

THE EUROPEAN UNION'S EASTERN EXPANSION REGARDING GEORGIA

AZ EURÓPAI UNIÓ KELETI BŐVÍTÉSE GRÚZIA SZEMPONTJÁBÓL

DAVIT BELKANIA

Doctoral School of Management and Organizational Sciences,
Faculty of Economic Science, Kaposvár University

Abstract

This paper evaluates the economic aspects of the EU's eastern expansion and the political factor that drives the European Union to accelerate the enlargement process. The paper will cover the modern geopolitical dilemma of the EU, Russia and the Caucasus region regarding Georgia: Georgia at the crossroads between Europe and Russia and their political-economic game for gaining trust; the EU's political-economic interests will be analyzed in three different dimensions: Energy diversification, new Silk Road and ensuring eastern border security from terrorism.

This work gives a broad, panoramic view of the EU's geopolitical game through which developing countries like Georgia are going to suffer due to accelerated political events.

1. Introduction

The geographical location of the Caucasus makes this region important for several reasons. First, it is the bridge, buffer between two giant markets, Europe and Asia. Second, the geolocation of Azerbaijan gives it a direct access to energy resources of the Caspian Sea. The Caucasus region borders the middle east, which is generally identified as a dangerous geographical area with active terrorist organizations. In this sense, instability in the Caucasus region can lead to the EU's eastern border threat. The importance and the role of the Caucasus region in the modern geopolitical situation are quite clear. For these reasons, it is vital for the European Union to gain trust from the member countries of the Caucasus region. The problem arises when it comes to Russia and its completely opposite policy in the region. Despite the above-mentioned reasons, the concept of the EU's eastern expansion is dominated by the idea that the EU as a Nobel peace prize holder has a responsibility to neutralize the tension in the region and help those countries to reach economic prosperity, otherwise it opposes its general principles: peace, competitive economy, democracy, human rights and supremacy of law; moreover, it is believed that when an economically small region integrates into an economically large region, both gain but the small region gains much more. Moreover, when a low-wage/low-productivity region and a high-wage/ high-productivity region integrates, most of the large region's gains come from cheaper imports of labor intense goods such as clothes and shoes. This suggests that the aggregate economic gains to the EU incumbents are likely to be small and may cause problems (Richard E. Baldwin 1995: 476).

The process of EU expansion dates back to 70^{ies} of the 20th century. The purpose of the expansion was varying from time to time as the conceptual idea of the European Union

itself, but the main message through all this period was stuck to human rights, peace, democracy and supremacy of law. Today's political events regarding the EU's expansion is part of the same "chain". The problem of this issue has sort of a dual nature: It is beneficial for both parts of "the big political game" and at the same time it can be destructive. The objective of this study is to find the alternative factors that play the role of the main engine for the EU's eastern expansion, and the domination of urgency by these harming new members of the union to accelerate the process. By this paper and its constructive analysis, I will show the broader picture of this geopolitical dilemma and what the true purpose of this expansion is, simultaneously unleashing "side effects" of this process for countries like Georgia. The research methodology used in this paper is dictated by the type of the article. This work represents a narrative review article, the categorization of which by the objective is issue investigation, review. Selected data/studies are analyzed based on the concepts and existing theories. Results are based on a qualitative analysis method rather than a quantitative level, identifying patterns and trends in the chosen phenomena in this way. The article relies mainly on previously published literature and data.

2. The EU's interests in the Caucasus region

The European Union's interest towards the Caucasus region is more than just oil resource potential and can be analyzed in three different dimensions:

- Energy diversification
- New Silk Road
- Eastern border security from terrorism

Energy diversification. It is not a new story that the European Union is trying to get away from the "Russian claw" in the sense of being the main energy supplier. Project "Europe 2020" is the proof of the EU's rising interest in energy diversification; the project reflects Europe's long-term goals for energy production/supply strategy. According to the project, in a long run, the main source of energy will be renewable energy (Fredrik Erixon 2010). Since renewable energy is related to specific problems like production in solid amounts and its sustainable maintenance, the EU's energy strategy for short-term goals is oriented on energy diversification through regional expansion for trusted suppliers; as an example we can mention the EU's eastern expansion that will let Europe have more access to oil resources from the Caspian Sea.

