Economic integration and the new challenges of Georgia
Integracja gospodarcza i nowe wyzwania dla Gruzji

Abstract: The present paper discusses key characteristics and challenges of globalization and economic integration at the current stage. It's noted that integration results in the intensification of regional processes, openness of the economic system of the countries, universalization of norms of trading and financial operations, unification of market regulations and control, etc. In addition, integration increases interdependence of states. Since regaining its independence, Georgia has been quickly involved in the world economic integration processes. Currently, it is a fast developing democratic state aiming to restore territorial integrity and strengthen its economy. For this purpose, the country is oriented to integration in the European Union and NATO. The paper analyzes the examples of the implications of the recent global processes on the Georgian economy. It is concluded that economic globalization and integration are important and irreversible processes. Due to its geopolitical location, Georgia can hold a special position in modern global economic globalization in the near future. For this purpose, the state should exercise a sensible economic policy and deepen international economic relations both with developed and developing countries.

Keywords: Integration, world economy, economic globalization, international institutes, the European Union, Georgia, national interests, national economy

Streszczenie: W artykule omówiono główne oznaki oraz wyzwania obecnego etapu globalizacji i integracji gospodarczej. Należy zauważyć, że integracja powoduje intensyfikację procesów regionalnych, otwartość państwowych systemów gospodarczych, uniwersalizację norm i przepisów operacji finansowych i handlowych, unifikację kontroli i regulacji rynków, itd. Integracja zwiększa również współzależność państw. Gruzja po odzyskaniu niezależności państwowej szybko włączyła się w procesy integracji gospodarczej na świecie. Obecnie jest to szybko rozwijające się, demokratyczne państwo, którego głównym celem jest przywrócenie integralności terytorialnej i wzmocnienie gospodarki. Dlatego też kraj koncentruje się na integracji oraz zbliżeniu z Unią Europejską oraz NATO. W artykule przeanalizowano przykłady oddziaływania procesów globalnych na gospodarkę Gruzji, które mają miejsce na świecie w ostatnich latach. Stwierdzono, iż globalizacja oraz integracja gospodarcza są procesami znaczącymi i nieodwracalnymi. W związku z geopolitycznym położeniem Gruzji w najbliższym czasie może ona zająć szczególne miejsce we współczesnej globalizacji gospodarki świata. W tym celu należy prowadzić rozważną politykę gospodarczą oraz pogłębić międzynarodowe stosunki gospodarcze, zarówno z krajami rozwiniętymi, jak i krajami rozwijającymi się.

Słowa kluczowe: integracja, gospodarka światowa, globalizacja gospodarki, instytucje międzynarodowe, Unia Europejska, Gruzja, interes narodowy, gospodarka narodowa

Introduction

Economic integration and globalization have become the key determinants of the main directions of current global economic development. The process of economic internationalization has been developing for quite a long period
already, but the quantitative and qualitative potential of international integration in recent years and the frequent changes in this field have moved the world economy to a new paradigm and conferred new content on international economic relations. On the one hand, new markets, economic unions and groups have emerged on the world arena, while on the other hand, global integration processes have gradually removed the boundaries between some countries and regional unions. Globalization has created preconditions for the mutually beneficial exchange of goods, services, capital and technologies. It might be said that the whole world turned into one “large city”, a large universal stock exchange where all its participants try to make profit. This is, what the philosophy of globalization and economic integration is like, which encourages states and regions ensure production of competitive goods and services in order to find their place in the world economy.

Georgia should get a high benefit from economic integration and globalization. Thorough understanding of modern tendencies of economic integration and globalization gains particular importance. Consequently, analyzing and assessment of some aspects of economic globalization and the key characteristics of Georgia’s involvement in global economic integration processes and making an appropriate conclusion is of great importance. For this purpose, we’ve decided to provide a well-grounded answer to the objective of the research shown in the title of the paper.

Some features characteristic for economic integration and globalization

The phenomenon of economic globalization was identified as one of the major challenges facing the European Union by the Turin European Council. The term refers to the growing process of economic integration with the following driving forces: liberalization of international trade and capital movement; accelerated technological progress and development of an information society; and deregulation. These three factors impact on each other – technological progress stimulates international trade, which in turn promotes effective development of technological progress. In addition, deregulation helps development of new forms of technologies and contributes to the removal of trade barriers.

