



# Avoiding Gridlock: a Strategy for Georgia to Engage with Eurosceptic Europe



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## EXECUTIVE SUMMARY

While EU's door remains open to further accessions from Western Balkan countries<sup>1</sup>, with current state, EU lacks the political will to give the same promise to EaP countries. For the Union the main dilemma is how to treat countries that are European but lack an immediate EU membership perspective due to EU's current enlargement fatigue. While on the other hand, for Georgia and other EaP countries, the most important issue is how to live through the "transitional period" without losing the momentum for reforms. The uncertainty of the "transitional period" may lead to negative consequences for both Georgia and the EU, expressed in a democratic backlash, rising anti-reform and anti-EU sentiments, as well as EU's diminished influence over the neighborhood. The present policy paper is an attempt to bridge the gap between European and Georgian standpoints on Georgia's European integration. Arguing that the risks can be mitigated through more outside-the-box thinking on both sides and offers a guide for the "transitional period" between EU and Georgia based on examples of the EU's relations with third states. It first identifies the areas of converging interests between the EU and Georgia and then discusses the best practices of non-membership integration and proposes solutions that may be workable for both sides. Although this paper focuses primarily on Georgia, its findings can be applied to some extent to Ukraine and Moldova as well as to other EU neighborhood states with no immediate accession perspective.

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<sup>1</sup>On 6 February, 2018 European Commission adopted a strategy for 'A credible enlargement perspective for and enhanced EU engagement with the Western Balkans'. The Strategy clearly spells out that the EU door is open to further accession when the individual countries have met the criteria.

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## ABBREVIATIONS

<b>AA</b>	Association Agreement
<b>CET</b>	Common External Tariff
<b>CIS</b>	Commonwealth of Independent States
<b>CU</b>	Customs Union
<b>DCFTA</b>	Deep and Comprehensive Free Trade Agreement
<b>DSM</b>	Digital Single Market
<b>EAFRD</b>	European Agricultural Fund for Rural Development
<b>EC</b>	European Commission
<b>EEA</b>	European Economic Area
<b>EaP</b>	Eastern Partnership Initiative
<b>EFTA</b>	European Free Trade Association
<b>ENP</b>	European Neighborhood Policy
<b>EP</b>	European Parliament
<b>ERDF</b>	European Regional Development Fund
<b>ESF</b>	European Social Fund
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FTA</b>	Free Trade Agreements
<b>MFN</b>	Most Favored Nation (tariff)
<b>NATO</b>	North Atlantic Treaty Organization
<b>PESCO</b>	Permanent Structured Cooperation
<b>SAA</b>	Stabilization and Association Agreement
<b>SAP</b>	Stabilization and Association Process
<b>WTO</b>	World Trade Organization



## INTRODUCTION

While EaP associated countries aspire to receive EU membership perspective, the Brussels Summit declaration<sup>2</sup> (2017) limited itself to acknowledging such promise. EU membership is not just a foreign policy priority<sup>3</sup> for Georgia; it is the main driver for the country's political and economic reforms, which means the lack of apparent incentives on European path could negatively affect the country's performance.

The current uncertainty does not pose a challenge for just Georgia and its government. It also negatively affects the image and influence of the EU in neighborhood states. In 2015, Johannes Hahn, the enlargement commissioner of the European Union (EU), aptly described the European Neighborhood Policy (ENP) as being “built on a constructive ambiguity” designed to do “the difficult job of using the transformative power of Europe without explicitly offering the big prize: membership.”<sup>4</sup> The EU commissioner was perhaps referring to negotiation tactics famously used by United States (US) Secretary of State Henry Kissinger which are based on the idea that “ambiguous worded text can create opportunities for advancing the interests of both parties to a negotiation.”<sup>5</sup> Designating ambiguity as a virtue regarding the ENP clearly shows the dilemma the EU faces in its neighborhood. On the one hand, the EU has been struck by enlargement fatigue—the lack of political will to enlarge further, perhaps a result of aggravated political, economic and social problems that were partly caused by previous enlargement rounds. On the other hand, the migrant crisis and the rising influence of far-right political parties means that any serious discussion about further expansion is a non-starter for the EU.

However without an accession offer, the EU seems to lose “the magnetic pull [of its soft power]”<sup>6</sup> that was meant to be the key component of the EU's strategy in its neighborhood. The main objective of the ENP was to build a prosperous and peaceful “ring of friends” around the EU.<sup>7</sup> However, the ENP, as the EU's key instrument in its neighborhood, has failed to generate tangible results and even the most advanced countries with pro-European public and reform-minded elites score very moderately in terms of stability and good governance. The main problem of the ENP is its one-size-fits-all character that does not really fit anyone. For advanced neighborhood states, it is too little, as they aspire to nothing less than membership; for less advanced states, it is too much since they cannot or are not willing to take on costly reforms.

This paper, which is based on the example of Georgia — one of the pioneer ENP countries and the frontrunner of its eastern dimension, the Eastern Partnership (EaP) initiative, discusses how the EU can escape the limbo of ENP's constructive ambiguity and rise above the difficult

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<sup>2</sup> (Council of the European Union 2017)

<sup>3</sup>(Office of the State Minister of Georgia 2017)

<sup>4</sup>(European Commission 2015b)

<sup>5</sup>(Elgindy 2014)

<sup>6</sup>(European Commission 2015b)

<sup>7</sup>(Taylor 2015)

transitional period between the absence of the membership prospect and EU's geopolitical ambition to promote peace, stability, and good governance in its neighborhood or, in Hahn's words, how to make EU neighbors "more European."<sup>8</sup> The uncertainty of the "transitional period" may lead to negative consequences for both partner countries and the EU. It is argued that, at least in advanced EaP states, the absence of new incentives within or outside ENP/EaP formats may, in the near future, further weaken the transformative power of the EU even more than the absence of the membership prospect.

