

The Book is aimed at demonstrating that the main theoretical approaches to the external economic behavior of small countries with a transitional economy are insufficient to explain such important issues in the foreign economy of small states as an assessment of external economic threats and the choice of economics allies. Ignoring the modern geo-economic paradigm is a serious obstacle to their accelerated development. The first chapter Book is dedicated to studying theoretical issues of geo-economics. Based on the views of E. Luttwak and his critics the author analyzes books and articles, which are devoted to the definition of the concept of the modern geo-economics. On this basis, the author proposes their own version of the definition of geo-economics. The second chapter explored the identification and systematization of geo-economic threats that directly affect the development of small countries with economies in transition (using the case of Georgia). The third chapter is devoted to the study of factors of regional economic integration in the South Caucasus in the context of the geo-economic problems of Georgia.



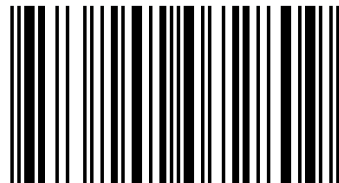
Giorgi Kvinikadze

Geo-Economics: Theory and Practice for Small Countries with Transition Economy

View from Georgia



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GIORGI KVINIKADZE

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COUNTRIES WITH TRANSITION ECONOMY
/VIEW FROM GEORGIA/**

2017

The book is dedicated to the memory of my teachers, the famous Georgian diplomat and scholar, Prof. **Alexander Rondeli** and my scientific supervisor Prof. **Vaja Gujabidze**.

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COUNTRIES WITH TRANSITION ECONOMY
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Brief annotation of the book

The book is aimed at demonstrating that the main theoretical approaches to the external economic behavior of small countries with a transition economy are insufficient to explain such important issues in the foreign economy of small states as an assessment of external economic threats and the choice of economic allies. Ignoring of the modern geo-economic paradigm is a serious obstacle to their accelerated development.

The first chapter of the book is dedicated to the study of theoretical issues of geo-economics. Based on the views of E. Luttwak and his critics the author analyzes the books and articles, which are devoted to the definition of the concept of modern geo-economics. On this basis, the author proposes his own version of the definition of geo-economics.

The second chapter explores the identification and systematization of geo-economic threats that directly affect the development of small countries with economies in transition (using the case of Georgia).

The third chapter is devoted to the study of factors of regional economic integration in the South Caucasus in the context of geo-economic problems of Georgia.

The author hopes that this book will contribute to academic discussions around the priorities and implementation of effective foreign economic policies of small countries with economies in transition.

Keywords: Georgia, small state, geo-economics, security, transition economy.

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I. GEOECONOMICS: STATE STRATEGY OR SCIENTIFIC DISCIPLINE?

The contemporary world is imposing several important alterations and adjustments today, having in mind that the multipolar world is an irreversible economic, political, social and cultural phenomenon which occurs on global and regional levels simultaneously (Pajović, 2013).

In this background a permanent process of “economizing” of geopolitics takes place that increases the flexibility of global economic relations, their dynamics. This process is called geo-economics. This term is widely used in the scientific literature since the 1990s, mainly in the subject areas of international relations, political economy, geopolitics, economic and political geography, as well as others.

However, there is no consensus so far about the subject of geo-economics. Almost all researchers who worked on the problems of geo-economics (e.g. Alexiades,1946; Attali, 1990; Baru,2013; Blackwill, & Kissinger, 2016 Braudel,1981; Cohen,1991; Defarge,1996; Dicken,1998; Ismailov, E. & Papava, V.,2006; Jean,1995; Kennedy, 1987; Kochetov,1999; Kundnani,2011; List,1841; Loughlin & Anselin,1996; Lorot,1999; Leyshon,2003; Luttwak,1990,1993,1999; Mensah,2010; Muradyan,1997; Nye J. Jr.,2004; Nester,1995; Pajović, 2013; Renner,1942; Scott,2013; Szabo, 2014; Thirlwell, 2010; Vernon,1993; and others) interpreted geo-economics as they understand it. The abovementioned makes difficult to formulate more or less commonly accepted definition (the problem is not restricted to the definition of geo-economics, but is rather wide-spread across the whole spectrum of social, political and economic disciplines. Plenty of popular terms and concepts like for instance “development” or “globalization” are used factually by default, which causes practical problems of their actual application,

especially in teaching process at the university level). And this is not surprising since the definition of geo-economics (just as in the case of geopolitics) depends on time and place (in this context, geo-economics has a positive connotation with the term Human geography). We think that if a researcher does not mention the object of the research, the definition of geo-economics acquires an abstract form. There must be appropriate to recall the words of J. Nye Jr.: “Geo-economy is like the weather. Everyone depends on it and talks about it, but few understand it.” (Nye Jr, 2004).

During the World War II, the American scientist George T. Renner used the term “geo-economics” for the first time in 1942 (Babic, 2009, 27). Decades later, another American scientist, Edward Luttwak, tried to theoretically substantiate the term geo-economics in his article “From geopolitics to geo-economics: the logic of conflict, a grammar of commerce”, published in 1990. “Today the main battlefield is economic rather than military; sanctions are taking the place of military strikes, competing trade regimes are replacing military alliances, currency wars are more common than the occupation of territory, and the manipulation of the price of resources such as oil is more consequential than conventional arms races” (Leonard, 2015, 4).

He suggested that the world had entered the era of geo-economics, becoming the battlefield for obtaining, use and (re) distribution of national and international goods and services. Under these conditions, traditional states have to rethink and reorganize the mode of operations in order to create and support strategically important sectors of the economy through the use of geo-economic weapons (research and development financing, direct financial support to business, etc.). This, in turn, aims at the creation of comparative advantage for these sectors in global markets.

Still, as time passes these postulates have certainly undergone the evolution. As of to date, there is a number of often contradictory definitions of geo-economics, which deviate by far from the initially formulated by Luttwak. Stemming from this we are interested in analyzing, whether these alterations to the initial concept of geo-economy enriched it or on the contrary – devalued it. In this article we aim to review the initial concept of geo-economics, as defined by Luttwak vis a vis other popular geo-economic concepts, to formulate our own vision of the modern geo-economic idea.

