THE HIDDEN COSTS OF REGIONAL INTEGRATION: THE CASE OF GEORGIA AND UKRAINE

By
Sophiko Kurasbediani

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Supervisor: Professor Daniel Izsak

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Abstract

After almost two decades of political commitment and a number of intergovernmental agreements, the path of Georgia and Ukraine towards the EU has proven to be relatively slow; the membership perspective remains unrealistic, and there is hardly any economic interdependence. Following Walter Mattli's framework, this thesis moves beyond state-centric theories of integration. Instead, it focuses on analyzing the demand-side factors, the role of the market player and the sub-state linkages in determining Georgia's and Ukraine's integration path. The thesis argues that the existence of an alternative market for the Georgian and Ukrainian businesses and the lack of interest from the European transnational corporations to operate and establish production sits in the above-mentioned countries is one of the main causes of the lack of advance in the quest for EU membership. Taking the 2004 EU enlargement and the experience of the eight CEE acceding countries as a heuristic device, the thesis further stresses that the absence of an alternative market other than the EU for the CEEC and their early embeddedness in European value chains played a significant role in motivating big firms and transnational corporations to lobby for EU's eastward enlargement. By examining the trade-related statistics of exports and imports and the allocation of the production sites of European transnational corporations, the thesis concludes that the economic linkages between the European Union and Georgia and Ukraine are not strong enough to assume that market forces will find it beneficial to push for further regional integration and liberalization of trade.

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Introduction

Since the dissolution of the USSR, the European Union (EU) has been actively involved in the transition process of its Eastern neighbours. With the accession of the Central and Eastern European countries (CEEC) in 2004, the EU's attention shifted to building relations with the remaining post-Soviet states, and a number of inter-governmental agreements were introduced to stimulate the stability and prosperity of the neighbourhood and to bring them closer to the EU standards. Georgia and Ukraine, on their part, demonstrated a strong political commitment to joining the European Union, particularly after the 2003 Rose Revolution in Georgia and the 2004 Orange revolution in Ukraine and the subsequent military conflicts with Russia. All ruling governments of Georgia have proclaimed their pledge to Western values and EU integration. At the same time, the pro-Russian leaning president of Ukraine, Viktor Yanukovych, was forced to flee the country due to his refusal to sign the Association Agreement (AA).[1] Nevertheless, shortly after, his predecessor Petro Poroshenko reiterated the "unbreakable will" of Ukraine's EU path.[2] The pro-EU discourse has been very prominent in both cases; national narratives have been built on the belief that Georgia and Ukraine belong to Europe, not only geographically but politically and culturally and are, therefore, claiming their rightful place in the family of European nations.[3]

Consequently, the 2014 Association Agreement, which includes the Deep and Comprehensive Free Trade Area (DCFTA), was considered a monumental step forward to

[1] Michael Ray, "Viktor Yanukovych," *Encyclopedia Britannica*, July 5, 2020, https://www.britannica.com/biography/Viktor-Yanukovych.

[2] Espreso.TV, *Poroshenko's Speech on Signing EU Association Agreement*, 2014, https://www.youtube.com/watch?v=1YFu-bj-gLw.

[3] Donnacha O. Beachain and Frederik Coene, "Go West: Georgia's European Identity and Its Role in Domestic Politics and Foreign Policy Objectives," *Nationalities Papers* 42, no.6 (July 2014): 923–941; Salome Minesashvili, "European identity discourses in the contested neighborhood of Europe and Russia: The case of Ukraine," *Discussion Paper* 20, no.2 (2020): 1–47.

"significantly deepen political and economic ties between the signatories."[4] Nevertheless, in practice, the AA did not result to be as monumental as expected, and the path of Georgia and Ukraine towards the EU has proven to be relatively slow. This lack of advance in the integration process is especially pronounced when compared to the experience of the CEEC, who, already in the early 1990s, despite the deep economic and political crises, were granted an association agreement that stipulated the prospect of membership. What is more, the agreement significantly intensified the economic integration between the European Union and the CEEC. By contrast, in the case of Georgia and Ukraine, after nearly two decades of political commitment and five years into the AA and the DCFTA, which aims at accelerating trade between the parties, no major deepening of economic ties is visible, and the membership perspective remains unrealistic. Unlike the CEEC, the economic integration of Georgia and Ukraine is minor, chiefly in the case of Georgia, which remains largely dependent on the market of the Commonwealth of Independent States (CIS). Despite the political commitment and a number of intergovernmental agreements, the economic and business actors do not seem to respond to incentives, and the kind of economic relations are qualitatively different to the CEECs'.

While the debate over Georgia's and Ukraine's integration process and its deterrent factors has been mainly concentrated on studying interstate relations and the convergence of rules and values,[5] in 1999, Walter Mattli stressed the importance of market factors in determining the outcome of integration.[6] He argued that "demand for institutional changes

[4] "The EU's Association Agreements with Georgia, the Republic of Moldova and Ukraine," European Commission, accessed May 15, 2021, https://ec.europa.eu/commission/presscorner/detail/de/MEMO_14_430.
[5] Laure Delcour, "Meandering Europeanisation. EU Policy Instruments and Policy Convergence in Georgia under the Eastern Partnership," *East European Politics* 29, no. 3 (September 2013): 344–57, https://doi.org/10.1080/21599165.2013.807804; Guillaume Van der Loo, Peter Van Elsuwege, and Roman Petrov, "The EU-Ukraine Association Agreement: Assessment of an Innovative Legal Instrument," *SSRN Electronic Journal*, (2014), https://doi.org/10.2139/ssrn.2464681; Katharina Kleinschnitger and Michèle Knodt "Asymmetric Perceptions of EU Relations with the near Eastern Neighbours: The Republic of Moldova, Ukraine and Belarus in Comparison," *European Foreign Affairs Review* 23, (2018): 79–100.
[6] Walter Mattli, *The Logic of Regional Integration: Europe and Beyond*, 1st ed. (Cambridge University Press, 1999), https://doi.org/10.1017/CBO9780511756238.

comes from the bottom"; those private firms and corporate actors that expect to incur the biggest gains from the change in the status quo will press for deeper regional integration and lobby for a change in the existing governance structure.[7] Therefore, following Mattli's framework, this thesis aims to move past inter-state relations and examine the so-called demand-side factors of integration, the business interests of the Georgian and Ukrainian market players, which have mainly gone unresearched.

Deriving from Mattli's frame, I raise the following question: *what is the role of market players and the demand-side factors in the process of Georgia's and Ukraine's EU integration? How does the existence of an alternative market for the Georgian and Ukrainian business sectors influence these countries' quest for deeper integration?*

This thesis argues that a lack of sub-state level demand and linkages to the EU and the existence of an alternative market for the Georgian and Ukrainian businesses is one of the main culprits for the lack of advance in the quest for EU membership. Taking the CEEC experience as a heuristic device, this research further stresses that the economic interdependence between the European Union and the CEE countries throughout the 1990s motivated private companies and transnational coalitions to push harder for legal integration, making membership feasible. Due to the absence of an alternative market, the companies operating in the Central and Eastern European countries became highly reliant on the EU market. On the other hand, those relocated European firms manufacturing in the CEEC for re-exports depended on the cheap local labour and low production costs, which boosted their competitiveness. Therefore, the prospect for further economic gains spurred the demand for regional integration.

To analyze the demand-side factors of integration, I first examine trade relations, the volume of imports and exports between the European Union Georgia, Ukraine and the CEEC to identify the dependency of the export-oriented companies on the EU market. I subsequently

[7] Mattli, *The logic of Regional Integration*, 44.

recognize the specific sectors that would be particularly interested in the further liberalization of trade with the EU or, on the contrary, might be more eager to push for access to other markets. Afterwards, I move to examine the presence of the European transnational corporations in Georgia, Ukraine and the CEEC. Here I focus on identifying whether these corporations own factories and production plants that would be considered of strategic importance for their competitiveness and which, therefore, could create additional incentives for lobbying the EU or home governments for closer integration of the markets. For this purpose, I will look at several available data and written resources such as speeches, declarations and reports of business associations to detect whether demands for closer market integration are present in their agendas.

The thesis proceeds in the following steps: I first analyze the literature discussing the relevance of domestic interest groups and multinational corporations (MNCs) in forming foreign policy preferences and accelerating regional integrations. I subsequently examine the accession process of the Central and Eastern European countries, their trade relations with the EU throughout the 1990s and the role of the European Round Table for Industry (ERT) in lobbying for the EU's eastward expansion. The last part will discuss the case of Georgia and Ukraine, their trade interdependence with the EU and alternative markets, as well as the presence and involvement of European transnational corporations. Finally, the thesis ends with a summary of the main findings.

Literature Review

The existing literature offers a number of explanations for the process of integration and some of its determinant factors. Different theories tend to vary on identifying who the relevant actors are and why they chose to integrate. While it has been widely argued that governments play the main role in the formation of integration preferences,[8] such state-centric theories fail to acknowledge the relevance of other domestic players and their part in forming national interests; therefore, they cannot fully explain what drives or deters integration. Below, I discuss some of the scholars that focus on studying the impact of non-state actors and the so-called demand-side factors of regional integration; first, I will review domestic players and their role in regional integration, then I move to examine Mattli's account of the demand-side factors and EU integration and lastly, I briefly discuss the political influence of multinational corporations.

