

Georgia's Economic Security in the Conditions of Globalization

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Abstract

Nowadays world global economic crisis hit economics of many countries. Georgia is also somehow integrated to global economics, and accordingly, current global events are reflected in our country's economics as well. Therefore the issue of economic security is getting more urgent. Economic security is closely related to the entire system of state security. Among the macro indicators of economic security the most highlighted issues are: living conditions, inflation rate, unemployment, growth of manufacture, external debt, the tax system, market structure development, etc. The thesis discusses the conceptual issues of economic security in the context of World globalization, the range of internal and external factors operating on it, threats and challenges, the prospects of economic security development. The latest statistics used in the thesis will clearly represent our country's real situation. The thesis also focuses on the security of our country's economic development impacting the other countries of South Caucasus.

As a result of a scientific-technical progress and rapid development of information technologies, it is hard to find a country that does not represent a participant in international economic relations nowadays. Caucasus is a unique region with its geopolitical location and variety of natural resources, where Georgia represents an important center of an area which is connecting two parts of the Earth - Europe and Asia.

Due to the strategic interests, Georgia as an independent and sovereign country is actively involved in the process of understanding/comprehending and solving contemporary world's global, economic and social problems in a new manner. Considering ongoing political, economical and global processes the issue of our country's economical security becomes especially actual and important.

According to economical literature, the economic security of a country is a union of factors and conditions, which are able to achieve national economic independence, stability, sustainability, constant renovation and progress. Economical security represents economy's ability to provide satisfaction of public demand on both national and international level. It is a combination of those internal and external conditions that create a foundation for country's economy's dynamic development. Naturally, security must be defended in all spheres of public activity, but due to the fact, that basic role of country's development belongs to the economic system, it's security must be defended first of all.

Recent occurrences in the country, especially the Russian-Georgian war in August, 2008 was putting the economical security of the country in danger. Due to the internal and external problems that Georgia is facing, general circle of factors can be picked out, that more or less created a danger for the sustainability of economical system in the country.



Among the economical security's indicators in Georgia, the following can be selected : level of living, inflation rate, unemployment, scales of shadow economy, tax system, etc.

Population's level of living at some stage of society's development reflects material and spiritual wealth's consumption's volume and quality per capita. It is a generalized macroeconomic indicator. According to official statistics, the poverty level in Georgia slowly but still declines.

Indicators of poverty in 2004-2009 was:¹

Table 1. Poverty Level

	2004	2005	2006	2007	2008	2009
With respect to 60 percent of the median consumption (%)	24.6	24.1	23.3	21.3	22.1	21.0
With respect to 40 percent of the median consumption (%)	10.9	10.1	9.4	9.2	9.5	8.8

Naturally, level of poverty has positive influence on rising the level of economic security.

Recent financial crisis taking place in the world and political instability taking place in different countries, negatively influenced economies of many countries, and among them of Georgia. This process was relatively painless in our country. The above mentioned crisis had a negative influence on inflation rate. According to official statistics, Consumer price index in 2005-2009 is the following:²

Table 2. Consumer Price Index (Inflation)

	2005	2006	2007	2008	2009	2010
Annual Average to the Annual Average	108.2	109.2	109.2	110.0	101.7	107.1
December Over December of previous year	106.2	108.8	111.0	105.5	103.0	111.2
Annual Inflation Rate	6.2	8.8	11.0	5.5	3.0	11.2

Unemployment is one of the most severe problems in the world. Number of unemployed people has grown in Georgia in recent years. For example: if number of unemployed people in 2004 was 256600, the index has been grown to 335600 in 2009. Statistical data about the employment and unemployment is given in the following table:³

Table 3. Employment and unemployment data

	2004	2005	2006	2007	2008	2009	2010
Active population (labour force), thousand persons	2041.0	2023.9	2021.8	1965.3	1917.8	1991.8	1944.9
Employed, thousand persons	1783.3	1744.6	1747.3	1704.3	1601.9	1656.1	1628.1
Unemployed, thousand persons	257.6	279.3	274.5	261.0	315.8	335.6	316.9
Unemployment rate, percentage	12.6	13.8	13.6	13.3	16.5	16.9	16.3

It is also worth mentioning, that Georgian government conducts important activities in order to overcome the problem of unemployment. For example: recently tourism has been announced as one of the priority fields, quite justly. Tourism plays significant role in developing country's economy, as it participates in forming Gross Domestic Product of the country, creates additional working places and etc. It supports development of national economies and is considered to be one of the most massive and civilized forms in social-cultural life of society. The Russian-Georgian War in 2008 and world financial crisis negatively influenced tourism as well. Compared to previous years, the situation radically changed in 2010. Georgia was visited by 2032586 visitors in 2010, that is 36% more than was the same indicator in 2009. 672316 visitor visited Georgia From January to December, 2010 from European countries (excluding CIS countries) (33,1 % of total visitors) that is 35% more than in 2009. 1286329 visitors entered Georgia from CIS countries (63,2 % of total visitors) that

is 35% more than the indicator in 2009. During this period, 23079 visitors visited Georgia from the USA (1,1% of total visitors), that is 18% more than the same indicator in 2009. 46256 visitor entered from Asian countries (2,3% of total visitors), that is 60% more than the indicator in a previous year.⁴

Growth of tourist flow is especially noticable in Adjara region. 974563 visitors arrived in Ajaria in 2010, that is 76% more compared to the previous year. According to information provided by the Department of Tourism and Resorts of Adjara, number of visitors who arrived in Adjara from January to December, 2010 has grown 3,4 times compared to the same period in 2008. From January to December, 2009 Adjara was visited by 162059 foreign visitors, and in 2008 _76218.⁵

Nowadays attention is also paid to Upper Svaneti region. Big efforts are being made for attracting investments for Svaneti's development. The region has features, that can only be found in a few European countries. Development of tourism business is one of the most important factors to overcome the issue of unemployment in the country.