Bearing in mind that modern theoretical and empirical research in the area of geo-economics is pretty diversified and represented by numerous authors, its detailed analysis by far exceeds the format of the article, thus we decided to restrict their analysis to a limited number of research areas, which seem to be the most relevant. At the present time countries differ from what they were in the past, because a state can no longer use military force as a tool for solving its economic problems. The industrially developed nations (collective West) are facing a deep demographic crisis, which does not let them to use a huge mass of young people in the process of war. Developed market countries have two ways to support a competitive edge: first, to invest in their own production and technology; and second, to use such processes that will not allow potential competitors to improve their technology and develop their economies (Kvinikadze, 2016).

Hence, these examples are inevitable in a presence of states and blocs of states. As spatial entities structured to jealously delimit their own territories, to assert their exclusive control within them, and variously to attempt to influence events beyond their borders, states are inherently inclined to strive for competitive advantage against like entities on the international scene (Luttwak, 1990).

Geo-economics is a new edition of an old rivalry between states. Within such rivalry, capital for investing in industry provided or directed by the state is an

equivalent to firearms; product development supported by government subsidies equals to warfare improvements; and state-assisted market penetration takes place from military bases and army on foreign soil as well as the diplomatic influence (Luttwak, 1999, 125-130)

According to E. Luttwak, the confrontation in the post-bipolar world conditions did not go anywhere between individual countries and only acquired new forms. The use of rough military methods has moved to the periphery of world politics and is no longer relevant for a number of developed countries. Nevertheless, developed countries continue to pursue “combat operations”, in which a wide arsenal of geo-economic methods is used.

On the other hand, today the nations increasingly carry out geopolitical combat through economical means. Policies governing everything from trade and investment to energy and exchange rates are wielded as tools to win diplomatic allies and punish adversaries.

Therefore, states will tend to act “geo-economically” simply because of what they are: spatially-defined entities structured to outdo each other on the world scene. For all the other functions that states have acquired as providers of individual benefits, assorted services, and varied infrastructures, their *raison d’être* and the ethos that sustains them still derive from their chronologically first function: to provide security from foes. Relatively few states have had to fight to exist, but all states exist to fight —or at least they are structured as if that were their dominant function. Correspondingly, intergovernmental competition, first of all, must be carried out by using economical methods. Nowadays, taking into account that the use of military force is no longer dominant on the international level, therefore the hierarchy of states is defined not by military but by economic strength. Today, we see that geopolitics has already been partially replaced by geo-economics.

In a broader sense, geo-economics does not oppose geo-politics. To achieve geopolitical goals, geo-economics uses economical methods, just as geo-strategy employs military ones. Therefore, geo-economics does not substitute geopolitics, but transforms it. Geo-economics is based not only on logic, but also on the syntax of geopolitics and geo-strategy and, in a broader sense, on the whole on the practice of conflict situations. The difference between these two disciplines lies in the specific grammar of the applied means. So, according to Karl Clausewitz: “Grammar” changes because it reflects the peculiarity of the applied means.

In return, different “grammars” use the same logic, often the same syntax: the main difference between geo-economics and geo-strategy lies in the fact that strategy, first of all, is inspired by politics and uses the means, which differ from its goal (where the goal is of political character). The main difference between geo-economy and geostrategy is that the strategy is primarily inspired by politics. Therefore, geostrategy is important for political and not military victory. Economic goals pursued by geo-economics are structurally closer to a state’s final political aspirations (accumulating wealth and well-being of citizens are not only economic but also political goals of a state). So, it is quite logical to speak about “economic victory”. But, at the same time, goals of geo-economics may be of purely political character; for example, increasing its own role, acquiring the position of a regional or world leader and raising its influence on the global arena. Indeed, the economic goals that geo-economy follows are firmly close to the state's political aspirations (creation of wealth and raising the well-being of citizens etc.). Thus, geo-economics is not only a goal but also a means of politics.

Theoretically, in a rational world, the best choice would be the global management of the economy to provide maximum growth of the latter. But it is already in the sphere of science fiction. There is an absolutely different situation in the world of Real Politics: private interests dominate the common ones because the common

interests exist only in our imagination. Short-term projects dominate the long-term ones. Ruling elites and bureaucracy strengthen their internal authority, explaining it by international competition and the existence of an economic enemy.

Political elites get legitimized and arrived at a consensus. If any state conducts an aggressive economic action, others have to react adequately. In any case, they should be able to do this to make potential aggressors implement a moderate course.

The development of any country, and of course, strength depends on the most educated, most developed part of the country's population, often called elite. If there is a real elite in the country that is spinning geo-economic activity (e.g. caring for the image of the country, creating an attractive interactive climate, cleaning up foreign markets for its own producers, avoiding geo-economic wars, etc.), the country copes relatively easily with complex economic challenges.

Such measures fall into the category of those preparatory activities, which are usually conducted by the states being on the verge of a geo-economic war. These measures are linked to “the preparation of a nation for total war” (just as it happened at the beginning of the 20-th century). In addition to this, states contribute to their own economies and thus utilize their geo-economic force to attack and for self-defense on the global arena. In such a case, they pursue only one goal — to get supremacy over their competitors by using any means.

It should be noted that geo-economic wars, which have geopolitical goals, at the same time represent “hot wars” and differ from simple Economic Competition. Both “hot” and “economic” wars have one thing in common — their strategic task is to defeat the enemy, i.e. to subject the will of a loser to the will of a winner. In economic wars with economic aims, the situation is absolutely different. It should be noted that economic war, which has geopolitical goals (e.g. use of Russian energy leverage), can easily turn into so-called “hot wars”. Thus, it differs from the

simple economic competition. Since the “hot” and geoeconomic wars have one common goal (victory over the enemy), this means that losers obey the will of a vanquisher. In this context economic influence in the hands of the winner is used as a tool for achieving the goal. As is the case with the use of military force.