Breslin and Higgott, when constructing a new approach to the theories of regionalism and regionalization, provide an account of the process of regional integration and some of its determinant factors.[9] While the former refers to "those state-led projects of cooperation that emerge as a result of intergovernmental dialogues and treaties,"[10] the latter connotes those "autonomous economic processes which lead to higher levels of economic interdependence."[11] The process of regional integration can be driven by either regionalism, i.e., interstate agreements and formal institution-building, and then lead to further regionalization and an increase in trade and FDI. Or, on the other hand, as argued by Hettne and Soderbaum, integration could start at the bottom, through the process of regionalization like international

[8] Frank Schimmelfennig, "Regional Integration Theory," *Oxford Research Encyclopedia of Politics*, (February 2018); Andrew Moravcsik, "Negotiating the Single European Act: National Interests and Conventional Statecraft in the European Community," *International Organizatio*n 45, (Winter 1991): 19–56.
[9] Shaun Breslin and Richard Higgott, "Studying Regions: Learning from the Old, Constructing the New," *New Political Economy* 5, no. 3 (November 2000): 333–352, https://doi.org/10.1080/713687784.
[10] Breslin and Higgott, "Studying Regions," 344.
[11] Andrew Hurrell, "Explaining the Resurgence of Regionalism in World Politics," *Review of International Studies* 21, no. 4 (October 1995): 331–358, https://doi.org/10.1017/S0260210500117954.

flow and social contacts, which would put pressure on governments to launch the course of regionalism.[12] These economic processes are mainly driven by private trade, markets, and international flows, which lead to a growth of societal integration within a given region.[13] On certain occasions and in some micro-regions, states only provide a weak degree of institutionalization while markets and private sectors are the ones who initiate the high degree of interactions.[14] According to Hurrell, "the emergence of increasingly dense networks of strategic alliances between firms," the growth of trade, and the number of international acquisitions are of particular relevance[15] and create an "inexorable momentum toward the further integration of economies within and across region."[16] Notwithstanding the fact that, due to globalization and the increased interdependence among nations, identifying the exact starting point of regional integration is a challenging endeavour, the theories of regionalism and regionalization create the foundation for looking beyond inter-state relations when analyzing EU's eastern enlargement and, instead, examine the role of the bottom-up processes and business interest. Breslin and Higgott's approach to regionalism moves past the assumption that states are unitary actors and accentuate the relevance of markets and multinational corporations as important players of integration; however, their account lacks a more thorough study of how and to what extent these non-state actors influence the process of regional integration and what determines their success.

In that regard, Mattli's framework of regional integration is of particular importance. In 1999, Mattli, in an endeavour to explaining why so many attempts of integration[17] had failed

[12] Björn Hettne and Fredrik Söderbaum, "Theorising the Rise of Regionness," *New Political Economy* 5, no. 3 (November 2000): 457–472, https://doi.org/10.1080/713687778.
[13] Hurrell, "Explaining the Resurgence of Regionalism in World Politics," 334.
[14] Hettne and Söderbaum, "Theorising the Rise of Regionness."
[15] Hurrell, "Explaining the Resurgence of Regionalism in World Politics," 334.
[16] Robert D. Hormats, "Making Regionalism Safe," *Foreign Affairs* 73, no. 2 (April 1994): 97–108, https://doi.org/10.2307/20045922.
[17] Mattli defines integration as "the voluntary linking in the economic domain of two or more formerly independent states to the extent that authority over key areas of domestic regulation and policy is shifted to the supranational level," 41.

while only a few had succeeded, stressed the importance of demand and supply-side conditions as determinants of a successful regional integration.[18] Mattli argues that market forces and the willingness of political leaders to accommodate demands for deeper integration play a key role in understanding (1) why regional unions are formed and (2) why/when outsiders would seek to become members of such unions.[19] While only the combination of the two, demand and supply conditions, are said to yield success, I will primarily focus on Mattli's account of the former due to the research interest of this thesis.

Mattli emphasizes that demand for integration starts at the bottom: access to wider markets can help countries achieve economies of scale in production and exploit their comparative advantage, which in turn creates economic gains from foreign trade; therefore, the market players that are expected to benefit the most from operating beyond the boundaries of a single state will lobby for a change in the governance structure.[20] Such players also include foreign investors, those firms who, by operating outside their national borders and through the access to resources and cheap high-skilled labour, are likely to acquire production advantages vis-à-vis their counterparts.[21] Nevertheless, Lipson argues that national policy instruments put multinational firms under an array of risks: restriction of entry and expansion of foreign firms, outright nationalization of foreign assets, non-tariff barriers, licensing restrictions, tax discrimination, etc.[22] For the sake of minimizing these risks, companies will push for further market integration and an integrated government structure as a way of "external safeguards."[23]

A number of scholars have pointed at the influence multinational corporations have on international institutions and foreign policy-making. Kim and Milner denote that because of

[18] Mattli, *The Logic of Regional Integration*.
[19] Mattli, 41.
[20] Mattli, 46.
[21] Mattli, 46–47.
[22] Charles Lipson, *Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries*, (University of California Press, 1985).
[23] Mattli, 48.

their strong economic presence – involvement in large exports, offshoring activities and outsourcing – MNCs are the primary beneficiaries of trade liberalization and bilateral investment treaties and consequently the most prominent supporters.[24] The instruments through which big corporations advance their interests include activities such as lobbying, not only their home governments but those of host countries; through either associations, informal ties, or political action committees, MNCs can pressure leaders via "inducements" - promising economic benefits such as access to new technology and employment or "deprivation" - threatening to withdraw their investments.[25] According to Nye, firms also hold an agenda-setting power by providing information and policy expertise and pressuring home governments to intervene and support claims against host states.[26] Much of the power of corporations originates from the fact that their choices to move production activities and resources from the home country to another state cannot "be controlled in the same way as through national legislation, thereby making the transnational activities of enterprises a form of private foreign (economic) policy."[27] Thus, because states have limited control over corporations and their capacity to operate across borders, some scholars have even argued that private enterprises have become more powerful than states.[28] For that reason, it is increasingly relevant to acknowledge the role of transnational corporations and their lobby when explaining foreign policy and, in particular, regional integration processes.

On this subject, Mattli, when studying the integration process of the European Union, claims that the creation of the single market was primarily a result of corporate pressure. Different national tax regimes, regulation, and the absence of common standards put the firms

[24] In Song Kim and Helen V Milner, "Multinational Corporations and their Influence Through Lobbying on Foreign Policy," *Multinational Corporations in a Changing Global Economy* (2019).
[25] Joseph S. Nye, "Multinational Corporations in World Politics," *Foreign Affairs* 53, no.1, (October, 1974): 153-175.
[26] Nye, "Multinational Corporations in World Politics," 160.
[27] Andreas Nölke and Christian May, *Handbook of the International Political Economy of the Corporation* (Edward Elgar Publishing, 2018), https://doi.org/10.4337/9781785362538.
[28] Susan Strange, *The retreat of the state: The diffusion of power in the world economy* (Cambridge university press, 1996).

operating in the EU at a disadvantage vis-à-vis the American and Japanese counterparts, creating an incentive for big businesses to form coalitions and lobby EU institutions as a means of reducing the costs of production and transaction.[29] Strong bargaining power and threats of moving capital out of the European Union put the establishment of a single market at the top of the EU's agenda.

Thus, reflecting on these theories and deriving from Mattli's theoretical framework, I look beyond inter-state relations and intergovernmental agreements. Instead, I focus on the sub-state demand at the micro-level and ask the following question: what is the role of market players and the demand-side factors in the process of Georgia's and Ukraine's EU integration? How does the existence of an alternative market for the Georgian and Ukrainian business sectors influence the quest for deeper integration?

[29]Mattli, 77.

Conceptual Frame

When studying the EU's eastern enlargement, a significant part of the existing literature has been primarily directed towards analyzing either intergovernmental agreements and state-led projects or the institutional reforms, the convergence of norms, and the adoption of EU values.[30] However, while all these variables undoubtedly matter, the nature of the business sector interest, the potential losers, and winners, those coalitions that could push for or against further EU integration have been given less attention. Using Walter Mattli's framework, this thesis moves beyond state-led projects of cooperation. It aims to contribute to Mattli's frame by investigating the demand-side factors in the integration process of Georgia and Ukraine. I argue that a lack of sub-state level demand and linkages to the EU and the existence of an alternative market for the Georgian and Ukrainian businesses is one of the main culprits for the lack of advance in the quest for EU membership.

Even though Mattli examines projects of the 19th and 20th century, I will primarily concentrate on his account of the European Union since that is the organization this thesis is interested in. While he acknowledges "[t]he critical role of market players" and their interests, which "…are the most important for spurring a drive for deeper integration,"[31] when discussing the EU's eastern periphery in the 1990s, Mattli takes a relatively simplistic approach. He claims that to avoid the negative externalities originating from the post-communist and post-Soviet states, the EU had no other option but to start the process of integration. The fear of mass immigration and refugee inflow from the politically and economically unstable Central and Eastern European states created incentives to initiate negotiations and the gradual integration

[30]Michael Emerson And Tamara Kovziridze, "Deepening EU–Georgian Relations: What, why and how?" *CEPS Special Report*, (August 2016); Roman Petrov, "Constitutional Challenges for the Implementation of Association Agreements between the EU and Ukraine, Moldova and Georgia," *European Public Law* 21, no. 2 (2015): 241–254; Gaga Gabrichidze, "The Impact of the Court of Justice of the European Union on the Georgian Legal System," in *The Impact of the European Court of Justice on Neighbouring Countries*, ed. Arie Reich and Hans-W. Micklitz (Oxford University Press, 2020), 241–262, https://doi.org/10.1093/oso/9780198855934.003.0011.
[31] Mattli, 49–50.

process of the CEE countries. However, once the Central and Eastern European counties had achieved some economic growth and were no longer a source of instability, according to Mattli, the costs for the European Union to pursue further integration and ultimately enlargement would have been higher than the benefits.[32] Mattli claimed that there would be a willingness to accept "poor countries" if there is a real threat of negative externalities that eventually can disrupt the stability, security, and prosperity of the Union.[33] Therefore, once these negative externalities were mitigated, the incentive for further integration should have weakened. However, Mattli's theory, besides the fact that did not result to be factual, and in 2004 the EU marked its biggest ever enlargement, also seems to be simplistic and, oddly enough, dismissive of the demand-side factors of integration. If the primary aim of integration was to avoid mass immigration, why then did the European Union offer the prospect of membership in the first place? If, as Mattli argues, we are dealing with rational actors that calculate the cost and benefits of enlargement, why were not these costs (i.e., widening of majority voting, subsidies to Eastern farmers) taken into consideration during initial negotiations? But most importantly, why then were the ten Central and Eastern European states ultimately granted membership, and what role did market forces play?