The problem of foreign debts has a negative influence on the sustainability of the country's economic security. Events developed in the country recently, meaning Russian-Georgian war in August, 2008, world financial crisis, had a negative influence on the country's economic development – foreign debts has grown. According to the information provided by the Ministry of Finances on 31 March, 2011 credits taken by and with the state's guarentee is USD 4065619 (6935540 GEL).⁶

Shadow economy is used to characterize a negative side of economic reality and exists in developed as well as in developing countries. Shadow economy invloves corruption, smuggling, falsification of financial documents, drug business and etc. The scale of shadow economy has influence on budget results, reduces the population's living level and causes impoverishment of greater part of the population. Special fight against corruption is declared in Georgia. Important reforms carried out during past 6-7 years, on different directions, reduced the level of corruption to the minimum and changed once a corrupted country to a non corrupted country . The scales of shadow economy have been considerably reduced, that positively influenced the country's economic security. For this point Georgia became a real example for many other countries.

Tax and customs regime are essential for the development of busines and attraction of investments. The tax code has changed in Georgia. New, simple, and liberal tax and customs system was implemented. Bureaucratic barriers were elliminated and the country became attractive for the investors.

These were some of the many factors, that are influencing Georgia's economic security, but in this work we tried to pay attention to only some of them.

The economic security of the country is a combination of those factors and conditions, which are achieving the independence of national economy, stability, sustainability, constant renewal and progress. Economic security is closely connected with the state's entire security system. Country's powerful military security can not exist in a weak economy and vice versa. In an ineffective economy it is impossible to overcome the dangers, risks and challenges that the country's national security faces. Adequate and timely response to them is especially important. Our country's national security concept states Georgia's fundamental national values, country's national interests, dangers that the national security is facing, main policy directions of the national security. The concept is also paying attention to Georgia's economic security's policy, which aims at creating the necessary economic conditions for Georgia's development and for strengthening the national security. According to the concept, policy priorities of Georgia's economic security are the following:

- Strengthening macroeconomic stability by improving budgetary system and tax administration, adequate cash - credit policy, implementing the principles of a medium-term expenditure policy and by the state debt's effective service;
- Development of a private sector and creation of working places by institutionally regulating the



economy, stimulating small and medium-sized business, improving investment climate and protecting the private property rights;

- Improving the investment climate and developing a land market in the agricultural sector;
- Creating a business environment for the development of traditional and innovative fields of industry;
- Development of tourism and the full realization of tourism potential;
- Reduction of social and economic inequality between the regions and the capital city;
- Active participation in international economic projects;
- Supporting Georgia's export potential;
- Creating a healthy competitive environment and conditions for equal opportunities in business.

Significant progress is visible in the economic sphere after the “Rose Revolution”. The state budget has significantly increased, the large-scale privatization is taking place, restoration of infrastructure has begun. Georgia is implementing the above mentioned reforms by the state's “Economic Development and Poverty Reduction Program”.⁷

According to the information above, we can conclude that because of Georgia's economic security current negative factors should be overcome, it is necessary to create appropriate conditions for a support of a private business, including small and medium business, what is also reflected in the national security concept. Economic security is not a prerogative of one single state agency. It is achieved by the efforts of state governing bodies' system, every circle of economy and structure. In terms of the country's economic security, significant importance is also given to the energy security. It is necessary to increase the country's degree of energy independence to the maximum and involve Georgia in the production of the energy of rich hydro resources to the maximum. We should also consider the fact that Georgia will not be able to preserve its national characteristics, traditions, culture and distinction if it becomes only a consumer of the world's wealth created by the globalization. Georgia should also be the supplier, which really possesses special reserves of the scientific - technical and intellectual potential.

We think that the development of our country's economic security will positively influence the rest of the countries in South Caucasus. Georgia is a kind of transit bridge connecting Europe and Asia and, of course, our neighboring countries, therefore for these countries Georgia will become the supplier of energy, intellectual resources and etc. Furthermore, in the conditions of strong economy, employment of its own citizens, it is possible to create more working places, where the citizens of Georgia's neighboring countries can also be employed.

World's current political and economic processes are of particular importance to Georgia today. Georgia is still given a unique opportunity to actively engage in the world's current economic processes, with current relations, scales and potential, preserving the national identity and self-affirmation to the maximum.

Notes

1. source: http://geostat.ge/?action=page&p_id=187&lang=geo
2. source: http://geostat.ge/?action=page&p_id=127&lang=geo
3. source: http://geostat.ge/?action=page&p_id=145&lang=geo
4. source: <http://www.economy.ge/?category=4&lang=geo&dn=925>
5. source: <http://www.economy.ge/?category=4&lang=geo&dn=916>
6. source: http://mof.gov.ge/common/get_doc.aspx?doc_id=8390
7. source: http://www.parliament.ge/index.php?sec_id=470&info_id=4662&lang_id=GEO

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