There exists some similarity between the means and goal. Both represent economic characters in the same way as expenditure and profit. The evaluation is not conducted according to the principle of cost/benefit but by means of using the principle of expenditure/profit. At the same time, there should be a close correspondence between production expenses and the profit received from it. Military wars carry the logic of a zero-sum game, whereas economic wars carry a different logic - they are mainly based on a peaceful agreement, rather than on a mortal attack. In such a case, the main goal is not to cause damage to the adversary, but to increase your own wealth, especially with the help of basic investments, which provide a possibility to increase productivity and, when it becomes necessary, even by breaking the rules which operate in the conditions of free competition and free market in a particular form of new mercantilism; and exactly here is hidden the essential difference compared to the past; namely, states mainly remained territorial, while the market and enterprises became transnational. The organizational structure of transnational market and enterprises represents a web and not a hierarchy. Correspondingly, states possess fewer levers to control production and trade, as well as finances, which earlier represented the main instruments of state economic policy.

It should be noted that unlike economic wars, the geo-economic rivalry does not intend to weaken the economy of an opponent. Its goal is to strengthen its own economy and increase its competitiveness. Geo-economic competition differs from a normal trade, as it does not follow the rules operating in global trade. Every state tries to implement those rules that are beneficial to it and thus dictates its own rules

to other competitors. E.Luttwak interprets geo-economic rivalry as “competition”, which aims to improve the competitive situation in the global market and create conditions for geo-economic growth. According to Luttwak, the geo-economic rivalry may turn into a common threat for Global and National Economic Systems. It may give a new meaning to nation states, as it can perform the function of conducting war for the creation of a modern state, which was typical for the post-WWII period (Luttwak, 1993, 35-43).

According to Luttwak, geo-economic rivalry can become a threat to global and national economic systems. In this case, the state acquires a new sense (function), as it has to carry out the task of warfare through economical means. This situation was especially evident after World War II (Edward Luttwak. *The Coming Global War for Economic Power*. *The International Economy*, September – October. 1993: 35-43).

It is known that mercantilism is a characteristic of geopolitics and it causes damage to global trade because geopolitics always pursued military-political goals, while geo-economics always is oriented toward achieving social and economic goals without disrupting the integrity of the global market. On the contrary, it contributes to the growth of wealth and efficiency of utilizing economic tools, which aim to seize the best part of this wealth. At the same time, geo-economic rivalry makes use of such non-tariff methods which in their essence break the rules of free competition and free market adopted on global multinational and bilateral levels. This is exactly what Luttwak has in mind when claiming that in “geo-economics dominate an offensive tool” (Luttwak, 1993, 19-20). However, the American scientist Robert Solow criticizes Luttwak for simply moving military strategy into the economic sphere without taking into account the difficulties of a market and the complexity of economy in general. Solow excludes any possibility of

encouraging scientific work and stimulating production for acquiring the World Industrial Territory (Solow, 1994).

Another American scientist Paul Krugman rejects the importance of competitiveness and the fact that profitable trade inevitably defines the success of a country. He claims that a state's wealth and living standards of the population are mainly defined by internal factors. The experience shows that for the biggest states the outcomes of the competition are less painful. According to Krugman, the "rhetoric on competitiveness" is inspired by the mobilization of internal consensus, i.e. by ascribing the difficulties existing in the American economy not to the low productivity of American workers, but to the comparatively active economic behavior of other countries. Transfer of the theme of competitiveness at the center of political debate has very dangerous consequences, as it can aggravate international conflicts and provoke a real economic war (Krugman, 1994, 28-44).

The generalization of the above views allows us to determine the circle of actors that fall within the field of view of geo-economics. These are government (political elite and bureaucracy), competitiveness of a national economy, strategy, expansion to the world and regional markets.

Proceeding from the noted geo-economics in general may be determined as the ability of a state government (elites and bureaucracy) to apply predominantly economical methods of ensuring the competitiveness of the national economy and to pave the way for its expansion in global and regional markets. It is not yet clear how the world processes will develop.

II. CONCEPTUALIZATION AND SYSTEMATIZATION OF GEO-ECONOMIC THREATS FOR SMALL COUNTRIES WITH TRANSITION ECONOMIES

A key factor in the emergence of small states in the world arena is the growth of democracy, stimulated by the globalization of technology, economics, communications and social transformations created by information technologies. We are in a world where the community of nations now embraces a wider range of countries and states than ever before.

As it is known, economic models were usually based on interests of powerful countries. Now many small states are among the most successful players in the world.

Small states, with a transition economy, can play an important role in the current alignment of economic forces since in this situation the main role is played not by the size of a country, but by what it can offer to the world community. Despite this, small states face many serious economic problems that are crucial to their existence. However, using opportunities in the right direction, they are quite able to cope with the problems that have arisen. Consolidation of sovereignty and the geo-economic security (GES includes a set of functional and geo-finance capabilities of the state to prevent risks of an economic, managerial and political nature) remains a priority in some similar countries.

In the 1970s, the concept of national economic security was actively used by all developed countries. After the end of the Cold War, economic security became a priority for foreign policy of highly developed countries, which have already been transferred to the geo-economic rails (e.g. Blackwell & Kissinger, 2016; Burton, 1994; Cable, 1995; Cohen, 1991; Desouza, 2000; Dicken 1998; Drucker, 1989; Goodwin, 1991; Kennedy, 1987; Leyshon, 2003; Loughlin & Anselin, 1996; Luttwak, 1984, 1990, 1993a, 1993b, 2012a, 2012b; Muradyan, 1997; Post, 1985;

Nester,1995; Spykman, 1942; Westing, 1986); it takes the leading position in the structure of national security of the country, because “in the current situation, the geo-economic approach determines the priorities of global and national security, generates motivation for actions in the global economic space” (Kvinikadze, 2017b).