The modern geopolitical chessboard that lies in the Caucasus region with the main players like Russia, the EU, Turkey, and the USA, is more than intense nowadays. All the above-mentioned players are trying to get trust/control over the region.

There are three main countries in the Caucasus region: Azerbaijan, Armenia, and Georgia. Azerbaijan is the richest country in the region, especially for its natural resources. For this reason, the EU is trying to have a strong partnership, or at least ability to influence on the foreign affairs of Azerbaijan regarding the regional (Caucasus) political/economic situation. In this case, Georgia can have a leading position in this "game of interests" for the EU.

The European Union's interests in the Caucasus region do not match of Russia's, which has completely different plans in this geopolitical game. Nowadays, the EU is highly dependent on Russian gas; It is a fact that 32 to 35% of gas supply is provided by

Russia; it makes Russia the biggest energy supplier for the EU. In case of the successful implementation of the EU's energy diversification plan, Russia will lose a significant oil export market. Europe's strategic energy plan does not consider oil access opportunity just from the Caspian Sea, it refers to a coverage of middle east oil market as well, which is possible through the following route: Georgia-Azerbaijan-Turkmenistan. Official negotiation between Europe and Turkmenistan has already been taking place for a few years but without any important changes (Katja Yafimava 2015).

The European Union's long-term energy diversification plan through the already implemented and future projects looks like the following: 1996 agreement between Kazakhstan and Azerbaijan ensures oil transit from Kazakhstan to international oil market through Azerbaijan and Georgia. The Baku-Supsa pipeline got the status of oil transit corridor in 1999. The Baku-Tbilisi-Ceyhan and Shah-Deniz pipelines are one of the most important projects in the Caucasus region. They ensure oil flow from the Caspian Sea to the Mediterranean Sea and from Azerbaijan to Turkey through Georgia. The Nabucco pipeline project considers Georgia as an oil transit corridor, Georgia as a buffer country through which oil will be transported from Turkey to Austria.

New Silk-Road. The EU's eastern expansion strategic plan includes the construction of a new Silk-Road. The idea of rebuilding this historical route has been in progress since 1990. A new Silk-Road will be implemented through the TRACECA project according to which the Caucasus region will be transformed into a massive modern transcontinental trade route through intensive investment in infrastructure. The European Union's next step after announcing TRACECA was launching the project INOGATE. The mission of the project is the following: Ensuring energy security, converging energy markets of participant countries according to EU's energy market principles, developing sustainable energy supply, attracting investments for developing regional energy projects.

Project TRACECA is the most important strategic move for the European Union. The implementation of this project will lead to an open access towards the rich market of Asia and with the help of project INOGATE Europe can finally diversify its energy supply. The implementation of those projects is highly dependent on the peaceful and stable environment of the Caucasus region.

Eastern border security from terrorism. With the implementation of the above mentioned strategic goals the Caucasus region will become sort of a bridge between Asia and Europe. As I have already mentioned, the stable political and economic environment of the Caucasus region is of a great interest for the EU; but the problem is that the Caucasus region through its history of development was the place of birth for ethnic conflicts, the crossroads of interests and chaos that makes alert for the EU's eastern border. Instability in the region and uncertainty of the future in terms of peace is causing a progressive migration problem for the EU member countries. Migration, in this case, is used with an extended meaning that refers to an inflow of terrorist organizations. Because of its location the Caucasus region represents a dangerous place in sense of terrorism and a black market for weapons (Nika Chitadze 2013). Taking into consideration this fact the EU made an official announcement that it would be unacceptable from their side to let Georgia experience political/economic failure because it would raise an alert in the whole region. In general, the EU as a Nobel peace prize holder cannot let it happen as it opposes its general principles: peace, competitive economy, democracy, human rights and supremacy of law. According to the above-mentioned, the EU's biggest hope to have control over the Caucasus region is lying in Georgia's pro-western political success.