Increasing the competitiveness of its economy is the most important task for each country. This task gains superior importance under globalization and integration processes. Developed countries, including European countries, are currently the most competitive due to globalization and economic integration. The global competitiveness index of these countries is quite high. According to World Economic Forum report 2013-2014, there are six European countries (Switzerland, Finland, Germany, Sweden, Netherlands and the United Kingdom) among the top ten countries in the ranking.


In addition, EU members and other European countries hold the leading positions in the Human Development Index ranking.

Economic integration made it possible for European countries to advance improving the welfare of their populations. The EU has one of the highest life expectancy rates, child mortality is low, etc. Thus, Georgia should go on striving for further development and improve competitiveness of its economy which is quite possible in terms of an appropriate economic policy.

Deepening of economic globalization is encouraged by various international financial and economic institutions, such as: the International Monetary Fund, the World Bank, the World Trade Organization as well as the European Monetary Union, which turned out to be rather sustainable. However, it should be noted as well that currently the Union is in crisis due to the high level of budget deficit of some Euro zone member countries (Greece, Italy, Spain, Portugal). There are also some other organizations which play an important role in the functioning of the international economic system. These are regional banks, small and relatively new branches of the World Bank, most of the UNO organizations, such as the United Nations Development Programme (UNDP) and the United Nations Conference on Trade and Development (UNCTAD).3

“Economic globalization, as the economic and political term was first used by Theodore Levitt (1983), refers to the development of growing international networks in all fields of economic life. It includes: an increase in international trade with services; an increase in the movement of international capital; growth of international direct investments; growth of international migration of labour forces”4. Previously globalization used to be an economic term, but nowadays it covers all fields (political, technological, social, ecological, cultural) of life.

There are some objective causes of economic globalization and some of these reasons should be highlighted:

- International labour distribution and scientific and technological progress in the fields of transportation and communication had a positive impact on deepening relations between countries, made international investment, marketing, production cooperation and other kinds of economic activities easier;
- Trade liberalization created weakening of protectionism and the development of more liberal economic and trade relations. As a result, tariffs have been reduced and a number of barriers have been removed which hindered international trade. Liberalization activated movement of capital and other production factors around the world.
- Development of the phenomenon of transnationalization which means that part of the production, export, import, consumption and income of the country becomes dependent on the decisions of international financial and economic institutions. Transnational companies play a special role in this regard, which present the source of economy and a cause and effect characteristic.

3 J.E. Stiglitz, Globalization and its Discontents (Georgian translation), Tbilisi 2012, p. 16.
Globalization, as a very complex and controversial process, can’t be evaluated only from one side and can’t be considered a clearly positive or negative process. Thus, it’s not surprising that in the global economy the process of globalization is perceived differently. The approach to globalization is different not only among scientists, but among the population of different countries as well. It’s welcomed by the developed countries, while developing ones look at it with suspicion. This is due to the fact that the distribution of the benefits of globalization worldwide is unfair and unequal, which quite frequently causes conflict, both on national and regional levels. Rapidly developing countries manage to be involved in the group of the developed countries, while the poor ones stay farther behind. Therefore, it can be said that “on the intersection of globalization and regional fragmentation processes, a combination of factors have been formed; by timely identification of these factors and their effective usage, a sovereign state can adapt to global processes and regulate them in accordance with its own interests (and not only based on its forces)”\(^5\).

**Some examples of the impact of global integration processes on the economy of Georgia**

Modern technological progress and globalization radically change the possibilities of a country’s socio-economic development; therefore, currently, as never before, involvement and full integration in the international economy is a priority. Georgia is gradually actively involving in current globalization processes, which means the country’s ultimate commitment to democratic values. Historically, Georgia has been situated on the border of Europe and Asia and “it can be said without exaggeration that the country has always been striving to be not only a geographic part of Europe; unfortunately, in past centuries, due to the unilateral wish, the dream couldn’t come true in the Sulkhan Saba era or in 1918-1921."\(^6\)