Geo-economics is a relatively new branch of social sciences and is a few decades old. In post-Communist Georgia the publications about its geo-economic problems have appeared mostly in the “post-cold war” period (more specifically, in the second half of the 90-ies). These publications have laid a remarkable basis for the further development of geo-economic studies in Georgia (e.g. Beridze T., Ismailov, E., Papava V., 2004; Gachechiladze, 2011,2013; Gegeshidze,1997; Ismailov & Papava, 2006; Kakulia,2013; Katsitadze, 2001; Mekvabishvili, 2012; Papava, 2002, 2017a; Papava & Gogatadze, 1998; Rondeli 1998, 2000, 2001, 2003, 2004a, 2004b, 2009, etc.).

Study forward the conceptual foundations for GES is very relevant for the strategy of national security. Bringing new factors and parameters into the conception of GES and establishing a new look under the conditions of a devaluation of the essence of its main determinants also increases the practical value of the research.

Cable’s work contains most important information regarding this issue (Cable, 1995). Though the article is dedicated to international economic security, the typology of the approaches suggested by the author can be used in the research of geoeconomic security (with certain changes).These approaches from the point of view of geo-economics receive the following kind (Figure 1).

While dealing with the goals responding to the interests of a society or nation-state, it becomes possible to give a much wider interpretation of GES. According to the given interpretation, in such a case the major thing is to enable a government to carry out the chosen policy independently. On the one hand, this definition makes

sense if the goals are of objective character, but if the interpretation is subjective, the conception of GES turns into a toy in the hands of politicians. On the other hand, the idea that any government should acquire complete freedom in determining economic policy and its realization seriously contradicts the democratic political system realities, the inseparable part of which is civil society and the reaction of its subjects to the impulses of political decisions. As a result, this kind of understanding of GES is favorable mostly for authoritarian and non-democratic regimes.

One of the most popular determinants of GES is "stability". It is noteworthy that this approach is economic, structural, and unequivocal first because of the fact that the instability phenomenon immanently accompanies market economy. Here a question arises: what is the difference between "destructive stability" and "creative stability?"

My attention is fully concentrated on those geo-economic conditions, which provide military-technological and military-political priorities (control over military technologies, distribution of strategic resources, etc.). Such approach gives a possibility to integrate the investigation of GES problems into the priority system connected with national security. It is evident that such integration means that GES conception has no independent object of exploration and it belongs not to the field of economic sciences, but to international security which represents one of the applied aspects of GES theory. We are not going to claim that this approach is a priori unacceptable (this is the most admitted approach for specialists working in the field of international security).

The conception of GES practically goes beyond the frame of economic science and moves to the sphere of jurisprudence, partly presenting the result of the terminological trap which is connected with "security". Indeed, if the norms of national or international law forbid this or that kind of economic activities, a

violation of norms does represent a danger to "security". From the point of view of its content, this question contains some ambiguity. For example, let us discuss a situation of avoiding taxes, which is admitted by many experts as another danger to the GES. What is a real danger for the GES, in such a case, not paying taxes or the taxes themselves being too high to make businesses profitable? All in all, the objective of business is to satisfy the consumers' demands and not to pay high taxes. Quite infrequently as an answer to the question "Why is a shadow business bad?" we hear "Because businessman does not pay taxes". We can understand when such an answer comes from the tax office official, but when a professional economist holds the same opinion, he proves that he does not fully understand the essence of the problem. Thus, considerable development of "shadow business" represents a method of adjusting the repressive taxation system, which promotes increasing risks of GES and not its danger. Such argument is surely unacceptable for purely criminal kinds of business, such as drug trade, prostitution, trafficking and others, but it makes it possible to reveal the conceptual disadvantages of GES within this approach.

It must be noted that geo-economic perspectives have gained huge popularity in interpretation of GES problem. In this respect, the most arguable question is: "To what extent is competitiveness a specific security dimension if it is an object of certain companies (including transnational) and their lobbies trying to influence a government's policy?" Along with that, if the notion of "competitiveness" causes pure technical disagreements on the level of individual enterprises and other branches of economics, the term "state competitiveness" raises serious conceptual questions. At present, the wide-scale effort in elaborating the indices of the countries' competitiveness is seen in the World Economic Forum publications (The Global Competitiveness Report: 2001-2002; 2004-2005; 2010-2011; 2015-2016). In this case, it is not a matter of global rivalry of national economies conferring a

conceptual dimension to the economic interaction among the countries at the global arena (and causing the shift of the economic policy oriented to raising national competitiveness, may factually turn into the continuation of a war by using different means), but the more significant circumstance is that at present the conception of a state's competitiveness lacks a kind of firm, analytical foundation providing a possibility of its simple and unambiguous interpretation. For example: Is it necessary for a country to claim for the leading positions in competitiveness, to be a leader in all fields of an economy or is it sufficient to be a leader in the sphere of high technologies? If the answer to the second part of the question is "yes" then what are the criteria for distinguishing the "leading" fields and how real is the expectation that any state is able to preserve the lead in all fields (considering the limited economic and technological resources and the process of globalization of modern economy) where the rate of interdependence of states is rather high. Finally, we must note that this very approach is rather popular for geo-economists and international relations specialists, though the approach of professional economists remains rather critical.

GES as an access to raw materials and sales markets. The given issue is mostly connected with the moment when the GES determinant is "stability", as far as the accessibility of the corresponding markets can be conceived as a factor of the undisturbed functioning of an economy. Speaking about the accessibility of strategic resources, the given approach approximates the third, military-political one. If it implies that national companies are more or less dependent on foreign markets (i.e. are buying or selling commodities and services for the production process), it would be interesting to learn how expedient it is to consider the interests of these companies as a constituent element of security at the national level. It is apparent that in this case, the accessibility of the markets cannot be

comprehensive for the GES potential contents. Below, we will try to answer some of the questions posed in the case of Georgia.

The emergence of geo-economics is connected with the revival of state capitalism and state enterprises, which means that the states have large economic resources. Secondly, the deep integration of global trade links and financial markets has made geo-economic tools more powerful.

