



კავკასიის უნივერსიტეტი  
CAUCASUS UNIVERSITY

## International Students' Scientific Conference

The Perspectives of the integration  
of South Caucasus Region  
to European Area in the XXI century

Georgia, 5-6 May, 2012



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კრებულში განთავსებულია სამეცნიერო ნაშრომები შერჩეული საერთაშორისო სტუდენტური სამეცნიერო კონფერენციისათვის „სამხრეთ კავკასიის რეგიონის ინტეგრაციის პერსპექტივები ევროპულ სივრცეში“, რომლის უმთავრესი მიზანია სტუდენტთა დასაბუთებული თვალსაზრისის წარმოჩენა თავიანთი ქვეყნების განვითარების პერსპექტივაზე, აგრეთვე, ერთიანი ხედვის შემუშავება მსოფლიოს წინაშე მდგარი პრობლემების გადაწყვეტის თაობაზე.

The collection contains the works of the International Student’s Scientific Conference “**The Perspectives of the integration of South Caucasus Region to European Area in the XXI century**”. The major goal of the conference is to present advocated arguments from the students of the countries of South Caucasus on European integration opportunities. Here also one can find the initiative on forming entire vision for solving key problems, facing South Caucasus.

*გამომცემელი: კავკასიის უნივერსიტეტი თბილისის მერიის მხარდაჭერით*

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Caucasus University was established in 2004. CU is a new institution founded on the base of Caucasus School of Business which was established during the transitional period of the country in 1998 when Georgia was making the first attempts to move from planned to free market economy. Now Caucasus University has got eight schools: Caucasus School of Business, Caucasus School of Law, Caucasus School of Media, Caucasus School of Technology, Caucasus School of Governance, Caucasus School of Humanities, Caucasus School of Tourism and Caucasus School of Health Care, a relatively new school. The target segment of CU are highly motivated, advanced skilled and study dedicated individuals ready to invest in their study at CU to build the professional and successful careers as well as the management of business entities which understands that human capital is one of the most important and main asset for successful business. The role of the Caucasus University is to support the fast development of the business sector in Georgia and it is well known what a pivotal role the business sector has in the country's development in overall.

After becoming the member of Bologna Process, Higher Education Institutions of Georgia got a unique possibility to integrate into European Higher Education System. One of the main criteria of Bologna Process is the indivisibility of Education and Research, which on its part is an inevitable condition for creating the most priceless resource of XXI century – the intellectual resource.

Developing Intellectual potential is of utmost importance for Georgia. Apart from welfare, this is a direct way to settle in a civilized world. This kind of importance carries International Students' Scientific Conference "The Perspectives of the integration of South Caucasus Region to European Area in the XXI century" which will take place on May 5-6 on Bazaleti lake complex. The aim of this conference is to select and expose students' best scientific works carrying original and important ideas for the development of the region.

I would like to wish successful operation and further great creative achievements to all members of the conference.

*Prof. Kakha Shengelia*

*President of Caucasus University*

International Students' Scientific Conference "The Perspectives of the integration of South Caucasus Region to European Area in the XXI century" organized by Caucasus University and Tbilisi City Hall consists of two stages. On the first, preparatory stage accredited higher education institutions of Europe and South Caucasus receive the announcement about conducting the International Students' Scientific Conference. In the result of the first stage quite a large number of annotations and applications were received. According to the estimation criterion considered in the regulations neutral regalement invited from various institutions they selected works of the students of the higher education institutions of Europe and South Caucasus. Totally thirty one students will participate in this conference.

On the second stage of the preparatory works the authors present full versions of their works. Selected scientific works are now published in this collection.

We have to point out students' professional approach to the conference and the actuality and complexity of the selected issues.

On behalf of the organizational committee I would like to wish all members of the conference success and further achievements in their professional activities.

*Vice-president for Research of Caucasus University*

*Prof. Shalva Machavariani*

# Cost Benefit Analysis of the European Union's investment projects

Dr. Krzysztof Senger

*Adam Mickiewicz University, Poznan, Poland*

*Young Scientists at the Faculty of Political Science and Journalism*

## Introduction

Investment decisions are essential for any development activity. The proper financial return on investment is often the main thing for an investor that puts his capital to work for future gains instead of making use of it in the present. At the first sight, the situation might be different when dealing with intensive public investment, but this is not true. The rate of return approach is also relevant to the socio-economic aspects of investment. The economic impact of any project is measured by Cost Benefit Analysis, which adds to the investment analysis externalities. Cost benefit analysis [Drèze J. 1987] is a methodology for estimating both the internal and external effects of investment for both of those sources of project finance. Investing in a city development requires that kind of approach. Economic returns from investing in cities and regions need to be measured correctly and with the full awareness of decision-makers of the consequences for society, economy and the environment. It would be specially a case of investing in distressed city areas where unstable situation may involve a higher risk of net outcomes not to be delivered. In terms of the financial perspective, a city investment may not benefit the investor directly, thus a proper measurement of an investment externalities is needed. Measuring externalities is a demanding task because such factors are not visible in national and regional statistics and are not included in GDP.

The one of the major theses in the article is that in order to measure and track the development of modern cities a proper investigation of costs and benefits must be conducted. Moreover, an indication of the variables connected with a modern city development is a crucial step in any cost benefit analysis. In terms of investing in a city area to generate development and growth, revitalization needs to cover three areas at once, i.e. economy, society and the environment.

The development model which stands behind the modernization and revitalization of city areas involves strategic thinking as well financial instruments to implement measures. The first step is to prepare a revitalization program for the city as a whole. The next, is to invite investors and local residents to a public hearing and consultation.

Revitalization in modern cities may involve reconstruction of heritage sites, giving new life to post-industrial or post-military areas, although it cannot be dedicated only to building blocks. It ought to revitalize the entire socio-economic environment, together with buildings and infrastructure. To revitalize a city area there are common objectives, regardless of the specifics of that area, which include decreased crime and increased employment.

One of the major outcomes that can be achieved by investing in city projects is an increase in the economic value of the area involved. One way of measuring this is to measure the increase in prices of real estate in the area due to the investment, another way is to estimate any increase in business profitability as a consequence of the investment.

When considering this potential, it is not sufficient to understand only the performances of the public and private sectors – these have accounting systems and are measurable by conventional indicators – but also to include collective goods and positive externalities, i.e. nonmonetary complementary sources of well-being. Together they generate an urban surplus [Cities of tomorrow. 2011, p.49].

European Union context

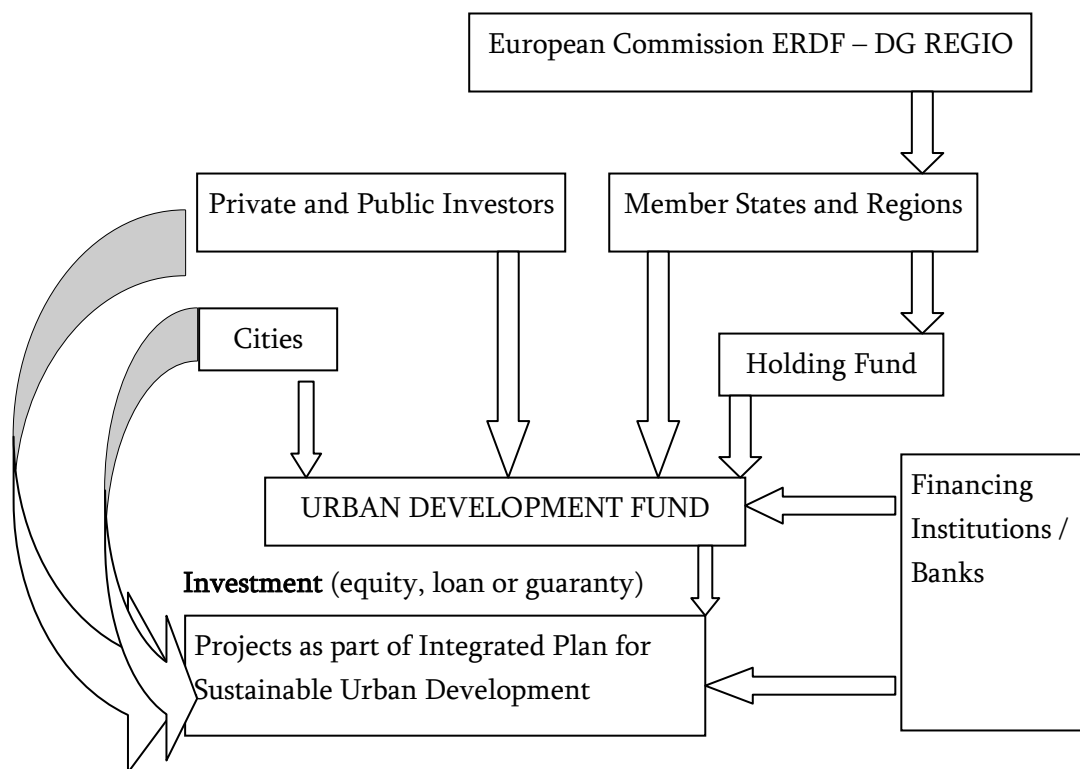
Investing in modern cities is at the heart of the activities of the European Commission (EC) with special emphasis on the effectiveness of investments. Hence, the EC has established two major means of financing a city development, namely grants and a repayable financial instrument called JESSICA (Joint European Support for Sustainable Investment in City Areas). If an investment can generate a positive net cash flow it is suitable to finance it by repayable loan. Otherwise, Regional Authorities may agree to a grant if an investment is ineffective in purely financial terms, but the project is important to city development.

Joint European Support for Sustainable Investment in City Areas (JESSICA) - This is an initiative of the European Commission in co-operation with the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), with the aim of generating growth in urban areas. Member States may opt to have some part of structural funds dedicated to repayable loans to an investor that invests in a city area. A project implementation must take place as a part of an integrated plan for sustainable urban development.

As part of an operational programme, the Structural Funds may finance expenditure in respect of an operation comprising contributions to support financial engineering instruments for enterprises, primarily small and medium-sized ones, such as venture capital funds, guarantee funds and loan funds, and for urban development funds, that is, funds investing in public-private partnerships and other projects included in an integrated plan for sustainable urban development [Council Regulation No 1260/1999, p.48.]

In terms of implementation structure of the JESSICA instrument there are several levels of fund flows such as Urban Development Fund that could be incorporated into Member State EU funds system.

Diagram 1. **The organization of financial instruments for cities development**



Source: based on European Investment Bank JESSICA websites

A holding fund is an intermediary body that may be organized by a Member State's Managing Authorities with the purpose of providing Urban Development Funds with financial engineering instruments.

#### Polish example

Revitalization and investments in a city area is programmed in two basic ways. The first is by use of the European Regional Development Fund through 16 Regional Operational Programmes (ROP). The second is by implementation of the JESSICA initiative in 5 regions (Wielkopolska, Western Pomerania, Pomerania, Silesian and Mazovia) by connecting it with funds available within ROP.

There are many formulas that serve as an indicator of an investment's effectiveness, one can choose from a wide range of them, such as net present value - NPV, internal rate of return - IRR, modified internal rate of return - MIRR, or profitability index - PI.

In the case of NPV and IRR we can distinguish two methods of its estimation. The first is financial return on investment, which is calculated regardless of subsidies and grants. The second is financial return on capital, which can be calculated in respect to national capital and can be separately estimated for private equity. In order to capture the right variables that influence the rate of return, a proper risk analysis is needed. We can use any of the options, such as stand-alone risk, corporate risk, market risk, beta risk or sensitivity analysis.

Cost benefit analysis [Florio M. 2006] is a method of making economic decisions by comparing the costs of a project with its benefits. It is a concept for measuring externalities, i.e. the economic side-effects of public intervention which is not fully reflected in the market price. Public intervention is not only the case in which public administrations invest in infrastructure. It can be also the case when a private company simultaneously invests capital in a new project and wants to lower its borrowing costs via public service implementation. In that case a company can apply for public funds in the European Union, for capital available within the Jessica Initiative. The European Union's Member States and pre-accession courtiers are recommended to use this method of analysis of investment projects [Florio M. 2007] in order to apply for the European Union's financial instruments.

#### Empirical example

An example of the financial and economic analysis of investment project in a modern city space shows what outcomes a cost benefit analysis would estimate.

The Wielkopolska Regional Operational Program (ROP) is the region's first ever large-scale, coordinated, multi-annual and financially stable program of development measures. The investment which is used as the empirical example in the article is financed by the Priority 4: Revitalization of problem areas with a budget of 69 804 706 euro which consists of 54 060 000 euro from the EU and of which the National Public Contribution is 15 744 706 euro. This priority aims at strengthening selected areas where there is a concentration of problems or where existing potential is incorrectly or inefficiently used. Measures undertaken within the framework of this priority comprise two fields of intervention: renewal of (parts of) towns and degraded post-military and post-industrial areas.

In the empirical example the project generates net economic flows, hence increasing socio-economic wealth. It generates new direct and indirect jobs, stimulates small businesses, by filling the area with 6,300 newcomers who will spend money on everything from basic food to books and various kinds of services.

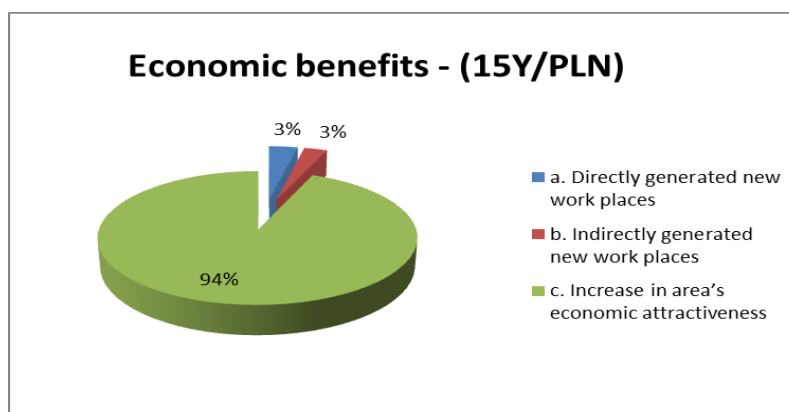
Table 1 - The Assumption for calculations of the empirical example

Directly generated new work places	Average salary per month 2600PLN. New jobs – 12
Indirectly generated new work places	Average salary per month 1500PLN. New indirect jobs - 17
Increase in area’s economic attractiveness	Number of new users - 6300, with daily average expenditure within the area at 5PLN

Table 2 - Economic benefits - (15Y/PLN) of the empirical example.

a.	Directly generated new work places	8 099 620,61
b.	Indirectly generated new work places	6 508 828,44
c.	Increase in area’s economic attractiveness	221 440 238,63

Diagram 2. Economic benefits – (15Y/PLN) - % of the empirical example.



In terms of Financial Net Present Value of investment the minus value is generated by discounted cash flow.

Table 3. Financial Net Present Value of the empirical example

Discount rate	5,0%
Financial net present value (FNPV/C)	- 63 217 789,63
Financial rate of return (FRR/C)	- 7,91%

This could be the case of the vast majority of public investments with which no convenient stream of income is connected. Hence, this is a reason for conducting proper and insightful economic analysis. In the case of a private investment, a plus value should be generated, hence a different method of



estimating its social impact is needed. For that purpose an economic indicator could be used which will indicate to what extent the economic outcomes exceed the financial ones.

The investment generated a positive Economic Net Present Value by which its impact on the economy, society and environment is measured.

Table 4. Economic Net Present Value of the empirical example.

Discount rate	5,5%
Economic net present value (ENPV)	104 883 000,96
Economic rate of return (ERR)	25,13%
Economic Benefit/cost ratio (B/C)	2,53

The EC takes financial decisions connected with the instruments of Cohesion Policy by looking at ENPV and ERR. Hence, a cost benefit analysis should be incorporated into any feasibility study submitted to the EC. Nevertheless, some economists will argue that with a constructive approach to cost benefit analysis one can agree or disagree with the outcomes of any project.

#### Conclusion and suggestions

Investing in modern cities entails a long term perspective on externalities to be generated. There is growing evidence that investing in cities in problem areas may not generate short term profits for investors. So it is necessary to prepare the relevant revitalization program, which will give an opportunity for private and public investors to implement projects. On the other hand policy makers must give incentives to investors in order to encourage them to bear any extra social costs.

The findings from the article can be incorporated in the design of a development strategy for Georgia's cities and regions. The reason is twofold, firstly to reach a common understanding, secondly to improve the analysis of investment projects in modern cities with respect to two methods of project finance. A positive impact on the economic welfare of a country or regions generated by investment could be estimated by Cost Benefit Analysis.

#### **List of the applied literature:**

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## **Cost Benefit Analysis of the European Union's investment projects**

*Annotation*

**Dr. Krzysztof Senger**

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*Young Scientists at the Faculty of Political Science and Journalism*

Investment decisions are essential to any development activity. The economic returns from investing in cities and regions need to be measure correctly and with full decision-makers awareness of the consequences for society and economy.

Cost benefit analysis is the method of making economic decisions by comparing the costs of project with its benefits. This is a concept of measuring externalities, i.e. economic side-effect of public intervention which is not fully reflected in the market price.

The European Union's Member States and pre-accession courtiers are recommended to use this way of analysis of investment projects in order to apply for the European Union's financial instruments. Hence, findings from the article can be incorporated in the design of development strategy for Georgia's cities and regions.

The author will give example of the financial and economic analysis of investment project in the modern city space.

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# Development of financial sectors in the countries of South Caucasus region as a prerequisite for integration to European Area

Liana Margaryan

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*Instructor: Barseghyan A.A., Ph.D.*

The increased interest of the European Union in the South Caucasian states can be explained by the desire of EU to expand its influence in the Caucasus region, which is considered to be not only as a strategically important energy market, but also geographically and economically profitable transport routes, as well as a kind of bridgehead, which provides direct access to the resources of the Caspian Sea, Iran, Central Asia and China. Accordingly, increases the strategic importance of the South Caucasus for stability and security in Europe.

For the three South Caucasus states the European Neighborhood Policy is an opportunity to diversify their foreign policy, an opposition towards Russia, as well as a new form of support. Basically, it is funded from the EU budget support for government reforms.

The desire of the South Caucasus to become part of Europe gives the EU grounds for the requirements of the implementation of norms and standards that characterize the European institutions and procedures, particularly in the light of recent events, which have properly shaken Europe. The experience of Greece has proved that it is impossible to combine incompatible elements. From this point of view, the integration of the South Caucasus Region into the European Area is a difficult and multi-stage process. It presupposes achievement of the South Caucasus countries a certain level of economic development and compliance with the basic macroeconomic indicators on specific criteria. Among the most important of them are the indicators of financial development as the stability and sustainability of the financial systems of the South Caucasus, which will not only increase confidence in the economy of the region, but also greatly facilitate and accelerate the integration of countries in the European Area.

The collapse of the Soviet Union has had a dramatic impact on the economic condition of all three South Caucasus countries: the level of GDP in Armenia and Azerbaijan made up about half and in Georgia – a third part of the levels of 1990. As a consequence of the structural and institutional weakness typical of post-Soviet countries, especially in the beginning the transition process, a sharp decline in production led to a crisis of employment. The appeared high real unemployment caused a total fall in real incomes. Of course, the reforms have made a positive impact on the economic status of countries, particularly due to tight monetary policy and achieved macroeconomic stabilization managed to reduce the inflation significantly and keep it under control since then. But the level of income is still low in comparison not only with European countries, but also relating to the minimum level sufficient to cover essential costs.

Today the income levels of the South Caucasus and, accordingly, the level of accumulation in these countries can not generate sufficient investment resources needed for economic growth and development.

It is well known, the level of financial development has a huge impact on economic growth. This is evidenced by many economic hypotheses, proved by different authors.<sup>1</sup> In this regard, to ensure the long-term economic growth in the South Caucasus region a substantial rapid growth of both domestic and foreign investment is necessary. To attract foreign investment priority means to improve the quality of business environment and ease the access to credit. But occurred as a result of crisis the sharp decline in foreign investment, needed for economic recovery in post crisis period once again proved the need and importance of the accumulation of *national* savings. The internal investment resources should be formed based on the accumulated savings of the population that assumes raising the level of income to a level sufficient to carry out assignments to the financial institutions. This will serve as the basic prerequisite for the development of the financial sector, and hence to economic growth.

