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Table of contents

1. Introduction	4
2. The Main Practical Spheres of Economic Cooperation of the South Caucasus	4
2.1 Historical cooperation of SC nations	4
2.2 Lesson from the EU	5
2.3 Trade Landscape: Georgia and the European Union since 2014	5
3. BAFTA – the Experience of the Baltic Nations	8
4. South Caucasus Free Trade Area – SCaFTA	9
5. Practical Steps – Four Freedoms in Action	10
5.1 Existing opportunities for the region	10
5.2 Georgia's experience for the region	11
6. Sharing Best Practice	11
7. Conclusions	12

1. Introduction

The nations of the South Caucasus (SC) could be natural partners though this potential has been difficult to realize because of events over the last three decades. Bilateral trade between Georgia and its neighbours has always played an important role. In 2023, exports from Georgia to Armenia reached 13% and to Azerbaijan – 14% of the total export of goods from Georgia (27% of summary export share); as for the import of goods, Armenian imports to Georgia had a share of 2% and Azerbaijan – 4%, or, as a sum, little more than 6% of total Georgia imports. These figures include re-export which was only 5% of total exports and 11% of total domestic exports (from Georgia). To compare the EU internal exports to the total exports, it varied from 22% (Cyprus) to 81% (Czechia). Therefore, there is a great potential for enhancing intra-regional trade.¹

Georgia, meanwhile, is a candidate for EU membership, it has preferential trade agreements and other privileges that nations of the SC region can employ. Before Georgia becomes a member of the EU and other nations follow this path, the nations of the region can start a new type of trade and economic relationship, similar to the Central European Free Trade Agreement (CEFTA) and/or the European Free Trade Association (EFTA). The EU and other political and economic agreements created great opportunities for economic cooperation that resulted in the longest period of peace in the European continent. Such a framework can be gradually implemented in the SC region to boost economic cooperation and support common interests.

Another great opportunity for the SC nations is to implement all the policies that do not need intensive political discussions and, at least in terms of bilateral cooperation, to improve services. These can be customs and border crossing procedures, telecommunication, transportation, and other services, including those for international tourism. Governments can find and reduce the practical barriers and promote best practices based on EU experience.

This paper aims to find spheres and ways to promote ideas of inter-regional economic cooperation in SC.

2. The Main Practical Spheres of Economic Cooperation of the South Caucasus

2.1 Historical cooperation of SC nations

The nations of the SC region have cooperated before, as a short-lived federation of independent states in 1918 and as a soviet federation from 1922 to 1936. Both experiments failed because they were artificial or created by force. Since post-soviet independence, all South Caucasus countries have been impacted by internal conflicts. While the European Union was opening its borders and markets, the South Caucasus trio started a new economic and political life by adopting new legislation and establishing borders.

All three nations started with a dramatic fall in their GDP. During the first years of independence (1991-1994) the average GDP per capita of the SC nations declined by 2/3rds (the decline was much more dramatic if compared to 1986;² for instance, the earthquake of 1989 completely destroyed the Armenian cities of Spitak and Gyumri).³ They needed to restart their economies and find new partners for exports and imports of energy, food, and other consumption goods that could substitute for their former Soviet economic ties.

Establishing new economic partnerships was the most challenging exercise, especially because of a lack of experience. All post-soviet nations needed to quickly create a legislative framework that would help potential partners. Georgia moved forward very quickly, becoming a member of the World Trade Organization in 2000 followed by several free trade agreements with the EU and other nations. Armenia promptly followed in 2003. However, their inter-regional cooperation was still weak and based only on bilateral and sectoral agreements. In 2014, Georgia signed a Deep and Comprehensive Free Trade Agreement with the EU.

The European Free Trade Association (EFTA), and especially the Central European Free Trade Agreement (CEFTA) are good examples for the SC nations to find opportunities for cooperation. The EU was started with an agreement of the Coal and Steel Industry in the 1940s, just after the Second World War. Its visions and policies have advanced since then, and now the EU is the most successful economic and political integration project in

¹<https://www.geostat.ge/en/modules/categories/112/metadata-external-trade>

²<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=GE>

ocations=GE

³ <https://www.rferl.org/a/armenias-catastrophic-earthquake-of-1988/29634413.html>

human history. Currently, the GDP of the EU exceeds \$19 trillion (IMF, 2023) and the average per capita GDP exceeds \$37 thousand, which is three times higher than the World average (World Bank, 2023).

