

EU launches negotiations on free trade zones with Moldova and Georgia

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On 5 December, the European Union decided to launch negotiations to create Deep And Comprehensive Free Trade Areas (DCFTA) with Moldova and Georgia. These DCFTA agreements assume the abolition of duties and quotas in mutual trade in goods and services, as well as the elimination of non-tariff barriers (by the adoption of EU rules on public procurement, health and safety standards, and intellectual property rights, among other means). This will allow the integration of both countries with the common EU market. The idea is to stimulate DCFTA trade between the EU and the two countries, as well as to improve the investment climate in these countries. Consequently, this will translate into economic growth, and will also open up business in the EU countries to new opportunities to work with those countries.

Commentary

- The European Commission's decision to open negotiations is a political success for Moldova and Georgia, who have managed to commence another stage in the process of EU integration. These states have met the prerequisites set by the EU on introducing specific economic (including in the field of trade and competition policy) and institutional reforms (preparing structures responsible for the negotiations and the subsequent implementation of the requirements). Joining the discussions and meeting the EU requirements demonstrates the determination of both countries to achieve economic integration with the EU. The experience of negotiating a similar agreement with Ukraine shows that this process will last at least two to three years. Implementing the provisions of the agreement will be spread over several years. In the short term, implementing the FTAs will have significant financial (and therefore political) costs, and will only yield a positive economic impact in several years from now. Therefore, political willpower from the governments of Moldova and Georgia will be essential to implement the DCFTAs.
- In the long term, a major challenge to establishing the free trade zones will be the separatist areas over which Moldova and Georgia have no control (Transnistria in Moldova, and South Ossetia and Abkhazia in Georgia). The different economic systems (including customs systems) prevailing in these areas make it impossible to cover the entire territories of Moldova and Georgia with free trade zones. The possible introduction of the customs borders between Georgia and Moldova and their separatist regions would

clash with their current policies of reintegrating these areas.

- A potential threat to the process of negotiating Moldova's DCFTA is the unstable political situation. Deadlock in electing a president and the ruling coalition's ineffectiveness in carrying out structural reforms has significantly reduced Chisinau's ability to conduct complex negotiations and then effectively implement their provisions. Furthermore, the possible collapse of the ruling pro-European coalition could mean that the Communist Party of Moldova, which is not interested in deep integration with the EU, could take power.
- In the case of Georgia, the most serious threat to the success of the DCFTA negotiations could be the deterioration of democracy in that country. In this context, the parliamentary (in 2012) and presidential elections (in 2013) will be crucial. Protests by the EU member states at the signing of the DCFTA agreement with Ukraine, caused by the arrest and persecution of the opposition leader Yulia Tymoshenko, show that if the authoritarian trends in Georgia increase, their DCFTA negotiations may also be blocked.