

**Task Force report of the project:
“V4 Supporting the Economic Integration
of Georgia and Moldova with the EU”**

**LESSONS LEARNED FOR GEORGIA:
THE EXPERIENCE OF VISEGRAD
COUNTRIES IN ECONOMIC
APPROXIMATION WITH THE EU**

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For detailed information about the project, as well as information about the experts involved please visit the project website: www.sigme-eu.com

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Executive Summary

The report analyses and assesses the existing and potential challenges related to DCFTA implementation in the country, taking into account Georgia's economic structure, level of development and specific context. In this framework, it places a particular emphasis on the importance of government-to-business relations and co-ordination efforts.

The report presents the experience of Visegrad countries (Hungary, Slovakia, the Czech Republic and Poland) in economic integration with the EU and outlines the key challenges and opportunities these countries faced in the process. It is important to note that the experience of the Visegrad countries is studied during their EU accession process and not during the signature and implementation of the Association Agreements in order to better compare the dynamics of the process, keeping in mind that Georgia's extensive EU approximation agenda resulting from the DCFTA is comparable with the obligations of accession candidates rather than associated countries.

Based on the analysis of the state of play and experience of Visegrad countries, the report draws conclusions for Georgia and lays-out recommendations that could serve as guiding principles for the government, as well as the private sector in the DCFTA implementation process.

The report recommends that the implementation of the obligations resulting from the DCFTA should not be undertaken at the cost of other, larger objectives of Georgia's development and of its economic and social priorities. The free trade agreement with the EU should rather contribute to the achievement of the latter as much as possible.

As the experience of V4 countries demonstrated, the economic impact of EU accession varied greatly from country to country, mainly due to the different approaches in economic policy and development. Therefore, the report states that the DCFTA might help trade and economic growth in the medium-to long-term, but it might have an adverse effect if not coupled with continued liberal and anti-corruption reforms.

The DCFTA is likely to have a positive economic impact in the long-term. The short and medium-term impact of the DCFTA on the Georgian economy will also be associated with regulatory costs. The recommendations suggest that this understanding should be shared and analyzed by the government, as well as by the business community.

The report recommends to strongly take into account local development challenges and specificities when implementing the DCFTA obligations, as it will be counterproductive and highly risky to transpose EU *acquis* in Georgian legislation without studying and analyzing the relevant experiences of EU member states. Namely, the responsible authorities should be committed to identifying the best suitable option for Georgia, rather than 'blindly' copying and pasting EU regulations or any member state's legislation. Many areas are regulated in rather general terms on the EU level and are specified in member states' legislation. Therefore it is essential to study the legislation, as well as the implementation practice of EU member state economies that are comparable to Georgia.

The report further suggests looking at regulatory reforms from business's point-of-view, as it states that the objective of the process should not be to increase regulation and compliance costs per se, but to make

realistic commitments, which are implementable by the Georgian business community. More specifically, concrete commitments resulting from the DCFTA should be discussed with the business community to determine to what extent specific sectors are ready to adapt and where the challenges are, in order to ensure gradual and result-oriented implementation.

As the report suggests, one of the issues that has to be considered is to not to over-perform when fulfilling the obligations, especially if such over-performance has a damaging effect on the private sector and economic growth; and not to use DCFTA obligations to serve the government's own political agenda. The report also refers to the risks of justifying particular reforms through the need to fulfill obligations resulting from the EU integration process – in this case through the DCFTA. Therefore, the report states that it is crucial for the government to handle the DCFTA file in a responsible and transparent way, not making it a hostage to its own political agenda.

Finally, the report suggests that the DCFTA implementation process should be accompanied by an intensive dialogue between the government and business community in order to ensure efficient coordination among the actors. It states that there is no universal recipe on how to structure these relationships, but every country should design the process based on its specific needs and requirements. In Georgia's case, an intensive communications channel between the government and the business community – whether formal or informal – is essential, and fully depends on the parties' willingness and efforts. As the experience of V4 countries and Georgia's own experience demonstrates, a two-layered approach, combining both formal and non-formal communication components, would be the best option for Georgia, as it will further ensure inclusiveness and the transparency of the process. The latter will also facilitate businesses in the process of adapting to the new regulations, which are derived from the obligations of the agreement between Georgia and the EU.

In addition, the report recommends that the DCFTA implementation process needs a champion within the government, i.e. a responsible person or agency that guides the process and approaches it from the point of the private sector in order to ensure efficient coordination of implementation of the economic package of the AA/DCFTA.

Introduction

The present report aims to study the experience of the Visegrad 4 (V4) countries in developing mechanisms of government-to-business cooperation during their EU accession process. Based on this experience, the report draws conclusions for Georgia and identifies the main priorities in the implementation process of the EU-Georgia Deep and Comprehensive Free Trade Area (DCFTA).

The report is structured in the following way: it first outlines the context and the status quo of EU-Georgia relations with a particular emphasis on trade and economic ties. Then it analyses the existing and potential challenges associated with DCFTA implementation given Georgia's economic structure, level of development and specific context. Subsequently, it studies the experience of V4 countries – Hungary, Slovakia, the Czech Republic and Poland. Hereby, the experience of the V4 countries is studied during their EU accession process and not during the signature and implementation stage of the Association Agreements. The reason for such an approach is that Georgia's extensive EU approximation agenda resulting from the DCFTA is comparable with the obligations of accession candidates rather than associated countries in the 1990s such as the V4. Finally, based on the above-mentioned, it draws conclusions for Georgia and identifies the main priorities that could serve as guiding principles for government, as well as private sector in the DCFTA implementation process.

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EU-Georgia DCFTA

The Deep and Comprehensive Free Trade Area (DCFTA), which is part of the Association Agreement, is aimed at Georgia's gradual integration into the EU's internal market. When fully implemented, the EU-Georgia DCFTA will realize three out of four freedoms on which the internal market is based. As such, goods, services and capital will move freely between Georgia and the European Union.

EU-Georgia DCFTA negotiations were launched in winter of 2011 and were finalized in the summer 2013. The negotiations were preceded by a preparatory process, which was initiated in spring of 2009. The purpose of the process was to prepare Georgian institutions for detailed negotiations and improve the capacity of the negotiating team. Georgia was requested to develop policy strategies and adopt a number of legislative changes to bring its trade-related regulatory environment in compliance with EU *acquis*.

Before embarking on an extensive legislative approximation effort in the DCFTA context, Georgia had undertaken deep reforms to liberalize and deregulate the economy

business environment, as well as increased FDI and trade flows. Georgia began to emerge as a regional hub. In the period between 2004 and 2012 Georgia's GDP grew by 86%, cumulative FDI – by 474% and trade turnover – by 310 %. This remarkable growth took place despite the global financial crisis and the Russian trade embargo that was unilaterally introduced by Russia in 2005. Georgia's economic success has been reflected in various international ratings. According to the *Doing Business 2014* report by the World Bank Group, Georgia is number 8 worldwide in terms of ease of doing business, i.e. regulatory environment conducive to investment and growth. According to the 2014 Index of Economic Freedom by the Heritage Foundation, Georgia is the 22nd freest economy in the world.

Before embarking on an extensive legislative approximation effort in the DCFTA context, Georgia had undertaken deep reforms to liberalize and deregulate the economy which resulted in a substantially improved and a regionally competitive

The DCFTA between Georgia and the EU was signed at the end of June 2014 as part of the Association Agreement. The Georgian Parliament ratified the agreement in July 2004. Whereas the AA requires ratification by the EU Parliament, as well as all EU member states to enter into force, the principle of provisional application applies to the DCFTA. In other words, the DCFTA will enter into force once the ratification by the Georgian side is followed by the ratification by the European Parliament.

In the context of recent events in Ukraine, whereby Russia attempted to prevent Ukraine from signing the AA and DCFTA, and thus spurred massive protests and a subsequent change of government to one that is Western-oriented, the political importance of the DCFTA is even more significant than before. This trade pact, originally viewed as a technical project, acquired strategic importance for the EU integration path of Georgia and its neighbors Moldova and Ukraine.

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In the long-term perspective, the DCFTA will have economic benefits for Georgia, as it will result in the gradual integration of the Georgian economy into the EU internal market. In the short to medium-term, the DCFTA is likely to be associated with regulatory costs related to the EU approximation process. In the short- to medium-term, its economic impact is expected to be rather limited, but it will undoubtedly have high political importance, in particular because it is an important milestone in Georgia's EU integration path.

Viable and efficient government-to-business interaction and coordination mechanisms, formal or informal, is key to ensure that the government does not overregulate the economy in the EU legislative approximation process

mechanisms, formal or informal, is key to ensure that the government does not a) overregulate the economy in the EU legislative approximation process and/or b) overdo the fulfillment of Georgia’s obligations either through doing more than necessary or through fulfilling the obligations sooner than required. Such over-performance is particularly risky as it relates to regulatory cost, and thus has a counter-effect on economic growth.

The above may happen, among others, due to a) low awareness of civil servants working on particular legislative initiatives and/or b) political priorities and the agendas of high-level government officials that use Georgia’s obligations vis-à-vis the EU as a justification for their internal political agenda.

Any recommendations aimed at the improvement of government-to-business coordination should take into account the above-described context and associated risks in the DCFTA implementation process.