2.2 Lessons from the EU

The success of the EU has come from its liberalization policies based on the EU Four Freedoms – the free movement of goods, capital, services, and people. This is how European nations enhanced cooperation, competition, and the scale of the European market, which helped the business member nations to become very competitive in the world. The EU's share of World trade is over 14% though its population is less than 6% of the World's.

- The EU has enlarged and integrated Central-Eastern European nations since 2004. The new members benefited from the EU's liberalized trade and business policy. There has been significant GDP growth in the countries that joined the EU in 2004. The European Commission states that the GDP per capita (in PPS) of the EU10 (the 10 member states that joined the EU in 2004) in 2004 grew from 59% of the EU27 average in 2004 to 81% of the EU27 average in 2022.⁴

Here are some specific examples:

- Estonia has witnessed an average yearly Gross National Income (GNI) growth rate of more than 8%.
- Poland, Slovakia, Malta, and Latvia grew on average by more than 7%.

Overall, the economies of these new member states have benefited from EU membership. Increased trade, investment, and access to EU funds have all contributed to this growth.

The EU leads the globe in liberalization, moving towards openness and freedom in trade and business activities in parallel with a high level of protection of human rights. Two annual studies of economic freedom by the Heritage Foundation in the USA and Fraser Institute in Canada both indicate higher levels of economic freedom in Europe than in other continents of the globe.⁵ According to the Index of Economic Freedom (EFI) (Heritage Foundation, 2024) the economic freedom average score of the EU nations is around 66%, above the World average of 58%. The EU is

also a regional leader in the trade freedom component of the EFI; the EU's score is 79.2% while the global average is 70.7%.

The economic improvements in the new EU members were especially impressive. According to the World Bank, the GDP of Estonia increased by nine times from 1995 to 2023 (three times since EU membership). Romania's GDP also multiplied nine times during the same period (4.5 times after EU membership), and Slovenia's almost three times (1.5 times after EU membership), even though Slovenia was one of the wealthiest ex-communist nations. Estonia is also the best performing ex-communist nation regarding economic freedom, 8th among the 176 rated nations by the Index of Economic Freedom (Heritage Foundation, 2024).

2.3 Trade Landscape: Georgia and the European Union since 2014

The relationship between Georgia and the European Union (EU) has undergone considerable changes in recent years. The signing of the Deep and Comprehensive Free Trade Area (DCFTA) in 2014 was a significant catalyst for this transformation. This chapter explores the trade dynamic between Georgia and the EU since 2014, analysing its impact on exports and, generally trade, and evaluating its overall effectiveness.

The DCFTA, enacted as part of a wider Association Agreement, sought to establish a favourable trade regime between Georgia and the EU. It envisioned a gradual reduction in taxes, a streamlining of customs procedures, and aligning Georgian rules with EU standards.⁶ The DCFTA includes a mechanism for economic integration with the European Union (meaning trade in both goods and services). The DCFTA allows Georgia to gradually obtain three of the four freedoms of the EU internal market: free movement of goods, services, and capital, and opens the internal EU market for Georgia.⁷ The DCFTA covers a wide range of trade-related issues (technical barriers, sanitary and phytosanitary, food safety, competition policy, financial services, dispute settlement, and others).⁸ It also calls for a gradual convergence/harmonization of Georgia's relevant legislation with those of the EU.⁹

After signing the DCFTA, Georgia continued reforms to meet the requirements of the agreement. There were initial signs of a positive impact on Georgia's trade with the EU. The Data from the European Commission suggests a rise in total trade turnover between the two sides. From 2014 to 2018, EU imports from Georgia increased by 10.8%,

4

<https://www.consilium.europa.eu/en/infographics/2004-enlargement-facts-and-figures/#:~:text=The%20GDP%20per%20capita%20%28in%20PPS%29%20of%20the,to%2081%25%20of%20the%20EU27%20average%20in%202022.>

⁵ <https://www.heritage.org/index/>

<https://www.fraserinstitute.org/studies/economic-freedom>

⁶ European Commission, "EU trade relations with Georgia - Facts, figures and latest developments," https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/georgia_en