The thesis takes the CEEC experience as a heuristic device and argues that the absence of an alternative market other than the EU for the Central and Eastern European countries, and the coalitions of transnational capital and domestic firms who were increasingly trading with the European Community throughout the 1990s, created stronger incentives for private firms to push for EU membership. Besides, the CEEC early embeddedness in European value chains played a significant role in motivating big firms to lobby for the EU's eastward enlargement. Therefore, if in the case of Georgia and Ukraine, membership of the EU would induce high

[32] Mattli, 99.
[33] Mattli, 95.

costs for those import and export-oriented companies that benefit from alternative markets, for the CEECs, these costs had already been incurred in the early 1990s with the dissolution of the USSR. Thus, the thesis contends that the demand-side factors, business interests, and pressure by private firms significantly accelerated legal integration and made membership feasible.

Research Design and Methods

This thesis takes Georgia and Ukraine as the primary case studies, and in the interest of identifying the role of the demand-side factors in previous enlargements, it looks at the 2004 EU enlargement and the eight CEE acceding countries. The selection of the cases is made on the basis that Georgia and Ukraine (together with Moldova) are the Eastern Partnership states that signed the EU Association Agreement in 2014 and, therefore, agreed to deepen political ties and economic links with the EU. Since the 2003 and the 2004 Rose and Orange revolutions, both states changed course and expressed their desire to join the European Union and align with Western values. This sentiment has been most prominent in Georgia, whose main foreign policy aspiration since 2004 has been EU integration, and all the ruling governments have been of pro-Western orientation. Besides, Ukraine and Georgia share a common foe; both countries have undergone a full-fledged war with Russia in their recent history, leading to very turbulent political relations with Moscow, which has accelerated the quest for deeper EU integration. Yet, despite this political commitment to EU integration and attempts to move away from Russia's sphere of influence, the perspective of membership continues to be unlikely, and the process of economic integration has proven to be relatively slow.

The thesis further analyses the 2004 enlargement since the Central and Eastern European states, similar to Georgia and Ukraine, share a Soviet/Communist past, and as a result of the dissolution of the USSR, they too were left with a number of socio-economic and national problems. Nevertheless, unlike Georgia and Ukraine, the CEE countries were ultimately granted EU membership, and their integration process happened at a faster pace than the one of the Eastern Partnership countries. Therefore, by studying the 2004 enlargement, the aim is to distinguish the role of markets and non-state actors in the accession process of the Central and Eastern European states and identify how the absence of an alternative market for the business sector of the CEE countries influenced their accession.

In this thesis, I use Mattli's definition of the supply and demand-side conditions. The former refers to the willingness of political leaders to accommodate demands for deeper integration, while the latter represents the demand from market players and big businesses for further regional integration. In order to examine these demand-side factors, I analyze the trade-related statistics of exports and imports to identify, firstly, what is the volume of trade of Georgia, Ukraine and the CEEC with the European Union and with other alternative markets and secondly, which are the sectors that trade the most with the EU and could therefore favour further integration in contemplation of possible gains. Moreover, I look at foreign direct investment or the presence of European transnational corporations in the aforementioned countries to determine (1) whether they own production plants and (2) whether those plants are only oriented towards satisfying local demands or used as production hubs to then supply other markets. In the case of the latter, it is expected that these big firms who benefit from the access to resources or cheap labour, which eventually boosts their competitiveness vis-à-vis their counterparts, will have an interest to lobby for the full regulatory benefits of the EU to cover Georgia and Ukraine in order to exploit their economic potentials. For this purpose, I will research several available data and written resources such as speeches, declarations and reports of business associations to detect whether demands for closer market integration are present in their agendas. Nevertheless, this thesis acknowledges that we cannot fully assess how big of a role transnational lobby plays and how much politicians will be influenced by these corporations.

Chapter 1: The 2004 Enlargement

The collapse of the USSR in the early 1990s left the post-communist states of Eastern and Central Europe with a number of socio-economic and national problems, including declining living standards, rising unemployment, and fears of civil unrest.[34] The Soviet coup and ultimately the dissolution of the USSR and the Council for Mutual Economic Assistance (COMECON) in 1991 only made it clearer that the CEEC had no other alternative but to turn to European Community (EC) for assistance. The Soviet Union, once an important trading partner, disintegrated into 15 sovereign countries torn by either economic crisis, territorial conflicts, or both; the GDP of the Russian Federation, for instance, fell by about 24% between 1992 and 1995 and reached its lowest in 1999, a period which was farther characterized by low productivity and consumption and high inflation.[35] In this volatile economic and political environment, it became evident for the European Community that only the process of gradual integration would stimulate economic growth and mitigate the fears of the negative externalities that could originate from the Central and Eastern European states, such as mass immigration and inflow of refugees.

As a consequence, in 1991, Czechoslovakia, Hungary, and Poland signed an association agreement, or "European Agreement" with the Community by which the three countries reiterated their commitment to establishing a market economy and bringing their legislation closer to the EC practices on issues of environment, transport, drugs, money laundering, etc.[36] Through this progressive legal approximation, the agreement was supposed to help the association countries achieve their ultimate goal of becoming members of the Community.

[34] Lilia Shevtsova, "Post-Soviet Emigration: Today and Tomorrow," *International Migration Review* 27, no. 1 Supplement (January 1993): 353–370.
[35] Gerardo Bracho and Julio Lopez, "The economic collapse of Russia." *Banca Nazionale del Lavoro Quarterly Review* 58, no. 232 (2005): 53–89; "GDP (Current US$) - Russian Federation | Data," World Bank, accessed April 24, 2021, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=RU.
[36] "European Agreements with Czechoslovakia, Hungary, and Poland," European Commission, accessed April 24, 2021, https://ec.europa.eu/commission/presscorner/detail/en/IP_91_1033.

Between 1993 and 1996, the remaining Central and Eastern European counties also signed individual association agreements with the European Union.[37]

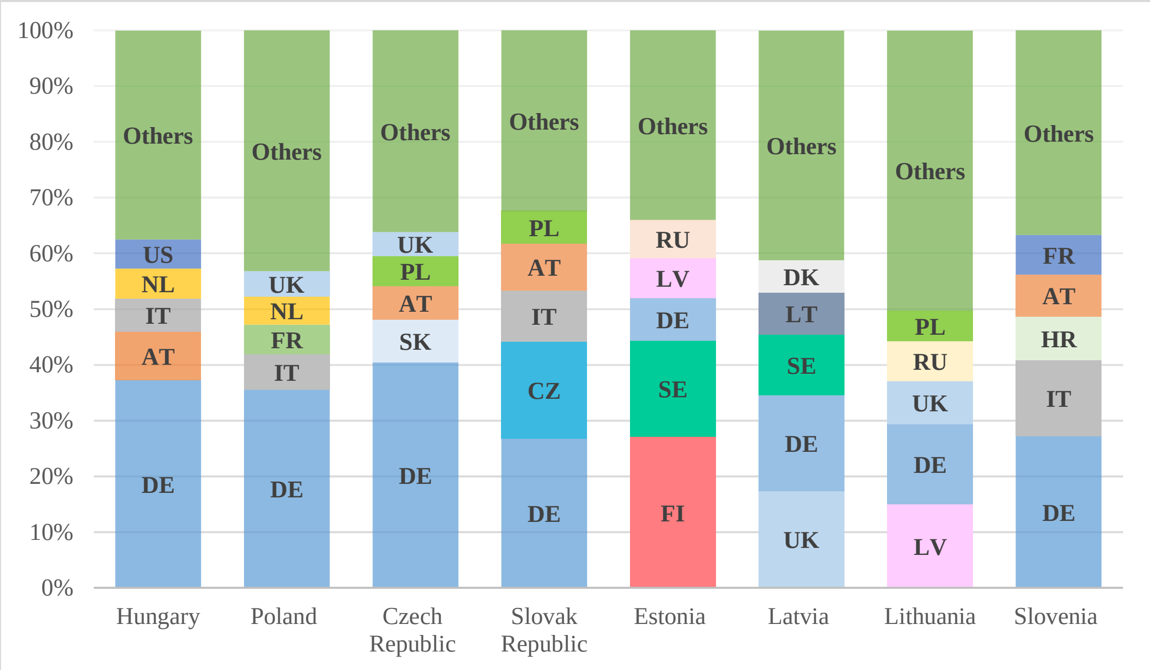
In the mid-1990s, the economic performance of the CEECs had already started to improve gradually; by 1995, the GDP of Poland and Slovakia had more than doubled, while in the remaining cases, growth was relatively moderate until the late 1990s.[38] Trade relations between the European Union and its eastern neighbours also intensified significantly throughout this period. By the end of the century, more than 50% of the total exports of all but one of the Central and Eastern European states were directed towards the EU market.[39] In 1992, Hungary exported more than 48% of its products to the European Union; by 2004, the share of exports had exceeded 61%. In the case of Slovakia, exports to the EU increased from roughly 33% to 56% between 1995 and 2000.[40]