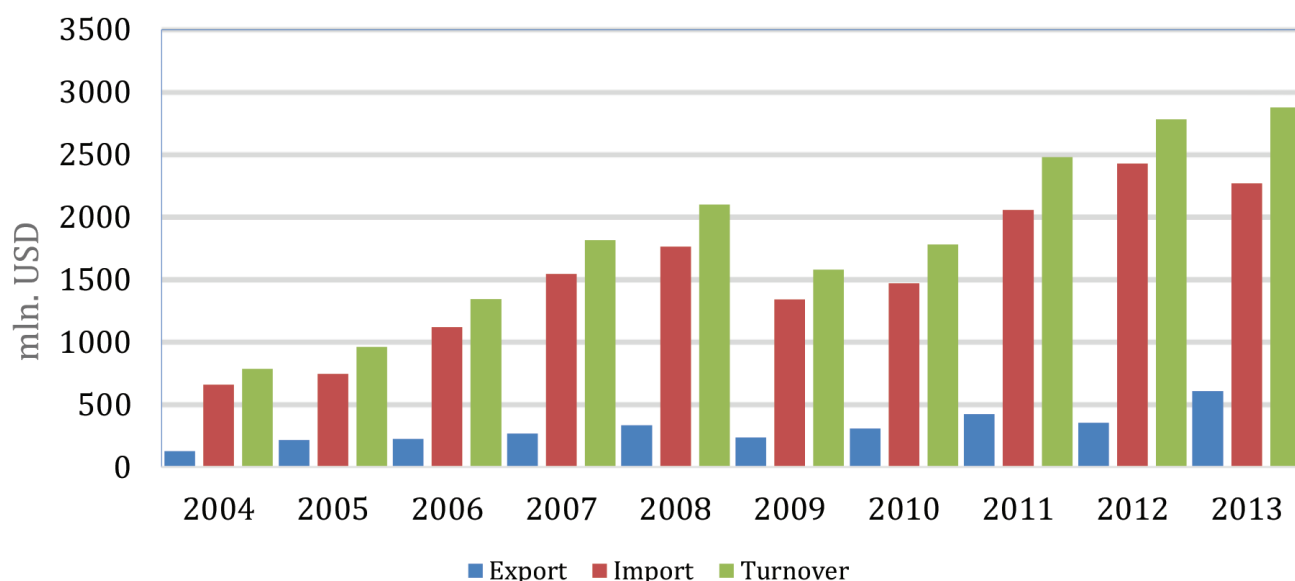
DCFTA awareness is relatively low, aside from general knowledge of the agreement’s objectives. The business community is not well informed about Georgia’s obligations in the relevant sectors. In such a context, viable and efficient government-to-business interaction and coordination

Brief Description of EU-Georgia Trade and Economic Relations

The European Union is Georgia’s largest trade partner. The following table shows figures of export, import and trade turnover between the EU and Georgia in recent years. Georgia’s trade turnover with the EU-member states amounted to USD 2.87 billion in 2013, a 3% y/y increase, accounting for 27% of the country’s total trade turnover. Georgia’s export to EU-member states reached USD 608 million, a 72% y/y increase.¹

The European Union is Georgia’s largest trade partner

**Table 1:
EU-Georgia Trade²**

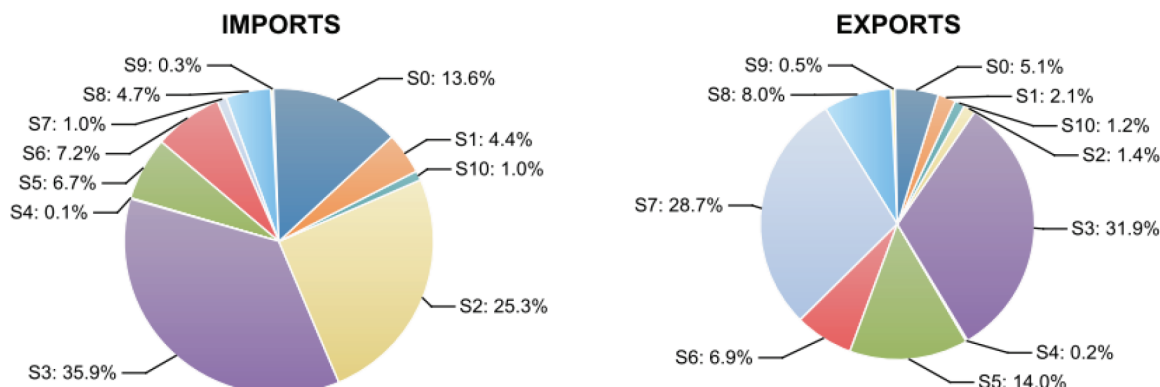


¹ Geostat

² Geostat

The table below shows the composition of EU-Georgia export and import and shares of relevant products respectively. As the table demonstrates, the export and import structure is moderately diversified. The non-diversified nature of Georgia's export to the EU was one of the preconditions for the country to benefit from the EU's special trade preference schemes like the Generalized System of Preferences, aimed at export diversification.

**Table 2:
Share and Type of Imported and Exported Products³**



- Sec. 0: Food and live animals
- Sec. 1: Beverages and Tobacco
- Sec. 2: Crude materials, inedible, except fuels
- Sec. 3: Mineral fuels, lubricants
- Sec. 4: Animal and vegetable oils, fats

- Sec. 5: Chemicals and related products
- Sec. 6: Manufactured goods classified by material
- Sec. 7: Machinery and transport equipment
- Sec. 8: Miscellaneous manufacture articles
- Sec. 9: Commodities and transactions

Georgia has been a beneficiary of the EU Generalized System of Preferences (GSP) since 1995. Georgia currently benefits from GSP+, which offers additional trade incentives to developing countries already benefiting from GSP under the conditions to implement core international conventions on human and labor rights, sustainable development and good governance. This mechanism implies that no import duties are applied in the EU on 7,200 products.⁴ Although Georgia has been exporting a much smaller number of products to the EU, it has been able to utilize GSP+ and benefit from the zero tariff regulation on its major export products.

the DCFTA provides a substantial upgrade of the trade regime, in addition to offering prospects of Georgia's gradual integration to the EU internal market.

In contrast to the DCFTA, which is concluded for an indefinite time and is permanent, GSP+ is renewed every three years. Therefore, it is less attractive for those private sector representatives who wish to make use of favorable export schemes

in a sustainable manner, produce in Georgia and export to the EU duty free. In this context the DCFTA provides a substantial upgrade of the trade regime, in addition to offering prospects of Georgia's gradual integration to the EU internal market.

The DCFTA is expected to increase exports and trade over the long-term. The latest study on the impact of the EU-Georgia DCFTA was conducted by the Centre for Social and Economic Research (CASE) and Ecorys in 2012 and focused on the costs and benefits of the DCFTA. The study findings state that after full implementation of the DCFTA, Georgia's GDP could increase by 4.3% and 6.5% over the long term. In the next five years, Georgia's export will increase by 12% and imports from the EU will increase by 7.5%;⁵ The above analysis promises positive results for Georgia, but it has to be mentioned that the study does not fully factor in the compliance costs associated with the approximation of Georgia's trade and economic regulation with that of the EU.

³ Ibid.
⁴ Source: EEAS (European External Action Service)
⁵ Link to the study: <http://tsia.ecorys.com/georgia/> (Ecorys-CASE)

Challenges on the Path to DCFTA Implementation

During the implementation process, the DCFTA may be associated with particular risks. It is highly important that the government, as well as the private sector are aware of these risks and address them where and when possible.

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First, in the context where DCFTA has a high political meaning, the Government of Georgia might sacrifice business interests to accelerate the implementation of the DCFTA due to political reasons. Such an approach would not be reasonable if it occurs at the cost of business interests and results in high regulatory burdens placed on Georgian business and the economy.

Second, DCFTA implementation may result in a quick and ‘careless’ legislative approximation process, whereby the domestic political agenda could be justified by the often non-existing obligations resulting from the DCFTA. We have already observed this trend whereby political initiatives of the government, which are not necessarily pro-business and welcomed by the business community, are justified by non-existing obligations in the DCFTA and AA. Thus, the latter is being used as a tool to implement internal political agendas and priorities. Certain recent amendments to the competition legislation of Georgia, as well as labor regulations are cases in point.

Special attention has to be dedicated to the challenges in the DCFTA implementation process that are related to the readiness of the Georgians economy and its private sector for the implementation of the new Georgian trade-related regulations approximated with the EU *acquis*

Special attention has to be dedicated to the challenges in the DCFTA implementation process that are related to the readiness of the Georgians economy and its private sector for the implementation of the new Georgian trade-related regulations approximated with the EU *acquis*. With regard to the DCFTA, the agricultural sector and

the associated obligations, is one of the most sensitive areas when it comes to analyzing the preparedness of Georgia’s private sector.

Georgia’s agricultural sector employs a large number of people – 50% of the total employed population. More specifically, a large percentage of socially vulnerable population are employed in this sector.

Although Georgia is traditionally considered to being an ‘agricultural country’ (this corresponds to the old, traditional vision of Georgia), agriculture has not been the driving force of economic growth and has not benefited from the impressive growth rates of Georgia’s economy in the past 10 years. Other sectors, such as the financial, communication, manufacturing, and tourism sectors have performed in a much more sustainable and impressive way.