At the same time, geoeconomic issues have gained immense popularity in the interpretation of the problem of GES. In this regard, the most contentious issue is the following: “To what extent is competitiveness a specific aspect of security, if it is the object of certain companies (firms) and their lobbies trying to influence government policy?” Or if the concept of “competitiveness” provokes purely technical disagreements at the level of individual companies (firms) and other branches of the economy, the term “state competitiveness” raises serious unsolved conceptual issues (Kvinikadze, 2017b).

Throughout the twentieth century, the power balance between countries was usually viewed through the lens of geopolitics, and only recently geo-economics has become a key paradigm. The difference is that geopolitics focuses on military power, natural resources and demography as measures of national influence, while geo-economics emphasizes such factors as economic expansion in markets, trade balances, economic blockade, embargo, economic sanctions, foreign investment etc. In recent years, regional or preferential economic integration has been a popular geo-economic strategy. Not surprisingly, one of the goals that countries sought to achieve through economic integration was geopolitical — to gain relative power by joining forces with others to increase their collective market size and economic opportunities. The geo-economics framework is sometimes used to describe a departure from the prevailing logic of economic globalization. The

widely held view that increasing economic integration will lead to greater democracy and stability throughout the world is not yet confirmed.

One of the most popular determinants of GES is “stability.” It is noteworthy that this approach is not unequivocal. First of all because of the very fact that the instability phenomenon imminently accompanies market economy (we consider it pointless to use the term “sustainable” in this context). Here arises a question: what is the difference between “destructive stability” and “creative stability?” It is a fact that creative stability initiates economic, structural and technological transformations. On the other hand, the investigators who choose this approach will definitely face the dilemma whether it suffices to be limited with only economic issues or to foresee other dangers as well. It is obvious that in the former case the scope of analysis gets narrower, while in the latter there is a danger that GES problem area will expand infinitely (be it geopolitical, ecological, humanitarian, etc.) with the determinants of geo-economic “stability” (Kvinikadze, 2017b).

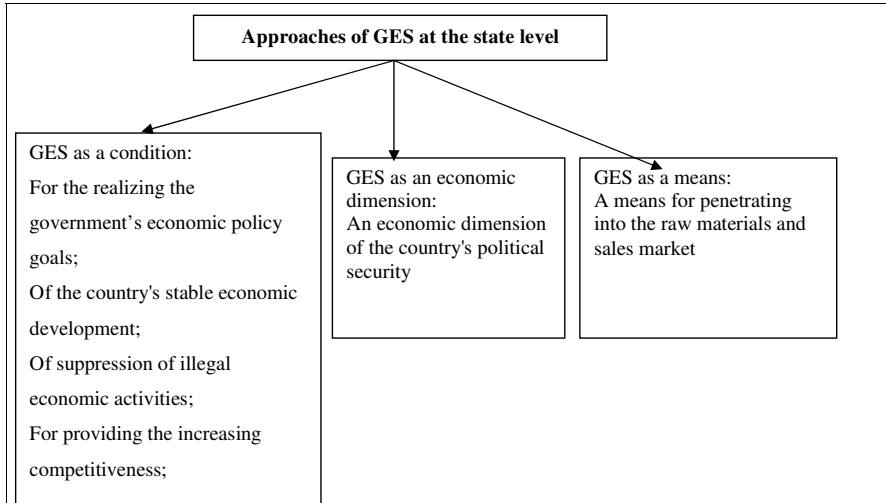
Today's unstable geopolitical and conflict environment has increased the risk of maintaining an open economy that can leave vulnerable sectors and supply chains. While looking at goals that meet the interests of the nation-state, a wider interpretation of GES becomes possible.

Proceeding from the foregoing, it is quite obvious that at the present stage the system of economic security is transformed by acquiring new signs and dimensions. In particular, in the recent past, the economic security of small economies in transition has been defined as the maximum diversification and self-sufficiency of the national economy.

At present, geo-economic problems are the main subjects of economic security (Kvinikadze, 2016; Papava, 2013, 2017a; Rondeli, 1998, 2000, 2009).

In particular: The ability to adapt to the dynamics of the market and the changing

Figure 1



Source: Compiled by the author on the basis of (Cable,1995)

conjuncture of the international economy; Search for your place and function in the global division of labor; Active trade; Priority development of modern sectors of the economy and high technologies; Avoidance of geo-economic [and not only] wars or the creation of mechanisms for an adequate response in the event of war; Creating an effective education system; Increase of professional level of manpower resources; Increase in the level of geo-economic activity of the political elite and government bureaucracy. (Under the geo-economic active bureaucracy, I understand: taking care of the image of the country, creating an attractive investment climate, cleaning up foreign markets to expand my company, avoiding geo-economic wars and/or the art of waging such a war, etc.). The set of these actors determines the country's GES (Figure 2).

The main goal of this work is to identify and systematize threats that directly affect the GES of small countries with economy in transition. The research is of an empirical nature and belongs to the category of qualitative research. The case-study method is used as a basic methodological approach.

The conceptual analysis of GES of small countries with transition economy is in itself a scientific novelty, and the nomination of the conceptual basis of GES is of practical importance for the formation of the national security strategy of Georgia.

Georgia, a small country in the Caucasus, stands out among other post-Soviet countries: following the Baltic nations, Georgia is the most successful country in building of democratic institutions, strengthening the market economy and developing steps toward Euro-Atlantic integration (e.g. Papava, 2017a). Georgia's neighborhood policy should be moderate. Georgia receives energetic resources from Azerbaijan. It means that maintaining of 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 integral whole against the Russian empire.