In this connection special importance gets the development of the financial sector in the South Caucasus region to meet the level of development of the EU in order to avoid further obstacles and complexities.

The main purpose of this paper is to identify factors that contribute to the development of financial sectors in the countries of the South Caucasus for further realization of one of the EU basic principles – free movement of capital on a solid basis that is to ensure bilateral financial flows. To achieve this goal it is necessary to carry out cross-country comparative analysis to identify the level of savings and income needed to develop the financial sector.

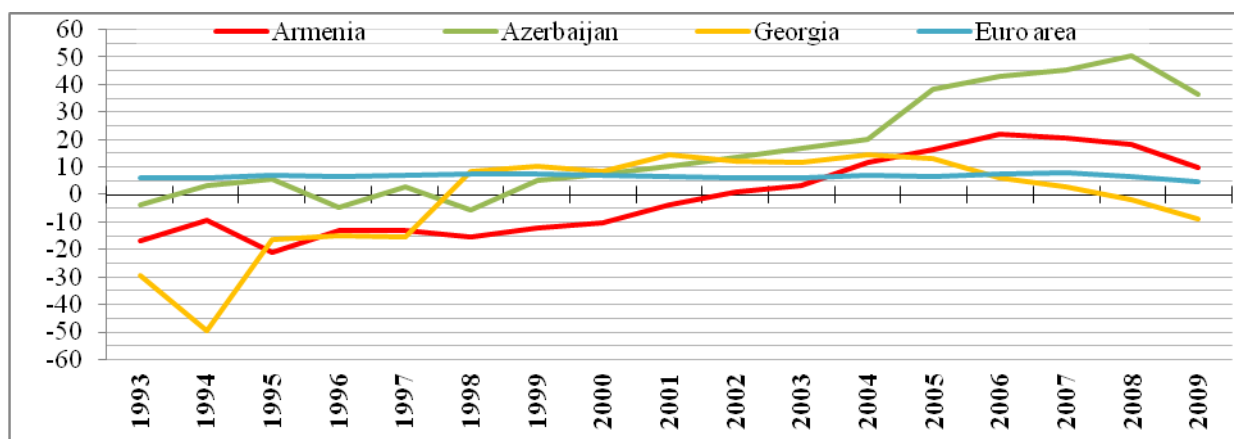
The financial systems of South Caucasus countries are mainly presented by banking sectors against the background of underdevelopment in all other segments. The participation of banks in the process of mobilizing domestic savings and financing of economic growth has always been and remains very low.

The most important problem of the banking sector is a very high value of spread between deposit and credit rates in Armenia and Georgia, which does not correspond to the current mild inflation and is often a factor that substantially limits the borrowing in the domestic financial market. This is caused by a variety of factors, including high risk of entrepreneurship in the South Caucasus as a consequence of the relatively small production volume, low transparency, insufficient and often unreliable information provided by businesses.

Thus, the quite impressive economic growth that took place in Armenia and Georgia was mainly financed from external sources. In Azerbaijan, the main funding was provided by foreign direct investment in the oil-producing and related sectors, mainly in the construction of the Baku-Ceyhan pipeline. Under these conditions, the role of the banking system, given the risks of entrepreneurship, high borrowing costs and negative domestic savings in the South Caucasus has become subordinate to the outside funding. This conclusion further underscores the need for a domestic investment resources as a guarantee of a stable source of long-term economic development. In this context, it is interesting to consider the dynamics of the level of savings in the South Caucasus.

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<sup>1</sup> See Levine and Zervos (1998), Dornbusch and Reynoso (1989), Mauro (1995), Shleifer and Vishny (1986), Greenwood and Jovanovic (1990), Rajan and Zingales (1998), etc.

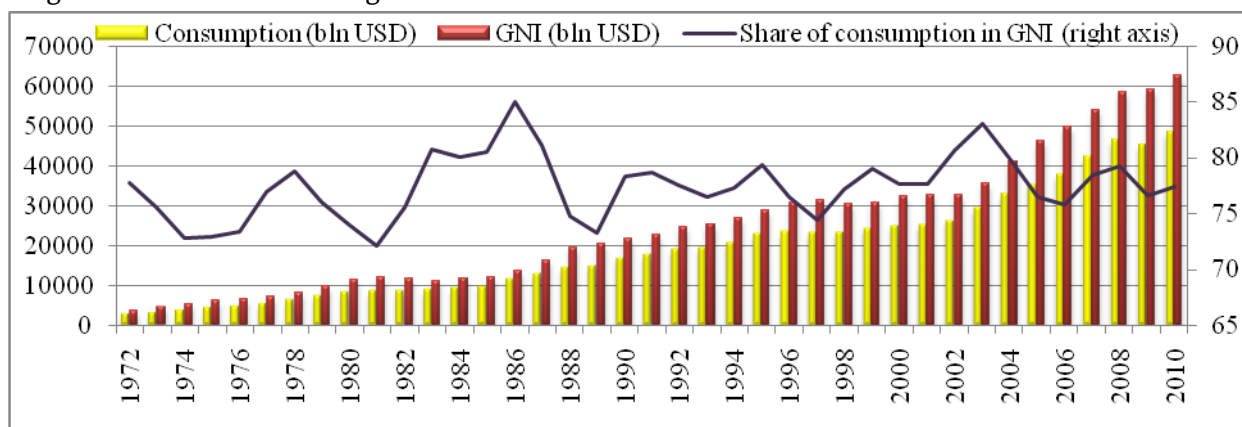


Pic 1. Adjusted savings: net national savings (% of GNI)

Source: <http://data.worldbank.org/>

The fore-cited chart shows large amplitude of fluctuations in the level of savings in the South Caucasus, in contrast to the relatively stable savings rate in the Euro area, which varies in the range of 5,88% in 1993 and 4,52% in 2009 with the maximum value of 8,17% in 2007. The declining trend in the savings rate since 2007 can be explained by the start of the global financial and economic crisis. As of 2009 among the considered countries only Georgia has negative savings. Indicators of Armenia and Azerbaijan on the savings rate are ahead of Euro zone countries, and if in the case of Azerbaijan with the resource-based economy it could reasonably be expected, for Armenia such figures look somewhat paradoxical.

At the same time, as shows the following chart, in a global scale the growth of national income for the last 40 years has been accompanied by a smaller increase in consumption: if at the beginning of the 70's gross income was almost completely consumed on consumption, since the beginning of the 90's a significant increase in savings has been observed.

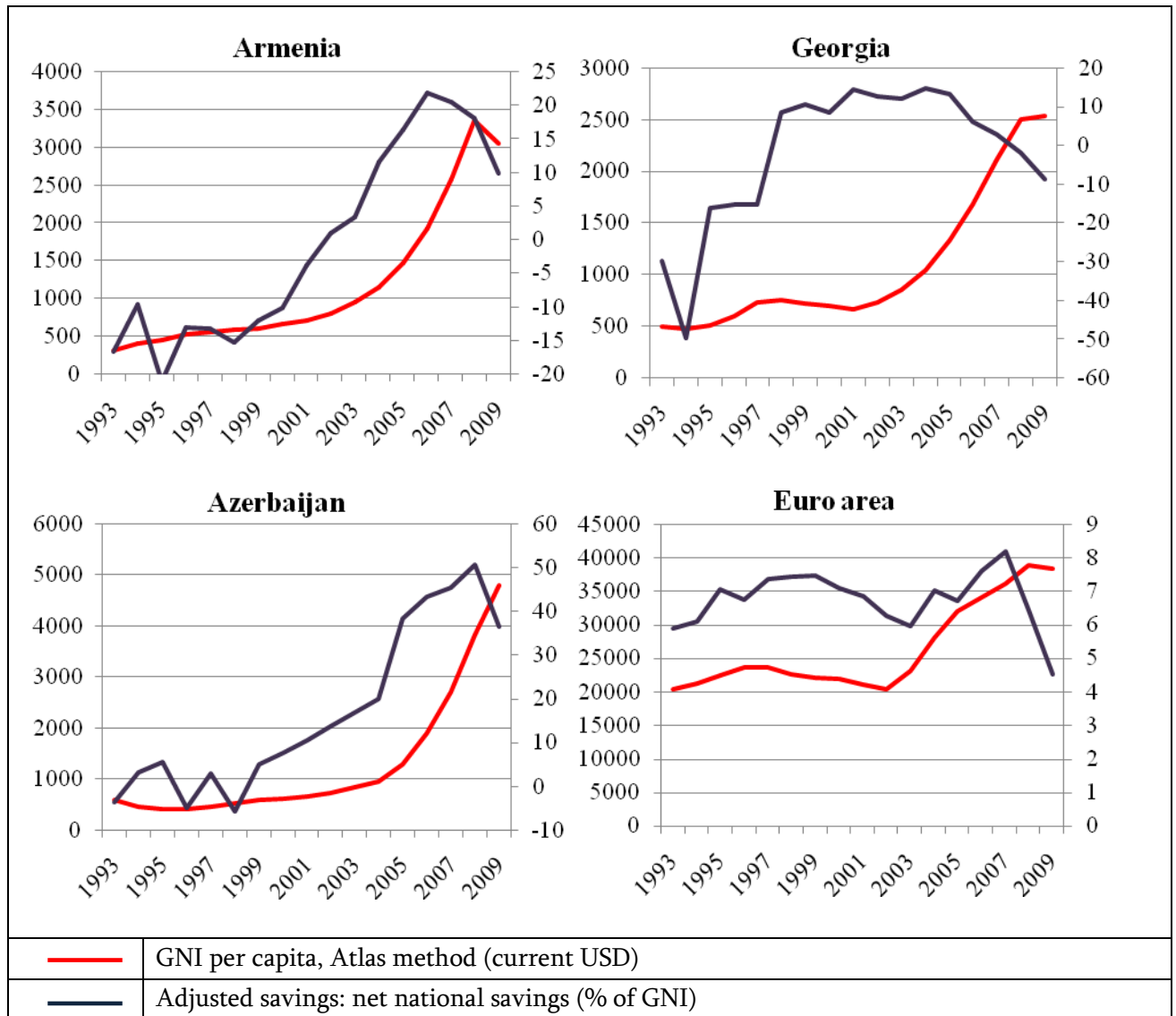


Pic 2. The dynamics of the world GNI and the volume of final consumption of households

Source: <http://data.worldbank.org/>

This tendency is partly valid for Armenia and Georgia: from the mid 90's increase in savings has been observed and, despite minor fluctuations, overall, a positive trend has been persisting for 10 years. Thus, Georgia reached a positive savings rate already in 1997, while for the Armenians a period of negative savings came to an end only in 2002. However, from 2007 the graph was clearly showing a sharp decline in the saving rate for all countries, and in 2009 Georgia returned for this indicator to a level similar to the middle of 1997, Armenia - mid-2003, Azerbaijan – 2005.

For a more detailed analysis let's turn to some macroeconomic indicators and first of all consider the level of income.



**Pic 3. The dynamics of GNI per capita and net national savings in South Caucasus and Euro area**

Source: <http://data.worldbank.org/>

The graphs show a very interesting trend. In general we can say that for graphs of income and savings is observed a similar trend line, except for the period of beginning of the transition process in the South Caucasus, when with the collapse of the USSR the population lost almost all the savings, which appears on the charts by a sharp downturn. Since 1995 in Armenia and Georgia and since 1999 in Azerbaijan up to 2006-2007 there was stable positive dynamics of savings. But then interesting features can be observed. In Armenia, the graph income begins to decrease with a slight delay from the graph of savings, from which it can be concluded that the savings are more sensitive and quickly to react to changing market conditions. As for the rest countries under consideration, there the graphs of income and savings go in opposing directions: in spite of the continued growth of income, savings start to decrease sharply. Such picture can be explained not only by the greater sensitivity of savings, but also by a decrease of propensity to save in accordance with the spread of culture "consumer society" not only in Europe but also in the South Caucasus countries.

The income level of South Caucasus countries, despite a significant increase in the period from 1993 to 2009 by 5, 8 and 9.5 times, respectively, for Georgia, Azerbaijan and Armenia, it is still more than 10 times lower than in the Euro area in Georgia and Armenia, and 7-fold lower in Azerbaijan.

Disposable income is only enough to cover, and in some cases it covers only partially, of consumer expenditures needed to satisfy most essential human needs.

The share of consumer expenditure in total household income is 99% (!) for Armenia and 75% for Georgia. The structure of revenues in the South Caucasus region is also different from the structure of revenues in European countries. For example, in Armenia wages provide 60% of all incomes, in Georgia – 36%. At the same time the level of average wages in the South Caucasus is far behind the European area. Thus, the average wage in the EU is around 3170 EUR per month <sup>2</sup>, and the minimum wage ranges from 138 EUR in Bulgaria up to 1800 EUR in Luxembourg <sup>3</sup>. For the South Caucasus we have the following figures: average nominal wage in Georgia is 598 GEL (362 USD), in Azerbaijan – 331.5 AZM (414 USD), in Armenia – 102 652 AMD (275 USD) in 2010, and the minimum wage in Armenia makes 32 500 AMD (87 USD), in Azerbaijan – 85 AZM (106 USD)<sup>4</sup>. It is obvious that the Europeans' wage is more than 10 times higher than the wage in South Caucasus.

And finally, such important factors as poverty and inequality in income distribution can not be excluded from consideration. In this context, it should be mentioned that in the neoclassical theory of consumption a special focus has been made on the relationship of savings and income distribution, in particular, there is a direct correlation between the degree of polarization of incomes and the level of gross private savings.<sup>5</sup> The schedule below contains indicators describing the level of poverty and inequality in income distribution and degree of its polarization (last updated data for all three countries is available for 2008).

Poverty and Income distribution in the South Caucasus (2008)

**Schedule 1**

Indicator / Country	Armenia	Georgia	Azerbaijan
Poverty headcount ratio at national poverty line (% of population)	27,6	22,7	15,8
GINI index	30,86	41,34	33,71
Income share held by highest 20%	39,8	47,2	42,1
Income share held by lowest 20%	8	5,3	8,8

Source: <http://data.worldbank.org/>

It should be noted, that the poverty rate increased in Georgia to 24.7% in 2009 and in Armenia – to 34.1% in 2009 and to 35.8% in 2010. Thus, about a quarter of Georgia's population and a third of the population of Armenia live below the poverty line. Today the problem of poverty is one of the most critical social problems. Poverty defines the limitations of access for most of the population to essential resources for development, such as well paid jobs, qualified education and health services, the possibility of successful socialization of children and youth. Low level of incomes in greater part of families together with the excessive polarization causes a social fracture and social intensity, prevents the

<sup>2</sup>Average Salary In EU <http://www.averagesalarysurvey.com/article/average-salary-in-eu/26025059.aspx>

<sup>3</sup>Minimum wage statistics

[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Minimum\\_wage\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Minimum_wage_statistics)

<sup>4</sup> Currencies are converted on the basis of the World Bank's data on official exchange rate in 2010 <http://data.worldbank.org/indicator/PA.NUS.FCRF>

<sup>5</sup>Schmidt K., Hebbel L. Does income inequality raise aggregate saving? // Journal of Development Economics Vol.61,2000 – p. 417–446 (total 418)

successful development of the country, determines the processes of crisis in the family and society. South Caucasus is an excellent example for studying the problems of poverty and inequality, as countries of the South Caucasus region during the period of transition to a market economy have experienced sharp decline in living standards and a sharp increase in inequality of income distribution, which resulted in a dramatic increase in number of poor people. As it is shown in the Table, the share of income falling on the richest 20% of the population is 43% on average for the region. At the same time 20% of the lowest quintile group own 8% of national income in Armenia, 8.8% - in Azerbaijan, 5.3% - in Georgia, and on average 7.4% in the region. In this accordance, the Gini index, which measures inequality of income distribution, is the highest in Georgia and the lowest in Armenia. On average for three countries of the region the index is 35.3. In comparison, the Gini index is 27.2 in Belarus, 27.5 in Ukraine, 29.3 in Kazakhstan. Thus, by this indicator South Caucasus lags behind even from some of the post-Soviet countries.

Summing up the following analysis, it can be concluded that there is a large gap between the South Caucasus countries and the European zone in most indicators of living standards, levels of income and savings, equity of income distribution and poverty. Thus, at present the South Caucasus region is not only incomparable and incompatible to the European area on the major characteristics of the structural elements of economic systems, but also does not have sufficient internal sources of investment to generate the resources needed to ensure long-term economic growth and development. While oil exports for Azerbaijan and participation in regional projects for Georgia can be a source of external investments for relatively long time, Armenia is devoid of such sources. Thus, at this stage of development the desire to accelerate the integration of the South Caucasus region into European area without solving the major social and economic problems and without creating the necessary preconditions for economic growth will inevitably face serious obstacles and difficulties.

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## **Development of financial sectors in the countries of South Caucasus region as a prerequisite for integration to European Area**

*Annotation*

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Integration of the South Caucasus Region to European Area is a difficult and multi-stage process. It presupposes achievement of the South Caucasus countries a certain level of economic development by and compliance with the basic macroeconomic indicators on specific criteria. Among the most important of them are the indicators of financial development as the stability and sustainability of the financial systems of the South Caucasus will not only increase confidence in the economy of the region, but also greatly facilitate and accelerate the integration of countries in the European Area.

Today the income levels of the South Caucasus and, accordingly, the level of accumulation in these countries can not generate sufficient investment resources needed for economic growth and development. In this connection special importance gets the development of the financial sector in the South Caucasus region to meet the level of development of the EU in order to avoid further obstacles and complexities.

*The main purpose of this paper* is to identify factors that contribute to the development of financial sectors in the countries of the South Caucasus for further realization of one of the EU basic principles – free movement of capital on a solid basis that is to ensure bilateral financial flows.

To achieve this goal it is necessary to carry out cross-country comparative analysis to identify the level of savings and income needed to develop the financial sector.

In this paper we will use a graphical, tabular and regression analysis methods, as well as the method of induction and deduction, analysis and synthesis.

# Free Economic Zones as the Lever to Regional Development

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Development of any Country and even region is practically impossible without tight and effective economic relations with other Countries under well-defined globalization tendencies in contemporary world.

Consequently the necessity of permanent growth of Georgia's External trade turnover (particularly with the neighboring-regional Countries) shown in the table beneath as well as structural development should become the State's one of the priority directions:

## External Trade

(Billion USD)

	2007	2008	2009	2010	2011
<b>External trade turn over</b>	6444.3	7796.8	5633.8	6822.6	9246.9
<b>Registered export of the goods (FOB)</b>	1232.1	1495.3	1133.6	1574.1	2189.1
<b>Registered import of the goods (CIS)</b>	5212.2	6301.5	4500.2	5248.5	7057.8
<b>Balance</b>	-3980.1	-4806.2	-3366.6	-3674.4	-4868.7
<b>Export of EU Countries (FOB)</b>	268.5	355.2	237.5	290.4	424.3
<b>Export of CIS Countries (FOB)</b>	461.9	540.9	416.1	643.3	1352.7
<b>Export of Azerbaijan (FOB)</b>	137.5	203.9	165.6	243.5	4026.0
<b>Export of Armenia (FOB)</b>	110.8	123.4	889.4	159.7	223.0
<b>Import of EU Countries (CIS)</b>	1538,8	1756,4	1335,5	1463,2	2053,1
<b>Import of CIS Countries (CIS)</b>	1849,4	1998,0	1298,3	1585,7	1941,6
<b>Import of Azerbaijan (CIS)</b>	382,4	607,4	410,2	483,5	610,8
<b>Import of Armenia (CIS)</b>	59,6	72,7	41,9	46,2	59,1

Table N1

It's obvious that strengthening of economic relations among the Countries is an important factor in developing the region. It's also noteworthy that without developing the concrete region as a whole the process of developing the Countries of this region becomes a complicated issue. Therefore it's of utmost importance to consider the development of a Country in the context of the whole regional development.

To implement the goal mentioned above in a line with the political, geo-political and other factors the correction of legislation of Georgia and its close compliance with the promotion process of economic relations among the Countries of the region should be carried out. Therefore as a consequent we can say that the relevant legislative basis is an important pre condition of the formation of any Country's investment climate.

One of the major factors in attracting investment and carrying out investment activities - the stable and predictable entrepreneurial environment in Georgia - has the long and interesting history. Therefore we should consider a natural logical chain of events the adoption of the law of Georgia of June 30, 1995 "On Foreign Investments" quickly after the restoration of independence of Georgia.