⁷ <https://nes-g.org/ka/researchs-ge/2022-02-05-10-14-39>

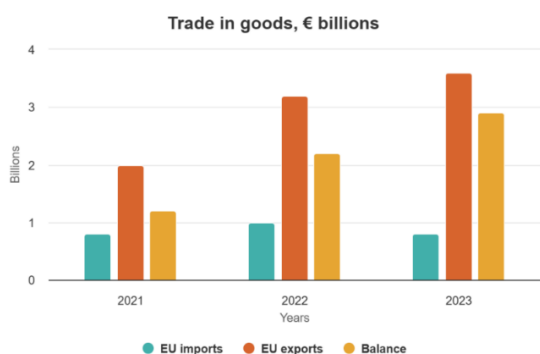
⁸ <https://dcfta.gov.ge/ge/agreement>

⁹

<http://www.economy.ge/index.php?page=economy&s=7>

while exports to Georgia grew by 4.6%.¹⁰ This initial growth hinted at a potential for diversification in Georgia's exports, with a shift towards higher-value goods. The EU is the main trade partner of Georgia at 20.5%, followed by Türkiye (14.6%). EU trade with Georgia accounted for 0.1% of its total trade, with a turnover of around €4.25 billion in 2022. EU exports to Georgia amounted to €3.2 billion in 2022, an increase of 57.9% compared to the previous year (this date includes re-exports as well). The key export products are minerals, machinery and appliances, and transport equipment. The key EU imports from Georgia include mineral products, chemical products, and textiles. The EU imported goods to the value of €1 billion from Georgia in 2022, with imports increasing by 25.8% since 2021.

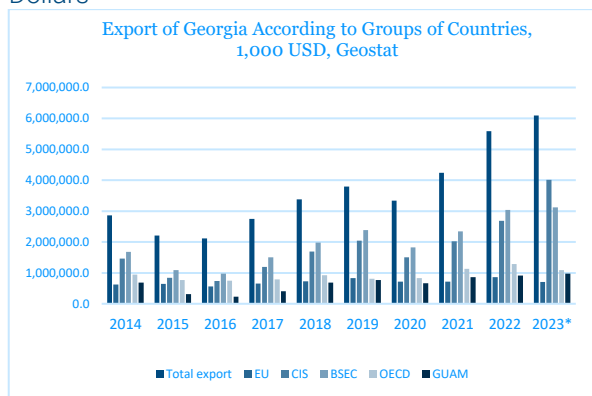
Figure 1. EU-Georgia Trade in Goods, billions of euros; Source European Commission



An improvement can be observed in the terms of trade between Georgia and the European Union in the field of services over the last two years. For example, in 2022, compared to 2021, service imports to the EU from Georgia increased by approximately EUR 0.2 billion, and exports from the EU to Georgia increased by approximately EUR 0.8 billion.

Although the dynamics of Georgia's trade with Europe have been good since the signing of the DCFTA in 2014, the growth in trade volume has not occurred at the pace that Georgian consumers and producers expected. Expectations were high for the implementation of the DCFTA but Georgia could not fully utilize its benefits. Nine years have passed since the signing of the DCFTA yet there has been no significant replacement of the markets of Russia and the Commonwealth of Independent States (CIS)¹¹ countries in general with European consumers or goods. **In addition, e.g. Exports in the first half of 2024: EU - 9.1%, Russia - 11.9%, CIS - 66.6%. Imports in the same period: EU - 26.5%, Russia 11.5%, CIS - 20.7%.**

Figure 2. Export by Groups of Countries, 1,000 US Dollars



As shown in Figure 2, Georgia's exports to the European Union are still lagging behind other country groups. In sum, the export data looks as follows – in 2014, Georgia sold products worth 624.2 million USD to EU countries, and according to the full data for 2022, the same figure will be 862.5 million USD.¹²

Indeed, the intensity of Georgia's trade with the Commonwealth of Independent States (CIS) and the Black Sea Economic Cooperation (BSEC) countries is determined by geography, but it is still noticeable that trade and cooperation with the EU countries is still developing, though at a relatively slow pace.

The experience of Georgia mentioned above also relates to the future growth of the South Caucasus market and its successful integration with global markets. Despite the opening of borders, numerous technical impediments and the inexperience of companies might slow integration. Of course, the application of international standards is required for success, but there should be no expectation that the situation will alter overnight. Harmonization with international standards, as well as cooperation among regional countries based on these norms, is the key to their access to worldwide markets.

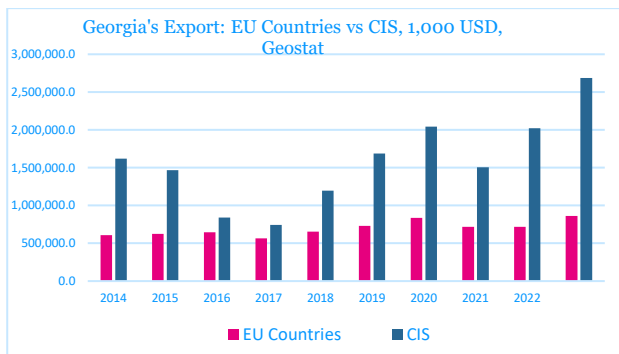
Figure 3. Georgia's Export: EU vs CIS, 1,000 USD

¹⁰ Georgia's Trade Performance in the Light of EU-Georgia Deep and Comprehensive Free Trade Agreement.