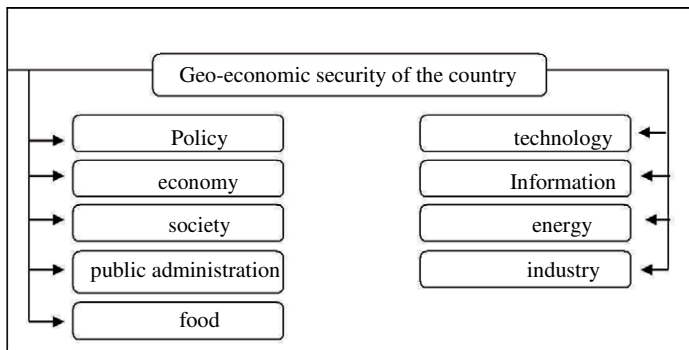
Therefore, Nagorno-Karabakh conflict should be solved as soon as possible in order to begin the creation of new alliance composing Georgia, Armenia and Azerbaijan in terms of economic and social cooperation. However, there are several main factors influencing the situation in the region, which can provoke instability and/or add to potential threats which individual states have to face when dealing with issues of security. The Caucasus is a region, which has little or no tradition of modern statehood. It is inhabited by a mosaic of various religious and ethnic groups who, for the most part, share a history or legacy of friendship, understanding, and tolerance, but have been known to display mistrust, animosity, dispute, and violence at other times. The region is a territory where some state

boundaries are not yet precisely defined and demarcated, and thus these may be disputed (Rondeli, 1998).

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 the western world. The visa liberalization for Georgia is one of the great achievements in the process of economic integration in the western part.

To begin with, Georgia sees its future in the regional context more in geo-economic conditions than in geopolitical ones. The National Security Concept notes that it is necessary to create conditions for stable long-term economic growth, which is one of the main priorities of Georgia's national security policy (National Security Concept of Georgia, 2014).

Figure 2.
Structure of the country's geo-economic security



Source: Compiled by the author on the basis of (Cable,1995; Westing, 1986)

The Government of Georgia ensures free economic development, expansion of the country's international economic relations, improvement of the investment environment in order to attract foreign capital, conservative fiscal policy and monetary policy, and ensuring energy security. To ensure the country's energy security, further diversification of energy sources and transport routes is a priority for Georgia. It is equally important to support the development and modernization of the country's energy systems, as well as to integrate them into the regional energy infrastructure. Further, strengthening of Georgia's energy potential will positively affect the state security, economic development and welfare of citizens. Georgia considers strengthening of its transit role as important task. Therefore, Georgia is ready to participate more actively in international energy, transport and communication projects.

Ensuring Georgia's environmental security is closely linked to public health and safety. Ensuring environmental safety is particularly important when implementing large-scale domestic and international projects. Strengthening of cyber security is an important factor in Georgia's security system (National Security Concept of Georgia, 2014). However, this concept lacks systematization and concreteness. In particular, it does not systematize the main actors of threats to geo-economical security (Appendix 1) and the main indicators of geo-economic security of Georgia (Appendix 2). With a view to systematize threats, it seems more expedient to divide them by internal and external parameters and the main indicators of geo-economic security at the state and regional levels. The issue of external threats to Georgia is especially acute. Such threats can create both friendly and unfriendly forces located outside the country.

For Georgia, the emergence of geoeconomic conflicts in external economic relations by economically strong countries is more dangerous. In such cases, the

country's economy is weakening and, accordingly, the ability to prevent threats is limited (Kvinikidze, 2008).

Priority of Georgia in economic issues is the search for a new role and function both within the global system and in the region. This, however, cannot be achieved without stability and economic development in the region.

The principles of national competitiveness are not yet embodied in specific political and legislative changes in Georgia, which lead to a political crisis, economic instability, poverty, and social inequality in Georgia. Significant improvement requires the protection of property rights and the simplification of the implementation of contracts.

Although the constitution and the law provide for an independent judiciary, little progress has been made in judicial reforms over the years, and the government does not fully respect the independence of the judiciary. Georgia is still struggling with protracted consequences of nepotism and corruption of the Soviet era.

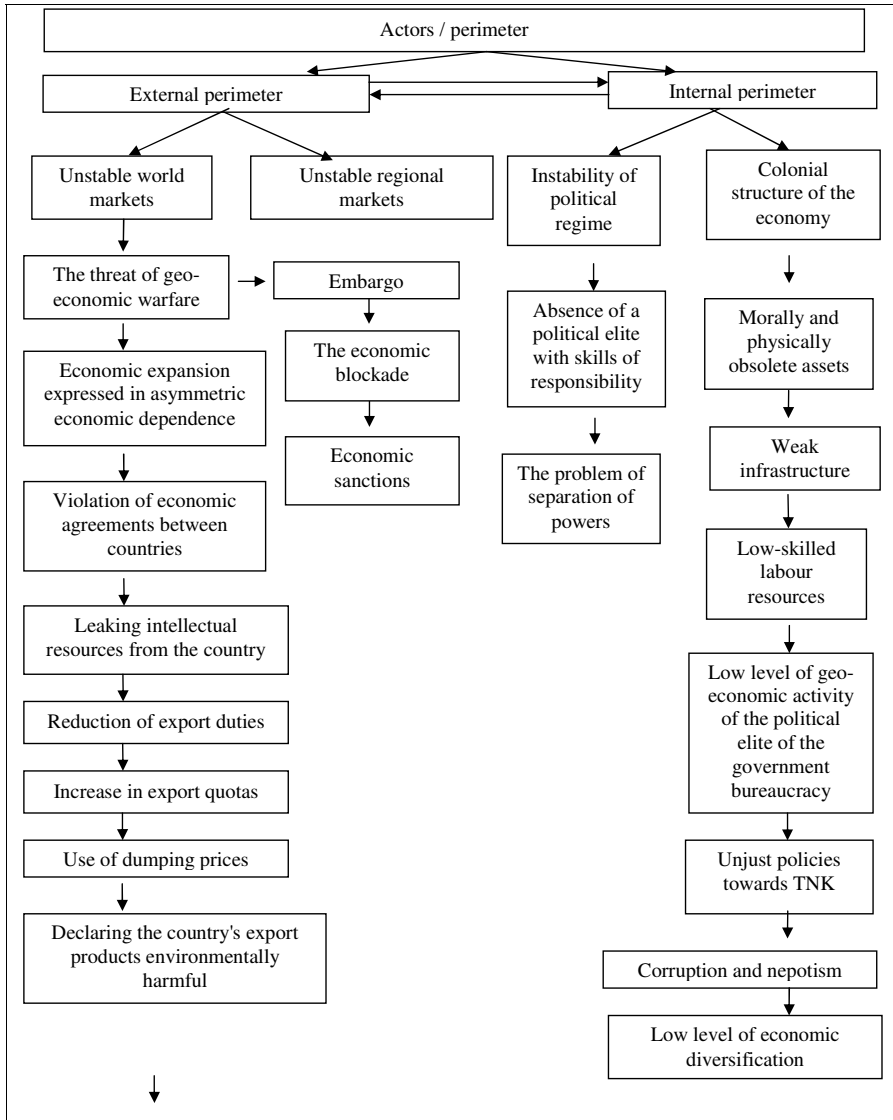
Foreign direct investment in Georgia in the fourth quarter of 2016 increased by \$330.30 million. Foreign direct investment in Georgia amounted to an average of \$304.81 million from 2005 to 2016.