It’s notable that “Georgia is a member of the European Council since 1999, which proved the country’s western orientation on the international level. This is a clearly significant success, though it doesn’t mean that Georgia is an inseparable part of Europe yet. For this purpose, the country needs to become a member of the European Union and NATO”\(^7\). After restoring its independence Georgia got quickly involved in the globalization processes. The authorities of the country took the European legislation as a basis for the country’s western orientation; “still in September 1997 the Georgian Parliament passed a resolution. According to this regulation, all laws and regulations adopted by the Parliament of Georgia since September 1998 have to comply with the standards and regulations imposed by the EU. Enactment of this resolution might be considered an important step towards compliance of the Georgian legislative system with the

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EU's legislative system. On July 27, 2014 the EU and Georgia signed an Association Agreement. This agreement will replace the “Partnership and Cooperation Agreement – PGA” signed in 1996 and will create a new framework for cooperation between the EU and Georgia. The EU-Georgia Association Agreement is an ambitious and innovative agreement, so called, the agreement of a new generation, as unlike other agreements signed previously, it includes Deep and Comprehensive Free Trade Area - DCFTA and creates the basis for the irreversible political and economic integration of Georgia. It also provides mechanisms that are essential for the country’s transformation into a perfect European state. These processes are some kind of echo of globalization. In such circumstances, the role and place of the national economy changes and the foreign component of the national economy is highlighted.

The process of globalization has both positive and negative impact on any country. The level of this impact depends on the policy exercised by the state. There are some examples of the positive impact of the global processes on the economy of Georgia in recent years:

- 4.5 billion USD was allocated for Georgia in 2008 by the international society, which helped Georgia to overcome the negative economic effects caused by the Russia–Georgia War of August 2008 and the global economic crisis. “In July 2015, the EU approved disbursement of € 6 million to Georgia within the frames of the state budget program "Support to EU-Georgia Deep and Comprehensive Free Trade Area and Small and Medium sized Enterprises". This payment is the first indication of the Budget Support component of the € 45 million EU funded Programme "Support to EU-Georgia Deep and Comprehensive Free Trade Area and Small and Medium sized Enterprises". The EU funded Programme clearly shows the EU's readiness to support Georgia to implement the Association Agreement and the DCFTA and at the same time to promote small and medium-sized businesses as a way of fostering a sustainable economic development and inclusive economic growth.”

- Globalization played a considerable role in achieving high rates of economic growth in Georgia. In 2007 the economic growth rate was 12%, but in 2008-2009 it significantly decreased due to the Russia-Georgia war and global crisis. However, in subsequent years it increased by an average 6% annually, excluding the year 2014, which, in our opinion, is a temporary phenomenon and in the nearest future will increase again;

- Due to its strategically important geographical location, strengthening of transit and energy corridors is of paramount importance for Georgia. Implementation of large-scale regional projects (transnational projects in the fields of energy...

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10 Ministry of Economy and Sustainable Development of Georgia, www.economy.ge
and transportation), in which Georgia is involved, will create new jobs and strengthen competitiveness of the country. Construction of highways and development of infrastructure in the country resulted in higher rates of economic growth. Obvious examples of globalization are construction of the Baku-Supsa and Baku-Tbilisi-Jeihan pipelines\(^\text{12}\). Due to these pipelines Georgia “gains a very important international economic function… The pipeline is the “touchstone” for Georgia to attract the attention of strategic investors”\(^\text{13}\).

