

# Challenges Of The 21st Century: The Position of the Small State in Geo-Economic View from Georgia

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**Abstract:** The emergence of the concept of small states in contemporary geoeconomics is connected with the collapse of Soviet Union and end of the Cold War. Throughout history global economic climate was usually shaped by powerful countries. The article considers the factors of regional economic integration in the Caucasus. geo-economic features of Georgia are studied. Then Based on the main indicators of the level of geo-economic activity of As of 2016, features of Georgia are studied. At the end of the article, conclusions are drawn. According to the author, to stabilize the economic situation in the South Caucasus the more advisable way is to start active co-operation between neighbors – Georgia, Armenia, and Azerbaijan and think about opportunity how to joint economically dialogue with the main geo-economic players in the region. The study is of empirical character, and methodologically is thought in the category of qualitative studies; the basic methodological approach is the case-study method.

**Keywords:** geo-economics, Georgia, South Caucasus, small state, economic integration, geo-economic activity.

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## 1. INTRODUCTION

At the contemporary stage of development, internationalization has entered its closing phase and the world is getting more and more united not only in the philosophical sense but in reality as well. Nowadays the world is trying to search for a new starting point of the dynamic equilibrium in three directions simultaneously: geo-economic, geopolitical and geostrategic. This process is being covered by a new, new economic model of civilization. Military might is losing its traditional role of determining the states' hierarchy, which was used by geopolitics not so long ago. In the post-Cold War period, geopolitics and geostrategy have executed a special function only in exceptional cases, while geo-economics has become the major determinant of the world order. In the present situation, geo-economic approach determines the priorities of global and national security, generates the motivation of actions in the global space and forms new values.

## 2. MATERIAL AND METHODS

The study is of empirical character, and methodologically is thought in the category of qualitative studies; the basic methodological approach is the case-study method. The concept "small state" contains itself the terms such as "weak" and "insecure". Throughout history global economic climate was usually shaped by powerful countries. Thus, those countries that were small in size as well as in population were under influence of the great power countries. Small countries usually did not have their sovereign domestic policy, because major countries' foreign policy was intended to control subordinated countries' domestic affairs. Mostly, Great powers used invaded countries' resources for their sole interests. If invaded country had the function of the significant corridor for the trade that was essential reason why invader used to need the country it invaded. Similar countries have to follow the standards that are established by big states. Due

to establishment of International Law in contemporary politics, smaller states can get some profit from it. But big states have their interests in small states and usually, statehood within micro-states becomes vulnerable. Despite the numerous works (See: Demas, 1965; Jacobs, 1975; . Harden, 1985; Wight, 1995; Alesina & Spolaore, 1997; Easterly & Kraay, 1999; Bourne, 1991 and others) on the definition of the term small countries among scientists, there is as yet no single opinion.

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The emergence of the concept of small states in contemporary geoeconomics is connected with the collapse of Soviet Union and end of the Cold War. Throughout history global economic climate was usually shaped by powerful countries. Thus, those countries that were small in size economy as well as in population were under influence of the great power countries. Small countries usually did not have their sovereign economic policy, because major countries' foreign policy was intended to control subordinated countries' domestic affairs. Mostly, Great powers used invaded countries' resources for their sole interests. If invaded country had the function of the significant corridor for the trade that was an essential reason why invader used to need the country it invaded. Even today small states have to follow the standards that are established by big states. Due to establishment of International Law in contemporary geo-politics, smaller states can get some profit from it. The idea of economic sovereignty and co-operation is in a sense the guarantee to be safe, but still small states' status stands under the question. Big states have their economic interests in small states and usually statehood within micro-states becomes vulnerable. Economic great powers are faced with a lower level of external economic threat in comparison to small states and thus have more options to action. Economic great powers are faced with a lower level of external economic threat in comparison to small states and thus have more options to action. Economic great powers implement their economic interests on the small states.

This geo-economic strategy refers to compromise the positions for the benefit of the opponent. This is much more effective strategy, because if they conform to the aggressor they avoid the expected economic attack. It is preferable practice especially when the great power that has expansionist intentions is geographically proximate to a small state and there is no alternative great power to call for help. This aspect is Well demonstrated with case of Georgia while having disputes with Russia.

Another approach to the world politics small states might develop is economic integration in international organizations that will be guarantee for protection. Small states can successfully strengthen their positions due to international law and even can implement their economic interests.