Widely spread subsistence farming in the countryside, coupled with a high degree of fragmentation of agricultural land plots, make the sector subject to a special tailor-made approach. Given the predominance of small enterprises on the agricultural market with limited resources, quick and drastic implementation of DCFTA obligations will present a great challenge and will be costly for Georgian business. According to the study undertaken in 2011 by the Groupe d’Economie Mondiale (GEM) and the Centre for European Policy Studies, Georgia’s sanitary and phytosanitary (SPS) obligations will trigger an average price increase of 90% for the key food products purchased by the one-third of the Georgian population who live in poverty. Therefore, the implementation cost of the private sector has to be minimized as much as possible and held at reasonable levels. It is essential that implementation is undertaken gradually so that it provides businesses enough time and room to adapt to the new regulations.

Existing Patterns of Government-Business Coordination

Government-business relations in Georgia over the past years have been characterized by non-formalized relations rather than a strict or rigid institutionalized framework. Given the small size of the country and the nature of relationships, it is fairly easy to reach out to businesses relatively quickly when required. Whenever designing a framework of government-business coordination related to the DCFTA, the above mentioned relationship pattern should be considered. In addition to the existing government-to-business communication and coordination mechanisms, we should mention a number of government information campaigns⁶ and donor projects aimed at increasing the awareness of the DCFTA.

Currently, a number of formalized institutional mechanisms of government-business communication and coordination exist. However, the practice shows that they are no more efficient than informal, issue-based channels of communication. One of the formalized mechanisms is the Office of the Business Ombudsman in Georgia, which was established in early 2011 by the new Tax Code of Georgia. The main rationale behind the establishment of this body was to contribute to the creation of a more favorable business environment in the country, where the ombudsman would act as a champion and promoter of better business-related legislation and its improved enforcement. The main functions of the Business Ombudsman include liaising between the government and business community and bringing business complaints to the attention of the government.

Economic Council under PM's Office was established in December 2013, it consists of 14 members and includes relevant Ministers and heads of government agencies. The task of the Council is to develop economic policy strategy of the country and coordinate it, analyze investment climate and monitor economic reforms and internal development. The Council is chaired by the Prime-Minister of Georgia.

⁶ The Georgian Government approved the *Information Strategy on EU Integration for 2014-2017* in September 2013. This strategy established specific education and awareness-raising campaigns (TV programs, informational videos, short interviews with experts, a glossary and term definitions, etc.) and the distribution of in-depth information regarding the EU integration process, and related key agreements including the DCFTA. (<http://eu-nato.gov.ge/ge/news/4910>). The strategy has an Action Plan which specifically defines a timeline of activities and assigns roles for various line ministries. The EU-NATO information center in Tbilisi is in close cooperation with government agencies and elaborates and disseminates awareness-raising materials related to the EU. (<http://www.natoinfo.ge/en/whatis>)

Hungary has distinguished itself among the Visegrad countries by its integrationist public discourse, high approval ratings regarding its Western integration process and the opening of its economy during the 1990s and early 2000s. Hungary enjoyed a considerable legacy of Western economic integration prior to the association and accession processes. The Kadar-regime had built-up a reformist-integrationist image in the West as early as the late 1960s. This moderate Hungarian stance, at least in comparison to the other countries of the Soviet bloc, encompassed a series of market-friendly reforms, permitting small-scale businesses and entrepreneurs in a large number of sectors and a strong push for accession into Western economic and financial organizations. Hungary joined the GATT in 1973 and the IMF in 1982. Budapest also pioneered the way for the Soviet Bloc to the EU by the early establishment of diplomatic and trade relations with European Communities during the 1980s. This was primarily an economic must, a way of securing hard-currency revenue and loans for the failing regime.

Nonetheless, this reformist-communist image had high approval ratings on both the public and political level. The relative abundance of products in the shops and the considerable freedom of movement (regular visits were sanctioned even to the West) during the 1970s and 1980s underpinned these perceptions. Consequently, Hungary was in a strong liberal, pro-integrationist mood during the 1990s. Brisk integration was thought to be beneficial for the country. Thus the successive governments publicly supported a fast and almost full integration process, the rapid adoption and implementation of the Association and later the Accession Agreements (There had been no significant political forces opposing the integration process until the early 2010s).

All this happened on the basis of relatively low initial custom tariff levels and few protectionist barriers and in the midst of an economic transformation. Unlike other Soviet bloc countries, Hungary had made considerable trade concessions since its accession to the GATT in 1973. The association negotiations had started on this basis. Budapest also pursued the privatization process faster than the other V4 countries, opening up large sectors such as energy, utilities and banking to Western investors. (Hungary had the highest share of FDI and green-field investments among post Socialist countries in the first half of the 1990s). Even if in those years this fast opening seemed to be reasonable and was underpinned by the pioneer role of Hungary in the transformation, today, retrospectively it has been widely criticized. Speedy liberalization is thought to be responsible for a good deal of social deterioration, the loss of national industries and the lack of reasonable protectionism in the midst of the transitional crisis. According to critics, Hungary could have saved more domestic production for the period of post-transformative growth and development.

Mechanisms, Experience and Practice of Government-to-Business Cooperation

The negotiation process and the administrative settings were similar in the four (with partial exemption of Slovakia) Visegrad countries. In Hungary, the Ministry of Foreign Affairs coordinated the process under the aegis of the chief negotiator. Positions were formulated in inter-ministerial commissions at the government level.

Government-business dialogue was not formalized during the association negotiations. Reportedly, some companies lobbied for their particular interests with the chief negotiator, but the negotiating team did not have the resources, time or energy to facilitate broader coordination. At the same time, association negotiations were held during the period of major economic turmoil, in the midst of the transition. In an atmosphere of uncertainty, business leaders had only limited resources to take an active part in the process. Corporate interests were to some extent non-articulated and difficult to explore.

The situation was reportedly better during the accession talks. Having experienced the significance of the issue and the tensions at the implementation phase of the Association Agreement, both sides strived for better coordination. Business stakeholders of different levels were involved in the preparatory phase of the negotiation process. Sectorial studies and expert analyses covered almost all major issues.

(Nevertheless, businesses were contacted only at the very beginning of the process as sectoral surveys were conducted by a research institution in 1997-98. Having these results, it was the negotiating group and the ministries, which summarized the results. No major efforts were made to engage corporate actors during or after the negotiation process or “educate” them on a large scale. Still, during the accession, the Hungarian position showed relative cohesion and justification.)

The dominance of the EU in exports constituted a major driving force for the Visegrad companies, partly in contrast to the Georgian case. For Hungarian businesses, the costs of fast adaptation was much more acceptable due to the lack of alternatives and the vastly different world economic set-up of the 1990s, Hungary

During the Visegrad integration process, particularly in the case of the open Hungarian economy,⁷ EU markets distinguished themselves as the sole option for exports. Post-Soviet and regional economies collapsed after 1989, growth in the Far East was still moderate. Thus, aside from failing domestic markets, market

opportunities lied almost exclusively within the borders of the EU. The share of exports to the EU had been growing dramatically in those years and this brought a strong adaptation call even without the accession process⁸. The dominance of the EU in exports constituted a major driving force for the Visegrad companies, partly in contrast to the Georgian case. For Hungarian businesses, the costs of fast adaptation was much more acceptable due to the lack of alternatives and the vastly different world economic set-up of the 1990s.

The agenda and the highlights showed significant similarities among the Visegrad countries. Competition policy was important both due to the extensive structural subsidies for large, low-efficiency plants from the Soviet era (metallurgy, heavy and machine industry, agriculture) and the practice of offering broad tax exemptions for Western green-field investors such as the car industry and processing industries. Since Hungary provided the latter on a mass scale for Western companies, it had to cancel these agreements in 2004. This issue proved to be of distinguished significance in government-business relations. In many cases Budapest had to financially compensate these investors. Agriculture and all the related issues preserved their particular significance, since this is one of the most heavily-regulated and subsidized sectors in the EU. However, issues like energy and banking remained at a low profile primarily because the *acquis* was relatively limited in these fields in the early 2000s.

Accession to the EU did not pose significant problems in the case of non-EU trading partners. The US requested some minor issues to be modified in relation to the new situation. Only Russia declared that it would not accept the implications caused by the accession of these countries automatically and publicly, but formally has not asked for special treatment or compensation. These demands were ignored by the CEE countries and were thought to be of a political nature. The issue was settled relatively easily after the accession at the EU-Russia level. Since the CEE countries joined the EU prior to the introduction of large-scale energy regulations, the set of concerned Russian interests was rather limited and never fully specified. Understandably, this is an experience of limited value in the Georgian case. After accession, the Visegrad countries have not been in the position to negotiate trade policy issues with Russia bilaterally as all these questions fell into the Commission’s jurisdiction. This is not the case with the Georgian DCFTA.

⁷ In 2012 the total international trade (exports and imports) reached 159, 8% of Hungarian GDP. For comparison this indicator was 64.5% in Georgia. Internet: World Bank data <http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS>, 11.07.2014.

⁸ In 1991 the EC constituted 45.7% of all exports, in 2003 its share was already 73.6%. After the accession in 2004 the growth of the EU share was limited, in 2010 it reached 77.3%. For comparison the EU’s share in Georgian exports in 2010 was 18.4%. Source: National Statistical Offices.

Due to these characteristics, it is worth highlighting some peculiarities of the Hungarian integration process.

