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ZOiS REPORT

AMBIVALENT EFFECTS OF TRADE LIBERALISATION WITH THE EU: INSIGHTS FROM MOLDOVA AND GEORGIA

Julia Langbein, Denis Cenusa, Irina Guruli

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Summary

Through its new Eastern Partnership (EaP) beyond 2020 the EU aims to 'deliver for all'. In economic terms, this objective translates into the promotion of inclusive economies that create opportunities and ensure prosperity for all citizens in the partner countries. Trade liberalisation is one of the tools the EU has available to promote inclusive economies. But how effective is it?

Drawing on the cases of Moldova and Georgia, this report reveals ambivalent effects: trade liberalisation has certainly helped to foster closer trade relations between the EU and the two Eastern partners and induced increasing growth rates in Moldova's and Georgia's exports to the EU. Yet a closer look at the ownership structures of top export sectors to the EU reveals a more nuanced picture.

This report points to a variety of effects in Georgia's and Moldova's top export sectors, ranging from a) inclusive development, which benefits a broad range of economic actors, including small and medium-sized local enterprises (SMEs); through b) exclusive development, which benefits only a narrow group of economic actors, mainly big and foreign firms; to c) the consolidation of powerful oligarchic networks. Further, we show that a key factor in

the effect of trade liberalisation with the EU on sectoral development in the partner countries is the type of coalition between public and private actors that dominates in the different export sectors. Given the scarcity of business statistics on export performance at the sectoral level, our analysis relies predominantly on expert interviews as well as on articles and reports published by media outlets and non-governmental organisations. **Our findings** suggest that:

- With regard to the top five export sectors, trade liberalisation with the EU has offered more opportunities for exclusive and even inclusive development in Moldova than in Georgia.

- A large share of **Moldova's** exports to the EU (about 41 % in 2020) is produced in sectors dominated by exclusionary or even inclusionary developmental coalitions between private actors and local state authorities. Only about 31 % of Moldova's exports to the EU in 2020 came from sectors clearly controlled by rent-seeking coalitions.

- In **Georgia,** liberalised trade with the EU predominantly helps to maintain oligarchic structures. More than 60 % of exports to the EU in 2020 came from sectors dominated by rent-seeking coalitions like minerals and metals, where the key market players are closely connected to the ruling oligarchic network under the leadership of billionaire Bidzina Ivanishvili.

These findings hold **important implications for the future governance of market integration in the context of the EaP.** To more effectively promote inclusive development through trade liberalisation that 'delivers for all', the EU should:

- facilitate a better assessment and monitoring of the extent to which firms of different sizes, including SMEs, can truly reap the benefits of access to the EU market. Eurostat and/or national statistical offices in the partner countries should therefore systematically collect business statistics in terms of export performance, number of export companies, their field of export (e.g. sectors), and type of company.

- take into account the ownership structure of top export sectors and the involvement of these key owners in rent-seeking practices when implementing policies and programmes that aim to facilitate access to the EU market for firms from the Eastern partners.

- make sure that existing or planned EU initiatives, such as EU4Business and the Economic and Investment Plan, tailor their assistance for enhancing export competitiveness and integration into European value chains to firms not linked to oligarchic networks, as the latter are a key obstacle to good governance in the partner countries. Instead, the focus should lie on integrating SMEs that are less exposed to political control in sectoral clusters to foster know-how and innovation.

Introduction[1]

EaP countries have drawn closer to the EU in economic terms.

Making economies more inclusive is a declared objective of the EU's Eastern Partnership (EaP) initiative: strategic documents on the EaP underline that inclusive economies are supposed to 'deliver for all' by creating benefits for all people living in the partner countries. Along these lines, inclusive development is conceived of as a precondition for social cohesion and, ultimately, political stability in the neighbourhood.[2] It is true that the EaP countries have drawn closer to the EU in economic terms over the past decade due to increasing trade volumes. With a view to the new strategy on the EaP beyond 2020, which was endorsed at the recent EaP summit in Brussels in December 2021, it is nevertheless timely to ask whether closer trade relations go hand in hand with inclusive development and whether the EU's existing tools and programmes are well equipped to achieve this objective.

The Deep and Comprehensive Free Trade Areas (DCFTAs), which the EU established in 2014 with Georgia, Moldova and Ukraine as part of their Association Agreements[3], are key in this respect. In the context of the DCFTAs, the EU's main tools to promote inclusive development are trade liberalisation and regulatory integration. Trade liberalisation aims at abolishing tariff and non-tariff barriers[4] to trade in order to facilitate market access. Regulatory integration foresees that the three associated EaP countries take on EU norms and rules in dozens of policy fields ranging from food safety to competition law in order to improve the local business climate and consumer safety, and enhance competitiveness.

Compared to regulatory integration, which is confronted with quite some resistance from powerful rent-seeking groups who often favour the status quo,[5] the immediate development consequences of trade liberalisation are already visible, since the EU has almost completely lifted its tariff barriers

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1 The authors thank Tsypylma Darieva, Claudia Eggart, Félix Krawatzek, Sabine von Löwis, Irina Mützelburg, Stefanie Orphal and Gwendolyn Sasse for their valuable comments on an earlier draft. Research assistance by Willi Stieger and Verena de Lange is gratefully acknowledged. The usual disclaimer applies.

2 European Commission / EEAS, Review of the European Neighbourhood Policy, SWD(2015) 500 final, Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, 18 November 2015, https://ec.europa.eu/neighbourhood-enlargement/document/download/a61891ff-e1a9-4118-91cc-4ee7e6b226af_en (p. 3); European Commission/EEAS, Eastern Partnership Policy beyond 2020, SWD 56 final, 18 March 2020, https://eeas.europa.eu/sites/default/files/1_en_act_part1_v6.pdf. (pp. 4 – 7)

3 The DCFTAs were provisionally applied in 2014 (Georgia and Moldova) and in 2016 (Ukraine), although the EU opened its market based on DCFTA provisions as early as April 2014 for Ukrainian products. The Association Agreements entered into force in 2016 (Georgia and Moldova) and 2017 (Ukraine), respectively.

4 Tariff barriers relate to a tax that is imposed on a good imported into a country, either as a fixed sum per unit or ad valorem, when it is applied at a percentage rate with reference to the value of the import. Non-tariff barriers can, for example, include rules that dictate how a product should be manufactured in terms of product quality and safety or quotas that limit the amount of a particular product that can enter a market, cf. https://stats.oecd.org/glossary/index.htm.

5 Julia Langbein, *Transnationalization and regulatory change in the EU's Eastern neighbourhood. Ukraine between Brussels and Moscow* (London: Routledge, 2015); Esther Ademmer, *Russia's impact on EU policy transfer to the post-Soviet space: The contested neighborhood* (London: Routledge, 2017).

for imports from the three DCFTA countries by now.[6] Therefore, this ZOiS report focuses on trade liberalisation:[7] to what extent has liberalised trade helped the EU to achieve its self-declared objective of creating inclusive economies in the associated Eastern partners? In order to evaluate the effectiveness of trade liberalisation for inclusive development, it is not sufficient to analyse macro-level effects in terms of trade flows, however.[8] We also need to take a closer look at the ownership structures of the partner countries' key export sectors to the EU in order to identify the main beneficiaries of liberalised trade with the EU and the respective consequences for economic and political developments in the partner countries.

Conceptually, trade liberalisation may produce three different types of development outcomes at the level of export sectors, depending on the nature of the dominant sectoral coalition between public and private actors: First, trade liberalisation may help to promote inclusive development, which creates benefits for a broad range of economic actors, including small and medium-sized local enterprises (SMEs).[9] This outcome is more likely if export sectors are dominated by an inclusionary developmental coalition between different state authorities and a broader set of private actors, including firms or associations of different sizes.[10] Second, it may lead to the emergence of exclusive development, which produces growth that is mainly beneficial for a narrow group of economic actors, mostly big and powerful firms.[11] The presence of exclusionary developmental coalitions between state actors and a narrow group of economic actors in key export sectors increases the likelihood that trade liberalisation will set those sectors on the pathway of exclusive development. In such a context, big and powerful, mostly foreign, firms often seek to capitalise on peripheral economies' convenient location and cheap labour. The state's role is limited to accommodating the needs of strong economic actors and implementing investment-friendly policies.[12]

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6 That said, the EU still applies some barriers, such as tariff-rate quotas, for certain agri-food imports from Georgia, Moldova and Ukraine. Cf. Michael Emerson and Denis Cenusa, *Deepening EU–Moldovan Relations. Updating and upgrading in the shadow of Covid-19* (Brussels: Centre for European Policy Studies, 2021); Michael Emerson and Tamara Kovziridze, *Deepening EU-Georgian Relations. Updating and upgrading in the shadow of Covid-19* (Brussels: Centre for European Policy Studies, 2021).

