

## ON THE SPECIAL FEATURES OF GEORGIA'S INTERNATIONAL ECONOMIC FUNCTION

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**A**s of the present, Georgia has still not fully conceived its economic policy and essentially has no strategic vision of its development. The occasional debates about which area it should focus on—agrarian or industrial, or which function in general each of its branches should carry out—can hardly be considered constructive. After all, every state at each historical stage of its existence has to resolve a set of problems regarding its economic development, the most important being the choice of a reliable strategy of progress, on

the basis of which practical measures are also determined. This problem is particularly urgent for Georgia today, the leadership of which, since the latest restoration of the state's independence (the beginning of the 1990s), has mainly been engaged in resolving what are of course important tactical tasks, but are in no way related to the development of strategy. So it goes without saying that our republic's place and role, as well as its function in the world economy, must be comprehended at the proper level.

### The Danger of Revenge

With respect to general acceptance of the idea of state independence, the period beginning after 9 April, 1989, when Moscow conducted a punitive campaign against the peaceful residents of Tbilisi, can be considered a revolutionary turning point in the mindset of the country's population. It goes without saying that this also had an impact on the economic mindset. At that time, a number of noteworthy romantic conceptions appeared regarding the republic's economic independence.<sup>1</sup> In some of them, the solutions to several problems were expressed rather vaguely.

Despite these objective shortcomings, on the basis of the conceptions mentioned, the strategic contours of Georgia's economy took shape: its independence (which is identified with independence from Russia) based on a market system (although even the outlines of this system were not defined). At that time, this seemed entirely sufficient to begin political reforms, reject the communist-oriented economy, and approve the institution of private property.

But after the peaceful (on the basis of elections) overturn of the communist regime, the romantic idea of state independence assumed a very extremist form: the striving to achieve independence from Russia as quickly as possible became extremely urgent, and transformation of the economy was postponed for the indefinite future.

Any extremism is destructive. And, naturally, any fight for independence taken to the extreme (the most graphic example of this is 1991 when Georgia closed its railroad in order to set up a supposedly economic blockade against Russia) cannot yield good results: the administrative management system was not replaced by a market system, but on the other hand all ties with enterprises of the former Soviet expanse were hastily and mechanically destroyed.

The republic and its economy were not in an extreme state for long. This was particularly due to the fact that the difficulties associated with the forced change in power (the winter of 1991-1992) and ac-

<sup>1</sup> See, for example: V. Papava, R. Akhmeteli, *Gruzia na puti k ekonomicheskoi samostoiatel'nosti*, Metsniereba Publishers, Tbilisi, 1990.

accompanied by military action in South Ossetia and Abkhazia, and corruption of the state management apparatus, along with a torrent of errors in economic policy (credit and budget emission resulted in hyperinflation), led to a four-fold drop in production. The complicated social problems that arose in this connection dampened the extremist tendencies.

But at the same time, a thirst for revenge was manifested in some members of government for the first time. In particular, the parliament speaker cast doubts on the expediency of the existence of an independent Georgian state, and the ability of the Georgians to independently govern the country. Based on this, he demanded that the republic be incorporated into the "ruble zone" (admittedly, the International Monetary Fund also upheld a similar view,<sup>2</sup> which was subsequently recognized as its big mistake<sup>3</sup>). This essentially meant rejecting economic independence. If the country's authorities had gone this route, the country would have been under Russia's influence again. To be fair, it should be noted that if the republic's leadership had supported the proposal put forward in 1993 by the leaders of revenge to return the country to the "ruble zone," Russia would probably not have accepted us, since at that point, it was not ready itself for this development in events, at least economically. What is more, an unstable, criminal, and hyperinflated country could not be considered ready for joining this zone.

The stance of the economic avengers was shaken somewhat in 1994 when the anti-crisis program of macroeconomic stabilization was launched, and faltered even more when monetary reform was successfully completed in 1995. The Constitution adopted and the presidential and parliamentary elections conducted dealt the avengers even harsher blows.

And although today the idea of a "ruble zone" can be called dead (or at least "slumbering"), the avengers' plans and scope of action have not only failed to shrink, but are gaining greater momentum.

The budget crisis and increase in corruption that began in 1998 dramatically aggravated the population's social position, for which the avengers blamed those in favor of a market economy. And this is creating the possibility of social revenge; for example, the advocates of nationalization and de-privatization of property are making themselves heard with increasing frequency, which is supported by corrupt politicians striving for cheap popularity. There is the real danger that the fight against corruption will escalate into social revenge.

Present-day Georgia is in a state where the government's mistakes are making it easy for the supporters of a return to the past to increase pressure on the authorities and force them to approve the Russian orientation in the country's strategic development vision. On its part, Russia is ready for reintegration processes, the best example being its unification with Belarus, although it should be noted that the positive economic benefit from this union is unconvincing to say the least.

Not only virulent communists, but also political forces (consciously or unconsciously), camouflaged as patriots, laborites, and socialists, and who by their very nature have the same communist mentality, are "working" on the idea of revenge. They are no longer satisfied with the idea of joining the "ruble zone," they are striving, as already noted, to annul privatization, restore social pseudo-guarantees, and ultimately turn back the wheels of history.