- **Implementation was subordinated to “rapid accession”.** At the initial stage, the negotiation strategies included long transition periods, strong asymmetries and derogations. Nevertheless, due to a number of different factors, political pressure for a speedy accession, considerations stemming from the integrationist narrative, and competition among Visegrad countries, in the end both the negotiations and the implementation strategies focused on a fast accession process. It is symbolic, that initially the Hungarian government wanted to implement the whole *acquis* prior to the accession (in 1999 it was planned to be taken over by 2001). Thus the aspects of implementation and in particular, the issue of corporate stakeholders’ accommodation were to some extent subordinated to the accession race.
- **Focus on net financial status.** The primary negotiation goals went beyond the adoption of the *acquis* in some particular cases. Due to various factors, the Hungarian negotiation strategy had focused on the issue of financial transfers in the agricultural sector from the very beginning. Nonetheless, the strong push for larger financial benefits also presupposed the limitation of the number of derogations. This resulted in a highly competitive selection process of corporate derogation requests. The government was successful at the maximization of CAP transfers at the cost of minimizing the derogations and the transition process. It is worth mentioning, that it was the Polish position that had an exclusively financial focus, making it very complicated for the other three candidate countries to represent a consistent Visegrad strategy. In this regard, this strategy was perceived as a missed opportunity by the respective chief negotiators.
- **Small implementation gap.** Due to the above mentioned “rapid implementation” strategies and the low number of derogations, business stakeholders did not have too much time for preparation. There was no transition period in the accession process, almost the whole *acquis* entered into force on the first day of membership (May 1, 2004). This further complicated the reasonable adaptation of business strategies, put companies under unnecessary stress and lessened their chances for minimizing the costs of implementation.
- **Corporate integration.** By the second half of the mid-1990s, large chunks of the Hungarian economy had been taken over by foreign investors. In addition to the machine industry and other export-related sectors, which became practically EU-conformed long before the accession, huge segments of other processing industries, services, banking, retail and utilities were in the hands of major European companies. In some of these sectors the EU *acquis* was introduced automatically or much more easily by the corporate actors. On the other hand, in some cases these companies had a much better understanding of the expected benefits and problems of the accession than their Hungarian counterparts. These companies constituted by far the most active stakeholders and efficiently lobbied for their interests in front of the government. A typical case was that of the American Alcoa, which successfully applied for extensive derogations for its aluminum plants across the CEE countries. Still, foreign investors in sectors like paper-milling, glass-working or sugar-refineries often proved to be more protectionist than the Hungarian-owned companies.
- **Concentration matters.** Understandably, the more concentrated and organized a sector was, the more efficiently it could lobby for derogations during the negotiation process. Some major Hungarian-owned companies - especially in the pharmaceutical or the food-processing industries, had an approximate understanding of the challenges and successfully secured longer and more gradual adaptation periods. On the other hand, small-scale retail, as well as agricultural actors were rather fragmented and did not have the necessary knowledge and information with regard to the the integration process.

Lessons Learned and Critical Assessment

The state and local administrations were primarily occupied by their own adaptation and conformity problems and little energy remained for large-scale education campaigns, Hungary

were primarily occupied by their own adaptation and conformity problems and little energy remained for large-scale education campaigns. This was particularly the case in agriculture, where the Common Agricultural Policy (CAP) put a huge capability development call on administrations, complicating any additional activities. The dissemination of information must be parallel to the implementation process and given the administrative constraints, time should not be spared, even if it extends the whole process. This might be even more important for Georgia, with much smaller administrative capability reserves.

Implementation of the Accession Agreement posed different challenges to different sectors. One of the few general problems was the issue of the administrative capability gap. The state and local administrations

Also, the information dissemination activities were partly separated from the state administration. Chambers of commerce and industries attempted to serve as a liaison. Nonetheless, ministries were not sufficiently involved in their activities and some of the information was lost in this dissemination chain. It is highly advised to directly integrate the bodies responsible for implementation into the dissemination pool in order to provide first-hand information to the stakeholders.

In some cases there was a significant gap between the commission's understanding of the *acquis* and the existing implementation practices at the member state level. The latter often offers a high diversity of solutions, while the commission and other EU bodies often

In some cases there was a significant gap between the commission's understanding of the *acquis* and the existing implementation practices at the member state level. The latter often offers a high diversity of solutions, while the commission and other EU bodies often interpret the *acquis* according to their preferences, Hungary

interpret the *acquis* according to their preferences. This is normal, but a successful implementation also presupposes familiarity with these national solutions. The most typical example is the issue of national trademarks and specific products, offering a high number of different legal solutions. Choosing from among different national practices – this is the maximum room for legal adaptation left after signing the DCFTAs. In Hungary the administration reportedly did not have the capabilities to monitor all 15 member states' solutions at all problematic points. If this is the case, it is highly advisable to mobilize resources to map out potential solutions even if this presupposes outsourcing some of these tasks to external actors, legal advisors or/and the involvement of corporate actors and experts into the problem-solving process on an institutional basis.

According to opinion polls conducted between 1996 and 2004 primarily among SME business actors working for domestic markets, EU-awareness grew gradually during the implementation process. In the negotiation phase, when issues were decided substantially, these corporate actors did not qualify the accession process as a significant matter. It was during the implementation phase, when a large number of CEOs and financial directors understood the imminent nature of the process. Still, uncertainty around EU-accession was ranked lower than problems on the domestic market and domestic legal regulations. In Hungary many SME corporate actors joined the implementation process at the very last stage. It is highly advisable to engage these actors long before they have to face the consequences.

The greatest communication gap between businesses, especially SMEs and the government, was reportedly related to the complex nature of the integration process. The dialogue cannot be put fully on a technocratic fundament. Even if there was a high level of clarity regarding sectoral adaptation processes, future administrative procedures, and uncertainty about future competitiveness, export opportunities and the implications of the labor market remained considerable. On the list of corporate stakeholders these questions were the top priority concerns, while the answers lied much beyond the scope of administrative capabilities. Furthermore, companies, in particular SMEs, had some sort of "confused concern" about the accession process.

According to opinion polls, a high number of CEOs were afraid of brain-drain by Western companies when labor markets became liberalized, as well as increased competition on the domestic markets. At the same time, many and often the same CEOs, expressed their desire to increase their export potential or/and apply for EU funds in the new environment.

These consequences and opportunities cannot be “educated”, the outcomes depend on many factors, and preparations may only be of limited value. In Hungary the textile industry almost fully disappeared despite all efforts to adapt it to the new situation. An opposite example is the changing attitude of small landowners, who were rather skeptical before the accession, but became solid supporters after 2004, when they experienced the scale of EU subsidies. Thus, both the anticipation and the perception of the implementation of the DCFTA remain to a large extent relative, independent of the process and its technocratic interpretation.

The accession decreases the export/domestic market capability gap within some sectors. The companies that already have EU export segments will have an easier path to adaptation. On the contrary, new regulations may pose challenges to companies supplying primarily domestic or non-EU consumers. These firms will be in the greatest need of additional support. Normally this could be arranged on an intra-corporate basis within the individual sectors, even if companies rarely help each other due to competition reasons. Nevertheless, the EC scope of monitoring will continue to follow primarily the export segments of the national economy and will only gradually extend itself to the rest. The dual nature of Hungarian agriculture, especially as far as subsistence farming is concerned, had been preserved for a relatively long period after the accession.

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Conclusion and Recommendations

Looking back to the first ten years of EU memberships of the Visegrad countries, the negotiation and implementation strategies have lost much of their relevance. Today, EU countries are divided between the categories of “capable and incapable” in terms of their interest representation in the EU decision-making, rather than “old and new” members. Ten years proved to be enough to build- up the necessary capabilities and acclimate to the new environment. It would be difficult to justify any shortcomings by failures at the EU-accession negotiations.

In this regard the DCFTAs and their implementation should be put into a wider policy framework. Preserving competitiveness and social stability, and pursuing sound economic policies are much more important goals than anything related to the DCFTA. Integration to the EU shall remain subordinated to these goals, Hungary

performance varies widely in the region. Polish and Slovakian GDP grew by more than 41% between 2004 and 2013, while the Czech economy expanded only by 21.7%. The Hungarian performance was almost stagnant at 3.8% growth. All these differences are rooted in economic policies, rather than relations within the EU. Thus for Georgia, EU integration shall not be a *sui generis* task, but it shall constitute one of the instruments to foster prosperity and economic growth. The following are some recommendations for Georgia which should be considered to ensure proper continuation of the process.

In this regard the DCFTAs and their implementation should be put into a wider policy framework. Preserving competitiveness and social stability, and pursuing sound economic policies are much more important goals than anything related to the DCFTA. Integration to the EU shall remain subordinated to these goals. Despite all the similarities of the Visegrad negotiations and accession patterns, economic

EU integration shall not be a *sui generis* task, but it shall constitute one of the instruments to foster prosperity and economic growth, Hungary

1. Focus on economic opening, microeconomic integration

For Georgia FDI into higher added value, export-oriented industries shall constitute one of the major goals for local policies. In this case, EU markets represent the highest competitive segments of export destinations. Industries, capable of exporting to EU markets will also have higher chances to step into other markets, may establish clusters of modernization in the local economy, as it happened in the Visegrad countries (i.e. car industries, modern processing factories, agricultural production). Microeconomic integration was a crucial, inseparable factor of success with regard to Visegrad EU accessions. Accordingly, the implementation should not only address lobbies already present in the country, but also bring in new investors into sectors of comparative advantages or green-field industries. Thus DCFTA implementation shall foster government accountability, improve the investment climate and increase competitiveness in general – especially in some of the potential sectors. Without positive feedback to FDI and microeconomic implications, much of the EU integration may lose its economic relevance.