- Georgia will get high political and economic benefit from the full utilization of its transit potential. The Georgian railway plays an important role in the utilization of this potential. The Georgian railway and its infrastructure is an important factor for the successful functioning of the Europe-Caucasus-Asia transit corridor. Strategically important Georgian ports and terminals, such as Batumi, Poti, Kulevi are directly connected with the railways in Azerbaijan, Ukraine, Russia, Bulgaria. The Baku-Tbilisi-Kars railway (the so-called “Silk Road”) is the beginning of the most important, new era from the point of increasing transit opportunities of Georgia and development of new business. This line will be used for shipment of goods and will serve passengers as well. The railway project was launched in 2007 and construction activities began in 2008\(^\text{14}\). The goods leaving China on January 29, 2015 by railway reached Georgia on February 6. The project was implemented through the close cooperation of the railways of Georgia, Kazakhstan and Azerbaijan and with the support of the Chinese region of Shenzhen. Before that, transportation of the same volume of cargo by sea took 45 days. The Trans-Asian-Caucasian train will move from China to Georgian Black Sea Ports; from these ports goods will be shipped to European, Mediterranean and Black Sea countries. The economy of Georgia will get 120 million USD from only one direction of this project (China-Georgia), and after the Baku-Tbilisi-Kars project is accomplished, a new, second direction – Turkey-Kazakhstan – will be put into action, which will double the country’s profit. The Silk Road gives Georgia an opportunity to attract investors through the Asia Development Bank to implement projects of regional importance. Both the USA and Russia are interested in the countries of the Pacific Ocean and Georgia also tries to carry out some activities in this direction. Georgia will host a Silk Road forum in autumn 2015. About 300 high-ranking businessmen will visit Georgia for this event. Thematic panels and discussions will take place at the forum regarding energy, infrastructure, logistics, transportation, communication, trade and investments\(^\text{15}\).

- The government of Georgia is planning to implement considerable projects in regard with Iran. After the Vienna agreement on nuclear programme between six countries (US, Germany, France, Great Britain, Russia, China) and Iran, economic cooperation with the western countries will expand. Iran allocated 10 billion USD to build a new pipeline for the transportation of its own energy

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\(^{12}\) Georgian Oil & Gas Corporation http://www.gogc.ge/ge/perspective


\(^{15}\) Ministry of Economy and Sustainable Development of Georgia, www.economy.ge
resources. The direction of this new pipeline isn’t determined as yet. In our opinion, Iran might transport gas and oil to Europe through Georgia.

- Georgia is becoming an active geostrategic player, and its most important function is to be involved in communicational and informational globalization. The country is becoming more actively involved in the process. Up-to-date communication technologies have been introduced, information dissemination speed has increased, the internet is widely used both in business and various social activities, which, on the one hand, streamlined business operations and on the other hand, made it possible for other countries to get acquainted with Georgian culture, history and geography and ultimately created conditions for tourism business development. Georgia was visited by 2,820,185 visitors in 2011 and in 2014 the number of arrivals amounted to 5,515,559. Construction of high-class hotels by international brand companies in Tbilisi, Batumi, Bakuriani, Borjomi, Anaklia, Bazaleti and other locations are obvious examples of globalization. In May 2015, Georgia hosted the Annual Meeting and Business Forum of the European Bank for Reconstruction and Development (EBRD), which is also the result of globalization. EBRD is the largest investment institution in Georgia, which has already invested 2.6 billion USD in over 178 projects in the country. In July, Tbilisi also hosted the European Youth Olympic Festival 2015. Georgia is one of the founding countries of the Asian infrastructure investment Bank. The bank’s main activities are to stimulate economic development, as well as investment in infrastructure and production. The bank is sponsored by 57 countries, and its authorized capital of 100 billion USD. 30% of shares belong to China.

- Foreign direct investments play a decisive role in merging national economies into a common industrial basis of the global economy. In 2007, the amount of FDI in Georgia was over 2.0 billion USD. The August 2008 events caused a sharp contraction of FDI in 2009-2010. Investments began to increase in 2011 and “achieved the historical maximum during the last 6 years (since 2008) – only in 2014 FDI in Georgia increased by 35% compared to the previous year and amounted to 1,272.5 million USD. According to the preliminary data for 2014 most of the investments came from the Netherlands (331 million USD), Azerbaijan (302 million USD), China (195 million USD), the United Kingdom (114 million USD), major investments also came from Luxembourg, the US, Turkey, Russia, Panama and Malta. It should be noted that the agricultural sector of Georgia is becoming increasingly attractive for foreign investors. In 2014, direct foreign investments to the amount of 19 million dollars were made in the agricultural production sector, which is 61% higher compared to the previous year. The government also provides large subsidies for agriculture.