7 This report is part of a larger ZOiS project on the effect of economic integration with the EU on political and economic developments in the three associated Eastern partners. Future research will investigate the extent to which the process of regulatory integration helps to bring about inclusive development. Cf. https://en.zois-berlin.de/research/research-clusters/deep-free-trade-with-the-eu-and-its-effects-on-post-soviet-regime-stability.

8 See, for example, Ricardo Giucci, Veronika Movchan and Woldemar Walter (2019) The economic effect of the DCFTA on Ukraine, Moldova and Georgia. A comparative Analysis. Berlin Economics; Nekhay, Olexandr, M. Carmen Delgado, and M. Alejandro Cardenete 'Does Abolishing Tariffs in Bilateral Trade Matter for a Country's Economic Growth? The Impact of the EU-Ukraine DCFTA' *Europe-Asia studies* 73, no. 7 (2021), pp. 1257 – 1278; CEPS (2021) Ex-post evaluation of the implementation of the Deep and Comprehensive Free Trade Areas between the EU and its Member States and Georgia and Moldova, https://www.dcfta-evaluation.eu/wp-content/uploads/2021/07/ex-post_DCFTAs_Draft_Inception_Report_updated-002-incl-services.pdf

9 Sam Hickey, Kunal Sen and Badra Bukenya, *The Politics of Inclusive Development: Interrogating the Evidence* (Oxford: Oxford University Press, 2017); Daron Acemoglu and James Robinson, Why Nations Fail (New York City: Crown Business, 2012).

10 Acemoglu and Robinson (2012); Julia Langbein, Ildar Gazizullin and Dmytro Naumenko, 'Trade liberalization and opening in post-Soviet limited access orders', *East European Politics* 37 no. 3 (2021): pp. 1 – 20.

11 Peter Evans, 'Predatory, developmental and other apparatuses: A comparative political economy perspective on the Third World state', *Sociological Forum* 4, (1989): pp. 561 – 587 (p. 563).

12 Andreas Nölke, and Arjan Vliegenthart, 'Enlarging the varieties of capitalism: The emergence of dependent market economies in East Central Europe', *World Politics* 61, no. 4, (2009): pp. 670 – 702; Petr Pavlínek, *Dependent growth: Foreign investment and the development of the automotive industry in East-Central Europe* (Berlin: Springer, 2017).

Third, trade liberalisation may contribute to consolidating the power position of rent-seeking elites. It is a global trend that big business tends to benefit most from trade liberalisation, as larger companies find it easier to access new markets and value chains due to economies of scale.[13] However, in less-developed economies, including the Eastern partners, big firms are often owned by economic elites who use their privileged access to economic and political resources for the sake of private gains. The dominance of rent-seeking coalitions in key export sectors therefore increases the likelihood that trade liberalisation will help to consolidate rent-seeking behaviour.[14]

Taking a closer look at the beneficiaries of liberalised trade with the EU and their embeddedness in different types of coalitions with public and/or other private actors is thus key to revealing potential positive but also (unintended) negative consequences of reduced trade barriers between the EU and the three associated partner countries. To this end, our study focuses on two associated Eastern partners, Moldova and Georgia, for which an in-depth analysis of the beneficiaries of liberalised trade with the EU is still lacking.[15]

Ownership structures of economic sectors in Moldova and Georgia are an under-researched topic.

Parts of our empirical research for this report rely on statistical data from Eurostat, the Moldovan National Bureau of Statistics and the National Statistics Office of Georgia as well as on government documents. It turned out to be more difficult than initially assumed to get access to data showing the share of SMEs vis-à-vis larger firms in total exports to the EU for most of the top Georgian or Moldovan export sectors. That is because neither the EU nor national statistical offices systematically collect business statistics by sector and size class (i.e. number of employees and value-added) in terms of export performance. Further, the ownership structures of economic sectors in Moldova and Georgia and rent-seeking practices at the level of particular sectors or firms are an extremely under-researched topic in the scholarly literature. Therefore, we conducted semi-structured expert interviews in 2020, and extensively reviewed other primary and secondary sources, predominantly articles and reports published by media outlets and non-governmental organisations, such as Transparency International Georgia, the Center for Investigative Journalism of Moldova, or sectoral business associations. In most cases, especially with regard to the disclosure of a firm's ties to oligarchic structures or their involvement in rent-seeking practices, we were able to secure at least two sources for an empirical observation. However, sometimes only one source of information, such as data from an expert interview, a newspaper article or a report published by a NGO, was available.

13 Dani Rodrik, 'Imperfect competition, scale economies, and trade policy in developing countries'. In Baldwin, R E. (ed) Trade policy issues and empirical analysis (Chicago: University of Chicago Press, 1988), pp. 109 – 144. Economies of scale refer to the phenomenon that the cost for producing a particular unit of output decreases with an increasing magnitude of output.

14 Langbein, Gazizullin and Naumenko (2021).

15 An in-depth analysis of the case of Ukraine is presented in Langbein, Gazizullin and Naumenko (2021). The article shows that, thus far, the liberalisation of trade between the EU and Ukraine has produced ambivalent effects: since Ukraine's main export sectors to the EU are dominated by firms with close ties to oligarchic structures, trade liberalisation between the two parties has so far helped to consolidate the power position of rent-seeking elites. Only in some sub-sectors of Ukraine's top export sectors, such as agri-food and machinery, where dominant market players do not enjoy ties to oligarchic structures, has trade liberalisation yielded benefits for a broader group of economic actors.

Our report is structured as follows: We first look into general trends regarding EU trade relations with Moldova and Georgia that suggest a positive development since the early 2000s in terms of trade volumes, the significance of the EU as an export market for the two partner countries, and the numbers of local companies exporting to the EU. We then zoom in on Moldova's and Georgia's key export sectors, their ownership structures and the quality of sectoral coalitions, revealing a more ambivalent picture: On the one hand, trade liberalisation with the EU (unintentionally) contributes to strengthening the power position of rent-seeking coalitions in both countries, albeit to a higher degree in Georgia than in Moldova. On the other hand, EU trade liberalisation offers opportunities for at least exclusive and in some cases even inclusive development in some sectors of Moldova's economy and to a far more limited degree in Georgia. We conclude by discussing the implications of our findings for the future governance of market integration in the context of the Association Agreements and DCFTAs.

EU trade relations with Moldova and Georgia: The big picture

Trade statistics suggest that trade liberalisation has thus far gone hand in hand with closer economic relations between the two Eastern partners, Moldova and Georgia, and the EU.

Asymmetrical trade liberalisation between the EU and Moldova began in the late 1990s and has gathered pace since 2006.[16] Between 2004 and 2007, Moldova's exports to the EU more than doubled. But it was only once the DCFTA between the EU and Moldova entered into force in 2014 that the EU liberalised imports from Moldova for almost all goods, except for some agri-food products.[17] As a result, Moldova's exports to the EU increased by 61 % between 2013 and 2019 (▶ FIGURE 1). What is more, over the past 15 years, the EU has turned into Moldova's most important export destination, while other partners like the Commonwealth of Independent States (CIS), above all Russia, lost their significance as export markets (▶ FIGURE 2). In terms of inclusiveness, the number of Moldovan companies exporting to the EU in 2019 was, at over 1 800, 32 % higher than in 2015.[18] That said, it is difficult to say whether this trend also implies greater diversification as regards the size of export companies, since it was not possible to obtain statistical data on the ratio of SMEs to large firms in Moldova's total export volumes to the EU in recent years. According to expert assessments, however, Moldovan SMEs play a more limited role when it comes to reaping the benefits of increasing trade liberalisation with the EU, especially in terms of exports.[19]

Over the past 15 years, the EU has turned into Moldova's most important export destination.

16 In 1998, Moldova became a beneficiary of the Generalized System of Preferences (GSP), followed by subsequent arrangements resulting in further liberalisation in 2006 (special incentive arrangement for Sustainable Development and Good Governance, GSP+) and 2008 (Autonomous Trade Preference, ATP).

17 Emerson and Cenusa (2021).

18 Authors' interview with an official from the EU delegation to Moldova, 20 December 2021, online.

19 Institutul pentru Politici și Reforme Europene (IPRE), Online Consultation Meeting on Ex-post evaluation of EU-Moldova AA / DCFTA implementation, 17 December 2021.