2. Keeping the non-EU export segments

All European nations, including the Visegrad countries strive for non-EU markets. Thus the already existing export destinations of Georgia are precious assets and sources of economic policies. Georgia (for data see footnote 2 in the HU text) can not afford large-scale negative implications to these export-segments during the implementation process. EU markets shall constitute an addition to these, rather than a substitute, and will trigger higher competitiveness in the affected sectors. DCFTA countries shall avoid negative synergies between the two export segments and exploit the positive ones.

3. Corporate-government trust matters as much as educating about the *acquis*

Corporate-government trust and cooperation, especially in the potentially affected, fragmented sectors of large outreach is crucial if the government would like to keep the issue depoliticized and manageable in the future, Hungary

Corporate attitudes regarding EU accession had an amorphous and contradictory nature during the accession process. Potential consequences were uncertain and the SME concerns went much beyond the technocratic benchmarks. Factors like overall impact on competitiveness, brain-drain and

the scope of future export opportunities cannot be fully taught and will remain in the “grey” zone. In this atmosphere of uncertainty, the government shall show even more empathy and increase its efforts in trust-building. Corporate-government trust and cooperation, especially in the potentially affected, fragmented sectors of large outreach is crucial if the government would like to keep the issue depoliticized and manageable in the future.

Government-Business Cooperation Mechanisms in Slovakia's Legislative Process and EU Accession Negotiations

Slovakia negotiated membership in NATO and the European Union at the same time. The decision to join NATO was made in 2002, while the decision to join the EU was made in 2003 via a referendum. Accession to both organizations was realized in 2004. At the same time, Slovakia has undergone a process of deep economic and institutional reform improving the working of government, business, as well as civil society. Georgia recently signed the Association Agreement including the DCFTA with the European Union which in many ways constitutes similar challenges to its economy and policy-making bodies.

Institutions and Negotiation Structures in Slovakia's EU Accession

The establishment of effective negotiation structures and institutions was crucial in the successful completion of accession talks. At the parliamentary level, two committees were involved in forming a Joint Parliamentary Committee of the EU and Slovak Republic, namely the Foreign Policy Committee and the European Integration Committee. At the Office of Government, the position of Vice-Prime Minister for European Integration was created with the Institute for the Approximation of Law and the Section for European Integration working as two subordinate bodies. The Section for European Integration consisted of three departments: the Department for European Integration, the Department of Foreign Aid, and the Department for Building Institutions and Preparation of Inhabitants for Entry to the EU. At the Ministry of Foreign Affairs, the State Secretary for European Integration was put in charge as Chief Negotiator with the European Union.

The Ministerial Council for European Integration was formed to coordinate the efforts of the Ministry of Foreign Affairs and the Vice-Prime Minister for European Integration and which consisted of ministers and top officials of both bodies, as well as other ministers related to EU accession (e.g. minister of finance, minister of agriculture, and others). There was a working committee headed by the Chief Negotiator and consisting of 29 working groups composed from government ministries' specialists subordinate to the ministerial council. Each working group specialized in one chapter of the accession talks. From these 29 groups, six working groups were established at the ministry of finance, and another six at the ministry of the economy.

Another important body was the Advisory Group/Consultative Committee at the Ministerial Council. This body was composed of independent specialists and members of interest groups. It was headed by the Vice-Prime Minister for European Integration.

Representatives of the Business Community in Slovakia

The interests of the business community in Slovakia (the employers) in the legislative process are represented by a variety of associations. On the highest level there are two umbrella organizations –the Federation of Employers' Association (AZZZ) and the National Union of Employers (RÚZ). These consist of both individual members (the largest companies in Slovakia) as well as collective members (smaller, more specialized associations, e.g. the Slovak Banking Association). The largest enterprises in Slovakia are foreign-owned. This is especially true for companies in the manufacturing, energy, telecommunications and financial services sectors. Slovak ownership is dominant in the SME sector. Furthermore, a number of domestic financial-industrial conglomerates have formed as a result of Slovakia's voucher privatization in the 1990s.

In addition to AZZZ and RÚZ, a number of smaller NGOs and associations work to promote business interests. For example, the association Klub 500 (Club 500) consists only of large industrial enterprises with more than 500 employees. Unlike AZZZ and RÚZ, which take liberal positions, Club 500 is more inclined to support protectionist or arbitrary economic policies. The Entrepreneur's Alliance of Slovakia (PAS) is a relatively small but influential association of various businesses that works more like a think-tank than a business lobby. Its focus lies in promoting good economic policies and improving the business environment, and it cooperates closely with Slovakia's similarly oriented think-tanks.

Thus the business community in Slovakia is not uniform. It consists of various actors with different interests. Foreign-owned businesses and domestic SME's are generally pro-integration and normally support liberal economic policies, because they are dependent on foreign markets and because they benefit from the implementation of European laws. Privatization conglomerates or "oligarchs", on the other hand, are more dependent on the domestic market and public procurement contracts, thus their cooperation with government is less transparent.

Government-Business Cooperation Mechanisms in Slovakia's Legislative Process

One of the most basic mechanisms of government-business cooperation in Slovakia is cooperation during the legislative process. This is, to a certain degree, formalized. A government law is always created at the respective section of a ministry responsible for that particular area of legislation. After the law has been approved by the minister, it is then put forward to inter-ministerial review proceedings via the Portal of Legal Enactments, which is a public online portal administered by the Ministry of Justice. Within the proceeding, the law is sent for review to other ministries and public bodies. These bodies have 15 days to put forward their objections. The ministry proposing the law is obliged to deal with them. It is however, not required to accept them. Within the process of inter-ministerial review, every law is also sent to representatives of the business community if it touches on economic affairs. If an objection is marked as "fundamental", the proposing ministry cannot dismiss the objection without first discussing it with the author of the objection. If the issue is not resolved, it has to be discussed at a session of government. Objections can also be made by the general public. A fundamental objection of the public has to be discussed if the objection was signed by at least 500 citizens.

The Economic and Social Council of the Slovak Republic is an important consulting, negotiating and advisory body of government. The business sector is represented by the Federation of Employers' Associations (AZZZ) and the National Union of Employers (RÚZ). The trade unions are represented by the Confederation of Trade Unions (KOZ). Negotiation of proposed laws by the social partners is not mandatory. In the past, the government was obliged to negotiate economic laws with the social partners. If one of the partners disagreed with the proposed legislation, it had to be negotiated again. The rule was abandoned in 2004 because of what the second Dzurinda cabinet perceived as trade unions' partisanship and overly unconstructive behaviour (KOZ had previously signed an agreement of strategic partnership with the opposition Smer party). Another reason was that the government wanted to pass key economic reforms quickly. Mandatory repetitive negotiations with the social partners were seen an obstacle, as the trade unions usually disagreed with most reforms.

Apart from these formal channels, important yet non-binding negotiations and communication between ministries and various interest groups are often conducted on an ad-hoc basis. For example, the Section of Agriculture and Services within the Slovak Ministry of Agriculture and Rural Development normally handles relations with the Slovak Chamber of Agriculture.

Measuring the Impact of Legislation on Business

The impact of new legislation on the economy and businesses in Slovakia is measured by the Ministry of Economy, the Ministry of Finance, Ministry of Employment, and the Ministry of Environment. The system of assessment was introduced in 2008 and further improved in 2010. Every law that is put forward in the inter-ministerial review proceedings must include a specific impact clause, which specifies the impact of the law in five areas (impact on public finance, social impact, impact on business environment, ecological impact, and impact on the informatization of society). Every one of the areas is assessed by the responsible ministry. The impact clause specifies whether the law will have a positive, negative or no impact in the given areas. If the impact is either positive or negative, the impact clause provides a concise analysis.

The impact of the law on the business environment is measured by the Ministry of Economy. The criteria for the assessment are: the character of expected costs and benefits of the regulation, administrative costs, impact of the regulation on businesses' behavior on the competitive market, the expected number of businesses affected, and the wider socio-economic impact of the regulation. The methodology of computing administrative costs for business is based on the Standard Cost Model, which is used by most member countries of the European Union. The administrative cost of regulation is computed as follows: $COST = QUANTITY \times TIME \times PRICE$

For example, if in 2013 the number of newly created businesses in Slovakia was 50,000, the time required to fill-out a registration form at the tax authority was 1 hour, and the average price of one hour's work was 6 euros (based on the national average wage), the total administrative cost for the business sector was 300,000 euros.

The European Union's Action Programme for Reducing Administrative Burdens (2007-2012) provided the impetus for a complex overhaul of regulatory burden in Slovakia. EU member states have pledged to reduce administrative burdens on business by 25% by the end of 2012, Slovakia

The European Union's Action Programme for Reducing Administrative Burdens (2007-2012) provided the impetus for a complex overhaul of regulatory burden in Slovakia. EU member states have pledged to reduce administrative burdens on business by 25% by the end of 2012. In 2009-2011 the Slovak Ministry of Economy

conducted a series of measurements aimed at assessing administrative costs linked to Slovak legislation using the Standard Cost Model. During the first phase, a total of 48 laws covering 12 of the most burdensome areas (among others commercial and civil law, taxation, social insurance, and environmental regulations) were examined. The administrative burden of these regulations for businesses was estimated at 91 million euros, with total administrative costs of 992 million euros. During the second phase, an additional 24 laws were examined, with an estimated administrative burden equal to 18 million euros and administrative costs of 264 million euros.

