

Trading with different economic systems

Risks, advantages and tools for economic connections between the European Union and the Eurasian Economic Union with the focus on Georgia

Benedikt Brockow

June 2018



ICCN

INTERNATIONAL CENTER ON CONFLICT
AND NEGOTIATION

Table of contents

1	Introduction.....	4
2	Methodology	5
3	Georgia and its renegade regions.....	6
4	DCFTA	8
4.1	What is DCFTA?	8
4.2	Benefits and risks.....	8
4.3	Aftermath	9
4.4	Free Trade as a solution	10
5	Two different economic systems – The comparison of the EU and AA/DCFTA with the EAEU.....	11
5.1	General differences.....	11
5.2	Internal structure	12
5.3	Conclusion	13
6	Establishment of an free trade area between the European Union and the Eurasian Economic Union	15
6.1	Why is the European Union indispensable for Russia's economy?.....	15
6.2	Economic advantages for the EU and the EAEU.....	16
6.3	Political differences	17
7	Expansion of the agreement to the Russian-Georgian relation	20
7.1	Pro and Con.....	20
7.1.1	The Georgina Perspective	20
7.1.2	The Russian Perspective.....	21
7.1.3	What speaks against a free trade agreement?.....	22
7.2	Effects of an Georgian-Russian Free Trade Agreement on the peace process in the south Caucasus	23
7.2.1	Customs clearance	23
7.2.2	Restoration on the Abkhazian Railway	24
7.2.3	Economic integration of the Abkhazian and South Ossetian population.....	25

7.2.4	Georgian-Russian Relation and Geopolitical stability.....	27
8	Resume	29
9	Literature	31
10	Internet sources.....	32
11	Interview	38
12	List of abbreviations.....	38

1 Introduction

While searching for news about Georgia, it is unavoidable to find reports about tensions, disagreements and troubles between Russia and Georgia. The conflicts about the status of South Ossetia and Abkhazia are also 25 years after the war in Abkhazia and 10 years after the Russian-Georgian war far away from a solution. Although there are no armed conflicts between the parties, serious incidents are not uncommon. Recently, a Georgian citizen was tortured regarding to an examination in South Ossetia.¹ Kidnappings and arbitrary changing of the de facto border line are further examples. Also on the political level the differences are obvious. There is still no agreement for the return of internally displaced people (IDPs), Georgian citizens who had to flee from their homes in Abkhazia and South Ossetia during both wars. Russian armed forces are based in both regions and controlling the administrative boundary lines (ABL). Since the Russian-Georgian war in 2008, Russia and Georgia have no diplomatic relations and many international organizations are not allowed to enter Abkhazia and South Ossetia in order to support stability, peace and human rights.²

In the last years, many ideas and formats were developed, but most of them were rather unsuccessful. Most hopes were probably put on the Geneva International Discussions (GID), a part of the six-point agreement after the Russian-Georgian war to address with the consequences. Recently the 43rd round of the GID ended, but as most of the meetings before, there were no results.³

The reason for the sluggish progress can roughly be broken down to two points, where until now no consent is found. First it is the unclear status of Abkhazia and South Ossetia. Both are not recognized as independent states by the international community, in particular by Georgia, which sees Abkhazia and South Ossetia as a part of the Georgian Republic. The second issue are the IDPs. Until now, there is no accordance between the conflict parties under which conditions they are allowed to go back.

An important player in the conflict is Russia. The country supports the eagerness for independence in Abkhazia and South Ossetia. For a peaceful solution of the conflicts, understanding and communication with Russia is indispensable. But in their foreign policy, Russia and Georgia, that has taken a clear western course by signing the Association Agreement and the Deep and Comprehensive Free Trade Area (AA/DCFTA), are fundamentally different. It is possible to stretch this difference to the relation between the European Union and

¹ see Day (2018b).

² see Sikharulidze (2017).

³ see Morrison (2018).

Russia. The Skripal affair, the war in Syria or the Ukraine crisis are only the current examples. On the political level, the situation is as well intricate and in a deadlock.

In face of the less successful attempts in the past, it is in the writer's opinion to necessarily think about other ways of improving the relation between both sides. With the help of deep economic relations it might be possible to bring Russia and Georgia into dependence that brings profit for every party. In the field of economics it is possible to negotiate and interact with each other, detached from the political differences. At the following pages the idea of free trade between the EU and Russia represented by the Eurasian Economic Union (EAEU), as well as between Russia and Georgia is described in detail.

2 Methodology

The following work can be roughly split in two parts. The idea of a free trade agreement (FTA) between the European Union and the Eurasian Economic Union is described in detail at the beginning of the document. A closer look will be given on the resemblance between both unions to highlight possible areas for cooperation. But also distinctions are not unmentioned. A strong argument against deeper economic cooperation between the EU and the EAEU are the fundamental differences on the political level. Those differences are also described in the first part.

The second part is about the expansion of the agreement to the Georgian-Russian level. Advantages will be outlined for both sides, the Russian and the Georgian. Also in this part arguments against a FTA are included. But the main focus is on the impact on the de facto states Abkhazia and South Ossetia and how this impact could affect a peaceful approach between all conflict parties.

At the start of the research, the plan was to conduct numerous interviews with experts on economics and geopolitics in Europe and Georgia. Unfortunately, most requests remained unanswered. A reason for that could be that this topic is not very deep analyzed so far and is very vague in general. It is also imaginable that it is difficult for experts to give a clear statement on this topic and to position themselves on a geopolitically complex situation. Because of that the main sources for the research document were other scientific research papers, mostly from experts in the field of economics. But also articles in national and international newspapers in Europe and Georgia were used.

The fact that this topic is a very recent issue made it difficult to find reliable and well-grounded information. Especially detailed sources concerning Georgia and Russia were very

hard to find. An example for that is the current situation at the Georgian-Russian border for trading between both countries. Also, general information about the conflicts around South Ossetia and Abkhazia were often not reground and up to date.

A big part of the document on hand are own ideas and visions. Therefore the content is not equated to a feasibility study. The described construct of political and economic relations is only a possible way how the things can develop after the signing of the FTAs between the EU and the EAEU as also between Georgia and Russia. Because of the vague idea the paper can only serve as a source of inspiration for alternative solutions of the conflict. The approach needs to be further reviewed, evaluated and proved with facts until it is steadier against counter arguments. In general, geopolitics and geo-economics are fields in which it is hard to make reliable forecasting. Anyway visions and extraordinary ideas are necessary to bring stability in deadlocked situations and to find a path for a mid- and long term policy. The following document's aim is to present and development those visions and ideas.

3 Georgia and its renegade regions

In the recent years, Georgia has faced many problems: the economic crisis in the 90s, corruption and vote rigging. All these challenges were more or less managed successfully and paved the way for the further progress of the country. Georgia is one of the best developed countries of the former Soviet Republics in the Caucasus region and central Asia, but the conflicts around Abkhazia and South Ossetia are a big abashment for the further progress.⁴

With the increasing relevance of the Georgian movement for independence in the 1980s the fear of Abkhazia and South Ossetia to lose the privilege they had in the Soviet Union gets bigger. With Russia's support for nationalistic groups in both regions it came to armed conflicts. In 1991 Georgia finally became independent with, according to the international law, South Ossetia and Abkhazia. But in both regions the development of independent states with a political and economic orientation towards Russia was far advanced. With the Russian-Georgian war in 2008 the conflict reached a new level and led to the recognition of Abkhazia and South Ossetia as independent states by Russia and the deployment of Russian armed forces in both Regions.⁵

Until now, they are de facto detached from Georgia and the Government has no state control over them, but, assured by the international community, did not accept the independence of both regions. Despite the long past of the conflict a solution is not in sight. The aim of the

⁴ see Auch (n. d.).

⁵ see Kipiani (2015).

Georgian Government is a peaceful de-occupation of Abkhazia and South Ossetia. Both regions should be bound with the help of cooperation between the territories. In order to achieve that, the Georgian Government wants to gain trust with an improvement for the people in both territories, for example through healthcare, culture and human rights, like free movement. For that, Georgia wanted to introduce status neutral documents but could not carry them out because Abkhazian and South Ossetian authorities cannot let anything happen without Russia's approval - which was not given, like in many projects. Because of this, many arrangements were not implemented yet. Another important reason is the low level of trust between the stakeholders. A dialogue with Russia is mentioned in a Georgian strategy paper, but it seems to be rather a rhetoric phrase than a concrete political aim. The Georgian Government considers the annulment of the recognition of Abkhazia and South Ossetia as a prerequisite for a renewed dialogue.⁶

The borders of the occupation zones are in a constant movement, the South Ossetian ABL is only 500 meters away from the European Road 60, a for Georgia very important east-west connection.⁷ And again and again reports of arrests and kidnappings of people in the de facto border areas are mentioned. Although the situation in Georgia is more than safe, these incidents have a dissuasive effect on urgently needed foreign investors.

To tackle these problems in Georgia, it is necessary to find approaches next to the political level. The approaches of the last decades did not show satisfactory results. But the idea to create dependence through cooperation can be transferred to another field of conflict resolution and peacekeeping. With a free trade area between the Eurasian Economic Union and Georgia, both entities are brought into dependency to each other. For the Eurasian and the Georgian side this would also have advantages beside the economic level. But first it is necessary to have a look on an agreement that is already in force, the Association Agreement and the Deep and Comprehensive Free Trade Area.

⁶ see Atilgan / Sarjveladze (2016).

⁷ see EU warning over Russia 'land grab' in South Ossetia border row (2015).