Figure 1, presented below, is relevant in two ways; it illustrates that by 2000 the European Union had become the largest trading partner of the Central and Eastern European countries and that Germany, in particular, was one of the largest export destinations for all of the CEEC – it accounted for 26-45% of the total exports of the Visegrad states and Slovenia in 2000. Germany's role was relatively low for the three Baltic countries and particularly for Estonia but still significant. The figure further shows that the top five export destinations of the CEE countries' products were composed predominantly by EU states and, to a smaller extent by the CEEC, accounting for inter-regional trade. The Russian Federation only appears in two instances; Estonia's 5th and Lithuania's 4th largest exporting partner in 2000 was Russia,

[37] Due to the research interests of this thesis, by Central and Eastern European countries here, I refer to the eight post-communist and post-Soviet states that joined the European Union in 2004.
[38] "GDP (Current US$) - Hungary, Estonia, Lithuania, Latvia, Slovak Republic, Slovenia, Czech Republic, Poland | Data," World Bank, accessed April 25, 2021, https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=HU-EE-LT-LV-SK-SI-CZ-PL.
[39] Hungary, Poland, Slovenia, Czech Republic, Estonia, Latvia, and Slovakia. Lithuania exported more than 36% of their products to the EU.
[40] "Hungary Products Exports by Country & Region 1992-2004," World Integrated Trade Solution, accessed April 25, 2021, https://wits.worldbank.org/CountryProfile/en/Country/HUN/Year/2000/TradeFlow/Export/Partner/all/Product/Total/Show/Partner%20Name;XPRT-TRD-VL;XPRT-PRDCT-SHR;/Sort/XPRT-TRD-VL/Chart/top10.

accounting for only 6-7% of all the exports, relatively minor compared to the 27% of Finland. Taken as a whole, figure 1 demonstrates that, by 2000, the market of the European Union was crucial for the Central and Eastern European countries' trade, amounting to 50-60% of the total exports.

Figure 1:*Five largest export partners of the CEEC in 2000 (% of total exports)*



Source: World Integrated Trade Solution

It has to be noted that, during this period, tariffs and quantitative restrictions were not entirely removed, and the European Union continued to impose anti-dumping duties and price-fixing arrangements on some of the exported industrial goods until 2004.[41] Trade on agricultural and food products was only slightly liberalized, and the CEE countries still faced tariff barriers, which were considerably high for meat and dairy products.[42] Taking Figure 1 into account, full membership and consequently the further liberalization of trade, the complete elimination of all restrictions and entree to the EU's single market, would have been highly

[41] Richard E. Baldwin et al., "The Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe," *Economic Policy* 12, no 24 (April 1997): 125–176.
[42] Emmanuelle Chevassus-Lozza et al., "The Importance of EU-15 Borders for CEECs Agri-Food Exports: The Role of Tariffs and Non-Tariff Measures in the Pre-Accession Period," *Food Policy* 33, (July 2008): 595–606; Richard E. Baldwin et al., "The Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe," *Economic Policy* 12, no. 24, (April 1997): 125–176.

beneficial for the companies operating in the CEE counties and a greater source of economic gains. Baldwin et al. further argue that by joining the European Union and reducing their riskiness and fluctuation in the legal system, standards, and regulations, the CEEC would be more attractive for foreign investors, which would increase productivity and benefit export performance.[43]

What is more, the access to the Central and Eastern European markets created an unparalleled opportunity for the companies in the European Union to relocate their activities Eastwards; by 1998, the EU accounted for 64% of all the FDI inflows in the region.[44] Germany specifically was among the main beneficiaries of eastern enlargement: it amounted to 42% of the total exports of the EU to the CEEC and was among the top investor countries of the region.[45] Many German firms, mainly concentrated in the industry of Motor vehicles, moved a big part of their production sites to the east because of low production and labor costs and geographical proximity. To cut production costs and restore competitiveness, Western European and, in particular, German carmakers decided to launch their production sites and assembly facilities in the region, which were mainly concentrated on the transfer of labour-intensive activities.[46] By the end of the 1990s, the Visegrad countries had transformed into one of the most vibrant automotive production clusters in Europe; carmakers primarily targeted the Western European markets, which enhanced the production capacities and export profits of the region and improved the competitiveness and the revenues of the European car producers.[47]

[43] Baldwin et al., "The Costs and Benefits of Eastern Enlargement," 139.
[44] European Bank for Reconstruction and Development, "Transition Report 1998: Financial Sector in Transition," 1998.
[45] Rolf Alter and Frederic Wehrle., "Foreign direct investment in Central and Eastern Europe: An assessment of the current situation," *Intereconomics* 28, no. 3, (1993):126–131; Baldwin et al., "The Costs and Benefits of Eastern Enlargement."
[46] Magdalena Bernaciak and Vera Šćepanović, "Challenges of Upgrading: The Dynamics of East Central Europe's Integration into the European Automotive Production Networks," *Industrielle Beziehungen*, no. 2 (2010): 123–46, https://doi.org/10.1688/1862-0035_IndB_2010_02_Bernaciak.
[47] Bernaciak and Šćepanović, "Challenges of Upgrading," 129.

Hence, this economic interdependence and the prospect of further gains motivated transnational corporations to lobby for the EU's eastward expansion. The access to high-skilled low-wage workers and cheap capital made the Central and Eastern European countries an attractive destination for foreign direct investment flows origination from European transnational corporations. However, in order to incur all the economic benefits, the further liberalization of the market in sectors such as energy and transport and the adoption of the EU legislation was crucial for the companies operating in the EU. In this regard, the lobby of the European Round Table of Industrialists (ERT) (currently known as the European Round Table for Industry) was particularly influential. The ERT, a leading European business group, formerly consists of more than 50 CEOs and chairs of leading companies of European parentage from the industrial and technological sector, including the BMW Group, BP, Siemens, and AB Volvo.[48] The union came together in 1983 and, since then, has carried an exceptional economic weight and significant political influence. According to Keith Richardson, who served as the ERT Secretary-General between 1988 to 1998, the union had an unparallel access to the top political decision-makers and regularly met with the President of the European Commission and on certain occasions with heads of governments; their influence was so significant that during the decade ERT members were invited to meet two presidents and five prime-ministers of France and had access to the governments holding EU presidency.[49] These encounters happened behind closed doors on a face-to-face discussion basis, or according to Richardson's account, via private letters between the members of the ERT and political decision-makers.

The ERT has a history of acting as an agenda-setter on issues related to the further liberalization of the EU market and the international competitiveness of European firms. Even

[48] "About," European Round Table of Industrialists, accessed April 27, 2021, https://ert.eu/about/.
[49] Keith Richardson, "Big Business and the European Agenda," *Sussex European Institute*, (September 2000).

though discussing the activities of the Round Table is beyond the interests of this thesis, it is vital to understand how much the business interests of the ERT have shaped the EU governance. Perhaps most eagerly, the ERT lobbied for the implementation of the Single Market. In 1985, the Round Table chairman, Wisse Dekker, launched a proposal to eliminate trade barriers and harmonize regulations in a five-year time period.[50] According to the former Commissioner Peter Sutherland, the proposal directly inspired the White Paper published by the Commission later that same year and became the basis of the Europe 1992 program:

> *"I believe that it [the ERT] did play a significant role in the development of the 1992 programme. In fact, one can argue that the whole completion of the internal market project was initiated not by governments but by the Round Table, and by members of it, Dekker in particular, and Philips playing a significant role and some others … And I think it played a fairly consistent role subsequently in dialoguing with the Commission on practical steps to implement market liberalization."* [51]

This event only confirms that the industrialist had established themselves as legitimate players in the eyes of governments and officials in Brussels and that their ideas and advice were heard and taken into account.

Hence, after the collapse of the Soviet Union, the ERT started promoting the integration of the Central and Eastern European states. The possibility of expanding Eastwards was particularly appealing for the Round Table, as Keith Richardson stated, "It is as if we had discovered a new South-east Asia on our doorstep."[52] In a 1990 draft report, Wisse Dekker, together with the chairman of Volvo and the vice-chairman of Lyonnaise des Eaux, wrote: "Industry needs to be able to operate easily and effectively across the entire continent of Europe, if the potential benefits of this large market are to be realized."[53] The report provided an assessment of the economic profiles of the CEE counties and discussed those areas that

[50] Belén Balanyá, ed., *Europe Inc: Regional and Global Restructuring and the Rise of Corporate Power* (London; Sterling, Va: Pluto Press in association with Corporate Europe Observatory, 2000).
[51] Bastiaan Van Apeldoorn, "Transnational Class Agency and European Governance: The Case of the European Round Table of Industrialists," *New Political Economy* 5, no 2 (July 2000): 157–181.
[52] Balanyá, *Europe Inc*.
[53] The European Round Table of Industrialists, "Sunrise Europe," 1990.

required particular attention. While the Round Table committed to assisting the Central and Eastern European countries, “the goal of incorporating our eastern neighbors into the wider Europe, and ultimately the Community itself, should be firmly on offer however difficult the path may prove.”[54]

The ERT’s 1991 publication, *Reshaping Europe*, which according to Richardson, prompted enthusiastic comments from the EU Commissioner Jacques Delors, had a chapter dedicated to enlargement. The industrialists outlined the benefits of expanding eastwards, a bigger market for goods, additional workers, and resources, and stated that the most important economic goal “must be to make the whole area one in which business can freely operate.”[55] The paper further declared that the Community “cannot afford” to leave the people of Central and Eastern Europe outside the Western economic system and provided a set of recommendations to accelerate integration. Throughout the century, members of the ERT became increasingly involved in investment and trade in Central and Eastern Europe.