By the virtue of the preface of the law the goal of its adoption was the creation of favorable environment for the attraction of foreign capital, investment and its turnover. Separate paragraphs of the law offered the foreign investors the favorable entrepreneurial conditions within the whole territory of the

country: “The enterprise established by foreign investments with the total capital owned by foreign investor is exempted from profit tax from the moment of declaring the profit for two-year period” and with that quite stable guarantees: “Most significantly, should new laws be adopted worsening the investment conditions it shall not have a retrospective application to the existing investment for the period of five years from the moment of the adoption of the act”.<sup>1</sup>

It’s noteworthy that the law envisaged the creation of free economic zones and functional opportunities. Namely in paragraph 3.9 of the law it is admitted that the regulation of investments realized in free economic zones should be executed by special act with that it is also admitted that the legal regime envisaged for the foreign investors in free economic zones must not be less favorable than the conditions envisaged by this law. The paragraph 21.10 of the law envisaged the additional possibilities of tax exemptions for foreign enterprises operating in free economic zones.

The practice of establishment of mostly favorable entrepreneurial environment for foreign investors appeared to have very complicated results for the economy of the Country. The approach likewise created practically discriminative and uncompetitive environment for resident entrepreneurs. As a consequent the government had to consider the law “On Foreign Investments” to be deemed null and void after having adopted the law “On Promotion and Guarantees of Investment Environment” of November 12, 1996.

Attention should be paid to the fact that the goal of the law of Georgia “On Promotion and Guarantees of Investment Activity” unlike its predecessor laws - is the formation of legal regime that is favorable not only for foreign but for local investments as well as the creation of the guarantees of their protection. With that the government of Georgia confessed the incorrectness of the fact of protection of just foreign investments envisaged by the law “On Foreign Investments” discussed above.

The text of the law of Georgia “On Promotion and Guarantees of Investment Activity”, unlike its predecessor law “On Foreign Investments” regulating the admitted sphere does not envisage the concrete benefits for the investors (among them tax exemptions). Under the article 11 of the law “Taxation regime associated with investment activity and its favorable treatment shall be regulated under the tax legislation of Georgia. This is the logical approach to the issue as far as since 1997 that is from putting in force the first tax code of Georgia till now acting second (2004) and acting third (2010) tax codes texts definitely admit that the tax legislation of Georgia consists of the Constitution of Georgia, international agreements and Tax Code of Georgia practically excluding the availability of reflecting the issues with regards to imposing taxes in other legislative acts.

Besides the above mentioned the adoption of law of Georgia “On State Promotion of Investments” of June 30, 2006 is one more step forward to attract investments and establish favorable environment for investors.

Even after the adoption of the law, the one “On Promotion and Guarantees of Investment Activities” of November 12, 1996 was not deemed to be null and void. The fact raises number of questions so far as to achieve one and the same goal - promote the process of attracting the investments – there are two different effective laws.

The answer to the question may be considered to be the statement of the 2<sup>nd</sup> part of the 2<sup>nd</sup> article of the law. It says “The law shall provide for special rules and additional promotional measures for the encouragement of special importance investments” – i.e. the mentioned paragraph of the law “On Promotion and Guaranties of the Investment Activities” of November 12, 1996 justifies the parallel

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<sup>1</sup> Law of the Republic of Georgia “On Foreign Investments”, article 9.1

existence with the above-discussed law. One more proof for the mentioned is the article 9. Based on it the goal of the admitted law is considered to be the promotion of the process of attraction of investors who invest 8 and more billion GEL - this is applied to the “Special importance investments”.

The text of the above-mentioned law does not envisage some concrete or decisive benefits for the persons who carry out special importance investments other than the statement of the paragraph 1 of the article 11 of the law. The latter entitles the person who implements the special importance investments to inform the National Investment Agency of Georgia about State control undertaken with respect to the activities thereof. The Agency shall “examine the case and provide the government of Georgia with the information about the conduct of industrial activities in breach of the law of Georgia or some other circumstances obstructing the implementation of the investments”<sup>2</sup>.

Taking into account the circumstances that the primary goal of the law of Georgia “On National Investment Agency of Georgia” of June 19, 2002 adopted by the Parliament of Georgia is the promotion of the special importance investments as well as the support of intensive investment activities in general and the establishment of legal basis for the process, the synthesis of key statements of two above-mentioned laws namely the law of Georgia “On Promotion and Guarantees of Investment Activities” of November 12, 1996 and the one “On State promotion of Investments” of June 30, 2006 and to transform them into one law should in our opinion be a logical decision to be made.

The law of Georgia “On Free Industrial Zones” of June 3, 1997 also operates in Georgia in parallel with the above-mentioned laws to promote the foreign trade and the increase of export potential of the Country. In the conditions of large balance deficit of trade in the Country represented by table N 1 this is an absolutely correct decision made.

As it is well-known free economic zone (among them industrial) is the part of the Country’s territory where apart from the rest territory of the Country operates the simplified regime of the economic regulation. Free economic zones have been established in USA since 1934. After world war second the creation of such zones has considerably increased.

It is noteworthy that the history of free industrial zones in Georgia starts from 1978 Berlin Congress; where the issue of Batumi transfer by Turkey to Russia was decided. By the demand of Britain’s Foreign Affairs Minister – Markiz Solaberi Russia decided Batumi (port, city and outskirts) to become the “Porto Franco” i.e. the territory free from customs taxes.<sup>3</sup>

Basic types of free economic zones are significant in economic literature like: customs, trade, entrepreneurial or industrial, scientific-technical etc. Irrespective of existing differences in various sources on the definition of economic zones the perfect definition should be considered the following formulation: “Free economic zone is the part of the Country’s territory with the special economic, legal administrative and tax regime providing the extension of exterior political relations, attraction of foreign and local investments, development of new technologies, establishment of modern enterprises basically oriented on export”<sup>4</sup>.

Taking into account all-above mentioned the law “On Free Industrial Zones” is rather an important document that is to be discussed in detail.

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<sup>2</sup> Law of Georgia “On State promotion of Investments”. Article 3, paragraph 3

<sup>3</sup> <http://www.gfsis.org/index.php/ge/activities/projects/view/86/page/112/id/260>

<sup>4</sup>

The law of Georgia “On Free Industrial Zones” may be considered to be a logic follow-up of active legislative acts for attracting investments within the country. The goal based on the second paragraph of the first article of the document “to establish the attractive environment for economic activity, support the inflow of capital and technology to the country” does not represent the attitudes that are principally different from the norms reflected in other effective legislative acts within the Country. One more proof for that is the statement of the first part of the third article of the law of Georgia: “Free industrial zone is the type of free zone envisaged by Tax Code of Georgia with additional conditions and tax exemptions”.

To provide attractive and stabile entrepreneurial environment for investor the law envisages the benefits like:

1. Settlements within Free industrial zone shall be allowed in any currency;
2. The settlement between an enterprise of Georgia and a free industrial zone shall be undertaken in any currency;
3. By virtue of a Governmental resolution of Georgia the obligation of obtaining licenses/permits for certain activities in free industrial zone may be cancelled or a simplified procedure of obtaining a license/permit may be introduced commensurate with the law of Georgia “On Licenses and Permits”;
4. The import of foreign goods into a free industrial zone shall not be subject to value added tax;
5. The Transactions within a free industrial zone shall not be subject to value added tax;
6. The property located within a free industrial zone shall be exempted from payment of property tax;
7. Bringing of foreign goods into a free industrial zone shall be exempted from customs duties; (12.11.2010.N3806 active from January 1, 2011);
8. Bringing Import of products manufactured within free economic zone from free economic zone into the other territory of Georgia (outside of free industrial zone) shall be xempted from customs duties;
9. An employee shall be required to pay the income tax within a free industrial zone on the basis of the declaration of incomes;“<sup>5</sup>

In a line with all-mentioned above Tax Code of Georgia envisages considerable benefits for free industrial zones, namely based on the article 25 of the document certain international enterprises shall be exempted from profit tax; Commensurate to the Paragraph 7 of the article 130 and paragraph 9 of the article 131 dividends and interest rates received from international enterprise with the source of paying are exempted from taxes and will not be included in the total income of the persons receiving the dividends and rates.

To summarize the above mentioned one can suggest that the legislation of Georgia prioritizes the establishment of favorable conditions for smooth operation of free economic zones. With that taking into account the geographic location of the Country the effective usage of free economic zones will stir up the mighty impulse leading to the Country’s as well as to the Region’s as a whole active economic development.

As the map below shows the geographic area of historic Kvemo Kartli - the ancient territory of Georgia - is the border of three transcaucasian Countries - Georgia, Armenia and Azerbaijan. The fact arises rather favorable conditions for making the place the centre of economic relations among the Countries of the region. Taking into account the tense political relationships between the neighbors of Georgia - Armenia and Azerbaijan by itself excluding the possibility of establishing any kind of relationships between the enterprenuars of the two Countries the creation of free economic zone on the mentioned territory of

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<sup>5</sup> Law of Georgia „On Free Industrial Zones”, Tbilisi, July 3, 2007. N 5175 – article 9

Georgia would have obviously had rather positive results in regards with establishing economic relationships among the Countries of the region and in the light of the future growth.



*Picture N1 - The approximate location of a Free Industrial zone*

Consequently we consider it expedient that the government of Georgia in compliance with the sub-paragraph A of paragraph 1 of article 4 and the statement of the article 6 of the law of Georgia “On Free Industrial Zones” should initiate the issue of free industrial zone on the admitted territory.

It would also be expedient to transfer the emitted shares of free (industrial) zones to private sector and use the financial resources derived by this method as to avoid the problems with the budget of the Country for establishing the necessary infrastructure to operate the free (industrial) zone.

The government of the Country should manage the public offer to resident and non resident juridical persons of shares of free (industrial) zone. The successful implementation of the process in a line with saving considerable budget expenses required for the creation of free industrial zone will also resolve the issue of impartial and objective public control mechanism on the industrial zone to be considered as the process of entrepreneurial structural operation.

### **List of the applied literature:**

1. Law of the Republic of Georgia “On Foreign Investments”
2. Law of Georgia “On State promotion of Investments”
3. <http://www.gfsis.org/index.php/ge/activities/projects/view/86/page/112/id/260>
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5. Law of Georgia „On Free Industrial Zones”
6. Special Economic Zones: Progress, Emerging Challenges, and Future Directions by Thomas Farole and Gokhan Akinci  
[http://books.google.ge/books?id=CLnMwFe-vgAC&printsec=frontcover&dq=Special+Economic+Zones:+Progress,+Emerging+Challenges,+and+Future+Directions&hl=en&sa=X&ei=3oR5T6SKJfPT4QTohaWIDw&redir\\_esc=y#v=onepage&q=Special%20Economic%20Zones%20Progress%20Emerging%20Challenges%20and%20Future%20Directions&f=true](http://books.google.ge/books?id=CLnMwFe-vgAC&printsec=frontcover&dq=Special+Economic+Zones:+Progress,+Emerging+Challenges,+and+Future+Directions&hl=en&sa=X&ei=3oR5T6SKJfPT4QTohaWIDw&redir_esc=y#v=onepage&q=Special%20Economic%20Zones%20Progress%20Emerging%20Challenges%20and%20Future%20Directions&f=true)
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## **Free Economic Zones as the Lever to Regional Development**

*Annotation*

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Distinct globalization tendencies of modern world practically rule out development of any country, let alone region without firm and effective economic relations with other countries.

Based on this, foreign trade indicators given in Table N1 should be considered as information of national importance.

Hence statistics published by National Statistics Office of Georgia, indicating at a positive event of foreign trade increase through 2007 to 2011 are of great importance. Though trade deficit of the country is also characterized by increase, negative balance of 3980.1 million USD in 2007 has increased to 4868.1 million USD by 2011, this should be considered as an event of national importance.

The significance of trade data published by National Statistics Office of Georgia becomes twofold considering that the overall amount of export-import with immediate neighbors, that is to say other region countries like Azerbaijan and Armenia, has been characterized by distinctly low (considering inflationary processes) rate of growth during the 2007-2011.

Taking the aforementioned into account relevance of trends given in this table is further increased by ability to carry out at the very list a visual analysis of economic relations between Georgia and its neighbors, other countries in the same region.

It is absolutely clear that improvement of current situation requires not only the political will but also legislation in force has to be focused on formation of efficient means for stimulating relations between region countries. As to how Georgian legislation corresponds to aforementioned requirements will be discussed in the following work based on the review of appropriate statutory framework and recommendations of improving it will be presented.

# Establishment of Free Trade will Promote Georgia's Integration into EU

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## Free Trade Concept

Free Trade, what does it mean? Let us begin with its definition. Free Trade is the interchange of goods and services (but not of capital or labor) unhindered by high tariffs, nontariff barriers (such as quotas), and unilateral requirements or processes.<sup>1</sup> Country which is willing to establish free trade will be transmitted to a fully fledged democracy and market economy.

## Benefits of Free Trade

Establishing Free Trade has enormous benefits. It promotes innovation and competition. It generates economic growth, disseminates democratic values and fosters economic freedom.<sup>2</sup> Heritage's analysis of 161 countries covered in the Index of Economic Freedom indicates that free trade policies can foster development and raise the level of economic freedom.<sup>3</sup> As Adam Smith said in 1776, *"If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."*<sup>4</sup> Adam Smith was a true visionary, who at first described the power of Competitive Advantage. For instance United States has a competitive advantage of wheat and Brazil has a competitive advantage of coffee production.

Therefore, those two countries can trade with each other more efficiently if they both continue to concentrate on their own sectors in which they are better off than others. It is not only cost efficient but time-consuming. **Michael Porter** explains the success in particular industry by **factors of production** which includes: capital, land, labor and natural resources. Thus he claims that "nations gain factor-based comparative advantage in industries that make intensive use of the factors they possess in abundance". Thus, not only a nation should have abundant resources but also use them efficiently which will later lead to increased production. Let us now form some **advantages of free trade**:

- Increases Production and Efficiency (countries use comparative advantage, allocate resources and purchase cheaper resources from other countries).
- Satisfies Consumers (because free trade leads to a global market, consumers benefit from the competition and variety brought to the market. When other countries produce some items cheaper, the consumer purchases products for less).
- Increases Employment and Economic Growth (both jobs from importing and exporting sides will increase. When productivity increases in importing and exporting, wages also tend to rise).
- Decreases Poverty (countries with no trade barriers increase GDP per capita, thus, reducing poverty. In the 1990s, developing countries that lifted trade restrictions tended to grow three times faster than countries that restricted trade.)
- Increases Export

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<sup>1</sup> <http://www.businessdictionary.com/definition/free-trade.html>

<sup>2</sup> <http://www.aaec.ttu.edu/faculty/smisra/Misra/AAEC5312/article16.pdf>

<sup>3</sup> <http://www.aaec.ttu.edu/faculty/smisra/Misra/AAEC5312/article16.pdf>

<sup>4</sup> <http://www.econlib.org/library/Enc/FreeTrade.html>



- Minimizes War (As countries work together professionally, mutual respect for the countries' customs and cultures increase. Fears and prejudices diminish, and countries are less likely to fight each other).<sup>5</sup>

Georgia will surely benefit from establishing Free Trade with EU. Not only will it help our country to become more competitive and attractive for investments but lower poverty level as well. This is why EU Trade Commissioner Karel De Gucht in the interview said, “We want to establish a stable and solid framework for closer economic ties with Georgia. A deep and comprehensive free trade will help Georgia to become more competitive and enjoy the benefits of the EU Single Market”.

#### **Free Trade Basic Requirements**

- Decent level of economic development
- Consolidation of democratic institutions
- Strong enforcement of Rule of Law
- Political pluralism and media freedom
- High Level freedom from corruption
- High indicator of economic freedom
- Compliance of Rules of Intellectual Property Preservation
- High standard maintenance of sanitary and phyto-sanitary conditions
- Political stability
- Consumer Rights Reinforcement
- Maintaining competition (creating anti-trust laws)
- Maintaining the standards of environment protection

#### **Prospects of DCFTA between Georgia and the EU**

The Georgian government is aware of the many benefits coming from trade liberalization with the EU. Thus, it is committed to undertake the necessary regulatory reforms to sign DCFTA with Brussels, despite the fact that the process will require a lot of effort both from the government and from the Georgian business community.

“The major legal framework of the EU-Georgia relations, Partnership and Cooperation Agreement (PCA), was signed in 1996 and entered into force in 1999. Several years later, in 2004 Georgia was included in the European Neighborhood Policy (ENP) which marked a significant step forward in the EU-Georgian relations. In the context of the ENP, the EU in consultation with Georgian authorities developed an Action Plan for Georgia. The Action Plan was endorsed by the EU-Georgia Cooperation Council on 14 November 2006. The five year Action Plan aimed at fulfilling the provisions of the PCA and contributing to a closer relationship between the sides, involving a significant degree of economic integration and deepening the political cooperation.

To facilitate Georgia's export potential, in 1995, the EU decided to extend the EU's Generalized System of Preferences (GSP) to Georgia. Since July 2005, Georgia is the beneficiary of a new GSP scheme - the special arrangement for sustainable development and good governance (GSP+) which offers advantageous access to the EU market. GSP+ scheme includes about 7.200 descriptions of goods that are admitted to the EU market without customs duties. Besides, considering that Georgia is the Member of WTO since 2000, and given the fact that in 2006 has abolished quantitative restrictions (quotas) on

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<sup>5</sup> [http://www.ehow.com/about\\_5381660\\_advantages-trade.html](http://www.ehow.com/about_5381660_advantages-trade.html)

imports and exports, as well as import tariffs on almost 90% of goods, it is clear that almost tariff free regime is established between Georgia and the EU.”<sup>6</sup>

On 26-30<sup>th</sup> March 2012 first round of Georgia-EU free trade talks were opened. European Commissioner for Trade Karel De Gucht traveled to Tbilisi to launch negotiations that will lead to a comprehensive free trade agreement between the EU and Georgia. There will be three more rounds this year. Both sides aim to fashion a deep and comprehensive free trade agreement (DCFTA) to boost economic growth and integration and create a transparent trade environment. The Deep and Comprehensive Free Trade Agreement will replace the Partnership and Cooperation Agreement, which has regulated trade until now. The DCFTA will make legislation in Georgia more compatible with EU legislation in trade-related areas and will update laws on procurement and intellectual property rights. Georgia producers and exporters will be offered free access to EU market with over 500 million high income consumers for almost all products traded. DCFTA will assist further to create a favorable business climate and attract investors.

#### **Benefits of EU from free trade**

“Georgia is an increasingly important transit country for oil and gas from the Caspian basins, which also benefits the EU. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) gas pipeline, connecting the Caspian basin with Turkey through Georgia, will progressively become a strategic alternative energy corridor.”<sup>7</sup> Other benefits include:

- Free entrance for European companies to Georgian market with no extra duties, lower taxes.
- Easily accessible Georgian products for European consumers with lower prices.

#### **Disadvantages of free trade**

When you think of United States, what comes to your mind? I think of it as a collection of little “countries”, so called states. Like EU consists of unified countries, US comprises of its states. Michigan manufactures cars, New York provides banking, Texas pumps oil and gas and all fifty states trade excluding trade barriers with one another enjoying great prosperity and increasing standard of living, whereas European countries “protect” themselves from their neighbors. Thus, they lack benefits of free exchange.

**Alan S. Blinder**, Professor of Economics at Princeton University explained that firstly, protecting one industry from foreign competition imposed higher costs on others. Then, he further added that efforts to protect favored industries from foreign competition might induce reciprocal actions in other countries, thereby limiting one country’s access to foreign markets. He also indicated that trade barrier would have affect on dollar.

Despite many advantages, free trade policy has never been completely adopted by all the countries of the world. Free trade may increase the economic dependence on other countries for certain essential products. It may lead to cutthroat competition and dumping. Under dumping, goods are sold at very cheap rates and even below their cost of production in order to capture the foreign markets. Under free trade, gains of trade are unequally distributed depending upon the level of development of different countries. The terms of trade are favorable for the developed countries, and unfavorable for the poor countries.

