European Parliament and Council of the European Union 2017). Organised under the EU-funded ENPARD IV project by the Czech Development Agency and FAO, this workshop aimed to enhance Georgia’s Food Safety, Veterinary, and Plant Protection sectors, providing guidance and support for legislative implementation (Georgia Today 2023).

### 2.3.2.1 The Public Procurement Reform

Public procurement, the process by which governments entities acquire goods, services, and infrastructure from private companies, is essential for economic growth and local industry support (DG GROW n.d.). Under the Association Agreement, Georgia must align its procurement practices with EU standards through a phased approach over eight years starting in 2016, involving five stages of implementation.<sup>3</sup> Despite the timeline, only the first phase was completed by 2022 due to extensive legislative changes and complexities (Topuria and Khundadze 2022).

To comply, Georgia's State Procurement Agency drafted a new public procurement law, which was approved on June 8, 2022, and enacted on February 9, 2023. The law's primary provisions will be effective from January 1, 2025, with other aspects phased in by 2029. Its goal is to integrate EU directives into Georgia's procurement framework, meeting Association Agreement and the Substantial NATO-Georgia Package (SNGP) requirements.

These comprehensive reforms in Georgia's public procurement system are intended to enhance transparency, efficiency, and competitiveness in procurement processes, directly impacting the business environment and export potential of Georgian companies to the EU. The opening of the EU procurement market to Georgian companies represents a significant advancement. Since 2022, Georgian enterprises can participate in tenders issued by EU member states' central government authorities for the supply of goods. This access not only expands market opportunities but also enables Georgian businesses to compete on a level playing field with their European counterparts. By fostering fair competition, these reforms facilitate greater integration of Georgian products into the EU supply chain, potentially increasing export volumes to EU markets.

Moreover, the introduction of innovative procurement procedures and instruments under the new Public Procurement Law enhances the operational efficiency of Georgian

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<sup>3</sup> The stages include:

- “Supplies for central government authorities (after 3 years)
- Supplies for state, regional, and local authorities and bodies governed by public law (after 5 years)
- Supplies for all contracting entities (after 6 years)
- Service and works contracts and concessions for all contracting authorities (after 7 years)
- Service and works contracts for all contracting entities in the utilities sector (after 8 years)” (Topuria and Khundadze 2022, 24).

enterprises. Procedures such as the competitive dialogue and “negotiated procedure with prior publication” (European Business Association Georgia 2023, 60) emphasize factors beyond price, such as quality and innovation. This shift encourages Georgian businesses to enhance their product offerings to meet EU standards and preferences, thereby improving their competitiveness in the EU market.

The emphasis on sustainable public procurement practices is particularly relevant. The requirement for contracting authorities to consider sustainability criteria in purchasing decisions aligns Georgian enterprises with EU sustainability standards (European Business Association Georgia 2023).

Although the extensive legislative changes and complex process of aligning with EU standards have caused significant delays, progress is being made. However, this situation highlights the challenges Georgia faces in balancing domestic economic support with international trade obligations.

### **2.3.2.2 The Rules of Origin**

Another issue for Georgian SMEs is the stringent Rules of Origin (RoO) in the Association Agreement. According to Protocol I, Article 3, Paragraph 2, a product is considered originating if the added value exceeds the value of imported materials (European Union, European Atomic Energy Community, and Georgia 2014). This is problematic in industries like furniture and apparel, where local value-added often falls short. The implementation of diagonal cumulation<sup>4</sup> in 2021 marked a significant development in Georgia's trade relations with the EU and Turkey. The implementation allows Georgian products with Turkish inputs to maintain 'originating' status when exported to the EU, crucial given Georgia's limited raw materials. The agreement is especially crucial given Georgia's limited availability of raw materials.

However, a significant portion of Georgia's industrial goods are imported from China and the CIS (Topuria and Khundadze 2022). This influenced Georgia's decision not to sign the DCFTA's Agreement on Conformity Assessment and Acceptance of Industrial

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<sup>4</sup> Diagonal cumulation is a trade provision that allows products to maintain their "originating" status, even if they include materials from multiple countries within a specific trade network. For instance, in a Free Trade Agreement (FTA) involving more than two countries, goods produced using inputs from any member country can be further processed in another member country and still qualify for preferential treatment when exported (DG TRADE n.d.d)

Products (ACAA), unlike Moldova and Ukraine. ACAAs are mutual recognition agreements requiring participating countries to implement EU standards, facilitating market entry without additional testing. However, joining an ACAA also requires the partner country to enforce EU standards on all imports, including those from non-EU countries. For Georgia, this would result in heightened trade costs and restrict the availability of less expensive imports from China and the CIS (Emerson and Kovziridze 2021). Consequently, Georgia opted against incorporating ACAAs into its agreement, prioritizing the economic advantages of maintaining affordable imports over the benefits of easier access to the EU market.

### **2.3.2.3 Analysis of Georgia's Export Composition and Oligarchic Influence**

As highlighted in section 2.2.1, Georgia's export landscape to the EU in 2022 was dominated by industrial minerals, particularly copper ores and concentrates, which constituted 50.7% of the total export value (European Business Association Georgia 2023). Julia Langbein, an associate professor at Ilia State University in Tbilisi, observes that the sectors dominating exports to the EU, such as minerals, are closely tied to oligarchic networks led by influential figures like billionaire Bidzina Ivanishvili (Langbein and Guruli 2021). Ivanishvili's involvement in these sectors suggests that trade liberalization with the EU may have inadvertently reinforced these oligarchic frameworks. Ivanishvili, with an estimated net worth of six billion dollars, is a pivotal figure in Georgian politics and the founder and financial backer of the ruling party, Georgian Dream. His influence was crucial in the party's 2012 electoral victory, and despite stepping down from official political roles in 2013, he remains a powerful figure, often perceived as the shadow ruler of Georgia. Ivanishvili's actions have increasingly signalled a shift away from Western alignment. In a rare public speech on April 29, Ivanishvili accused the West of interference, depicting it as a "global war party" using Georgia as "cannon fodder" (Lazareva 2024).

The ownership structures of Georgia's primary export sectors reveal that the benefits of free trade with the EU are concentrated among a few powerful entities. For instance, in the mineral sector, Rich Metals Group (RMG) Copper is the leading export company. Since 2019, it has been owned by Mining Investments LLC, controlled by Russian billionaire Dmitriy Troitskiy. RMG B.V., the former owner, was also controlled by Troitskiy and other Russian businessmen, indicating a persistent influence of Russian capital in

Georgia's key industries. Reports by the Georgian NGO Green Alternative highlight that RMG B.V. had close connections with Georgia's ruling elites, who overlooked the environmental and social repercussions of RMG's mining activities. A notable instance was the 2013 decision by the Georgian Ministry of Culture to revoke the protected status of the ancient Sakdrisi gold mines, allowing RMG Gold to commence mining operations. Additionally, individuals associated with RMG Copper reportedly made substantial donations to the Georgian Dream party ahead of the 2020 parliamentary elections, further cementing the link between economic power and political influence in Georgia (Langbein and Guruli 2021).

The dominance of powerful entities in key sectors, supported by figures like Ivanishvili, suggests that trade liberalization benefits are unevenly distributed, reinforcing existing power structures and economic dependencies, while smaller SMEs struggle to fulfil EU standards and therefore do not export to the EU and benefit from trade liberalization to the same extent.<sup>5</sup>

#### **2.4 Georgia's Application for the European Union Membership**

Georgia initiated its EU membership application in March 2022, which could significantly impact Georgia's trade policies and exports to the EU. EU membership would grant Georgia full access to the EU's Single Market, reducing trade barriers and potentially boosting exports (DG TRADE n.d.e). The adoption of the EU's Common Customs Tariff (CCT) (DG TAXUD n.d.) would affect trade relationships with non-EU countries, leading to changes in trade patterns. Furthermore, EU membership would open new markets for Georgian products through existing EU trade agreement. Aligning with EU regulations and standards, though initially challenging, would likely enhance the quality and competitiveness of Georgian products, attracting foreign direct investment and fostering economic growth (The Foreign Policy Council 2023). Additionally, the Common Agricultural Policy of the EU would impact Georgia's agricultural sector, potentially providing subsidies but also introducing new regulations and competition (Hill 2023). Georgia would also be eligible for various EU funds and programs, supporting infrastructure development, regional projects, and economic reforms (The Foreign Policy Council 2023).

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<sup>5</sup> See above under 2.3.2 Impact of the Deep and Comprehensive Free Trade Area on Georgians Enterprises.

The process of gaining EU membership already influences trade dynamics. On June 23, 2022, the European Council expressed its readiness to grant candidate status to Georgia, contingent upon implementing 12 key priorities and requested the Commission to monitor progress. These priorities include political and judicial reforms and anti-corruption measures. Notably, Georgia has made substantial progress in improving its public procurement processes. A significant priority is "de-oligarchisation" to reduce the influence of vested interests in economic and political life, which could significantly impact trade sectors dominated by oligarchs (European Commission 2023). The action plan for the "de-oligarchisation" includes anti-corruption measures, transparency in public procurement, competition policy, judicial enhancements, combating money laundering, monitoring political party finances, and promoting media transparency. The effectiveness of these measures is still undetermined. The plan also bans political donations from legal entities and reduces spending limits for parties. However, critics argue that these regulations won't be effective, as oligarchs like Ivanishvili can bypass the rules and remain entrenched in politics (Nikoladze 2023).