4 DCFTA

4.1 What is DCFTA?

An important aspect of the European foreign policy is to strengthen the neighbor countries and to improve the relations to them. To achieve more stability, security and wealth for these states, the EU has developed the European Neighborhood Policy. The program, which was established in 2003, is supposed to support the partner states by their modernization and the implementation of democratic and constitutional reforms.⁸ A special focus is being put on the so called eastern partnership, which should help to speed up the association process with Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and the Ukraine.⁹ A part of this is also the negotiation of bilateral agreements between the partner states and the European Union, like the Association Agreement and the Deep and Comprehensive Free Trade Area that is already signed with the Ukraine, the Republic of Moldova and since 27 June 2014 with Georgia.¹⁰

The treaty should lead to a closer relation between the European Union and the signatory states. In the case of Georgia the aims are e.g. to increase the participation of Georgia in EU programs, strengthening the institutional stability and promoting peaceful conflict resolution.¹¹ One of the most important contents of the agreement is the establishment of the DCFTA to reach a closer economic integration of Georgia within the EU. Both parties agreed to the elimination of all custom duties and to the alignment of regulations, laws and norms.¹²

4.2 Benefits and risks

Next to the benefit of removed tariff and non-tariff barriers, that eliminate all obstacles for trade, Georgia can also hope for investments from non EU actors. Those can profit from Georgia's low labor and Energy costs and set up a product chain in the country to export goods made in Georgia with European standards to the EU and many other countries. That could bring capital to Georgia and create jobs. Another advantage is the direct financial support for Georgia by the European Union. DCFTA countries can benefit from several structural

⁸ see Auswärtiges Amt - Europäische Nachbarschaftspolitik (n. d.).

⁹ see Verheugen (2014).

¹⁰ see Die Östliche Partnerschaft (n. d.).

¹¹ see Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part (2014). Article 1.

¹² see DCFTA – Risks and Opportunities for Georgia (2016). p. 5 f.

funds that support for example small and medium size enterprises to strengthen their competitiveness in local and international markets.¹³

But DCFTA is also linked to several risks for Georgia. Companies need to modify their production to create goods that are adjusted to EU standards. These adjustment cost can be very high and the process of adjustments requires a long period of time. As a result of that, the prices of Georgian products can increase.¹⁴ Besides that, the quantities of produced goods in Georgia are very low and can hardly fulfill the demands of the European market. Many companies are already working to full capacity and don't have the possibility to expand. Also the competition with more modern and larger producers in the EU can be difficult for Georgian companies.¹⁵

Another problem is the effect of AA/DCFTA on trade and economic connections with the EAEU and Russia. The Russian Federation is the most important trading partner for Georgia. In 2016, 9,3% of all imports and 9,8% of all exports were from/to Russia.¹⁶ But the conditions for trade between both countries are not the best. The border to Vladikavkaz (Russia) is at the moment the only possible way to travel between Georgia and Russia on the land route. Currently Georgian trucks need at this border crossing point about 4 to 5 days to wait for custom clearance.¹⁷ Furthermore, Georgian exporters need to pay custom duties, the average bound tariff rate is 7,8 %.¹⁸

4.3 Aftermath

The increasing price of Georgian goods can make the products too expensive for the Russian market and in the following lead to a decrease of the trade turnover. Georgian companies would need to produce two types of goods, with European or Eurasian standards. That is very cost intensive and by the reason of the low capacity of companies in Georgia, also practically very difficult to implement.

Furthermore, it will become also harder for Russian companies to export goods to Georgia, because those products also need to fulfill EU standards. It would be not profitable for com-

¹³ see Deep and Comprehensive Free Trade Area (DCFTA) Initiative East (n. d.).

¹⁴ see Yaroslava Babych (2018).

¹⁵ see DCFTA – Risks and Opportunities for Georgia (2016). p. 10 f.

¹⁶ see UN comtrade Database (n. d.).

¹⁷ see Yaroslava Babych (2018).

¹⁸ see Russia - Import Tariffs (n. d.)

panies in Russia to adapt the production to European standards because of the small trading volume. Only 0,3% of all exports from Russia are going to Georgia.¹⁹

All this can lead to a decrease of the trading volume and a reduction of economic connections between Russia and the rest of the EAEU with Georgia. Because of the absent of diplomatic relations between both countries, a further division is very problematic. Since the 2008 war and the Russian recognition of Abkhazia and South Ossetia as independent states, Georgia and Russia have no diplomatic relation. Especially with regards to the issue of the status of Abkhazia and South Ossetia according to the international law, every worsening of the relation, no matter if it's on the political or economic level, between Russia and Georgia makes a solution of the conflict more incalculable. Also the big crevice towards Abkhazia and South Ossetia can become even more insuperable.

The two regions are closely detached to the Russian Federation. Units of the South Ossetian armed forces will become a part of the Russian army.²⁰ South Ossetians have easy access to Russian passports and the majority of Abkhazian population has already the Russian citizenship.²¹ Also the economy of Abkhazia and South Ossetia is strongly integrated into Russia. The official currency for example is in both regions the Russian Ruble.²²

4.4 Free Trade as a solution

Which effects could it have if Georgia had not only a free trade agreement with the European Union, but also with the Eurasian Economic Union? This might open numerous new possibilities for the development of the Caucasus region, in a political and economical way. First of all, needs to be clarify what a free trade agreement would be concrete. Russia and Georgia have already a FTA, but practically there are still abashments for trade. When Russia and Georgia could agree to similar product standards and to the removal of any customs, the effect on the economy could be far reaching.

But Georgia cannot simply agree to the Eurasian and the European standards, laws and regulations at the same time. With DCFTA, Georgia has made a clear decision for a European integration. The blatantly solution would be a multilateral agreement between the European Union and the Eurasian Economic Union, which could be the basis for deeper economic

¹⁹ see UN comtrade Database (n. d.).

²⁰ see Day (2018a).

²¹ see Russia offers easier citizenship procedures to people of occupied Tskhinvali, Georgia (2015). see Achba (2016).

²² see Abkhazia profile (2017).

see Regions and territories: South Ossetia (2012).

relation between Georgia and Russia. To assess the possibility better and more realistic it is necessary to compare first both Unions with each other.

5 Two different economic systems – The comparison of the EU and AA/DCFTA with the EAEU

5.1 General differences

The Eurasian Economic Union and the European Union are two different economic systems that are far separated from each other. Nevertheless, both have much more in common than it might look like in the first moment. In the following it will be illustrated that the Eurasian Economic Union has taken the EU and its institutions as a direct role model. But a deeper approach shows that next to that, the EU and the EAEU have general differences.

After the World War II Belgium, Germany, France, Italy, Luxembourg and the Netherlands joined forces to discuss what measures need to be taken that such a disaster not repeat again. The solution was the founding of the "European Coal and Steel Community (ECSC)" in 1950, which was together with the 1957 founded "European Economic Community (EEC)" the predecessor of the "European Community (EC)" and later of the European Union.²³ The aim was to link the for the armament so important steel industry of the member states to each other. That should make it impossible to plan unnoticed military actions. The founding of the European Union was decided with the background to bring the members in a political and economic dependency to prevent conflicts and to form a peaceful society.²⁴

The European Union is a supranational organization where the member states give parts of their sovereign rights to EU institutions. By implication, they also have to agree with EU decisions. The EAEU has no regulation like this and is more similar to an international organization. These lacks of authority of EAEU institutions are reducing the action ability of the union. However, it is unlikely that the EAEU will get more far-reaching powers in the next years because the member states will try to act against the losing of their sovereignty.²⁵

The Eurasian Economic Union was founded on the 1st of January 2015. It compounds out of the since 2010 existing Eurasian Customs Union, which had the aim of an economic integration of the member states. At the beginning only Russia, Belarus and Kazakhstan were

²³ see Die Geschichte der Europäischen Union (n. d.).

²⁴ see Schuman Erklärung – 9. Mai 1950 (n. d.).

²⁵ see Steininger/Schramm/Olejnik (2017), p. 7, 10.

members.²⁶ Until today also the Republic of Armenia and the Kyrgyz Republic have joined the association. Together the members of the EAEU have a GDP of 1,48 trillion US-Dollar.²⁷

Officially, the establishment of the Eurasian Economic Union is based primarily on economic aims. The major objective is to ensure the free movement of goods, services, capital and labor within its borders.²⁸ However, it cannot be denied that the EAEU is also a geopolitical instrument. The President of Belarus, Aljaksandr Lukaschenka, said that a further aim is also a closer political and military cooperation between the member states. President Vladimir Putin expressed during an interview with the Russian newspaper “Izwestiya” that the Eurasian Economic Union should become a pole in the modern world. With the EAEU Russia can strengthen their regional power and their capability to compete in a globalized world.²⁹

5.2 Internal structure

The Eurasian Economic Union has many commonalities with the European Union. Therefore, it is not surprising that Russia has taken the EU as a direct role model. Most EU institutions can be found in a modified form in the EAEU. But overall it needs to be said that the EAEU is in a development stage that is comparable to the time of the Rome Treaties. In these the founding of the predecessors of the EU, the European Economic Community and the European Atomic Energy Community where defined.³⁰

The main difference is the structure and accoutrement with authority and competency of the EAEU institutions. Many EU facilities have a counterpart in the EAEU. The Supreme Council is similar to the European Council; the European Commission is related to the Eurasian Economic Commission and so on. But after taking a closer look, it is obvious that they are not the same.

The EAEU has no institution comparable to the **European Parliament**.³¹ That means the only law making organ of the EAEU is the **Intergovernmental Council**, which consist out of the heads of Government of the member states. The Council needs to ensure that decisions of the Supreme Council are implemented and controls the Eurasian Economic Commission.³² A similar institution in the EU is the **Council of the European Union**. But the big difference is that the members are specialized ministers of the EU member states, depending on which

²⁶ see Russland - Putin plant Eurasische Union (2011).