¹¹ The Commonwealth of Independent States (CIS) is a regional intergovernmental organization in Eurasia.

¹² The volume of trade in 2020 also depended significantly on the impact of the Covid pandemic. Before the pandemic, according to 2019 data, the

export volume of Georgian products to the European market amounted to 834,946,600 USD. It should be noted here that the volume of exports to the CIS countries was 2,043,208,700 USD as of 2019. As for imports, its figure in 2019 from EU countries was 2,408,418,700 US dollars, and from CIS countries was 2,440,887,600 US dollars.



These statistical data show that despite the increased opportunities provided by the DCFTA, market penetration into the EU has not progressed rapidly. In order to increase the trade volume with EU countries, it is important to use the advantages granted by the DCFTA for the benefit of both consumers and entrepreneurs of Georgia.

Entering the market of EU countries, especially for small and medium-sized entrepreneurs, is associated with several difficulties. Some of them are objective barriers, while others stem from the entrepreneurs' lack of knowledge and experience about the specific challenges of entering the market. Moreover, some manufacturers, as well as importing companies, still prefer cooperation with companies represented in the Russian market, which in many cases is due to old connections, the low language barrier, the familiarity of Georgian products, and other reasons.¹³

The execution of the agreement has resulted in no substantial changes to the structure of exports by commodity.

As can be seen from Graph 4, Georgia's main exports remained beverages, tobacco, and non-food raw commodities. The trade-in automotive and transport equipment parts also remained substantial, of which almost the entire volume of products is re-exported.

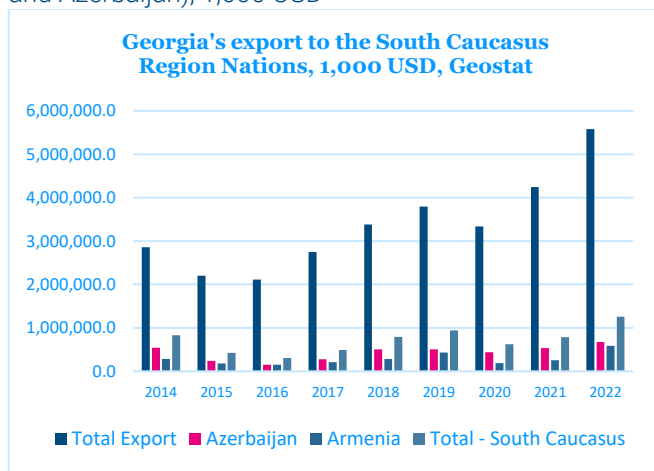
Figure 4. Export of Georgia according to SITC, percentage share



It should be noted here that Georgia's trade dynamics with the SC countries has increased in recent years as the

positive data regarding both Armenia and Azerbaijan indicates.

Figure 5. Export to the Caucasus region (Armenia and Azerbaijan), 1,000 USD



An even greater positive impact on the region's economic dynamics could be created by making the best use of trade opportunities with the EU, by intense cooperation within the countries of the South Caucasus, and by exploiting Georgia's transit role.

Furthermore, if the legal framework of trade between the region's countries and the general principles of their cooperation are harmonized with EU requirements and standards, it would not only support bringing South Caucasus countries closer to the European market, but it also would have a positive impact on regional cooperation. The strengthening of collaboration based on similar principles would allow each country to attract even more regional and extra-regional investments.

In addition, it is worth mentioning that Georgia has already had a positive experience of international global trade cooperation. Georgia has free trade agreements with several countries: 27 members of the EU, four members of the EFTA, nine former CIS nations, the People's Republic of China, Turkey, and the United Kingdom. With the USA, Georgia has a GSP+ regime (General System of Preferences, 7,000 plus types of goods non-tariff entrance to the US). Georgia also has Double Taxation agreements with more than 60 nations.