Business-Friendly Slovakia

The Slovak Ministry of Economy in cooperation with RÚZ and AZZZ has also created an online portal with the aim of improving cooperation between government and business in drafting legislation. The primary function of www.businessfriendly.sk is to enable businesses to inform the government of problems arising from national legislation. Businesses can put forward objections and initiatives directly to the ministry via the online portal. Businesses can also inform the government about excessive administrative burdens or administrative duplications arising from the legislation. The second function of the portal is to act as a simpler, more business-oriented version of the Portal of Legal Enactments, as it informs businesses about pieces of legislation entering inter-ministerial review proceedings.

Conclusions and Final Recommendations

The integration process of Slovakia and Georgia is marked by many differences, both with respect to the political context, as well as the structure of the economy. However, we would make a number of specific recommendations for Georgia, based on Slovakia's own experience with the integration process:

1. Integration without Domestic Reforms Leads Nowhere

Do not rely on European integration alone, as sound EU accession was to a large degree caused by domestic reforms that attracted foreign direct investment (FDI) in the manufacturing sector, such as the flat tax and a flexible labour code. For the same reason, make improving cooperation with business a top political priority and do not bind it exclusively to the DCFTA, Slovakia

with business a top political priority and do not bind it exclusively to the DCFTA.

Encourage permanent cooperation as a means of fostering economic growth. While integration provides an improved legal environment, domestic policies make the difference between economies that grow and those that do not. High economic growth in successful countries like Slovakia or Estonia during the EU accession period was primarily a re-

sult of improvements in the business environment and not EU accession alone, as the case of slow-growing Hungary shows. Cooperation mechanisms between business and government should be made permanent, and they should go further than just cooperation in the legislative process.

While integration provides an improved legal environment, domestic policies make the difference between economies that grow and those that do not. High economic growth in successful countries like Slovakia or Estonia during the EU accession period was primarily a result of improvements in the business environment and not EU accession alone, Slovakia

2. Big Business is Great, but don't Forget the Small Ones

Do not worry about foreign businesses and chambers being more active and apprehensive of the integration process than domestic businesses. This is quite natural and is in line with the experiences of Slovakia and other countries. In fact, the dominance of foreign business in Slovakia has been more of a blessing than a curse, as otherwise domestic oligarch interests would have prevailed. However, Georgia is advised to take action with respect to the most vulnerable segments of the Georgian business community. Unlike Georgia, Slovakia did not have a significant small-farmer community at the time of accession, as the landholdings have long been consolidated and commercialised. Although the agricultural sector in Slovakia was one of the main beneficiaries of EU integration, there have been some shortcomings in government policy and communication in addressing its issues. Agriculture did not constitute a large fraction of the economy at the time of accession, and so priority was given to the manufacturing sector. Some small agricultural holdings failed to comply with EU norms and went out of business, but this was not a widespread phenomenon. Unfortunately, as a result of rapidly falling agricultural employment, the agricultural sector in Slovakia has become somewhat anti-market and now regularly lobbies the government for protectionist measures. It is important that Georgia addresses the issues of its vast agricultural sector, in order to prevent them from becoming a conservative, anti-reform force.

3. Committed Leaders are More Important than Nice Leaflets

Clear policy objectives and firm political leadership are more important than PR and partial communication strategies. While Slovakia did invest heavily in marketing the advantages of EU accession to its population, it was the commitment of its political leaders and strong support for integration via public opinion that ultimately defined the success of Slovakia's efforts, Slovakia

opinion that ultimately defined the success of Slovakia's efforts. European integration in Slovakia was seen not just as an economic issue, but as a civilizational task, so that even major temporary obstacles like the isolation of the Mečiar government could be overcome quickly. The issue of returning to Europe has been number one on the political agenda in Slovakia since independence in 1993 and all the way to accession in 2004. High economic growth caused by domestic reforms implemented around the time of accession helped cement strong support for Slovakia's EU membership. A similar approach is recommended for Georgia, with integration efforts going beyond signing the DCFTA.

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Cooperation between Government and Business in the EU-Related Issues – Czech Republic Case

The Czech Republic negotiated the association treaty with the EU for the first time in 1991 as part of Czechoslovakia. This association treaty however never entered into force. Due to the split of Czechoslovakia, both newly born states, the Czech Republic and Slovakia had to negotiate a new treaty. The Czech Republic did so in 1993, and the treaty entered into force in February 1995 after ratification by all EU member states. Implementation of the economic part of the treaty had already started in March 1992 on the basis of an interim agreement. One of the main aims of the association treaty was the creation of a free-trade zone between the EU and the Czech Republic until 2002, through the asymmetric⁹ lifting of tariff and non-tariff trade barriers. Although the association treaty covered a broad range of areas from political, economic and cultural cooperation to concrete steps towards the creation of a free-trade area, its scope and depth was rather limited in comparison with the DCFTA signed with Georgia. Drawing lessons from the association treaty is less relevant for Georgia due to the fact that it was negotiated and implemented in a very different period of the country's development. Unlike Georgia today, in the nineties, the Czech Republic was a transition country without a functioning market economy. It had to build-up a free market economy and set up a completely new economic system – a task that Georgia has already more or less accomplished.

Similarities arise from the fact that Czechoslovakia was one of the less protectionist countries among the communist states. Hence, it was not so difficult for it to lift the tariff trade barriers with the EU. Accession negotiations that the Czech Republic opened in 1998 seems more relevant for Georgia in scope, as well as due to external circumstances such as the level of economic development and development of legal milieu. Because the main aim of the project is to draw lessons from the cooperation between the state administration and business community and to use it during the implementation of the DCFTA provisions in Georgia, the following chapter will focus not only on the cooperation during the association and accession treaty negotiations, but it will also point out positive recent examples of cooperation.

Government – Business Cooperation Methods

There are several ways the Czech government co-operates with business on EU-related issues. However, the process lacks any systematic features and usually is very informal, incoherent and done on an ad hoc basis. State institutions prefer to deal with representatives of business associations (such as the Chamber of Commerce, Agrarian Chamber, and the Confederation of Industry of the Czech Republic) rather than with entrepreneurs directly.

The Ministry of Foreign Affairs was the main coordinating body during the accession negotiations. The Deputy Minister for EU integration was the chief negotiator of the accession treaty. The Department for EU Policies within the MFA was responsible for the finalization of the negotiating positions. This department served as a main entry point for influencing the Czech position for the Chamber of Commerce of the Czech Republic.¹⁰ However, negotiating positions were drafted within the line ministries. The relevant line ministries created their departments for EU integration (directors of these departments were together with deputy ministers members of the Working Team for EU Integration of the Tripartite). These departments consulted with businesses on an ad-hoc basis draft positions of the Czech Republic for EU accession negotiations. Usually representatives of business associations were invited, but exceptionally representatives of individual companies that were mostly affected by the EU accession were also invited.

⁹ The EU was lifting its trade barriers at a faster pace than the Czech Republic.

¹⁰ The largest and most representative business association in the Czech Republic representing small, medium-sized and large companies, self-employed entrepreneurs, associations, unions and craftsmen organizations comprising of over 14.000 members.

As far as the implementation of the commitments from the EU accession negotiations and implementation of the EU legislation is concerned, the Czech Republic applies the standard legislative procedure. All the legislative drafts have to contain a so-called “compatibility clause” that shall state whether, in what extent and with which specific provisions the draft regulation concerned is compatible with EU regulations. The entry point for businesses for the implementation of the EU legislation is a consulting procedure organized by the responsible ministries.

In the case of draft legislation, this is discussed within each line ministry by the so-called Department Coordination Group (DCG) that is responsible for the preparation of the Czech position for EU negotiations. These groups consist of representatives of the ministry and of other central administration bodies affected by the legislation. Other stakeholders can be invited to the DCG, including (but not exclusively) the representatives of businesses that are affected by the subject discussed within each DCG. Some of the ministries also created special working groups discussing important EU-related issues (EU draft legislation, EU funds distribution, Czech positions vis-à-vis different trade measures decided by the EU within the Common Agricultural or Common Commercial Policy), where representatives of sectoral business associations are invited. According to the previous research commissioned by EUROPEUM, the Ministry of Agriculture consults on a regular basis the implementation of EU legislation with businesses. In the case a new implementation measure is being prepared, the ministry automatically notifies the relevant business associations (such as the Czech Moravian Poultry Producers) and they receive an invitation to provide their input. Especially in the case of very specific and sensitive legislation (where even the capacity of ministries is limited), these inputs may serve as a basis for the preparation of the Czech position or implementing measure.¹¹

Representatives of different businesses are also regularly (at least 4 times a year) consulted by the Ministry of Industry and Trade through a Business Panel – a forum set up to discuss the different topics related to government – business relations. Hereby the topics are not exclusively EU related.

Government Information Activities towards Business-Related EU Issues

The communication strategy of the country on EU integration was adopted in 1997 – before the start of EU accession negotiations. The institution responsible for the strategy was the Ministry of Foreign Affairs. This ministry created a special department responsible for its coordination. In 2001, an Inter-ministerial Coordination Committee for Implementation of the Communication Strategy was also established. The main aim of the strategy was to provide the public with information on the essential aspects of EU integration.

