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# Economic Diplomacy of Georgia and its strategic role in European Integration

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DR. NICOLETA VASILCOVSCHI<sup>1</sup>

QINGDAO UNIVERSITY OF SCIENCE AND TECHNOLOGY, SHANDONG, CHINA  
SINO-CANADIAN PROGRAM, SHANDONG, CHINA

**Abstract:** *Economic diplomacy is one of the main strategic tools, at internal and external level, that allows a country to strengthen its internal economic sectors, to build trade partnerships at regional and international level and to highlight the development of different businesses. The recent changes at the international level showed the need for countries to consider the reuse of their resources or the access to other resources worldwide and to also rethink the use of their Economic Diplomacy. With a large market, in expansion, the European Union promotes through its Economic Diplomacy the development of new economic sectors and new commercial treaties. As a future member of the European Union, Georgia managed to develop different sectors of its internal economic sector over the years, being also more active in the international markets.*

*The goal of this paper is to present the main characteristics of economic diplomacy and to show how this area is nowadays a strategic instrument of European integration and economic cooperation. This research paper analyzes the development of Georgian Economic Diplomacy, analyzing different commercial treaties signed between Georgia and European Union. Here is also observed the strategic role of Georgian Economic Diplomacy for the development for Georgian economic growth.*

*The paper starts with a description of the main concepts, presenting the main characteristics of economic diplomacy, followed by a general description of the commercial treaties signed between Georgia and European Union. This research continues with a description of Georgian economic diplomacy analyzing its particularities for the last two decades. The last part of this research paper presents a general case study concerning the main particularities of Georgian Economic Diplomacy and its role for economic growth as a strategic tool for European Union Integration and Geoeconomic stability. Overall this paper offers a general analysis of economic diplomacy of Georgia and its role for geo-economic cooperation for integration of the country in European Union.*

**Key words:** economic diplomacy, Georgia, European Union, commercial treaties, geoeconomy, economic growth.

## INTRODUCTION

The main characteristics of economic diplomacy are analyzed here in order to show how this area can play nowadays the role of a strategic instrument of European integration and economic cooperation. This research paper analyzes the development of Georgian Economic Diplomacy, analyzing different commercial treaties signed between Georgia and European Union. Here is also observed the strategic role of Georgian Economic Diplomacy for the development for Georgian economic growth.

Georgia is a country located in Caucasus Mountains, in the Eastern side of the Black Sea,

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<sup>1</sup> Dr. Nicoleta Vasilcovschi - Economics Lecturer, Visiting Lecturer - Qingdao University of Science and Technology, Shandong, China; Social Studies, Economics Lecturer, Sino-Canadian Program, Shandong, China, Economics Lecturer Collaborator with "Stefan Cel Mare" University, Suceava, Romania, email: [nicoleta.vasilcovschi@usm.ro](mailto:nicoleta.vasilcovschi@usm.ro). Nicoleta Vasilcovschi holds a PhD in Economics and International Affairs with a Thesis about Economic Diplomacy and Globalization. For the last years, Nicole was a Visiting Lecturer at Qingdao University of Science and Technology, Shandong, China, collaborated with "Ștefan cel Mare" University of Suceava, Romania and taught Economics and Social Studies for an International Alberta Canadian Program in China. Nicole has published several books and articles in the field of international economic relations, as well as several books of poetry. Nicole is part of the Cygnus Suceava team, working as a volunteer for over two decades, and recently, she also collaborated with the InterCollege organization from Denmark, for which she coordinated a creative writing workshop as part of a project that aims to promote poetry among young Europeans. Appreciated for her teaching and researching activity, Nicole Vasilcovschi was awarded in 2020 in China, and in 2018 she received the "Merit of Bucovina" Distinction in Suceava, Romania.

having Azerbaijan on the East-Southeast, Russia in Northeast, Armenia and Turkey in South and Black Sea on the west. Tbilisi is the capital city of the country, and three main ethnic groups live in different parts of Georgia. In fact, the Northwest areas are inhabited by the Abkhazia group, the Southwest area by the Ajaria group and the Northern areas by Ajaria group.