¹³ <https://nes-g.org/ka/researchs-ge/2022-02-05-10-14->

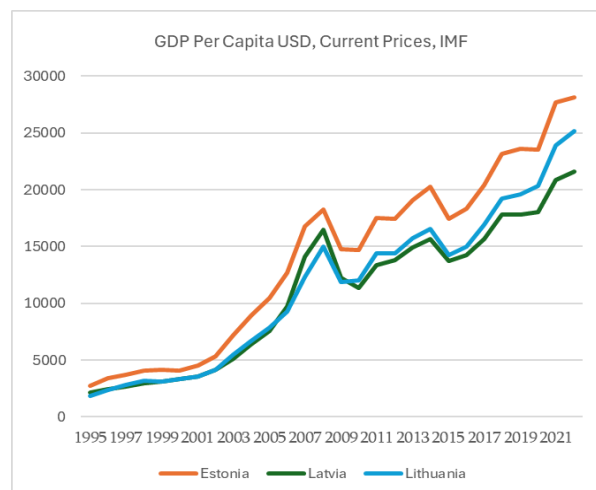
3. BAFTA – the Experience of the Baltic Nations

The Baltic Free Trade Agreement (BAFTA)¹⁴ was one of the European free trade agreements that existed from 1994 through 2004, after the three Baltic nations (Estonia, Lithuania, and Latvia) gained independence in 1991 and before they became members of the EU. This experience could be relevant for the South Caucasus countries. The Baltic trio had a similar challenge – to start a new independent economic and political life, not an easy task. The economies of the Baltic nations were as heavily dependent on the Soviet/Russian market as the economies of the South Caucasus countries. They also entered the world market without any ties, partners, or experience.

Unlike the Caucasus nations, the Baltic ones understood the importance of regional cooperation from the very first days of their independence movement and used every opportunity to share resources and efforts to solve economic problems. In 1994 they signed the BAFTA that helped eliminate trade barriers and integrate the three nations, enlarge the market, and cooperate on standards of procedures. Later it also assisted the nations with their preparations to join the EU (2004).

The three nations were remarkably successful in economic reforms during the period of the BAFTA from 1994-2003. Estonia's per capita GDP (current USD prices) increased by 320% (more than four times), the Latvian and the Lithuanian by almost 200% each (three times; Lithuania's data as of 1995-2003). After joining the EU, their economies continued growing and GDP per capita again increased by 234%, 265%, and 303% (in the same order of countries, GDP per capita in USD, current prices).¹⁵

Figure 6. GDP per Capita in Current Prices in USD, Baltic Nations, 1995-2022



The three nations also had very impressive improvements in external merchandise trade. The total merchandise trade increased from \$6.7b in 1992 to \$38.7b in 2003, and to \$203.5b in 2022.¹⁶

Figure 7. External Merchandise Trade, Baltic Nations, 1992-2022, USD



The external merchandise trade of the South Caucasus countries has substantially grown after achieving independence. Their total trade rose from \$3.1b in 1992 to \$85.9b in 2022. Though if the same figures are calculated in per capita measures, the gap between SC countries and the Baltic region is also very large: on average around \$5k for SC nations and \$33k for the Baltic region.¹⁷

The total service trade of the Baltic trio exceeds twice the South Caucasus trio figures (\$63b against \$30b, World Bank). Again, the difference is even larger when calculated in per capita measures: almost 6 times (\$1.8).¹⁸

¹⁴https://en.wikipedia.org/wiki/Free_trade_areas_in_Europe#:~:text=The%20Baltic%20Free%20Trade%20Area%20was%20a%20free%20trade%20agreement,their%20accession%20to%20the%20EU.

¹⁵<https://www.imf.org/external/datamapper/NGDPDPC@WEQ/EST/LTU/LVA>

¹⁶

<https://data.worldbank.org/indicator/TM.VAL.MRCH.CD.WT>

<https://data.worldbank.org/indicator/TM.VAL.MRCH.CD.WT>

¹⁷ Ibid

¹⁸ <https://data.worldbank.org/indicator/BM.GSR.NFSV.CD>

There are other ways to explain the great success of the Baltic nations compared to the South Caucasus. The Baltic nations have had a lengthy period of peace, though they still had high defence spending. However, the major advantage of the Baltic nations was that they were more pragmatic and maybe more experienced in implementing an environment of business freedom at the earliest stage of their independence. For instance, Estonia was one of the first to implement flat taxes and substitute the ordinary central bank system with a currency board, both very pragmatic policies. The Baltic nations have consistently occupied high rankings in the Index of Economic Freedom.¹⁹ In 2023, Estonia is 12th, Lithuania is 13th, and Latvia is 25th among the 165 nations rated by the Fraser Institute.²⁰ However, it is worth mentioning that Georgia and Armenia also joined the club of economically freer nations too and currently have rankings of 25th and 33rd.