FIGURE 1

Trade flows between Moldova and the EU

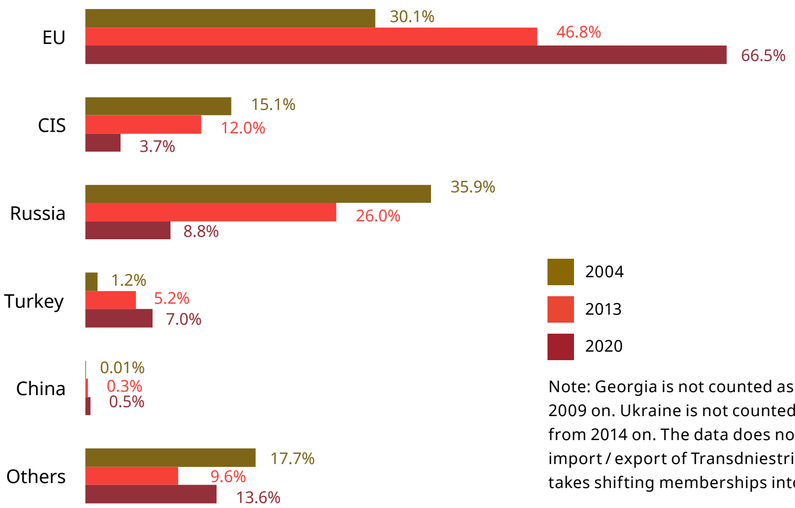
2004 – 2020 (in mln USD)

Source: Moldovan National Bureau of Statistics. The data do not reflect Transnistrian imports / exports.

FIGURE 2

Moldova's key export destinations

(share in Moldova's total exports)



Note: Georgia is not counted as CIS from 2009 on. Ukraine is not counted as CIS from 2014 on. The data does not reflect import / export of Transdniestria. EU data takes shifting memberships into account.

Source: Moldovan National Bureau of Statistics

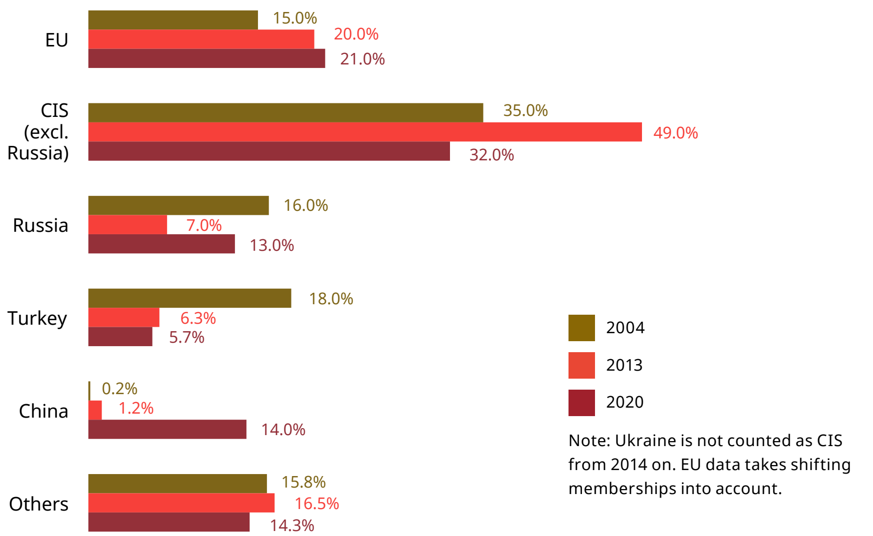
Compared to Moldova, Georgia was a frontrunner in terms of trade liberalisation with the EU. As early as 2006, 90% of Georgia's trade turnover with the EU was at zero tariff due to a decision by the Georgian government to scrap most tariffs on EU imports.[20] The EU, for its part, extended tariff preferences to Georgia from 1999 under its Generalised Scheme of Preferences (GSP) as part of a special incentive arrangement to reward development and

20 The Georgian government did the same with most tariffs on imports from the rest of the world.

FIGURE 3
Trade flows between Georgia and the EU
2004 – 2020 (in mln USD)

Source: Geostat

FIGURE 4
Georgia's key export destinations
(share in Georgia's total exports)



Source: Geostat

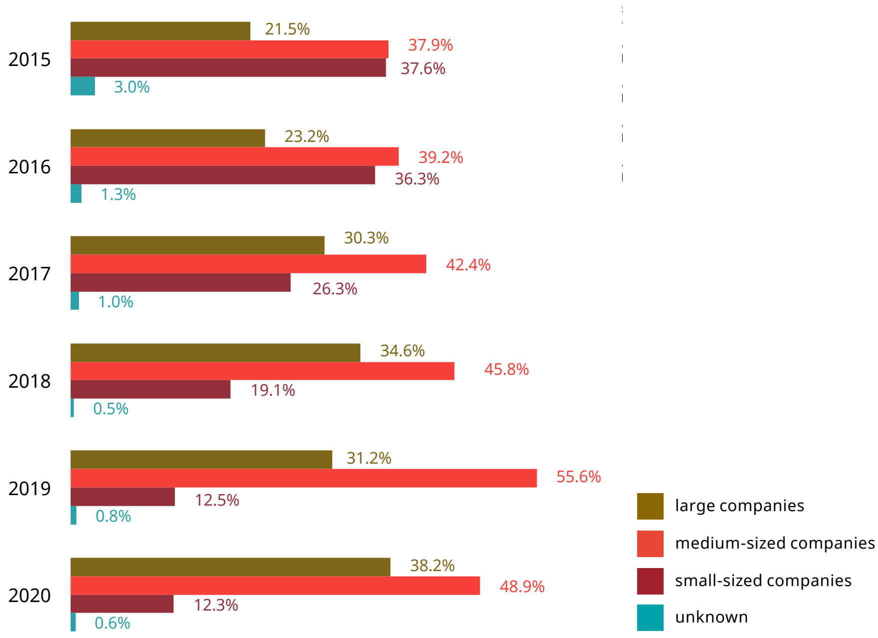
good governance (GSP+).[21] Between 2005 and 2007, Georgia's exports to the EU increased by 63%. When the DCFTA between the EU and Georgia was provisionally enforced in 2014, its immediate impact on bilateral trade was therefore limited: Georgia's exports to the EU increased by 'only' 32% from 2014 to 2019 (▶ FIGURE 3). Unlike for Moldova, the EU is Georgia's second most important export destination, whereas the CIS, including Russia, is still the most important export market for Georgian products. Further, China has gained significance as a trading partner for Georgia after the Free Trade Agreement between the two parties came into force in 2018 (▶ FIGURE 4).

21 Economic Policy Research Center, European Union's Agreement on Deep and Comprehensive Free Trade Area and Georgia, EPRC, 2014, https://eprc.ge/wp-content/uploads/2022/01/eu_eng_web.pdf?fbclid=IwAR36E5e_NCSXhbTZaAmpw44oZrK_S7KKJCiidCsN0yjdnpxzxM1s2PipEO8.

FIGURE 5

Georgian exporters to the EU by size of company

2015 – 2020



Source: Geostat

In terms of inclusiveness, the number of Georgian companies exporting to the EU in 2019 was, at more than 900, 61 % higher than in 2013.[22] FIGURE 5 shows that the share of large companies that started to export to the EU increased by 17 % between 2015 and 2020. While the share of medium-sized companies also increased, the overall share of SMEs decreased by 14 % over the same period due to a significant decline in the number of small companies exporting to the EU (their share went down by 25 %).[23] Given that as of 2019, 99.7 % of all registered companies in Georgia are SMEs,[24] their share in the total number of companies exporting to the EU is therefore still relatively small.

All in all, Georgia's and Moldova's exports to the EU have certainly been boosted by increasing trade liberalisation. Three caveats remain, however: First, our data show that increasing bilateral trade flows are predominantly driven by EU imports, whereas exports from Moldova and Georgia remain on a low level overall. Second, trade between the EU and the two partners was negatively affected by the general economic downturn following Covid-19, which resulted in a declining turnover in 2020 (▸ FIGURES 1 + 3). Third, while the overall number of companies exporting to the EU has grown in the two

22 Emerson and Kovziridze (2021).
23 These numbers disregard firms whose size is unknown.
24 Irina Guruli (2020) '*Georgia-EU Integration — Progress Made so far and Steps to Move Forward*'. Economic Policy Research Centre, Open Society Foundation Georgia, https://osgf.ge/en/publication/georgia-eu-integration-progress-made-so-far-and-steps-to-move-forward/. In 2019, the number of registered SMEs increased due to the introduction of a new classification system for different firm sizes. Before 2019, the share of SMEs in Georgia's registered companies was roughly about 92 %.

countries, based on our data we can only safely say in the case of Georgia that the proportion of SMEs in the total number of companies exporting to the EU remained small in 2020 relative to their share in all registered Georgian companies. At the same time, the increase in the number of large companies exporting to the EU was remarkable, considering that they represent just a tiny share of all registered Georgian companies. In the case of Moldova, we lack corresponding data, but expert assessments indicate that Moldovan SMEs have only been able to reap limited benefits from liberalised trade with the EU. Thus, the benefits of access to the EU internal market seem to be unequally distributed across economic actors in both Moldova and Georgia. However, we know little about the beneficiaries of Moldova's and Georgia's liberalised trade with the EU and the implications for the inclusiveness of export-led development in the two partner countries. The following two sections address this gap.

Zooming in (I): Moldova's liberalised trade with the EU — Who benefits?