The main commercial partners of Georgia are European Union and its neighbors countries, Turkey and Russia.

The paper is organized as follow, it starts with a general description of the main concepts, describing the main characteristics of economic diplomacy, followed by a general description of the commercial treaties signed between Georgia and European Union. The research continues with a general description of Georgian economic diplomacy analyzing its particularities for the last two decades, and also observing its main activities at regional and international level. The last part of this research paper includes a general case study concerning the main particularities of Georgian Economic Diplomacy and shows its role for economic growth as a strategic tool for European Union Integration and Geoeconomic stability.

Methodology of research: descriptive research with quantitative and qualitative data based on primary and secondary sources of information.

The qualitative research for this paper is based on data and information that present different views concerning the economic diplomacy and the economic cooperation between Georgia and other countries. Our data sources are based on official government websites, reports, research papers and media articles. After the collection of data, we present a description and synthesis of our findings, as well as a description of economic diplomacy and its importance for economic cooperation.

Our quantitative research is based on official trade reports and research studies focused on economic growth, economic diplomacy and geoeconomics and geostrategies used by Georgia in its collaborations with European Union and with other countries. We particularly observe and evaluate in the last part of this paper the economic impact of the economic diplomacy strategies on Georgian economic growth and its impact for the integration in the European Union and for geoeconomic stability. Our data sources are based on academic papers and research projects, economic reports and governmental websites, showing the importance of the Association Agreement (AA) with European Union in comparison with other international agreements.

Overall this research includes a general analysis of economic diplomacy of Georgia and its role for geo-economic cooperation for integration of the country in European Union.

## 1. THE MAIN CHARACTERISTICS OF ECONOMIC DIPLOMACY AND THE MAIN COMMERCIAL TREATIES SIGNED BETWEEN GEORGIA AND EUROPEAN UNION

**Economic diplomacy** represents the main instrument a country has to apply its economic goals and in the area of economic development and to ensure a strong collaboration that countries have at the regional and international level.

Georgia is trying to modernize its economy and to promote a modern economic diplomacy. For instance, in 2022, a number of around 80 members of Georgian missions abroad and the country's Foreign Ministry have been retrained in economic diplomacy. This training took place under the guidance of the European Union, European Bank for Reconstruction and Development and the Foreign Ministry, being initiated by the Enterprise Georgia state campaign. The main goal of this training was to help continue to promote a sustainable economy and an effective impact in the field of foreign affairs with promoting and establishing a successful economic diplomacy that continues to attract investments and increase the level of exports <sup>2</sup>.

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<sup>2</sup> Staff of Georgian embassies retrained in economic diplomacy. 2022. <https://agenda.ge/en/news/2022/2105#gsc.tab=0>

European Union Commission granted the candidate status to Georgia on December 2023, this making Georgia one of the nine candidates to join European Union, alongside with Moldova, Ukraine, Turkey, Macedonia, Serbia, Montenegro, Bosnia and Herzegovina and Albania.

Over two decades ago Georgia joined the World Trade Organisation and a decade ago, in June 2014, European Union (EU) and Georgia signed an Association Agreement (AA) that started being in force since July 2016. With this agreement was introduced a preferential trade regime - the Deep and Comprehensive Free Trade Area (DCFTA). The main role of this regime is to increase market access between EU and Georgian, better implemented with matched regulations and collaborations.