In February 2023, the Commission assessed Georgia's preparedness for EU membership (European Commission 2023). In November 2023, Georgia was included in the Enlargement Package reports, and the Commission recommended candidate status, contingent on specific steps. In December 2023, the European Council granted candidate status, highlighting Georgia's progress in public administration, procurement, and economic reforms. (DG NEAR n.d.c). Emphasizing the importance of Georgia's adherence to EU regulations and standards, the Council encouraged deeper sectoral cooperation under the EU-Georgia Association Agreement and the DCFTA Agreement (DG NEAR n.d.c).

A survey conducted by the American non-profit National Democratic Institute (NDI) (National Democratic Institute n.d.) and CRRC Georgia, funded by UK aid, indicated that 79% of Georgian respondents support the country's potential membership in the European Union. Conducted between October 12 and November 4, prior to the European Commission's decision of recommending the candidate status of Georgia, the survey included 2,068 interviews with a margin of error of +/- 2.2 percent (NDI 2023). The involvement of external organizations suggests a rather objective perspective in assessing the public opinion.

The strong public support for EU membership provides a clear mandate for Georgian policymakers to pursue integration efforts and to prioritize EU-related reforms and policies. However, in June 2024, the European Council expressed serious concerns about Georgia's political direction, stalling the EU accession process (Baccini 2024). These concerns stem from recent legislative actions:

In 2023, the "Georgian Dream" party, perceived as aligned with Kremlin interests (Tskhadiaia 2023), introduced a law requiring media and NGOs receiving over 20% of their funding from abroad (Dubóczy 2024) to register as "foreign agents" (Avdaliani 2024) and to submit annual reports to avoid penalties (Dubóczy 2024). The law, mirroring Russian legislation (Avdaliani 2024), was nicknamed the "Russian Law" (The Associated Press 2024). Following significant protests, the government initially withdrew the bill but reintroduced it in April 2024 under a different description<sup>6</sup> (Avdaliani 2024). The Georgian parliament, controlled by the ruling Georgian Dream party, overrode President Salome Zourabichvili's veto of the "foreign agents" bill on May 28, facing no significant constitutional barriers to its passage (Le Monde with AP 2024).

The law has deeply divided Georgian society. Critics perceive the legislation as a significant obstacle to Georgia's EU accession efforts, highlighting Bidzina Ivanishvili's ties to Russia as a critical concern. They argue that beyond its immediate impact, the law may signify the beginning of a broader legislative trend towards stricter regulations. There is apprehension about a potential "Russian scenario" where measures could exclude "foreign agents" from electoral participation and result in sustained pressures leading to the closure of numerous NGOs (Avdaliani 2024). Western concerns also highlight that the legislation will restrict media freedom (Le Monde with AP 2024). Georgian Dream has faced declining popularity evident from widespread protests across social media, television, and public demonstrations. More than 100,000 people attended protests against the bill, a notable turnout in a country where political engagement is typically low. This indicates a likely high voter turnout in October, which could be disadvantageous for Georgian Dream (Avdaliani 2024).

Supporters of Georgian Dream claim the law will increase transparency in the NGO sector and reduce Western influence, arguing it will protect "Georgian religion and national

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<sup>6</sup> The term „agent“ was dropped and the term “organization carrying out the interests of a foreign power” is now used (Avdaliani, May 17, 2024).



identity from LGBTQ “propaganda” and liberal values” (Avdaliani 2024, 2024), a message echoed by Georgian Dream politicians and during pro-government rallies (Avdaliani 2024). The party's actions appear driven by fear that pressure from the United States and the EU, combined with growing domestic discontent, could jeopardize its chances of securing a parliamentary majority in the upcoming elections on October 26<sup>th</sup> 2024 (Avdaliani 2024) These elections are particularly significant as they are the first since Georgia achieved EU candidacy status in December 2023 and could mark a crucial step towards a more democratic and European-oriented future (Pleşca 2024).

As highlighted in the beginning of this section, the bill's passage could have major geopolitical impacts, potentially obstructing Georgia's path to EU membership. The enactment of this law has cast uncertainty over accession plans, prompting discussions within the European Parliament about potential sanctions against Georgian officials and complicating the EU's intentions to ease visa restrictions for Georgian citizens (Avdaliani 2024). Furthermore, the European Council has expressed serious concerns about Georgia's political direction, effectively stalling the EU accession process in June 2024. The Council has urged Georgian authorities to reconsider their approach and ensure the upcoming parliamentary elections in the fall uphold principles of freedom and fairness (Baccini 2024).

Nevertheless, Georgia remains strategically crucial for the EU, serving as a vital access point to the Middle Corridor, which facilitates trade routes to Central Asia and China, bypassing Russia from the south.<sup>7</sup> Moreover, Georgia's land connection to Armenia is essential, particularly as Armenia seeks to strengthen its ties with Europe amidst escalating tensions with Moscow (Avdaliani 2024).<sup>8</sup>

## **2.5 Summary of Trade Integration Challenges in Georgia**

Georgia's journey towards EU integration, influenced by the Eastern Partnership and the Deep and Comprehensive Free Trade Area, encounters significant trade-related challenges. SMEs are pivotal to Georgia's economy, comprising 99.7% of businesses and employing 65% of the workforce. However, only about 1,000 out of 232,000 registered

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<sup>7</sup> A deeper exploration of this topic would unfortunately exceed the scope of this work.

<sup>8</sup> For more information see under 3.5 Armenia's Interest in a European Union Membership.

SMEs exported to the EU in 2022, highlighting barriers such as compliance with EU standards.<sup>9</sup>

Furthermore, trade liberalization has disproportionately benefited oligarchic networks, particularly in mineral sectors, exacerbating economic inequalities and reinforcing oligarchic control.<sup>10</sup> Despite preferential trade agreements like GSP+ and DCFTA, Georgia's export profile remains heavily concentrated in a few sectors, hindering diversification and resilience against economic shocks.<sup>11</sup>

Additionally, Georgia's efforts to align its public procurement practices with EU standards, mandated by the Association Agreement, have faced delays due to extensive legislative changes and the complex process of implementation. These reforms aim to enhance transparency, efficiency, and competitiveness in procurement processes, thereby facilitating Georgian companies' access to the EU procurement market.<sup>12</sup>

The stringent Rules of Origin under DCFTA add complexity to trade dynamics, requiring products to meet specific local value-added criteria to qualify for preferential tariffs. Given Georgia's reliance on imported raw materials and components, meeting these criteria poses significant challenges.<sup>13</sup>

Internally, Georgia's adoption of legislation mirroring Russia's laws has sparked concerns over media freedom and civil liberties. Associated with the ruling Georgian Dream party, these laws underscore challenges in aligning with EU democratic standards. The European Council's expressed concerns and the stalled EU accession process highlight obstacles to improving trade relations through EU membership. Despite the potential benefits of EU membership, including enhanced trade opportunities and access to the Single Market, Georgia's current political and legislative landscape poses challenges to achieving these goals in the near term.<sup>14</sup>

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<sup>9</sup> See above in 2.2.2 Impact of the Deep and Comprehensive Free Trade Area on Georgians Enterprises.

<sup>10</sup> See above in 2.2.2.3 Analysis of Georgia's Export Composition and Oligarchic Influence.

<sup>11</sup> See above in 2.1 The Impact of the Generalized Scheme of Preferences on Georgia and 2.2.1 A Trade Analysis of Georgia's Export Performance to the European Union under the Deep and Comprehensive Free Trade Area.

<sup>12</sup> See above in 2.2.2.1 The Public Procurement Reform.

<sup>13</sup> See above in 2.2.2.2 The Rules of Origin.

<sup>14</sup> See above in 2.3 Georgia's Application for the European Union Membership.

## **Chapter 3 - Evolution of the European Union's Trade Relations with Armenia**

In this chapter, the evolution of Armenia's trade relations with the EU will be examined, along with an assessment of the impact on Armenian exports to the EU.

### **3.1 European Union – Armenia Partnership and Cooperation Agreement**

In April 1996, the EU and Armenia signed the Partnership and Cooperation Agreement (PCA) in Luxembourg, which became effective on July 1, 1999, and lasted until February 28, 2021 (EUR-Lex n.d.a). It was succeeded by the Armenia-EU Comprehensive and Enhanced Partnership Agreement, a more detailed and intricate agreement, which came into effect on March 1, 2021, and will be discussed in section 3.3.

The PCA was crafted to foster a comprehensive partnership grounded in shared values such as democracy, economic development, peace, security, and respect for Armenia's territorial integrity. Both Armenia and the EU committed to upholding OSCE principles and other international norms, laying the groundwork for enhanced trade, investment, and economic cooperation (Article 1). Part of the PCA was the commitment to establish a free trade environment that promoted fair competition and market-oriented economic reforms. Article 9 of the agreement ensured that both parties accorded each other MFN treatment according in various areas, including customs duties, taxes, and rules governing the sale and distribution of goods. This principle was fundamental to the agreement's objective of fostering a liberalized trade regime that aligned with WTO rules, as mentioned in Article 14 (European Communities and Republic of Armenia 1999). The MFN treatment is a fundamental principle in international trade that requires countries to extend the same advantages, privileges, or immunities granted to one trading partner to all others. This principle ensures non-discrimination among WTO members, applying to tariffs, import and export regulations, and internal taxes (WTO n.d.). However, in 2006, Armenia shifted from MFN treatment to the European Union's Generalized System of Preferences. Despite the PCA being in effect until 2021, the key trade export dynamics during the relevant period of this thesis were predominantly governed by the GSP+ starting from 2006 (Global SPC), a framework not mentioned in the PCA. It wasn't until 2022, after the termination of the PCA, that MFN treatment was reinstated (Movchan and Guicci 2020). These transitions will be thoroughly discussed in section 3.2.