Looking at EU-Georgia relations retrospectively, one could conclude that even though the membership perspective for Georgia has never been real, at each stage of EU-Georgia relations, the process of Georgia's approximation to EU norms and Georgia's differentiated integration into the EU structures was locked in by the existence of more practical short-term goals, which were adjusted to Georgia's needs and achieved results. In other words, although the membership perspective was absent, there have also been some juicy carrots to attract Georgia's commitment. The same goes for Moldova and Ukraine. However, after accomplishing the two main objectives of the ENP/EaP—visa liberalization and the Association Agreement (AA)—a situation has emerged that lacks both the EU membership perspective and new carrots.

The present policy paper is an attempt to bridge the gap between European and Georgian standpoints on Georgia's European integration. It argues that Georgia, together with other EaP associated countries, should be allowed to use integration tools outside the ENP/EaP to become part of EU structures without formal membership. For the EU, this will serve two main goals: to avoid further enlargement in the near future and to ensure the continuous approximation of neighboring states to EU norms and institutions—resulting in a more peaceful, prosperous and democratic neighborhood. For Georgia (as well as Moldova and Ukraine), it will provide new incentives that can substitute the EU membership prospect and sustain the reform drive for decades to come. Although this paper focuses primarily on Georgia, its findings can be applied to some extent to Ukraine and Moldova as well as to other EU neighborhood states with no immediate accession perspective.

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<sup>8</sup>(European Commission 2015b)

## INTERESTS OF THE EU AND GEORGIA: CONFLICTING OR COMPLEMENTARY?

Before exploring new avenues for EU-Georgia relations, one needs to identify a possible area of converging interests —an important step that is often neglected by both Brussels and Tbilisi. On the one hand, the EU’s approach towards its neighborhood, including its key formats, the ENP and EaP, has long been criticized as EU-centric and supply-driven<sup>9</sup>and ignoring the interests and needs of its neighbors. On the other hand, the Georgian narrative about the country’s place in Europe draws a quite romanticized picture and ignores the reality on the ground. This has resulted in a wide gap between perceptions on how EU-Georgia relations should be constructed. That may lead to frustration in both Georgia and the EU unless the expectations are better managed and brought in line with the reality on both sides. Table 1 summarizes the key priorities of the EU and Georgia regarding the ENP/EaP and other formats of EU-Georgia relations. In the case of the EU, the top priorities for its eastern neighborhood are (1) to avoid further enlargement; (2) to have stable and economically and socially developed neighbors; (3) to mitigate the negative impact of Russia in its neighborhood; and (4) to ensure that its soft power remains the driver of reforms among its neighbors. For Georgia, the utmost priority is (1) to keep the process of political and economic reforms 2) to improve national security followed by (3) EU membership (Below we discuss how the interests of EU and Georgia can be converged and what kind of new policies may come out of this convergence.

**Table 1: EU's and Georgia's main interests**

What is at stake for the EU?	What is at stake for Georgia?
<ul style="list-style-type: none"> <li>○ <b>Stable neighborhood.</b> The top objective of the ENP has been to build a “ring of friends” — a ring of stable and prosperous countries which would not export instability, insecurity and other social, political and security-related problems to the EU. Stability seems to be the most valued good for the EU at least in its immediate neighborhood. As empirical evidence shows there are two basic ways to achieve the stability. The first method is to support (or at least not destabilize) the autocratic regimes that can ensure the heavy-handed stability of political and social orders. But as the Arab Spring and numerous other examples have shown,</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>Locking in the reform drive.</b> To keep in check reform-resistant actors and the Eurosceptic sentiments in society, the government needs to keep providing tangible benefits or at least the prospects of such benefits. Georgia is not a Eurosceptic country by any measurement but continuous denial by the EU to acknowledge it as a European state may strengthen anti-EU and anti-reform sentiments in the medium- and long-term future. Hence, even if the membership perspective is off the table, the Georgian government needs some other juicy carrots to keep the reform process going and the</li> </ul>

<sup>9</sup>(Börzel and Lebanidze 2015)



coercion-based stability is not that stable in the long run and may end up in chaos at any time.<sup>10</sup>The second method is more resilient: helping the neighborhood states becoming stable democracies with strong market-based welfare systems. It is this second approach that lies at the heart of the “ring-of-friends” idea promoted by the ENP.

- **Attraction-based power.** Even though EU officials deny it,<sup>11</sup> the EU remains a largely civilian power and its regional and global influence is based on the power of attraction. EU also certainly uses economic and financial incentives both as sticks and carrots but this strategy is based on how attractive they are seen in the target states. Hence, for the ENP and the EU’s external governance to be successful, the EU needs to maintain a positive image in its neighboring countries.
- **Geopolitical imperatives.** EU may be a post-modern empire<sup>12</sup> but it still cares about the increasing influence of illiberal regional powers in its immediate neighborhood, first of all Russia, which questions the adequacy and sustainability of the multilateral norms-based international order advocated by the EU. Here, Brussels faces a dilemma: on the

popularity of Georgia’s pro-European choice intact.

- **Security-related issues.** For Georgia’s political class, EU membership is also associated with the resolution of security-related issues. But unlike the North Atlantic Treaty Organization (NATO), the EU does not have a military support clause. Certainly EU membership would make Georgia a bit more secure vis-a-vis Russian provocations, but so would close integration with the EU, which would contribute to gradual development of Georgia’s defence capabilities.
- **EU membership.** EU membership has been the ultimate goal of the Georgian government since Eduard Shevardnadze’s administration. Interestingly, however, in Georgia’s domestic discourse, EU membership serves both as a means to an end and as an end itself. It is an “end” in terms of Georgia’s state- and nation-building narrative. Europe is considered as the most appropriate cultural and civilization construction for Georgia, hence the discourse of “returning to the European family” which Georgia has been kept away from by different foreign forces throughout the centuries.<sup>14</sup>A similar historical narrative is popular both among the population and the majority of the

