ISSN 0323-9004

Economic Archive

Svishtov, Year LXXIX, Issue 1 - 2026

D. A. TSENOV ACADEMY OF ECONOMICS
SVISHTOV

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In 2026, the journal will be printed using a financial grant from the Scientific Research Fund – Agreement № KP-06-NP7-66 from Bulgarska Nauchna Periodika – 2026 competition.

ECONOMIC ARCHIVE

YEAR LXXIX, BOOK 1 – 2026

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GEORGIA–EU TRADE RELATIONS: THE IMPACT OF THE DEEP AND COMPREHENSIVE FREE TRADE AREA ON ECONOMIC INTEGRATION

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Abstract: This article examines the trade policy of the European Union within the framework of the Association Agreement, with a focus on the European Union's significant role in Georgia's economic integration. It highlights the establishment of a comprehensive free trade area, which has paved the way for Georgia to gradually align with three of the European Union's four internal market freedoms: the free movement of goods, services, and capital.

The author assesses the advantages and challenges of this agreement for Georgia, particularly in terms of trade liberalization and the harmonization of Georgia's trade-related legislation with European Union standards. The study also evaluates the trade protection mechanisms in the Deep and Comprehensive Free Trade Area, the criteria for implementing anti-dumping and anti-subsidy measures, and their potential impact on Georgia's economic development.

The final section of the article underscores the World Trade Organization's pivotal role in Georgia's economic transformation, outlining the prerequisites for implementing trade safeguards and comparing the functions and features of the World Trade Organization with those of the Deep and Comprehensive Free Trade Area Agreement. The author concludes that by fulfilling its obligations under the Association Agreement, Georgia can enhance its attractiveness to foreign investors, foster state institutional engagement in the transformation process, and achieve successful navigation through this complex economic transition.

Keywords: European Union, EU-Georgian Trade relations, Trade Protection Measures.

This article shall be **cited** as follows: **Abuseridze, G.** (2026). Georgia-EU Trade Relations: the Impact of the Deep and Comprehensive Free Trade Area on Economic Integration. Economic Archive, (1), pp. 3-12.

URL: nsarhiv.uni-svishtov.bg

DOI: https://doi.org/10.58861/tae.ea-nsa.2026.1.01.en

JEL: F13, F15, O24.

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Introduction

The European Union represents a remarkable and unprecedented phenomenon in today's global economic landscape. It is characterized by the voluntary amalgamation of numerous sovereign nations into a singular political-economic entity. This amalgamation has led to the creation of a robust, democratic, and developed supranational institution that has not only fortified the authority of its member states but also enhanced their economic competitiveness and global standing (Hodson et al., 2022).

Comprising 27 European nations, the EU stands as a pivotal hub within the world economy, exemplifying successful integration processes. Continuously enhancing economic collaboration with numerous global entities, it facilitates fresh avenues for economic advancement and fosters international cooperation.

One of the EU's key strengths lies in its collective bargaining power and regulatory framework in trade and trade policy. Through negotiation and implementation of agreements, the EU benefits its member states and enhances their economic competitiveness on the global stage. The EU's unified currency, the euro, ranks among the most robust currencies worldwide, surpassing the US dollar in strength. With a market encompassing approximately half a billion individuals, the EU presents an alluring prospect for companies worldwide, not only due to its size but also because of the high consumer demand and incomes within the EU (Dhingra et al., 2017).

Beyond its economic allure, the EU is committed to safeguarding its security through covert protectionist policies, quality control mechanisms prioritizing EU populace satisfaction, and tariffs or non-tariff barriers. As a unified economic sphere, the EU's member nations form a customs union, adhering to identical import customs tariffs, which is a critical consideration for any nation aspiring to penetrate the EU market or seeking membership in the EU (Repo et al., 2017).

In this context, Georgia, as a candidate for EU membership, stands as an exemplar of effective reform efforts and a steadfast embrace of a distinctly European perspective, while aspiring towards accession to the European Union. Georgia's geographical positioning, along with its strong commitment to modernization, aligns well with the stringent criteria outlined by the European Union, propelling the country towards integration into a unified economic framework. The ratification of the Association Agreement with the European Union marks a significant moment in Georgia's trajectory, signifying a notable shift from previous modes of collaboration, exemplified by the replacement of the Partnership and Cooperation Agreement with the Deep and Comprehensive Free Trade Area (Kardava, 2018). This transformative shift has led to a range of advantages, carefully designed to enhance Georgia's economic integration with the European Union and facilitate the country's full membership in the union.