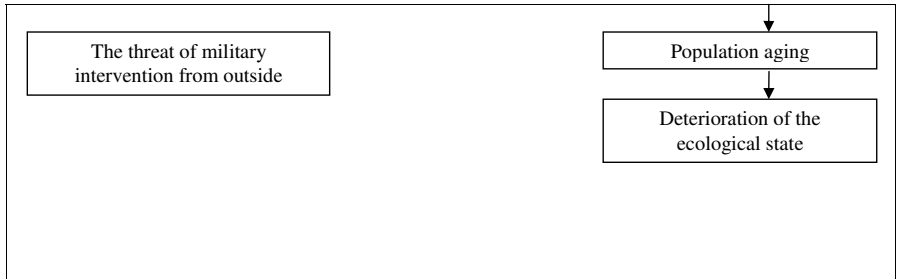
The EU is Georgia's main trading partner. About 32.6% of its trade falls on the EU, followed by Turkey (17.2%) and Russia (8.1%). The volume of trade between the EU and Georgia is only 1% of the total turnover of the former that makes up 2.6 billion Euros in 2015.

The EU export to Georgia in 2015 amounted to 1.84 billion euros. The main export products are mineral products, machinery and devices, chemical products and transportation equipment. The key EU import from Georgia includes mineral products, agricultural products, basic metals and chemicals. The EU in 2015 imported from Georgia goods in the amount of 742 million Euros. Trade is extremely important for the Georgian economy.

Trade is extremely important to Georgia's economy; the value of export and import 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. With the banking sector growing and modernized, access to financing has improved. Capital markets continue to evolve, but the stock exchange remains small and underdeveloped. (Index economic freedom,2017).

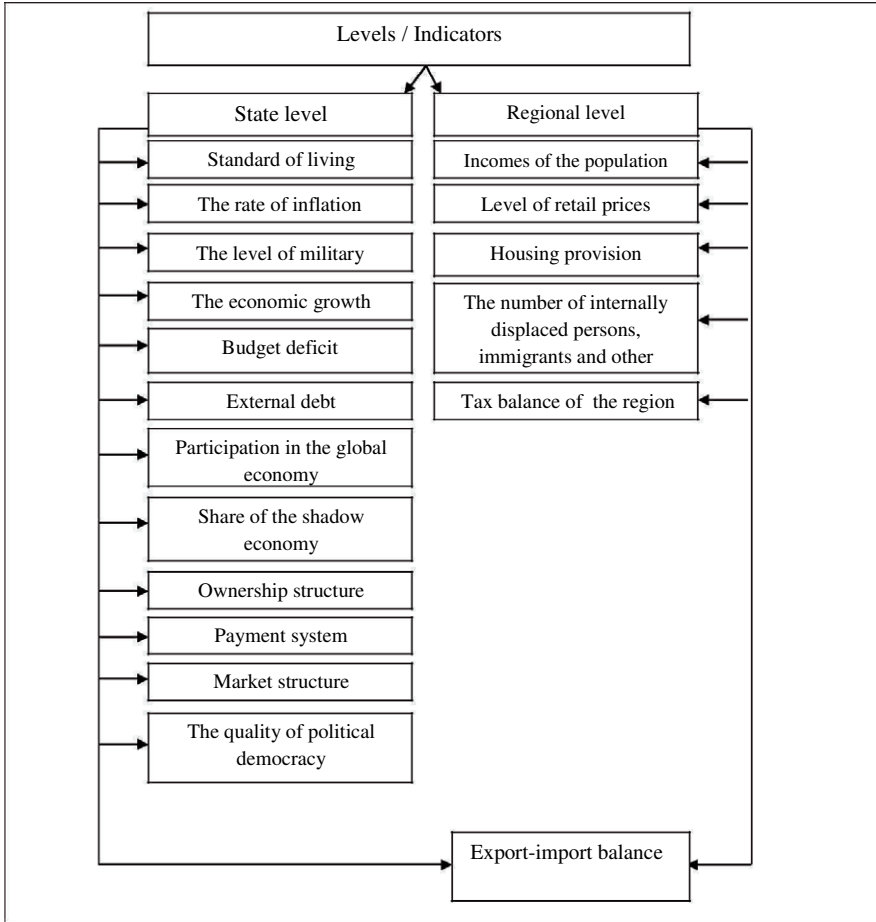
Systematized scheme of the main threats to Georgia's geo-economic security by internal and external perimeters





Source: elaboration of the author

Levels and basic indicators of geo-economic security of Georgia



Compiled by the author on the sources: (Post,1985; Kvinikidze, 2008)

III. CRITERIA ESTIMATES FOR GEOECONOMIC POSITION OF A SMALL COUNTRY WITH TRANSITION ECONOMY

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 economic model of civilization. Military might lose 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.

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 the 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. Similar

countries have to follow the standards that are established by big states. Due to the 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 (e.g. Alesina & Spolaore; Bourne, 1991; 1997 Demas, 1965; Easterly & Kraay 1999; Harden, 1985; Jacobs, 1975; Rondeli, 2009; Wight, 1995; and others) on the definition of the term small countries among scientists, there is as yet no single opinion.