<sup>10</sup>Belarus, on the other hand, offers a good example of autocratic stability but according to different estimates sustaining Alexander Lukashenko’s regime has cost Russia between 40 and 80 billion USD. Similarly, the Gulf States invested more than 30 billion USD in stabilizing the military autocracy in Egypt after the Arab Spring. The EU will not and should not invest similar amount of resources in supporting stable autocracies in its neighborhood countries. For more information, see: Manenok, Tatiana. 2014. “Belarus-Russia: Dependency or Addiction?” Accessed January 22, 2015. <http://pl.boell.org/en/2014/01/07/belarus-russia-dependency-or-addiction>. Sons, Sebastian, and Inken Wiese. 2015. “The Engagement of Arab Gulf States in Egypt and Tunisia since 2011 Rationale and Impact.” Accessed February 27, 2018. [https://kops.uni-konstanz.de/bitstream/handle/123456789/33148/Sons\\_0-317350.pdf?sequence=3](https://kops.uni-konstanz.de/bitstream/handle/123456789/33148/Sons_0-317350.pdf?sequence=3). Wilson, Andrew. 2011. *Belarus: The last European dictatorship*. New Haven: Yale University Press. <http://www.worldcat.org/oclc/768761305>.

<sup>11</sup>See: EEAS. 2016. “Shared Vision, Common Action: A Stronger Europe Security Policy: A Global Strategy for the European Union’s Foreign and Security Policy.” Accessed February 27, 2018. [https://eeas.europa.eu/archives/docs/top\\_stories/pdf/eugs\\_review\\_web.pdf](https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf).

<sup>12</sup>(Mahony 2007)

one hand it needs to avoid direct confrontation with Russia since it has neither the capabilities nor the political will to become engaged in military endeavors in its neighborhood. On the other hand, however, the EU has been trying to contain Russia's negative involvement in their shared neighborhood by using both the hard and soft instruments at its disposal. In this regard, a key component of the EU's strategy is to integrate willing neighbors in its economic structures.<sup>13</sup>

- **Enlargement fatigue.** Last but not least the EU's agenda towards its neighborhood is characterized by enlargement fatigue — the unwillingness to enlarge further. Enlargement fatigue is further strengthened by the rising influence of the right-wing movements and Eurosceptic sentiments among EU's citizens. Hence, unless some unexpected changes take place, the EaP states do not have a real option to join the EU as a full member anytime soon.

political elite. On the other hand, accession to the EU also serves rather pragmatic goals. It is considered as the means to solve Georgia's security related problems, and to achieve economic growth and social welfare by joining the world's most advanced economic and political union.

### FINDING A COMMON GROUND: STEP BY STEP INTEGRATION NOW-FORMAL MEMBERSHIP TOMORROW?

As table 1 shows, at the moment the EU is determined to avoid offering Georgia (as well as Moldova and Ukraine) anything that comes close to a membership promise. At the same time, however, a stagnation in relations, which may end up in damaging the EU's image and pro-EU sentiments among Georgian population, is not in the EU's interest either. According to some predictions, in the worst case scenario, the continuing enlargement fatigue may change pro-European public attitudes in Georgia and push Georgia into Russian arms.<sup>15</sup> But it is also likely

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<sup>13</sup>According to Johannes Hahn, the free trade agreements with associated countries go “beyond pure economics,” and “also help to ‘vaccinate’[EU’s] friends against outside interventions by others who have a more monopolistic view of the term ‘neighborhood,’” see: European Commission. 2015. “Theorizing the European Neighborhood Policy: Speech by Johannes Hahn, International Conference, College of Europe.” Accessed February 27, 2018. [https://ec.europa.eu/commission/commissioners/2014-2019/hahn/announcements/theorizing-european-neighbourhood-policy\\_en](https://ec.europa.eu/commission/commissioners/2014-2019/hahn/announcements/theorizing-european-neighbourhood-policy_en).

<sup>15</sup>Public surveys show a slow but constant trend of decreasing support for Georgia's EU membership and increasing support for country's membership of the Eurasian Economic Union. For more information, see: Civil Georgia. 2018. “NDI-Commissioned Public Opinion Survey.” Accessed February 28, 2018. <http://www.civil.ge/eng/article.php?id=30799>.

that the stagnation of the European integration process will strengthen the anti-reform actors both in government and society. In Georgia, European integration and EU membership as its final goal are not equated with a seat at the table in Brussels but rather are associated first of all with good governance reforms and the modernization of the country. Hence, the stagnation of relations between EU and Georgia might both endanger Georgia's reform drive and take the country away from the pro-European orbit. Neither of these outcomes is in the EU's interest. Georgia's overall strategic importance for the EU may not be high but the Black Sea country is a rare success story for the ENP and one of the few semi-democratic and stable islands in an otherwise unstable and authoritarian neighborhood.<sup>16</sup> A deterioration of the situation in Georgia might be another blow to the ENP as a whole. The same applies to Moldova, Ukraine and Tunisia. Therefore, while the EU cannot offer its golden carrot, it has to replace it with a similarly attractive offer.

To substitute the EU membership prospect, two important issues should be addressed: upgrading the macro-integration framework and intensifying sector-specific cooperation. Most importantly, EU-Georgia cooperation needs a new macro-integration framework or, at the very least, the prospect of receiving one. Accession is off the table. Hence, based on the EU's previous relations with third countries, there are three other formats that can be considered: the **Customs Union (CU)**, the **European Economic Area (EEA)** and the **Stabilization and Association Agreement (SAA)**. Each of these formats is discussed in detail below, addressing the extent to which they are applicable to Georgia and identifying their key advantages and disadvantages.