#### **The factors of regional economic integration in the Caucasus:**

The economic processes taking place in the South Caucasus region are very dynamic. Caucasus region has a crucial importance thanks to its Economic and geographic location. It is a place where the different countries interests are crossed. Here are also geostrategic and geo-economic interests of Europe, Asia and even African countries. The economic processes taking place in the South Caucasus region are very dynamic. Caucasus region has a crucial importance thanks to its Economic and geographic location. It is a place where the different countries' interests are crossed. Here are also geostrategic and geo-economic interests of Europe, Asia, and even African countries. Consequently, the current economic and political situation in the Caucasus has a significant impact not only on the countries of the region but also on the world economic processes. From the point of view of economic geography the Caucasus Region has a very rich natural, energy, and recreational resources: oil, gas, iron ore, copper zinc and so on. The region also produces agricultural products. That is why it has gained so much importance. South Caucasus countries are at the crossroads of international transport and energy transportation. They are being tried to be influenced by as Russia, Turkey, Iran as well as external forces: the US, NATO, the EU, Israel, and China.

As a result of the collapse of the Soviet Union, Georgia, Armenia and Azerbaijan gained economic sovereignty that was the reason of serious geo-economical changes in the region. The geopolitical and geo-economical situation in the South Caucasus countries are tense, this tension contributes to three factors: the influence of external economic forces, the three frozen conflicts and internal political and economic development issues. Throughout the history Russia mostly have an expansionist economic policy towards south Caucasian countries countries.

From the perspective of the current economic processes, the future of the region depends on two geo-economic and geological projects, on the one hand, to the West, creation of the American "New Silk Road" in order to gain control of the energy resources of Central Asia, bypassing Russia and China (geo-economic project), and on the other hand Russia desires to create a Eurasian Union (geopolitical project).

The first project geoeconomic priority number one for the Central and South Asian countries. Oppose to it, Russia uses all the tools to involve as many countries in the "Eurasian Union" as possible. Central Asia is one of the richest in the world in terms of energy resources, China's rapid economic development needs sufficient energy supply. In this case, it is possible for China to become a world economic leader. Russia attempts to maintain the good relationship with Central Asia in political and economical fields, because Russia plans to get and maintain the exclusive right of energy distribution. Central Asia is also interested in diversification of its own resources, in a case of an alternative corridor in terms of energetic issue the region will receive both economic dividends, that means the quality of dependence on Russia would be reduced.

### Main goe-economical feature of the study country:

In the historical past Georgia had a crucial position and in order to trade and interact with the countries from the east to the west, whereas Georgia used to be crossed. This fact demonstrates that Georgia might be geostrategically as well as geo-economical essential for the global world, sharing its interests with dominant powers of international economic relations. Among three frozen conflicts occurred in south Caucasus, two of them is related to Georgia. Prolonging conflicts in Abkhazia and South Ossetia undermine the Georgia's statehood. Georgia desires to integrate in Euro-Atlantic economic space that is one way to solve the problems with Russia. Russia has a military base in Armenia for 39 years according to the contract. If the United States can strengthen its economic position in Azerbaijan, Russia may create overland the straight route via Georgia to Armenia. This may happen also if Israel will attack Iran because these greater political players are involved in south Caucasus affairs. Here works Domino's principle – time-to-time involvement of the different states in the war may happen.

Georgia's neighborhood policy should be moderate. Georgia receives energetic resources from Azerbaijan. It means maintenance good relationship with Azerbaijan is advisable. At the same time Georgia has a good relationship with Armenia. There is no point in tension and struggle for the south Caucasian states with each other. History has proved that together they were undefeated when they acted as a one whole organism against Russian empire. Therefore, Nagorno-Karabakh conflict should be solved as soon as possible to begin the creation of new ally composing Georgia, Armenia and Azerbaijan in terms of economic and social co-operation. These three states ought to collaborate in order to create the space in the Caucasus region economic opportunities: import and export from Asian countries as well as from the west.

Another thing to be mentioned, from the last years Georgia has strengthened the democratic institutions and take important steps in order to be economically integrated into western world. Visa liberalization for Georgia is the one of the great achievements in the process of economically integration within western part.

### The main indicators of the level of geo-economic activity of Georgia.As of 2016. (Table 1)

indicators	Participation in world trade <sup>1</sup>	Corruption Perception <sup>2</sup>	Global Competitiveness <sup>3</sup>	Foreign direct investment <sup>4</sup>	Economic freedom <sup>5</sup>	Education Level <sup>6</sup>	ICT Development Index <sup>7</sup>	The Global Militarization Index <sup>8</sup>	Government Effectiveness <sup>9</sup>	regulatory quality <sup>10</sup>	Balance of Trade <sup>10</sup>	Ease of starting a business <sup>11</sup>
Country Rating	36	48	66	102	13	70	72	48	43	34	Million USD -397.10	6

**Table compiled by the author based on the following sources:** 1.://reports.weforum.org/global-enabling-trade-report-2016/?doing\_wp\_cron=1494159675.7898080348968505859375 ; 2. [http://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016#table](http://www.transparency.org/news/feature/corruption_perceptions_index_2016#table) 3. [http://www3.weforum.org/docs/GCR2016\\_2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016_2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf) ; 4 [http://unctad.org/en/PublicationsLibrary/wir2016\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf); 5. <http://www.heritage.org/index/>; 6

<http://hdr.undp.org/en/countries>; 7. <http://www.itu.int/net4/ITU-D/idi/2016/>; 8.