²⁷ see International Monetary Fund: Report for Selected Countries and Subjects. (n. d.).

²⁸ see Entstehungsgeschichte der Eurasischen Wirtschaftsunion (2017).

²⁹ see Russlands steiniger Weg zur eurasischen Grossmacht (2014).

³⁰ see Entstehungsgeschichte der Eurasischen Wirtschaftsunion (2017).

³¹ see Eurasian Economic Union: The rocky road to integration (2017) p. 4.

³² see Eurasian Economic Commission – FAQ (n. d.).

topic is threatened in the council. Based on the proposals of the European Council they decide together with the European Parliament about the adopting of laws.³³ In the EAEU, the heads of Government of the member states also decide about the legislative procedure, whereas in the EU this is separate from the national level.

An important role in the EU has the **Court of Justice of the European Union**. The main aim is to make sure that every member state applies the EU law and that those is also followed by EU Institutions. The court needs to ensure that national laws don't contrary to EU laws and can help national courts with the interpretation of them.³⁴ The main competence of the **Court of the Eurasian Economic Union** is to decide about violations of the bodies of the EAEU against the treaty of the EAEU and international treaties. Member states of the Union and economic entities request the court to treat particular issues.³⁵ Because the EAEU is not a supranational organization like the EU, but rather like an international organization, the member states do not have to allow any other source of justice. The court has therefore no influence on the interpretation of EAEU laws and its implementation in the national laws.³⁶

In the European policy the financial bodies are playing a key role. First of all there is the **European Central Bank**, which has the aim to secure the stability of prices. Furthermore the European Central Bank determines the monetary policy of the EU and is responsible for a smoothly work of the fare management system.³⁷ The **European Court of Auditors** is responsible for the budget of the EU. It proves the earnings and costs of the union and every EU made institution.³⁸ The EAEU has no comparable institutions like that. In the future, there is a plan to establish a common central bank for all member states, but this will not happened before 2025.³⁹

5.3 Conclusion

The commonalities between the European Union and the Eurasian Economic Union are making it easier to find areas for cooperation. Because of the decreasing number of formats for dialogue after the Ukraine crisis, it is very important to find new ways to maintain the relationship between Russia and the European Union. Of course, this cannot grant an increase of trust, but it can prevent that Russia and the EU are drifting apart. The Eurasian Economic Union is for that a good contact, because a direct dialogue with Russia can be used as sign

³³ see Rat der Europäischen Union (n. d.).

³⁴ see Gerichtshof der Europäischen Union (EuGH).

³⁵ see Court of the Eurasian Economic Union (n. d.).

³⁶ see Steininger/Schramm/Olejnik (2017), p. 9 f.

³⁷ see Vertrag über die Arbeitsweise der Europäischen Union (Konsolidierte Fassung), Artikel 127.

³⁸ see Vertrag über die Arbeitsweise der Europäischen Union (Konsolidierte Fassung), Artikel 287.

³⁹ see Steiner (2014).

of the recognition of political power. The EAEU on the other hand is an institution without a strong ideology and can reduce that risk as a partner. Cooperation between the EU and the EAEU also make it possible for other EAEU members to participate in this process. The EAEU also has competences that are necessary for the development of deeper economic connections, for example in the field of technical standards and regulations. The best case scenario for that would be the development of a free trade are between the EAEU and the EU, but that is in the nearer future very unlikely. It needs a long time. Members of the EAEU are for example not members of the World Trade Organization (WTO) and would be against the protectionist strategy of the Russian Government.⁴⁰

But a FTA could be an aim for the future that determines the strategy of the EU in the dialogue with Russia.

⁴⁰ see Libman (2015).

6 Establishment of an free trade area between the European Union and the Eurasian Economic Union

6.1 Why is the European Union indispensable for Russia's economy?

Russia is a big country with an immense deposit of natural resources. Especially petroleum and gas are raised in very large quantities. That makes Russia to the third largest mineral oil and to the largest natural gasoline exporter in the world.⁴¹ But that does not mean that Russia is in a good economic situation.

After the Russian financial crisis in 1998, natural resources became an important factor for the Russian economy. The export of petroleum were the reason for the increasing standard of life in the following years, but also raised the Russian dependence from that business. Between 1998 and 2016, the oil production in Russia increased by nearly 85%.⁴² At the same time the value of the Russian Ruble increased compared to the US-Dollar by 590%.⁴³

Because the oil business is settled in Dollars, there is a huge demand for Rubles in Russia to exchange the money. In the following the price of the ruble increased. That made Russian products from other economic sectors for foreign customers more expensive. At the same time the prices of goods from other countries are getting cheaper. This is a structural problem of the Russian economy. The strong orientation on natural resources has led to an economic phenomenon called "Dutch Disease". This effect is one reason for the weak industrial sector in Russia. Since 1989, the value added by the industry sector to the GDP decreased from 50% to about 32%. The reason for that is that goods are often imported from foreign countries.⁴⁴

That makes Russia frailer for variations of the gas and oil prices. The low oil and gas price, which will be likely remaining in the next years, reduced the public revenue. Also the low currency reserves are becoming a problem for Russia.⁴⁵

The economic situation worsens with the Ukraine Crisis and the geopolitical strains linked to that. As a result, the investment activities are decreasing. In the first half of 2015, pre-tax investments decreased by one third compared to the year before.

⁴¹ see Kolev, Galina V. (2016). p. 5.

⁴² see EIA (2018).

⁴³ see World Bank: Official exchange rate (LCU per US\$, period average) (2018).

⁴⁴ see World Bank: Value added by industry to Russian GDP (n.d.).

⁴⁵ see Kolev, Galina V. (2016). p. 22.

Sanctions from the European Union and the United States of America encumber economic relations to Russia. Estimated until January 2018, the export of dual-use goods to Russia is in many cases forbidden, also the disposal of technology for the oil production is restricted.⁴⁶ Furthermore is the access for Russian national banks to the European and American financial markets hindered.⁴⁷

Additional to that, the indebtedness of Russian companies is very high; most of them are dependent on foreign investors. When Russia and Europe will turn further away from each other, it would get hard for the Russian private sector to find capital providers.⁴⁸ The Russian Federation is largely economical isolated. The economic structure of the former Soviet Union, in which Russia was dependent on value chains with different member states, makes it now hard to form closer ties to other countries. The members of the Commonwealth of Independent States are, alongside to a trade agreement with Serbia, the most important trade partners for Russia. The only option is to find partners that are outside of the European or American areas of influence.⁴⁹

A free trade Agreement between the European Union and the Eurasian Economic Union can help to make the Russian economy globally more competitive and to get access to markets that are so far closed. In the next chapter the economic benefits for both sides are more accurately described.

6.2 Economic advantages for the EU and the EAEU

Before discussing the necessary steps and measures to form a FTA between the European Union and the Eurasian Economic Union it is important to emphasize the perhaps most fundamental aspect. Will such an economic zone gain profit for both parties? Without clarifying this economic approach there will be unrateable risks.

The "Ifo Institute for Economic Research", the largest economic think-tank in Germany, has been busy with this topic in the period from November 2015 until the January of 2016. The result, published under the name "Free Trade from Lisbon to Vladivostok: Who Gains, Who Loses from a Eurasian Trade Agreement?" contains positive conclusions.⁵⁰

A FTA would entail considerable economic improvements for both sides. One of the main reasons for that is the structure of both economic areas. The member states of the EAEU are

⁴⁶ see IHK Region Stuttgart: EU-Sanktionen gegen Russland (n. d.).

⁴⁷ see Sanktionen im Finanzbereich: Folgen für die Finanzierung von Projekten in Russland (2016).

⁴⁸ see Mallien/Hackhausen (2014).

⁴⁹ see Felbermayr/Gröschl (2017) p. 40.

⁵⁰ Felbermayr/Aichele/ Gröschl (n. d.)

mainly straightened to raw and basic materials. Complementary to this, the economy of the EU has a big focus on the production of industrial goods, in the last years the share of this sector stayed more or less constant at 24% of the GDP in the European Union.⁵¹

When a free trade agreement would come off, the exports from Russia to the European Union would increase by 71 billion Euros. Russia would also be able to increase their export to the rest of the world, because the country can obtain cheap machines and preliminary products, which improves the competitiveness of Russia.⁵² In fact, this will rise the per capita income in Russia by 3,1%, or 235 Euro.⁵³ But also the rest of the Eurasian Economic Union will experience an improvement of the economic situation. Belarus, the biggest profiteer of a potential agreement, could increase their export to the EU by 34%⁵⁴, and the per capita income can be 4,9% higher. Armenia, Kazakhstan and Kyrgyzstan will need to content oneself with smaller improvements. The growth of the per capita income would be between 2,3% and 1,7%.⁵⁵

In the EU the countries with a closer geographical position to Russia will benefit the most from a FTA. The increase of the per capita income in Slovakia will be with 0,7 % the highest in the EU, followed by the Czech Republic and Hungary with a growth of 0,5% each. No significant benefits will have the EU member states that also currently have no high trade volume with Russia. France and Spain for example can increase their per capita income only by 0,1%. Germany can benefit by an increase of 0,2%. In comparison to the planned TTIP agreement with the United States that will possibly lead to an increase of 0,6% of the GDP per capita, this is also not appreciable.⁵⁶

6.3 Political differences

Both sides, the European Union and the Eurasian Economic Union, can expect economic advantages with and FTA. Also the impact on stability and security would be positive. But for those effects, the approaches of both sides are rather restrained.