The Dynamics of EU-Georgia Relations: A Comprehensive Analysis from Independence to Association Agreement

Relations between the European Union and Georgia commenced in 1992, following Georgia's reestablishment of independence post the Soviet Union's dissolution. The EU was among the first international entities to extend support to Georgia during its challenging transition phase, exemplified by the establishment of a European Commission delegation in Tbilisi in 1995. The signing of the Association Agreement in June 2014 marked a significant turning point in EU-Georgia relations. This agreement, along with the Deep and Comprehensive Free Trade Area it encompasses, envisions a pathway towards political and economic integration leading to EU membership, thereby fostering a more profound level of political and economic cooperation and drawing Georgia closer to Europe. Furthermore, the EU and Georgia have agreed upon the EU-Georgia Association Agenda, outlining development priorities for the implementation of the Association Agreement (Emerson & Kovziridze, 2016). This agenda aims to support Georgia in fully benefiting from the Association Agreement, which began its initial implementation, particularly the trade component, on September 1, 2014. Negotiations for the Association Agreement, including the DCFTA, were formally launched by Catherine Ashton, the High Representative of the European Union for Foreign Affairs and Security Policy and Vice President of the European Commission, in Batumi on July 15, 2010. The Association Agreement was initialed at the Eastern Partnership Vilnius Summit in November 2013, signed in Brussels on June 27, 2014, and ratified by the Georgian Parliament on July 18, 2014 (Rommens, 2014).

The Association Agreement between Georgia and the EU is a product of the EU's "European Neighborhood Policy", launched in 2004 with the objective of fostering closer ties between the EU and its neighbors, promoting prosperity, stability, and security in all involved parties. This policy has facilitated the establishment of new areas of cooperation and has been instrumental in Georgia's pursuit of greater alignment with the economic and social structures of Europe (Kemoklidze & Wolff, 2020).

In the context of the Eastern Partnership Initiative established in 2009, the author underscores the elevation of EU-Georgian cooperation to a new level, which was determined by regional developments (Abuseridze et al., 2022). The Eastern Partnership Initiative aimed to ensure stability and security, as well as democracy and prosperity, along the EU’s eastern borders, by means of conducting and implementing a plethora of bilateral and multilateral projects (Cadier, 2021). In addition to Georgia, Armenia, Azerbaijan, Belarus, Moldova, and Ukraine are members of this platform. The initiative underscores the EU's recognition of the region's importance and the privileged relations it offers to its constituent countries. In December 2005, the EU granted Georgia the General System of Preferences status. This status was extended in 2008 and will persist for a transition period of two years following the entry into force of the DCFTA. The General System of Preferences status entails the exemption of goods exported from Georgia to the European Union from customs duties and a unilateral reduction of tariffs (Mangini, 2024).

The Association Agreement between Georgia and the European Union brings both challenges and opportunities for Georgia. To join the EU in a short time, the country must fully implement EU standards. The Deep and Comprehensive Free Trade Area Agreement with the European Union, unlike other free trade agreements signed by Georgia, allows for the liberalization of trade in goods and services (Lippert, 2024). Additionally, the DCFTA addresses various trade-related issues, such as food safety, competition policy, intellectual property protection, and financial services, and promotes the gradual alignment of Georgia’s trade laws with EU legislation.

The Deep and Comprehensive Free Trade Area enables Georgia to progressively adopt three of the four freedoms of the EU internal market: free movement of goods, services, and capital. The fourth freedom, the free movement of people, is facilitated by the liberalization of the visa regime, which took effect in 2016. Through the implementation of the DCFTA, goods and services produced in Georgia, subject to specific conditions, gain access to the world's largest market, comprising 27 countries and over 500 million consumers at this stage. The free movement of goods and services is poised to enhance Georgia's export potential (Kawecka-Wyrzykowska, 2015), rendering the country more attractive to investors, consequently leading to increased investment inflows and job creation. Furthermore, DCFTA implementation is expected to stimulate the emergence of new enterprises and export products, ensuring the provision of safe and high-quality goods to Georgian consumers, and fostering the development of state administration bodies in line with European best practices. Ultimately, these developments are anticipated to have a positive impact on the country's economic growth and development.