Another crucial aspect of the PCA was its emphasis on facilitating trade through provisions like free transit (Article 10), crucial for optimizing trade flows and minimizing transaction costs. Furthermore, the agreement included mechanisms (Article 14) to safeguard domestic industries from potential harm caused by surges in imports, ensuring protection for both Armenian and EU producers within a free trade framework. Specific sectors such as textiles and nuclear materials were governed by separate agreements or regulations, ensuring comprehensive trade governance. For instance, trade in textiles fell under a distinct agreement (Article 17), while trade in nuclear materials adhered to provisions of the Treaty establishing the European Atomic Energy Community (Article 19). Additionally, cooperation in international maritime transport was underscored, emphasizing equitable market access and fair competition practices (Article 32).

Economic cooperation under the PCA, detailed in Articles 44-67, aimed at aligning Armenia's international trade practices with WTO rules (Article 45) and promoting open and competitive public procurement (Article 48). The agreement also targeted increased investment and trade in mining and raw materials (Article 50), as well as fostering conditions conducive to enhanced energy trade and investment (Article 54). In the realm of customs cooperation, efforts were directed at harmonizing Armenia's customs system with that of the EU (Article 65), aiming for compliance with trade regulations and fair trade practices. The subsequent analysis in section 3.2, "From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment," will assess the outcomes of trade under GSP+ tariffs, including the effectiveness of increased investment and trade in mining and raw materials during the PCA era.

Overall, the PCA served as a framework for EU-Armenia relations, enhancing economic cooperation and setting standards for trade governance. Its provisions, particularly regarding free transit, safeguarding domestic industries, and promoting regulatory alignment, underscored its role in fostering a balanced and mutually beneficial partnership.

### **3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment**

From 2006 to 2008, Armenia transitioned from the Most-Favoured-Nation (MFN) Treatment to benefiting from the European Union's Generalized System of Preferences (GSP).

This change facilitated preferential access to European markets, allowing duty-free entry for 3,300 products and reduced tariffs on an additional 3,900 goods. In 2008, the European Commission introduced the GSP+ framework to provide additional incentives for sustainable development and good governance as part of the EU GSP Regulation for 2009-2011. This program was subsequently extended until December 2013 (Global SPC).

In late 2008, Armenia officially applied for GSP+ status. Commencing on January 1, 2009, Armenia began to benefit from the advantages provided by the GSP+ scheme (Ministry of Economy of the Republic of Armenia n.d.). This arrangement enabled Armenia to export 7,200 products to the EU duty-free. To retain these enhanced preferences under the GSP Regulation, Armenia committed to upholding 27 core international conventions focused on sustainable development and good governance, as outlined in the Regulation (Global SPC).

As January 1, 2014, Armenia became eligible for GSP+ benefits under the revised EU Generalized Scheme of Preferences (GSP), as stipulated in Regulation (EU) No 978/2012. This designation afforded Armenia reduced tariffs on exports to the EU across 6,200 tariff lines, marking a significant impact on its export activities (Ministry of Economy of the Republic of Armenia n.d.). In 2015, Armenia utilized the GSP+ scheme for 77.2% of the eligible tariff lines, highlighting the critical role of this regime in Armenia's trade relations with the EU (Kostanyan and Giragosian 2017). By 2020, Armenia had significantly expanded its exports to the EU under the GSP+ scheme, achieving €128 million in goods—a more than threefold increase compared to its initial participation in the revised program seven years earlier (Dovich 2021b). During the same period, the total value of preferential imports from Armenia to the EU under the Generalized Scheme of Preferences (GSP) rose from €42 million in 2014 to €10,978 million in 2019 ((Press and information team of the Delegation to Armenia 2021).

In 2020, it was announced that Armenia would no longer benefit from the Generalized Scheme of Preferences (GSP) starting January 1, 2022. This decision was made in accordance with Regulation (EU) 2021/114 and also revoked Armenia's status as a GSP+ beneficiary under Article 9(1) of Regulation (EU) No 978/2012 (DG TRADE 2021). The rationale behind this exclusion stemmed from Armenia's classification as an upper-middle-income country by the World Bank in 2017, 2018, 2019 (Movchan and Guicci 2020)

and 2021 (DG TRADE 2021). Table 2 illustrates this trend, showing that Armenia's Gross National Income (GNI) steadily increased from 2016 onward. The deviation from the income threshold for upper-middle-income countries also rose consistently from 2017. Although the income threshold between lower and upper-middle-income classifications decreased from 2016 to 2017, it began to rise again thereafter (Movchan and Guicci 2020).

	2016	2017	2018	2019
Armenia GNI, USD per capita	3,760	3,950	4,230	4,680
Deviation from threshold	-4,9%	1,4%	5,9%	15,7%
Threshold between lower and upper middle in-come, USD per capita	3,955	3,895	3,995	4,045
WB Classification	Lower middle income	Upper middle income	Upper middle income	Upper middle income

Table 4: Armenia's income status (Movchan and Guicci 2020, 10.).

The first GSP+ monitoring biennial report, published in 2020, covered the years 2018 and 2019 (Press and information team of the Delegation to Armenia 2021). The German Economic Team<sup>15</sup> analysed the potential impact of Armenia's graduation from GSP+ by comparing the import duties on Armenian exports under GSP+ in 2019 with the anticipated export duties post-graduation. This analysis aimed to understand the economic consequences for Armenia following its exit from the GSP+ scheme. This thesis will also examine Armenian exports under GSP+ in 2019 and consider the comparison made by the German Economic Team.

According to European Commission data, the EU accounted for approximately 18% of Armenia's total trade in 2019 (Dovich 2021a). As illustrated in Figure 2, the EU was Armenia's second largest export destination that year, comprising 22% of the country's total exports.

<sup>15</sup> The German Economic Team, commissioned by the Federal Ministry for Economic Affairs and Climate Action, provides advisory services to the governments of Ukraine, Moldova, Belarus, Kosovo, Armenia, Georgia, and Uzbekistan on various aspects of economic transformation (General Secretariat of the Council 2024).

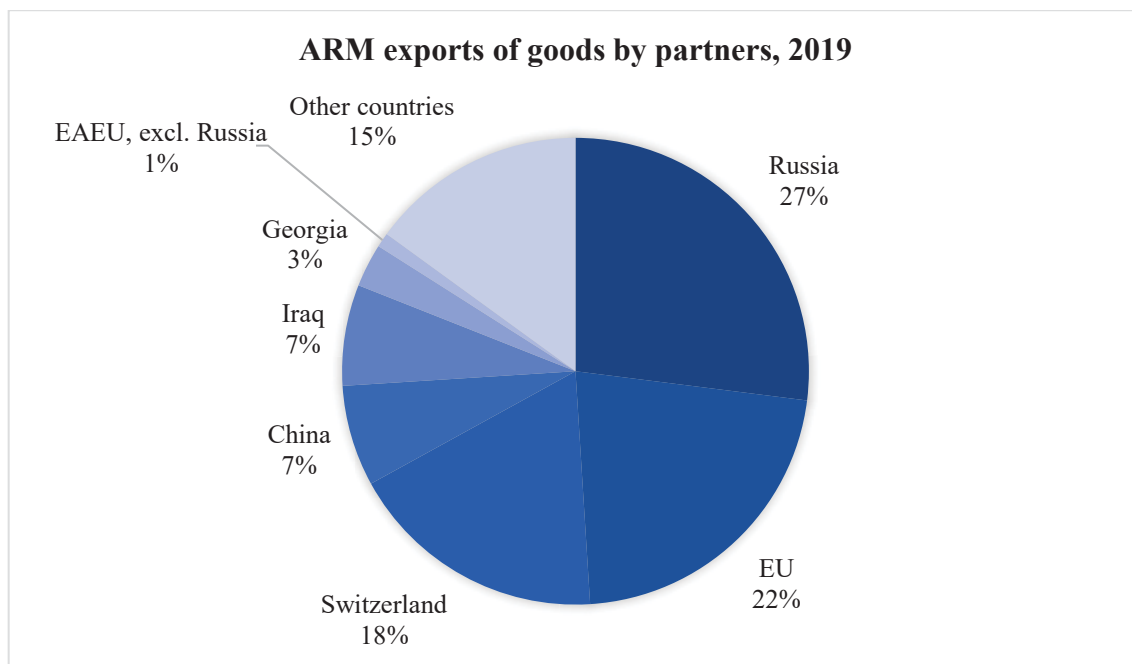


Figure 2: ARM exports of goods by partners, 2019 (Movchan and Guicci 2020, 12.).