We start our analysis of key beneficiaries of Moldova's liberalised trade with the EU by looking at changes in the structure of the country's exports to the EU since trade liberalisation started to gather pace in 2006. TABLE 1 suggests that the significance of individual sectors changed over time. Moldova's agri-food sector is the biggest winner of EU trade liberalisation. Vegetables, fruits, and nuts as well as oil seeds, wine and cereals make up the largest share of agri-food exports, while complex products with a higher value added like meat or milk are negligible (▶ TABLE 2). Machinery, in particular lower value added automotive components, and textiles rank second and third, respectively. These sectors were able to significantly increase their export volumes to the EU. By contrast, export shares and volumes of metals, transport vehicles and footwear have declined since 2004, suggesting that these sectors did not benefit to the same extent from EU trade liberalisation.

Moldova's agri-food sector is the biggest winner of EU trade liberalisation.

Ideally, we would have first looked into statistical data on the export performance of firms of different sizes in Moldova's top five export sectors to the EU in order to assess the inclusiveness of export-led growth. However, since such statistical data could not be attained either through Eurostat or the Moldovan Statistical Office, our analysis of key exporters predominantly relies on company websites, expert interviews, and reports by the media and NGOs.

Prior to analysing, for each top export sector, which firms dominate exports to the EU, who the key owners are, and whether the latter are embedded in rent-seeking or (inclusionary or exclusionary) developmental coalitions, a few general remarks about Moldova's broader political economy context are needed, however. Since 2009, the country has been governed by pro-European coalitions. In practice, oligarchic groups have controlled the country for their own benefit.[25] Up to 2016, state institutions were embedded in the

25 Ion Marandici, 'Taming the Oligarchs? Democratization and State Capture: The Case of Moldova', *Demokratizatsiya: The Journal of Post-Soviet Democratization,* 29 no. 1 (2021): pp. 63 – 89.

TABLE 1

Moldova's top five export sectors to the EU

(share in total exports to the EU in % / share in total export volume to the EU in mln €)

Rank	**Pre-GSP+ 2004 export share,** total export volume in mln €	**Post-GSP+ / Pre-ATP 2007 export share,** total export volume in mln €	**Post-ATP 2009 export share,** total export volume in mln €	**Post-crisis 2011 export share,** total export volume in mln €	**Pre-DCFTA 2013 export share,** total export volume in mln €	**Post-DCFTA 2020 export share,** total export volume in mln €
1.	Metals (32.6 %; 170.9)	Metals (28.3 %; 207.3)	Textiles (32.1 %; 166.4)	Agri-food (31.8 %; 269.7)	Agri-food (29.2 %; 281.2)	Agri-food (32 %; 518.1)
2.	Textiles (23.2 %; 121.3)	Textiles (25.9 %; 189.5)	Agri-food (28.9 %; 149.0)	Textiles (26.7 %, 226.5)	Textiles (20.6 %; 198.1)	Machinery (25.8 %; 417.4)
3.	Agri-food (14.4 %; 75.5)	Agri-food (19.7 %; 144.4)	Metals (8.7 %; 44.0)	Machinery (9.5 %; 80.8)	Machinery (19.6 %; 188.9)	Textiles (12.4 %; 199.8)
4.	Transportation (11.6 %; 60.8)	Footwear/ Headgear (7.4 %; 54.1)	Footwear/ Headgear (7.7 %; 39.9)	Footwear/ Headgear (7.1 %; 60.3)	Miscellaneous (9.3 %; 89.3)	Miscellaneous (10.4 %; 168.9)
5.	Footwear/ Headgear (6.4 %; 33.7)	Mineral products (3.6 %; 26.1)	Mineral Products (5.4 %; 27.0)	Miscellaneous* (6.6 %; 55.4)	Metals (6.5 %; 62.2)	Metals (9.5 %; 153.0)

* Miscellaneous comprises commodities such as furniture, bedding and mattress supports.

Source: Eurostat data series 'EU trade since 1988 by HS2-4-6 and CN8' (DS-645593), authors' calculations. (The data exclude Transnistria, cf: https://ec.europa.eu/eurostat/cache/metadata/Annexes/enpe_esms_an1.pdf. It is worth mentioning, however, that Transnistrian companies seem to take advantage of trade liberalisation with the EU. Cf. Vadim Gumene (2019) 'Transnistria: DCFTA's implications for foreign trade', 3 DCFTAs Op-ed No 6/2019, https://3dcftas.eu/op-eds/transnistria-dcfta%E2%80%99s-implications-for-foreign-trade.)

networks of two dominant oligarch politicians: Vladimir Filat (the leader of the Liberal-Democratic Party, PLDM) and Vladimir Plahotniuc (a billionaire who de facto controlled the Democratic Party, PDM). After 2016, Plahotniuc's network monopolised political power.[26] In the run-up to the 2019 parliamentary elections, Moldova's heterogeneous opposition groups united to oust Plahotniuc, who escaped to the US to avoid prosecution. Despite the temporary unification of the opposition, rent-seeking practices by no means disappeared. They simply lost their centralised character (▶ INTERVIEWS 1 + 2). This still applies to the current situation in Moldova following the 2020 presidential and 2021 parliamentary elections. It remains to be seen whether the new leadership under President Maia Sandu and Prime Minister Natalia Gavrilita, who declared the fight against corruption as a key priority, will be successful in undermining rent-seeking practices.[27]

Against this background, it is likely that oligarchic structures have benefitted from liberalised trade with the EU in the past (and continue to do so now), considering their strong economic and political power position in Moldova.

26 Michael Emerson, Denis Cenusa, Tamara Kovziridze and Veronika Movchan, 'The Struggle for Good Governance in Eastern Europe', 3DCFTAs, 2018, https://3dcftas.eu/publications/the-struggle-for-good-governance-in-ee; Marandici (2021).

27 Dorina Baltag and Isabell Burmester, 'Quo vadis, Moldova? The role of social and political elites in the norm internalization process', *Democratization* (2021): pp. 1 – 20.

Metals and vegetable products: Clear links to oligarchic networks

Two of Moldova's key export sectors to the EU are clearly linked to oligarchic networks: metals and vegetable products.

The key player in Moldova's metals sector, which accounted for 9.5 % of total exports to the EU in 2020 (▶ TABLE 1), is the state-owned Metalferos. The company is an important source for rent-seeking, as it is used to distort economic operations with scrap metal. Recently leaked documents from Moldova's General Prosecutor's Office revealed that before the market was liberalised in the second half of 2019, oligarchic networks operated a scheme that allowed them to buy scrap metal cheaply by artificially dumping the prices on the local market. They then sold it through proxy companies at a higher price to Metalferos, which used to hold the monopoly for the export of scrap metal thanks to a regulation dating back to 2002.[28] According to media reports, Metalferos' revenues were used to finance the Democratic Party when the party was in power between 2015–2019.[29]

Another leading export sector dominated by rent-seeking coalitions between monopolists and state institutions is **vegetable products** (nuts, oil seeds, vegetable oil, grain), which accounted for about 21 % of total exports to the EU in 2020 (▶ TABLE 2). Here, the aforementioned coalitions pushed through anti-monopoly legislation, thereby providing key sectoral players with preferential access to state aid. For example, walnut producer Monicol SRL, owned by Dumitru Vicol, has steadily increased its share on the local walnut market since 2014 thanks to generous access to state aid.[30] This has fuelled accusations against Monicol that it is controlling the walnut market.[31] Since 2016, Vicol has allegedly enjoyed close connections to the oligarchic network of Vladimir Plahotniuc.[32] Notwithstanding Monicol's rent-seeking activities, high-level EU policymakers have referred to the company as a success story when illustrating how the DCFTA has increased export opportunities for Moldovan companies.[33]

TABLE 2

The top five Moldovan agri-food products exported to the EU (%)

	2007	2013	2020
Edible fruit and nuts; peel of citrus fruit or melons	5 %	7 %	5 %
Preparations of vegetables, fruit, nuts or other parts of plants	5 %	5 %	4 %
Animal or vegetable fats and oils and their cleavage products; prepared edible fats	3 %	4 %	5 %
Oil seeds and oleaginous fruits; miscellaneous grains	2 %	5 %	7 %
Beverages, spirits and vinegar	2%	3%	5%

Source: Eurostat 2020, own calculations.

28 According to Regulation No. 1284 / 2002 of 02.10.2002 'On the conduct of the competition for obtaining the waste marketing license and scrap ferrous and non-ferrous metals', Metalferos was the only company to receive the license; See also: Mihai Munteanu, Iurie Sanduta and Marcela Zamosteanu,'Metalleaks,' RISE Moldova, 11 September 2020, https://www.rise.md/articol/metalleaks/; Mariana Rață, 'Metalferos: schemes, phantom companies and criminal immunity', Center for Investigative Journalism, 21 February 2017, https://anticoruptie.md/ro/investigatii/economic/metalferos-scheme-firme-fantoma-si-imunitate-penala.