The current relation between Russia and the EU can be designated as deadlocked. Both sides find it difficult to make steps towards each other. With the start of the Ukraine Crises and the annexation of the Crimea by Russia, the fronts are hardened. Politicians in Europe are having a hard time making concessions without legitimizing Russia's behavior. There is a

⁵¹ see World Bank (2017).

⁵² see Felbermayr/Gröschl, (2017) p. 4.

⁵³ see Felbermayr/Gröschl, (2017) p. 46.

⁵⁴ see Felbermayr/Gröschl, (2017) p. 45.

⁵⁵ see Felbermayr/Gröschl, (2017) p. 40.

⁵⁶ see Felbermayr/Gröschl, (2017). p. 47 f.

big fear that Russia opens new conflicts at the border to Europe. At the 13th November 2017, the President of the German Federal Intelligence Service, Dr. Bruno Kahl, warned during a speech about the power of political pretensions by Russia. He sees no chance that with Putin as a President the relation with Russia will become better. Also the power over the Crimea will in his eyes not go back to the Ukraine.⁵⁷

On the other hand side, Russia sees itself more and more in its area of influence restricted and don't want to show weakness. Especially the eastern enlargement of the NATO is controversial. In Russia this is seen as a break of the promises that were made by western politicians during the German reunification process. The interpretation of the statement of the Foreign Minister of the Federal Republic of Germany, Hans-Dietrich Genscher that the NATO will not expand to the east is still a matter of dispute.⁵⁸ In this context, the discussion about a potential NATO membership of the Ukraine and Georgia is particularly controversial. Also the European Union has expanded their territory in the eastern direction. With the so called Eastern Partnership program they want to support the development of the members.

But these steps are also due on the strong demand for security of the eastern European countries. While there are still authoritarian structures in Russia and the country tries to protect its sphere of influence through military and economic instruments, the EU represent for big parts of east Europe a guarantor for stability, protection and economic growth.⁵⁹

Beside the big political differences, the will for a détente is there, on the Russian and the European side. Already in 2010, President Vladimir Putin suggested the establishment of an economic area from Lisbon to Vladivostok. In a guest contribution in the "Süddeutsche Zeitung" from 2010, he demands a tight economic cooperation on the fields of industry, energy, research and education. This should increase the competitiveness of Russia and the EU in a globalized world.⁶⁰

In 2015, the German Chancellor Angela Merkel went back to this approach and holds the prospect to establish a trade area between the EU and Russia. Also the German Federal Minister for Economic Affairs at this time, Sigmar Gabriel, evaluated this as an option. But both see it as indispensable that Russia should first fulfill the conditions of the Minsk agreement.⁶¹

⁵⁷ see Kornelius (2017).

⁵⁸ see Klußmann/Schepp/Wiegrefe (2009).

⁵⁹ see Verseck (2014).

⁶⁰ see Putin (2010).

⁶¹ see Brinkmann (2015).

Recently, the Chairman of the Free Democratic Party in Germany, Christian Lindner, made the proposal to recognize the current status of the Crimea as tentativeness without accepting it. This announcement was evaluated very controversial and many leading politicians have set themselves against it. The EU in general for example sees the annexation as breach of international law. But that brings movement into the stuck affair and opens a second political way next to the current approach to solve the conflict on a judicial base, which is in the opinion of Frank Elbe, the former speechwriter of Hans-Dietrich Genscher, not a realistic option.⁶²

⁶² see Elbe (2017).

7 Expansion of the agreement to the Russian-Georgian relation

7.1 Pro and Con

7.1.1 The Georgina Perspective

The hope of Georgia, especially of the Georgian economy, regarding to the Deep and Comprehensive Free Trade are very high. Double-digit rates of the growth of exports to the EU where expected.⁶³ But several arguments speak against these effects. It is possible that a noticeable increase of the trade volume between the EU and Georgia will come true only in the medium or long term period.

The main export goods from Georgia are raw materials, wine, mineral water and other agricultural products.⁶⁴ Especially in this sector the market in the EU is mostly saturated. The wine produced in southern EU countries is popular and gladly bought by EU citizens. The same applies to mineral water. There is a big choice of different products of regional and EU wide provider. In both segments there is no need for further competitive products. To make matters worse, the European agricultural sector is strongly subsidized by the EU. Every year, 40% of the EU budget is spent to support local farmers.⁶⁵ That means that those can distribute their products with a far lower price than non EU providers. The situation in the EU is highly competitive and forced the providers of these goods to develop strategies to assert oneself and to operate in this market. Companies from non-EU countries often don't have experience in that case. Especially for small and medium-sized enterprises the risk to disappear between the competitors is high. In the case of Georgia the domestic market is very weak. First because of the small number of citizens and second because of the little purchasing power of Georgian citizens. Furthermore is it hard to fulfill the high number of requirements and regulations for small farmers in Georgia. Because a high share of products will need to be rejected, the anyway high price of the goods will further increase.

On the other hand are Georgian goods in Russia well known and popular. The Georgian wine can easily rival with Russian products because the sector is very underdeveloped. By reason of the historical background, Georgia and Russia have still cultural links and similarities. Georgian food products for example are familiar for the Russian citizens.⁶⁶

⁶³ see EU, Georgia Conclude Free Trade Talks (2013).

⁶⁴ see World Integrated Trade Solution WITS (2016).

⁶⁵ see Becker (2017).

⁶⁶ see Romanova (2017). p.34.

Additional to that, Russia already came with the WTO membership closer to the standards and regulation of the EU and the Association Agreement.

Because of that, a FTA with the EAEU is not fallacious. In the short time period this might strange Georgian companies regarding the turnover and profit. As a result the starched Georgian companies can establish oneself better in the EU market. In the long term perspective this will lead to the diversification of the Georgian foreign trade and can reduce the dependence to the European Union.

7.1.2 The Russian Perspective

For Georgia the advantages of a FTA are obvious. But why should Russia agree to such a momentous deal? In 2016, the Russian-Georgian trade accounted only 0,19% in the total trade volume of Russia. An increase of that will stand against the risks for the Russian foreign policy.⁶⁷

One of the most important advantages for Russia is an easier connection to Armenia. Russia has a strong interest in improving their relations to the Iran. Only recently, President Putin called the country a reliable and stable partner.⁶⁸ Russia has the plan to increase the economic cooperation with the Islamic Republic. The agreement on the nuclear deal for Iran in 2015, which was negotiated with the help of Russia, and the successful implementation in the country have led to the lifting of sanctions. Russia now sees its chance to increase the sales of for example industrial goods.⁶⁹ An important part in the relation between Russia and Iran has the energy sector. Russian companies are taking part in the development of oil occurrence and Armenia and Georgia are important transit countries for petroleum between Russia and Iran. The Kremlin also hopes for increasing investments in the transportation sector, especially in the railway system of Iran to increase trade towards India. The South Caucasus is located between both countries and is important for transit. An unstable situation in that region is therefore not in the interest of Russia.

Furthermore needs Russia good relations to Armenia and is interested in a stable country to have a save ground for expanding the relations to the Iran. For that, Armenia is in a big dependency of Russia. In 2016, 27% of the total foreign trade of Armenia was with Russia.⁷⁰ Again, the most important connection is the land route over Georgia.

⁶⁷ see UN Comtrade Database (n. d.).

⁶⁸ see Ballin/Heumann (2017).

⁶⁹ see Iran und Russland - Ruhani bei Putin: Beste Freunde oder Zweckbündnis? (2017).

⁷⁰ see UN Comtrade Database (n. d.).

Another trade route has also a great importance. It is the so called “One Belt, One Road” project that is mainly advanced by China. The plan is to build up an infrastructure network. Several corridors should link the production facilities in China with the consumer markets in Europe.⁷¹ While the main routes are going through Russia and Iran, there is also a plan to build a connection via Georgia. With this step China wants to diversify the risks of political conflicts with the two big countries in the north and the south. Because of the current sanctions of Europe against Russia which were raised during the Ukraine Crisis, the country needs to rely regarding economic partners more on China. To not lose this important partner, Russia might be interested in better relations with Georgia.⁷² Further can Russia profit with a FTA from a starved economic situation in Georgia after the establishment of the economic belt.

7.1.3 What speaks against a free trade agreement?

Despite the huge number of arguments that support the idea of a Georgian-Eurasian FTA, there are also several reasons which make negotiations hard and can reduce the chances of a success.

Russia often uses the access to domestic markets and economic connections as a tool to perform pressure on political processes respectively to react on political problems. In many cases Russia uses its preeminence as main gas provider for many neighbor countries and raises the price of the gas or reduces delivery quantity. In 2004, Russia applied energy sanctions on Georgia because of its increasing orientation towards the European Union and the United States. In the period between 2004 and 2007, the price charged by the Russian company Gazprom increased by 500%.⁷³ Also Wine and Mineral water were banned because of contamination with harmful substances. That makes the Russian “Federal Service for the Oversight of Consumer Protection and Welfare” (Rospotrebnadzor) a political tool that can be used to influence political process in foreign countries.⁷⁴ The reliability of Russia as an economic partner is because of this strongly reduced.

Another important aspect is the reduced purchasing power in Russia. The sanctions that were inflicted by the European Union and the United States of America had a strong negative effect on the economic situation in Russia. The resources for investments, buying up-market goods and traveling are limited.

⁷¹ see Ankenbrand (2016).

⁷² see Veser (2017).

⁷³ see Newnham (2015) p. 164.

⁷⁴ see Romanova (2017) p. 36.