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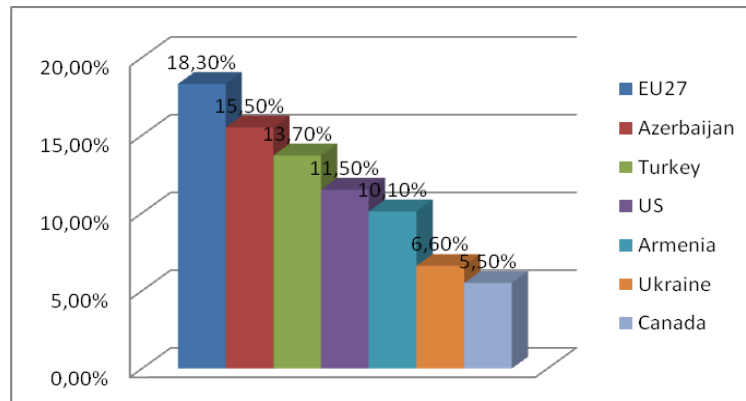
<sup>6</sup> <http://www.easternpartnership.org/partner-states/georgia>

<sup>7</sup> [http://ec.europa.eu/world/enp/documents\\_en.htm#2](http://ec.europa.eu/world/enp/documents_en.htm#2)

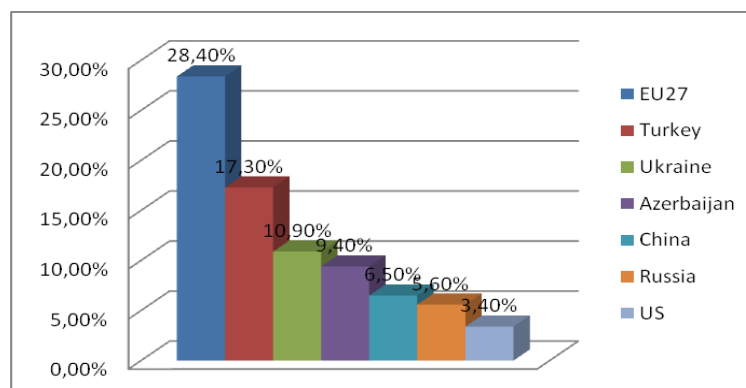
### Georgia's Current Economic Situation

Though Free trade Area is not established between EU and Georgia, our country still benefits from partnership with EU. "It enjoys preferential access to the EU market through Generalized System of Preferences which includes lower import duties ("GSP+")"<sup>8</sup>

As indicated before, DCFTA will replace PCA, which has regulated trade until now. Now let us see who the main import and export partners of Georgia are. According to the Data that European Commission has issued in 2010:



**Georgia's Main Export Partner, Chart №1**



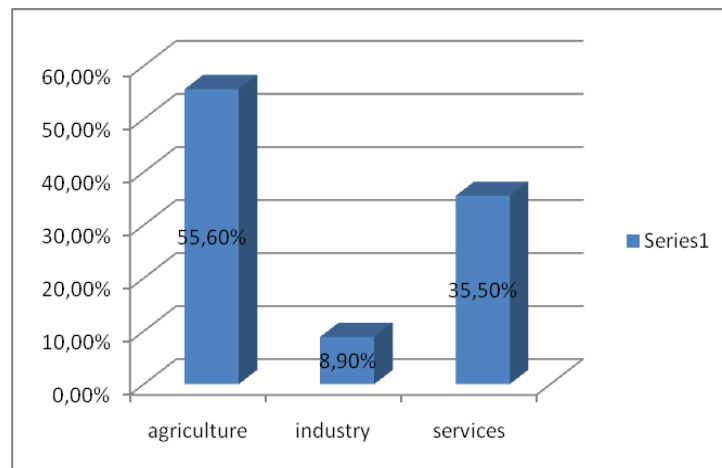
**Georgia's Main Import Partners, Chart №2**

We see that EU in both cases remains the crucial trade partner for Georgia. And the products that are traded mainly include: mineral fuels, lubricants and related materials, crude materials, inedible, except fuels, food and live animals, chemicals and related prod, beverages and tobacco. Now lets go over some quick facts that Heritage has provided us:

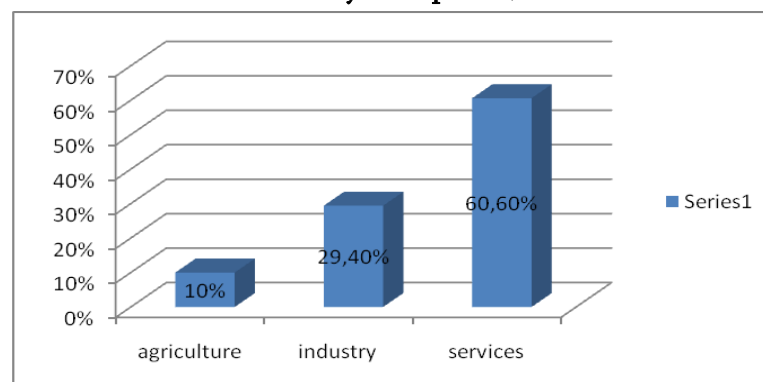
- Population: 4.4 million
- GDP (PPP): \$22.4 billion (6.4% growth in 2010, 5-year compound annual growth 5.2%, \$5,114 per capita)
- Unemployment: 16.4%
- Inflation (CPI): 7.1%
- FDI Inflow: \$548.8 million
- Public Debt: 39.1% of GDP

Meanwhile we got interested in Labor Force of Georgia, how labor force is distributed among occupations and how much GDP the country is earning out of those occupations. To see it clearly, we decided to construct graphs in which we used the data provided by America's Central Intelligence Agency:

<sup>8</sup> <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1504>



Labor Force by Occupation, №3



GDP - Composition by Sector, Chart №4

Now we can see that, according to Central Intelligence Agency, data from 2011, most of the Georgian citizens are occupied in Agricultural Sector, whereas the GDP, country's income rises more from service sector, which concludes that more investment have to be done in order to improve the quality of service and diversify it.

Moreover new industries have to be build in order to employ more people, increase country's GDP, overall production level and get more competitive while exporting. Today in Georgia we got such operating industries as: steel, aircraft, machine tools, electrical appliances, mining (manganese and copper), chemicals, wood product and wine.

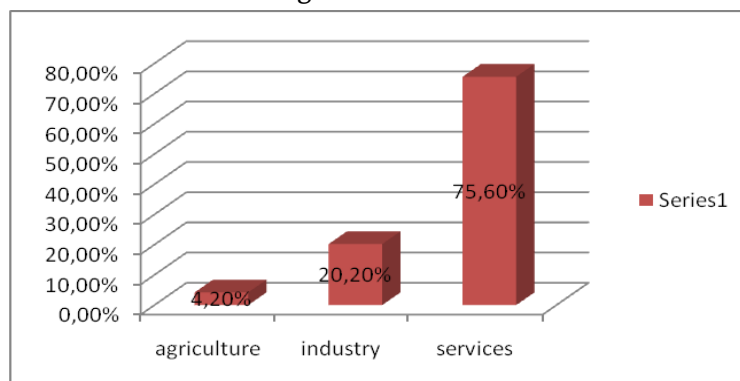
However, those industries need further development and some form of government assistance as subsidies.

As for Agriculture, it remains one of the important sources of Georgian employment system. From the graph above, you can see the percentage of people employed in that sector though the GDP composition of agriculture is too low. What can be the problem or the solution of it? The main problem we consider is that: the exporting level of Georgia compared to other nations is too low. For Instance Georgia as the import partner for EU stands on 82 places after Syria, Kuwait and Venezuela. And as the export partner to EU it stands on 73 places after Oman, Bosnia-Herzegovina and Pakistan.

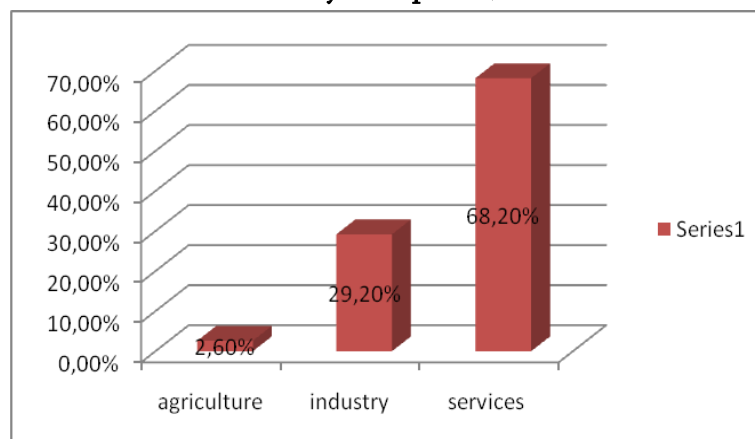
With establishing Free Trade Area between EU and Georgia, Georgia's export opportunity will significantly rise (of course with a help of EU, establishing some quotas to help a little country to be competitive enough). Thus, the export of such products as: citrus, grapes, tea, hazelnuts, vegetables could be definitely increased which will be a very positive, influential factor on Georgia's economy. According to Heritage statistics, Georgia's economy is moderately free, with a decent level freedom from corruption.

### Georgia's Possible Economic Situation

European Commission has contracted Centre for Social and Economic Research, according to which the possibility of economic benefits from the EU-Georgia DCFTA could reach 6,5% of GDP; over next 5 years Georgia's export will increase by 13,5 %; textile production - 55%; metallurgy - 30%; wood production - 21%; chemical, rubber, plastic goods - 19%; fruit, vegetables, food products and beverages - 4%. To see it clearly how establishment of free trade will change Georgia's economic situation and develop the whole country in overall, I decided to take Estonia as an example of Baltic countries which has joined EU (2004) and established Free Trade. By this example we will be able to see the transactions that Estonia went through and accomplished with the help of EU that can be approximate scenario for Georgia. According to CIA's survey "Estonia's successive governments have pursued a free market, pro-business economic agenda and have wavered little in their commitment to pro-market reforms. The current government has followed sound fiscal policies that have resulted in balanced budgets and very low public debt. The economy benefits from strong electronics and telecommunications sectors and strong trade ties with Finland, Sweden, Russia, and Germany. Tallinn's priority has been to sustain high growth rates - on average 8% per year from 2003 to 2007. Estonia's economy fell sharply into recession in mid-2008, primarily as a result of an investment and consumption slump following the bursting of the real estate market bubble. Estonia has rebounded from the economic crisis quite well. GDP contracted 14.3% in 2009, but the Estonian economy now has the highest GDP growth rate in Europe, largely thanks to a boom in exports and increased foreign investment following Estonia's adoption of the euro on 1 January 2011".<sup>9</sup> To see Georgia's economic problems more specifically, we have compared GDP-composition by sector and Labor force occupation of Estonia to Georgia.



**Labor Force by Occupation, Chart №5**



**GDP Composition by Sector, Chart №6**

<sup>9</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/en.html>

From those graphs (data provided by CIA 2011) clearly seen that Estonia's economic success is explained by labor force 75.6% being occupied in service sector and agriculture only 4.2%, which is totally opposite to Georgia. Some quick facts of Estonia as well:

- Population: 1.3 million
- GDP (PPP): \$24.7 billion (3.1% growth in 2010, 5-year compound annual growth –0.1% \$18,519 per capita)
- Unemployment: 16.8%
- Inflation (CPI): 2.9%
- FDI Inflow: \$1.5 billion
- Public Debt: 6.6% of GDP

Despite of little population its GDP is higher than Georgia's with higher level of Foreign Direct Investment and significantly less public debt. This is a true role example country of dynamic and modern economies.

#### **Advantages of European Integration with already maintained free trade**

- Stabilized Economy
- Increased GDP per Capita
- Enhanced level of standard of living
- Decreased poverty
- Increased employment level
- New Factories construction and Industries development
- Investment Inflows
- Export enhancement
- Visa liberalization
- Mobile unity
- One currency (Euro)

#### **Issues for consideration**

- Phyto-sanitary standards

With all the benefits that free trade would bring to Georgia and EU, there are still some issues to be considered. We know that it is very hard for producers of agricultural products to maintain the same sanitary conditions as in Europe. Thus government would need to think how it is going to help those businesses to acquire high level of phyto-sanitary standards.

- Maintaining competition

. In order to maintain competition in Georgia, government has to establish anti-trust organization in order to prohibit monopoly. This action will increase government expenditures on employees and might interfere to some businesses. Therefore, an action plan according to this issue must be developed.

- Environment Protection

Maintaining the standers of environment protection is very crucial nowadays especially when Georgia wants to integrate to EU, establish free trade and join NATO. Because all European countries are taking care of nature and have established recycling. Government of Georgia would need to think how it could effectively establish recycling system in the whole country.

#### **Conclusion**

The given paper discusses the benefits of free trade establishment and its possible consequences. It finds out a range of benefits that Georgia will gain from such partnership with EU: including investment inflows and decreased unemployment rate. Furthermore, it indicates certain requirements that have to be fulfilled prior to the achievement of free trade agreement. After formulating the analysis

on Georgia's economy and comparing it to Estonia, we have come into conclusion that there are significant positive sides of free trade, however other negative aspects require appropriate actions from the government and the private sector.

This study provides the belief that establishing free trade with EU will enhance Georgia's chances of being integrated into EU. Free Trade is a new opportunity for Georgia, a window to Europe's competitive economic world where it can contribute and gain enormously. Here is what the Commissioner for Enlargement and European Neighborhood Policy Štefan Füle said, "Georgia have achieved sufficient progress with the necessary reforms and have fulfilled a set of conditions to be able to proceed further in the gradual economic integration with the EU internal market".<sup>10</sup>

The President Saakashvili recently said in the Parliament, "Not only is Georgia a locomotive for the Caucasus into the future, but we are also a window to Europe for the Caucasus—because a modern, non-corrupt, fast-developing state has emerged in the Caucasus," he said. "Georgia's historic choice is the West. But the Caucasus is also our region."

### **List of the applied literature:**

1. Implementation of the European Neighborhood Policy in 2011 Country report: Georgia;
2. Initial Concept Note, Potential priority areas for ENPI National Indicative, Program (NIP) 2011-2013;
3. European neighborhood and partnership instrument;
4. <http://www.businessdictionary.com/definition/free-trade.html>;
5. [http://www.investopedia.com/terms/f/free\\_trade\\_area.asp#axzz1qEYP6Bb4](http://www.investopedia.com/terms/f/free_trade_area.asp#axzz1qEYP6Bb4);
6. <http://www.aaec.ttu.edu/faculty/smisra/Misra/AAEC5312/article16.pdf>;
7. <http://www.econlib.org/library/Enc/FreeTrade.html>;
8. [http://www.ehow.com/about\\_5381660\\_advantages-trade.html](http://www.ehow.com/about_5381660_advantages-trade.html);
9. [http://ec.europa.eu/world/enp/documents\\_en.htm#2](http://ec.europa.eu/world/enp/documents_en.htm#2);
10. <http://www.investopedia.com/terms/p/protectionism.asp#axzz1qdKWg8WP>;
11. [http://ec.europa.eu/world/enp/documents\\_en.htm#2](http://ec.europa.eu/world/enp/documents_en.htm#2);
12. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1504>;
13. <https://www.cia.gov/library/publications/the-world-factbook/geos/en.html>;
14. <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1504>;
15. <http://georgiaupdate.gov.ge/doc/10013911/GU%2029.03.12%20gm.pdf>;

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<sup>10</sup> <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1504>

## **Establishment of Free Trade will Promote Georgia's Integration into EU**

*Annotation*

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The subject of given paper is free trade establishment between Georgia and European Union. This issue would be interesting for the reader since it is one of the actual and largely discussed topics in Georgia. According to Georgian Respondents (NDI survey) establishment of free trade and integration into EU are the most important foreign policies of Georgia. Therefore, it is crucial to talk about free trade benefits and the way it will promote Georgia's integration to EU.

The aim of the research was to find out the connection between free trade establishment and Georgia entrance to EU, the picture of Georgia's economies today and possible development. We seek to find out the benefits of such partnership and what side effect might it arouse simultaneously.

The major methods used in a given work were content and discourse analysis, usage of comparison, correlation and interpretation. As for analysis secondary data was used.

In overall, the given paper raises interests about Georgia's economic development and its possible membership with EU.



# Economic globalization and Georgia

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*Instructor: M. Tokmazishvili, professor*

## **Introduction**

Mankind has passed through many stages during its existence. If we look in history books we will see the endless number of war and controversy between people, countries and coalitions. The most powerful weapon that could link people was trade. Beginning as early as 4000 BC, people were trading livestock, tools, and other items as a means of money. For example People residing in Sumer, an early civilization in Mesopotamia established trade relations with other nations six thousand years ago. Trade could bring remote countries and cultures together. It led to peaceful relations and World Development. In most cases trade relations was the guarantee of stability between two countries. As countries work together professionally, mutual respect for the countries' customs and cultures increase. Fears and prejudices diminish, and countries are less likely to fight each other.

The main advantage of trade is that Countries that specialize in creating commodities where they have the comparative advantage will increase their production, instead of focusing on products or industries in which other countries have the comparative advantage. By increasing production, countries increase their efficiency. By specializing, countries better allocate their resources and purchase cheaper resources from other countries. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, working in a way in which we have some advantage. For centuries this kind of trade relations continued and finally we are facing economic globalization. Economic globalization is positive and inevitable phenomenon. Developing countries must try to see maximum benefit from economic globalization; financial strength will help countries to establish its place in the global world.

## **Economic globalization**

We are living in the era of economic globalization, which is caused by the growth of international trade and technological progress. Economic globalization refers to increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital. Today every country can purchase cheaper resources from other countries and increasing their own production.

As free trade leads to a global market, consumers benefit from the competition and variety brought to the market when other countries produce some items cheaper, the consumer purchases products for less prices.

Another benefit to consumers is increased innovations. As free trade expands, competition also expands. To stay competitive, companies must seek ways to create the comparative advantage. This leads to increased innovation that improves products.

Economic globalization provides a chance for everyone to reach international markets and sell their products. Developing countries need this opportunity. Developing countries must strengthen their production of existing products and find new products where they have a competitive advantage.

## **Economic globalization and international institutions**

The state borders no longer define and contain identities. Boundaries are still crucial, but so too are transnational opportunities both for politics and for commerce. As a result, an increasing range of activities require some form of management and regulation on the international level. For this reason,

states create international institutions. International Monetary Fund, the World Bank and the World Trade Organization play a vital role in shaping global economy. Let's describe each of them.

### **International Monetary Fund**

IMF was created in 1944. The IMF promotes international monetary cooperation and exchange rate stability, facilitates the balanced growth of international trade, and provides resources to help members in balance of payments difficulties or to assist with poverty reduction. The IMF has 187 member countries. It is a specialized agency of the United Nations but has its own charter, governing structure, and finances. Its members are represented through a quota system broadly based on their relative size in the global economy.

Through its economic surveillance, the IMF keeps track of the economic health of its member countries, alerting them to risks on the horizon and providing policy advice. It also lends loans to countries in difficulty, and provides technical assistance and training to help countries improve economic management. This work is backed by IMF research and statistics.

### **The World Bank**

The World Bank is an international financial institution that provides loans to developing countries for capital programs. The World Bank's official goal is the reduction of poverty. According to the World Bank's Articles of Agreement (As amended effective 16 February 1989) all of its decisions must be guided by a commitment to promote foreign investment, international trade and facilitate capital investment. The World Bank has 187 member countries.

### **The World Trade Organization**

WTO was established in 1995. It is an organization for open trading. Moreover it is a forum for governments to negotiate trade agreements. WTO operates a system of trade rules. Essentially, WTO is a place where member governments try to sort out the trade problems they face with each other. The world trade organization has 153 member countries. Georgia is a member of world trade organization since June 14, 2000.

### **Transnational companies**

Transnational corporations are corporations which operate in more than one country or nation at a time. They have become some of the most powerful economic and political entities in the world. Transnational companies contribute the formation of jobs in developing countries. For instance McDonalds has 400,000 employees through the whole world. There is 4 McDonalds restaurant in Georgia, 3 in Tbilisi and 1 in Kutaisi.

### **Georgia in the era of economic globalization**

The signs of economic globalization in Georgia can be seen quite easily. If you enter the randomly chosen market and examine products you will see that some of them are from Poland, some from Turkey, some are made in China and etc... It is obvious that many products are imported in Georgia. Our country has one of the most liberal trade policies in the world. The main aim of the Georgian Government economic policy is to ensure sustainable economic development based on stable macroeconomic policy and private entrepreneurship development. The government of the country is implementing consistent structural and institutional reforms with aim to provide the most favorable business environment.