29 Mădălin Necşuţu, 'Oligarhul fugar Vlad Plahotniuc, pus sub învinuire în dosarul Metalferos. Prejudiciu se ridică la circa 60 de milioane de euro', 5 November 2021, https://www.g4media.ro/oligarhul-fugar-vlad-plahotniuc-pus-sub-invinuire-in-dosarul-metalferos-prejudiciu-se-ridica-la-circa-60-de-milioane-de-euro.html; Ziarul de Gardă, 'The runaway oligarch Vladimir Plahotniuc has been charged with…,' Ziarul de Gardă, 5 November 2021, https://www.zdg.md/en/?p=8563.

30 According to the Moldovan Agency for Intervention and Payments in Agriculture (AIPA), Monicol SRL received a total amount of MDL 4.1 million (around EUR 193,000) in subventions from 2014 to 2018 (source: Ilie Gulca and Mădălin Necşuţu, 'De la Filip pentru cuscri: Fără număr de la Aipa!', Center for Investigative journalism, 6 June 2019, https://anticoruptie.md/ro/investigatii/achizitii-publice/de-la-filip-pentru-cuscri-fara-numar-de-la-aipa.

31 Gulca and Necşuţu (2019).

32 Agora.md, 'How did the company of Filip's relative get to receive more money from AIPA after the wedding of their children', Agora.md, 6 June 2019, https://agora.md/stiri/57877/cum-a-ajuns-firma-cuscrului-lui-filip-sa-primeasca-mai-multi-bani-de-la-aipa-in-anul-nuntii-copiilor; Gulca and Necşuţu (2019).

33 Monicol, 'Visit of EU Ambassador Peter Michalko to Monicol SRL company', Monicol.md, 2018, https://www.monicol.md/en/news/visit-of-eu-ambassador-peter-michalko-to-monicol-company.html; Cecelia Malström, 'Blog: Reviewing our trade agreements', Parlementaire Monitor, 9 November 2017, https://www.parlementairemonitor.nl/9353000/1/j9vvij5epmj1ey0/vkj6g5k5ypzs?ctx=vhyzn0ozwmz1&tab=1&start_tab1=5.

TransOil used its control over storage and transportation to dump local grain prices.

Similar trends can be seen in the production of oilseeds and vegetable oils, which benefitted from increasing export shares between 2007 and 2020 (▶ TABLE 2). About 90 % of Moldova's processing capacities for sunflower oil belong to FFA Trans Oil LTD (hereinafter TransOil).[34] Despite changing ownership structures involving different Russian individuals, TransOil has maintained its close relationship with Plahotniuc.[35] It controls not only companies in the oil production field, such as Floarea Soarelui SA, but also important infrastructure like storages (silos) and transportation routes to Moldova's only port — Giurgiulesti International Free Port. With Plahotniuc's backing, Moldovan state authorities facilitated the construction of more transportation capacities for TransOil via rail and air,[36] paving the way for the company's monopoly of the local grain business.[37] TransOil used its control over storage and transportation to dump local grain prices, which allowed it to make massive profits with grain exports. Similar developments shaped the dynamics on the local oilseed market.[38] Ironically, TransOil received several loans from the European Bank of Reconstruction and Development (EBRD) in 2009 (EUR 12 million), 2013 (EUR 25 million) and 2019 (EUR 40 million) to increase its production capacities and access new markets, thereby helping the company to consolidate its monopoly position.[39]

From 2019 onwards, however, political changes in Moldova led new political forces under former Prime Minister and now President Maia Sandu to focus on dismantling monopolies.[40] Recently adopted anti-monopoly legislation under Sandu's leadership aims at weakening monopolies, at least in Moldova's metal and nuts industries.[41] The jury is still out as to whether these changes will suffice to eradicate rent-seeking practices in these sectors.

34 TransOil's production takes place via a few subordinated companies: Floarea Soarelui SA, TransOil Refinery, FFA TransOil Ltd and Trans Bulk Logistics (cf. Agrobiznes, 'Recoltă-record de floarea soarelui în acest sezon', Agrobuznes.md, 8 October 2018, https://agrobiznes.md/recolta-record-de-floarea-soarelui-in-acest-sezon.html.
35 Ilie Gulca and Mădălin Necşuţu, 'Cereals market in the Republic of Moldova, under Russian monopoly', Center for Investigative Journalism, 19 August 2016, https://anticoruptie.md/ro/investigatii/economic/piata-cerealelor-din-r-moldova-sub-monopol-rusesc.
36 JurnalTV, 'Monopoly at the port of Giurgiulesti', JurnalTV Politics, 13 November 2018, https://www.jurnaltv.md/news/36021ce8858e684a/monopol-la-portul-giurgiulesti.html.
37 Denis Cenusa, 'The downfall of a captured state', *New Eastern Europe,* no. 6, (2019): pp. 41 – 46.; Gulca and Necşuţu (2016).
38 Gulca and Necşuţu (2016).
39 Ina Coretchi, 'EBRD helps modernize agriculture sector in Moldova', European Bank for Construction and Development News, 9 December 2009, https://www.ebrd.com/news/2009/ebrd-helps-modernise-agriculture-sector-in-moldova.html; European Bank for Construction and Development, 'Trans-Oil Grain Commodity Facility', Work with Us, 2021, https://www.ebrd.com/work-with-us/projects/psd/trans-oil-grain-commodity-facility.html.
40 Ziarul National, 'Pachetul de legi privind "deoligarhizarea" R. Moldova…', Ziarul National, 5 March 2019, https://www.ziarulnational.md/pachetul-de-legi-privind-deoligarhizarea-r-moldova-propus-de-blocul-acum-aspru-criticat-de-ex-presedintele-cc-fantasmagorii-sau-anulezi-si-constitutia-si-declari-a-doua-republica/; Igor Munteanu, representative of the Platform DA (then part of the ruling coalition under Sandu) publicly exposed the monopoly of Monicol SRL (Source: Agora, 'Walnut exporters ordered to return, for 48 hours, to purchase prices in 2016 (VIDEO)', Angora, 10 October 2019, https://agora.md/stiri/62572/exportatorii-de-nuci--somati-sa-revina--timp-de-48-de-ore--la-preturile-de-achizitie-din-2016-video.
41 Republic Moldova Government, 'Government Decision No. 92, 22 July', 22 July 2019, https://www.legis.md/cautare/getResults?doc_id=115438&lang=ro; see also Infotag (2019) 'Government Eliminates Metalferos Monopoly on Export of Ferrous Metals', http://www.infotag.md/economics-ro/280488/.

Machinery: Towards exclusive development?

Moldova's **machinery sector** is a clear winner of trade liberalisation with the EU. Since 2011, the sector has witnessed impressive growth rates in export volumes to the EU (from 2 % in 2007 to 26 % in 2020). Production is driven by investors from EU countries,[42] mainly large enterprises, and takes place in the seven free economic zones that the Moldovan government has established over the last 19 years.[43] These zones have witnessed a sweeping inflow of foreign component producers ever since the DCFTA was provisionally enforced in 2014. Local authorities made sure that foreign investors were shielded from corruption and non-transparent business practices and could rely on a smooth execution of their entrepreneurial activities. Moldova's machinery sector became a positive example of successful development, helping the ruling elites to make a good impression on external actors (▶ INTERVIEW 1).

Moldova's machinery sector became a positive example of successful development.

While firms operating in the free economic zones prosper and become integrated in European value chains, the developmental coalition between foreign investors and local state authorities is, however, at best exclusionary: the role of the Moldovan state is limited to accommodating the needs of larger foreign enterprises that decide what kind of corporate activities are performed. So far, foreign investment has helped to establish an assembly and production platform for low value-added automotive parts and components in Moldova. Engagement in research and development (R&D) activities is rather limited, although some local experts are optimistic that more value-added activities are likely to develop in the future.[44] Previous experiences in Central and Eastern Europe remind us that investments in low value-added activities, which still account for the bulk of foreign investment in Moldova's machinery sector, tend to be impatient, however. Rising wages often prompt foreign investors to relocate their activities to places where production is cheaper and states offer more generous incentives.[45]

Moldova's textile and wine industry: Towards inclusive development?

As for Moldova's **textile industry,** its share in the country's total exports to the EU decreased from 23 % in 2004 to 12 % in 2020, while the export volume more than doubled during the same period (▶ TABLE 1). According to media reports, 82 % of Moldova's total textile exports went to the EU in 2018.[46]

42 These companies include, among others, DRÄXLMAIER Group, Gebauer & Griller, Fujikura Automotive MLD. Their local subsidiaries operate mainly in the free economic zone ZEL 'Bălţi' (Balti, 'Free Economic Zone', 2020, http://zelb.md).

43 Cf. Ministry of Economy and Infrastructure, 'Free Economic Zones', Ministry of Economy and Infrastructure, 21 February 2014, https://me.gov.md/ro/content/zonele-economice-libere.