Consequently, in 1997 the ERT created a working group on enlargement which, at the Luxemburg EU Summit, presented an enlargement action plan advocating for the integration of all candidate countries.[56] The decision to commence accession negotiations with the first group of states was taken during the aforementioned Summit. What is more, ERT Business Enlargement Councils (BECs) were established in a number of the accession countries, bringing together business leaders, local companies, and senior government officials.[57] In 1999, the working group published the East-West Win-Win Business Experience, which stipulated that the investment of Western companies in the CEE counties would bring only benefits to both sides.[58] This further demonstrates that in the case of the Central and Eastern European

[54] The European Round Table of Industrialists, “Sunrise Europe,” 1990.
[55] The European Round Table of Industrialists, “Reshaping Europe,” 1991, 50.
[56] Balanyá, *Europe Inc*, 29.
[57] Balanyá, *Europe Inc*, 30.
[58] Balanyá, *Europe Inc*.

states, the demand-side of integration was present and quite strong. The existing economic interdependence motivated those companies expected to benefit the most from enlargement to lobby for the EU's eastward expansion.

Ultimately in 2004, the Central and Eastern European countries joined the European Union with relatively weak institutions and economic performance. While the aim of this thesis is not to claim that the 2004 accession was solely a result of the business lobby, it demonstrates that the prospect of further economic gains motivated transnational business actors to push for enlargement and try to influence the decision-making process. Because the ERT was comprised of Europe's biggest transnational corporations who had direct contact with high-rank politicians, they could provide useful information for the Union and direct the attention of the EU Commission towards matters that were of interest for both sides, ultimately shaping the agenda of the EU.

Chapter 2: The case of Georgia and Ukraine

The 2003 Rose Revolution in Georgia and the 2004 Orange Revolutions in Ukraine changed the political course of both countries significantly. The government of Mikhail Saakashvili declared EU integration as one of Georgia's main foreign policy aspirations, and all subsequent governments have been of a pro-Western orientation; in Ukraine, Viktor Yushchenko set the arena for bringing the country closer to the EU and pressed for a membership perspective. The preceding aggressions from Russia, punitive trade measures against Georgian and Ukrainian products, the 2008 August War and the Crimean Crisis in 2014 only exacerbated these processes and forced governments to push harder towards Western integration and the diversification of the market.[59]

The European Union, on its part, has been targeting governments, state institutions, courts, and elections, expecting changes to be coming from the leadership of partner countries.[60] In 2009, the EU launched the Eastern Partnership (EaP), a separate program for the post-Soviet states (Georgia, Armenia, Azerbaijan, Belarus, Ukraine, and Moldova). However, the relationship reached its peak in 2014 when Georgia, Moldova, and Ukraine signed the Association Agreement, which includes Deep and Comprehensive Free Trade Area and Visa liberalization.[61] The former aims at increasing market access between the parties by reforming trade and trade-related issues and by modernizing the economy; the agreement eliminates most custom duties on goods and tariff-rate quotas on both imports and exports,

[59] Denis Cenusa et al., "Russia's Punitive Trade Policy Measures towards Ukraine, Moldova and Georgia," *Centre for European Policy Studies*, (September 2014); Laetitia Spetschinsky and Irina V. Bolgova, "Post-Soviet or Post-Colonial? The Relations between Russia and Georgia after 1991," *ERIS – European Review of International Studies* 1, no. 3 (February 23, 2014): 110–122, https://doi.org/10.3224/eris.v1i3.19127.

[60] Kristian L. Nielsen and Maili Vilson, "The Eastern Partnership: Soft Power Strategy or Policy Failure?" *European Foreign Affairs Review* 19, no. 2 (2014): 243–262.

[61] The initial refusal by Viktor Yanukovych to sign the AA prompted the Maidan protests, which eventually led to his oust and a newly elected president, Petro Poroshenko, who reaffirmed Ukraine's commitment to European values.

giving Georgia and Ukraine, together with Moldova, access to the EU market upon the adoption of EU standards.[62]

However, even though there has been strong political support towards joining the EU over the last two decades, the process of integration has been evolving at a relatively slow pace, especially when comparing it to the CEEC experience. The AA, for instance, was only offered to Ukraine and Georgia after a decade long relationship between the parties, and unlike the European Agreement, it does not offer a membership perspective. However, even after such inter-governmental agreements and especially the DCFTA, which aims at accelerating trade, economic activities between the parties have been relatively low.

Below, I first provide an analysis of Georgia-EU and Ukraine-EU trade, and I subsequently examine the presence of European transnational corporations and the value chains that are crucial for forming support coalitions.

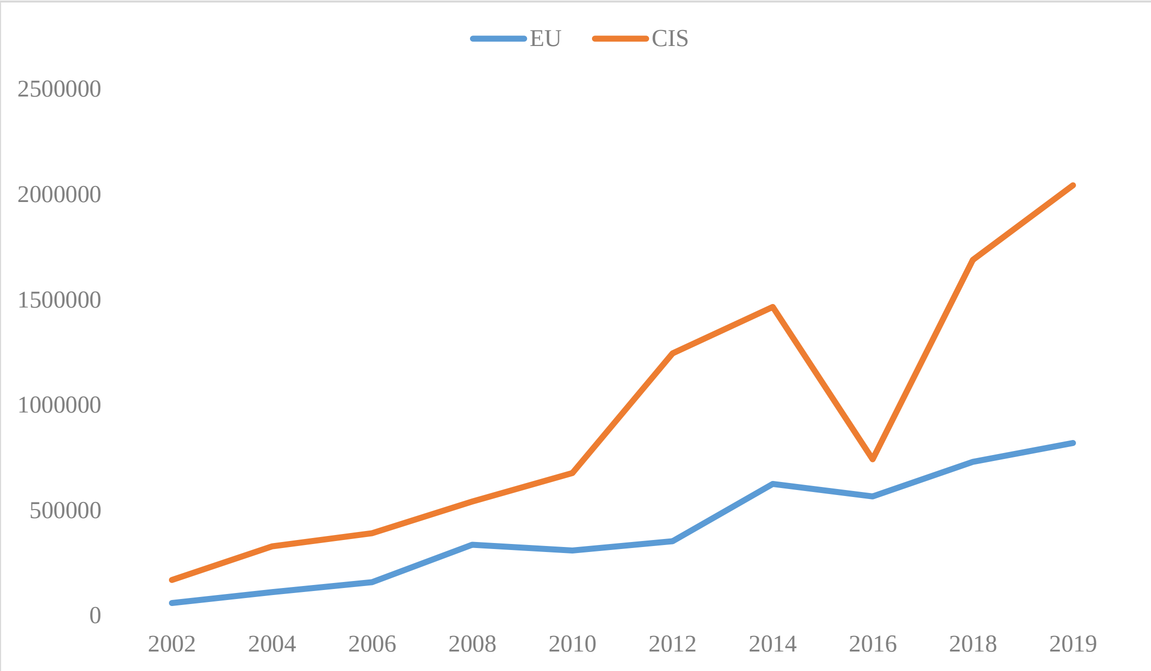
Georgia

Figure 2, which illustrates the total exports of Georgia between 2002 and 2019,[63] shows that in 2019 Georgia exported more than twice as much to the Commonwealth of Independent States (CIS) than it did to the European Union.[64] After the implementation of the DCFTA between 2016 and 2019, exports to the EU have increased by roughly 44,8%. While this undoubtedly represents a significant growth, exports to the EU have been increasing steadily since the beginning of the century. There is no evidence that the DCFTA has drastically accelerated this process. For comparison, throughout the same period, 2016-2019, exports to the CIS increased by more than 175%, which suggests that foreign trade is still mainly directed

[62] "The EU's Association Agreements with Georgia, the Republic of Moldova and Ukraine," European Commission, accessed April 24, 2021, https://ec.europa.eu/commission/presscorner/detail/en/MEMO_14_430.
[63] The data provided in this section, unless otherwise specified, is from the "National Statistics Office of Georgia," or "OEC - The Observatory of Economic Complexity."
[64] Georgia terminated its membership in the CIS after the 2008 war with Russia but holds a bilateral free trade agreement with the member countries.

towards neighbouring partners and that the free trade with the EU has not diminished the role of the CIS market for Georgian exporters.

