



EU Georgia Trade: Staying the Course

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Tbilisi, Georgia

Ladies and gentlemen,

Thank you very much for the invitation to speak to you today.

It's an honour to be here at International School of Economics, a true centre of excellence in economic studies in Georgia and in the whole region.

It's also a privilege to be in Georgia, a country with such an ancient rich and diverse culture.

In Brussels we work in 23 languages. That's because the EU is a union of 28 different countries. But there are more than 15 languages spoken today in Georgia. We have that in common at least!

And if I may also say, as the European Union's Trade Commissioner I'm very pleased to be in a country on one of the world's oldest trading routes.

The Silk Road connected Europe with the Far East. It not only benefited the merchants who travelled along it...

... it also benefitted people at the trading posts along the way, including the Georgian people.

Today too Georgia is using trade to promote economic opportunity for its people. Your position on a major trade route is once again rising in importance. And, more importantly, there are bright prospects for many companies to become exporters directly from Georgia itself, meaning bright prospects for the economy as a whole.

Trade and investment between the European Union and Georgia are key to those efforts.

- The EU is Georgia's largest trade partner, at roughly 30% of Georgian exports.
- EU firms accounted for just under half of all investment into Georgia in the five years up to 2014.
- And a deep and comprehensive free trade area, or the DCFTA, between our economies, part of a broader Association Agreement, is now working to deepen our relationship even further.

I would like to make three points today:

- First, why an open approach to trade is in Georgia's interest in general.
- Second, how the good progress we are making to implement the DCFTA is helping that process.
- And third, what is going to happen next.

Why are open markets the right approach for a country like Georgia?

Because, as any economist would tell us, they work to strengthen an economy on both the demand side and the supply side.

Having access to export markets boosts demand. It means that companies here in Georgia can target consumers in other parts of the world. That means they have a much larger potential market than if they were focused on the home market alone.

That access also makes Georgia a more attractive destination for foreign direct investment. Because firms can also take advantage of the wider market opportunities.

How does trade work on the supply side? Through imports.

Imports are often seen as competition, but they are also an opportunity. They help consumers, by lowering prices and broadening choice.

And those same mechanisms also help companies become more efficient and more competitive. In Europe, for example, 80% of our imported goods are used by companies to drive their business, including export businesses.

Furthermore, being able to import as well as export also helps companies connect with international value chains. Today it's almost impossible to make a product or deliver a service without some kind of international input.

Finally, imports - like foreign investment - also help transmit ideas and innovation. As they've been doing since the days of the Silk Road. And that's essential for an economy that wants to break new ground. Imports are a way of making contacts with business practices and technology that can help Georgian companies fulfil their potential.

This may sound like theory but the evidence for its success is obvious: The various Asian economic miracles of recent decades are founded on both export and import growth.

Trade has also been a fundamental driver for the economic development of European economies, including countries in central and eastern Europe that joined the European Union. And those miracles have done more to reduce poverty and create wealth than any other development initiative.

So I congratulate the people of Georgia for choosing to follow that path too.

And I particularly congratulate you on your choice to form a partnership on trade with the European Union through the DCFTA.

We have now been implementing that agreement for a year and half. It's a little early to make a far-reaching assessment. But we are already seeing some results.

The primary benefit is obvious: Georgia now has tariff-free access to the EU market of over 500 million consumers. In the first year of implementation of the DCFTA, the trade area, the EU's imports of Georgian products rose by 15%!

Much of the increase was in traditional exports of commodities and raw materials. But those are important sectors for the economy so it's good news that they are benefitting.

But what's more interesting is the success of some new agricultural products like some fruit - blueberries and kiwis to be precise - that can now be purchased in supermarkets in the UK and in Germany. These are early but encouraging signs of the capacity of Georgian products to find a place in a sophisticated market like the European one.

They are encouraging for several reasons.

- It shows innovation in agriculture, an significant part of the economy.
- It shows that Georgia can be competitive in products with a high-value added, meaning they are profitable for the exporters.
- But most importantly this development is interesting because meeting the legal requirements to sell food in the EU is a major achievement.

The EU's citizens want their food to be safe. As a result, we have a complex system of regulation and certification. So to have success in such a demanding area as food is very good news indeed.

And these two agricultural products are just the start. I understand there is also real potential for other Georgian products like honey and fish in the future. For fish Georgia is just a few further administrative steps away from having a major export opportunity. These could be finalised by this time next year.