44 Sebastian Shehadi, 'Moldovan manufacturing in the driving seat', FDI intelligence, 12 December 2019, https://www.fdiintelligence.com/article/76398.

45 Pavlínek (2017).

46 TVR Moldova, 'Crisis in Moldova's light industry', TVR Moldova, 12 May 2020, http://tvrmoldova.md/economic/criza-in-industria-usoara-din-republica-moldova/. (These numbers include Transnistria's textile industry.)

The ownership structure of Moldova's textile industry is diverse: apart from a few large companies, the majority of producers are SMEs.[47] The sector represents a pathway towards inclusive development as it is characterised by a remarkable level of inclusionary sectoral organisation. Most textile companies are members of the Light Industry Employers Association (APIUS). Together with Moldovan government agencies, the Technical University of Moldova, and with the support of USAID, APIUS initiated several public-private partnerships (PPPs) from 2012 onwards to boost competitiveness and promote the integration of Moldova's textile industry into European value chains. Moldova's State Agency on Intellectual Property (AGEPI) actively supported the project, in particular by training participating companies in the use of intellectual property (IP) systems to protect their brands and designs. According to industry representatives, the joint promotional campaign 'From the Heart — Brands of Moldova', which started in 2012, contributed to changing perceptions of Moldovan brands by both foreign investors and local consumers.[48] Further, the ZIPHouse Center of Excellence and Acceleration in Design Technologies, established in 2015, serves as a platform for innovation and entrepreneurial development in the industry.[49]

Hundreds of Moldovan wineries and dozens of producers and exporters organised themselves in sectoral business associations.

Moldova's **wine sector** occupies a tiny place in total exports to the EU, accounting for about 2 to 3% of the country's total exports to the European market. In fact, Russia's import ban on Moldovan wine in September 2013 seems to have helped to bring about a coalition between state authorities and local wine producers to attract new markets in the EU. To begin with, the National Vine and Wine Office (NVWO) started to enhance transparency and quality protection by introducing an electronic wine register in 2013 with the help of the Czech Development Agency and USAID. Western donors also helped smaller companies to form associations like the Association of Small Wine Producers of Moldova, which today controls about one-third of the vineyards.[50] The fact that hundreds of wineries and dozens of producers and exporters organised themselves in sectoral business associations prevented the establishment of monopolies and the subsequent development of rent-seeking schemes.

To sum up, Moldova's trade liberalisation with the EU has so far created more opportunities for exclusive and even inclusive development than for consolidating the power position of rent-seeking elites. In 2020, machinery, textiles and wine accounted for around 41% of Moldova's exports to the EU. An exclusive developmental pathway characterises the machinery sector, where foreign investors from EU countries have been the main beneficiaries of liberalised trade with the EU thanks to an exclusionary developmental coalition with

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47 United Nations Economic Commission for Europe (UNECE) (2021), 'UN Alliance supports Moldova's efforts to turn its fashion industry into a driver of sustainable development', https://unece.org/media/news/356784.

48 Octavian Apostol and Liliana Vieru, 'Brands of Moldova: a cut above', WIPO Magazine, October 2016, https://www.wipo.int/wipo_magazine/en/2016/05/article_0009.html.

49 Björn Vogler, 'Potentials and Key Features of Pilot-Cluster Structures in the Automotive Supply and TAFL (Textile, Apparel, Footwear and Leather Goods) Industry in Moldova', German Economic Team Moldova, Policy Paper Series, No. PP / 03 / 2017, October 2017, http://www.get-moldau.de/wordpress/wp-content/uploads/2017/11/PP_03_2017_en.pdf.

50 Maria Gheorgita and Cornelia Crucerescu, 'The Impact of Cooperation Models of Moldovan Companies on the Growing of Added Value', *Journal of Social Science* 1, no.1 (2018): pp. 126 – 132; Press Release of Wine-and-Spirits.md, 'Association of small wine producers from Moldova: 10 years of success', Wine and Spirits, 1 May 2020, https://wine-and-spirits.md/ro/asociatia-micilor-producatori-de-vinuri-din-moldova-10-ani-de-succese/.

Moldova's state authorities. By contrast, Moldova's textile and wine industries seem to be on track towards inclusive development by virtue of inclusionary sectoral coalitions between business associations, universities and state authorities. Nevertheless, as of 2020, almost one-third (31 %) of Moldova's total exports to the EU came from sectors that are in the hands of or closely linked to oligarchic networks. While the importance of metal exports as a source of revenue for Moldova's big business is shrinking, oligarchic networks have encroached upon Moldova's vegetable production. EBRD loans have even helped those networks to shore up their monopoly position.

Zooming in (II): Georgia's liberalised trade with the EU — Who benefits?

As in the case study of Moldova, we begin our analysis of key beneficiaries of Georgia's liberalised trade with the EU by looking at how the structure of the country's exports to the EU has changed since trade liberalisation began in 2006.

Georgia's agri-food was the sector that received the greatest boost from EU trade liberalisation.

The significance of individual sectors started to change after 2007 (▶ TABLE 3), the only exception being minerals, which maintained its top position. Without a doubt, agri-food (mainly nuts, mineral waters and wine, according to Geostat data) was the sector that received the greatest boost from EU trade liberalisation. Chemicals and textiles were able to increase their export share, both in per cent and volume. Metals, stone and glass lost in significance, while machinery did not witness sustainable growth perspectives.

Since statistical data on the export performance of different firm sizes in Georgia's top five export sectors to EU is not available (as in the case of Moldova), our analysis of key Georgian exporters again relies on company websites, expert interviews, and reports by the media and NGOs.

The broader political economy context of Georgia is similar to that in Moldova; here too, oligarchic networks control access to economic and political resources. This is despite improvements to Georgia's governance capacity after the 2006 Rose Revolution, which put it in a better position to deal with oligarchs than Moldova and other Eastern Partnership countries. Back then, the fight against petty corruption was impressive. However, property rights violations and high-level corruption remained widespread.[51] In 2012, billionaire Bidzina Ivanishvili, who united various opposition parties in the coalition Georgian Dream (GD), won the elections and managed to concentrate power in his hands. He no longer held an official position after 2013, but had a stint as GD chairperson in the run-up to the 2018 elections before resigning from all duties. Ivanishvili's wealth is estimated at 6 billion USD, mostly built on Russian assets.[52] He owns a huge network of companies and

51 Esther Ademmer, Julia Langbein and Tanja Börzel, 'Varieties of Limited Access Orders: The nexus between politics and economics in hybrid regimes', *Governance 33*, no. 1 (2019): pp. 191 – 208.

52 Cristina Gherasimov, 'Political Elite Renewal in Georgia, Moldova and Ukraine', Chatham House Russia and Eurasia Programme, Research Paper 5 / 2019, May 2019, https://www.chathamhouse.org/sites/default/files/2019-05-14-Political%20Elite%20Renewal.pdf.

TABLE 3
Georgia's top five export sectors to the EU
(share in total exports to the EU in % / share in total export volume to the EU in mln €)

Rank	**Pre-GSP+ 2004 export share,** total export volume in mln €	**Post-GSP+ / Pre-Crisis 2007 export share,** total export volume in mln €	**Post-Crisis 2011 export share,** total export volume in mln €	**Pre-DCFTA 2013 export share,** total export volume in mln €	**Post-DCFTA 2020 export share,** total export volume in mln €
1.	Mineral products (58.4 %; 183.7)	Mineral products (55,8 %; 256,0)	Mineral products (63.2 %; 388.5)	Mineral products (57.3 %; 382.0)	Mineral products (60 %; 460.0)
2.	Metals (13.3 %; 41.9)	Agri-food (19,2 %; 87,9)	Agri-food (14.6; 89.5)	Agri-food (18.4 %; 122.9)	Agri-food (18.2 %; 139.3)
3.	Agri-food (10.7 %; 33.5)	Metals (11,9 %; 54,5)	Chemicals & Allied Industries (10.1 %; 62.0)	Metals (7.9 %; 52.8)	Textiles (6.8 %; 52.0)
4.	Chemicals & Allied Industries (6.6 %; 20.6)	Chemicals & Allied Industries (4.29 %; 19.7)	Metals (6.8 %; 41.5)	Chemicals & Allied Industries (6.7 %; 44.6)	Chemicals & Allied Industries (5.5 %; 42.0)
5.	Stone/Glass (3,8 %; 11.8)	Machinery (2.4 %; 11.1)	Textiles (1.8 %; 11.2)	Textiles (3.6 %; 23.7)	Metals (3.4 %; 25.8)

Source: Eurostat data series 'EU trade since 1988 by HS2-4-6 and CN8' (DS-645593), authors' calculations.

uses control over the judiciary and other state institutions to protect his and his allies' power and wealth.[53]

Similar to the case of Moldova, we would therefore expect liberalised trade with the EU to mainly benefit oligarchic networks, as they control access to political and economic resources in Georgia. For each top export sector to the EU, we therefore take a closer look at the firms dominating exports to the EU, identify their key owners, and investigate whether the latter are embedded in rent-seeking or (inclusionary or exclusionary) developmental coalitions.