Table 1. Economic Freedoms in the Baltic and South Caucasus Regions, scores 0-10, Fraser Institute, 2023

Countries	Economic Freedom Summary Index	Rank	1 Size of Government	Area 1 Rank	2 Legal System & Property Rights -- With Gender	Area 2 Rank	3 Sound Money	Area 3 Rank	4 Freedom to trade internationally	Area 4 Rank	5 Regulation	Area 5 Rank
Armenia	7.58	33	7.8	25	5.92	52	9.1	53	8.15	39	6.9	52
Azerbaijan	5.99	122	4.6	161	4.81	91	6.9	133	7.18	72	6.4	86
Georgia	7.71	25	7.4	41	6.33	45	8.7	81	8.67	7	7.4	31
Estonia	7.95	12	6.4	92	7.95	16	8.9	73	8.28	29	8.2	8
Latvia	7.71	25	6	115	7.17	28	9	71	8.66	8	7.8	18
Lithuania	7.95	12	6.9	63	7.4	24	9	70	8.64	9	7.8	16

The Baltic nations are especially advanced in the important area of the Legal System and Property Rights. While the SC nations have around or less than 6 scores out of 10, the Baltic nations have above 7. Therefore, the success of the Baltic nations has been based on the BAFTA but also their pragmatic dedication of reliance on market forces.

The BAFTA and the three nations' transition and smooth integration into the EU Free Area/Eurozone was also successful due to the smooth transition of their monetary systems. From 1992, Estonia introduced the currency board system by fixing its Krona to the Deutsche Mark, Lithuania followed (though fixing the Lita to the basket of DM and USD) from 1994, and Latvia since 1997 (by fixing its currency, Lati, to the IMF's Special Drawing Rights). Such monetary arrangements supported the BAFTA nations' economic stabilization but also the widening of their trade with the EU, an easier integration into the EU's economy, and helped with their transition. This experience can be useful to the South Caucasus nations, both regarding internal regional trade and external trade with the Organization for Economic Cooperation and Development (OECD) nations and facilitating trade with the EU.

4. South Caucasus Free Trade Area – SCaFTA

South Caucasus nations experienced a challenging transition period after gaining independence in 1992. The economies of the three nations radically shrunk during the first period of the transition from a centrally planned to a market economy, freely trading with other countries. Hence, the SC nations had to create and rearrange trade policy and legislation, as well as find new partners and customers. The South Caucasus republics, unlike the Baltic countries, did not focus on creating a unified economic space and immediately expanding the regional market following the breakup of the Soviet Union. The emphasis remained on cooperation with Russia, since their previous experience appeared to be an easy business solution.

The South Caucasus countries have been unable to build a shared economic space due to various factors:

- Armed conflicts in the region
- Lack of market economic reforms in countries (which also implies unsuccessful monetary and fiscal reforms)
- Lack of modern transportation infrastructure
- Less access to technology.

SC countries have been affected by a number of shocks in recent years, including the COVID-19 pandemic and geopolitical conflicts.²¹ So far, the economies of the Caucasus have demonstrated remarkable resilience to these shocks. These short-term developments, however, should not mask the long-term issues that have emerged. These shocks have called into doubt many economic growth fundamentals, including the ability to access global markets, maintain seamless supply chains, and get access to innovative technologies.

The geographic concentration of exports and the dependence on a handful of transit routes are major sources of vulnerabilities for the SC.

Timely access to technologies and the integration of similar capabilities into the economic system are significantly determined by cooperation with developed countries. For the SC countries, after the collapse of the Soviet Union, the process of integration with developed markets was significantly hindered by the close connection of local markets with Russia and technologically less developed regions.

¹⁹ <https://www.heritage.org/index/>

²⁰

<https://www.fraserinstitute.org/sites/default/files/econo>

[mic-freedom-of-the-world-2023.pdf](https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2023.pdf)

²¹ <https://aric.adb.org/blog/five-steps-to-economic-resilience-in-the-caucasus-and-central-asia>

At the same time, the diversification of trade requires these economies to develop production capacity with better links to new potential markets. To attain economies of scale, there is a need for greater regional collaboration among the SC countries though that has been significantly hampered by political and military-political circumstances. As the BAFTA experience demonstrates, regional market development and access to larger economies needs new infrastructure and transit networks that connect the Caucasus to foreign markets, standardize procedures and technical rules for commerce in commodities and services, and share human capital services. Hard infrastructure and institutions, harmonized rules and economic openness (flexible regulations for investment and a reduction of foreign trade barriers) are the most demanding elements when it comes to developing internal regional economic cooperation and transit routes.