Consequently, the current economic reforms are targeted at:

- Liberalization of entrepreneurship activity, creation of favorable, transparent and stable legislation for private entrepreneurship and attractive business and investment climate.
- Realization of active privatization process and support to strengthening of private sector;

- Liberalization of the sphere of licenses and permits and reform of the system of technical regulation;
- Liberalization of tariffs on import and support to growth of export potential;

The Ministry of Economy and Sustainable Development actively cooperates with international organizations and follows the principles of accountability and transparency in its activity.

Georgia could choose Isolationism policy but fortunately Georgia didn't prefer it. Isolationism policy does not bring anything good especially it has deleterious effect on economy. Quality of goods are low, costumers have to buy products in higher prices. Those things don't occur in liberal markets, open market creates competitive environment where quality of goods is constantly growing. Isolationism contradicts progress. It has the following working model: The world continues to develop but countries that choose isolationism are stuck in one place.

Georgia is a member of world trade organization and GUAM (Organization for Democracy and Economic Development) the latter is a regional organization of four countries - Georgia, Ukraine, A Republic of Azerbaijan and Moldova. Objectives: promoting democratic values, rule of law and ensuring respect for human rights, ensuring international and regional security and stability, promoting economic and humanitarian cooperation. I think it is necessary for Georgia to be a member of such kind of associations; it helps us to strengthen our positions in the world.

Georgia must develop strategies to become strong country. The main factor of economic growth is based on productivity. The growths of productivity improves economic situation. The country can have economic growth only if it can produce large quantities of goods and services. There are four major factors of production: human capital<sup>1</sup>, Technological progress<sup>2</sup>, physical capital<sup>3</sup>, natural recourses<sup>4</sup>. Nowadays our country can support development of human capital and technological progress. Georgia must have as many educated people as possible. Those people will be able invent new products and sell them in the world market. New generation must focus on scientific works and inventions. Developing countries like us should be able to create and introduce new products to the world. Government should finance schools, so that they were able to encourage children in scientific activities. In addition state should finance scientific researches. Invention of one person can be used by whole country, even more by entire world. Education leads to human capital investment and in long-term period it directs to economic growth. It is clear that education has positive external effects, and money spent on the expenses is remunerated double.

Savings and investments also play a huge role in economic development. People have to invest more capital in the production. Economic growth is the result of capital accumulation. If country has

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<sup>1</sup> Human capital is embodied in a human being and is acquired through education and training, whether formal or on the job.

<sup>2</sup> Technological progress — is a term that is used to describe the overall process of invention, innovation and diffusion of technology or processes. The term is synonymous with technological development, technological achievement, and technological progress. In essence TC is the invention of a technology (or a process), the continuous process of improving a technology (in which it often becomes cheaper) and its diffusion throughout industry or society. In short, technological change is based on both better and more technology.

<sup>3</sup> Physical capital theory, physical capital is one of the four primary factors of production, also known as inputs in the production function.

<sup>4</sup> Natural resources are materials and components (something that can be used) that can be found within the environment. Every man-made product is composed of natural resources (at its fundamental level). A natural resource may exist as a separate entity such as fresh water, and air, as well as a living organism such as a fish, or it may exist in an alternate form which must be processed to obtain the resource such as metal ores, oil, and most forms of energy.

normal investment climate it is more likely that foreign investors will want to invest their money in the country. Moreover foreign investments reduce unemployment.

Increasing an export potential is also important. In Georgia exported goods and services worth \$2.761 billion. Its major export commodities were scrap metal, ores, wine, vehicles, mineral water and fruits and nuts. At that same period it also imported goods and services worth \$7.304 billion. It basically imported goods and services such as fuels, grain and other foods, vehicles, pharmaceuticals and machinery and parts. The difference between export percentage and import percentage is obvious. Georgia must try to increase export, more products must be exported from Georgia it will strengthen our economy.

Turkey has always been major export and import partners of Georgia. In 2007 it accounted for 13 percent of Georgia's exports and 14 percent of its imports. In that same period USA were responsible for 11 percent of exports made by Georgia and 5 percent of its imports.

### **Conclusion**

Above mentioned factors provide a possibility for a developing country to gain economic stability, strengths and importance in the global world. Therefore it is important for countries to be actively engaged in international affairs.

Economic globalization is a major component of globalization in general. Globalization breaks artificially created barriers. We should understand that whole earth is our real home. Imagine for one minute that the entire planet is integrated and there are no boundaries, it will stop endless wars for territories. Small model of globalized world is U.S.A. it is really surprising to see how people from different cultures and backgrounds live together peacefully and build one of the strongest countries in the world. It isn't necessary to lose identity; we are capable of keeping what is ours and sharing it to others.

We can create a peaceful world!

### **List of applied literature:**

1. <http://www.imf.org/external/about.htm>
2. <http://www.worldbank.org/>
3. [www.wto.org](http://www.wto.org)
4. <http://www.economy.ge/?category=2&lang=eng>
5. [www.econ.yale.edu/alumni/reunion99/birdsall/htm](http://www.econ.yale.edu/alumni/reunion99/birdsall/htm)
6. William G.Demas "Small countries in the face of globalization"
7. William Robinson "theories of globalization"
8. C.stohl "Globalization theory"
9. Gia Jandieri "globalization and economy"
10. Zurab Davitashvili "nationalism and Globalization"

## **Economic globalization and Georgia**

*Annotation*

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Mankind has passed through many stages during its existence. If we look in history books we will see the endless number of war and controversy between people, countries and coalitions. The most powerful weapon that could link people was trade. Trade could bring remote countries and cultures together. It led to peaceful relations and World Development. Later technical progress moved us to the era of economic globalization. The importance of the matter inspired me to choose this topic for the conference.

Firstly the work describes economic globalization in general; states its advantages and disadvantages. Then there is highlighted impact of economic globalization on developing countries particularly on Georgia. The aim of the work is to show you the way which will help Georgia to see maximum benefit from economic globalization. Financial strengths help developing countries to increase its role and importance in the world, surely it will help Georgia to find a place among strong, developed countries.

It is no longer a secret that Isolationism policy does not bring anything good. Isolationism contradicts progress and political stability. It has the following working model: The world continues to develop but countries that choose isolationism are stuck in one place. The clear examples of the previously stated fact are provided in the work.

Moreover the work involves different views on the role and importance of the various international organizations in the global world.

Finally the work places emphasis on the fact that economic globalization can bring peace to mankind, it can equalize countries and lead to possibility of peaceful coexistence.

# Prospects of trade and economic cooperation between South Caucasus countries in the context of integration into the European Area

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South Caucasus, the region with a rich culture, controversial history and with a baggage of the contradictions; a unique corner of the world... of the rapidly evolving and changing world...of the world that entered into the epoch of globalization. So how do we want to see our countries, what way of development should we go?

The aim of this work is to determine the potential reasons and prospects of the accession of the countries of the South Caucasus into the EU. In order to achieve the goal the following tasks will be realized: 1) analysis of the development of the countries-members of the EU over the past decade; 2) analysis of the general trends of the development of the region's countries and, in particular, trade flows and investment flows.

The objects of the research are the economies of the three countries of the South Caucasus region. The subject of the research is the prospects of integration of the countries of the South Caucasus region.

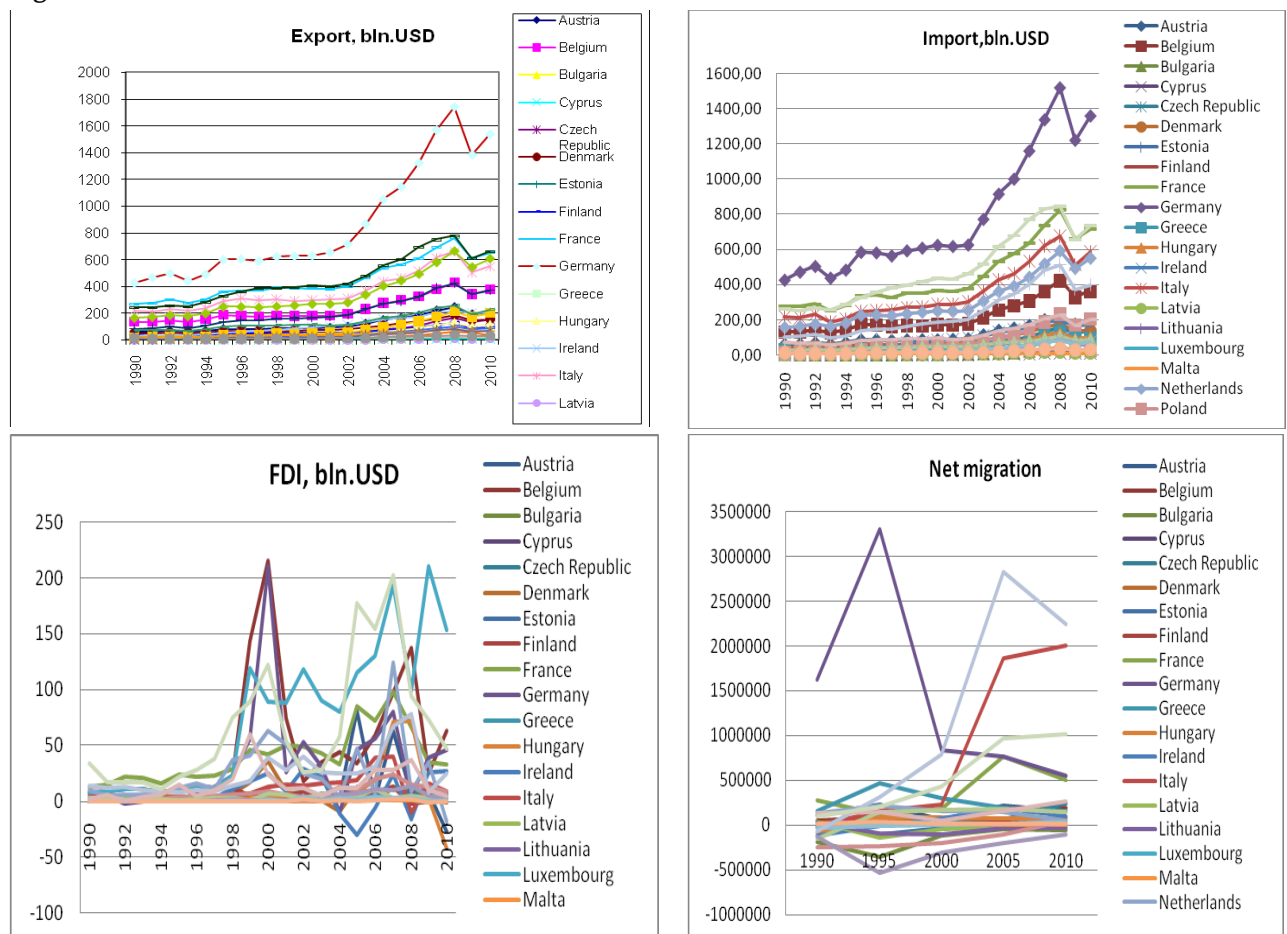
Globalization as a modern stage of the world economy's development leads to qualitative changes in the structure of the global economy. The process of movement to the single world market, based on the new information technologies and on the liberalization of foreign economic operations, is proceeding. As a result the foreign trade operations, the cross-border financial flows and the migration of the labour force are rapidly increasing. At the time the processes of the globalization occur irregularly: usually the most intensive is the growth of the interstate relationships in the framework of a specific region. Thus, along with the globalization and international integration, the regional integration of the world economy is actively developing. For example, in Europe, North America and Latin America, South-East Asia and East Asia, the Arab world and in the post-Soviet space during the recent decades the regional integration centers began to form and develop. Thus, the regional economic integration as an objective process of the economic interaction between the countries, leads to the convergence, synergy and merging of the national economies into a single system of the relations<sup>1</sup>.

For example, if we consider the following indicators, it can be noted that the turnover of the foreign trade was permanently growing, along with the growth of the GDP of EU states-members.

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<sup>1</sup> Vernon R. Sovereignty at Bay: The multinational spread of U.S. Enterprises. // N.Y., 1997, p. 46;  
Kennedy. I., Evans P. The eclipse of the state? // World Politics. № 50, 1997, pp. 62-87;  
Strange S. The retreat of the state: The diffusion of power in the world economy. // N.Y., 1996, p. 16;  
Cox R.W. Production, Power and world order; Social forces in the making of history. // N.Y., 1987, pp. 19-21

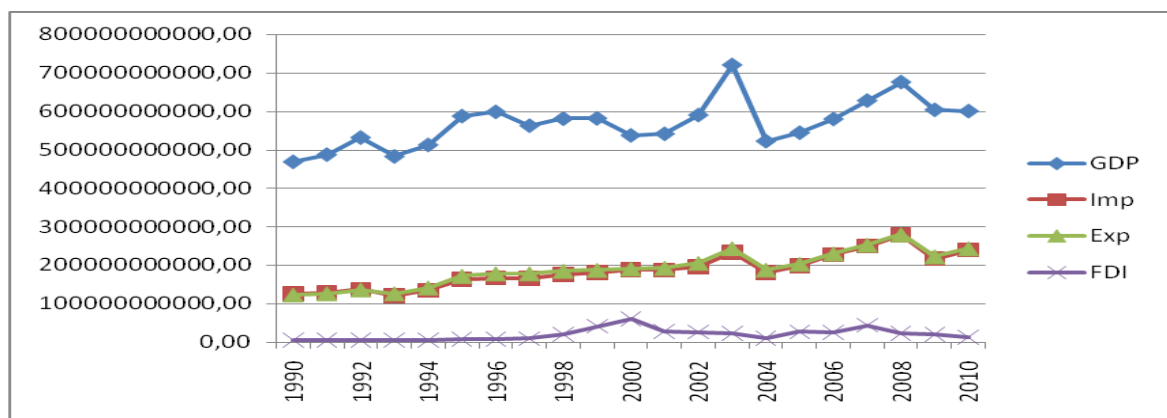
Fig.1. Economic indicators of EU



Source: World Development Indicators

If we look at the average indicators of the EU, this trend can be observed as well. On the chart till 2004 there are averaged data for 15 countries, up to 2007 for 25, and then already for 27. In 2004 there was a decline of the average indicators of the EU which can be explained by the entry at the same time of 10 countries, however, then the average indicators are rising again.

Fig.2. Average indicators for EU, USD (EU15 till 2004, EU25 till 2007)



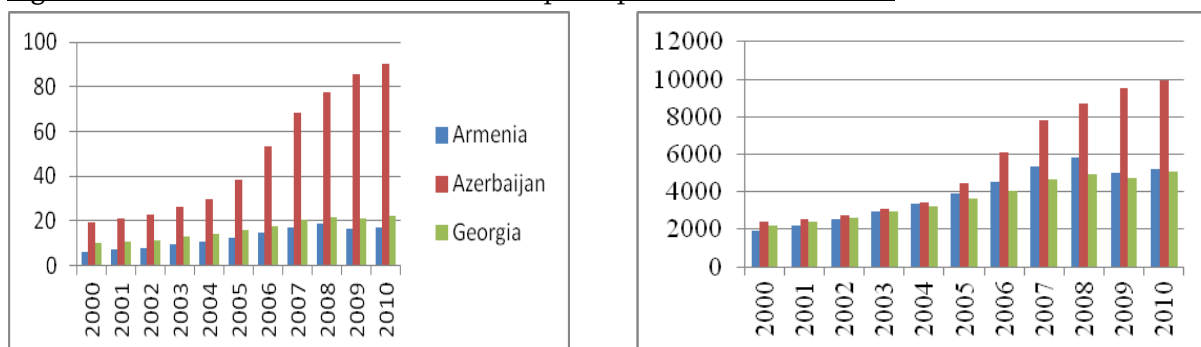
Source: WDI

Let's see, what the process of cooperation with the European Union is. The year of 1996 can be considered as the beginning of the process of integration of the countries of the South Caucasus into the EU, when between the EU and the republics of the region the "Agreement on Partnership and

Cooperation" has been signed, which entered into the force in 1999. These agreements were political in nature, but were also directed at the economic development and at the provision of the assistance in the process of transition to a market economy. And already in 2004, these countries were included in the initiative of "European neighborhood Policy". The continuation of the "European neighborhood Policy" was the fact that in 2009 between the EU and six countries, including Armenia, Azerbaijan and Georgia, was signed a cooperation agreement "Eastern partnership", which provides for political rapprochement and economic integration. Consider the approaches of each country to the prospects of integration with the EU.

Let's look at the main macroeconomic indicators of the South Caucasus countries.

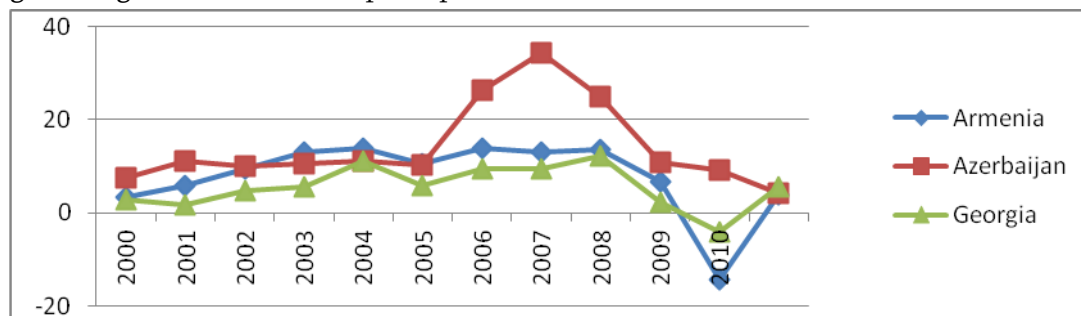
Fig.3. GDP in PPP, billion dollars and GDP per capita in PPP, US dollars



Source: Statistical database of the IMF: <http://www.imf.org/external/pubs/ft/weo/2010>

The growth rate of GDP per capita, which characterizes the rate of the economic growth, gives the same conclusions.

Fig.4. The growth rate of GDP per capita, %



Source: Statistical database of the IMF: <http://www.imf.org/external/pubs/ft/weo/2010>

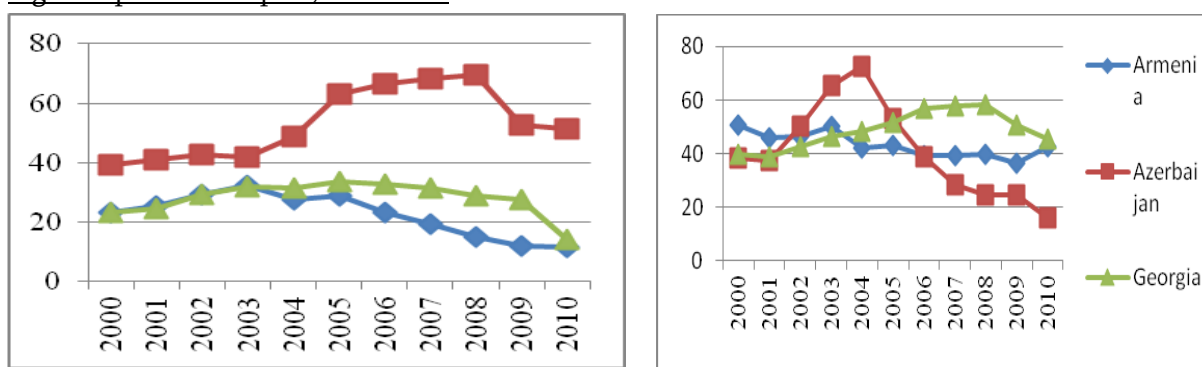
Foreign trade in the early 90's was sharply declining that was caused by the objective reasons, namely, by the rupture of ties between the former republics and by the military conflicts in the region. Analyzing the foreign trade during this period, we can note that with every year the deficit of the balance of payments was increasing, not so much due to the growth of import, but because of the reduction of the export<sup>2</sup>. Similar processes were taking place in the other two countries, however, after 1998; Azerbaijan's export sharply began to grow mainly due to the export of hydrocarbons. The growth of exports of Georgia was mainly based on the agricultural products. As we can see, the largest share of foreign trade turnover falls on Azerbaijan, however, we must take into account that the basic article of

<sup>2</sup>According to the data of the National Statistical service of RA: [www.armstat.am](http://www.armstat.am)



this country's export is oil and its derivatives, whereas for Armenia it's diamonds and brilliants, and for Georgia it is the transportation services. Thus, due to the high concentration of exports these countries are sensitive to external influences.