The European Union is facing several political challenges regarding its eastern expansion. The vital role in handling these challenges is up to the political stability in Georgia as the main player in this region. Instability and dual nature of foreign affairs in Georgia can be the main drawback of the EU's success in the region. Economic problems of Georgia are somehow secondary in the daily agenda of the EU. It is concerned more to short-term objectives that are related to the political environment. International relations policy that was strongly pro-western oriented in Georgia, experienced a radical shift after government change in 2012. The new government tried to set new agreements with Russia that had been neglected previously. Playing on both sides forced the EU to take quick actions that resulted in Association agreement with Georgia. It seems that every action taken by the government of Georgia in favor of Russia is beneficial for the European integration process of Georgia because of the EU's harsh willingness to hold the pro-western orientation in the region (Leila Alieva 2006). Benefits from the accelerated process of the European integration is partly acceptable but mostly it is going to be reflected in a long run economic perspective. The transition process that the economy of Georgia is facing is long and dynamic, so by accelerating it due to political factors can cause the failure of the system.

Another biggest problem for the EU in Georgia is the orthodox church that is quite radical in this country. In general, orthodox church does not deny or judge Georgia's pro-western orientation but there is still a misconception about European culture and some aspects of European human rights that several NGOs and highly ranked church authorities see as the main threat to Georgian culture and traditions (Kornely Kakachia 2014). This situation creates a strong background for Russia to implement its anti-western politics in Georgia. Starting from the 19th century Russia tries to have control over the Black Sea, the Dardanelles and the Bosphorus gulf. The reason behind this intention is not hard to detect: The above mentioned geographical area represents a weak part of Russia's border security; the Crimean war in 1854-56 can be an example of it, where Russia was defeated. Despite the primary importance of the Black Sea, that is about transit geopolitical location, it has a strategic role in the sense of military defense; the existence of several military bases can be a proof of the strategic importance of the Black sea. Clash of the geopolitical interests takes place when Russia tries to have strong military bases throughout the Black sea and the European Union, at the same time, it tries to implement the eastern expansion.

3. Implications of the European integration process on Georgia

The relationship between the EU and Georgia is at a turning point after association agreement signed in 2014. The successful implementation of the European integration process will result in a wide range of perspectives in different dimensions, including social, economic as well as political aspects. The main possible benefits from EU membership can be categorized in the following way:

- Eurozone
- Single market
- Visa-free policy

Eurozone, or simply euro area is a monetary union of 19 of the 28 European Union member states which have adopted the euro as their common currency and sole legal tender. The ECB, which is governed by a president and a board of the heads of national

central banks, sets the monetary policy of the zone. The principal task of the ECB is to keep inflation under control. Though there is no common representation, governance or fiscal policy for the currency union, some co-operation does take place through the Eurogroup, which makes political decisions regarding the eurozone and the euro. The Eurogroup is composed of the finance ministers of eurozone states, but in emergencies, national leaders also form the Eurogroup.¹

The concept of common currency eliminates monetary competition between countries and ensures smooth convergence of monetary policies of member states. Since common currency creates a great possibility for price transparency and flexible exchange rate, it can be characterized as a driver for the implementation of strong single market policy within the region. Common currency makes the single market to be efficient in terms of exchange rate fluctuations and transaction costs. The euro has significantly contributed to the integration of the economies across the monetary union, where foreign trade has expanded more rapidly than trade between euro area member states and other EU countries.

The adoption of the euro has many disadvantages as well: the fiduciary character of this currency, the creation of a supranational monopoly of the European Central Bank, an excessive centralization of decision-making in the European Union, the suppression of freedom of choice of the Europeans citizens in monetary affairs. Therefore, the euro rather serves the interests of political centralization of Europe, than the desire to stimulate trade and the free movement of goods, capital, and labor (Gabriel Mursa 2014).

The concept of a *single market*. The single market is a sort of trade union where major trade barriers are eliminated by ensuring free movement of goods and services between the member states in this way. The single market is strongly believed to be able to stimulate competition, improve quality and volume of trade, as well as a price reduction.