It should be noted here that the conflicts fuelled by Russia in the region (in Karabakh, Abkhazia, and in the Tskhinvali region/South Ossetia) hindered these countries from exchanging resources and providing economic assistance to one another. Of course, Georgia maintained close ties with both countries in the region, but the region's tensions made united regional cooperation impossible.

Georgia has good political and economic relations with both Armenia and Azerbaijan, which is reflected in the development of the relevant infrastructure albeit at a slow pace (meaning both road transport and railway connections and the infrastructure of energy routes, through which the countries of the SC region can improve their transit potential).

Aside from the political aspect, none of the countries at the dawn of independence introduced hard currencies or pursued low tax policies. Instead, the emphasis was often placed on creating a strong centralized economy, which resulted in inflation and economic problems. Especially during the first decade of independence, countries neglected to make attempts to create a business-friendly atmosphere.

Georgia was the most successful by becoming a member of WTO in 2000, then signing DCFTA with the EU in 2014, and several other free trade agreements or preferential trade regimes (including with the USA).

DCFTA is a framework of trade rules that are similar to the WTO though more practical. EU free trade area rules include regulations of food safety, technical standards, the protection of intellectual property rights, competition, (rules of) origin, and customs procedures.

Georgia has the privilege to export goods and services to the EU countries without customs duties and tariffs if it implements the regulations in the above-mentioned areas. The DCFTA also obliges Georgia to implement the customs clearing rules. They are a standard pack of procedures that help importers to go through customs more quickly and efficiently.²² Such rules include standards of documents (including invoices, licenses, certificates, proof of origin, etc.), packaging, transportation, rules of verification of origin of the goods,

intellectual properties, etc. If Georgia could support its neighbours with its DCFTA experience in the implementation of customs rules, with the goal of creating unified customs rules, it would eliminate practical barriers, simplify customs clearing procedures, and reduce costs.

The South Caucasus can become geopolitically more interesting and powerful if the countries would create a common foreign policy. In many aspects, the extra-regional vision of the SC substantially depends on peace, development, stability, and cooperation inside the region.

5. Practical Steps – Four Freedoms in Action

5.1 Existing opportunities for the region

In 2023, Georgia and Armenia achieved an agreement to further liberalize border-crossing for their citizens using electronic (biometric) ID cards. Georgia has had such an agreement only with Türkiye (since 2010). In the EU, citizens can travel anywhere inside of the EU territory without a visa and passport, by using electronic biometric ID cards.

Several other practical, EU based solutions exist which the SC nations could gradually implement to enhance integration and unite trade, production, and consumption markets. Economic policy and legislation needs to be established based on the EU/DCFTA requirements.

One of the directions of such cooperation can be the energy generation and supply sector. Georgia became a member of the European Energy Community (EEC) in 2014 and has made several steps to implement its requirements (Armenia is one of the observers, along with Türkiye and Norway).²³ The goal of the EEC is to create a single energy market of producers and customers, with liberalized rules of ownership, competition, pricing, networking, and access to the market. Such requirements enhance competition and benefit customers, including the population and businesses.

Similar efforts based on EU rules and experience could be made in other sectors. EU integration was based on the Four Freedoms (of movement of goods, capital, services, and people). If the SC nations choose this framework as a basis for an economic cooperation agreement, it would offer several practical solutions for integration, especially with the use of contemporary technologies.

²² [https://trade.ec.europa.eu/access-to-markets/en/content/eu-georgia-deep-and-](https://trade.ec.europa.eu/access-to-markets/en/content/eu-georgia-deep-and-comprehensive-free-trade-area)

[comprehensive-free-trade-area](https://www.energy-community.org/legal/treaty.html)
²³ <https://www.energy-community.org/legal/treaty.html>

5.2 Georgia's experience for the region

Georgia adopted very liberal immigration and travel rules for citizens of OECD nations in 2007. Similar liberalization by the other SC nations could make border crossings inside the SC region quicker, making movement easier, and could boost the hospitality sector of the economy of all three nations. The national governments could also agree on sharing information about arriving foreigners.

Georgia also accepts pharmaceutical goods and medical equipment from the same group of nations based on their quality checking and licensing. That means the Georgian people enjoy high-quality health goods from these nations. The same rules could be applied to food and other consumer goods if they originate in the EU or are certified by EU quality standards.

Nations can also agree on eliminating any financial barriers for the movement of capital by using the EU rules internally in the SC region. This can also include the systemic integration and elimination of barriers to money transfers through international networks.