The significant portion of Georgia's exports destined for the European Union, as evidenced by the 669 USD million worth of goods exported to EU markets in 2023, underscores the strategic importance of strengthening ties with EU member states. This substantial trade flow, constituting approximately 12% of Georgia's total exports, highlights the pivotal role of the EU market in propelling Georgia's economic growth (Borchert et al., 2021). Although this figure may appear modest, the imperative lies in augmenting exports to EU countries and maintaining a stable trajectory. Furthermore, sustaining this upward momentum is crucial, particularly given the rigorous standards and demands characteristic of the European Union market. These standards not only necessitate adherence but also provide a compelling impetus for Georgian entrepreneurs to innovate and manufacture goods meeting these criteria. By aligning with stringent EU standards, Georgian businesses can effectively access the EU market, fostering the advancement of high-tech production processes and bolstering the country's export potential (Abuseridze et al., 2022). Consequently, initiatives like the Deep and Comprehensive Free Trade Area play a pivotal role in consolidating Georgia's position in the global market and fostering economic development.

Trade in Goods: Georgia-EU Free Trade Agreement

The Deep and Comprehensive Free Trade Agreement between Georgia and the European Union is a comprehensive trade agreement that covers various aspects of trade, including goods and customs duty liberalization. It is designed to promote trade between the two parties and create a more favorable environment for businesses. The agreement stipulates that neither party may levy customs or equivalent charges on exported goods. This means that goods originating in Georgia and the EU can be traded between the two parties without facing any customs duties or charges.

Regarding imports, the agreement outlines specific conditions for both Georgia and the EU:

Import to Georgia (obligation) - Upon the agreement's entry into force, Georgia is required to eliminate customs taxes on goods originating in the EU. This means that goods imported from the EU into Georgia will not be subject to any customs duties.

Import into the EU (benefit) - Upon the agreement's entry into force, the EU will abolish customs duties on goods originating in Georgia, with the exception of garlic. Garlic imported from Georgia will be subject to quotas, meaning that only a certain quantity of garlic can be imported into the EU without customs duties. This is designed to protect the EU's domestic garlic producers.

In addition to these general provisions, the agreement also includes three key measures to regulate trade:

1. Entry Price - Ad Valorem Free: This measure applies to 28 tariff lines. If the invoice price of Georgian products imported into the EU falls below the EU's fixed price, the importer must pay the difference. However, if the price is

equal to or higher than the fixed price, the products are exempt from this mechanism. Additionally, ad valorem customs duties are waived on Georgian products in these specified 28 tariff lines under the normal trade regime (Langbein et al., 2024).

2. Anti-Circumvention Mechanism: This measure applies to 277 tariff lines of agricultural and food processing products. If the import of a product subject to this mechanism reaches 70% of the fixed quantity in a calendar year, the EU reports the volume of imports to Georgia. Georgia can then provide justifications for potential excess imports, such as increased production volume, and may import more than the specified quantity without customs duty.

3. Tariff Quota: This applies only to garlic, with a quota of 220 tons. Garlic originating in Georgia can be imported into the EU without customs duty within this quantity during the calendar year.

According to the author, these measures aim to regulate trade between Georgia and the EU, promoting fair competition and protecting the interests of both parties. The agreement aims to create a more favorable environment for businesses by eliminating customs duties on goods traded between the two parties and addressing potential trade issues with specific measures for certain products.

Trade Protection Measures in Georgia's Economic Growth

Trade protection measures are an integral component of the Deep and Comprehensive Free Trade Agreement, with a regulatory character being a key feature. This regulatory character encompasses the conditions for implementing protective, anti-dumping, and anti-subsidy measures in trade. Parties to the agreement are guided by the relevant agreements of the World Trade Organization when employing protective measures in trade, particularly in the context of dumping, excessive imports, and subsidized imports.