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<sup>16</sup>(Larsen 2018)

## MACRO-FRAMEWORKS FOR INTEGRATION

### European Customs Union– is that a viable option for Georgia?

While the Georgian government and the general public are focused on EU membership, for some reason the CU with the EU is currently the most frequently mentioned prospect as the next step for advanced EaP countries.<sup>17</sup> It was also part of the recent EaP+ initiative suggested by the European Parliament (EP), which is aimed at boosting the European perspectives of the front runner EaP states.<sup>18</sup> Yet despite a few advantages for Georgia, it is a sub-optimal solution for a number of reasons. First, it does not meet the main criterion of being economically profitable: the external tariff of Georgia is much lower than that of the EU; second, joining the CU may harm Georgia’s liberal trade policy, which is aimed at having as many free trade deals as possible; third, unlike the other formats, the CU does not bring any immediate tangible benefits for the population (perhaps with the exception of a few industries that may profit from supply chain integration with the EU and, in the case of Georgia, there are not many of them). Most importantly, the CU excludes the option of the freedom of movement for workers—the next big carrot that Georgians are willing to bite. Overall, although CU membership also has some advantages (see table 2) the disadvantages outweigh its positive impacts, making it a suboptimal solution for Georgia.

**Table 2: Advantages and disadvantages of EU's CU membership for Georgia**

Customs Union - advantages	Customs Union - challenges and disadvantages
<ul style="list-style-type: none"> <li>○ <b>Easy target.</b> Both technically and politically the CU is the easiest macro-regional framework to negotiate and adopt compared to both EEA and EU membership, and possibly also compared to the SAA. Politically, it is easy because it does not include sensitive aspects such as labor mobility and does not require the consent of third states. Technically, it is not conditional on adopting market-related EU regulations. Moreover, unlike Moldova and Ukraine, Georgia has succeeded in</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>Common External Tariff.</b> Due to the “common external tariff” (CET), entrance into the CU would limit the freedom of EaP states to negotiate trade agreements with third countries. This would be a blow for Georgia, which has adopted the “most liberal free trade regime unilaterally for the whole of the world.”<sup>21</sup> According to the World Trade Organization (WTO), Georgia’s Most Favored Nation (MFN) tariff rate is only 2 % — one of the lowest in the world<sup>22</sup> whereas in case of the EU it varies from</li> </ul>

<sup>17</sup>(Emerson and Movchan)

<sup>18</sup>(Lebanidze 2017b, 6)

<sup>21</sup>(Emerson and Movchan, 11)

<sup>22</sup>(WTO 2016)

“establishing efficient and de-corrupted customs services”<sup>19</sup> and has achieved the European standards of external border management.

- **Locking onto EU’s orbit.** Joining the CU with the EU would certainly have an important geopolitical dimension for a small economy like Georgia, especially since it is located at the crossroads of rivaling economic integration projects with geopolitical dimensions. Being part of the EU’s CU would send a signal to the Eurasian Customs Union, as well as other players in the region, that Georgia’s economic anchoring to the EU has become irreversible.
- **Supply chain integration with the EU.** The CU is generally considered conducive to the development of “a rich supply chain and direct investment linkages”.<sup>20</sup> Georgia is not rich with manufacturing industries but it has potential in a few economic areas to profit from supply chain integration with the EU. Low production costs and liberal legislation may be an advantage in this regard.

4.2% to 11%.<sup>23</sup> If it enters the CU with the EU, Georgia will have to increase its trade tariffs against the rest of the world. Hence there is a clear conflict of interests between Georgia’s trade policy and the CU regulations.

- **Revoking free trade agreements (FTA).** Under the CET of the CU, Georgia will also be forced to amend its free trade agreement with China and to reintroduce the tariffs on Chinese imports, albeit low ones.<sup>24</sup> The free trade deal with China is viewed with considerable optimism in Georgia as a necessary tool to attract Chinese direct investments to the FDI-hungry country. Moreover, Georgia will be forced to revise its FTAs with a number of other countries including most members of the Commonwealth of Independent States (CIS) (Ukraine, Belarus, Moldova, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan) and immediate neighbors (Turkey, Azerbaijan and Armenia). This will have both high economic and political costs for Georgia.
- **Lack of tangible benefits.** CU lacks juicy carrots both for government and for citizens. It does not include labor mobility and largely provides long-term benefits which in the short-term will not affect the majority of the population.

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<sup>19</sup>(Emerson and Movchan, 8)

<sup>20</sup>(Emerson and Movchan, 7)

<sup>23</sup>(Emerson and Movchan, 7)

<sup>24</sup>(Emerson and Movchan, 11)

## European Economic Area (EEA)–Almost as good as the EU membership?

The EEA is the second macro-framework for further integration with the EU that is considered for the advanced EaP states.<sup>25</sup> Georgia, together with Moldova and Ukraine, has repeatedly been at least implicitly considered as a potential future member of the EEA, should it expand towards non-EU and the non-EFTA (European Free Trade Association) countries.<sup>26</sup> Overall, the EEA seems to be the most suited solution for Georgia that can be built on the existing regime of the Deep and Comprehensive Free Trade Agreement (DCFTA) and, unlike the CU, does not generate too many negative externalities. The EEA offers many tangible benefits that can replace the golden carrot of membership perspective, such as labor mobility, and will not limit Georgia’s liberal trade policy.

The EEA has very few disadvantages but there are significant challenges to joining it. The main problem with the EEA is the political and technical difficulty of becoming a member. Currently the only practical way to join the EEA is through the EFTA, yet EFTA members are experiencing their own enlargement fatigue. In particular, Switzerland is willing to block the accession of any new member.<sup>27</sup> Hence the easiest way to join the EEA will be to bypass the EFTA. Interestingly, the EU is more willing to consider the enlargement of the EEA with new members. In its 2012 review of the EEA, the European Commission mentioned the possibility of including neighborhood countries in the economic area. According to the document, “at a time when the EU is increasingly developing its relationship with its neighborhood, there is some merit for engaging in further reflection on the advantages and disadvantages of enlarging the EEA Agreement or enlarging the geographical coverage of the EEA.”<sup>28</sup> Hence, Georgia, together with Moldova and Ukraine, should lobby the EEA to become the new macro-framework for its further integration into Europe and with the EU.