EU Electronic Communications Code and other contemporary rules could be used in the telecommunication sector, especially by using roaming arrangements to reduce costs. It is very important that the customers of mobile companies not be overcharged and use internet roaming for free when they travel to a neighbouring SC country. This solution could reduce travel costs for the region's internal and external visitors, thereby providing a business incentive and increasing economic activity.²⁴

According to the Passport Index, Georgian citizens can travel to 79 countries visa-free and 52 more countries with visas at the border or electronically, accessing 66% of the world's territory (short visits; for Armenia – 35/45, Azerbaijan – 14/91). Georgia allows nationalities of 96 countries to enter Georgia visa-free (Armenia – 41, Azerbaijan – 21).²⁵ Such openness brings more human interaction, experience, and knowledge to the region.

Moreover, it is of utmost importance to have a common transportation policy for the SC. This includes reducing domestic, transit, and international transportation costs of goods within the region. Regional policies should recognize that the regional transiting rules need to satisfy regional neighbours' demands. Any other approach would be costly for both sides. Therefore, transportation policies of the SC region have to ensure the "smooth, efficient, safe and free movement of people and goods" as prescribed by EU transportation policy²⁶.

Practical solutions could include the use of contemporary technologies for passing the border without stopping by

informing the border police in advance about the car and passengers using a special online form. Scanners at the border can easily check the car number plate. Before that, though, as a first step, customs offices could be equipped with passport and ID card scanners for citizens and number plate scanners for cars. This would enable faster border crossings.

6. Sharing Best Practice

The SC region can expand its economic capacities in several ways. One easy and practical step would be to share the successful experience of local and international brands already operating in the region. Such companies, along with potential ones, can widen their market capacities, enlarge the number of clients, and attract new brands and investments.

Georgia was very slow to accumulate the needed experience in business and attract foreign brands (though some of them have been in Georgia since the 1990s). This has been delayed by business climate and market size issues. The international brands have not only brought the best quality of goods and services but also taught Georgian partners and even their rivals the best practices of business behaviour (this was most effective in the hospitality sector).

During the last three decades and especially after the start of the reforms in the 2000s, hundreds of Georgian businesses appeared and stayed in the market even in very competitive spheres like beverages and hotels. Medical services and pharmaceutical markets are particularly specific and crucial; people from the region should have the opportunity to use these services in neighbouring countries. In this case, cooperation can ease life, making such services much more accessible and affordable. Opening these markets will also boost competition among the regional players.

²⁴ <https://digital-strategy.ec.europa.eu/en/policies/eu-electronic-communications-code#:~:text=European%20electronic%20communication%20rules%20seek,through%20effective%20competition%20and%20choice>.

²⁵ <https://www.passportindex.org/byRank.php>

²⁶ [https://eur-lex.europa.eu/summary/chapter/transport.html?root_default=SUM_1_CODED%3D32#:~:text=The%20European%20Union's%20\(EU,rail%2C%20water%20and%20air\)](https://eur-lex.europa.eu/summary/chapter/transport.html?root_default=SUM_1_CODED%3D32#:~:text=The%20European%20Union's%20(EU,rail%2C%20water%20and%20air)).

7. Conclusions

Armenia, Azerbaijan, and Georgia have a long history of co-existence and cooperation. Countries in the SC region have a chance to learn from the experience of other regions, both in the process of developing their own economic policies and in implementing various regulations for access to international markets. Georgia's experience after signing the Deep and Comprehensive Free Trade Agreement with the European Union includes positive experiences and opportunities; its use can improve the integration of SC countries with international markets. Different experiences with free trade agreements also provide good examples of how technological barriers between countries might be restructured to make greater use of existing resources and human capital.

South Caucasus nations can start finding methods of internal cooperation. The EU and Baltic nations provide a number of useful examples. The positive experience of other Eastern European nations in developing internal markets and integrating with the European Union serves as a good guidance for SC countries in implementing economic changes for the establishment of a market economy. Unlike earlier decades, it is possible to better exploit the potential developed in the region to take more positive steps and form and implement appropriate economic policies. Recommended are:

- Developing of a well-coordinated regional cooperation strategy among SC countries;
- Reducing trade costs and promoting infrastructure development;
- Implementing reforms supporting the development of entrepreneurship and lower production costs;
- Diversifying export destinations and import sources, which includes more active participation in the multilateral trade system and accession proper market rules;
- Enhancing regional cooperation for the development of cross-border infrastructure, logistics, and human resources.