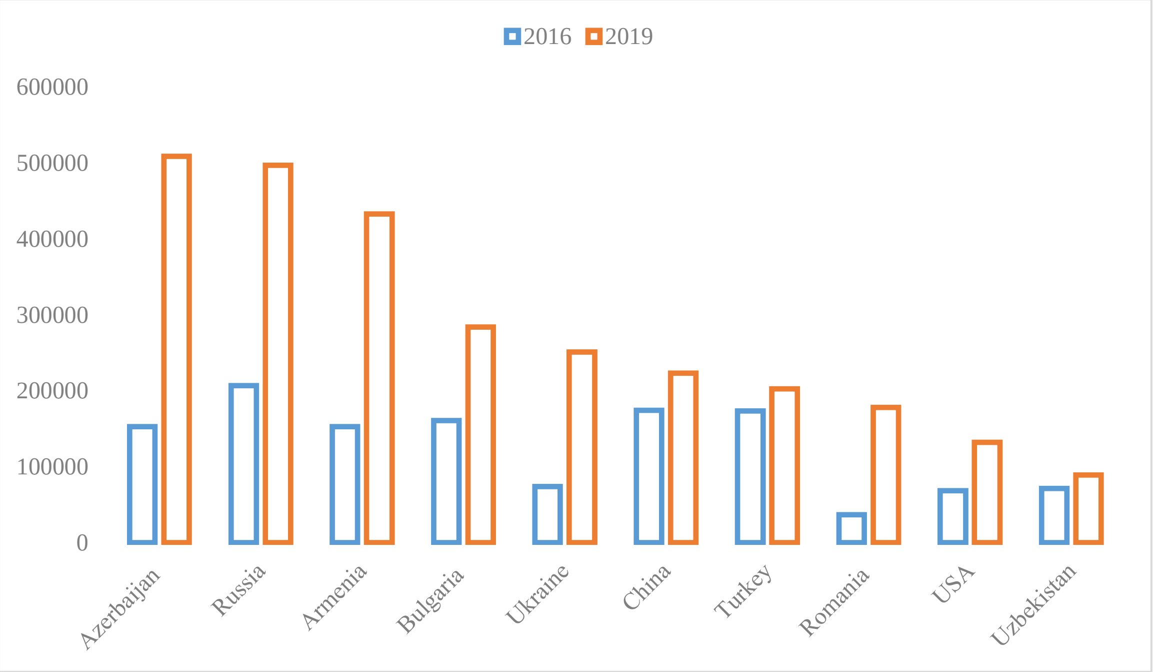
***Figure 2**: Georgian Exports (USD) 2002-2019*



Source: National Statistics Office of Georgia

It is also worth emphasizing that the European Union consists of 27 independent states with different market demands, investment opportunities, and resources. Figure 3 shows that when looking at by country exports, only two out of Georgia's top ten trading partners in 2019 were EU members: Bulgaria (7.5%) and Romania (4.7%) were the fourth and the eighth biggest markets for Georgian exports, while Azerbaijan was the largest export market for Georgian products accounting for 13,4% of total exports. Russia, which is currently the second-largest exporting partner (13.1%), represents a particularly noteworthy case because despite frozen diplomatic relations, in 2012, Tbilisi and Moscow managed to start dialogue to renew trade, leading to more than a 900% increase in exports to Russia in a seven years-time period. This further demonstrates that, while for the CEEC trade relations with the post-Soviet space and Russia were minimal, Georgian producers are highly dependent on the Russian and CIS market. Most noticeably, the agri-food exports, which are highly concentrated on a limited number of products, are predominantly shipped to Russia. In 2019, Georgia exported 93.4 million bottles of wine worth $223m to 53 countries. Out of the total, 59.7% of the bottles were distributed to the Russian market, 10.3% to Ukraine, 8.45% to China, and 4.06% to Poland. As for mineral waters ($137m), almost half of the total exports (44.3%) were shipped to Russia, followed by Ukraine (17.1%). This data indicates that those exporting agricultural products largely operate and benefit from the CIS market and predominantly from Russia. Exporting to the EU, under the DCFTA, requires extensive preparation, and in most cases, the small and medium-sized enterprises (SMEs) who are the primary producers of agricultural good lack the resources to target new markets and cannot produce in the quantities that the EU retailers require.[65] Therefore, they will be more protective of the already existing export sites and market shares and less eager to further integrate with the European Union.

***Figure 3**:Top Trading Partners by Exports in 2019 (USD)*

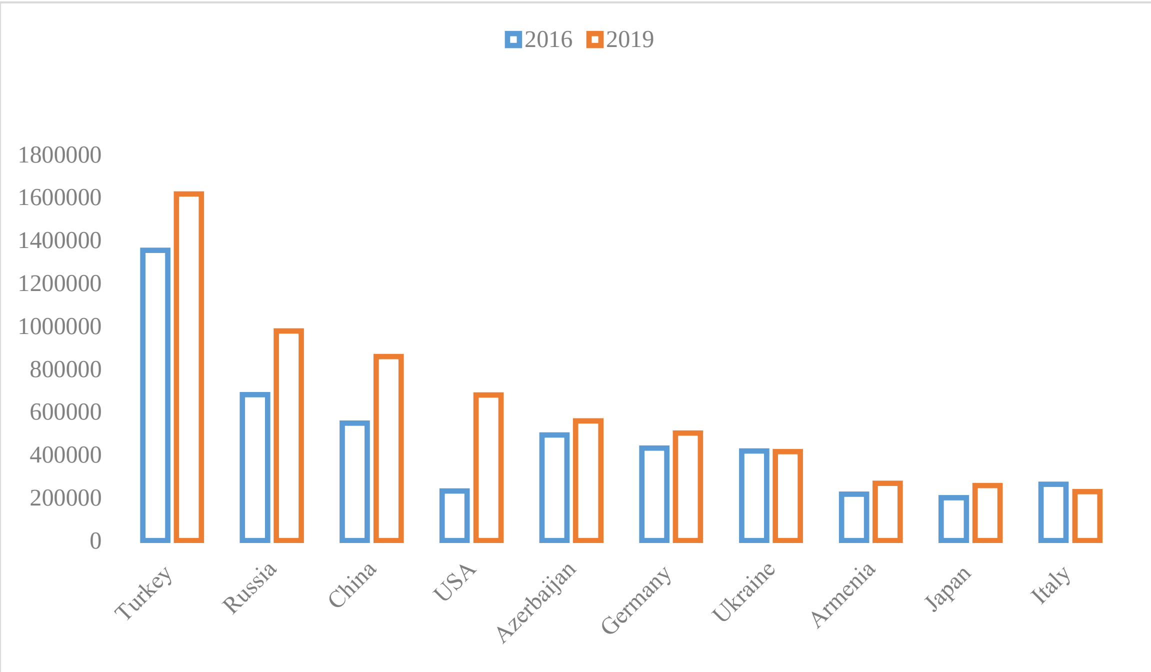


Source: National Statistics Office of Georgia

[65] The European Union for Georgia, "Georgia on European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation."

On the other hand, the EU market has been the primary destination for raw materials and, to a lesser extent, vegetable products such as nuts. In 2019, 41.6% of the total copper ores exported were shipped to Bulgaria, followed by China (25.8%), Romania (25.1%), and Spain (4.67%). However, the share of imports from Georgia only accounts for roughly 4% of the EU's total imports of copper ores.[66] As for nuts, which comprised 1.63% of the total exports, they were mainly shipped to Italy and Germany, but their share in the EU imports varied between 0.02% - 4.47%.[67] In sum, based on these statistics, the relevance of the Georgia market for EU imports is minimal; however, for the Georgian producers of industrial goods, further integration and the removal of anti-dumping, anti-subsidiary, and safeguard measures would be a source of additional economic gains.

Figure 4:*Top Trading Partners by Imports in 2019 (USD)*



Source: National Statistics Office of Georgia

[66]"European Union Copper Ores and Concentrates Imports by Country | 2018 | Data," World Integrated Trade Solution, accessed May 12, 2021, https://wits.worldbank.org/trade/comtrade/en/country/EUN/year/2018/tradeflow/Imports/partner/ALL/product/260300.

[67] Depending on the type of nuts, "European Union Nuts, Edible; Hazelnuts or Filberts (Corylus Spp.), Fresh or Dried, in Shell Imports by Country | 2018 | Data," World Integrated Trade Solution, accessed May 12, 2021, https://wits.worldbank.org/trade/comtrade/en/country/EUN/year/2018/tradeflow/Imports/partner/ALL/product/080221.

As for the import structure, imports from the CIS and the European Union have been moving at a similar pace; in 2019, the EU accounted for 24% of the total imports while the CIS for roughly 26%. The DCFTA has not significantly impacted the EU imports either; Germany and Italy are the main import partners at a country level, amounting to 5.3% and 2.4% of the total import, respectively. However, it has to be noted that the combined share of Georgian imports from Russia (10.3%) and Turkey (17%) outnumber the share of total imports from the European Union. Among the most imported products, more than 60% of the imported packaged medicaments ($376m) and roughly 40% of refined petroleum ($790m) originated from the European Union. But, overall, the share of the EU in the imports of other leading commodities such as cars ($894m), petroleum gas ($373m) and copper ores ($382m) was very minimal.

The statistics suggest that while the European Union is a significant trade partner for Georgia, it is nowhere as significant as it was for the Central and Eastern European states. As discussed in the previous chapter, the CEEC was exporting more than half of their products to the EU; however, Georgian exports to the European Union amount to roughly 21,5% when exports to the CIS exceed 53.7%. Georgia does not represent a significant trade partner for the EU either; in 2018, Georgia only accounted for 0.1% of the EU's total trade with a turnover of €2.6 billion; the EU exported goods worth 2 billion while imported good for the value of €600m.[68]

Besides, in the case of the Central and Eastern European states, there was a clear interest from the Western transnational corporations to launch their own production sites and establish local plants in the region, which turned the CEEC into production clusters and subsequently export hubs. However, this dynamic is not visible in the case of Georgia. The presence of European companies in the Georgian market is very marginal and is mainly concentrated in the

[68] "Georgia - Trade - European Commission," European Commission, accessed May 15, 2021, https://ec.europa.eu/trade/policy/countries-and-regions/countries/georgia/.