According to the concept of the single market, removing trade barriers enhances overall trade balance of any country by creating various ways of export market diversification opportunities, free flow of production technologies.

There is no doubt that EU membership will benefit to Georgia by creating diversified areas of economic activities. The problem arises when it comes to competitiveness. Georgia has great potential to produce agricultural products but since there is a low level of technological development, local businesses suffer from high production costs (EU Sanitary and Phytosanitary standards make it even harder). There is no comparison between Georgia and EU member countries regarding cost-effective production. This scenario every time ends with increased import and negative trade balance. EU membership has a dual nature, first, Georgia will get open access to the European market and vice versa, the EU member states will export in Georgia; due to the low level of technological modernization that hinders Georgian small and medium-size businesses to produce price competitive products, the whole European integration process for Georgia will result in increased negative trade balance. Imported products are significantly cheaper than local products causing huge price diversity and giving a privilege to imported products killing local business markets by this. Another important aspect of this issue is that opening the borders stimulates FDI inflow in food and beverages industry where local businesses that mostly consist of small/medium sized companies, are going to “die” due to foreign large size organizations opening franchises in Georgia. Because of this tendency in

¹ <https://en.wikipedia.org/wiki/Eurozone>

the modern economy, it is hard to compete in Agriculture industry, and Georgia is not an exception - approximately 2/3 of local farms are facing a problem with competitiveness (Besik Bauchadze 2006). The reason is an absence of agricultural modernization. This condition causes a list of economic problems for developing countries like Georgia: poverty in rural areas, inefficient use of national scarce resources and first and foremost suffering of the country's export potential to compete in the global market. In general, Georgia does not have a wide range of choices regarding export, throughout the economic development of this country, the main export source was a copper, hazelnuts, motor cars, ferry-alloys, and wine.

Visa-free policy. The European Union is granting its citizens to travel without a visa. Visa-free policy has the following advantages: Travelling, cross-border education, job opportunities abroad. When it comes to Georgia, the situation is changing quickly because opportunities that you can get from EU citizenship is used in a wrong way by the Georgian society. It is a fact that Europe is the host of the world's highly ranked universities. Having European education and especially European work experience is prestigious in Georgia. In this case, open borders with Europe enables Georgia to acquire highly qualified working force that will boost public and private sector operations, but, due to the unstable economic development, low salary and lack of job opportunities, visa liberalization stimulates emigration that causes the loss of human resource/active working force, also known as brain drain (Smita Dubey 2015).

4. The European integration of Georgia and the accelerated political process

The integration process of Georgia that dates back to 1995, is in its last stage to finalize Georgia's "European dream". A retrospective of this process is as follows: the first step took place in 1995 when the EU recognized the independence of Georgia. The process continued within the framework of project INOGATE in 1996; in 2006 Georgia – EU relations went to another level in 2004 by signing European Neighbourhood Policy (ENP) and cooperating within Eastern partnership from 2009 as one dimension of the ENP project; in 2014 an Association Agreement was signed between the EU and Georgia which entered into force in 2016; in 2017, March 28 the visa liberalization dialogue was successfully finished and Georgia transferred to the EU's third country list and was exempted from visa requirement. The European integration of Georgia at the first glance looks quite smooth, but there are several political aspects that drive this whole process to turn from its original concept. Firstly, they are the European Union's personal interests and profitability from the Caucasus region/Georgia that drive this process and the current geopolitical game between the EU and Russia; secondly, it is about the urgency of rapprochement due to a tense political situation in Georgia since the government change in 2012 (Cristina Morari 2013). The leader of a newly elected political party was Bidzina Ivanishvili who had strong business and political ties with the Russian government. The idea is that after 2012 the Georgian government changed its international political vector from radical western to neutral with the intention to cut the tension with Russia. To implement this plan, the newly elected government started "political repression" towards the previous radical western ruling political party, but till now they have not found them guilty. For this reason, the Georgian government received criticism from EU, USA, NATO officials who warned the newly elected political power to respect judicial branch by letting it to seek for justice, and recognize supremacy of law as a fundamental concept