Consequently, at the current stage, the revenge approach to the vision of the country's economic (and not only economic) development is gaining momentum, based on reintegrating ties with Russia, complete isolation from Europe, destruction of the private property institution (at best only allowing small businesses), restoring the directive principles of a planned economy, and so on.

Of course, the question arises of whether there is an alternative to the revenge strategy, and if so, what.

## The Country's Economic Attraction

It can be said that Georgia has always striven to become not only a geographic part of Europe. But during the past centuries, this striving was one-sided, and unfortunately its cherished wish did not come true.

<sup>2</sup> See: V. Papava, *Mezhdunarodnyi vayutniy fond v Gruzii: dostizheniya i oshibki*, Imperial Publishers, Tbilisi, 2001, pp. 34-36.

<sup>3</sup> See, for example: M. Lavigne, *The Economics of Transition. From Socialist Economy to Market Economy*, St. Martin's Press, New York, 1995, p. 207; A. Oslund, *Rossia: rozhdenie rynochnoi ekonomiki*, Respublika Publishers, Moscow, 1996, p. 142.

Fortunately, during the first years of state independence restoration (1991-1993), its pull toward Europe manifested itself again, but the voice of the supporters of this trend could not always be heard against the chaos instigated by the extremists and then the avengers.

Georgia has been a member of the Council of Europe since 1999, and in so doing, the country's western orientation has been recognized at an international level. This is clearly a major achievement, although it does not mean that the republic is already an inviolable part of integrated Europe, since this requires becoming a member of the European Union and NATO.

Desire alone is not enough to become an intrinsic part of Europe, it is only a necessary condition which also requires Europe's desire to recognize Georgia as its fundamental part. And this is based on at least two conditions: first, Georgia must correspond to the standards of democracy, protection of human rights, and level of economic development recognized in the West, and second, our country joining this union must also be economically advantageous to Europe.

How can Georgia's economy attract Europe and the rest of the world? Unfortunately, even theoretically the market not only of our republic, but also of the entire Southern Caucasus, is so small (due to the territory Georgia has temporarily lost and the military opposition between Azerbaijan and Armenia) that there is absolutely no need to invest in improving and developing its production in order to satisfy the country's current consumer and production demand. This demand can be satisfied by means of import, which is confirmed by the practice of recent years, when strategic investors (apart from those party to pipeline projects) came to Georgia mainly to acquaint themselves with the situation (and not for real activity), and actual investments were carried out by relatively small companies (not to mention the dubious origin and goals of some of them). If we also take into account our direct neighbors, Russia and Turkey, it becomes utterly clear that Georgia's demand, as well as that of the Southern Caucasus as a whole, can be satisfied primarily by import from these countries. Consequently, Georgia, from the viewpoint of meeting its consumer and production demand, cannot be of any interest to Europe, not to mention the rest of the world.<sup>4</sup>

The solution to this seemingly hopeless situation should be sought in Georgia's international economic function as an independent state. It should be stressed that in the modern world each country has a specific function and its level of economic development and role in the world integration process is determined by the extent to which it is in harmony with the international economic functions of other states.

## Not Only Geography...

In international relations (including economic), two systems, which are already classical, have developed today: "East-West" and "North-South." It is believed that economically and from the point of view of democratic institutions, the West is more developed than the East. Naturally, this idea is provisional, as is most graphically shown by Japan, China, and South Korea, which surpass many western countries in terms of economic development. The "North-South" system is even more provisional, since the US, Canada, and the Northern European states are more developed (both economically and politically) than those countries located to the south of them. But this situation in no way applies to relatively backward Russia.

In order to reveal Georgia's international economic function, its place must be determined in the "East-West" and "North-South" systems. Whereas the "West" as a whole, as mentioned above, can be viewed as economically more developed than the "East," the latter is rich in natural resources. Naturally, based on the need to balance supply and demand (according to the principles of an open market economy), the need arises to activate bilateral transportation flows in the "East-West" system, along

<sup>4</sup> See: V. Papava, N. Gogatadze, "Prospects for Foreign Investments and Strategic Economic Partnership in the Caucasus," *Problems of Economic Transition*, Vol. 41, No. 5, 1998.

which natural resources travel from East to West, and high quality consumer or production commodities are transported from West to East. In other words, a transportation corridor should be created between Europe and Asia which, on the one hand, will become the shortest distance (or to be more precise, the cheapest) between these two continents, and on the other, all other conditions being equal, the safest. A significant portion of this corridor passes through the Southern Caucasus, in particular through the territory of two countries—Georgia and Azerbaijan. It should be noted that when any transportation corridor is formed, accumulated experience should be taken into account, since our ancestors were guided by the same principles (short distances and transportation safety) as the people of our day and age. A graphic example is the historical Great Silk Road, on the principles of which the New Silk Road is to be built.