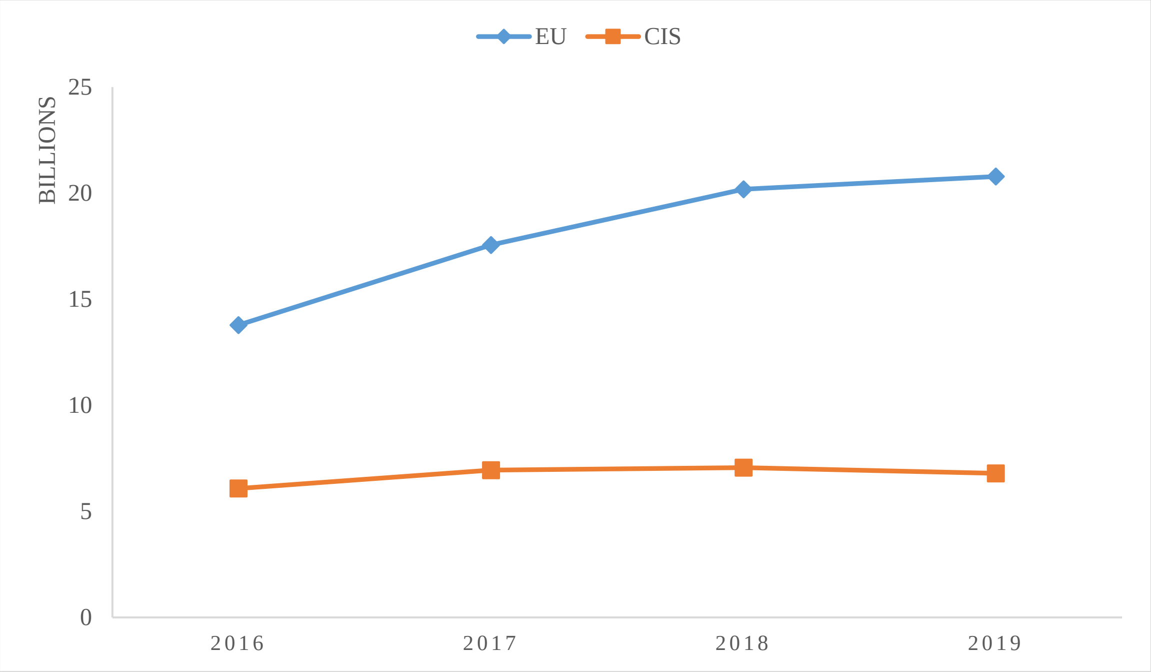
manufacturing of clothing and construction materials. Transnational retailers such as Adidas, Puma, H&M, and Erima produce some of their products in Georgia and then export them abroad; however, the factories are not owned by these corporations but by suppliers such as Adjara textiles and MGMtex which were set up through Turkish and Georgian-Romanian investments respectively.[69] Even though large retailers are indeed sensitive to political factors, the relevance of the Georgian market in the manufacturing of clothing is very negligible; for instance, H&M has 621 supplier factories in China compared to one in Georgia; therefore, it is less likely that these transnational corporations will have an interest to pressure for the further liberalization of the market. Besides, manufacturers such as HeidelbergCement and Henkel, which own production sits in the country, are mainly oriented towards producing for the Georgian market, which, again, indicates that Georgian is not of a strategic importance for big producers.

[69]"Ajara Textile," Enterprise Georgia, accessed May 13, 2021, https://investingeorgia.org/en/keysectors/success-stories/ajara-textile1.page; "Trade with Georgia," Enterprise Georgia, accessed May 13, 2021, http://tradewithgeorgia.com/companies/mgmtex-1.

Ukraine

Ukraine exhibits a somewhat different tendency; in 2019, roughly 41% of its total exports were directed towards the European Union, while the CIS countries accounted for 13,5%. As illustrated in Figure 5, between 2016-2019, export to the EU increased by 50,8% compared to a 10,5% increase in exports to the CIS. Therefore, unlike Georgia, Ukrainian exports depend largely on the EU market.

***Figure 5**:Ukraine Exports (USD) 2016-2019*

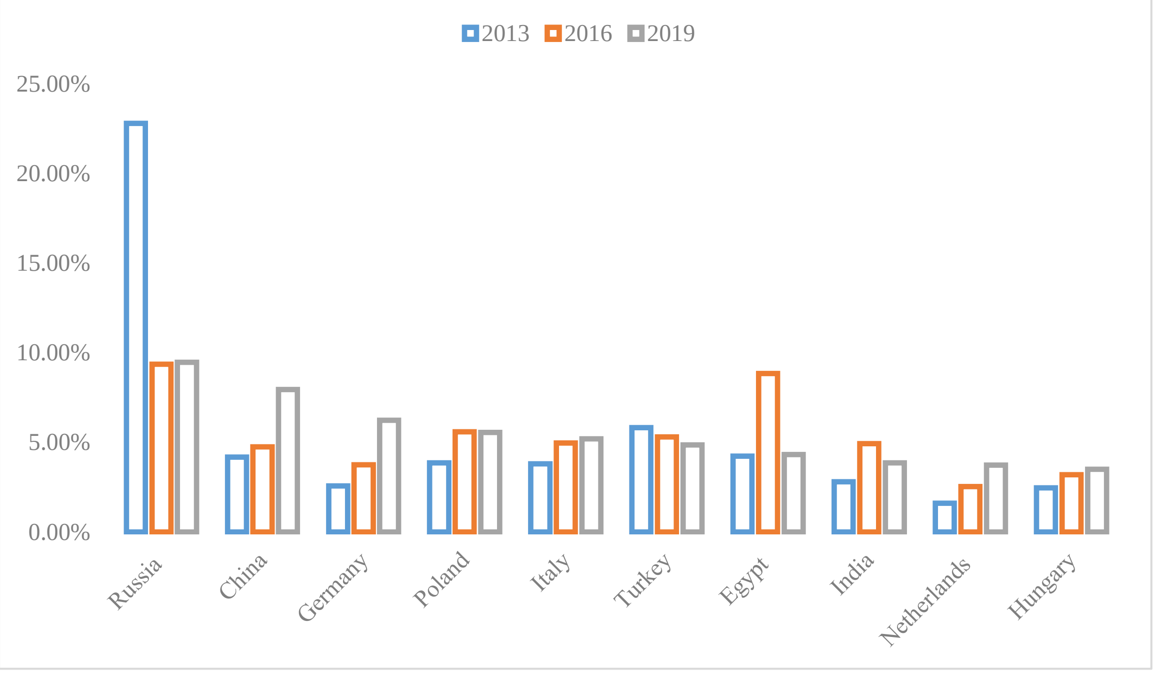


Source: The Observatory of Economic Complexity/ State Customs Service of Ukraine

Compared with the CEE countries, Ukrainian exports are more diversified and less concentrated in a specific region. Even though five of the top ten exporting partners in 2019 were EU members, their shares varied between 3.5% to 6.23%, while Russia and China, with a share of 9.46% and 7.95%, were the leading destination of exports. Figure 6 is significant as it elucidates how much more dependent Ukraine was on the Russian market before the 2014 Crimean crisis - 22.8% of the total exports were shipped to Russia. Since then, the decline has been significant, but the Russian market continues to play a leading role in Ukraine's trade.

That said, it can be argued that the increase in trade with other partners between 2013-2019 was not necessarily an outcome of the DCFTA but rather a consequence of the war and the necessity to diversify the market, especially if we take into consideration that the exports to China rose by the largest percentage.

Figure 6:*Top Trading Partners by Export in 2019 (USD)*



Source: The Observatory of Economic Complexity

In 2019 Ukraine exported $49.5b worth of goods, making it the number 51 exporter in the world. Vegetable products, metals and minerals primarily led these exports; Ukraine is the 4th largest exporter of corn globally, which also was the principal export commodity in 2019 ($4.77b). The primary destinations were China ($781M) and the Netherlands ($698M); however, the EU as a whole accounted for roughly 50% of the total corn exports. Furthermore, metals such as semi-finished iron ($2.55b) were also shipped mainly to the EU, with Italy accounting for 38.3% of the exports. On the other hand, products such as wheat ($3.11b) and seed oils ($3.75b) were predominantly distributed to either Africa (Egypt, Tunisia) or Asia (India, China), while China dominates in the exports of iron ores ($3.36b) with 38.3%.

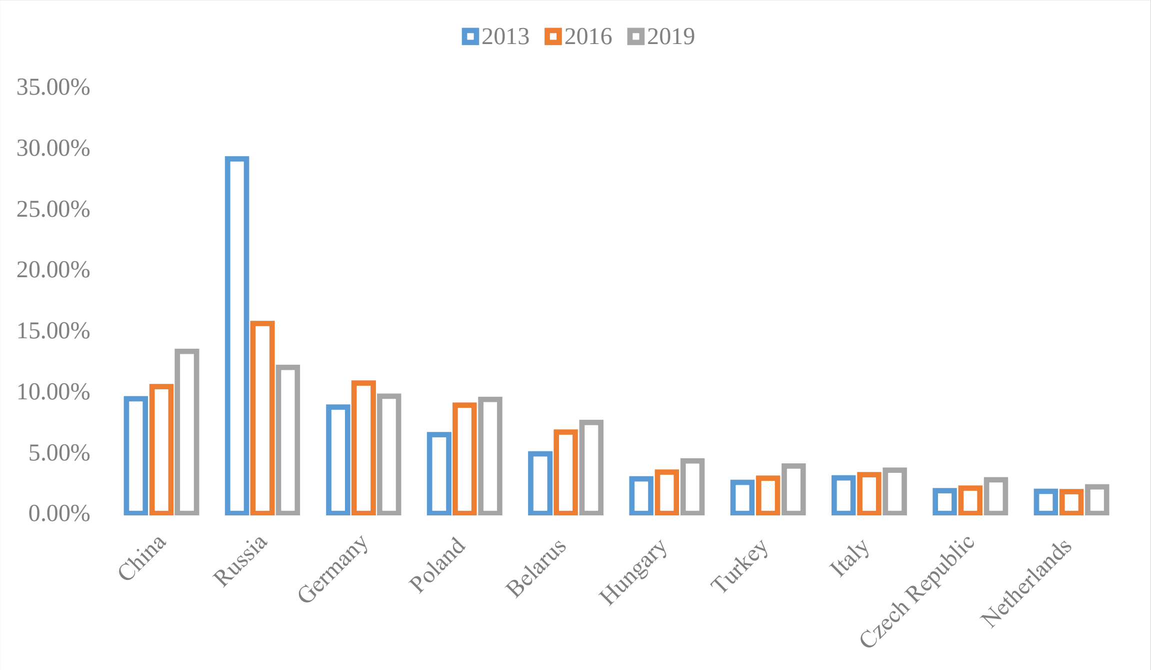
Compared with Georgia, even though Ukrainian agricultural exports are shipped to Asia and Africa in large quantities, the biggest share of goods goes to the European Union. Thus, implying that the agri-food sector will be highly susceptible to political relations and any economic shocks or disruptions and more prone towards supporting the further liberalization of trade on agricultural goods. For the European Union, the market of Ukraine seems to be somewhat more significant than that of Georgia; in 2018, around 50% of the imports of cereals and corn originated from Ukraine;[70] nevertheless, it has to be noted that the EU trade is primarily concentrated on the imports of machinery, manufactured goods and chemicals, and agri-food products accounted for no more than 6.6% of the total imports in 2016. Besides, the European Union is itself a net exporter of agricultural goods; therefore, agri-food imports from Ukraine are not expected to be of a strategic importance.