- The dynamic and structure of foreign economic relations of Georgia are good examples of globalization generally and of economic integration in particular. The volume of import increased from 3.6 billion USD in 2006 to 8,593 million USD in 2014. Correspondingly, export increased from 936 thousand USD to 2,910 million USD. The geography of foreign trade also expanded. European countries accounted for 41% of Georgia’s foreign trade turnover in 2014, Asian

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16 Ibidem.
17 Ministry of Economy and Sustainable Development of Georgia, www.economy.ge
countries - for 51.8%, America – for 6.4%, Africa and Oceania – 0.8%\textsuperscript{18}. The first effect of free trade with Europe is development of agro-production. Hazelnut is a new stimulus for agro-production. According to the Ministry of Agriculture of Georgia, in 2014 hazelnut export exceeded wine export for the first time, becoming the major agricultural export of goods, while with 29% of the total export, agro export took the third position in Georgia’s total export. As Georgia 2020, the social-economic development strategy of Georgia states “The Government of Georgia will improve legislative and institutional mechanisms for ensuring free trade and competition, and will introduce the best European practices in accordance with the provisions of the EU-Georgia Association Agreement\textsuperscript{19}.

- The process of globalization has not only a positive, but also a negative impact on Georgia:
  - Under increasing globalization, maintenance of the country’s indigenous culture becomes more difficult. Political, economic and military influence of large superior states on the smaller ones increases. This is a characteristic for Georgia as well\textsuperscript{20}.
  - Globalization is characterized by the broadening and extending of corruption in different international organizations and transnational companies. Georgia, like other countries, faces the danger of global corruption. The legal base-ment of large Georgian companies in off-shores should be highlighted in this context. This can be explained with corruption schemes as they really don’t face the need of using classical off-shore preferences\textsuperscript{21}.
  - Globalization promotes migration of the labour force from developing to developed countries. This process is stimulated by development of transport and technologies. Nowadays, there are about 300 million migrants in the world. As experts estimated about 1 million people emigrated from Georgia. The number of people willing to go abroad is also rather high as they can’t satisfy their professional and social needs in their own country.
  - Globalization and specifically the world economic integration has increased the unemployment rate. Due to the introduction of new technologies and technical achievements, human labour was replaced by machines and electronic services. Naturally, the global financial crisis also affected the country’s economy. Unemployment became the most pressing problem. According to official statistics, in 2014 the unemployment rate in Georgia was 12.6%.

- The most negative side of globalization should be considered the quick spread of economic and financial crisis from one country to others. There are many examples of this, including the financial crisis, beginning in the USA and extending to the whole world, which hasn’t been fully overcome yet. “Naturally, the global financial crisis also affected the country’s economy. Unemployment increased. Emigrants, leaving the country to work abroad, don’t wish to come

\textsuperscript{18} National Statistics Office of Georgia, www.geostat.ge
\textsuperscript{19} Social-Economical Development Strategy for Georgia - Georgia 2020, Tbilisi 2013, p. 22.
back. Transfers from Georgians living abroad is declining. In addition, there are around 30 thousand internally displaced people from occupied territories.\textsuperscript{22}

Summary

The following general conclusion might be made based on the previously discussed issues: economic integration and globalization are irreversible processes and it’s not sensible to look for alternatives to these processes. The process is deepening and developing. Due to its geopolitical location, Georgia lies within the strategic interest zone of the US, the EU, Russia, Turkey, Iran and China. Formation of an independent state of Georgia, attempts to discard Russia’s influence and orientation towards economic and political integration with the Western world, angered Russia, which resulted in military aggression in 2008; Russia’s creeping annexation of Georgian territories is still taking place.

Despite the challenges created by the historic location of Georgia, the country has good opportunities for economic prosperity and rapid growth. Georgia has all kinds of resources to take leading positions in modern economic integration processes. For this purpose, the country should manage to avoid threats through carefully maneuvering among geopolitical players and offer the international community mutually beneficial economic projects based on equal partnership. All this will make introduction of western economic, social, legal, political and other achievements adapted to national values possible, which is a prerequisite for maintaining Georgian national identity and successful development of the country.

Finally, Georgia is a full member of the UN, the Council of Europe and GUAM. The geopolitical aim of the country is integration in the EU and NATO. The strategically important location of the country provides an opportunity for Georgia to become actively involved in the integration processes and ensure higher rates of economic growth and improving the welfare of the population using the benefits of these processes.

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