The DCFTA and WTO agreements stipulate the right of parties to implement protective measures in trade, subject to specified procedures and maximum transparency. The European Union is known for its use of protective measures in trade, especially concerning agricultural products, to safeguard its domestic market, ensure product quality, and support its farmers. This approach contributes to the EU's economic growth and development through the promotion of domestic products and the reduction of export-related costs for EU exporters (Mishrif & Khanmm, 2024).

According to the author, it is important to distinguish the functions and characteristics of the WTO and DCFTA. They have distinct functions and characteristics. The DCFTA is a bilateral agreement between the EU and non-

EU countries, focusing on comprehensive integration across various sectors. In contrast, the WTO is a multilateral institution with a broader scope, governing global trade regulations among its member states. Additionally, the DCFTA mandates deeper integration through regulatory alignment and structural reforms, while the WTO emphasizes trade liberalization measures without requiring the same level of integration. Participation in DCFTAs is voluntary and involves negotiations between the EU and individual non-EU entities, whereas the WTO operates on a membership basis, encompassing a majority of nations globally. Furthermore, DCFTAs feature dispute settlement mechanisms within the agreement, while the WTO has a well-established dispute resolution framework for its member states (Hoekman, 2017).

The author believes that the establishment of a deep and comprehensive free trade space between Georgia and the EU has numerous benefits. On the one hand, it aligns Georgia's trade system with EU market requirements, fostering a transparent and stable business environment that attracts foreign investments and enhances Georgia's investment attractiveness. On the other hand, the agreement promotes sustainable development and the rational use of natural resources in Georgia, while also creating new enterprises, export products, and jobs, contributing to local production growth. It also diversifies and expands Georgian product export markets, reduces export-related costs, and ensures safe and harmless products for Georgian consumers, while also protecting intellectual property rights. The agreement boosts Georgia's economic growth by removing tariffs and technical trade restrictions, increasing the export potential of Georgian products to EU countries. The positive dynamics of trade relations between the EU and Georgia are evident in the increasing exports from Georgia to the EU annually.

Conclusions

Summarizing the results of the research, the author concludes that the EU has played a crucial role in shaping Georgia's trajectory toward political and economic integration through the DCFTA and the Association Agreement. These agreements have not only served as mechanisms for fostering economic liberalization but have also underscored the EU's commitment to supporting Georgia's reform processes. By providing a clear pathway towards closer alignment with European standards, these agreements symbolize a significant step in Georgia’s integration into the broader European framework.

The DCFTA has been particularly instrumental in liberalizing trade in goods and services between Georgia and the EU, resulting in enhanced export potential, growing investment flows, and substantial job creation. This agreement has also spurred the modernization of Georgia’s legislative and institutional landscape, aligning its practices with European standards. The reforms implemented under the DCFTA framework have strengthened state administration, enhanced the regulatory environment, and ensured the availability of safe, high-quality products for Georgian consumers.

Moreover, these agreements have had a transformative impact on Georgia’s governance structures. By adhering to European best practices, Georgia has been able to strengthen its institutional capacities, foster transparency, and establish a more competitive economic environment. The alignment with EU trade policies has diversified Georgia's economy and bolstered its attractiveness to international investors, positioning the country as a reliable partner in the region’s economic development.

The author believes that the DCFTA acts as a cornerstone of Georgia’s economic transformation, creating opportunities for legislative advancements, institutional modernization, and deeper integration into the European economic framework. Beyond economic benefits, the agreements reflect a broader political significance by reinforcing Georgia’s aspiration to align itself with European values and governance models.

The author states that the successful implementation of the DCFTA provisions will be critical for sustaining Georgia’s economic and institutional development. Continued commitment to these reforms will not only enable Georgia to maximize the benefits of these agreements but also strengthen its resilience in the face of regional challenges. By leveraging the opportunities provided, Georgia can secure sustainable growth, advance its democratic processes, and reinforce its position as a key contributor to regional stability and development.

In conclusion, the EU’s engagement through the DCFTA and the Association Agreement demonstrates a shared vision for a prosperous and integrated Georgia. These agreements highlight the transformative potential of deepened cooperation and exemplify the importance of economic integration as a vehicle for fostering political stability, institutional resilience, and mutual prosperity.

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