**Table 3: Advantages and disadvantages of the EEA for Georgia**

EEA – advantages	EEA – challenges and disadvantages
<ul style="list-style-type: none"> <li>○ <b>Integration without representation.</b> The uniqueness of the EEA model lies in its principle of “integration without representation.”<sup>29</sup> For instance, Norway complies with three-quarters of all EU laws and policies and Norwegian society has become even more Europeanized than some EU member states, which retain many opt-out options from EU policies. At the same time, Norway formally remains outside the EU, and the</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>Strict standards.</b> The main challenge with the EEA is that the pathway to membership for AA countries will not be less difficult than gaining EU membership. In practical terms, the EEA provides for “strict, rule-of-law-based internal market legal order”<sup>35</sup> for which the majority of the ENP states are not yet ready. Somewhat interestingly, however, a few studies identified Georgia to being the country</li> </ul>

<sup>25</sup>(Emerson and Movchan, Lebanidze 2017a, 2017b; Pelkmans and Böhler 2013)

<sup>26</sup>(Pelkmans and Böhler 2013, 115)

<sup>27</sup>(Pelkmans and Böhler 2013)

<sup>28</sup>(European Commission 2012, 16)

<sup>29</sup>(Sverdrup 2016)

<sup>35</sup>(Pelkmans and Böhler 2013, 90)



EEA agreement does not give it “a seat at the table” or “a right to vote.”<sup>30</sup> In fact, it gives the country “very limited possibilities to influence the EU agenda.”<sup>31</sup> As Nikolai Astrup, spokesperson on European Affairs for the Norwegian Conservative Party, put it, “if you want to run the EU, stay in the EU. If you want to be run by the EU, feel free to join us in the EEA.”<sup>32</sup> From a practical point of view, a similar agreement would work quite well between the EU and Georgia. The EU does not want new member states among its ranks and is unwilling to allow third states influence the decision-making process in Brussels, which is already complicated enough. Georgia, on the other hand, would be satisfied to be a norm-taker without not having a say in formation of EU policies.

- **Keeping sovereignty.** “Integration without representation” may in some way be even more attractive for Georgia since, unlike full membership in the EU, under the EEA the country retains a large portion of its formal sovereignty. The EC review describes the EEA as “a convenient alternative EU Membership-status on an à la carte basis”, suitable to the political and institutional sensitivities of one of the two sides.”<sup>33</sup> Certainly, the Georgian government can’t cherry-pick within the trade-related acquis, as the EU—as part of its 2012 review—identified the existing backlog of incorporating EEA-related regulations as a serious challenge. Nevertheless, EEA

closest to the standards of EU’s internal market.<sup>36</sup>

- **Political roadblock.** Perhaps a much bigger problem is the political one: the EFTA does not have clear provisions for further enlargement and some of its members are very skeptical of further enlargement. Switzerland in particular may block the accession of any non-Western European country into their ranks. Hence, similar to EU-fatigue, a certain EFTA-fatigue has been observed among EFTA members. This is problematic since, as it now stands, EFTA membership is a necessary precondition for a country to join the EEA. This may change in the future however. The EU itself is open to modifying the EEA Agreement in this respect.<sup>37</sup>
- **Increased criminality.** Certainly Georgians are not immune to criminal activities and crimes involving Georgian nationals are regularly reported by media outlets. However, the number of Georgian crimes committed in the EU countries is statistically insignificant. For instance, in Germany it amounts to 1.4 percent of all crimes committed by foreign nationals.<sup>38</sup> What is more, Georgian citizens rarely engage in rape, sexual harassment, the violation of women’s rights or terrorism — or criminal activities that are politically sensitive following the recent refugee crisis and have the potential to be used by right-wing parties and other

<sup>30</sup>(Sverdrup 2016)

<sup>31</sup>(Sverdrup 2016)

<sup>32</sup>(CBI 2017)

<sup>33</sup>(Gstöhl 2015, 859)

<sup>36</sup>(Pelkmans and Böhler 2013, 90)

<sup>37</sup>(European Commission 2012, 16)

<sup>38</sup>(Die Welt 2018)

membership still allows for wider leeway in terms of accepting the sector-specific “non-internal-market acquis”<sup>34</sup> of the EU and thus avoiding legal approximation in all community areas.

- **Offers tangible benefits.** Most importantly, and unlike the CU, the EEA can satisfy the expectations of the Georgian public for quite some time since it includes a couple of credible incentives — first of all labor mobility. Besides, being a member of exclusive the club (even if outside the EFTA format) may give an additional boost to Georgia’s self-confidence so that denial of EU membership may not feel as painful. Being part of the EU may be replaced by being part of Europe.

populist groups to further fuel Euroscepticism.<sup>39</sup>

- **Increased number of asylum seekers.** Another problem may be the increase in the number of Georgian asylum seekers. Indeed after the introduction of the visa-free regime for short stays, the number of asylum seekers has increased in a number of EU countries. This problem can be solved by restrictive measures though. Recently, the Georgian government acknowledged the problem and decided to tackle it “by enforcing tougher legislation, intensifying cooperation with partner states, and conducting an active information campaign throughout the country.”<sup>40</sup> Finally, it is also to be expected that the prospect of legal work will probably also lead to a decrease of both the involvement in criminal activities and the asylum seeking by Georgian citizens.

### Stabilization and Association Agreement – The Balkan Beats

The third macro-integration framework— **Stabilization and Association Agreement (SAA)** —is a new, third generation of European agreements offered exclusively to the Western Balkans countries, in the framework of the Stabilization and Association Process(SAP),the EU’s policy towards Western Balkans with the aim of eventual EU membership.<sup>41</sup>The SAP is both a bilateral and regional process, which creates links between each individual country and the EU and sparks regional cooperation among SAP countries and their cooperation with their neighbors.<sup>42</sup>The basic difference between the AA and the SSA is in the content of the “evolutionary clause” in the SAA as well as the emphasis on regional cooperation in the Western Balkans.<sup>43</sup>The evolutionary clause has major political significance. Since, unlike the AA signed with Georgia, Moldova and Ukraine, it includes a reference to the status of a

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<sup>34</sup>(Pelkmans and Böhler 2013)

<sup>39</sup>However, current debate in Germany shows that any kind of criminal activity can be used for domestic political purposes in EU member states. For more information, see: Die Welt. 2018. “Georgische Bandennutzen Visafreiheitsaus.” Accessed February 27, 2018. <https://www.welt.de/regionales/nrw/article173662858/Georgische-Banden-nutzen-Visafreiheit-aus.html>.