Businesses represented one of the main target groups of the strategy. Government in cooperation with business associations prepared and distributed various publications, leaflets, brochures and guides informing about the different aspects of EU integration and their impact on businesses. The government also created an official webpage (www.euroskop.cz) gathering information on the EU integration and a special toll-free telephone information line was established to answer the questions of the broader public (including representatives of businesses) related to EU issues.

In 1999, regional European Information Centres aimed especially at the business community were established together with local partners. The Euro Info Centre always operated within the host organization. These were institutions supporting entrepreneurship - such as the chambers of commerce, regional development agencies and financial institutions. The regional information centers focused on the provision of

¹¹ A couple years ago, investigative journalists revealed that the Czech position in very sensitive energy-related issue was completely prepared in a Czech Energy Company (biggest Czech energy producer) and as such adopted by the Ministry of Industry and Trade as official Czech position.

information and consultancy in areas related to EU integration such as the internal market, trade agreements, procurement, research, development and technology transfer legislation, technical standards, taxes and customs.

In 1998, the Chamber of Commerce of the Czech Republic created a Centre for European Integration that operated until 2008. Its main task was to provide businesses with information related to EU integration and monitoring of the EU-related legislation. The center also organized training and educational activities. For example, between 1998 and 2004, hundreds of entrepreneurs graduated a certified course “Manager at the EU Internal Market”. The center also organized tens of seminars in the regions and produced specialized brochures and leaflets covering the important changes in the legislation caused by accession to the EU. In 2002, the Czech Business Representation to the EU (CEBRE) in Brussels was founded by the most important cross sectoral Czech entrepreneurial and employers organizations – the Confederation of Employers’ and Entrepreneurs’ Associations of the Czech Republic, the Confederation of Industry of the Czech Republic and the Czech Chamber of Commerce. Its creation and operation was funded by the Ministry of Industry and Trade of the Czech Republic together with its trade promotion agency Czech Trade. CEBRE has been providing entrepreneurs and their organizations with information and services facilitating their operation within the European market, providing relevant, up-to-date information, customized training for managers and analysis of EU affairs, but also represented the interests of Czech businesses vis-à-vis the EU institutions.

It is also important to mention the creation of the www.businessinfo.cz webpage in 2001 aimed at providing all the relevant information to the business community. This webpage is also the main communication portal of the Czech government towards business and includes all the available information on EU-related issues relevant to entrepreneurs.

Conclusions

Cooperation between government and businesses on EU-related issues was very intensive during the negotiation process of the accession treaty and also during the first years after the accession to the EU. Since that time, it seems that the cooperation has weakened in many areas. This can be explained by the fact that after 10 years of EU membership, businesses became better accustomed to the EU internal market and they also managed to establish other ways of influencing EU decision making through their associations or representatives present in Brussels, Czech Republic

other ways of influencing EU decision making through their associations or representatives present in Brussels (such as the above mentioned CEBRE, or European associations). Also, the need for provision of the new EU-related information diminished, as the EU internal market and its regulations became familiar to businesses. Nowadays, the consultations with businesses are organized mainly on an ad-hoc basis and lack any systematic features.

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Polish Experience of Economic Integration with the EU¹²

In 1989, Poland was suffering through hyperinflation, was undergoing its first transition from communism to democracy in the Soviet empire, and did not have a functioning market economy. This meant that all of its efforts to integrate with the European Community (as the EU was then named) had to be done in conjunction with building institutions like stock markets, a capitalist legal system, a parliamentary democracy and setting up the structures of a capitalist system.

Poland made clear its intentions to rejoin the West almost immediately after the appointment of Tadeusz Mazowiecki, the country's first post-war non-communist prime minister in August of 1989. On September 19, 1989, Poland signed an agreement for trade and trade cooperation with the EC. By early 1990, Poland applied for the beginning of negotiations on an association agreement with the EC, which was signed in December 1991. By 1993, the European Council decided that "the associate member states from Central and Eastern Europe, if they so wish, will become members of the EU." This is a status which, for largely political reasons, that Georgia has not yet managed to achieve.

Because of Poland's relatively primitive level of market institutions, not many useful lessons can be drawn for a significantly more advanced economy like Georgia during its own DCFTA process. Of more relevance is Poland's EU accession process, ending in December 2002, when Poland was already a market economy – albeit one that was significantly more encumbered with red tape than Georgia is today.

While the FTA and later accession negotiations forced Poland to import the EU's *aquis communautaire*, opening its economy to investment and free trade, Georgia is going to have to move in the opposite direction. As Georgia is now ranked eighth in the world in the World Bank Group's Doing Business 2014 report, the negotiation and implementation process will actually have the adverse effect of introducing more red tape than it has at present in order to conform to EU norms.

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Finally, Poland's geopolitical situation was significantly different than that of Georgia. Poland made its successful run for the West at a time of historic Russian weakness. Moscow was unable to halt Poland joining NATO and the EU. Poland was also the undisputed master of all its national territory. Georgia is in the same situation. Russia's aggression against Ukraine also creates dangers that the implementation process will be hampered by Moscow's opposition.

During the negotiations, the Polish government set up a three-level structure to ensure a two-way flow of information between business and the state, Poland

in the effort Poland made to include business in the long negotiation process. During the negotiations, the Polish government set up a three-level structure to ensure a two-way flow of information between business and the state.

The first was a broad-based body looking at issues of European integration that included a wide representation, with places for negotiators, experts and business and social groups. This body, called the Narodowa Rada Integracji (The National Council for Integration) operated under the authority of the Prime Minister

¹² The author would like to thank Paweł Świeboda, president of DemosEuropa, and Jarosław Pietras, Director General in the General Secretariat of the Council of the European Union, for their help in researching this chapter.

and was an institution for discussions on a very general level. The council was supposed to act as an information channel between the government and society. It served a very useful purpose in diffusing knowledge about the integration process and of directing concerns from business to key officials.

Crucially, the government did not discriminate against business organizations that wanted to join. If a broad-based group organized itself, it would be invited to attend meetings. However, the Polish experience was that many of these business groups were not particularly representative, at least in the early years of the transformation. As Poland became more sophisticated, organizations that were little more than personal vehicles for individual businessmen tended to fall away, while broader based groupings with real representation in the business community grew in strength.

Poland also had sectoral bodies where in every separate negotiating area, government would interact with a business grouping directly concerned with that area – for example, agriculture or pharmaceuticals.

Finally, ad hoc problems were resolved on a one-on-one basis with specific companies. For example, talks over applying EU directives on emissions involved only Poland's largest electrical utilities.

The high level of consultation with business served a useful role during Poland's talks with Brussels. Polish negotiators said that having a strong business opinion on a given issue allowed Warsaw to strengthen its position vis-a-vis the EU, demonstrating that it was not just the government talking, but that it was reflective of the broader position of the society.

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Polish negotiators found that the accession process actually drove the effort to formalize business and sectoral organizations. Prior to the negotiations, there had been very few business

groups. Instead, lobbying was often a chaotic effort by individual companies and businessmen who tried to directly influence politicians and the legislative process.

A very good example of that kind of behavior was seen in the early 1990s, when businesses seized leading positions in often obscure market segments like gelatin production and used their wealth and the unsophistication of Polish politicians to effectively lobby for trade restrictions that benefited their own products.

As Poland's economy became more advanced and more formal, thanks in large part to the drawn-out accession process, egregious examples of attempts at directly influencing government policy became rarer. While giving business a voice served a very useful purpose during talks with Brussels, Poland did notice that there was a severe asymmetry between local and foreign companies.

For local business, concentrated on local or at most national markets, and with relatively little international exposure, the very language used by negotiators, dense with unfamiliar bureaucratic terms, is off-putting and unknown. Many entrepreneurs see little sense in investing time and energy learning the arcana of EU negotiating language, often feeling they have little potential to gain through the opening of more sophisticated EU markets to their products.

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Polish officials found that foreign companies often formulated very clear demands, while local business was much quieter. In addition, foreign businesses can try to take advantage of inexperienced governments, trying to push through proposals that would never gain traction in Western Europe.

One example of this kind of behavior comes from Romania, during the privatization of the car industry. Initially, potential foreign investors pressed the government to ban the import of all cars as part of a deal to take over the ailing sector. Examples like this made Polish officials very careful about taking business advice at face value.

“For negotiators, the advice was often harmful, either to the country or to local business,” says a Polish negotiator. Polish officials had to devote time and energy to find companies who would have been harmed by some of the proposals being pushed by foreign firms in order to find some balance.

Sectoral organisations were also often divided between local and foreign businesses. One good example was pharmaceuticals. There, large foreign companies investing in Poland were very keen for Poland to quickly sign on to the EU’s patent regulations, which would protect their products. However, smaller local companies tended to have few original drugs and were instead focused on generic production. That meant they were in favour of delaying the adoption of patent protection for as long as possible in order to keep their businesses operating.

Other sectors like agriculture were very difficult to organize. Like Georgia, Poland had a very large segment of peasant small holders, essentially subsistence farmers, with a very small number of larger commercial operations.

One issue that arose with agriculture was changing standards as Poland approached EU accession. For example, earlier in Poland’s modernization process, the country had imported enormous numbers of chicken cages sold by west European producers who were being forced to adapt to more stringent EU rules. But when Poland had to adopt to those same standards, it had to negotiate a transition period in order to change cages and get rid of the ones Polish farmers had bought from Germany and France.