Minerals and metals: Close links to oligarchic networks

Minerals (in particular copper ore) were Georgia's key export commodity to the EU in the period from 2004 to 2020. Rich Metals Group (RMG) Copper is Georgia's most important exporter of copper ore. According to Geostat data, the company was among the top 50 exporters every year from 2004 to 2019. Since 2019, RMG copper has been owned by Mining Investments LLC,

53 Wojciech Kononczuk, Denis Cenusa and Kornely Kakachia, 'Oligarchs in Ukraine, Moldova and Georgia as key obstacles to reforms', 3DCFTAs, March 2017, https://www.researchgate.net/publication/317596551_Oligarchs_in_Ukraine_Moldova_and_Georgia_as_key_obstacles_to_reforms.

which is controlled by Russian billionaire Dmitriy Troitskiy.[54] Together with other Russian businessmen, Troitskiy had already controlled RMG B.V., the previous owner of RMG Copper. The Georgian NGO Green Alternative has documented close links between RMG and Bidzina Ivanishvili's networks.[55] A case in point is the decision taken by the Georgian Ministry of Culture in 2013 to revoke the status of the world's oldest gold mines in Sakdrisi as a protected historical site. As a result, RMG was allowed to start mining operations there.[56] Further, Georgia's government authorities turn a blind eye to RMG's environmentally and socially harmful mining operations.[57] Individuals directly or indirectly connected with RMG reportedly donated more than 800 thousand GEL (approx. 192,000 euros) to the ruling party Georgian dream, which is close to Ivanishvili, in the run-up to the 2020 parliamentary elections.[58]

The **metals** sector is also closely linked to Georgia's ruling elites. Its significance for exports to the EU declined, however, in particular after the DCFTA entered into force (▶ TABLE 3). Georgian Manganese LLC (GM) is Georgia's leading producer and exporter, according to the company's website.[59] From 2006 to 2013, 75 % of GM's shares belonged to the Ukrainian Privat Group. Privat Group is one of the most closed and non-transparent Ukrainian holdings. Its founders Igor Kolomoisky and Henadiy Boholyubov are among the five richest people in Ukraine.[60] In 2013, Privat Group transferred GM to the US-American Holding Georgia American Alloys, an offshore company assumed to be registered in Luxembourg.[61]

GM has a dubious track record. It has faced repeated accusations of exploitative labour practices and pollution: the company was fined on a few occasions up to 2017 for environmental damages and tax evasion. The payment of these fines ensured that GM was discharged from liability for the environmental damages.[62] Such deals first became legal in 2012[63] and used to be considered a prominent rent-seeking activity in Georgia.[64] In 2017, Nikoloz

54 Green Alternative, 'Rich Metal Group. Company Profile', Green Alternative, March 2021, https://greenalt.org/app/uploads/2021/05/RMG_Eng_2021.pdf.
55 See also Alexander Kupatadze, 'Informal Governance and Corruption — Transcending the Principal Agent and Collective Action Paradigms', Basel Institute on Governance, July 2018, https://baselgovernance.org/sites/default/files/2019-04/georgia.informalgovernance.country_report.pdf.
56 Alexander Kupatadze, 'Political corruption in Eurasia: Understanding collusion between states, organized crime and business', *Theoretical Criminology* 19, no. 2 (2015): pp. 198 – 215.
57 Jesse Swann-Quinn, 'Mining the homeland: imagining resources, nation, and territory in the Republic of Georgia', *Eurasian Geography and Economics,* 60, no. 2 (2019): pp. 199 – 151.
58 Institute for Development of Freedom of Information, 'Political Donations: Free will or Business Investment?', Institute for Development of Freedom of Information, 24 June 2020, https://idfi.ge/en/idfis-research-political-donations.
59 https://www.gm.ge/en/.
60 Heiko Pleines, 'The political role of business magnates in competitive authoritarian Regimes', *Jahrbuch für Wirtschaftsgeschichte* 60 no. 2 (2019): pp. 299 – 334.
61 Nino Gujaraidze, 'Georgian Manganese — Company Profile', Green Alternative, 2019, https://greenalt.org/app/uploads/2021/04/GM_Eng_2019.pdf.
62 Chris Kavanagh, 'Georgian Manganese facing $160m fine, management shakeup', Fastmarkets MB, 19 May 2017, https://www.metalbulletin.com/Article/3718531/Georgian-Manganese-facing-160m-fine-management-shakeup.html; Nino Gujaraidze, 'Georgian Manganese — Company Profile', Green Alternative, March 2021, https://greenalt.org/app/uploads/2021/05/GM_Eng_2021.pdf.
63 The Law on Making Amendments to Some Legislative Acts of Georgia (Source: www.matsne.gov.ge, registration code: 360000000.05.001.016640).
64 Nino Gujaraidze, 'Secretly Concluded Agreements Against the Environment', Green Alternative, 2013, http://greenalt.org/wp-content/uploads/2013/04/secretly_concluded_agreements_against_the_environment.pdf. The practice is no longer applied today.

More than 60 % of Georgia's exported goods are produced in sectors where rent-seeking coalitions dominate.

Chikovani was appointed special manager at GM. Chikovani is a protégé of the Georgian Dream Party and was installed to neutralise claims by environmental activists that GM was breaching environmental and work safety standards. In fact, under Chikovani's management nothing has changed and GM still operates unsafe mine quarries and continues to damage the environment.[65]

In sum, the previous discussion shows that more than 60 % of Georgia's exported goods are produced in sectors where rent-seeking coalitions dominate. Leading companies are owned by Russian oligarchs or enjoy close relationships to the pro-government camp led by the Georgian Dream Party that is close to oligarch Bidzina Ivanishvili, and use these ties to receive preferential treatment by state authorities.

Agri-food and textiles: Between exclusive and inclusive development

Georgia's agri-food and textile industries made up roughly 25 per cent of the country's exports to the EU in 2020. The ownership structures of these sectors are more diverse than in the case of minerals: a few larger foreign and domestic companies dominate, with an increasing number of SMEs. Still, the benefits of trade liberalisation are very unequally distributed, in particular in the case of textiles.

An exclusionary developmental coalition has emerged in the textile sector, setting it on a path towards exclusive development. Accommodating state policies help to produce profits for a few international brands and larger local companies at the expense of high social costs for the local workforce. To begin with, tariff eliminations in the context of GSP+ and the DCFTA, along with other favourable government decisions, helped to boost foreign direct investment in Georgia's **textile industry** from 2006 onwards. In this respect, the government's decision to create special economic zones and the launch of the 'Produce in Georgia' programme in 2014 certainly played an important role in attracting investors with reduced tax rates, competitive labour costs, good transportation links, and a more favourable investment environment.[66] Indeed, Georgia's textile and apparel industry has witnessed a considerable increase in production (up 30 % since 2008) and export volumes (up 24 % in the period from 2009 to 2015). But the government's tendency to give investors and larger local textile producers a free rein, especially when it comes to labour standards, comes at a high social cost for the local workforce.[67]

The key beneficiaries of these developments are mainly international brands, which engage in hardly any technological transfer or upgrading,

65 Gujaraidze (2019); Business and Human Rights Resource Center, 'Georgian Manganese. Company Profiles', Business and Human Rights Resource Center, June 2021, https://www.business-humanrights.org/documents/36051/Georgian_Manganese.pdf.
66 OECD 'OECD Investment Policy Reviews: Georgia', OECD Investment Policy Reviews, 2020, https://doi.org/10.1787/0d33d7b7-en.; Invest in Georgia (2016) Investment Opportunities in Apparel and Textile Industry of Georgia. Available at https://www.investingeorgia.org/en/ajax/downloadFile/821/Investment.
67 Tamuna Chkareuli, 'Inside Georgia's textile industry: A journalistic investigation,' Friedrich Ebert-Stiftung and OC Media, 2020, http://library.fes.de/pdf-files/bueros/georgien/17505.pdf.

and larger local players. More precisely, Georgia has become an attractive low-cost production base for some leading world-class brands like Adidas and Moncler. Over 98% of Georgia's textile exports go to Turkey and Germany, where they are further processed to be integrated into EU value chains. These international brands work closely with the local apparel industry, which comprises around 200 enterprises. Georgia's market leader in apparel production is Imeri, which—as the only apparel producer—has been ranked among the country's top 50 exporters fifteen times between 2004 and 2019 according to GeoStat data. Imeri does not seem to have direct personal connections to Ivanishvili's network. However, in the past, Imeri benefitted from a few simplified procurements, which allowed the company to bypass e-tender procedures. Such procedures are usually assumed to increase the risk of corruption.[68]

Georgia has become an attractive low-cost production base for some leading world-class fashion brands.