With respect to Georgia, in the “North-South” system, both the North (Russia) and the South (the Islamic world) are rich in various resources which compliment each other. Consequently, bilateral commodity flows in the “North-South” direction have certain prospects. But its implementation involves settling the acute Abkhazian problem. It is no secret that its resolution largely depends on Russia’s stance, and to be more precise, on the political processes going on in this country.

In this way, of the two systems mentioned—“East-West” and “North-South”—only the first is currently economically (and not only economically) realistic for Georgia. This, all other conditions being equal, promotes prospects for the “East-South” and “West-South” systems, in which a third Southern Caucasian state, Armenia, is trying to find its niche. On the other hand, in light of the transportation corridor Europe-Caucasus-Asia project, Georgia is acquiring a very important international economic function, since it forms a significant portion of this corridor. It is for this very reason that strategic investors are already paying it attention, since in this context the efficiency of investments made in Georgia is being defined not by the market dimensions of our republic or even of the entire Southern Caucasus. This transportation artery will make it possible to significantly expand these dimensions in two directions at the same time—to Europe and to Asia.

## The Economic Lever

With respect to the Europe-Caucasus-Asia transportation corridor being developed, it is easy to explain why the decision was made to build one of the branches of the oil pipeline through Georgia for transporting early Caspian oil to the West. It is also understandable why the oil pipeline alternative Baku-Tbilisi-Ceyhan is also viewed as one of the most attractive when it comes to exporting major Caspian oil. This particular route possesses immense prospects, which will arouse the interest of strategic investors in our republic. The oil pipeline project is raising the feasibility of the above-mentioned “East-South” system, which is primarily expressed in the prospects for a gas pipeline between Azerbaijan and Turkey.

The transportation corridor Europe-Caucasus-Asia is currently shipping a large amount of freight by rail and via the seaports of Georgia. The volume of these shipments will increase. Recently, the question of building a major highway has become very pertinent.

Of course, the competence of the corridor is primarily related to developing transportation as a priority branch in the national economy, but it would be an enormous mistake to “reduce” the idea of the corridor to the fate of this branch alone. The task is much more complicated. The transportation corridor cannot function if a telecommunication system, power engineering, a network of hotels, and other service spheres are not created in the country. And this requires advancing branches necessary for the highly efficient development of the facilities listed above. The matter primarily concerns industry (which determines the industrial nature of the corridor itself) and agriculture (from the standpoint of providing food-stuffs).

Environmental protection and urbanization must be approached from a qualitatively different angle. On the one hand, the transportation corridor should not become a source of destructive influence on

the environment, and on the other, efforts should be made to ensure that the country's entire population does not end up located along this corridor alone. In addition, as early as the planning stage, removing agricultural land from circulation should be kept to the minimum.

The influence of the transportation corridor on the national economy is not only restricted to the mentioned branches. It will have an impact on education (the training of personnel for the service sphere), public health (the construction of medical facilities along the corridor and in relevant large conurbation centers), and tourism (a widespread transportation and telecommunication network will create conditions for taking advantage of the rich natural landscape). What is more, additional possibilities will appear for scientific research which will stimulate applied work to ensure the corridor has the relevant technical level. The restored Great Silk Road will promote historical, ethnographical, economic, and other pursuits which are attractive from the viewpoint of becoming acquainted with the culture of the countries located along this route.

Consequently, the Europe-Caucasus-Asia transportation corridor will become an economic lever for Georgia and, in this way, will have more than just transportation significance, since it will encompass the entire national economy and the development strategy of each of its branches.

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## SOCIAL STRATIFICATION AND FORMATION OF MIDDLE CLASS IN UZBEKISTAN

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**I**t was primitive society that experienced social tension and social upheavals in the period when social and economic stratification was first felt and resulted in the appearance of classes. After that, there has always been the so-called middle class, a social resonator and stabilizer, sandwiched between the upper class (small at all times, not more than 1 to 3 percent) and the numerous lower class (85 to 90 percent). According to certain assessments, the share of the middle class in the GDP of Western countries has reached 40 percent. In the ancient Asian despotic states "the middle class consisted of bureaucrats, the share of which reached 20 percent of the total population strength."<sup>1</sup>

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<sup>1</sup> Igor Berezin, *Kratkaia istoria ekonomicheskogo razvitiia*, Russkaia delovaia literatura Publishers, Moscow, 1999, p. 154.

There is no doubt that the middle class is a serious cushioning factor in the society where the propertied classes and the have-nots stand opposed to each other. In the period of market development stratification intensified: the countries that had failed to acquire the middle class on time and on a scale necessary to quench political contradictions slid into an abyss of social cataclysms. Fascist Italy and Nazi Germany in the 1920s-1930s, militarist Japan in the 1940s, the Soviet Union between the 1920s and the 1980s, Spain under Franco in the 1950s-1970s, etc. serve as good examples of the above. On the other hand, the United States, Great Britain, France, the Netherlands, Sweden and other countries managed to create the middle class and enjoyed social calm for many decades in the last century. Their contradictions were never resolved in revolutions, social tension, dictatorship, and military coups.