<sup>40</sup>(Government of Georgia 2018)

<sup>41</sup>(European Commission 2018e)

<sup>42</sup>(ME4EU 2018)

<sup>43</sup>(Directorate for European Integration of Bosnia and Herzegovina 2018)

potential candidate for EU membership.<sup>44</sup> Another important difference between the two agreements is that while the SAA does not per se presuppose labor mobility, it allows for more flexible individual solutions in terms of workers' movement. For instance, through its "Westbalkan-Regelung," the German government simplified the issuing of work permits to include less skilled workers from all SAA signatory countries.<sup>45</sup>

**Table 4: Advantages and disadvantages of the SAA for Georgia**

SAA - advantages	SAA - challenges and disadvantages
<ul style="list-style-type: none"> <li>○ <b>Increased Financial Assistance.</b> One of the key benefits of the SAA would be increased financial assistance. Generally, the Western Balkan states receive more funding per capita from the EU than the ENP/EaP countries. However, the key financial instrument of the SAA the Instrument for Pre-accession Assistance (IPA) focuses on reforms related to the accession process to the EU, hence it is unclear whether and how it can be used in a non-enlargement context.</li> <li>○ <b>Some juicy carrots.</b> Perhaps the biggest incentive of the SAA is that it includes the EU membership perspective. But even without the "evolutionary clause" the SAA may have a positive progressive impact on a number of important issues, such as improved labor mobility and intensified sectoral cooperation in many areas.</li> </ul>	<ul style="list-style-type: none"> <li>○ <b>Political roadblock.</b> As in case of the EEA, the main challenge for Georgia to receive a macro framework similar to the SAA is political. Since the inclusion of the third party in Stabilization and Association Process means that EU is opening the Pandora's box of a possible enlargement process, it is less possible that any EaP countries would be offered something like a SAA anytime soon. The 2017 Brussels EaP summit once again emphasized that the EU is not willing to give a membership promise within its Eastern Partnership Initiative. Hence a SAA with Georgia or any other EaP country does not appear to be a viable option in the nearest future.</li> <li>○ <b>Russian Response.</b> While Georgia proudly announces all new achievements acquired on the European path, its northern neighbor carefully observes Georgia's relations with its European and Euro-Atlantic partners. Since SAA envisages the status of potential candidacy for EU membership, the Russian Federation might increase pressure on Georgia, which could be expressed using both soft and the hard power instruments, including its well-tested intensive propaganda measures.</li> </ul>

<sup>44</sup>(Dragan 2014)

<sup>45</sup>(Burkert and Haase 2017)

## EAP+ FORMAT: A MIXED BAG?

In addition to the three possible macro-integration frameworks (European Economic Area, Stabilization and Association Agreement and Customs Union), intensifying sectoral cooperation should constitute a second pillar of EU-Georgian relations in the transitional period. In fact, the EaP+ format proposed by the European Parliament (EP) is largely based on the logic of sectoral cooperation. In addition to an offer to join the Customs Union, it includes the prospect of joining the Schengen Area, the Energy Union, and Digital Single Market and also offers new financial instruments.<sup>46</sup> Although the EaP+ lacks some substance in the form of tangible incentives, it is currently the only format discussed at an official level in the EU. Hence due its political significance, we need to analyze each of its components in detail. Below we discuss the significance of, and the accession prospect to, the Schengen Area, the Energy Union and the Digital Union for Georgia as well as new financial instruments that can be used by the EU to leverage the reform process in the Black Sea country.

**Schengen Agreement.** One of the key points of the EaP+ initiative proposed by the EP in November 2017 is the offer to join the Schengen Area. Georgia already enjoys the main benefit of the Schengen Area — the visa-free movement for short stays. Yet it may have additional benefits to Georgia, first of all in terms of security, which is very important for the conflict-ridden country. As a key component of the Agreement, Georgia will share a single external border and “a single set of rules for policing the border”<sup>47</sup> with EU countries, which will lead to intensified cooperation between Georgia and the EU countries in the areas of fighting organized crime through hot pursuit and information sharing, and Georgia will become part of the Schengen Information System (SIS).<sup>48</sup> This is especially important for Georgia since organized crime has become an actively discussed issue following the visa liberalization agreement between EU and Georgia that entered in force last year. Georgia could certainly benefit from active cooperation with the EU in tackling the organized crime committed by the Georgian gangs both in Georgia and in the EU. That means that joining the Schengen Area will not only further simplify the visa-free movement of Georgian citizens through EU countries; it will also boost both Georgia’s external and internal security. Hence, whereas the Schengen Agreement does not break new ground in EU-Georgian relations, it still involves many benefits and can be used by the EU to incentivize Georgian reforms. The main challenge with the Schengen Agreement may be its politically sensitive nature. Many EU members, first of all France and Germany, are very skeptical towards accepting new countries in the Schengen Area. Even some EU member states with good governance-related problems have not yet been accepted in the Schengen Area.<sup>49</sup> Hence, it may be a very tedious and lengthy process for an outsider like Georgia to join the Schengen Area.