Armenia's exports to the EU amounted to \$583 million USD, out of which \$313 million (54%) were eligible for GSP+ benefits (Movchan and Guicci 2020, 13). The GSP+ scheme encompassed 2019 6,400 products listed in Annex II to Regulation (EU) No. 978/2012. Additional items were added to the regulation in 2013 (United Nations Conference on Trade and Development 2022).

Armenia achieved the highest utilization rate of GSP+ benefits among all EU beneficiaries in 2019, reaching 98%, highlighting the significant difference between eligible exports under GSP+ and their actual utilization (Azaryan n.d.). Notably, over 96% of Armenia's GSP+ exports to the EU consisted of base metals like aluminium, copper, lead, tin, and zinc, reflecting Armenia's strong reliance on its mineral resources. The country possesses substantial reserves of copper, gold, and molybdenum, which are pivotal to its economy (Dovich 2021a).

To understand the comparison between the import duties under GSP+ and those after graduating from GSP+, we need to examine the situation following the graduation. Starting in January 2022, Armenia began trading with the EU under CEPA (Dovich 2021a), which covers a wide range of areas including political and economic issues. However, CEPA does not provide preferential tariffs for trade in goods (General Secretariat of the Council n.d.b). When a partner country graduates from the GSP or GSP+, the MFN tariffs

are applied. The MFN, already explained under 3.1, is essentially “the highest possible import duty applied to all partners that are not eligible for more preferential treatments” (Movchan and Guicci 2020, 5) . Following Armenia's graduation from GSP+, the average EU import duty for Armenia increased from 0.8% to 5.1%, marking a significant rise.

Analysing the data provided in Table 5, it becomes evident that the impact of graduating from GSP+ varied significantly across different product categories. For instance, the import duties on animal products and prepared foodstuffs saw substantial increases, highlighting a significant rise in costs for these sectors. This sharp increase in tariffs, such as from 5.5% to 12.5% for animal products and from 5.2% to 16.6% for prepared foodstuffs, indicates that Armenia's export competitiveness in these areas would likely be severely affected. On the other hand, certain sectors experienced relatively modest increases in import duties. For example, mineral products, which were crucial under the GSP+ regime, saw only a slight increase from 0.0% to 0.3%. This minimal rise suggests that the export of mineral products would remain comparatively unaffected by the shift to MFN tariffs. Similarly, the import duty on base metals and articles of base metal increased only marginally, indicating a less pronounced impact on this sector (Movchan and Guicci 2020).



EU import duties before and after GSP+ graduation			
	EU import duty with GSP, %	EU MFN, %	Difference, p.p.
Animal products	5.5	12.5	+7.0
Vegetable products	3.2	7.4	+4.2
Animal or vegetable fats	2.6	8.8	+6.2
Prepared foodstuffs	5.2	16.6	+11.4
Mineral products	0.0	0.3	+0.3
Chemical products, rubber, plastics	0.1	4.7	+4.6
Textiles and textile articles	0.0	7.7	+7.7
Footwear, headgear, umbrellas	0.0	7.3	+7.3
Base metals and articles of base metal	0.1	2.0	+1.9
Machinery and equipment	0.0	2.7	+2.7
Other manufacturing products	0.3	1.7	+1.4
Simple average	0.8	5.1	+4.2

Table 5: EU import duties before and after GSP+ graduation (Movchan and Guicci 2020, 11.).

The variation in tariff increases across different product categories can be attributed to the specific eligibility of certain products for preferential treatment under the MFN regime. Products that retained some level of preferential treatment experienced smaller increases in import duties compared to those that did not. Table 3 provides detailed insights into which of Armenia's exports were eligible for preferential treatment under the MFN regime. Notably, Armenia's exports to the EU under the MFN regime are predominantly composed of ores, with copper ores alone accounting for 76% of MFN exports in 2019, representing 35.3% of Armenia's total exports to the EU. This indicates that the targeted increased investment and trade in mining and raw materials, as outlined in Article 50 of the PCA, has been successful.<sup>16</sup> However, Russian businessmen, including Roman Trotsenko and Mikhail Zurabov, hold significant ownership stakes in Armenia's lucrative mining sector. Trotsenko, through GeoProMining Gold, owns substantial shares in key mines like Zangezour and Agarak, making him a major player in Armenia's economy. This

<sup>16</sup> See above, in 3.1 European Union – Armenia Partnership and Cooperation Agreement.

reliance on Russian investment has raised concerns about Armenia's economic vulnerability to Russian influence, particularly in such a crucial industry (Avetisyan 2023). Other exports eligible for preferential treatment under the MFN regime include non-industrial diamonds, zinc ores, non-monetary gold, spirits obtained by distilling grape wine, and molybdenum ores. Each of these products constitutes a smaller share of both total exports to the EU and MFN-eligible exports (Movchan and Guicci 2020).

Armenia's exports to the EU eligible for preferential treatment under the MFN regime				
HS	Description	Exports to EU, USD m	% total exports to EU	% exports under MFN
260300	Copper ores and concentrates	206	35.3%	76%
710239	Diamonds; non-industrial	18	3,1%	7%
260800	Zinc ores and concentrates	16	2,8%	6%
710812	Gold, non-monetary, unwrought	8	1,4%	3%
220820	Spirits obtained by distilling grape wine or grape marc	8	1,3%	3%
261390	Molybdenum ores and concentrates; other than roasted	7	1,3%	3%
	Other products	6	1,0%	2%
	Total	270	46,3%	100%

Table 6: Armenia's exports to the EU eligible for preferential treatment under the MFN regime (Movchan and Guicci 2020, 14.).

Upon examining Armenia's exports to the EU in 2019, categorized by their eligibility for either GSP+ or MFN treatment, a notable shift in trade dynamics becomes apparent following Armenia's graduation from the GSP+ program. Specifically, as illustrated in Figure 3, out of Armenia's total exports to the EU amounting to USD 583 million in 2019, USD 313 million (54%) qualified for GSP+ preferential treatment, while USD 270 million (46%) fell under the less favourable MFN regime post-graduation (Movchan and Guicci 2020). This disparity underscores the reduced access to preferential tariffs for a

substantial portion of Armenia's export portfolio, marking a critical aspect of its post-GSP+ trade scenario.

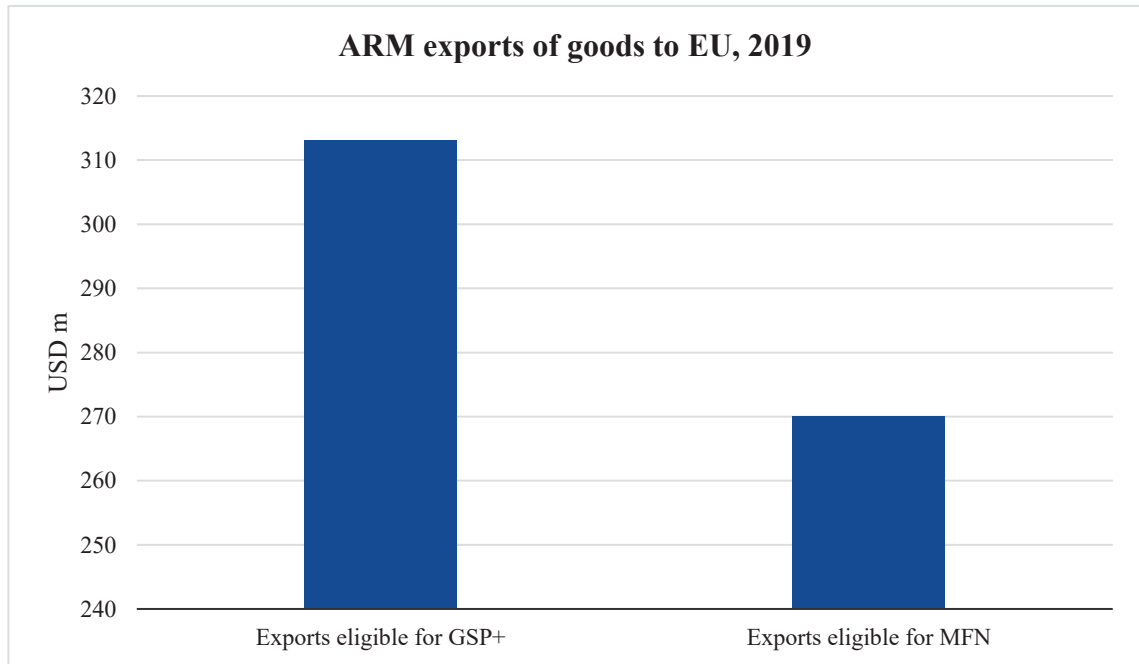


Figure 3: ARM exports of goods to EU, 2019 (Movchan and Guicci 2020, 13.).

Overall, Armenia faced significantly higher import tariffs in the EU after graduating from the GSP+ program. These increased tariffs were predicted to lead to a 20% reduction in exports to the EU on a year-on-year basis (Dovich 2021b). However, if we look at Table 4, we will see that this was not the case.

Exports from Armenia to the EU		
Period	Value Mio €	% Growth
2021	456	
2022	601	31,8%
2023	754	25,4%

Table 7: Exports from Armenia to the EU (DG TRADE 2024, 3).

From 2021 to 2022, EU exports to Armenia grew by 31.8%, and from 2022 to 2023, there was a further increase of 25.4% (DG TRADE 2024). This positive trend indicates that despite Armenia no longer benefiting from the Generalized Scheme of Preferences Plus (GSP+) starting from January 1, 2022, EU exports to Armenia have continued to rise significantly. The EU was in 2023 overall Armenia's second biggest trade partner (DG TRADE 2024).