Beside that has Georgia a strong opposition that sees a rapprochement towards Russia in a very critic view.⁷⁵ Attempts of the Georgian Government to reduce the tensions in the relation with Russia are often followed by different objections, also because of the fear that the Government changes the orientation of their foreign policy from pro-west to pro-east.⁷⁶ This leads however to the case that the Government needs to act more carefully in introducing new ideas and proposals to prevent a big outcry and makes it harder to implement new methods of solutions.

7.2 Effects of an Georgian-Russian Free Trade Agreement on the peace process in the south Caucasus

7.2.1 Customs clearance

After the Russian-Georgian War in 2008 Russia formally recognized the Georgian break away regions Abkhazia and South Ossetia as independent states. Since that, economic connections such as trade nearly come to a halt. At the moment there is only one functioning border crossing point at a pass in the Caucasian mountains between Russia and Georgia. Other possible routes are going through the Roki-tunnel in South Ossetia or trough Abkhazia. But Russia, Georgia and the de facto Governments in Abkhazia and South Ossetia could not agree to a way to monitor the transported goods and to clear customs. One of the biggest difficulties is that the Georgian Government doesn't want to accept the independence of both regions and therefore will not conclude a contract or agreement with representatives of the de facto Governments. That is also the reason why either Abkhazian or South Ossetian customs officials can control the movement of goods.

A free trade agreement between the EAEU would in fact not solve this problem but can make a solution needless. With an abolishment of customs between both economic areas a control at the borders are no longer needed. The dependence between Russia and Georgia with its two international unrecognized territories will increase, economically and political.

A problem is also the hampering border control between South Ossetia and Russia. The regime is very stringent and prevents a good economic growth in South Ossetia. The fact that South Ossetia's only border with another country then Georgia is towards Russia is the reason that makes economic activities over this border essential for the South Ossetian econo-

⁷⁵ examples: Treaty between Georgia and SGS for monitoring goods at the Georgian-Russian border see Boy (2018).
Plan of Russia to build a Road from Dagestan to Georgia see Menabde (2017).

⁷⁶ see Menabde (2016).

my. That strongly increases the risk for corruption. A reduction of these rules could give a boost to the South and North Ossetian economy.⁷⁷ With a Georgian-Eurasian FTA the adoption of such rules could be much easier because there would be no need to negotiate agreements for this local issue, a frame for that would already exist.

7.2.2 Restoration on the Abkhazian Railway

A big aim in the Georgian foreign policy is to restore the railway connection from Georgia to Russia through Abkhazia. The line was connecting the Russian city Adler over Sukhumi, the de facto capital of Abkhazia, with Senaki in Georgia. During the civil war in 1992 the railway bridge over the Enguri River, the Administrative Boundary Line, was destroyed. Since then, the track is only used for transportation between Russia and Abkhazia. But also this part is in bad conditions and needs to be modernized comprehensively.⁷⁸

A restoration of the Abkhazian railway can bring various benefits for every side. But the plan is also linked to several challenges and contentious issues that need to be solved. First there is again the problem of custom clearance. Abkhazian authorities represent the point of view that the control of their railway section should be a matter of them. With a Georgian–EAEU free trade agreement the problem of recognizing Abkhazian officials would be bypassed because a control of goods is no longer necessary. Also the problem of entry requirements for Georgian citizens to Abkhazia and Russia is not solved as possible ways for the returning of the IDPs.

Before the war in Abkhazia between 1992 and 1993, the Abkhazian Railway was used to transport most of the goods between Russia and Georgia. After the abandonment of the track the traffic switched to road and water. This adjustment was followed by higher cost for transportation which also driven the prices of goods up.⁷⁹ Especially for Georgian exporter this is harmful because Russia can easy resort to other trade partners for meet their demands.⁸⁰ With a re-opening of the railway connection trough Abkhazia, prices for transportation could decrease by 20-25%, with a positive effect on the overturn.⁸¹

But also Russia could gain benefits from that. The restoration of the Abkhazian railway line could provide the country access to the in 2017 newly opened Baku–Tbilisi–Kars railway. With that connection Russia has better access to its partners Turkey and Armenia and can

⁷⁷ see Skakov (2011). p. 4.

⁷⁸ see Page „Bahnstrecke Senaki–Adler“.

⁷⁹ see Silagadze (2014). p.15.

⁸⁰ see Newnham (2015) p. 166.

⁸¹ see Silagadze (2014) p.17.

improve their relations to Azerbaijan. Besides that, the whole South Caucasus region can profit from newly created jobs and an increasing flow of tourism.⁸²

Georgia is the third largest producer of hazelnuts and plays a key role in the supply chain for Ferrero's Nutella production. But 10% of hazelnuts produced in Georgia are from Abkhazia and cannot be sold to the western world.⁸³ With this project, Georgia follows the plan to tie Abkhazia closer to Georgia. The railway and the FTA offer a new sales opportunity for local farmers towards Georgia and the European Union and make the local citizens less dependent from Russia.

There may also be positive effects on the strained Russian-Georgian relations. Both need to negotiate and come together at one table to ensure a good outcome of the project. Closer economic connections can also help to gain trust between Russia and Georgia.⁸⁴

The Abkhazian Railway can also be seen in a wider and more general context. Infrastructure like roads, pipelines, deep-sea cables or even railway tracks link different countries over political and geographical borders with each other. The political scientist Parag Khanna defined that the term "functional geography". He believes that in the long time period political tensions can be reduced with connections through infrastructure.⁸⁵ In this context the planned road between the Russian Republic Dagestan and Georgia could also lead to a stabilization of the political relations.

7.2.3 Economic integration of the Abkhazian and South Ossetian population

The economic situation in Abkhazia and South Ossetia is strongly marked by the violent escalations of the conflict in the last decades.

Both regions cannot survive independently. Russia is financing 55% of the Abkhazian budget. In South Ossetia this share is even higher. 92% of the revenues for the Budget is coming from Russia.⁸⁶ Besides that, the Russian Federation also agreed to pay pensions to the Russian citizens in the two Regions. Also the military spending is very high. It is assumed that the defense costs for Russia in Abkhazia and South Ossetia are 900 million US-Dollars per year.⁸⁷ In the face of the economic crisis in the Russian Federation this is a strong burden for the country.

⁸² see Silagadze (2014) p.15.

⁸³ see Of nationalists and nuts - Georgia and Abkhazia are making Nutella's job harder (2017).

⁸⁴ see Mikhelidze (2015).

⁸⁵ see Khanna (2018)

⁸⁶ see Tokmazishvili (2014)

⁸⁷ see Tokmazishvili (2014).

Because of this it should be in the interest of Russia to support ideas that helps Abkhazia and South Ossetia to strength their economies.

A FTA and the opening of the Abkhazian and South Ossetian economy can lead to a growth of the local economy. In both directions, export and import, the flow of goods over the administrative boundary line can increase. Local producers in Abkhazia and South Ossetia would have access to new markets. A consequence of an increasing number of sales could be the creation of new jobs and a stronger spending power. Also western products which reach Georgia because of the DCFT Agreement would find their way to South Ossetia and Abkhazia. And this could lead to the flowing situation. The European market and the Eurasian market would be in a direct competition. South Ossetians an Abkhazian will have their choice between both economic systems. Neither Russia nor Georgia will lose economic influence through political decisions. Exactly that is the reason because the situation around the conflict is nearly deadlocked for several years. All conflict partners had the fear to agree to a compromise that is directly linked to a disadvantage for them. But with this agreement both sides would theoretical exposure themselves a fair economic competition. The consumer can choose between goods and services which indirect decide about the economic influence of the Russian/Eurasian and the Georgian/European side.

This can also support the current policy “Engagement through cooperation” of the Georgian Government on the occupied territories. After the Russian-Georgian war in 2008, Georgia developed a strategy to build up cooperation with Abkhazia and South Ossetia in different fields and on different levels to decrease the isolation and to re-integrate the two territories into the Georgian state. Next to the areas of Infrastructure, transportation, education and healthcare, economy and trade is the most important field. For that, the Georgian Government wants to promote economic interaction across the border line and create conditions for the access to market and goods for the population in both regions. That should increase the sales of Abkhazian and South Ossetian goods on the regional, national and international markets. The aim of this is to uphold the territorial integrity of Georgia with a peaceful process and to reduce the differences between the conflict partners.⁸⁸

In the middle of the 1990s a market near the Georgian village Ergneti was opened and developed to an economic zone where the local populations from both sides of the administrative boundary line came together. This interlinkage formed a bridge between the parties and was one of the reasons for certain stability in the region. Also the process of reconciliation

⁸⁸ see Government of Georgia (n. d.).

between South Ossetia and Georgia was supported.⁸⁹ Besides that, the market was a big economic factor. 2.000 – 3.000 People on the Georgian and South Ossetian side had jobs within the market, and much more were indirectly included in activities linked to the market. The budget of South Ossetia shows the importance in the most clear way, 80% were financed by the Ergneti market.⁹⁰

The catch was that most of the goods traded in Ergneti were smuggled from Russia over South Ossetia to Georgia, without paying custom duties to the Georgian authorities. This prompted the Government of President Mikheil Saakashvili in 2004 to close the market in Ergneti.⁹¹

In the following, the network of relations that reached over the administrative boundary line were completely cut off and led to increasing tensions between both parties. “The closure of the market has dramatically contributed to heightening mistrust between Georgians and South Ossetians”.⁹² Also the economic situation for the local citizens became worse. Georgian farmers who want to sell their agricultural products need to travel long distances to Gori or Tbilisi.⁹³ Even from the political side criticism of the decision is expressed as there were no financial gains.⁹⁴

Recently the demand of a re-opening of the Ergneti market under legal circumstances is made more and more often. But also in this case the problem of custom controls is not solved. “Meanwhile, border problems following the independence recognitions by Russia make it even less realistic to resolve this issue, as it is connected with tariffs and customs regulation. Georgia will not agree to recognize independence, with its hundreds of thousands of forcibly displaced persons who were expelled from their home settlements”.⁹⁵ A solution for that issue would be again a free trade agreement between Russia and Georgia

7.2.4 Georgian-Russian Relation and Geopolitical stability

After the breakdown of the Soviet Union, many former Soviet Republics split off from the USSR and became independent states. The Ukraine, Belarus, Armenia or Georgia are only a few examples. Since that, the western world with the big actors USA and the EU on the one hand side and Russia on the other hand side put many efforts in gaining economic influences

⁸⁹ see Sepiskveradze (2013).