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<sup>46</sup>(European Parliament 2017)

<sup>47</sup>(BBC 2016)

<sup>48</sup>(BBC 2016)

<sup>49</sup>(Deutsche Welle 2018)

**Energy Union.** The EaP+ initiative also includes the offer to join EU's Energy Union. While Georgia has been part of the EU's Energy Community since April 2017,<sup>50</sup> joining the Energy Union will further increase Georgia's engagement in the European energy market and thus reinforce the independence and resilience of the country's energy sector. Membership to the Energy Union would contribute to diversifying energy sources and increased access to new technologies and infrastructure. Together with membership in the internal energy market, which enables the free flow of energy through the EU without technical and regulatory barriers, the Energy Union envisages enhanced energy efficiency, reduced dependence on energy imports, lower emissions, and jobs and economic growth.<sup>51</sup> Taking into consideration that Georgia's energy sector is overwhelmingly depended on imported energy, access to the Energy Union will provide new opportunities for Georgia to maintain its diversified energy policy.

**Digital single market.** The EaP+ initiative also included, as one more carrot, the accession to EU's digital single market (DSM). DSM includes a number of benefits such as the abolishment of mobile roaming charges, better data protection and privacy, EU-wide harmonization of online media and services, and a common cybersecurity law.<sup>52</sup> Georgia would certainly benefit by joining the common cybersecurity space and improved data protection and privacy. Moreover, DSM membership would fit the overall context of Georgia's European integration and, according to the functionalist argument, may also have spillover effects that would lead to more intensified cooperation in other areas. However, some of the key benefits that are of high importance to EU citizens are of secondary significance for Georgia. Georgia already has a very liberal legal environments in the area of digitalization and Georgian mobile companies' roaming fees are some of the lowest in Europe. Hence, whereas the accession to the DSM may be a step forward, it cannot serve as the main carrot for future EU-Georgia relations.

**Financial assistance tools.** Finally, the EaP+ model also includes the proposal of setting up trust funds for the three associated countries.<sup>53</sup> According to the EP, they will mostly focus "on private and public investments in social and economic infrastructure."<sup>54</sup> In contrast to many components of the EaP+ that are of a secondary importance for Georgia, the trust funds could act as juicy carrots to both boost Georgia's reform capacity and serve as another tool for the EU to leverage reforms in the Black Sea country.

There are also other potential sources of EU funding which are not included in EaP+ but are still worth considering. As Georgia advances within the European integration process, it may try to get indirect access to the EU funds that are distributed among EU member states. Although they are designed primarily for member states, many of them cover regional dimensions that could apply to Georgia. The Cohesion Fund has a budget of € 63.4 billion and provides support for the poorer regions of the EU.<sup>55</sup> It mostly supports projects related to trans-European transport networks and environmental issues such as energy efficiency, renewable energy, developing rail transport and intermodality, etc. Whereas Georgia is per se not qualified for the

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<sup>50</sup>(Energy Community 2017)

<sup>51</sup>(European Commission 2018a)

<sup>52</sup>(European Commission 2018d)

<sup>53</sup>(European Parliament 2017)

<sup>54</sup>(European Parliament 2017)

<sup>55</sup>(European Commission 2018b)



Cohesion Fund, it can attempt to be included in multinational projects to improve its transport and infrastructural connection to the EU states. The same applies to other EU funds: European Regional Development Fund (ERDF), European Social Fund (ESF) and European Agricultural Fund for Rural Development (EAFRD). There are also funds linked to the pre-accession period, which actually benefited the Western Balkan countries.<sup>56</sup> However, in addition to the technical and legal difficulties to access the enlargement-related funds, the issue is also politically problematic since the EU is determined to avoid any link between the ENP/EaP and enlargement.

## PESCO AND MILITARY COOPERATION

In terms of strengthening Georgia's security and defense capabilities, the main objective has long been to join NATO. Unlike EU membership, Georgia has long been a NATO candidate country and at the 2008 Summit of Bucharest, the alliance promised the Black Sea country that one day it could become a NATO member. However, two important developments have taken place since then. First, NATO seems to be politically unwilling to uphold its pledge at this stage and, although NATO-Georgia relations continue to intensify, Georgia's NATO membership seems more distant as time passes. Second, even though the EU is not known for its out-of-area military operability, the EUMM, the EU's unarmed monitoring mission, has been the only international mission to preserve peace and stability in conflict areas since 2008. Moreover, even though the US Congress recently agreed to sell Javelin anti-tank systems to Georgia,<sup>57</sup> France was the first country to sell an anti-missile defense system to Georgia following the 2008 Russia-Georgia war,<sup>58</sup> breaking a de-facto arms embargo imposed on Georgia by the West amidst Russian concerns. Hence, even though the US is still on board, it seems that Georgia has become a client state of the EU in terms of security and defense policy. Therefore, while Georgia should continue its NATO integration, it should also focus on cooperation with non-NATO EU defense structures. EU states recently decided to jumpstart the European integration in military and defense area by creating a new framework —the Permanent Structured Cooperation (PESCO), which focuses on “developing new military equipment and improving cooperation and decision-making.”<sup>59</sup> The EEAS factsheet on PESCO emphasizes the role of partners in boosting EU's global role: “PESCO will help reinforce the EU's strategic autonomy to act alone when necessary and with partners whenever possible.”<sup>60</sup> PESCO is still under development and it does not yet have clear contours. But this means it is even more important for Georgia to seize this opportunity and lobby for an associated membership of PESCO at this early stage of its creation. Georgia should also seek to strengthen its role in EU's overseas military and civilian missions. Continuous participation in EU-led

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<sup>56</sup>(European Commission 2018c)

<sup>57</sup>(Agenda.ge 2018)

<sup>58</sup>(Menabde 2017)

<sup>59</sup>(Perelman 2018)

<sup>60</sup>(EEAS 2017)



missions may at some point lead to increased structured cooperation and may make it easier for Georgia to become more integrated within PESCO as well as other formats of EU-wide military cooperation.

## CONCLUSION

This policy paper discussed three possible macro-integration frameworks which could potentially replace the current format of relations between EU and Georgia. The first format—the CU with the EU—has been actively discussed in Brussels for quite some time but it includes a few components which makes it a non-starter for Georgia. Increasing the external tariff and revising the free trade agreements may have negative consequences for Georgia. On the other hand, the CU does not include some of the juiciest carrots the EU can offer, such as labor mobility and the experience of Turkey shows that the CU does not automatically lead to further deepening of relations with the EU and has no direct impact on the process of accession to the Union.