The reasons behind the surge in Armenia's exports to the EU can be speculated upon, as no definitive study has been found.

Firstly, CEPA, which will be discussed in section 3.4, entered into force in March 2021 (DG COMM 2021). However, CEPA is not a free trade agreement and does not include tariff liberalization (Kostanyan and Giragosian 2017). Therefore, it is unlikely that CEPA alone accounts for the increased exports. Nevertheless, as will be analyzed, this agreement aims to remove barriers in trade, potentially offsetting some of the negative impacts of losing GSP+ status.

Moreover, Armenia has benefited economically from the Russian-Ukrainian conflict, leading to increased economic activity. This has allowed Armenia to enhance the quality of its exports and likely explore new markets within the EU. Armenian banks have notably profited from the conflict, while Armenia and Georgia have seen an influx of Russian refugees who brought capital and initiated new businesses. Financial transfers from Russia to Armenia surged to \$3.5 billion in 2022 from \$865 million in 2021. Furthermore, in 2022, amidst the EU's 47% drop in exports to Russia, Armenia, Georgia, Belarus, Kazakhstan, and Kyrgyzstan saw their imports from the EU surge by 48%, likely driven by re-exports to Russia. Armenia's exports to Russia nearly tripled in 2022, with half comprising re-exported Western goods. Despite expectations of economic decline due to reliance on Russia, Armenia's economy grew by a record 14.2% in 2022. Imports and exports also saw unprecedented growth, with trade turnover increasing by 68.8% and imports by 63.5% compared to the previous year. This surge in economic activity, bolstered by an influx of Russian IT professionals and tourists, has likely empowered Armenia to improve export quality and expand into EU markets (Kuzio 2024). For instance, examining import data reveals significant growth in Armenian manufactures exported to the EU, more than tripling from 2020 to 2023, particularly in iron and steel, semi-manufactures, and clothing (DG TRADE 2024).

The EU and the USA are actively supporting Armenia to diversify its trade and strengthen its economic resilience. The Economic and Investment Plan, launched in 2021, has already mobilized over €550 million in investments through grants, blending, and guarantees. This influx of capital may have contributed to the increase in Armenia's trade exports to the EU. Similarly, the US is committed to enhancing economic growth and reform in

Armenia. This includes supporting energy diversification, improving food security, and facilitating technology trade opportunities (DG NEAR 2024).

In summary, despite Armenia losing GSP+ benefits in 2022 and facing increased EU import tariffs, its exports to the EU have shown strong growth, reflecting a resilient economic strategy. However, compared to the 187% growth in exports to Russia from 2021 to 2022, the 31.8% growth in exports to the EU seems modest. Armenia's economic expansion has been significantly aided by purchasing products from the EU and reselling them to Russia (Kuzio 2024), which is under EU sanctions due to its invasion of Ukraine (General Secretariat of the Council n.d.a). This situation raises questions about the sustainability and ethical implications of Armenia's trade growth with the EU, as the funding for quality improvements in its exports may be derived from trade with a sanctioned nation. Nevertheless, to diversify its trade and enhance its economic resilience the EU and the US are providing substantial support to Armenia. Building on previous investments, the EU's €270 million Resilience and Growth Plan for Armenia (2024-2027) aims to bolster socio-economic resilience, promote trade diversification, and ensure regulatory alignment to maximize the benefits of CEPA (DG COMM 2018). However, as political science professor Taras Kuzio from the National University of Kyiv Mohyla Academy notes, "Armenia is playing for both teams. Armenia cannot hope to convince Brussels and Washington it is pursuing a more balanced foreign policy through greater European integration while it is at the same time assisting Russia's war against the democratic West" (Kuzio 2024). If Armenia continues this dual strategy, future financial support from the EU and the US may be jeopardized.

### **3.3 Failed Association Agreement and Deep and Comprehensive Free Trade Area**

In 2013, Armenia was on track to sign an association agreement with the European Union, which included a DCFTA. However, Armenia decided against signing the agreement and opted to join the then "Russia-led Eurasian Economic Union" (Hoekman 2016). This decision, viewed as a response to Russian influence, marked the beginning of Russia's more assertive stance against the EU's EaP program and European engagement in the post-Soviet region. Armenia's policy shift in September 2013, driven by Russia's strategic interests, was forcing Armenia back into a Russian-centric trade model. This shift was particularly challenging due to Armenia's weak trade links with other EAEU members and

lack of direct borders with them. Additionally, Armenia had to transfer significant aspects of its external trade policy to the EAEU and adopt higher external tariffs, though it secured temporary exemptions for around 800 goods (Barseghyan 2021).

The Armenian Foreign Minister Edward Nalbandian blamed the EU for Armenia's 2013 decision not to sign the Association Agreement, citing Brussels' insistence on incompatibilities with Eurasian Economic Union membership and a forced choice between the EU and Russia-led customs integration. He emphasized Armenia's desire for multi-directional cooperation but criticized Brussels for coercing the decision, complicating future negotiations for a new contractual relationship. He noted Armenia's initial intention to sign the Association Agreement without the DCFTA provisions, which was deemed impossible by the EU (commonsense.eu 2024).

This aligns with EU Enlargement Commissioner Stefan Fuele's 2013 statement, where he clarified that Armenia could not simultaneously join the Russia-led Customs Union and sign EU association and free trade agreements. Fuele emphasized the need for a Deep and Comprehensive Free Trade Area treaty alongside any Association Agreement with the EU, underscoring the structural challenges Armenia faced in its external economic relations at that time (RFE/RL's Armenian Service 2013).

### **3.4 The Comprehensive and Enhanced Partnership Agreement**

Despite Armenia's decision to forgo the Association Agreement and DCFTA under Russian pressure, the EU and Armenia persisted in their dialogue, aiming to establish a new partnership (Hoekman 2016). The 2015 review of the European Neighbourhood Policy (ENP) introduced an emphasis on ownership—encouraging countries to take responsibility for their own reforms—and differentiation, allowing the EU to tailor its approach to each country's unique circumstances. This strategic shift facilitated the development of the Comprehensive and Enhanced Partnership Agreement between the EU and Armenia (Strategic Communications 2022a). CEPA, signed on November 14, 2017 (Hoekman 2016), and entering into force on March 1, 2021 (Strategic Communications 2022a), represents a significant evolution in EU-Armenia relations. It underscores the EU's adaptive strategy in response to regional geopolitical dynamics, where Armenia's strategic alignment with the EAEU necessitated a nuanced approach to maintain and deepen cooperation with the EU.

Negotiations for the new agreement proved more complex than those for the previous Association Agreement and Deep and Comprehensive Free Trade Area. Both sides faced new challenges, including constraints from Armenia's membership in the EAEU and its bilateral relationship with Russia, particularly concerning energy issues. The anticipated economic and trade benefits from the DCFTA were significantly restricted by Armenia's EAEU membership, which precluded a free trade agreement as Armenia had ceded its authority to negotiate such agreements to the EAEU. Thus, CEPA is not a free trade agreement and could not include incompatible tariff liberalization (Kostanyan and Giragosian 2017). However, CEPA includes several trade and export provisions, recognizing both parties' commitment to deepening economic cooperation while adhering to WTO obligations and ensuring transparent application of these rights.

Under Article 113, the CEPA mandates that each party must accord most-favoured-nation treatment to goods from the other party, in alignment with Article I of GATT 1994. This provision ensures that Armenia and the EU do not discriminate against each other's goods in favour of those from other countries. Complementing this, Article 114 requires national treatment for goods from the other party, adhering to Article III of GATT 1994, ensuring that imported goods are treated no less favourably than domestic goods (European Communities and Republic of Armenia 1999). As analysed in section 3.2, Armenia's exports to the EU benefited from the Generalized System of Preferences Plus (GSP+) under WTO law from 2006 (Global SPC) until 2021 and not from MFN treatment. This arrangement provided duty-free or reduced-tariff access for over 6,000 tariff lines during these years (United Nations Conference on Trade and Development 2022). However, starting in 2022, nine months after the CEPA came into effect, Armenia's exports to the EU have been treated under MFN conditions (Movchan and Guicci 2020). It is important to note that CEPA is unrelated to Armenia's exit from the GSP+ (Dovich 2023), which is only due to Armenia's classification as an upper-middle-income country by the World Bank (Movchan and Guicci 2020), leading to its graduation from the GSP+ program.<sup>17</sup>

Regarding duties and charges, the CEPA mandates adherence to WTO obligations on import duties (Article 115). Export duties exceeding domestic rates are prohibited (Article

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<sup>17</sup> For more information, see 3.2 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

116), and import/export restrictions are restricted to duties and taxes (Article 117), in line with XI GATT 1994.

Additionally, Article 121 ensures that both parties (the EU and Armenia) can use trade defence measures to protect their industries from unfair trade practices. Article 122 acknowledges that there are legitimate reasons to restrict trade in certain situations, such as to safeguard public health or morals, as permitted under Article XX of the GATT 1994. These articles provide a framework for managing trade disputes and ensuring that trade remains fair and balanced between the parties involved. Customs cooperation, as outlined in Article 123, is aimed at facilitating trade, enhancing supply chain security, and preventing intellectual property rights infringement, among other objectives. Article 124 details mutual administrative assistance in customs matters, and Article 125 mandates that customs valuation aligns with the provisions of Article VII of GATT 1994. The Sub-Committee on Customs, established under Article 126, is tasked with monitoring the implementation of customs-related provisions, facilitating trade, and addressing cross-border customs cooperation.