⁹⁰ see Local MP Says Ergneti Closure a Mistake (2005).

⁹¹ Mielnikiewicz/Rimple (2013).

⁹² Intini (2018)

⁹³ see Intini (2018)

⁹⁴ see Local MP Says Ergneti Closure a Mistake (2005).

⁹⁵ Tokmazishvili (2014).

in this markets. Both try to bind the relevant countries with their integration options. The European Union established the Eastern Partnership and the Association Agreements; Russia founded the Eurasian Economic Union.⁹⁶

The countries that stand between the fronts are under big pressure. Often they have to make the fundamental decision if they strive towards east or west. The developments in the Ukraine that started with the Euromaidan in 2013 lead to an armed conflict in the east of the country and to the annexation of the Crimea is a good example for that.⁹⁷

To prevent that the tensions in the South Caucasus end in conflicts like in the Ukraine, it is necessary to balance the influences from east and west and to diversify economic partnerships. With the establishment of a network with different economic corridors and supply chains it is possible to have a strong foundation that makes a country less prone to pressure from outside and more independent.⁹⁸

“It could be argued that Georgia is pursuing a clever strategy of positioning itself not as an anti-Russian state, but also not abandoning its pro-western course. The ideal scenario for Tbilisi would be when all the neighboring countries have a stake in the security of Georgia. In addition, large players, such as China with its Belt and Road Initiative, the EU, the US and others would also be involved in the economics of the country. This might create a certain balance in the region.”⁹⁹

Also the Russian Federation is with its geopolitical strategy in the South Caucasus in a bind. On the one hand side the country doesn't want to lose economic and political influence to the European Union and the United States of America. The current approach of Georgia towards the EU and the NATO is in the eyes of the Kremlin a big threat for the country. With the economic, political and military support of Abkhazia and South Ossetia, Russia has the aim to reduce the chance of a western integration of Georgia. On the other hand side Russia is also interested in a stable region. In the north Caucasus, mainly in the Chechen Republic and Republic of Dagestan, the problem of armed Islamic underground organizations and terrorist groups is still a problem. In the last years the Islamic State becoming more active in that region and established the so called Caucasus Emirate which is fighting against the Russian Government.¹⁰⁰ The group also becomes support from the civilian population, which has little trust in politicians and the Government because of corruption, unemployment and civil vic-

⁹⁶ see Avdaliani (2018a)

⁹⁷ see Kappeler (2015) p. 19-22.

⁹⁸ see Avdaliani (2018b).

⁹⁹ Avdaliani (2018b).

¹⁰⁰ see Heller (2017).

tims during violent operation of central Government in the region.¹⁰¹ Russia is hoping that a secure situation South Caucasus has a stabilizing effect on the North Caucasus.¹⁰²

8 Resume

The aim of the research paper at hand was to illustrate an alternative solution for the stuck territorial conflict around the de facto independent regions Abkhazia and South Ossetia.

For that purpose the status quo and the current problems were described first. Later the possibility of deep economic cooperation between the European Union and the Eurasian Economic Union was evaluated with its risks and chances. In the last part the idea of a free trade area with Russia and Georgia as well as the effects of that on the peace process was taken under a closer look.

The main outcome of the paper is a construct of trade agreements based on geopolitical and economic interests of the affected stakeholders.

Step by step it was justified how an FTA between the EU/EAEU and Russia/Georgia can become concluded. Because Georgia is orientating economically towards the EU laws and regulation it is first necessary to assimilate European and Eurasian standards. That is already a difficult undertaking that needs a strong political will and a comprehensive analysis of the risks and chances. But there are already possible approaches to cooperate and both sides can have benefits if the project succeeds. After that a closer economic cooperation between Georgia and Russia can be discussed. There the problems are more from a political nature.

The influences of the FTA between Russia and Georgia on the territorial conflicts are the main outcome of the research. Those effects can actually improve the situation of the local population. It is also possible to bring more geopolitical stability in the region. The closer cooperation between Russia and Georgia can also open the field for new approaches to solve the issues of the IDPs and the legal status of Abkhazia and South Ossetia.

But the previous pages are characterized by the risk that one component might not be working, which could prevent the implementation of the whole idea. The difference between The EU and the EAEU is still big and there is disagreement in many points.

¹⁰¹ see Arte - Mit offenen Karten, Nordkaukasus - Russlands Achillesferse (2017).

¹⁰² see Expert: Russia interested in stability in the South Caucasus (2012).

A huge numbers of different factors are influencing the complicated relation between the parties. To take account of all of them the frame of this paper is not big enough. That is why it could only be a thought provoking impulse. It is necessary to calculate the economic effects in detail and to evaluate the benefits and risks when the construction of the FTAs should become a concrete political aim.

In general, the paper shows how an alternative solution for the conflicts might look like and gives an overview over that. It is a possible approach to normalize the situation in Georgia which has a potential that is not to neglect.

9 Literature

- Atilgan, C., & Sarjveladze, M. (2016). Georgien und seine abtrünnigen Gebiete: Kein Fortschritt in Sicht. KAS Auslandsinformationen 6/2012 - Regionale Spannungen, page 6-24.
- Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part (2014, August 30) Official Journal of the European Union. Volume 57. Retrieved March 21, 2018, from: <https://eeas.europa.eu/sites/eeas/files/association_agreement.pdf>.
- DCFTA – Risks and Opportunities for Georgia (2016), ISET Policy Institute. Retrieved: March 22, 2018, from: <https://www.osgf.ge/files/2016/Publications/DCFTA-ENG_WEB.pdf>.
- Felbermayr, G., & Gröschl, J. (2017, January 26). Freihandel von Lissabon bis Wladiwostok. ifo Schnelldienst 2/2017, page 39-50. Retrieved April 10, 2018, from: <<https://www.cesifo-group.de/DocDL/sd-2017-2-2017-1-26.pdf>>.
- Kappeler, A. (2015). Die Ukraine - ein Land zwischen West und Ost. Info aktuell 28/2015 Informationen zur politischen Bildung. Retrieved April 13, 2018, from: <www.bpb.de/system/files/dokument_pdf/bpb_info-aktuell_Ukraine_barrierefrei.pdf>.
- Khanna, P. (2018, April) Interviewed by Ramge, T. Völkerverbindungen. brand eins Wirtschaftsmagazin, Geh doch! Schwerpunkt: Mobilität. Heft 04. pages: 78-81.
- Klußmann, U., Schepp, M., & Wiegrefe, K. (2009). „Absurde Vorstellung“. Der Spiegel 48/2009, page 46-49. Retrieved April 10, 2018, from: <<http://magazin.spiegel.de/EpubDelivery/spiegel/pdf/67871653>>.
- Kolev, Galina V. (2016) : Strukturelle Schwächen der russischen Wirtschaft, IW-Report, No. 3/2016. Retrieved April 10, 2018, from: <<https://www.econstor.eu/bitstream/10419/157164/1/IW-Report-2016-03.pdf>>.
- Kornelius, S. (2017, November 15). BND: Russland ist „potenzielle Gefahr“. Süddeutsche Zeitung, page 1.
- Libman, Alexander ; Stiftung Wissenschaft und Politik -SWP- Deutsches Institut für Internationale Politik und Sicherheit (Ed.): Dialog zwischen EU und Eurasischer Wirtschaftsunion: einen Versuch wert. Berlin, 2015 (SWP-Aktuell 62/2015). URN: <<http://nbn-resolving.de/urn:nbn:de:0168-ssoar-446019>>
- Mikhelidze, N. (2015). Opening the Russian-Georgian railway link through Abkhazia. Core Policy Brief 05/2013. Retrieved April 10, 2018, from: <http://www.iai.it/sites/default/files/2013_core-policy-brief-5.pdf>.
- Newnham, R. E. (2015). Georgia on my mind? Russian sanctions and the end of the 'Rose Revolution'. Journal of Eurasian Studies Volume 6, Issue 2, pages 161-170. Retrieved April 10, 2018, from: <https://ac.els-cdn.com/S187936651500010X/1-s2.0-S187936651500010X-main.pdf?_tid=a19c28a5-e6ba-4ff1-a511-40b4734d1a62&acdnat=1523361740_13bf127b8610ab7741983be9d702097f>.

- Romanova, T. (2017). Economic links of Russia and Georgia and thier potential for improving bilateral relations. Georgia and Russia: In search of ways for normalizations, page 31-38. Retrieved April 10, 2018, from: <http://www.fes-caucasus.org/fileadmin/user_upload/Ways_of_Normalisation__English.pdf>.
- Silagadze, A. (2014). The Circumstances under which it is Possible to Restore the Railway through Abkhazia. Russia-Georgia: Challenges and Perspectives in Economic Sector, pages 13-19, published by: International Center on Conflict and Negotiation, Russian International Affairs Council.
- Skakov, A. (2011). South Ossetia: Aftermath and Outlook. Carnegie Moscow Center. Retrieved April 10, 2018, from: <http://carnegieendowment.org/files/Report_ossetia_eng_2011.pdf>.
- Steininger A., Schramm H.-J., Olejnik D., Strukturen im Nebel – die Eurasische Wirtschaftsunion im Vergleich zur Europäischen Union, O/L-1-2017, <www.ostinstitut.de/documents/Steininger_Schramm_Olejnik_Strukturen_im_Nebel_die_EAWU_im_Vergleich_zur_EU_OL_1_2017.pdf>.