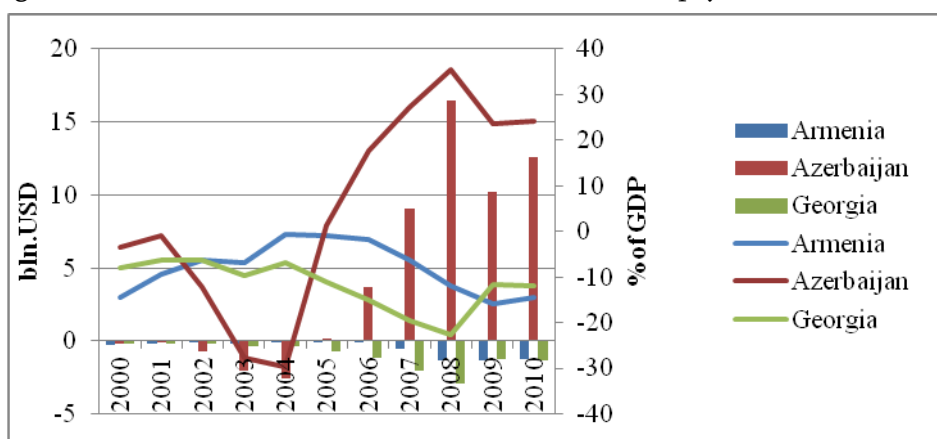
Fig.5. Export and Import, % of GDP



Source: World Development Indicators <http://data.worldbank.org/>

And, finally, if we look at the overall balance of payments of the countries as a whole, it may be noted that the sharp rise of the surplus is observed in Azerbaijan; in Armenia and Georgia, on the contrary, deficits were growing, and in 2009, the largest deficit was in Armenia, which is explained by the growth of the trade balance deficit and by the significant reduction of private transfers to the Republic. Already in 2010 the surplus in Azerbaijan has increased, amounting to about 26% of GDP; in Armenia and Georgia deficits were reduced, but only slightly.

Fig.6. The Balance of current accounts of the balance of payments



Source: World Development Indicators <http://data.worldbank.org/>

For a long time Azerbaijan has been the leader by the flows of foreign direct investment, which is attractive for foreign oil companies, with whom agreements on gas and oil fields development have been concluded. For example, in 2002-2004, in terms of FDI Azerbaijan was at one of the first places in the world, because the construction of the Baku-Ceyhan oil pipeline was conducted during this period. Investment flows to Georgia also grew steadily and that was the main driver of economic growth in the country, however, after the August 2008 and the financial crisis they went on the decline. Unfortunately, the volume of FDI in Armenia have always lagged behind its neighbors and mostly have been provided by the Diaspora, however, as the graph shows, in 2009 they grew up as a percentage of GDP, which is mainly associated with the fall of GDP.

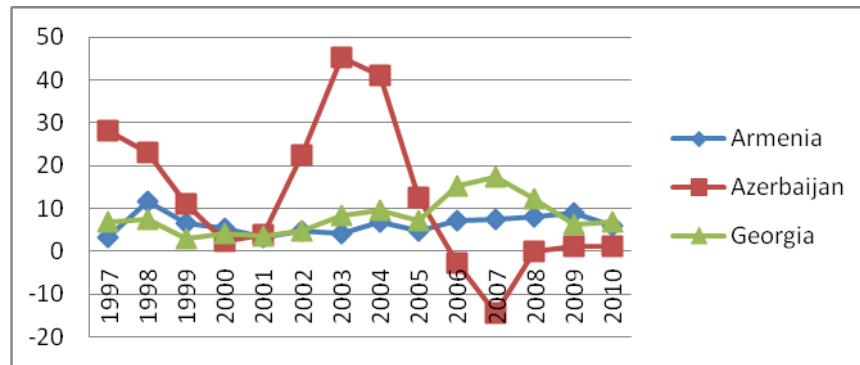
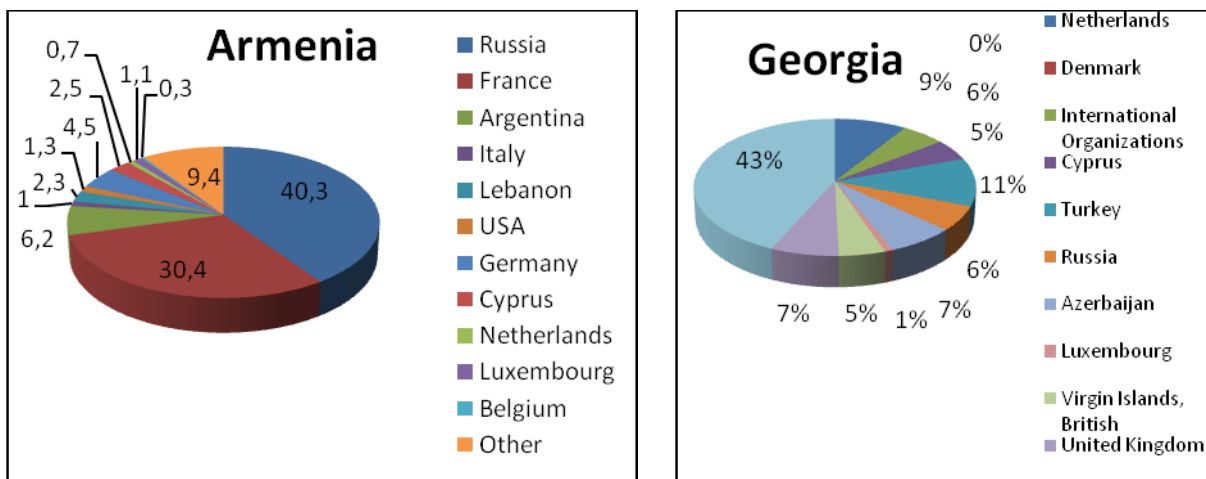


Fig.7. FDI, % of GDP

Source: World Development Indicators <http://data.worldbank.org/>

If we look at the structure of FDI by the countries-donors, then we can say that the EU countries are the key countries for Armenia and Georgia.

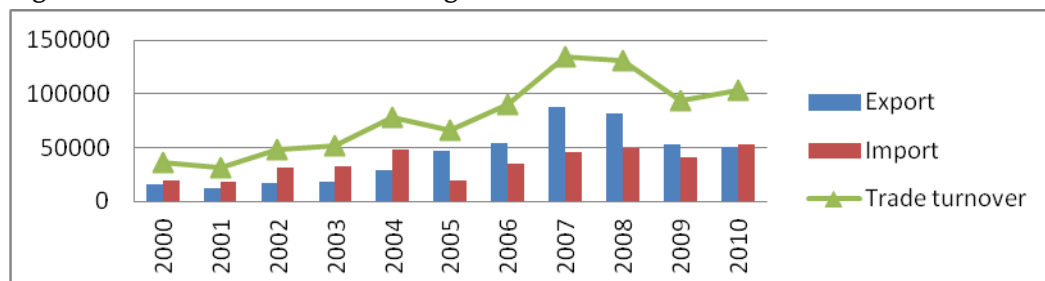
Fig.8. FDI by country, % of total FDI 2010



Source: Armenian Development Agency, National Statistics Office of Georgia

Now let us consider the dynamics of foreign trade turnover between the countries over the last decade.

Fig.9. External trade Armenia-Georgia, Thsd.USD



Source: Yearbooks and publication division, NSS RA: [www.armstat.am](http://www.armstat.am)

As the graph illustrates, the general trend of the trade turnover is growing, with the exception of 2008-2009, which, probably, is connected with the world crisis; in 2010 the growth of imports from Georgia and, on the contrary, a decrease in exports from Armenia, reflects the general negative trend of the excess of imports over exports in Armenia. A similar situation exists in the trade relations between Georgia and Azerbaijan.

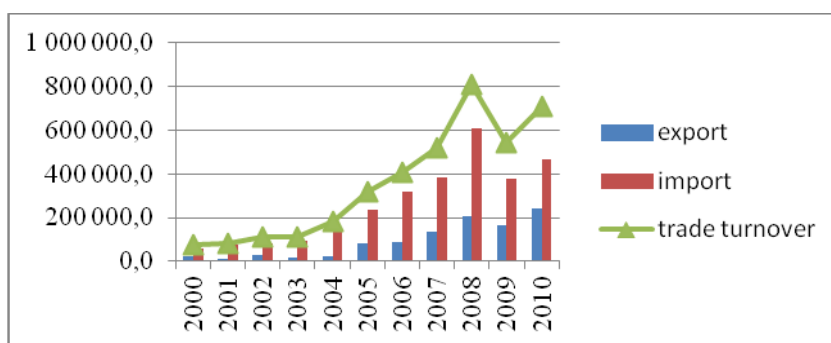


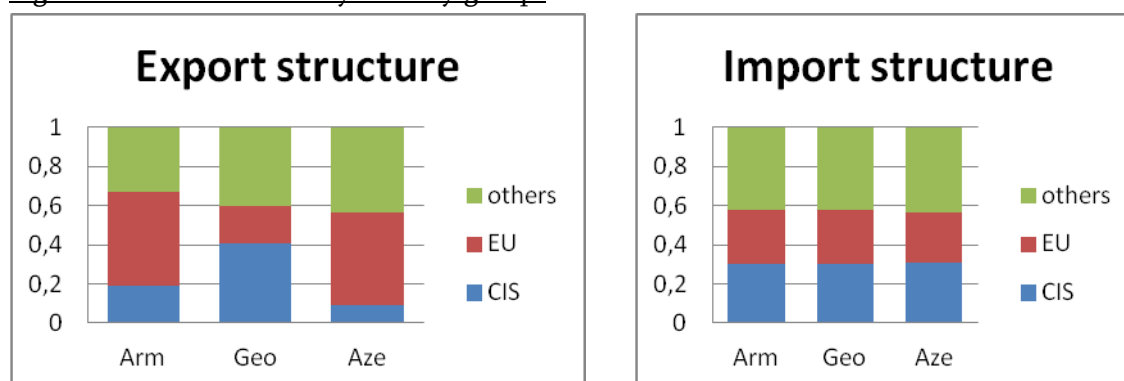
Fig.10.ExternaltradeGeorgia-Azerbaijan, Thsd. USD

Source: [www.geostat.ge](http://www.geostat.ge)

In figure 8 we can see the trade flows between Georgia and Azerbaijan. It is obvious, that from year to year the indicators of the trade turnover grew; the exception is the recession in 2009, which has under itself the objective reasons.

Further, if we consider the structure of exports and imports of the countries of the region by groups of countries, it can be noted that among the main trade partners there are the EU countries that means there is a potential for further development of trade relations.

Fig.11. Structure of trade by country groups



Source: NSS of Armenia, Georgia, Azerbaijan

If we get back to the Armenian-Georgian economic relations, it should be noted that the main areas of cooperation between the countries is transport and energy. So, for example, the countries unite three electricity lines. The transport sphere, as it has already been mentioned, is of vital importance for Armenia, because it is a road that connects it with the European markets. On 30 of March, 2011 between Armenia and Georgia was signed the Memorandum of cooperation and, in particular, of the construction of roads. It is planned to implement the projects financed by the WB and ADB at four directions - North - South, Bavra, Aparan-Vanadzor-Alaverdi and Sevan.<sup>3</sup> In addition, as a new road to Poti has been built, the transportation costs will substantially be reduced.

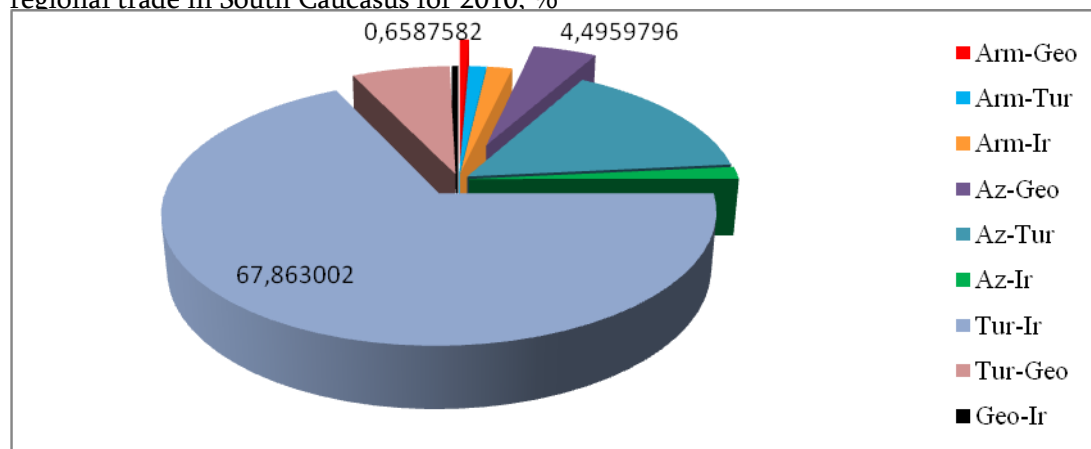
The implementation of these projects will create even more favorable conditions for the integration of the countries. On the basis of commodity structure of trade between the countries the large potential of the development of bilateral relations is becoming obvious.

Let's see what the percentages of bilateral trade between the countries of the region in the total volume of trade turnover in the region are, also including in the analysis Iran and Turkey. For this

<sup>3</sup>News portal <http://www.aysor.am/ru/news/2011/03/18/armenia-georgia/>

objective, were taken the indicators of 2010 year by the following pairs: Armenia-Georgia, Armenia-Turkey, Armenia-Iran, Georgia-Turkey, Georgia-Azerbaijan, Georgia-Iran, Azerbaijan-Turkey, Azerbaijan-Iran, Turkey-Iran.

Fig.12. The share of trade turnover between the countries of the region in the total volume of regional trade in South Caucasus for 2010, %

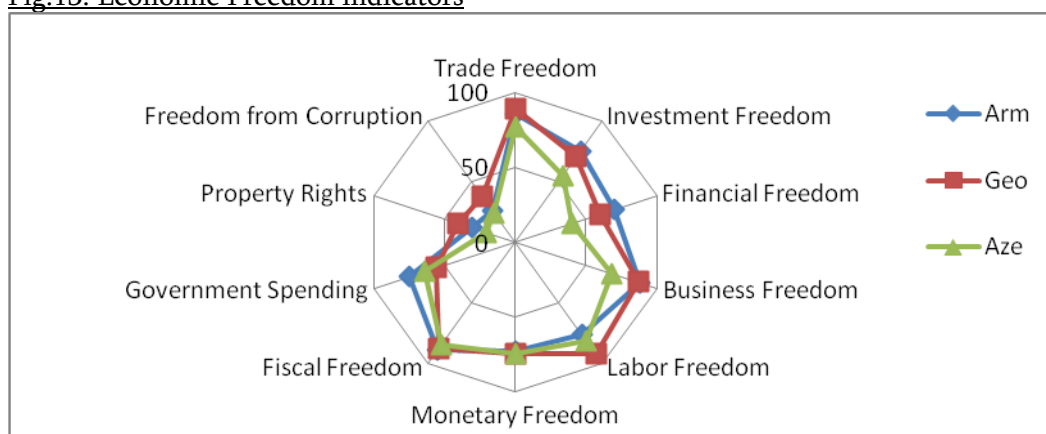


Source: Calculations based on the data of NSS of Armenia, Georgia, Turkey, Azerbaijan

In this graph we can see all that was mentioned above. The largest turnover is between Iran and Turkey and makes about 67-68% of the whole regional trade. The smallest is between Iran and Georgia and accounted for 0.43%.

In view of the fact that the creation of an integration grouping or for entry into the already created integration bloc, in this case speaking about the EU, it is necessary to consider the quality characteristics of the economy of the countries-candidates. It is obvious that the level of development of institutions and freedoms play a key role in the successful functioning of the country in the framework of joint agreements.

Fig.13. Economic Freedom indicators



Source: Index of Economic Freedom <http://www.heritage.org/Index/>

And, as you can see in fig.13, in general, the overall index of freedom concedes to Azerbaijan, especially by the indicators of financial freedom, investment freedom, freedom from corruption; Armenia and Georgia approximately have the same index, however, Georgia is the leader in the important for the development of business in the country indicators as freedom of business, freedom of trade, freedom of labor and freedom from corruption, which was mentioned above.

Thus, in the current globalization of the world economy one of the fastest-growing phenomena is regional economic integration. And Armenia with the goal of improving the economy of the country

as a whole should be involved in both regional and global integration processes. The same can be said about the other two countries. Moreover, the presence of close economic ties between the countries of the region, reduce the possibility of a serious confrontation in the future and will become a precondition for the international integration of these countries. Proceeding from this, for the effective integration of Armenia into the already existing international integration blocks it is necessary to ensure the integration of the countries in the region, namely in the South Caucasus region.

Thus, as can be seen, in all three countries there are prospects of integration in the EU. However, if firstly takes place the initially regional integration and then the integration in a larger integration bloc, in this case, in view of the strained relations in the region, it is more likely a separate entry in the EU, which will ensure the development of relations in the region, as the region will become a territory of European values.

### **List of the applied literature:**

1. Vernon R. Sovereignty at Bay: The multinational spread of U.S. Enterprises. // N.Y., 1997, p. 46;
2. Kennedy. I., Evans P. The eclipse of the state? // World Politics. № 50, 1997, pp. 62-87;
3. Strange S. The retreat of the state: The diffusion of power in the world economy. // N.Y., 1996, p. 16;
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5. News portal <http://www.aysor.am/ru/news/2011/03/18/armenia-georgia/>
6. Statistical database of the IMF
7. Statistical database of the WB
8. NSS of Armenia, Georgia, Turkey, Azerbaijan
9. Armenian development Agency: [www.ada.am](http://www.ada.am)

## **Prospects of trade and economic cooperation between South Caucasus countries in the context of integration into the European Area**

*Annotation*

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Despite the fact that the processes of globalization and integration have occurred throughout human development, in recent decades this processes have accelerated.

Moreover in the modern world one of the main directions of economic development (especially for countries with transition economy) is the possibility of creating an integration model at the regional level with the further prospects of a global level. However, for the South Caucasus countries with their complicated relations this scenario in the near future seems impossible. Therefore for the South Caucasus countries integration into the European Area is one of the main ways of further development,

not only in terms of economic development of each country, but also with that it can be a bridge to establish cooperation between these countries with all the ensuing consequences.

The creation of an effective integration group such as EU leads to a sharp increase of almost all macroeconomic indicators, especially foreign trade, which in turn leads to improvement of countries' socio-economic indicators. European integration is an attractive integration model for all developing countries, and many countries consider the entry to the EU to be one of their main priorities.

**The purpose of this paper** is to analyze the current level of economic development in the countries of the region, as well as prospects for development in the case of European Area integration. It will be interesting to analyze the effect of integration on the economic situation in other countries and use these results in our predictions taking into consideration the realities of the region.

For achieving these goals it is necessary to analyze trade flows, investments, the index of globalization of the countries, the government economic policy.

The following methods will be used in the process of writing the paper: induction and deduction, a statistical method, the method of analysis.

# The Perspectives of the Integration of South Caucasus Region to European Area in the XXI century

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*Azerbaijan University*

*Student of the fourth Course of the faculty of Business Administration*

*Instructor: Tofiq Ahmedov PhD*

Market economy is an economic system that helps people to live in better conditions than in the other economic systems. Cities in market economy and in other economic systems play a significant role. They are always on the front line. In an era of globalization and mobility, most of the transformation taking place today is concentrated in cities. New technology impacts on work, housing, transport, education, culture, behavior and much more besides. The life span of infrastructure is getting shorter, commercial trade is speeding up and local redevelopments follow one another at an ever faster rate. All the great cities in Europe have to cope with such changes, which constantly remodel the urban landscape. Although some modernizations are presented as success stories, many urban areas are destabilized by the changes and become blight on city centers and suburbs.

From the ancient times there was a difference between poor and rich. The differences in living standards around the world are also staggering. For instance in 2006 the average American had an income about 44.260\$, the average Mexican earned 11.410\$, the average Nigerian earned 1.050\$. Not surprisingly, this large variation in average is reflected various measures of the quality of life. Citizens of high income countries live in better conditions and they have more cars, better food, better health care and live for more years than the citizens of low-income countries. Changing the living standards is also large for example in USA the incomes have historically grown about 2 or 3 percent per year.