Chapter 3 of Title VI Trade and Trade related matters in the agreement, starting with Article 127, addresses technical barriers to trade (TBT). The objective is to prevent unnecessary obstacles to trade by ensuring that standards, technical regulations, and conformity assessment procedures do not create unjustified barriers. Article 130 emphasizes cooperation in the field of TBT, encouraging regulatory convergence, mutual recognition, and information exchange to facilitate market access. Article 131 stresses the importance of not having trade-restrictive labelling or marking requirements and promotes the use of internationally harmonized standards.

Sanitary and phytosanitary (SPS) measures, addressed in Chapter 4 and starting with Article 133, play a crucial role in trade by ensuring that food safety and animal and plant health standards are met. These measures not only protect public health but also facilitate smoother international trade by harmonizing regulations. Article 135 underscores the importance of these measures being proportionate, transparent, and scientifically justified, aligning with global standards set by organizations like the Codex Alimentarius, the World Organisation for Animal Health, and the International Plant Protection Convention. Article 138 allows for inspections and audits to verify compliance with SPS requirements,



while Article 139 emphasizes cooperation and information exchange in SPS and animal welfare matters to build capacity and address urgent issues (European Union, European Atomic Energy Community, and Republic of Armenia 2018).

The trade in services chapter within CEPA is particularly ambitious, exceeding the scope of the WTO's General Agreement on Trade in Services (GATS) (Kostanyan and Giragosian 2017). It covers various sectors including computer services, postal and courier services, electronic communication networks and services, financial services, transport services, and e-commerce (European Union, European Atomic Energy Community, and Republic of Armenia 2018). However, given that the thesis research question specifically centers on the trade of goods, this aspect will not be further looked at.

However, while CEPA is comprehensive, covering similar chapters to the DCFTA, it lacks the depth in areas conflicting with Armenia's EAEU commitments. CEPA is less advantageous than the nearly complete tariff-free access provided under the DCFTA would have been (Kostanyan and Giragosian 2017). Nonetheless, it represents a significant step in maintaining and enhancing EU-Armenia relations, reflecting the EU's adaptive approach to regional geopolitical dynamics.

### **3.5 Armenia's Interest in a European Union Membership**

Armenia has shown a growing interest in joining the European Union. As noted earlier in the context of Georgia's potential EU membership (refer to section 2.3), such membership offers substantial trade benefits.

Prime Minister Nikol Pashinyan emphasized Armenia's readiness to deepen ties with the EU during his address to the European Parliament in October 2023 (Grigoryan 2024). In March 2024, Foreign Minister Ararat Mirzoyan announced Armenia is considering a formal application for EU membership (Volpicelli 2024). Following this, Pashinyan met with key figures in Brussels on April 5, 2024, including the "President of the European Commission, Ursula von der Leyen, US Secretary of State Antony Blinken, and the High Representative of the EU for Foreign Affairs and Security, Joseph Borell" (Grigoryan 2024). The meeting resulted in a pledge to support Armenia's resilience and development plan

for 2024-2027, with a 270 million EUR investment focused on resilience, connectivity, and business development.<sup>18</sup>

Public support for closer ties with the EU has surged in Armenia. A survey by the International Republican Institute (IRI) showed an increase in approval for Armenia-EU relations from 54% in 2021 to 87% in December 2023. The EU's positive image is bolstered by its role as Armenia's primary international donor, funding projects in technology, agriculture, and energy. This shift is also driven by perceptions of Azerbaijan, Turkey, and Russia as significant threats, stemming from the 2020 Second Nagorno-Karabakh War and subsequent conflicts with Azerbaijan. These conflicts exposed the limitations of Armenia's dependence on the Russia-led Collective Security Treaty Organization (CSTO). Relations between Armenia and Russia have worsened, with Yerevan accusing Moscow of not upholding its defence obligations during the Second Nagorno-Karabakh War. Despite being a CSTO member and having a mutual aid treaty with Russia, Armenia received no assistance during the war. The CSTO and Russia cited ambiguity regarding the Armenian-Azerbaijani border, despite the Almaty declaration that established these borders based on Soviet-era boundaries. In response, Armenia effectively 'froze' its CSTO membership in 2023 by ceasing participation in its activities.

The situation further deteriorated in September 2023 when Azerbaijan launched an military offensive in the “unrecognized Nagorno-Karabakh Republic” (Grigoryan 2024), leading to the displacement of the Armenian population there (Avetisyan 2024). Russia's inaction during these events has led to widespread sentiment in Armenia that Russia is either “unable or unwilling” (Grigoryan 2024) to fulfil its security commitments. As a result, Prime Minister Pashinyan's administration has reduced diplomatic connections with Russia (Krivosheev 2024) while simultaneously strengthening ties with the United States and the European Union (Avetisyan 2024). This strategic pivot reflects Armenia's wish for more dependable support amid regional instability.

Deeper integration with the EU offers Armenia benefits such as increased business opportunities, enhanced freedom of movement, improved food security, and reduced dependence on Russia. The EU's continued support is vital for Armenia's security and stability, as seen through initiatives like the Civilian Observation Mission on the Armenia-

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<sup>18</sup> This financial support was already mentioned under 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

Azerbaijan border. The EU-US-Armenia trilateral meeting in April 2024 emphasized the importance of coordinated efforts to mitigate potential economic pressures from Russia and advance Armenia's diversification strategies. Key areas of EU assistance include energy diversification, economic development, and facilitating easier access to the EU market. Armenia faces substantial economic and security challenges due to its dependency on Russian natural gas, oil, and essential goods. EU support through financial investments and strategic initiatives is crucial for Armenia to overcome these obstacles (Grigoryan 2024). However, Armenia's membership in the Eurasian Economic Union (EAEU) poses a significant hurdle, as it cannot be part of both the EAEU and the EU due to conflicting regulations. Additionally, the presence of Russian troops on Armenian soil complicates Armenia's path to EU membership (RFE/RL's Armenian Service 2013). Tornike Gordadze, former Georgian European Integration Minister, noted that such a presence could allow Russia to intervene in Armenia's political affairs at any time. Despite this obstacle, countries like Georgia, Moldova, and Ukraine faced similar challenges but still obtained EU candidacy (Garvin 2024).

### **3.6 Summary of Trade Integration Challenges in Armenia**

Chapter 3 delves into Armenia's intricate journey toward deeper integration with the EU and the trade-related challenges it has faced along the way. Armenia's historical trade relations with the EU were significantly bolstered by agreements such as the Partnership and Cooperation Agreement<sup>19</sup> and the Generalized System of Preferences Plus.

The GSP+ system provided Armenia with preferential access to the EU market, allowing duty-free or reduced-tariff access for over 6,000 tariff lines, which significantly benefited Armenia's export economy. However, Armenia's graduation from GSP+ in 2021, due to its classification as an upper-middle-income country, has posed new challenges. Armenia's exports are now subject to MFN tariffs, reducing their competitiveness in the EU market. Despite these higher tariffs, Armenia's exports to the EU have grown, increasing by 31.8% from 2021 to 2022 and by 25.4% from 2022 to 2023. This unexpected rise could be attributed to Armenia's resilient economic strategies, benefiting from the Russian-Ukrainian conflict, which enhanced economic activity and improved export quality,

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<sup>19</sup> See above in 3.1 European Union – Armenia Partnership and Cooperation Agreement.

alongside substantial support from the EU and the USA to diversify Armenia's trade and strengthen its economic resilience.<sup>20</sup>

In 2013, Armenia initially intended to sign an Association Agreement with the EU, which included a Deep and Comprehensive Free Trade Area, which would have granted Armenia extensive access to the EU market with significant tariff liberalization and trade facilitation measures. However, under perceived Russian pressure, Armenia chose to join the Eurasian Economic Union instead, thus foregoing the DCFTA due to conflicting commitments within the EAEU framework. This strategic shift constrained Armenia's ability to independently pursue free trade agreements, complicating its trade relations and diminishing potential export benefits from the EU market through the absence of agreements such as the DCFTA.<sup>21</sup> Despite abandoning the DCFTA, Armenia continued to seek closer ties with the EU, culminating in the Comprehensive and Enhanced Partnership Agreement signed in 2017. While CEPA includes significant provisions to facilitate trade, it does not offer the same level of tariff liberalization as the DCFTA. Since Armenia's EAEU membership prevents it from negotiating free trade agreements, the scope of CEPA to fully enhance Armenia's export capacity is limited. Key trade provisions in CEPA focus on ensuring non-discriminatory treatment and aligning with WTO obligations, but the absence of tariff-free access remains a critical limitation.<sup>22</sup>

Armenia's growing interest in EU membership, underscored by high-level political support and increasing public approval, signals a strategic shift towards European integration. However, existing dependencies on the EAEU and Russia, especially for energy imports, pose significant hurdles. Armenia's reliance on the Russian market complicates its efforts to align more closely with the EU, impacting its trade policies and export potential.<sup>23</sup>

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<sup>20</sup> See above in 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

<sup>21</sup> See above in 3.3. Failed Association Agreement and Deep and Comprehensive Free Trade Area.