And these food examples are just the beginning - showing the DCFTA is just the beginning.

The DCFTA is a gold standard agreement. It goes very far beyond the more traditional trade deals that just look at what happens at the border between two countries. One of its most important goals, in fact, is that Georgia puts in place regulatory systems that are up to the same standards in the EU - across the board, not just in food.

Very often, the cost of adapting products or systems to comply with the rules in another market is too expensive for small scale producers.

By adapting its rules towards the EU system, Georgia is lowering the barriers to market access. And that's not just in the EU by the way, but also the many other markets where EU standards and rules are used as a mark of quality and safety.

And these reforms, are not just about exporting.

They are also part of the broader agenda of reforming the business and regulatory environment here in Georgia, so as to encourage further growth and investment.

Take competition policy.

One important part of the Association Agreement was for Georgia to put in place legislation to make sure markets are open and competitive, serving consumers' interests.

As a result, the Georgian Competition Agency was established. And it's already proving its worth, with major price-fixing investigations in the petrol and diesel business. That's good news for ordinary Georgians and for the competitiveness of the country as a whole.

It's also a way to convince and attract foreign investors. Because at the heart of the DCFTA is the idea of strengthening the rule of law. The whole system will be more predictable and offer greater legal certainty. Those are points that are crucial to foreign investors - not just from Europe - when choosing where to put their next factories.

I am delighted that Georgia is making such good progress on these issues.

But of course more remains to be done.

Part of that is putting in place more legislation. For example, there are still reforms to be made on food safety and plant health.

But just as important is actually putting the rules into practice. The law and the rule of law are not the same thing. And that is, of course, the difficult part.

Because real rule of law requires the government and regulators to have the right technical abilities, it requires budgets, and most of all it requires political will and discipline.

It's about changing behaviour, which is much harder than just writing text...
... even if you were taking the time to write it in the beautiful Georgian calligraphy for which this country is so famous!

The good news is that there are signs that Georgia is on the right track. The example of the competition authority is one. This country's improved international rankings on indices by Transparency International and the World Bank are others.

But deep changes don't happen overnight. This morning, a Georgian journalist asked me, "so when will the miracle come from the DCFTA?" Well, there is no miracle. The DCFTA is a tool, and it will require hard work. Deep change requires serious long-term efforts by political leaders, working closely with civil society and business.

The EU recognises this challenge, so we are prepared to do our part as well.

That's why we significantly increased our bilateral grant assistance to Georgia. Between 2014 and 2017 we plan to spend 410 million euro overall.
Part of that will go supporting small and medium sized companies. We want to help them seize the new trade opportunities provided by this new free trade area between the EU and Georgia. The aim is that they will be able to apply for direct financing, technical assistance and business advice.

And under the banner of "EU4Business", we will be seeking to raise awareness among the Georgian SME community about these opportunities. And we are launching this initiative today.

The EU is also moving to support Georgia on the question of visa facilitation. In today's world, doing business across borders requires people to move as well as goods.

I know this work is very important to Georgia. And I note that the government has done all the necessary to qualify for visa liberalisation.

And I'm very happy to say that a few weeks ago the Commission made a formal proposal to the EU's Member States and the European Parliament to make travel easier between Georgia and the EU. It's a major step forward. And I hope we will have a final result very soon, because people-to-people contacts are so important.

But even if the EU stands ready to help, Georgia's reform efforts will still depend on choices made in Georgia and by Georgia.
And making the right political and economic choices will depend on showing perseverance over time.

I am sure all of you are aware that the earliest mention of Georgia in Western culture is in the Greek epic of Jason and the Argonauts. The hero sets off on long, and dangerous quest for the Golden Fleece, which he eventually claims in the Kingdom of Colchis, the earliest recognisably Georgian state. In the process he shows incredible perseverance, overcoming Amazons, giant rocks and even a magical bull!

The path of economic and political reform is perhaps a little less exciting than an epic quest. And also, thankfully, a lot less violent.

But it is certainly long and certainly involves many changes and commitments. And the widest benefits will only materialise over time.

It's today's generation of students, here in this University and elsewhere, that will make the real gains happen.

So I hope all political leaders will take a long-term perspective.

The EU's partnership, friendship and cooperation with Georgia will remain. We will do our utmost to support you.

And I thank you very much for your attention.