As for the import structure, the goods imported from the EU amounted to 42% of the total imports in 2019, while imports from the CIS to around 20%. Yet, China (13.3%) remains the largest partner together with Russia (12%). Here as well, we see a significant decline in imports from Russia after the 2014 Crimean crisis and an overall increase in imports from other

[70] "European Union Cereals; Maize (Corn), Other than Seed Imports by Country | 2018 | Data," World Integrated Trade Solution, accessed May 16, 2021, https://wits.worldbank.org/trade/comtrade/en/country/EUN/year/2018/tradeflow/Imports/partner/ALL/product/100590.

trade partners, mainly China. Figure 7 does not provide compelling evidence to suggest that the DCFTA drastically accelerated imports from the EU member states.

***Figure 7**:Top Trading Partners by Imports in 2019 (USD)*



Source: The Observatory of Economic Complexity

The imports of Ukraine were led by mineral and chemical products and transportation. Mineral products such as refined petroleum ($4.3b), coal briquettes ($1.76b) and petroleum gas ($1.48b) were predominantly imported from the CIS countries (Russia, Belarus, Kazakhstan) and the US. The EU dominated the imports of packaged medicaments ($1.84b) which originated primarily from Germany (16.1%) and Hungary (12.6%), while cars were imported mainly from the US (20.2%), Japan (16.2%) and Germany (13.6%). The European Union is the largest world trader in packaged medical and pharmaceutical products yet, in 2016, Ukraine accounted for approximately 0,7% of the EU's total exports of medicaments. In sum, while compared to Georgia, Ukraine is much more dependent on the EU market, its share in the EU's total trade in 2018 accounted for no more than 1.1%[71].

[71]"Ukraine - Trade - European Commission," European Commission, accessed May 16, 2021, https://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine/.

Several European transnational corporations are present in the Ukrainian market; Skoda, for instance, in partnership with Eurocar, has been assembling cars in Ukraine since 2002. Prefabricated car bodies from the Czech Republic are imported and then assembled in the Eurocar plant, which are then mainly sold on the territory of Ukraine.[72] The French-Ukrainian company Verallia which belongs to the French glass manufacturer Saint-Gobain has also been present in the Ukrainian market for more than 45 years and produces glass packaging for food and beverages, which are then primarily shipped to the EU.[73] Likewise, Danone, the French multinational food-products corporation, owns two production facilities in Ukraine.[74] Nevertheless, despite its favourable location, there is no clear evidence that European transnational corporations benefit significantly from the Ukrainian market or prioritize manufacturing in Ukraine. Instead, the imported or produced good are sold predominantly on the domestic market, suggesting that no significant gains will be anticipated from further liberalization.

In conclusion, a strong economic interdependence is not visible between the European Union and Georgia and Ukraine. Georgia continues to depend significantly on the CIS market, and the implementation of the DCFTA, the further removal of tariffs and quotas in 2016 does not seem to have stimulated economic integration. For Ukraine, on the other hand, the EU is the largest trading partner but its top importing and exporting destinations are Russia and China, the share of the latter increasing at a faster rate than that of the top EU partners. Although the CEE countries had no other alternative but the European market, companies operating in Georgia and Ukraine have the option to diversify trade and avoid the very complex EU

72 "ŠKODA в Соломоново," accessed May 16, 2021, https://www.skoda-auto.ua/company/skoda-solomonovo.
73 "Home," Verallia, accessed May 17, 2021, https://ua.verallia.com/s/?language=en_US; Tetiana Galetska Natalya Topishko and Ivan Topishko, "Social Responsibility of Economic Enterprises as a Social Good: Practice of the EU and Ukraine," *Baltic Journal of Economic Studies* 6, no. 3 (August 5, 2020): 24–35, https://doi.org/10.30525/2256-0742/2020-6-3-24-35.
74 "Production Plants," Danone, accessed May 17, 2021, https://danone.ua/en/milk-product/production-and-quality/production-plants/.

standards. Besides, neither Georgia nor Ukraine seems to be of a strategic importance for the European transnational corporations, implying that there will be less interest in pushing towards a deeper integration as transnational corporations will not anticipate a significant increase in their competitiveness and economic gains.

Conclusion

This thesis is set out to identify the role of demand-side factors in the process of Georgia's and Ukraine's EU integration. It uses the experience of the Central and Eastern European states as a heuristic device to detect the level of economic interdependence in previous enlargements. I argued that the absence of an alternative market other than the EU for the CEEC and the dependency of those relocated European firms manufacturing in the CEEC for re-exports on local resources motivated private firms to push for further regional integration. Following this reasoning and using Walter Mattli's framework, the thesis argues that, in the case of Georgia and Ukraine, the lack of sub-state level demand and linkages to the EU and the existence of an alternative market for the Georgian and Ukrainian businesses represents one of the main culprits for the lack of advance in the quest for EU membership.

After analyzing trade volumes and the allocation of the production sites of European transnational corporations, the research finds that throughout the 1990s, those export-oriented companies operating in the CEEC became increasingly dependent on the EU market: 50%-60% of their total exports were directed towards the European Union and, in particular to Germany, which became the largest trading partner of five out of the eight accession countries. Most importantly, access to a bigger market for goods, cheap labour and additional resources created an unparallel opportunity for the European transnational corporations to allocate their production facilities eastwards in a quest of boosting their competitiveness. From the early 1990s, a number of assembly facilities, especially in the automotive industry, were established, mainly in the Visegrad countries, which soon became production cluster and export hubs for big firms. The prospect for further gains that were expected to arise after the full integration of the CEEC and the complete removal of barriers motivated the European Round Table for Industry to lobby the European Commission and heads of government for the EU's further expansion eastwards.

The case of Georgia and Ukraine show a different pattern. Even though there is political commitment to EU integration, the economic interdependence is relatively minor, especially in the case of Georgia. The latter remains largely dependent on the CIS market, particularly on Azerbaijan and Russia, and there is no clear evidence suggesting that the DCFTA has meaningfully accelerated trade with the EU. Even though some industrial goods are primarily shipped to the European Union, and this is the sector expected to benefit the most from further liberalization of trade, the EU is not dependent on the Georgian market; in 2018, Georgia only accounted for 0.1% of EU's total trade. On the other hand, the agricultural sector gains the most from exporting to neighbouring partners, mainly Russia, and might be more protective of the existing market shares and less eager to push for further integration.

By contrast, Ukraine seems to be more dependent on the EU market, which is not surprising considering its geographical location, bordering Poland and Hungary (and Slovakia and Romania), which also happen to be one of its main trading partners. Until 2014 Ukraine was largely dependent on the Russian market, whose share started to decline after the Crimean crises; nevertheless, Russia continues to be the leading destination of Ukrainian exports while the trade share of China has been increasing at a faster pace than that of any other country. Overall, trade with the EU has been growing steadily with no significant changes since the implementation of the DCFTA. Unlike Georgia, Ukraine primarily exports agricultural products to the European Union; nevertheless, Ukraine's share in the EU's total trade in 2018 accounted for no more than 1.1%. Therefore, we can argue that the existence of an alternative market for the Georgian and Ukrainian producers creates the possibility to diversify trade and avoid the very complex EU standards. Those small and medium-sized enterprises, which cannot produce enough quantities to satisfy the demand of European retailers or find it too costly to fulfil the requirements of the DCFTA, can choose to trade with more open and less complex markets.

Furthermore, the involvement of the European transnational corporations in Georgia and Ukraine, the presence of production plants is very minimal. Georgia and Ukraine did not result to be as attractive for big firms as were the CEE countries. The corporations present in Georgia are mainly oriented towards satisfying the local market's demand, which is also true for Ukraine but with some exceptions. However, in general, the volume of value chains is not enough to assume that European transnational corporations will have an incentive to lobby for the full integration of the markets or expect major economic gains from further trade liberalization. In conclusion, we do not see enough economic linkages between the European Union and Georgia and Ukraine to assume that market forces will find it beneficial to push for further integration.

By analyzing the empirical data from the case studies of Ukraine and Georgia and further examining the case of the CEEC, this thesis aims to contribute to Walter Mattli's main line of argument and the literature accentuating the increasing role of market demand in the process of forming foreign policy interests and accelerating the process of regional integration. The thesis creates a path for further studying the influence of transnational corporations on regional integration and the market dynamics between the EU and its association countries.

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