<sup>22</sup> See above in 3.4 The Comprehensive and Enhanced Partnership Agreement.

<sup>23</sup> See above in 3.5 Armenia's Interest in European Union Membership.

## **Chapter 4 – Comparative Analysis of European Union Trade Relations with Georgia and Armenia**

After examining the trade relations of Georgia and Armenia with the European Union separately in the previous chapters, this section presents a comparative analysis of these relations. This chapter focuses on their respective trade policies, agreements, and outcomes. Through an exploration of geopolitical dynamics, specific trade agreements, and internal challenges, this analysis will highlight key similarities and differences, assessing the overall effectiveness of these policies in shaping Georgia and Armenia's trade landscapes with the EU.

### **4.1 Similarities**

In terms of similarities, Both Georgia and Armenia are integrated into the European Neighbourhood Policy (ENP) and the Eastern Partnership (EaP), initiatives designed to foster closer political and economic ties between the EU and its neighbouring countries. These frameworks emphasize shared values such as the rule of law, democracy and respect for human rights, aiming to facilitate political association and further economic integration.<sup>24</sup>

Moreover, both Georgia and Armenia benefitted from the EU's Generalized Scheme of Preferences Plus (GSP+), which allowed for the duty-free export of approximately 7,200 products to the EU.<sup>25</sup> This preferential access under GSP+ helped increase trade volumes with the EU.<sup>26</sup> However, Armenia's eligibility for GSP+ ended on January 1, 2022, following its classification as an upper-middle-income country.<sup>27</sup> Georgia's GSP+ status ended on December 31, 2016, not because of a change in income classification but due to the full implementation of the DCFTA on July 1, 2016, which provided a more comprehensive framework for economic integration with the EU.<sup>28</sup>

Furthermore, Russia's influence significantly impacts both countries' trade relations with the EU. In Georgia, the ruling Georgian Dream party, founded by oligarch Bidzina

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<sup>24</sup> See above in Chapter 1 - The European Neighbourhood Policy and Eastern Partnership.

<sup>25</sup> See above in 2.1 The Impact of the Generalized Scheme of Preferences on Georgia.

<sup>26</sup> See above in 2.1 The Impact of the Generalized Scheme of Preferences on Georgia and 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

<sup>27</sup> See above in 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

<sup>28</sup> See above in 2.1 The Impact of the Generalized Scheme of Preferences on Georgia.

Ivanishvili, wields substantial influence over the country's political and economic spheres. Ivanishvili, a billionaire with deep ties to Russia, has been a pivotal figure in Georgian politics since founding the Georgian Dream party in 2012. Despite officially stepping down from political roles in 2013, his influence remains pervasive, often described as the "shadow ruler" of Georgia. His control extends to key sectors of the Georgian economy, particularly industries capable of exporting to the EU, which are dominated by companies owned by Russian oligarchs. For instance, the Rich Metals Group (RMG) Copper, Georgia's leading export company, is controlled by Russian billionaire Dmitriy Troitskiy.<sup>29</sup> Furthermore, the introduction of the so-called "Russian Law," which was introduced by the party "Georgian Dream" mirrors Russian legislation, has raised concerns within the European Council, stalling Georgia's EU accession process.<sup>30</sup> Similarly, Armenia's trade policies have been heavily influenced by Russia. In 2013, Armenia was poised to sign an Association Agreement with the EU, which included a DCFTA. However, under perceived pressure from Russia, Armenia opted to join the Eurasian Economic Union (EAEU) instead. This decision constrained Armenia's ability to independently pursue free trade agreements, significantly limiting the potential benefits from the EU market.<sup>31</sup> The strategic shift away from the EU towards the EAEU has curtailed Armenia's capacity to negotiate free trade agreements, thereby diminishing its export potential.<sup>32</sup> Furthermore, the influence of Russian oligarchs is also evident in Armenia, particularly in sectors like mining. Many minerals, a significant part of Armenia's export portfolio, are owned by Russian oligarchs. This ownership structure ties Armenia's economic fortunes closely to Russia, complicating its trade relations with the EU and reinforcing dependencies that hinder more autonomous trade policy development.<sup>33</sup>

Both Georgia and Armenia should focus on diversifying their export portfolios to reduce reliance on a few sectors and enhance resilience against external shocks. Currently, both countries are dependent on the mineral sector, which is dominated by Russian oligarchs. To distance themselves from Russian influence and move closer to the EU, they need to diversify their exports to the EU. Promoting sectors with high export potential and value

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<sup>29</sup> See above in 2.2.2.3 Analysis of Georgia's Export Composition and Oligarchic Influence.

<sup>30</sup> See above in 2.3.2 Geo-Political Developments and Russian Influence.

<sup>31</sup> See above in 3.3. Failed Association Agreement and Deep and Comprehensive Free Trade Area.

<sup>32</sup> See above in 3.4 The Comprehensive and Enhanced Partnership Agreement.

<sup>33</sup> See above in 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

addition, such as technology and sustainable agriculture, can contribute to more balanced and sustainable economic growth. For instance, in 2023, only 0.8% of Armenia's exports to the EU consisted of "Food and Live Animals," while "Manufactured Goods Classified Chiefly by Material," "Miscellaneous Manufactured Articles," and "Crude Materials, Inedible, Except Fuels" made up 96% of the exports to the European Union (DG TRADE 2024).<sup>34</sup>

Moreover, both countries sought deeper integration with the EU. Georgia signed an Association Agreement with the EU, including a DCFTA, which provisionally applied from September 2014 and fully entered into force in July 2016. This agreement aimed to align Georgian industrial and agricultural standards with those of the EU, promoting significant trade liberalization and economic reform.<sup>35</sup> Georgia's application for EU membership underscores its commitment to closer integration, although progress has been hindered by internal political challenges, especially the introduction of the Foreign Agent Law.<sup>36</sup> As mentioned, Armenia was poised to sign a similar Association Agreement, including a DCFTA, with the EU in 2013 but opted for the EAEU due to geopolitical pressures from Russia.<sup>37</sup> Despite this, Armenia later CEPA with the EU in 2017, indicating a continued interest in closer economic ties with the EU. Nevertheless, CEPA does not offer the same level of tariff liberalization as the DCFTA, limiting its impact on Armenia's trade with the EU.<sup>38</sup> However, Armenia has also shown growing interest in EU membership. In March 2024, Foreign Minister Ararat Mirzoyan announced that Armenia is considering a formal application for EU membership.<sup>39</sup>

Additionally, both countries receive financial assistance from the EU, which is crucial for their economic stability and development. Georgia benefits significantly from the

<sup>34</sup> In 2023, the European Union imported €754 million worth of goods from Armenia. Overall, the imports included:

- Manufactured Goods Classified Chiefly by Material: €464 million (61.6%)
- Miscellaneous Manufactured Articles: €138 million (18.3%)
- Crude Materials, Inedible, Except Fuels: €121 million (16.1%)
- Food and Live Animals: €6 million (0.8%)
- Beverages and Tobacco: €14 million (1.9%)
- Chemicals and Related Products: €4 million (0.5%)
- Machinery and Transport Equipment: €5 million (0.6%)
- Commodities and Transactions n.c.e.: €2 million (0.2%) (DG TRADE 2024).

<sup>35</sup> See above in 2.2 The Impact of the Deep and Comprehensive Free Trade Area on Georgia.

<sup>36</sup> See above in 2.3.2 Geo-Political Developments and Russian Influence.

<sup>37</sup> See above in 3.3. Failed Association Agreement and Deep and Comprehensive Free Trade Area.

<sup>38</sup> See above in 3.4 The Comprehensive and Enhanced Partnership Agreement.

<sup>39</sup> See above in 3.5 Armenia's Interest in European Union Membership.

EU4Business initiative, which funded €341 million in projects in 2022, supporting 30,628 SMEs and creating around 24,284 new jobs. This assistance helps Georgian SMEs comply with EU standards and enhances their competitiveness in the European market. Significant technical and financial aid, such as €1.4 million for sanitary and phytosanitary measures and €10 million for rural development, further supports Georgia's alignment with EU standards and enhances trade facilitation.<sup>40</sup> Armenia, likewise, has received substantial EU financial assistance under CEPA and the Economic and Investment Plan, mobilizing over €550 million in investments for trade diversification and socio-economic resilience. The EU's €270 million Resilience and Growth Plan for 2024-2027 also focuses on Armenia's economic independence and infrastructure improvement.<sup>41</sup> Additionally, the European Investment Bank (EIB) supports Armenian SMEs through various initiatives, including loans and grants aimed at boosting economic growth and development. The EIB's projects have provided critical financial resources to SMEs, helping them expand and innovate (Koh 2023).