More generally sustainable development includes the antipoverty agenda. The gap between rich and poor continues to grow but it changes depending on the country. In the more developed countries this difference is very small but in developing countries it is big and is going to rise day by day. Among the 4.6 billion people who live in developing countries, 3/5 live in communities that have no basic sanitation, 1/3 without sanitation of self-drinkable water about 1/4 has a problem with housing. Eliminating the poverty is a worthy goal in itself. From the strategic side eliminating the poverty also help to reduce the conflicts, social disruption and disease. Now United States plays a leading and generally positive role in steering trade rules in order to achieve sustainable development. United States over the past decade has not only failed to serve the substantive policy goal of sustainable development but has also helped to achieve great success on the way of reducing distinction between poor and rich. Poor people live in the most polluted or degraded environment and this contributes to their poverty. In spite of poverty and degradation are important in their own rights, because they also contribute to war, ethnic tensions and terrorism which are more likely can cause bad results. Global population expected to rise from roughly 6 to 9 billions or 50% by 2050.

In most economic systems the rich always take an advantage of the masses. In capitalism it is the masses that benefit on the expenses of the rich ones by using the power of unequal income distribution. Today people work harder than the ten or 20 years ago for some goods and services that they have demand but many prices increases, then converted into work that people work, amount to little more than a few blinks of a time. The market economy can not be benefit for the poor, since the poor are only consumers not customers and without customer no market can functionalize or can achieve the best. In other side the poor operate the outside the market economy. In generally in the Market economy every individual is both customer and consumer. But competition will always strive to push the weak below

the poverty line, to the point where the weak has nothing to exchange in the ongoing economic system. As long as in the present we have a Market economy and that there will always be poverty. In order to see this difference between poor and rich let us look through to this inquiry.

**The rich:**

Producers and consumer,

they are decision makers

Final > basic expenses

Produce a marketable product

This dimension shows that rich have all the advantages

**The poor:**

only consumers

replaced by individuals less than themselves

final > only basic living expenses

skills less valued individually

The worldwide protests and complaints in underdeveloped and developed countries alike, over the shortage and high prices of basic food commodities, forced the issue on the minds and agendas of world leaders and international organizations.

As an issue that affects the livelihood of millions of people and the economies of whole countries as well as their political stability, it was necessary to deal with the issue on the short and long term. Thus decision was made during the aforementioned meetings and forums to meet needs of people as soon as possible. Decision were also made to put in place the means and needs for mechanisms for meeting future needs in order to prevent such crisis from recurring or at least minimize its impact. With this decision, the OIC and its relevant affiliate institutions have demonstrated in action not just in words, that they are key player on the international arena capable of addressing issues of concern to them and the international community.

Exploring the factors behind the global food crisis and the ways to confront them was the pivotal addressed by the food and agriculture organization (FAG) Summit held in Rome on June 2009. The summit was attended by the 50 heads of state and government discussed the best ways and means of resolving global food crisis and stemming the skyrocketing food price. The crisis caused the starvation of around 100 million additional people, with poor nations hit particularly hard by the spiraling costs of food imports which further burdened their budget by about 40%..

Climate change the surging demand for energy and biofuel production and increase in world population are seem as the major causes of the crisis. The blatant cases linked to the food crisis were reflected in the huge spike in energy prices in addition to deepening environmental concern due to successive natural disasters. With regarding to the energy dossier as the price of oil jumped considerably over recent years, the discussions focused on efforts to find an alternative to oil as a source of energy, which is the mainstay of global industrial activity today.

Biofuels extracted from corn and soybeans stood out prominently in this context, as it,s responsible for diverting massive of food that should go for human consumption into energy production, causing a substantial decline in food supply in world markets while demand for food picked up frantically. Another view on the rise in food prices is that the increase in the demand for food, especially in light of the level of prosperity in emerging economies.

While the food crisis has severely hit the poorest countries, where it triggered the outbreak of unrest in Africa, the FAO and Organizations for economic Cooperation and Development, warned in a joint report that the prices of agricultural materials would remain very high over the next decade. The world crisis would occur at a critical time for the international community. Government interventions can not change the greed in the mindset of the rich, because for the rich to have more is no less than



second nature and the market economy helps them to expand it. The poor and powerless are often find them sacrificing their dignity their children and even their own bodies, piece by piece to globalization economy with an appetite for inhuman profit. Now about three billion people nearly half of the world's population struggle to live on less than 2 dollars a day. One of the extreme poverties in the world is landlessness. For more than 40 years, Landesa has partnered with governments to create laws, policies, and programs that provide secure land rights for the poorest. We've learned that when a family has land of their own, they have opportunity and the means to improve nutrition, income, shelter. We've seen that when land rights are secure, the cycle of poverty is broken – for an individual, a family, a village, a community and entire countries.

In trying understand the relationship between inequality and violence it is important to mention that it is not a primarily a matter of increased between rich and poor. In some situations this inequality can be violence may be more likely occur between rich and poor, but violence normally concentrated among the poor themselves. If inequality simply increase violence between poor and rich this relationship need some explanations. But the only reason violence between poor is more common where there is more inequality is more diverse and its understanding is some more informative.

Because now we can say that about 70-80% of the world economy is strongly belong to market economy. With market economy it is favorable to gain more profit because if you are able to produce something you can sell you product or service to another person. Today's foreign asset distribution is much more about asset swapping by rich countries. Now poor countries have less access to international capital than they had before the 1914. This phenomenon is related to their poor protection of poverty rights an institutional feature with deep with deep historical roots, as well as to general changes since World War One in the global political and economic environment. Now in order to have more access to international capital the country has to be more power from economic and political sides.

Now when we are looking for the development of modern cities and country regions we should first direct all our power to new technology and planed investment. With this way modern cities can evolve and create their own modern future. At the same time, cities present substantial opportunities for the future. The most prosperous cities will be those that design sustained, comprehensive visions, and create new institutions, or strengthen existing ones, to implement this vision. This will bring them to look for new methods of close cooperation with regional and central governments and other actors such as the private sector, all the while ensuring an equitable distribution of opportunities and sustainable development. And this sustainable development can be achieved if all the regions of the world will have identical or special plans for the regions where they live.

### **List of applied literature:**

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5. Management Development by J. WOODAL & D. WINSTANLEY.

## **The Perspectives of the Integration of South Caucasus Region to European Area in the XXI century**

*Annotation*

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During the last decades of the nineteenth century and the first decades of the twentieth century streets in European cities were transformed from multifunctional, relatively empty, and rather disordered places into well-ordered and explicitly zoned spaces. Nether less there are many cities both in Europe and in all over the world that are not same because it depends on the managerial and marketing issues especially in the XXI century. Modernity gave a prominent new role to science, often at the expense of traditional worldviews. All the sites are phenomena of the times; on the verge of the new millennium, after transition to a market economy and the shift from classical industries, they found themselves in a specific situation in which they had to restructure and also search for a formula of development for themselves. In this situation the cities that have a good planning and managerial knowledge become more advanced and evolved faster.

Now when we are looking for the development of modern cities and country regions we should first direct all our power to new technology and planed investment. With this way modern cities can evolve and create their own modern future. At the same time, cities present substantial opportunities for the future. The most prosperous cities will be those that design sustained, comprehensive visions, and create new institutions, or strengthen existing ones, to implement this vision. Many developing regions have a limited supply of land which is threatened by the roads and parking required by a high level of automobile ownership. Even countries that have relatively low population densities may have a limited supply of certain types of land, such as high quality agricultural land or certain types of environments. Although some modernizations are presented as success stories, many urban areas are destabilized by the changes and become blight on city centers and suburbs.

# Infrastructure Economy Development in Georgian Regions, way of Integration in European Union

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## Introduction

Infrastructure in general is often deemed to be an important factor in the economic development of nations. Given the fact that the Georgia, to its transformation processes, experienced a several wars, political unrest and as a result a strong economic decline, the topic of infrastructure and economic development is of special interest. This interest also has a regional dimension as it was recognized by the regional approach of the European Union (EU). Moreover, development of infrastructural economy is of importance for security and for political stability in the region. Finally, it is important for the process of EU integration.

In light of this, this paper seeks to analyze the state of infrastructure development of Georgian regions in the context of economy. First statement is that infrastructural development has to be aligned with economic development. Some governments focus discretely on infrastructural projects without paying much attention to such development in the context of economy. Indeed, infrastructural projects bring big benefit to society, but unless they are closely tied with businesses, economy will not be blessed instantly and only later can be positively influenced.

Second statement is, that it is very crucial to have infrastructural economy developed around the country, not only in metropolitan area, because infrastructure directly affects a country's economic growth potential and the ability of an enterprise to engage effectively. This is also a problem for many governments, that infrastructural economy is developed far more actively in capital city area than in regions, thus hindering economic growth of country.

## Definition of infrastructural economy

In General, definition of infrastructural economy is that, it represents those types of capital goods that serve the activities of many industries included paved roads, railroads, seaports, communication networks, financial systems, and energy supplies – that all support production and marketing for industries within the country. It provides services that support economic growth by increasing the productivity of labors and capital thereby reducing the costs of production and raising profitability, production, income and employment. Infrastructure investment and consumption of infrastructure services have significant implications for achievement of sustainable development objectives, as infrastructure services:

- Encourage new investment across the economy;
- Underpin many aspects of economic and social activity.
- Facilitate the flow of ideas, goods and services;
- Facilitate regional economic growth;
- Are critical to maintain an inclusive, healthy and productive workforce;
- Involve large scale investment with significant environmental impacts;
- Generate a range of externalities in the production and consumption.

## Economic infrastructure's role in countries growth

Globalization, population growth, and urbanization are placing considerable strains on infrastructure around the world. Advanced industrial economies like the United States and Western Europe are focusing on repair and replacement of their aging infrastructures. But, the

developing world faces the more daunting task of creating new railroads, seaports, communication networks, financial systems, water, and energy networks to foster economic growth, improve employment, public health systems, and reduce poverty.

Regional development of infrastructure is more vital component in encouraging a country's economic growth. Developing infrastructure enhances a country's productivity, consequently making firms more competitive and boosting a region's economy. Not only does infrastructure in itself enhance the efficiency of production, transportation, and communication, but it also helps provide economic incentives to public and private sector participants. The accessibility and quality of infrastructure in a region help shape domestic firms' investment decisions and determines the region's attractiveness to foreign investors.

### **A road toward prosperity**

There are many fields in economy, where lack of infrastructure creates big quandary. Here are some examples:

According to the World Bank, one in six people worldwide, have inadequate access to water, more because of limited access to infrastructure than because of water scarcity. The availability of water is a requisite for having agriculture, heavy industry and other sectors developed.

Insufficient access to electricity can also prove devastating of energy resources to every sector of economy. In addition, as electricity input prices (coal, natural gas, and other petroleum products) have soared recently. Projects to extend the electricity grid into rural areas have come to a halt. Poorly maintained or nonexistent roads also inhibit access to rural areas, consequently causing devastation of transporting goods, materials and services.

Inadequate transportation infrastructure is also a major factor behind what is considered one of the biggest problems. Globally, undeveloped transportation infrastructure causes turnover delay of technical and human resources.

Those with the most to gain from infrastructure development are the poor that is why it is vital to consider it as a big step forward for rural area expansion. The way to develop infrastructure is Investment in infrastructure, which is often cited as one of the most effective tools for development of country regions. Access to infrastructure is essential for improving economic opportunities and decreasing inequality. For example, adequate transportation networks in developing countries could give the poor better access to schools, hospitals, centers, commerce etc, which in turn would improve entrepreneurial opportunities, education, health, and strengthen a country's economic potential.

### **European infrastructure development**

Role of European Union in developing infrastructural economic in the world is very high. The

European Parliament concluded in September 2006 that the Commission should draw up a European IWT infrastructure development plan in cooperation with Member States and any third countries involved. The plan should contain an up-to-date inventory of the actual condition of Europe's inland waterways and provide information on the need for their maintenance or possible improvement.

### **Infrastructural development in Germany**

Germany is one of the sustainable economic development countries and developing infrastructure is main facilitator of increase living standards and increase economic condition for Germany business environment. History of its development has strong roots. Mainly it happened via

strong contribution of financial institutions that were very similar to savings banks existed already in the first half of the 18th Century. They played a huge role in financing the industrialization of Germany.

What saving banks typically did in all parts of Germany was the process of borrowing money from households and individuals and lending to business and government, thus supporting development of infrastructure of the country. Initially the business conducted by the savings banks was extremely limited, but in the beginning of the 20th century they gained the capacity to perform cashless payments and trades in securities. After the Second World war the savings banks in Eastern and Western Germany were disassociated. In the German Democratic Republic they became part of the socialist planned economy. Their business was restricted to the acceptance of savings deposits and the settlement of payments, whereas in the Federal Republic of Germany the savings banks continued their progress into modern and market-oriented financial institutions. Today in Germany exist more than 400 savings banks, which are the core of the Sparkassen-Finanzgruppe (Savings Bank Financial Group). Its tight network of offices and branches provides modern financial services in every region of Germany. With this strategy of regional proximity, the Group's institutions competitively fulfill their public mission. They provide an important boost to regional and local economic and structural development and play a responsible part in communities across the country with many social programs.

Country's strategy in the country development was Improvement of living standards through:

- ✓ Infrastructure development
- ✓ Development of industrial and service sectors (through the development of commercial districts, e.g. construction of new roads and connection to larger roads and highways or railroad tracks)
- ✓ To improve Germany as a transport way between Eastern and Western Europe (development of trans-European transport network). Germany is at present on the eastern border of the EU and as a middle European country and is key to north-south transit traffic in the EU.
- ✓ Connection of economic centers between Eastern and Western Germany. In addition to the trans-European networks a priority is placed on the internal German traffic between the larger German cities.
- ✓ Creation of jobs during the construction phase and additional during the construction phase and additional settlements.

It is expected that the development of transport infrastructure according to West German standards will not only create additional jobs during the construction phase but also in the long-term as a result of European Union's role of infrastructural development.

German infrastructural plan identified the various channels through which investment in infrastructure can contribute to sustainable growth, as follows:

- ✓ Reducing transaction costs and facilitating trade flows within and across borders.
- ✓ Enabling economic actors – individuals, firms, governments – to respond to new types of demand in different places;
- ✓ Lowering the costs of inputs for entrepreneurs or making existing businesses more profitable;
- ✓ Creating employment, including in public works (both as social protection and as a counter-cyclical policy in times of recession);
- ✓ Enhancing human capital, for example by improving access to schools and health centers.

### **Infrastructural development in Netherlands**

The Netherlands is one of the leading economic in the world with high economic growth rate. Netherlands has an excellent infrastructure of ports, airports, and roadways. Since the Netherlands is one of the main points of entry for goods imported into Europe, it is very important for the nation to maintain its transport system in order to move products into the interior of the continent. In order to improve the infrastructure, the government plans to launch a range of new projects over the next decade. A minimum of US\$35 billion has already been budgeted to pay for a variety of projects including a high-speed rail link between Amsterdam and Brussels. There are also plans for a special rail system to connect Rotterdam and areas of Germany. Main point of infrastructural development plan of Netherlands is to develop entire country infrastructure and not only central part of country. The new work will concentrate on helping ease traffic congestion in the heavily urbanized areas of the west, including Amsterdam and Rotterdam. In order to pay for current and future projects, which is very important factor of future economic development of Netherlands, the government, for motivation local business established a special infrastructure fund? This fund is designed to provide supplemental money for infrastructure works without having too great an impact on the national budget. The fund is made up of proceeds from the sale of natural gas and any surplus tax funds. There are also plans to gain additional revenues by building toll roads and special pay lanes.

The nation has 2,739 kilometers (1,702 miles) of railways. The main Dutch ports are Amsterdam, Dordrecht, Groningen, Haarlem, Maastricht, Rotterdam, and Utrecht. Rotterdam is the world's largest seaport and handles more tonnage than any other harbor. Some 70 percent of all imports that go into the Netherlands come through Rotterdam. In 1996, the port set a record of 293.4

### **Example of Southeast European countries**

Given the fact that the countries of Southeast Europe (SEE), in addition to their transformation processes, experienced a strong economic decline, the topic of infrastructure and economic development is of high importance to this region. We have found past and recent trends in infrastructure development in following eight countries (SEE-8): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro. Tables below represent basic indicators of their infrastructure development level.

**Table 1.** Basic indicators

COUNTRY	Area km <sup>2</sup>	Population mn, 2001	Persons per km <sup>2</sup>	GDP pc USD PPP, 2001
Albania	28,748	3.1	109	3,680
Bosnia-Herzegovina	51,129	4.0	78	5,970
Bulgaria	110,912	7.9	72	6,890
Croatia	56,538	4.4	77	9,170
Macedonia	25,713	2.0	79	6,110
Moldova	33,760	3.6	108	2,150
Romania	238,391	22.4	94	5,830
Serbia-Montenegro	102,173	10.6	104	4,250

Table 1 show that, GDPs per capita at Albania and Moldova are approximately USD 2200 and USD 3700 respectively, while their population density is very close to the average of the full sample of 110 persons per km<sup>2</sup>. Similarly the two richest countries in the region Croatia (USD 9200 in GDP) and Bulgaria (USD 6900 in GDP), have the lowest population densities in the region, 77 and 72 persons per km<sup>2</sup> respectively.

**Table 2.** Rail Efficiency

COUNTRY	Length of lines in km	Passenger-km mn	Freight Tonne -km mn	000 Pkm 000 per km of lines	000 Freight Tkm per km of lines
Albania	447	138	19	309	43
Bosnia Herzegovina	1,032	53	264	52	256
Bulgaria	4,320	2990	4904	692	1135
Croatia	2,727	949	2074	348	761
Macedonia	699	133	462	190	661
Moldova	1,121	325	2049	290	1828
Romania	11,364	10,965	15899	965	1399
Serbia-Montenegro	4,058	1,310	2042	323	503

Table 2 shows that, according to the EBRD, in the countries of SEE some new laws reducing state control over rail operations were passed but this also implies that there still are weak commercial objectives and that there has been only minimal encouragement of private sector involvement.

**Table 3.** Road Density

COUNTRY	Length of roads in km	Density of roads in km/'000km <sup>2</sup> area	Density of roads km/mn persons
Albania	18,000	626	5,743
Bosnia-Herzegovina	22,600	442	5,683
Bulgaria	37,296	336	4,692
Croatia	28,275	500	6.454
Macedonia	12.927	503	6.355
Moldova	12,627	375	3,478
Romania	198,603	833	8,852
Serbia-Montenegro	49,805	487	4,694

A substantial rise was seen in the transport sector in 2009 where the sharp downward trend (-8.5 percent), which was observed in 2008, was reversed (growth by 1.2 percent). This largely resulted from a notable increase in auxiliary transport service and a sharp rise in pipeline transportation. The annual dynamics of the transport sector was also positively affected by the slowdown in the decline in cargo handling at customs terminals as well as road and sea transportation service.

In this analysis, the central question whether the Southeast European countries have enough infrastructure capacity given their current stage of economic development, our results indicate that e.g. with regards to paved roads, SEE countries have, in comparison with other European countries, a smaller level of total length of paved roads per capita than their current GDP levels would imply. In the case of the railway network rather, the opposite holds true.

**Role of EU in developing of infrastructural economy for new members**

To develop infrastructure is very essential, to analyze and implement infrastructural plans. In the implementation process, at European level, the European Strategy Forum on Research Infrastructures, ESFRI, is helpful. It was set-up in 2002, with the mandate to support policy-making on research infrastructures, both existing and new, in Europe. ESFRI brings together representatives of EU Member States and Associated Countries and of the European Commission.

The first ESFRI road map included 34 projects. Their total construction costs amount to about 20 billion Euros and their estimated operation costs to about 2 billion Euros per year. In addition, the ESFRI Roadmap was a direct incentive to the development of national roadmaps: by now 28 European countries are concerned. The whole process is helping to priorities the existing and new

Research Infrastructures and to pool resources at European level.

Member States will remain central in the development and financing of most infrastructures. However a strong cooperation amongst them, with the leveraging support of the EU, is needed to develop synergies and a common vision: this is a key element of the European Research Area vision and it has received major consideration within the successive EU R&D framework programs and in the new Horizon 2020 proposal as well.