of western-oriented country.² Despite the warnings that Georgia received from all its main international partners, the government did not stop its illegal actions, in fact, the prime minister in his official speech mentioned that the global media was silly and the EU and other international partners did not have a clue what was happening in Georgia³. Simultaneously, the Georgian government was making official announcements that they would re-establish diplomatic relations with Russia, but fortunately, Georgian society had enough experience from our “big brother” and did not accept the government’s choice. During these political events, the EU was representing Georgia as a model country for EU accession. According to corruption perceptions index, Georgia was the first in Eastern Europe and Central Asia, and 50th in the global rank, at the same time a new government was accusing the previous government with a system of corruption and new government members were put on trial because of corruption/bribery and nepotism by their own political party. A similar situation was in the agricultural sector, the EU within the framework of Common Agricultural Policy was making exemplary reports by pointing out Georgia’s progress in the sector, whereas international organizations and research centers' results after analyzing the Georgian agricultural sector were showing the opposite: Low level of technological modernization, bad infrastructure, unstable supply chain, low competitive production and investment deficit (Aleqsandre Bluashvili 2015). The culmination of the above mentioned chaotic situation was the Association Agreement with the European Union as a trustworthy candidate for EU membership.

5. Conclusion

The European Union's eastern expansion lies beyond regional responsibility that the EU is claiming by itself; Economic and political benefits that the European Union will get from this process is higher than the “charity nature” of the EU’s claim: It is our responsibility to help to reach political stability and sustainable economic development for our neighbor partner countries”. From this perspective, a stake is bigger for Georgia due to its current economic development and accelerated European integration process that is caused by Russia’s aggressive and completely different geopolitical plan in the Caucasus region. Despite current success in the European integration process, due to various reasons mentioned above, the choice that the Georgian society made (western oriented) is rather from political aspect and urgent than long-term economic benefit and the consequences of this process can be harsh and distractive in terms of economics.

² Statement by President Barroso following his meeting with the President of Georgia, Mikheil Saakashvili http://europa.eu/rapid/press-release_SPEECH-13-870_en.htm

³ <http://www.tabula.ge/ge/story/63092-amerikeli-senatorebi-saqartveloshi-movlenebisganvitareba-ukiduresad-gvashfotebs>

References

- Smita Dubey, Varsha Mallah (2015): Migration: causes and effects. *The Business & Management Review*, Volume 5 Number 4.
- Richard E. Baldwin (1995): The Eastern enlargement of the European Union. *European Economic Review*, 39 (1995) 474-481.
- E. Kharashvili, G. Erkomaishvili, M. Chavleishvili (2015): Problems Faced by the Agricultural Sector and Agribusiness Development Strategy in Georgia. *World Academy of Science, Journal of Business and Economics Engineering*, Vol:9, No: 11.
- Gabriel MURSA (2014): Euro – Advantages and disadvantages. *CES Working Papers*, Volume VI, Issue 3.
- Kornely Kakachia (2014): Is Georgia's Orthodox Church an Obstacle to European Values? Conference paper, PONARS Eurasia, Policy Memo No. 322.
- Nika Chitadze (2013): Main Aspects of Terrorism and Extremism in the North Caucasus Region. *Journal of Social Sciences* ISSN 2233-3878 Vol. 2 No 1.
- Fredrik Erixon (2010): The Case Against Europe's 2020 Agenda. *European Centre for International Political Economy (ECIPE)* ISSN 1653-8994. Policy Briefs. No. 01/2010
- Katja Yafimava (2015): European energy security and the role of Russian gas: Assessing the feasibility and the rationale of Reducing dependence. *Istituto Affari Internazionali* ISSN 2280-4331 | ISBN 978-88-98650-79-8. IAI WORKING PAPERS 15 | 54
- Ahmad Al-Thagafi (2008): Causes and possible solutions to the middle east terrorism. *U.S. Army War College*, Carlisle Barracks, Pennsylvania 17013, PA 17013-5050.