An unequal distribution of the benefits of EU trade liberalisation also characterises parts of Georgia's **agri-food industry**. Here, nuts and wine are the main export commodities.

Two large companies, Dioskuria XXI and Westnut, dominate Georgia's nut exports to the EU. Russian citizen Nona Kharebava owns Dioskuri XXI. Westnut is owned by Georgian businessmen and UK-based companies. Westnut receives it raw materials from approximately 2 000 farmers. However, most small Georgian nut producers export their production through intermediary companies (traders). This practice indicates a pathway towards exclusive growth that mainly benefits intermediaries from Turkey or the targeted EU countries. Intermediaries or larger companies take care of the regulatory and export procedures, thereby providing small producers with a better chance of increasing their sales. Yet, this procedure diminishes the benefits for Georgian producers, since intermediaries offer much lower prices relative to the price for which they will later sell the nuts on the EU markets.[69]

As for Georgia's **wine industry,** two large companies, Tbilvino and Telavi Wine Cellar, dominate the market. Leading company figures seem to enjoy some political connections to the ruling Georgian Dream Party. For example, Zurab Nakeuri, who sits on Tbilvino's supervisory board, is also the Director General of Maestro TV, which in 2017 became part of the Imedi Holding—a pro-government (pro-Georgian Dream) media outlet.[70] Further, Kakha Zukakishvili, a member of Telavi's supervisory board, made several

68 Institute for Development of Freedom of Information, 'Assessment of the execution of the law on transparency of public procurement', Institute for Development of Freedom of Information, 2017, https://idfi.ge/public/upload/IDFI_Photos_2017/tppr/PPL_Implementation_Assessment_Georgia_geo.pdf. In fact, inquiries by Transparency International revealed a relationship between party donations for Ivanishvili's Georgian Dream Party and success with public tenders (Source: Transparency International Georgia, 'Corruption and Anti-Corruption Policy in Georgia: 2016 – 2020', Transparency International Georgia, 21 October 2020, https://www.transparency.ge/ge/post/korupcia-da-antikorupciuli-politika-sakartveloshi-2016-2020-clebi.)

69 Europe for Georgia, 'Export Potential for Agrifood and other Niche markets in EU', Europe for Georgia, 6 May 2016, http://eugeorgia.info/ka/article/433/saeqsporto-potencialis-mqone-agroproduqtebi-da-nishuri-bazrebi-evrokavshirshi/; EastFruit, 'Georgia risks losing more than $80 million on hazelnuts exports', EastFruit, 2 April 2021, https://east-fruit.com/en/horticulture-market/market-reviews/georgia-risks-losing-more-than-80-million-on-the-export-of-hazelnuts/.

70 Transparency International Georgia, 'Who owns Georgia's media?', Transparency International Georgia, 2018, https://transparency.ge/en/post/who-owns-georgias-media.

donations to the ruling Georgian Dream Party in 2017 and 2020.[71] Unlike the minerals and metals sectors, Georgia's wine industry is, however, not controlled by a rent-seeking coalition. And SMEs make up a higher market share than in the nuts and textile industries. Indeed, the number of SMEs operating in the wine industry is also on the rise (Interview 3). The fact that most of the 300 wine companies exporting between 2017 and 2020 were SMEs suggests a path towards inclusive development. Government agencies and business associations help to boost their competitiveness. The National Wine Agency (founded in 2014) and the Georgian Wine Association (founded in 2010) played an important role in diversifying the industry's ownership structures. They helped local wine producers to overcome information asymmetries, initiated certification procedures for export companies, and fostered participation at international fairs, which increased brand awareness of Georgian wines.[72] EU twinning initiatives facilitated exchange between Georgian authorities and their EU counterparts.[73] All of these measures have paved the way for an inclusionary developmental coalition. Nonetheless, it should be remembered that Georgia's wine sector only accounts for 3.5 % of total exports to the EU.

All in all, Georgia's trade liberalisation with the EU has so far created more opportunities for consolidating the power position of rent-seeking elites than for exclusive — let alone inclusive — developmental pathways.

Conclusion and implications

This ZOiS report has examined how effective liberalised trade with the EU has thus far been in achieving one of the declared objectives of the EaP, namely the promotion of inclusive economies in the partner countries. By drawing on the cases of two associated EaP countries, Moldova and Georgia, our analysis suggests that the effects of trade liberalisation with the EU on economic development in the two partner countries are ambivalent and shaped by the quality of dominant coalitions in different export sectors. With regard to the top five export sectors, trade liberalisation with the EU has offered more opportunities for exclusive and even inclusive development in Moldova than in Georgia. That is because a large share of Moldova's exports to the EU (41 %) is currently produced in sectors dominated by exclusionary or even inclusionary developmental coalitions between private actors and local state authorities, while only about 31 % of Moldova's exports to the EU come from sectors clearly controlled by rent-seeking coalitions. By contrast, more than 60 % of Georgia's exports to the EU currently come from sectors like minerals and metals where the key market players are closely connected to the ruling oligarchic network under the leadership of billionaire Bidzina Ivanishvili. That said, given the scarcity

71 Transparency International Georgia, 'Party Donations', Transparency International Georgia, 2021 https://www.transparency.ge/politicaldonations/ge/entrepreneurial-activity/7336.

72 The Financial, 'Georgian Wine Marketing: A Success Story, or Not Yet?', The Financial, 4 July 2016, https://www.finchannel.com/interviews/58418-georgian-wine-marketing-a-success-story-or-not-yet; Vinoge, 'The Chairman of the National Wine Agency about the Regulation of Certification', Vinoge, 18 February 2015, http://en.vinoge.com/news/chairman-national-wine-agency-about-new-regulation-certification.

73 EU4Business, 'Turning an 8,000-year Wine Tradition into Success in Georgia', EU4Business, 11 October 2016, https://eu4business.eu/success-stories/turning-an-8-000-year-wine-tradition-into-success-in-georgia/.

of statistical data on the significance of SMEs for total production and exports to the EU at the level of key export sectors, future research should engage in a more fine-grained sectoral analysis of the export performance of different firm sizes, in particular SMEs.

Notwithstanding these limitations, our findings hold important implications for effectively promoting inclusive economies through trade liberalisation in the context of the EaP:

First, a better assessment and monitoring of the extent to which firms of different sizes, including SMEs, can truly reap the benefits of access to the EU market is needed. This would also raise more awareness, both among policymakers and the public, of the thus far limited role local SMEs play when it comes to benefitting from trade with the EU, especially in terms of export opportunities. Eurostat and/or national statistical offices in the partner countries should therefore systematically collect business statistics in terms of export performance, number of export companies, their field of export (e.g. sectors), and type of company.

Second, when implementing policies and programmes that aim to facilitate access to the EU market for firms from the Eastern partners, the EU is well advised to take into account the ownership structure of top export sectors and the involvement of these key owners in rent-seeking practices. For example, during future negotiations on the extension of tariff-rate quotas (TRQs) for product groups that have already reached the pre-determined limit of exports, the EU should extend TRQs first and foremost in sectors that are not dominated by firms with links to oligarchic structures. This would certainly increase export opportunities for the SMEs operating in these industries.

The EU should take into account the ownership structure of top export sectors and involvement of key owners in rent-seeking practices.

Third, existing or planned EU initiatives, such as EU4Business and the Economic and Investment Plan, which is part of the new EaP, obviously need to put greater emphasis on creating and/or strengthening sectoral clusters and programmes to foster cooperation between a diverse set of private and public actors in promising sectors and where firms not linked to oligarchic networks are important market players (e.g. Moldova's and Georgia's textile industry and wine production). As previous experience in Central and Eastern Europe has shown, cooperation among firms, business associations, consultants, research institutions, and regulatory authorities plays a vital role in facilitating (technological) innovation and upgrading and equipping local firms with the necessary know-how to find their niches in European supply chains.[74]

Taken together, these measures will broaden access to trade and entrepreneurial activities for a wider group of economic actors, thereby laying the basis for more inclusive export-led development in the associated Eastern partners.

74 Gergö Medve-Bálint and Vera Šćepanović, 'EU funds, state capacity and the development of transnational industrial policies in Europe's Eastern periphery', *Review of International Political Economy* 27, no. 5, (2020): pp. 1063 – 1082; Visnja Vukov, 'European integration and weak states: Romania's road to exclusionary development', *Review of International Political Economy* 27, no. 5 (2020): pp. 1041 – 1062; Olga Markiewicz, 'Stuck in second gear? EU integration and the evolution of Poland's automotive industry', *Review of International Political Economy* 27 no. 5 (2020): pp. 1147 – 1169.

List of Interviews

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Interview 3:
Giorgi Gudabandze, Export Development Association of Georgia, 22 January 2021, online.

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Authors
Julia Langbein, Denis Cenusa, Irina Guruli

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Address
Centre for East European and International Studies (ZOiS) gGmbH
Mohrenstraße 60
10117 Berlin
info@zois-berlin.de
www.zois-berlin.de

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