Concerning bilateral agreements with third countries, Georgia joined 16 free trade agreements (FTAs), including agreements with the European Free Trade Association (EFTA), with Türkiye, and the United Kingdom. However, preferential agreements are in place with some countries with whom the EU does not have preferential agreements, included here are Armenia, Azerbaijan, China the Russian Federation, Turkmenistan and Uzbekistan. Also, in October 2023, Georgia signed a free trade agreement (FTA) with the United Arab Emirates which is currently subject to ratification by both sides. This FTA covers trade in goods as well as trade in services, sanitary and photo-sanitary measures, protection of intellectual property, trade remedies, customs and trade facilitation and others. In February 2024, negotiations on an Economic Partnership Agreement between Georgia and the Republic of Korea were also launched. In present, Georgia has 34 bilateral investment treaties in force with other countries, including with 16 Member States of EU, and also with the United Kingdom and Belarus. Georgia is also in the process of negotiations with Canada and the Republic of Korea on the Foreign Investment Promotion and Protection Agreements.<sup>3</sup>

According to recent researches, European Union remains the main trade partner of Georgia, 20.9% of the country's trade taking place with the EU, followed by 13.8 % of its trade with Turkey and by 11.1% with Russia. It was observed that in 2023, the EU trade with Georgia accounted for 0.1% of its total trade, with a turnover of around € 4.36 billion. In fact, the EU exports to Georgia amounted to €3.6 billion in 2023, an increase of 11.9% compared to 2022. The main export products from European Union into Georgia is represented by machinery and appliances, transport equipment and mineral products. The main imports from Georgia into EU include mineral products, chemical products, and textiles. However, it was also observed that in 2023 the EU imported from Georgia goods of the value of € 752 million, with imports decreasing by 27.5% compared with the previous year<sup>4</sup>.

## 2. GEORGIAN ECONOMIC DIPLOMACY IN THE LAST TWO DECADES

This part of research includes a description of Georgian economic diplomacy analyzing its particularities at regional and international level.

Different studies on Georgian economic diplomacy show this area combined with cultural and public diplomacy and applied at regional level and at the international level, going from

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<sup>3</sup> COMMISSION STAFF WORKING DOCUMENT, Georgia 2024 Report, 2024, Brussels p. 92.

<sup>4</sup> EU trade relations with Georgia. Facts, figures and latest developments.2024.

[https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/georgia\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/georgia_en)

collaborations with its neighbor countries to extended collaborations with other countries from European Union, Middle East and America.

Other studies confirm that the Georgian economic diplomacy is based on different roles and functions that relevant institutions follow organizing programs and strategic governmental activities in collaboration with different business associations and chambers of commerce. It is described that the main activities of economic diplomacy are included in the governmental strategies in the structure of diverse programs and projects. As an example included here is *Social and Economic Development Strategy – Georgia 2020* that includes a general governmental view towards the sector of economic diplomacy. Similar with the economic diplomacy of other countries, Georgian economic diplomacy here is portrayed as being opened to more international trade with the enlargement of areas of investments and of Foreign Direct Investment platforms. It's also shown that the Georgian government pays a special attention to encourage export industries, including a modernized logistics, transport, energy and agriculture with the introduction of new tech and the improvements of the present infrastructure<sup>5</sup>.

When analyzing the public diplomacy development stages at the regional level through the Black Sea Economic Cooperation Organization were identified a few problems that came from having different economic strategies and interests between Russia and Georgia and between Russia and Ukraine, this influencing as well the increased tensions between Russia and Turkey. It was shown that different priorities in the foreign economic and political orientation of the participating countries also negatively impacted the development of relations<sup>6</sup>.

Research on the role of cultural diplomacy of Georgia shows how this area can influence later its economy and implicitly its economic diplomacy, its collaborations that started in the Soviet Union and continued with collaborations with other countries including United Arab Emirates. The main tools of the Georgian cultural diplomacy are presented as being its adaptation and the friendship rhetoric to the international economic changes, with implications in different spheres from social and political to economic implications for Tbilisi and for enhancing an international cooperation as a central starting point for following the complex economic interests of the state of Georgia<sup>7</sup>.