In agriculture, the Polish government tended to adopt regulatory solutions more suited to large producers, while leaving smaller farmers producing just for the local market less affected by the sanitary requirements of producing for the more demanding EU market. However, the Polish experience was that the higher EU standards tended to percolate through the industry due to changing consumer tastes and demands.

In one such example from the dairy sector, white cheese destined for export had to be made according to EU standards, while local cheese was not subject to the same regulations. However, local farmers used methods like collecting milk from small producers that was left in unrefrigerated cans by the side of the road, warming for hours before being picked-up by distributors. As consumers became aware of the differences in standards between cheese destined for export and that produced for local consumption, they simply bought cheese made for export. In a relatively short time, the whole market was brought into conformity with EU standards, despite the exemptions initially carved-out for smaller producers. This process worked even though Poles were significantly poorer than western Europeans. In many cases, producers simply unified their systems for both export and domestic markets, while in others, local sellers saw their markets shrivel as consumers turned towards products with international certification.

As the negotiation process continued, Poland set up a system of informing businesses about progress in specific areas and industries. This was largely done through the internet, to make the process as transparent as possible and to make business aware of what was going on in talks with Brussels. The government would also send circulars to interested parties to ensure that they were aware of negotiations. However, there was often no response from the business community.

What did tend to happen years later is that businesses negatively affected by particular decisions would complain strongly, but long after the negotiating process was over. A further recommendation of this panel is for the government to ensure it provides an active outreach as to avoid such an outcome, Poland

What did tend to happen years later is that businesses negatively affected by particular decisions would complain strongly, but long after the negotiating process was over. A further recommendation of this panel is for the government to ensure it provides an active outreach as to avoid such an outcome in Georgia.

One of the most time-consuming areas for the government was to screen every proposed EU regulation to see if it existed in Polish law or if it had to be passed through parliament. As part of that process, officials would also try to determine what impact regulations would have on specific parts of the economy and on individual businesses.

Here, Polish negotiators noted a paradox. They felt it was their duty to be up front with business about potential regulatory changes. However, their experience was that businesses, especially local ones, tended to be quite conservative. If business had been better organized during the accession process, it would have actually ended up causing major problems for the Polish government by delaying talks. “Business could have torpedoed the talks because of the demands being placed on them by negotiators,” says a former Polish official.

As a final note, the overall accession process in Poland was an enormous success. Poland has seen its best quarter century in about 300 years, with the economy growing at an average of slightly more than 4 per cent a year since 1992.

After joining the EU in 2004, the flood of structural funds pouring into the country has resulted in the construction of a modern highway system, modern airports and a massive improvement in rural living standards. As a non-EU member, that impact will not be as apparent in Georgia, but the country could see a surge in foreign investment due to the adoption of stronger ties with the EU – something that started to transform Poland by the mid-1990s.

Polish companies, represented by well-functioning groups like Lewiatan, the employers’ confederation, are now able to operate according to EU standards. Some are creating brands and penetrating west European markets on their own, while many others have become crucial component and sub-assembly suppliers to German and other west European producers. All that is largely a result of the successful FTA and later the EU accession process.

In conclusion, the recommendations for Georgia are as follows:

- Design a system of consultative bodies to better channel business concerns to negotiators. This should include a broad based organization that unites government officials, experts, social groups and business organizations. Social groups may often be wary of the aims of business, but if brought on board, they may provide for greater public acceptance of any agreement and erode the suspicion that government and business have sewn up a deal that does not benefit the broader public. Organizations should not be chosen by the government but should be genuine representatives of business.
- Encourage the formation of sectoral groupings, taking particular care to ensure that both local and foreign companies have a voice so that the views expressed are as broad as possible.

Ensure that the government is clear about what is happening during the phases of negotiation and implementation, with an effort to communicate this to interested parties. The language used should avoid Brussels-speak and use clear terms, comprehensible to local business, Poland

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- Efforts should be made to canvas business opinion, so that companies are able to express their views with enough time to affect the process.

Conclusions and Recommendations for the Implementation Process of the EU-Georgia DCFTA

The present report has been produced at a crucial moment in the history of EU-Georgia relations. The Association Agreement, including the Deep and Comprehensive Free Trade Area between Georgia and the EU has been signed. Once the agreement enters into force, it will be of crucial importance to implement it in an efficient and transparent way. It is up to the Government of Georgia, as well as up to the major stakeholders such as private business representatives to ensure that the AA and DCFTA brings maximum possible benefit to Georgia in political and economic sense.

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This report studied the experience of V4 countries in the EU accession process with a particular emphasis on government-to-business coordination and the lessons learned. The experience of all four Visegrad countries demonstrated that efficient coordination between the Government and business community is crucial although there is no unique and uniform way to structure dialogue with the private sector.

Given the diverse experiences and economic impact of the accession of the V4 countries, I Georgia it is essential to involve the business community in the DCFTA implementation process in order to maximize the benefits of the agreement and minimize the unintended compliance costs. As such, it is up to the country to decide how to structure the process of government-to-business coordination in the implementation phase of the DCFTA. It is absolutely essential that the implementation process is guided by the country's development vision as an open, liberal economy based on free-market principles that aim to integrate with the EU internal market. Correct management and guidance of the process, as well as the inclusive involvement of the business sector is crucial for this process to run smoothly.

More specifically, the country is advised to take into account the following:

The DCFTA should serve the broader goal of the country's economic development and not be the goal in itself. Implementation of the obligations resulting from the DCFTA should not happen at the cost of other, bigger objectives of Georgia's development and of its economic and social priorities.

The free-trade agreement with the EU should rather contribute to the achievement of the latter as much as possible.

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The DCFTA has the potential to yield positive results only if and when coupled with sound economic and regulatory policies

ization and diversification parallel to the DCFTA agenda and independently of it. It would be naïve to believe that only the DCFTA, even if properly implemented, will generate growth, investment and employment. As the experience of the V4 countries demonstrated, the economic impact of EU accession was largely different, and varied from country to country, mainly due to the different approaches in economic policy and development.

The DCFTA has the potential to yield positive results only if and when coupled with sound economic and regulatory policies. Although it is true that the agreement contains extensive obligations and a reform agenda resulting thereof, Georgia should continue its reform policies aimed at liberalization and diversification parallel to the DCFTA agenda and independently of it.

In summary, the DCFTA might help trade and economic growth in the medium to long-term, but it might have an adverse effect if not coupled with continued liberal and anti-corruption reforms.

The DCFTA is likely to generate positive economic effects in the long-term. The short and medium-term impact of the DCFTA on the Georgian economy will be associated with regulatory costs. This understanding should be shared and analyzed by the government, as well as by the business community.

It is recommended to strongly take into account local development challenges and specificities when implementing the DCFTA obligations

It would be counter-productive and highly risky to transpose EU *acquis* in Georgian legislation without studying and analyzing the relevant experience of EU member states. As a rule, there are various ways of approximating a country's legislation with that of the EU. The responsible authorities should be committed to briskly identifying the best suitable option for Georgia, rather than 'blindly' copying and pasting either EU regulations or any member state's legislation. Whereas many areas are regulated in rather general terms on the EU level, they are specified in member states' legislation. Therefore it is essential to study the legislation as well as implementation practice of EU member state economies that are comparable to Georgia.

It is recommended to strongly take into account local development challenges and specificities when implementing the DCFTA obligations.

It is recommended to look at regulatory reforms from business's point of view.

The objective of the process should not be to increase regulation and compliance costs per se, but to make realistic commitments, which are implementable by the Georgian business community. Specific commitments resulting from the DCFTA should be discussed with the business community to determine to what extent specific sectors are ready to adapt and where the challenges are. If required, transition periods should be envisaged by the legislation. In sensitive areas, gradual implementation should be applied.

It is recommended to look at regulatory reforms from business's point of view

It is essential not to over perform things when fulfilling the obligations and not to use the latter to serve the government's own political agenda

Typically, there is a risk of justifying particular reforms through the need to fulfill obligations resulting from the EU integration process, in this case through the DCFTA. It is crucial that the government handles the DCFTA file in a responsible and transparent way, not making it a hostage to its own political agenda.

It is essential not to over perform things when fulfilling the obligations and not to use the latter to serve the government's own political agenda.

The DCFTA implementation process should be accompanied by an intensive dialogue between the government and business community.

Hereby, there is no universal recipe on how to structure these relationships. Every country should design the process based on its own requirements. In the Georgian case, it is essential that there is an intensive communication channel between the government and the business community – whether they are formalized or informal, is up to the parties. A two-layered approach, combining both formal and non-formal communication components, would be the best option for Georgia, as it will further ensure the inclusiveness and transparency of the process. The latter will also facilitate the adaptation process of businesses to the new regulations, which are derived from the obligations of the Agreement between Georgia and the EU.

The DCFTA implementation process should be accompanied by an intensive dialogue between the government and business community

The DCFTA implementation process requires a champion within the government, i.e. a responsible person or agency that guides the process and approaches it from the point of view of the private sector

It is essential that there is a team of business-minded individuals in the civil service, who are in charge of the coordination of the implementation of the economic package of the AA/DCFTA and have the related political mandate.

The DCFTA implementation process requires a champion within the government, i.e. a responsible person or agency that guides the process and approaches it from the point of view of the private sector



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