10 Internet sources

- Abkhazia profile. (2017, August 10). Retrieved March 27, 2018, from BBC: <<http://www.bbc.com/news/world-europe-18175030>>.
- Achba, A. (2016, September 1). Abkhazia – Russia’s tight embrace. Retrieved March 27, 2018, from European Council on Foreign Relation: <http://www.ecfr.eu/article/essay_abkhazia_russias_tight_embrace>.
- Ankenbrand, H. (2016, December 27). Chinas neue Seidenstraße. Retrieved January 12, 2018, from Frankfurter Allgemeine Zeitung: <<http://www.faz.net/aktuell/wirtschaft/handelswege-der-zukunft-chinas-neue-seidenstrasse-14593210.html>>.
- Arte - Mit offenen Karten, Nordkaukasus - Russlands Achillesferse. (2017, January 2016). First broadcast: 28.01.2017. Filmed: 05.12.2018. Retrieved February 13, 2018, from YouToube: <www.youtube.com/watch?v=ihTsB3uG0H0>.
- Auch, E.-M. (n. d.) Georgien Wirtschaft & Entwicklung. Retrieved April 5, 2018 from LIPortal – Das Länder-Informations-Portal: <<https://www.liportal.de/georgien/wirtschaft-entwicklung/>>.
- Auswärtiges Amt. (n.d.). Europäische Nachbarschaftspolitik. Retrieved October 12, 2017, from <http://www.auswaertiges-amt.de/DE/Europa/Erweiterung_Nachbarschaft/Nachbarschaftspolitik/Nachbarschaftspolitik_node.html>.
- Avdaliani, E. (2018a, February 26). Economic Development as a Recipe for Georgia’s Geopolitical Security. Retrieved April 13, 2018, from Georgia Today. <<http://georgiatoday.ge/news/9259/Economic-D4e/1v2el/.2..018>>.
- Avdaliani, E. (2018b, March 12). Can Georgian-Russian Relations Improve?. Retrieved April 13, 2018, from Georgia Today: <<http://georgiatoday.ge/news/9439/Can-Georgia4n/-1R2u/2s0..1>>.

- Ballin, A., & Heumann, P. (2017, March 28). Russland und Iran - Putin und Ruhani festigen ihre Allianz. Retrieved February 14, 2018, from Handelsblatt: <<http://www.handelsblatt.com/politik/international/russland-und-iran-putin-und-ruhani-festigen-ihre-allianz/19581966-all.html>>.
- Becker, M. (2017, July 11). EU-Landwirtschaftspolitik - Der Agrar-Wahnsinn . Retrieved January 11, 2018, from Spiegel Online: <http://www.spiegel.de/wirtschaft/soziales/eu-agrarpolitik-kritik-an-foerderung-fuer-landwirtschaft-a-1157016.html>
- Bovt, G. (2014, April 8). The High Price of Crimea. Retrieved April 5, 2018, from The Moscow Times: <<https://themoscowtimes.com/articles/the-high-price-of-crimea-33769>>.
- Boy, A.-D. (2018, January 15). Es fährt ein Lastwagen durch Nirgendwo. Retrieved January 22, 2018, from Neue Züricher Zeitung: <<https://www.nzz.ch/international/es-faehrt-ein-lastwagen-durch-nirgendwo-ld.1345662>>.
- Brinkmann, B. (2015, January 22). Ukraine-Konflikt - Merkel und Gabriel machen Putin ein Angebot. Retrieved November 13, 2017, from Süddeutsche Zeitung: <<http://www.sueddeutsche.de/politik/ukraine-konflikt-merkel-und-gabriel-machen-putin-ein-angebot-1.2316286>>.
- Court of the Eurasian Economic Union. (n.d.). Retrieved October 13, 2017, from <<http://courteurasian.org/en/>>.
- Day, T (2018b, March 22). Archil Tatumashvili Allegedly Tortured. Retrieved April 11, 2018, from Georgia Today: <<http://georgiatoday.ge/news/9577/Archil-Tatumashvili-Allegedly-Tortured>>.
- Day, T. (2018a, January 25). Russia Ratifies Military Agreement with South Ossetia. Retrieved March 27, 2018, from Georgia Today: <<http://georgiatoday.ge/news/8879/Russia-Ratifies-Military-Agreement-with-South-Ossetia>>.
- Deep and Comprehensive Free Trade Area. (DCFTA). Initiative East. (n.d.). Retrieved March 26, 2018, from European Investment Bank: <www.eib.org/projects/regions/eastern-neighbours/instruments/dcfta/index.htm>.
- Die Geschichte der Europäischen Union. (n.d.). Retrieved October 12, 2017, from <https://europa.eu/european-union/about-eu/history_de>.
- Die Östliche Partnerschaft. (n.d.). Retrieved March 26, 2018, from Auswärtiges Amt: <<https://www.auswaertiges-amt.de/de/aussenpolitik/europa/erweiterung-nachbarschaft/nachbarschaftspolitik/oestliche-partnerschaft-node>>.
- EIA – U.S. Energy Information Administration. (2018). International Energy Statistics, Retrieved: April 4, 2018, from: <<http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=5&pid=53&aid=1>>.
- Elbe, F. (2017, August 9). Warum Christian Lindner recht hat. Retrieved November 20, 2017, from Cicero: <<https://www.cicero.de/aussenpolitik/krimkrise-warum-christian-lindner-recht-hat>>.
- Entstehungsgeschichte der Eurasischen Wirtschaftsunion. (2017, February 15). Retrieved November 8, 2017, from GTAI – German Trade & Invest: <<http://www.gtai.de/GTAI/Navigation/DE/Trade/Maerkte/suche,t=entstehungsgeschichte-der-eurasischen-wirtschaftsunion,did=1644836.html>>.

- EU warning over Russia 'land grab' in South Ossetia border row. (2015, July 16). Retrieved November 24, 2017, from BBC: <<http://www.bbc.com/news/world-europe-33549462>>.
- EU, Georgia Conclude Free Trade Talks. (2013, July 22). Retrieved January 10, 2018, from Civil Georgia: <http://www.civil.ge/eng_old/article.php?id=26297>.
- Eurasian Economic Commission - FAQ. (n.d.). Retrieved October 13, 2017, from <http://www.eurasiancommission.org/en/Pages/eec_quest.aspx>.
- Eurasian Economic Union: The rocky road to integration. (2017, April). Retrieved April 10, 2018, from European Parliament Think Tank: <http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/599432/EPRS_BRI599432_EN.pdf>.
- Expert: Russia interested in stability in the South Caucasus. (2011, November 23). Retrieved February 13, 2018, from Azernews: <<https://www.azernews.az/analysis/46641.html>>.
- Felbermayr, G., & Aichele, R. & Gröschl, J. (n. d.). Freihandel von Lissabon nach Wladiwostok: wem nutzt, wem schadet ein eurasisches Freihandelsabkommen?. Retrieved from: CESifo-Gruppe München: <http://www.cesifo-group.de/de/ifoHome/publications/docbase/DocBase_Content/BR/br-ifo-fober/10302017079000.html>.
- Gerichtshof der Europäischen Union (EuGH). (n.d.). Retrieved October 13, 2017, from <https://europa.eu/european-union/about-eu/institutions-bodies/court-justice_de>.
- Government of Georgia. (n.d.). State Strategy on Occupied Territories. Engagement Through Cooperation. Retrieved February 9, 2018, from საქართველოს მთავრობა - Government of Georgia: <[http://gov.ge/files/225_31228_851158_15.07.20-StateStrategyonOccupiedTerritories-EngagementThroughCooperation\(Final\).pdf](http://gov.ge/files/225_31228_851158_15.07.20-StateStrategyonOccupiedTerritories-EngagementThroughCooperation(Final).pdf)>.
- Heller, D. R. (2017, December 20). Nordkaukasus. Retrieved February 13, 2018, from Bundeszentrale für politische Bildung: <<http://www.bpb.de/internationales/weltweit/innerstaatliche-konflikte/54672/nordkaukasus>>.
- IHK Region Stuttgart. (n.d.). EU-Sanktionen gegen Russland. Retrieved November 6, 2017, from <https://www.stuttgart.ihk24.de/Fuer-Unternehmen/international/import_export/Exportkontrolle/EU-Sanktionen_gegen_Russland_beschlossen/675356#titleInText2>.
- International Monetary Fund: Report for Selected Countries and Subjects. (n. d.). Data from Database: World Economic Outlook Database, Retrieved 9. November 2017, from: <www.imf.org/external/pubs/ft/weo/2017/01/weodata/weorept.aspx?pr.x=93&pr.y=5&sy=2016&ey=2016&scsm=1&ssd=1&sort=subject&ds=.&br=1&c=911,913,922,916,917&s=NGDPD,NGDPDPC,PPPGDP,PPPPC,LP&grp=0&a=>>.
- Intini, D. (2018, March 27). Along the barbed wire, the desire for recovery - the socioeconomic challenges of Ergneti. Retrieved April 19, 2018, from Transconflict: <<http://www.transconflict.com/2018/03/along-the-barbed-wire-the-desire-of-recovery-the-socio-economic-challenges-of-ergneti-273/>>.
- Iran und Russland - Ruhani bei Putin: Beste Freunde oder Zweckbündnis?. (2017, March 28). Retrieved February 2, 2018, from Focus Online: <https://www.focus.de/politik/ausland/iran-und-russland-ruhani-bei-putin-beste-freunde-oder-zweckbueundnis_id_6845836.html>.