The changes of the world's economic system included a globalized system that involves a high degree of regional integration. It's considered that the economic spectrum should play an important role in significantly shaping the foreign policy. Therefore, a strong economic diplomacy for Georgia should involve a development on the long term of its market economy with the goal to join the European Union and to establish free trade relations with the EU, that can directly allow the country to continue to achieve its economic interests and to increase its economic growth<sup>8</sup>.

There is not an organized Georgian department of economic diplomacy, but the Department of International Economic Relations applies the main goals of the Georgian economic diplomacy.

In order to facilitate the implementation of national, regional and international investment projects in Georgia and to achieve market access conditions for Georgian exports to foreign markets, the Georgian state needs to monitor the country's macroeconomic indicators and to offer access to transparent information concerning Georgian and international business environments.

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<sup>5</sup> M., Skhiereli. *Economic Diplomacy in Georgia: Existing Practice and Future Prospects*. (2019), PMC Research Center: Tbilisi

<sup>6</sup> Miheeva, N. M., et al. "Public diplomacy development stages through the black sea economic cooperation organization." *International Journal of Mechanical Engineering and Technology* 9.11 (2018): 1382-1391.

<sup>7</sup> S. Harris-Brandts and David Sichinava. "Architecture and friendship among nations: the shifting politics of cultural diplomacy in Tbilisi, Georgia." *International Journal of Heritage Studies* 27.12 (2021): 1213-1229.

<sup>8</sup> E. Eteria "Globalization and priorities of economic diplomacy of Georgia." *Проблемы и перспективы развития сотрудничества между странами Юго-Восточной Европы в рамках ЧЭС и ГУАМ* (2010): 337-339.

The Department of International Economic Relations of the Ministry of Foreign Affairs of Georgia is a structural subdivision of the Ministry of Foreign Affairs, with its main task is to promote the goals of the economic diplomacy of Georgia, including the development of multilateral and regional economic relations.

By using information analysis, development of suggestions and recommendations on different issues of cooperation with foreign states and with international organizations. This Department makes use of diplomatic means to attract foreign investment capital and to use the suitable technical assistance. In its activities, this department follows Georgian Constitution and legislation, international agreements and the legislation under the guidance of the Georgian Ministry of Foreign Affairs.

Some of the main functions of this department include:

- coordination of international economic activities and promotion of cooperation between Georgia and international organizations in order to represent Georgia's international obligations;
- analysis of data and promotion of the development of multilateral and regional foreign-economic relations and developing proposals and recommendations on issues of cooperation with other states and international organizations;
- use of diplomatic means to search for and obtain relevant trade and economic information of potential trade partners, as well as to attract foreign investment capital and technical assistance in order to promote the realization and export of international, regional investment projects of state importance;
- coordination of bilateral intergovernmental economic commissions with different countries,
- preparation of proposals and recommendations concerning conclusion, execution, termination and suspension of economic international agreements with the established procedure,
- consultations for diplomatic representations of Georgia regarding the promotion of the development of multilateral and regional foreign-economic relations<sup>9</sup>.

### **3. A CASE STUDY ON THE IMPACT OF GEORGIAN ECONOMIC DIPLOMACY ON ECONOMIC GROWTH AND ITS STRATEGIC ROLE FOR THE EUROPEAN UNION INTEGRATION AND FOR PROMOTING A GEO-ECONOMIC STABILITY**

In September 2024, Georgia's real economy activity grew 8.3 percent and around 6400 new enterprises were registered. Georgia's external trade decreased, going to 17 % in September 2024 from 30 % in August. However it was observed that the exports of cars improved by 43.9 %, while exports of wine fell 25.9 %.<sup>10</sup>