The second possible framework, the EEA, could be the most suitable format for Georgia, however it is also the hardest one to achieve both politically and technically. Georgia could receive a new powerful incentive, labor mobility, which can replace the golden carrot of membership perspective. EU could end the uncomfortable discussion about Georgia's possible EU membership and could avoid Georgia being overtaken by reform-resistant Eurosceptic forces or turning towards Russia. If Georgia can manage to implement the costly reforms related to the EEA, it would set an example as a fully Europeanized country outside the enlargement context — perhaps the most desirable outcome for the EU which ENP has been unable to achieve.

The third possible macro-integration framework could be the SAA—the main format of relations between the EU and the Western Balkan countries. But we consider the SAA the least applicable to Georgia for three reasons: first it is tailored to a particular region (the Western Balkans), which means its universal applicability is questionable. Second, the current macro-integration framework of Georgia (AA/DCFTA) already includes many components of the SAA. Third, the SAA is considered a pre-stage for EU membership, so the EU will probably not be willing to grant Georgia a format that may push the Black Sea country in the EU membership waiting room.

Following the option of upgrading the macro-integration framework, the second key element of Georgia's European integration can be increased sectoral cooperation. The EaP+ initiative by the EP is largely based on the logic of intensified sectoral cooperation. The offers of joining the EU digital market and the Schengen Agreement proposed by the EaP+ may serve as useful additions to Georgia's current format of relations with the EU. Georgia would also benefit from increased cooperation with the EU in the areas of defense and security. Overall, a combination of a new and more sophisticated macro-integration framework and intensified sectoral

cooperation may replace the missing carrot of the membership perspective in the foreseeable future and carry EU-Georgia relations through uncharted waters until the condition of “constructive ambiguity” surrounding the EU neighbors is finally over—one way or another.

**Table 5: Possible formats and tools of the future EU-Georgia relations and their applicability to Georgia**



## KEY FINDINGS AND RECOMMENDATIONS

This paper attempted to find flexible solutions to move EU-Georgia relations to the next level and avoid political roadblocks. Based on the EU's previous relations with third states, we propose a few recommendations that may assist the EU to make its neighborhood policy more effective in a period of enlargement fatigue and help the Georgian government to better manage its integration process with the European Union. Below are key findings and recommendations:

### European Union

- **Stricter conditionality.** The EU has been quite successful so far in leveraging Georgia's political reforms by applying both ex-ante and ex-post conditionality. However, it has not been enough to consolidate Georgia's democratic structures and improve its welfare state. EU should raise the standards for Georgian government and be swifter in responding to democratic backlashes. Furthermore, EU should also widen the areas where democratic conditionality is applied. Conditionality should also be applied to opposition parties<sup>61</sup>, which often seem to be main reason behind the domination of ruling regime.
- **EEA membership as golden carrot.** EU should open up the long-term prospect of joining the EEA. As it stands now, the EEA seems to be only incentive that can fully replace the golden carrot of EU membership. Certainly it will take years until Georgia can meet the criteria to join the EEA. Hence the EU can kill two birds with one stone: it can keep Georgia on track of difficult reforms and avoid discussions about EU membership.
- **Use the full potential of sectoral cooperation.** Georgia is plagued by many political, economic, and security-related problems but the country has also some potential that can be used to strengthen sectoral cooperation between the two sides and increase the EU's influence in its neighborhood. Georgia's military has long and intensive overseas experience that can be used in EU military missions and can contribute to strengthening military cooperation between EU and Georgia. Georgia may also serve as a reliable partner for EU's energy security if it joins the Energy Union. In addition, Georgia has one of the most efficient customs and border protection systems in the region which makes the country technically fit to join the Schengen Area.

### Georgian government

- **EU integration roadmap.** The process of elaboration of the EU integration road map announced by the Government of Georgia should be inclusive and open, and should involve non-governmental and civil society organizations. The road map should be

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<sup>61</sup> It is noteworthy that the political values of Georgian parties and their election strategies, including foreign policy priorities, differ significantly from each other. Consequently, in case of using EU conditionality it is important to consider these differences.

based on the experience of EU cooperation with non-member partner countries, especially Western Balkan countries as well as EFTA states.

- **EaP+.** Georgian government should communicate to the European Parliament (and European Council) that EAP+ format proposed by the EP in its current form is not the most desirable platform for deepening EU-Georgia relations. Joining the Customs Union with the EU is not in Georgia's interest and, while the Digital Market and the Schengen Agreement can be reasonable additions to Georgia's European integration, they cannot substitute the golden carrot of membership perspective.
- **EEA—the main medium-term target.** If Georgia is only able to achieve a level of integration that falls below EU membership, the EEA is the most suited format for the country, albeit the hardest one to achieve. Most importantly the EEA includes labor mobility — the only incentive that can replace the golden carrot of the membership perspective and keep Georgia's reform drive intact. Georgia should also try to avoid the “EFTA-route” and join the EEA through a new format.
- **Keep asking for EU membership.** Even though there is no immediate perspective to join the EU, the Georgian government should keep knocking at the EU's door. Full membership should remain the long-term objective and high on the country's political agenda. At the same time, the Georgian government should indicate that it understands the current enlargement fatigue inside the EU and that it does not have unrealistic expectations.
- **Cherry pick.** The recent ENP review advocates for more flexible, tailor-made and less dogmatic approach.<sup>62</sup> The Georgian government should use this opportunity and be more selective about which policies it wants to adopt. If the EAP+ becomes operational, trust funds and the Schengen Area could be the main targets for Georgia, while the Digital Market could serve as a useful addition and the EU Customs Union should be avoided.

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<sup>62</sup>(European Commission 2015a)

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