The emergence of the concept of small states in contemporary geo-economics is connected with the collapse of the Soviet Union and end of the Cold War. Even today small states have to follow the standards that are established by big states. Due to the establishment of International Law in contemporary geopolitics, smaller states can get some profit from it. The idea of economic sovereignty and cooperation 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. Economically great powers are faced with a lower level of external economic threats as compared with small states and thus have more options of maneuvering).

This geo-economic strategy refers to compromise the positions for the benefit of the opponent. This is a much more effective strategy because if they conform to the aggressor they avoid the expected economic attack. It is preferable to 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 the 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 the guarantee for protection.

Small states can successfully strengthen their positions due to international law and even can implement their economic interests.

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Brief situation analysis:

Deviations from market models of resource allocation (the plan was used to allocate resources);

Priority distribution based on ideology;

Attitudes towards industry (Soviet industrial enterprises were large and capital-intensive);

Emphasis on investment at the expense of consumption;

The distribution of labor, distorted by the rules on dismissal and the state budget;

Regional preferences for resource allocation;

Foreign trade distorted by state trade organizations;

The existence of a large-scale "shadow" economy;

Artificially high level of employment;

Countries were largely isolated from the world's competitive forces, as a result of what we got:

- distorted trading schemes;
- lack of foreign technological achievements;
- isolation from democratic ideas;
- isolation from Western democratic institutions.

The factors of regional economic integration in the Caucasus. As was mentioned above, 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 interests of various countries 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. The big regional countries - Russia, Turkey, Iran, as well as external forces: the US, NATO, the EU, Israel, and China try to influence them.

As a result of the collapse of the Soviet Union, Georgia, Armenia and Azerbaijan gained economic sovereignty that was the reason of serious geo-economic changes in the region. The geopolitical and geo-economic 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 has an expansionist economic policy towards the South Caucasian 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 is the geoeconomic priority number one for the Central Asian and South Caucasian 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 regions 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 economic 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 degree of dependence on Russia would be reduced.

In the historical past Georgia had a crucial position for trading and interacting with the countries from the East and the West. This fact demonstrates that Georgia might be geostrategically as well as geo-economically 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 are related to Georgia. Prolonging conflicts in Abkhazia and South Ossetia undermine Georgia's statehood. Georgia desires to integrate into 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 the straight overland 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 the domino principle – time-to-time involvement of different states in the war may happen.

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 the western world. Visa liberalization for Georgia is one of the great achievements in the process of economic integration within the western part.

However, the indicators of geo-economic activity do not yet provide an opportunity to make optimistic forecasts (Table 1). This is especially true for indicators such as foreign direct investment, global competitiveness, ICT, etc.

(Table 1)

The main indicators of the level of geo-economic activity of Georgia.As of 2016.

indicators	Participation in world trade ¹	Corruption Perception ²	Global Competitiveness ³	Foreign direct investment ⁴	Economic freedom ⁵	Education Level ⁶	ICT Development Index ⁷	The Global Militarization Index ⁸	Government Effectiveness ⁹	regulatory quality ¹⁰	Balance of Trade ¹¹	Ease of starting a business ¹²
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;
3. http://www3.weforum.org/docs/GCR2016
2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf ;
- 4 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;
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 western countries, 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 export 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 import from Georgia includes 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). The trade is extremely important for Georgia's economy; the value of export and import 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).

Protection of property rights has improved, and the government has made enforcement of contracts easier. Georgia still struggles with the lingering effects of Soviet-era corruption. Foreign Direct Investment in Georgia increased by 330.30

million USD in the fourth quarter of 2016. Foreign Direct Investment in Georgia averaged 304.81 million USD from 2005 until 2016 (Georgia Foreign Direct Investment, 2005-2017).

CONCLUSIONS

All that we said above indicates that geo-economics is not a scientific discipline. It is most likely economic (as well as geopolitical) dynamic ideology, aimed at the achievement of particular geostrategic goals of the state.

But we can try to make a generalization of factors which geopolitics repelled to sideline. For example, in determining the geo-economy, there is one aspect on which the views of all scientists converge. This is an urgent need to improve the level of education and lifelong learning (especially the state bureaucracy), which meet the requirements of the new economy, as well as the skills of the state apparatus to promote their own companies on markets outside the country.

At the present stage, the system of economic security will acquire new signs and dimensions. The future of the country should be viewed in a geo-economic context; otherwise, it may remain underdeveloped.

Georgia security should be developed through economic cooperation, which would not only ensure stability and economic dynamism, but would also benefit both in terms of security and in the economy.

The geo-economic potential is a reliable source of weakening of geo-economic threats. Geo-economic potential should be understood as sources, opportunities, means, reserves, which can be used for the expansionist activity of the state in the world market.

In Georgia, such geo-economic resources include: Strengthening of investment policy; Diversification of the economy and export; Increase in the share of the private sector in the economy; Reduction of state bureaucracy; Strengthening the

transit role by attracting additional cargo; Expansion of the geography of foreign trade; Education reform; Decrease in energy dependence; Creation of an enabling environment for achieving competitive advantages; Reducing the risk of geo-economic warfare.

As for external geo-economic threats, first of all, it is necessary to single out threats from the northern neighbor, who is continuing the geo-economic war (and not only) against the neighboring state. As the economic foundation of the well-known Eurasian doctrine of Russian imperial thinking is not a “market economy,” but rather a “society with a market” (Papava, 2013, 2017a), in case of Georgia's annexation, the country will be doomed to a centuries-old backwardness.

The principles of national competitiveness have not been yet translated into concrete policy and legislative changes in Georgia, which results in the political crisis, economic instability, poverty, and the social disparity in Georgia. Protection of property rights has improved, and the government has made enforcement of contracts easier. The study found that Georgia has enjoyed macroeconomic resilience. Nevertheless, more deep and fast institutional reforms aimed at strengthening of independence and effectiveness of the judiciary are still crucial to the creation of a strong geo-economic development strategy.

But one thing is clear: geo-economics is a term that we will hear for many years.

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