- Iran und Russland - Ruhani bei Putin: Beste Freunde oder Zweckbündnis? (2017, March 28). Retrieved April 19, 2018, from Focus Online: <https://www.focus.de/politik/ausland/iran-und-russland-ruhani-bei-putin-beste-freunde-oder-zweckbuendnis_id_6845836.html>.
- Kipiani, M. (2015, December 17). Georgien. Retrieved November 22, 2017, from Bundeszentrale für politische Bildung: <<http://www.bpb.de/internationales/weltweit/innerstaatliche-konflikte/54599/georgien>>.
- Local MP Says Ergneti Closure a Mistake (2005, June 22). Retrieved April 19, 2018 from Civil.ge: <<http://www.civil.ge/eng/article.php?id=10193>>.
- Mallien, J., & Hackhausen, J. (2014, March 17). Wirtschaftskraft lässt nach: Scheinriese Putin. Retrieved November 6, 2017, from Handelsblatt: <<http://www.handelsblatt.com/politik/international/wirtschaftskraft-laesst-nach-scheinriese-putin/9627432.html>>.
- Menabde, G. (2016, November 10). Impact of Georgian Parliamentary Elections on Relations With Russia. Retrieved January 22, 2018, from The Jamestown Foundation - Eurasia Daily Monitor: <<http://jamestown.org/program/impact-georgian-parliamentary-elections-relations-russia/>>.
- Menabde, G. (2017, July 27). Russia Building New Road From Dagestan to Georgia. Retrieved January 22, 2018, from The Jamestown Foundation - Eurasia Daily Monitor: <<https://jamestown.org/program/russia-building-new-road-from-dagestan-to-georgia/>>.
- Mielnikiewicz, J., Rimple, P. (2013, March 14). Georgia: Officials See Trade as Way to Promote Ossetian Peace. Retrieved April 19, 2018, from: eurasianet: <<https://eurasianet.org/s/georgia-officials-see-trade-as-way-to-promote-ossetian-peace>>.
- Morrison, T. (2018, March 29). 43rd Round of Geneva Int'l Talks Ends without Results. Retrieved April 11, 2018, from Georgia Today: <<http://georgiatoday.ge/news/9696/43rd-Round-of-Geneva-Int%E2%80%99I-Talks-Ends-without-Results>>.
- Of nationalists and nuts - Georgia and Abkhazia are making Nutella's job harder. (2017, October 19). Retrieved February 1, 2018, from The Economist: <<https://www.economist.com/news/europe/21730456-decades-old-war-may-keep-hazelnuts-reaching-europes-breakfast-tables-georgia-and-abkhazia>>.
- Page „Bahnstrecke Senaki–Adler“. In: Wikipedia, The Free Encyclopedia. as at: November 11, 2017, 17:18 UTC. Retrieved January 24, 2018, from: <https://de.wikipedia.org/w/index.php?title=Bahnstrecke_Senaki%E2%80%93Adler&oldid=170894634>.
- Putin, W. (2010, November 25). Putin: Plädoyer für Wirtschaftsgemeinschaft - Von Lissabon bis Wladiwostok. Retrieved November 13, 2017, from: Süddeutsche Zeitung: <<http://www.sueddeutsche.de/wirtschaft/putin-plaedoyer-fuer-wirtschaftsgemeinschaft-von-lissabon-bis-wladiwostok-1.1027908>>.
- Rat der Europäischen Union. (n.d.). Retrieved October 13, 2017, from <https://europa.eu/european-union/about-eu/institutions-bodies/council-eu_de>.

- Regions and territories: South Ossetia. (2012, April 25). Retrieved: March 27, 2018, from BBC: <http://news.bbc.co.uk/2/hi/europe/country_profiles/3797729.stm>.
- Russia - Import Tariffs. (n.d.). Retrieved March 2018, 23, from export.gov: <<https://www.export.gov/article?id=Russia-Import-Tariffs>>.
- Russia offers easier citizenship procedures to people of occupied Tskhinvali, Georgia. (2015, November 2017). Retrieved March 27, 2018, from Agenda.ge: <<http://agenda.ge/news/90690/eng>>.
- Russian Minister: Moscow 'Confirms' Financial Commitments to S.Ossetia . (2017, September 20). Retrieved January 8, 2018, from Civil.ge: <<http://www.roedl.de/themen/rusland/sanktionen-im-finanzbereich-folgen-fuer-finanzierung>>.
- Russland - Putin plant Eurasische Union. (2011, October 4). Retrieved October 12, 2017, from Zeit Online: <<http://www.zeit.de/politik/ausland/2011-10/russland-putin-eurasische-union-3>>.
- Russlands steiniger Weg zur eurasischen Grossmacht. (2014, May 29). Retrieved November 11, 2017, from Neue Züricher Zeitung: <<https://www.nzz.ch/russlands-steiniger-weg-zur-eurasischen-grossmacht-1.18312069>>.
- Sanktionen im Finanzbereich: Folgen für die Finanzierung von Projekten in Russland. (2016, September 7). Retrieved April 4, 2018, from Rödl & Partner: <<http://www.roedl.de/themen/rusland/sanktionen-im-finanzbereich-folgen-fuer-finanzierung>>.
- Schuman Erklärung - 9. Mai 1950. (n.d.). Retrieved October 12, 2017, from <https://europa.eu/european-union/about-eu/symbols/europe-day/schuman-declaration_de>.
- Sepiskveradze, L. (2013, January 23). Will the Ergneti Market Be Reopened or Not?. Retrieved April 19, 2018, from Humanrights.ge: <<http://www.humanrights.ge/index.php?a=main&pid=16198&lang=eng>>.
- Sikharulidze, A. (2017, March 6). Analysis | Russian–Georgian diplomatic relations - to be or not to be? Retrieved March 26, 2018, from OC-Media: <<http://oc-media.org/russian-georgian-diplomatic-relations-to-be-or-not-to-be/>>.
- Steiner, E. (2014, May 30). Wladimir Putins Gegenprojekt zur EU fehlt die Kraft. Retrieved October 13, 2017, from Welt: <<https://www.welt.de/wirtschaft/article128571287/Wladimir-Putins-Gegenprojekt-zur-EU-fehlt-die-Kraft.html>>.
- Tokmazishvili, M. (2014, January 8). Georgian “economic romanticism” towards conflict resolution and prospects for the post-Olympic period. Retrieved April 19, 2018, from International alert: <http://www.international-alert.org/blog/georgian-%E2%80%9Ceconomic-romanticism%E2%80%9D-towards-conflict-resolution-and-prospects-post-olympic-period#_ftn6>.
- UN comtrade Database. (n. d.). Retrieved January 9, 2017, from: <<https://comtrade.un.org/data>>.

- Verheugen, G. (2014, May 19). Verheugen zur EU-Russlandpolitik - Warum Helmut Schmidt irrt. Retrieved March 22, 2018, from Spiegel Online: <<http://www.spiegel.de/politik/deutschland/ukraine-krise-helmut-schmidt-von-ex-eu-kommissar-verheugen-kritisiert-a-970150.html>>.
- Verseck, K. (2014, April 28). Osteuropas Furcht vor Russlands Macht. Retrieved November 17, 2017, from Spiegel Online: <<http://www.spiegel.de/politik/ausland/ukraine-und-russland-osteuropa-fuerchtet-putin-a-966482.html>>.
- Vertrag über die Arbeitsweise der Europäischen Union (Konsolidierte Fassung). (2012, October 26) Retrieved from: <<http://eur-lex.europa.eu/legal-content/de/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN>>.
- Veser, R. (2017, December 4). Initiative Seidenstraße. Retrieved January 12, 2018, from Frankfurter Allgemeine Zeitung: <http://www.faz.net/aktuell/politik/ausland/georgien-chinas-vorposten-auf-der-neuen-seidenstrasse-15322657-p2.html?printPagedArticle=true#pageIndex_1>.
- World Bank. (2017). Survey: World Development Indicators, quoted after: <de.statista.com>. Retrieved 25. October, 2017 from: <de.statista.com/statistik/daten/studie/249078/umfrage/anteile-der-wirtschaftssektoren-am-bruttoinlandsprodukt-bip-der-eu>.
- World Bank. (2018). Official exchange rate (LCU per US\$, period average), International Monetary Fund, International Financial Statistics. Retrieved: April 4, 2018, from: <https://data.worldbank.org/indicator/PA.NUS.FCRF?end=2016&locations=RU&name_desc=true&start=1998>.
- World Bank: Value added by industry to Russian GDP (n. d.), Data from database: World Development Indicators, Retrieved 6. November 2017, from: <www.databank.worldbank.org/data/reports.aspx?source=world-development-indicators>.
- World Integrated Trade Solution WITS. (2016). Product Exports by Georgia to all countries 2016, Data from database: WITS - UNSD Comtrade, Retrieved 11. January 2018 from: <wits.worldbank.org/CountryProfile/en/Country/GEO/Year/2016/TradeFlow/Export/Partner/WLD/Product/all-groups>.

11 Interview

Yaroslava Babych - ISET Policy Institute, February 27, 2018

12 List of abbreviations

AA	Association Agreement
ABL	Administrative boundary line
DCFTA	Deep and Comprehensive Free Trade Area
EAEU	Eurasian Economic Union
GDP	Gross domestic product
GID	Geneva International Discussions
IDPs	Internally Displaced People
WTO	World Trade Organization