## 4.2 Differences

When examining the differences, it is evident that the DCFTA has facilitated Georgia's access to the EU market through extensive tariff liberalization and trade facilitation measures, aligning Georgian industrial and agricultural standards with those of the EU. However, compliance with these standards requires substantial investments and capacity-building efforts. Especially Georgian SMEs face significant hurdles in accessing the EU market due to stringent regulatory requirements. Furthermore, Georgia's economy is concentrated in a few sectors, limiting its export diversity. Only a small percentage of Georgian SMEs export to the EU, highlighting the need for further support and development in this area.<sup>42</sup> Moreover, the stringent Rules of Origin under the DCFTA add complexity to trade dynamics, requiring products to meet specific local value-added criteria to qualify for preferential tariffs. Given Georgia's reliance on imported raw materials and components, meeting these criteria poses significant challenges.<sup>43</sup> Nevertheless, although these

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<sup>40</sup> See above in 2.2.2 Impact of the Deep and Comprehensive Free Trade Area on Georgians Enterprises.

<sup>41</sup> See above in 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

<sup>42</sup> See above in 2.2.2 Impact of the Deep and Comprehensive Free Trade Area on Georgians Enterprises.

<sup>43</sup> See above in 2.2.2.2 The Rules of Origin.



rules are stringent, they are vital for the EU for maintaining the EU's high standards and ensuring product safety and quality.

In contrast, Armenia's CEPA, while comprehensive, does not provide the same level of tariff liberalization as the DCFTA. Armenia's membership in the EAEU prevents it from independently negotiating free trade agreements, limiting the scope of CEPA to fully enhance Armenia's export capacity. Although CEPA includes provisions to facilitate trade and align with WTO obligations, it does not offer preferential tariffs for goods, therefore.<sup>44</sup> As a result, Armenia's trade with the EU is subject to MFN tariffs, which are considerably higher than those offered under the Generalized Scheme of Preferences (GSP+)<sup>45</sup> or the nearly eliminated tariffs within the DCFTA framework.<sup>46</sup>

Another significant difference lies in the EU membership aspirations and status of Georgia and Armenia. Georgia officially applied for EU membership in March 2022, and in December 2023, the European Council granted Georgia candidate status, contingent on fulfilling the steps outlined in the Commission's recommendation. However, Georgia's path to EU integration is complicated by internal political and legislative challenges, notably the introduction of the 'foreign agent' law, which drew concerns from the European Council. This law has raised questions about Georgia's commitment to EU principles and has contributed to the stalled accession process, posing significant obstacles to enhancing trade relations through EU membership.<sup>47</sup>

In contrast, Armenia has not yet officially applied for EU membership. It was only in March 2024 that Foreign Minister Ararat Mirzoyan announced Armenia's contemplation of a formal application. Consequently, Armenia remains several steps behind Georgia in this regard. Additionally, Armenia's membership in the Eurasian Economic Union (EAEU) presents further complications. Unlike Georgia, Armenia's EAEU membership prevents it from independently negotiating free trade agreements. This dependency suggests that Armenia would need to leave the EAEU to pursue EU membership, adding another layer of complexity to its potential integration with the EU.<sup>48</sup>

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<sup>44</sup> See above in 3.4 The Comprehensive and Enhanced Partnership Agreement.

<sup>45</sup> See above in 3.2 From the Generalized Scheme of Preferences Plus to the Most Favoured Nation Treatment.

<sup>46</sup> See above in 2.2 The Impact of the Deep and Comprehensive Free Trade Area on Georgia.

<sup>47</sup> See above in 2.3.2 Geo-Political Developments and Russian Influence.

<sup>48</sup> See above in 3.5 Armenia's Interest in European Union Membership.

## Conclusion

This thesis aimed to analyse the evolution of EU trade relations with Georgia and Armenia since 2004, focusing on the impact of various EU trade policies and agreements on the export dynamics of these two South Caucasus countries within the context of geopolitical developments. The central research question guiding this study was: "To what extent have the European Union's trade integration policies towards Georgia and Armenia been effective in fostering sustainable trade of goods exported to the EU amidst regional geopolitical tensions?"

The boundaries of this study were delineated by employing a comparative analysis of Georgia and Armenia using the Most Similar Systems Design. The comparative analysis revealed several key findings. Both Georgia and Armenia are part of the of the European Neighbourhood Policy (ENP) and the subsequent Eastern Partnership (EaP) initiative. These frameworks laid the groundwork for deeper economic ties and political cooperation. Furthermore, both countries have also benefitted from the EUs GSP+, which provided preferential trade treatment. However, their paths diverged with the implementation of different agreements:

Georgia's full implementation of the DCFTA in 2016, which includes tariff liberalizations, has led to a notable increase in trade volumes with the EU. It facilitated the reduction of trade barriers, required that Georgian regulations align with EU standards, and enhanced market access for Georgian products. As a result, sectors such as agriculture, textiles, and food processing saw a notable increase in exports to the EU. The required alignment with EU standards has improved the quality and competitiveness of Georgian products. Despite these advancements, challenges remain. Full compliance with stringent EU regulations is ongoing, and further efforts are needed to diversify Georgia's export portfolio. Additionally, SMEs need further support to meet EU standards, despite the financial assistance already provided by the EU. Furthermore, internal political issues, such as the controversial 'foreign agent' law, have complicated the EU accession process. In June 2024, the European Council announced the suspension of Georgia's EU accession process due to the adoption of the controversial foreign agent law, which the EU views as highly critical. EU membership would grant Georgia access to the EU's Single Market, significantly enhancing its export potential to the EU. The potential for EU membership is

crucial for this thesis, as it not only reflects the broader geopolitical aspirations and alignment of Georgia and Armenia within the European framework but also shapes their strategic goals and trade policies, such as efforts to fulfil EU standards. By examining their trajectories towards EU membership, this research provided an understanding of how integration policies impact trade dynamics.

Armenia gained access to GSP+ in 2009, which provided preferential tariffs for Armenian exports to the EU. This status significantly boosted Armenia's trade with the EU, especially in sectors like textiles and agricultural products. However, in 2013, Armenia opted to join the Eurasian Economic Union (EAEU), a decision that terminated its Association Agreement negotiations with the EU. This shift aligned Armenia's trade policies more closely with Russia and other EAEU members, precluding it from engaging in independent free trade agreements. Despite this shift, Armenia managed to negotiate CEPA with the EU in 2017, which came into force in 2021. CEPA aimed to deepen economic ties without conflicting with Armenia's EAEU obligations. However, it did not include tariff liberalization due to EAEU competencies, limiting its impact. This limitation is particularly evident when compared to agreements like Georgia's DCFTA, which removed most customs tariffs. From 2022, MFN tariffs applied, presenting challenges as some sectors experienced increased tariffs. Despite this, the expected decrease in exports to the EU did not materialize. The reasons behind this outcome have not yet been thoroughly researched, leaving room for further investigation. For Armenia, the EAEU membership poses a significant barrier to deeper integration with the EU, alongside the need for more substantial economic reforms to enhance trade relations. To enhance its exports to the EU, Armenia should also prioritize aligning its industrial and agricultural standards with EU regulations, ensuring high product quality and safety. Meeting these standards will enable Armenia to access the EU market more effectively, thereby increasing its export volume. Additionally, the EU offers financial support to Armenian SMEs, which can significantly enhance their competitiveness within the EU market by providing necessary resources for growth and adaptation to EU standards. Furthermore, if Armenia aspires to become an EU member state and gain full access to the EU's Single Market, it needs to initiate the process of exiting the EAEU, as dual membership is not feasible.

In conclusion, the EU's trade integration policies have had a varied impact on Georgia and Armenia. The DCFTA has provided Georgia with significant opportunities for

economic integration, although the country still faces hurdles in fully capitalizing on these benefits. Armenia's CEPA has facilitated some progress, but the constraints imposed by EAEU membership limit its full potential.

Further research could examine the specific impact of EU trade agreements on distinct product categories for a nuanced understanding. Additionally, the effects of specific PCA provisions remain underexplored and need investigation. While my research covered MFN and GSP+ extensively, there is a notable gap in analyses of the PCA's overall impact. Addressing these gaps would enhance our understanding of how those trade frameworks influence economic outcomes in Georgia and Armenia.

**List of abbreviations and acronyms:**

<b>Abbreviation</b>	<b>Meaning</b>
ARM	Armenia
BA	Bachelor
CABs	Conformity Assessment Bodies
CCT	Common Customs Tariff
CEPA	Comprehensive and Enhanced Partnership Agreement
CIS	Commonwealth of Independent States
CSTO	Collective Security Treaty Organization
DG COMM	Directorate-General for Communication
DG TAXUD	Directorate-General for Taxation and Customs Union
DG GROW	Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs
DG NEAR	Directorate-General for Neighbourhood and Enlargement Negotiations
DG TRADE	Directorate-General for Trade
DCFTA	Deep and Comprehensive Free Trade Agreement
EAEU	Eurasian Economic Union
EaP	Eastern Partnership
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENPARD	European Neighbourhood Programme for Agriculture and Rural Development
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GE	Georgia

GeoStat	National Statistics Office of Georgia
GNI	Gross National Income
GSP	Generalised Scheme of Preferences
IRI	International Republican Institute
IT	Information technology
MA	Master
MFN	Most Favourite Nation
n.d.	No date
NTBs	Non-tariff barriers
OSCE	Organization for Security and Co-operation in Europe
PCA	Partnership and Cooperation Agreement
PhD	Doctor of Philosophy
RFE/RL	Radio Free Europe/Radio Liberty
RoO	Rules of Origin
SME	Small and Medium-sized Enterprise
SPS	Sanitary and Phytosanitary
TBT	Technical barriers to trade
USD	United States Dollar
WB	World Bank
WTO	World Trade Organisation

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