Georgian economic growth is impacted by one particular aspect of tariff policies of Georgia that is one of the most liberal tariff policies in the world with technical regulation. In fact, from 2006 tariffs on imports decreased from 16% to 3% tariff rate and the tariffs on imports were eliminated approximately by 85% on goods, and also there are seasonal tariffs. It was also observed that there are no duties on export, moreover, export from Georgia is free from Value Added Tax (VAT), based on the Tax Code of Georgia, VAT and excise duty are equal for local and imported goods. Another particularity of Georgia's reforms includes the opening of its markets for foreign direct investments

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<sup>9</sup> Department of International Economic Relations, 2024. <https://mfa.gov.ge/en/structure/181682-saertashoriso-ekonomikur-urtiertobata-departamenti>

<sup>10</sup> Dolidze, M, Chemutai, V. Georgia Monthly Economic Update, November 2024, World Bank Group.

with unconditional mutual recognition of the technical standards from all members of *Organisation for Economic Cooperation and Development* (OECD) and the EU member states<sup>11</sup>.

The geostrategic role of Georgian economic diplomacy for European Union integration and for a geoeconomic stability is more and more vital in a global world that goes through different ideological, political and socio-economic changes.

In the present context of internal struggle, Georgia should continue to follow its steps for being a member state of the European Union. In fact, in the recent years in order to establish a modern geoeconomic environment for candidates like Georgia, European Union developed new programs under 2014-2020 European *Neighbourhood Instrument*, offering support in order to improve socio-economic development and different reforms at the level of public administration. For the last decade, Georgia has extended its participation in different EU. Georgia is a member of Horizon Europe, Creative Europe, EU4Youth, the Fiscalis Programme and also the transnational cooperation through the Interreg program *Black Sea Bassin*<sup>12</sup>.

Concerning the strategic role of Georgian economic diplomacy for European integration and for promoting a geoeconomic stability in the area, we observed the bilateral allocation for Georgia for the period 2021- 2024 that included around EUR 340 million under the project the *Neighbourhood, Development and International Cooperation Instrument - Global Europe 2021- 2027* (NDICI- GE). This bilateral cooperation is mandatory because it includes cultural and educational support, with strong financial and technical support as well. Through *The Eastern Partnership Economic and Investment Plan* (EIP), and also in cooperation with European financial institutions, the EU aims to offer Georgia around EUR 3.9 billion in public and private investments. The EIP comes together with a Partnership based on Recovery, Resilience and Reform: post-2020 Eastern Partnership based on the priorities established in 2021 during the Eastern Partnership Summit. This includes more cooperation at the Black sea with improvements for the sectors of environment and energy.

## CONCLUSIONS

In summary this paper offers a general analysis of economic diplomacy of Georgia and its strategic role for integration in the European Union, for establishing a sustainable economic growth and for promoting a long-term geoeconomic cooperation.

The economic diplomacy plays a central role for the technological advancements of Georgia and for a sustainable development of its projects and the improvement of its socioeconomic platform. The strategic importance of this area is based on its leading to economic cooperation at regional and international level, helping the country not just to attract new investments but to also promote its key industries abroad.

Representing the country's main economic interests with the wider goal of attracting funds and geostrategic trade partners, Georgian economic diplomacy plays a central role concerning the involvement in international affairs. Its role for continuing negotiations for integration in the European Union can also give a strong opportunity for the country to improve its institutions and to use the technical and financial support from the European Union in order to increase its presence in the international market and to establish a long-term partnership with other countries and an efficient partnership with the European Union.

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<sup>11</sup> Natela Malishava. *Trade Diplomacy: Georgian-EU Economic Relations—A Case Study*. Diss. University of East Anglia, 2014, p.43.

<sup>12</sup> COMMISSION STAFF WORKING DOCUMENT, Georgia 2024 Report, 2024, Brussels Department of International Economic Relations, 2024. <https://mfa.gov.ge/en/structure/181682-saertashoriso-ekonomikur-urtiertobata-departamenti>, p. 96.

A modern and strategic Georgian economic diplomacy can increase the country's chances to promote its economic interests abroad and to benefit from a win-win cooperation with European Union and its business partners.

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