[https://www.bicc.de/uploads/tx\\_bicctools/GMI\\_2016\\_e\\_2016\\_01\\_12.pdf](https://www.bicc.de/uploads/tx_bicctools/GMI_2016_e_2016_01_12.pdf) ; 9. <https://www.globalinnovationindex.org/gii-2016-report#>; 10. <https://www.globalinnovationindex.org/gii-2016-report#>; 11.

<http://www.tradingeconomics.com/georgia/foreign-direct-investment>.

For today one-fifth of Georgia's territory is illegally occupied by Russia, which continues to carry out its creeping annexation of the country. Soon, it will be a quarter-century since Georgia has been cooperating with the With the countries of the west, but this Caucasian country attained its greatest achievement in June 2014 when the EU-Georgia Association Agreement was signed. As of July 1, 2016, as well, we have the coming into force of the Deep and Comprehensive Free Trade Area (Papava,2017). The EU is the main trade partner of Georgia. Around 32.6% of its trade takes place with the EU, followed by Turkey (17.2%) and Russia (8.1%). EU trade with Georgia accounts for 0.1% of its total trade with a turnover of €2.6 billion in 2015. EU exports to Georgia amounted to €1.84 billion in 2015. The key export products are mineral products, machinery and appliances, chemical products and transport equipment. The key EU imports from Georgia include mineral products, agricultural products, base metals and chemical products. The EU imported goods to the value of € 742 million from Georgia in 2015 (economy.ge). Trade is extremely important to Georgia's economy; the value of exports and imports taken together equals 110 percent of GDP. The average applied tariff rate is 0.7 percent. There are some restrictions on foreign ownership of agricultural land (Economic freedom, 2017).

The principles of national competitiveness have not been yet translated into concrete policy and legislative changes in Georgia, which results in political crisis, economic instability, poverty, the social disparity in Georgia. Protection of property rights has improved, and the government has made enforcement of contracts easier. Although the constitution and law provide for an independent judiciary, there has been little progress in the past year on judicial reforms, and the government does not fully respect judicial independence. Georgia still struggles with the lingering effects of Soviet-era corruption. Foreign Direct Investment in Georgia increased by 330.30 USD Million in the fourth quarter of 2016. Foreign Direct Investment in Georgia averaged 304.81 USD Million from 2005 until 2016 (Georgia Foreign Direct Investment, 2005-2017) .

Georgia has achieved remarkable progress in eliminating petty corruption in the public administration and should now focus on combating high-level and complex corruption, according to a new OECD report (OECD,2016). In the world small and medium size enterprises<sup>1</sup> (SMEs) account for approximately 90% of enterprises and over 50% of employment. In developing economies such as Georgia, SMEs are the backbone of the economy and play a central role in job creation and economic growth (IFC, 2014). Just for now no one definition of what an SME exists, although some countries define SMEs as registered businesses that have up to 250 employees (World Bank, 2011).

Georgia's increasing trade deficits are a by-product of Russia's trade embargo. Georgia has failed to diversify its exports and relies heavily on agriculture and low value added resource exploration. Georgia's main imports are oil, motor cars, pharmaceutical products, wheat and meslin, sugar and electrical equipment. Georgia's main trading partners are Turkey, Azerbaijan, Ukraine, Germany, Russia, the United States and Bulgaria.

### 3. CONCLUSIONS

The more advisable way is to start active co-operation between neighbors – Georgia, Armenia and Azerbaijan and think about opportunity how to joint economically dialogue with Russia.

The creation of a transparent and fair judicial system will be a big step towards increasing the level of economic democracy and attracting foreign investment.

The geo-economic potential of a Georgia involves all relevant natural, human and infrastructure resources. Depending on the quantity and quality of the nation's factor endowment a different structure of production is needed. As is known without a sufficient amount of natural resources an economy is reliant on the import of these, and has to develop an export-oriented manufacturing economy if it wants to be internationally competitive. This axiom should be built geoeconomic strategy in Georgia.

The industrial development of a country defines the status and quality of technology and the key sectors of the economy. This factor must give direction to the national geo-economic structure.

Georgia must create the necessary framework to promote education and research activities and encourage innovation in products and processes.

The study found that that, Georgia has enjoyed macroeconomic resilience. Nevertheless, deeper and faster institutional reforms aimed at strengthening the independence and effectiveness of the judiciary are still crucial to the creation of a strong geo-economic development strategy.

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