The European Commission, in coordination with the other European members, actively contributes to the work of the Group of Senior Officials. In addition, in 2010, the European Commission set up a “European Expert Group on Cost Control and Management Issues of Global Research Infrastructures” which has published a report with its findings and provides twelve key recommendations. International cooperation in the area of Research Infrastructures will be promoted under the proposed next framework program for research and innovation, Horizon 2020 (see below). The organization of an International Conference on Research Infrastructures, ICRI 2012, in Copenhagen, in March 2012, will help define needs, strategies and recommendations for effective international cooperation for research infrastructures.

EU support to relevant research infrastructures. Innovation Union and the Horizon 2020 proposed framework. Europe 2020 is the European strategy for smart, sustainable and inclusive growth. Among its several flagship initiatives, the Innovation Union Initiative sets out a strategic approach to innovation, driven by the highest political level. It will use public sector intervention to stimulate the private sector and to remove bottlenecks which stop ideas reaching the market.

The EU is also supporting the preparatory phase of the new infrastructures. The preparatory phase aims at bringing the project to a level of legal and financial maturity necessary to implement it. While considered "new" research infrastructures, most of them build on existing facilities and networks. However, the final objectives of these ESFRI projects are the long term sustainability of these infrastructures and their joint governance at European level. In particular, the majority of these projects are considering becoming a European Research Infrastructure Consortium, ERIC, the new Community Legal Framework adopted in 2009.

Economic infrastructure is also, at a given point in time, part of an economy's capital stock used to facilitate economic production, or serve as inputs to production (e.g. electricity, roads, and ports). This helps to produce items that are consumed by households (e.g. water, sanitation and electricity). Economic infrastructure can further be subdivided into three categories: utilities (power, piped gas, telecommunications, water and sanitation, sewerage and solid waste disposal), public works (roads and water catchments in dams, irrigation and drainage) and other transport sub-sectors (railways, waterways and seaports, airports and urban transport systems). In national accounts statistics, these are found in two sub-headings of the gross domestic product (GDP): electricity, gas and water are located in the secondary sector; while transport, storage and communication are found in the tertiary sector.

#### **Current condition of infrastructural economy in Georgian regions**

Georgia's history and landscape have been marked to be a big opportunity of multifunctional infrastructure development. Not mentioning its level in Soviet Union time, over the last decade, country has been repairing old and building new infrastructure. Current infrastructure planning, budgeting, and financing is based on prioritized infrastructure projects. All infrastructure plans originate at the state level and governed at the Ministry of Regional Development and Infrastructure level. Below we have presented infrastructural projects by regions:



Within the short period of its existence the ministry conducted its activities in several priority areas and concluded several major, substantial projects.

Activities regarding the given projects shall continue next year with the increased volume and parameters. Similar projects include: construction and reconstruction of motorways and bridges, village support program, development of water supply and sewage systems, various infrastructural projects financed through the support of international organizations.

The realization of new projects in itself point to the creation of new jobs and considerable rise of employment rate. All the initiatives of the Georgian government are directed at the solution of this particular problem. Below is given actual expenditure items of different regions:

**Table 5. 2010 Budget**

#	Activity (in GEL)	Expenses incurred in Imereti	Expenses incurred in Kakheti	Expenses incurred in Kvemo Kartli	Expenses incurred in Samtskhe Javakheti	Expenses incurred in Samegrelo
1	Rehabilitation of sewage systems	441,200	40.503	898,570	988,368	4.559.480
2	Rehabilitation of irrigation systems	2,667,438	0	7,226,096	0	0
3	Rehabilitation of schools and nurseries	17,396,740	26.326.194	9,709,595	15,111,091	9.939.568
4	Rehabilitation of roads	58,270,556	68.529.465	65,813,751	120,883,218	48.620.690
5	Rehabilitation of the tenement houses roofs	922,900	0	2,125,435	0	1.615.144
6	Village support program	3,463,346	2.565.598	2,751,296	1,497,343	2.680.627
7	Other projects	20,376,424	2.941.380	7 236 149	3,588,439	17.264.275
8	Rehabilitation of fresh water systems	21,313,932	15.766.156	12,841,752	41,041,974	14.796.300

In table 5, we can evaluate expenditures on different infrastructural projects. Rehabilitation of fresh water and irrigation systems was identified priority area for Imereti region. However, similarly to many other regions, the major part of the finances is envisaged for the rehabilitation of the roads. The issue of the reconstruction of local roads has not been on the agenda for decades. The given sphere remained one of the problem issues for the Georgian regions. Imereti towns and villages suffered fresh water shortage for decades. Nonexistence of smaller bridges and smaller crossings also posed problems.

Despite the implementation of the abovementioned projects and realized activities, construction and reconstruction of motorways and bridges, program of aid to the villages, provision of fresh water and arrangement of sewages as well as other infrastructure projects still remained priority issues for the year of 2010.

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Certain important projects were finished. From the next year activities of the said projects shall continue with the increased capacity and parameters. The given projects include construction and reconstruction of motorways and bridges, program of village support, arrangement of fresh water supply and sewage system and other infrastructure projects financed through International organizations.

Funds allocated for Samckhe-Javakheti are substantial in comparison with other Georgian regions. The major part of subsidies is envisaged for the rehabilitation and construction of roads. The region is a borderline zone and accordingly construction of central artery towards Armenia is regarded

priority. Motorway Parckhisi-Manglisi-Ninotsminda is being constructed within the framework of Millennium Project; Motorways in the direction of Akhalkalaki-Karcakhi and Khertvisi-Vardzia are being constructed within the framework of the same project.

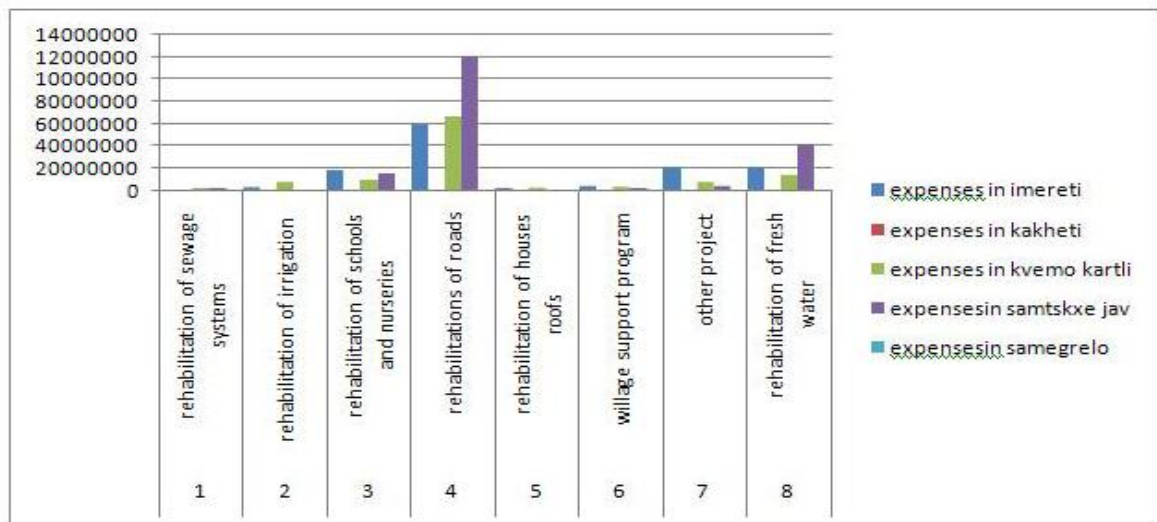
Majority of Samtskhe-Javakheti regions is mountainous and it often becomes necessary to build special protective walls and constructions on the motorways.

Priority issues for Samegrelo-Zemo Svaneti region are construction of roads and rehabilitation of fresh water systems. Major part of the region belongs to the mountainous geographic zone and naturally not only the rehabilitation but construction of the inner roads is actively on the agenda. Considering the abovesaid, part of the envisaged financing for the region shall be allocated for the road constructions and rehabilitation. The implementation of the project is also important for the creation of dozens of jobs where local people shall be employed.

99 476 084 GEL shall be spent in Samegrelo-Zemo Svaneti region. Within the short period of its existence the Ministry conducted its activities in several priority areas and concluded several major, substantial projects.

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**Graph #1.** 2010 budget by region



**Development perspectives of infrastructural economy in Georgian regions, way of integration in European Union**

Today in Georgia a visionary leadership has not only seen the problems which abound, but more importantly has recognized the vast untapped potential. We understand not just what our region was yesterday or is today, but what it can become. Therefore, government has to put together perhaps the most comprehensive plan for how it might go about realizing its hopes. This plan definitely should go together with infrastructure development in all regions – Kakheti, Kartli, Samegrelo, Imereti, Adjara, Samtshe-Javakheti. Kakheti is a promising agricultural and tourist region as perhaps no region in Georgia has a greater cultural, historical, and natural richness and location as Kakheti. Samegrelo is also promising agricultural region, Adjara is a tourist place and etc. Thus in

Georgia, infrastructural development in regions will foster economic diversification, which will bring long term benefit.

Analysis of the development of our economy over the last few years suggests, that breakthrough in economic development will be achieved only if the region experiences a high inflow of investments, both foreign and domestic. This will not happen unless infrastructural project on hand, but on the other hand, only infrastructural projects without investment in economy will be fruitless. Thus we can conclude that from both sides, there is significant positive correlation. For example, in Kakheti region, the trends of agriculture and tourism development appear sustainable, which should be enhanced with rehabilitation of the highway through Gombori Pass.

Apart from it, a solid foundation should be made for developing transport, industry, construction and services, as the economy cannot be solely dependent on agriculture and tourism. In general, the most reliable road map for Georgian regional economic development and poverty reduction is as follows: investment in infrastructure; investment in the processing industry; increased efficiency and productivity in agriculture; increasing exports; increasing incomes; diversifying the economy.

#### **Conclusion and recommendations**

In our opinion, government of Georgia must be implement intensive supply of governmental investment policy for developing regional infrastructural economy. Meanly:

- 1) Establish conditions and mechanism for evaluation of capability enterprises assets at the region. This gives the way to use these assets more efficiently.
- 2) Consistent decentralization and spreading out investment process in all regions, in order to improvement regional infrastructural economy, also strengthening roles of enterprises internal source of retain capital, for financing investment projects.
- 3) Governmental support of existing regional enterprises based on centralized investments by the infrastructural development projects.
- 4) Placement of limited amount centralized capital investments in the region and governmental finance of investments project based on strictly target programs and competition.

#### **List of the applied literature:**

1. Ministry of regional infrastructure <http://www.mrdi.gov.ge>
2. Infrastructural Needs & Economic Development in Southeastern Europe. Mario Holzner, Edward Christie and Vladimir Gligorov;
3. Infrastructural development of Germany - Directorate General XVI;
4. Infrastructural development of Netherlands - <http://www.nationsencyclopedia.com/economies/Europe/The-Netherlands> - INFRASTRUCTURE-POWER-AND-COMMUNICATIONS
5. <http://www.naiades.info/platina/>

## **Infrastructure Economy Development in Georgian Regions, way of Integration in European Union**

*Annotation*

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# Current Economic Condition of Cow Farmers in Kakheti and the Ways of Increasing Their Well-being

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## Introduction

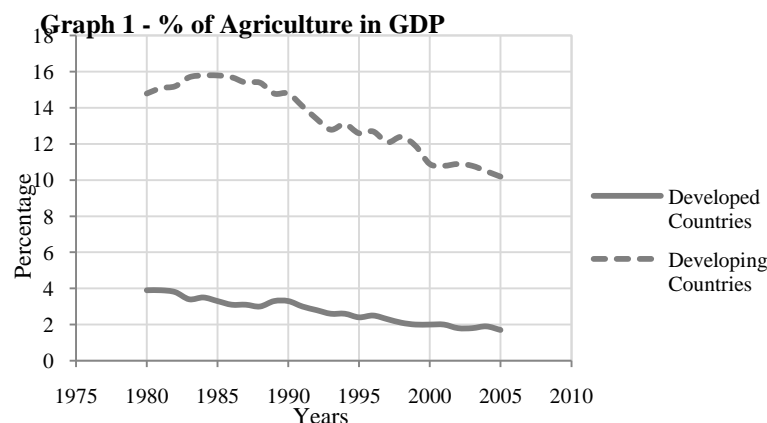
Had you lived thousands of years ago most likely you would be a peasant, working every day in a vast crop field or herding cattle. In another words, you would be involved in agriculture like most people on the earth. Thousands of years ago people started to practice agriculture that is way older than the word itself - 'agriculture'. Although not many things have changed since then agriculture has lost its popularity to other fields of human activity and became one of the least beloved children of economy. In my opinion, agriculture is one of the most overlooked fields in Georgia. Although occasionally we can witness small incentives given to people living in rural areas in order to take up on farming, these incentives are barely enough. Importance of agriculture for the economy will be addressed briefly leading us to the conclusion that this filed deserves more attention than it gets. Later on, it will be discussed how to improve agriculture in Georgia referring to the example of cow farmers living in Kakheti region.

This essay will address what are the main causes of this decline for Kakhetian cow farmers and how it is possible to overcome these difficulties thereof improving well-being of general population.

## Agriculture, GDP and Well-being

I can clearly recall how one respectable gentleman once told me that investing in agriculture was a lost cause because if we examined closely the percentage of GDP stemming from agriculture of developed countries we would see how little its contribution really was. Hence, the gentleman assumed that agriculture was not important at all and was not worth of our attention anymore. At first, I was convinced. However, soon I started to doubt the truth of the aforementioned.

Various countries have various levels of percentage of GDP from agriculture. It is not hard to note that the more developed a country the less percentage of GDP stems from agriculture. Moreover, regardless of development level, a worldwide trend of decreasing contribution of agriculture in GDP can be observed.



From the first look, it can be inferred that having a large income from agriculture is no good and entirely eliminating this field could help a lot. However, in this case statistics might be deceiving and we might be a victim of percentage fallacy, leading us to think that poor countries are poor because their income from agriculture is so high and rich countries are rich because they have almost eliminated income from agriculture.

On the other hand, what if poor countries are poor because income from other fields is low and rich countries are rich because income from other fields is high? Although there are a significant schism between percentage amounts of agriculture contribution to GDP for high and low income countries, there are also subtle differences in percentage amounts of manufacturing and especially service contributions to GDP (*see Annex I*).

In addition, it is important to apprehend that GDP of different countries are of different size. Although percentage of agriculture in GDP of high-income countries is high compared to low-income countries it does not necessarily mean that the former generates more wealth from it. Taking into account that the later usually lack a significant number of technological advancements the former enjoy, have higher inflation and unemployment rates as well as weak legislative system 1% contribution to GDP from agriculture in high-income countries most likely is more than 1% contribution to GDP from agriculture in low-income countries.

Hence, I infer that in order to develop into a healthy country Georgia should not only encourage other fields of economy but agriculture as well. By doing so, all these fields will balance in a way that is the best for the country and as a result well-being of the population will reach high levels. Moreover, a growing demand for bio-products (including cows fed with only bio-fodder) agricultural products could be a good opportunity for farmers to boost their incomes. On an example of Kakhetian cow farmers I will discuss what pose main difficulties for them and how these problem can be resolved eventually.

### **Kakhetian Cow Farmers**

After general discussion it is time to proceed with the main theme of this essay – Kakhetian Cow Farmers. Low profitability of Kakhetian farmers is a sum of many problems that remain unaddressed for a very long time due to a neglectful attitude of the farmers themselves.

The fundamental reason why farmers cannot independently pull through their current situation is a lack of motivation caused by information shortage about and a general distrustful attitude towards improved farming practices. Cultural aspect is a contributing factor in a well-being of the population who prefer to stay content with what they have here and now rather than work and invest some more thus, considerably improving their living standards in the future. Inappropriate identification of forgone opportunities and value of money hampers farms' progress and throws farmers in at the deep end.

Georgia is a conservative state; especially its countryside is notably conservative. People tend to look at changes skeptically in general and Georgia is no exception. When introducing new fodder, veterinary and other services farmers usually believe that these changes are not necessary and they are just a waste of money and time unless the services offered are free of charge. Despite the fact that better quality care is associated with larger costs that eventually bring bigger profits, farmers are usually prone to overlook the benefits of the last and direct their attention entirely towards the former. Current philosophy of the most farmers is focused around survival of their cattle, not the maximization of profits. If cattle survived a winter it has been a fortunate year.

Another contributing factor to demise of farming lays into increased urbanization rate. Moving from countryside to cities is becoming more and more popular among young villagers. As younger generations abandon their homes for urban areas older generations that usually remain in the village no

longer have an incentive to expand their farms and invest money in it. If there is nobody who will sustain a farm, why keep investing so much resources and energy into that?! At some extent this is a correct response to the current situation; however, on the other hand, what if some of the youth leaves country because farms of their parents are low profitable and looking at how older generations struggle to earn a dime from farming discourages the youth to follow their lead. In that case, it appears to be a closed loop where the first problem brings us to the second problem that always returns us to the first one. In order the loop to break, one side should choose to act differently than in the past; that is either young people should stay in farms emboldening their families to invest more in it in order to increase income or the farmers should make a first step towards rising profits thus inspiring children to continue their work. This cost-benefit analysis is designed to persuade farmers take that first step.

Farming is a business. It operates on main principles of a business as there are risks, returns, opportunities, possibilities, threats, etc. In order to succeed a farmer has to think of a farm as a business, a source of income, profitability of which mostly depends on a farmer himself. However, Kakhetians don't seem to be business or even profit oriented. Of course there are several individuals on whom the aforementioned does not necessarily apply but it's true for many. It is hard to tell whether this particular trait is a deep-rooted cultural thing or a result of information shortage, wrong stand and lack of trust. I'm inclined to believe in the truth of the later taking into consideration the soviet past of the state and its legacy. If this is the case it won't be hard to change the farmers' attitude by properly educating and informing them, raising their awareness regarding ameliorated farming customs and its advantages.

On the other side, one of the main distracting factors for farmers is opportunity cost. In order to increase income, a farmer has to invest in their farm today so that the investment pays off tomorrow. Most farmers are not willing to wait and prefer to get the result instantly after the investment has been made. Therefore, they largely refer to consumption. In fact, two things can be blamed for this. First of all, it is a cultural trait of Georgians to voraciously spend on various things rather than save and consume more in the future. They frequently buy things they can't even afford as many perceive it as a necessary step towards increasing their social stand and status. Second of all, increased consumption may be partially attributed to the lack of confidence in the future. Many people including farmers believe it to be shaky and unreliable and therefore, prefer to get things today rather than put all their hopes on the vague future.

All the above mentioned problems, attitudes and possibilities are potential attention diverter for Kakhetians from their farms. However, there is one important factor that has to be taken into account and that also turns out to be a significant problem in many occasions. It is no surprise that increasing farm income requires a considerable amount of investment. As a large number of farmers do not have enough funds for it the only way to finance their businesses are banks and credit unions. This is where the problems begin. In many cases, banks and similar financial institutions do not lend money to farmers who have a little to offer as collateral. Besides, live stock is rarely accepted as a pledge for the funds. Thus, farmers usually go to local Credit Unions that are most likely to accept the offered collateral and lend funds. As risks associated with such lending are quite high, correspondingly the interest rates demanded by the Unions are also high. Farmers have to pay a huge price for the funds what might be a heavy burden and an ultimate discouragement for many.

One of the interesting facts regarding Kakhetian farmers is their stubborn abstinence from using veterinary and artificial insemination services. Around 20% of farmers vaccinate the cattle for all

possible diseases, whereas only a miserable 1% of Kakhetians are brave enough to refer to artificial insemination despite its worldwide popularity.

A very interesting phenomenon can be observed regarding the usage of veterinary services. In fact, farmers do realize how beneficial most of the vaccines really are but surprisingly they usually call a vet when a cow is already way too sick. Various diseases can negatively affect the output. For instance, parasitic worms (helminthes) can significantly decrease meat quality of an infected animal whereas a disease known as “Turkish” mainly affects milking cattle lowering their productivity and product quality. A complete set of veterinary services a cow needs on a yearly basis can cost a farmer at most 100 GEL and may decrease cattle death rate at most by 15%. It must be noted that 100 GEL is not a high price to pay for a health of an animal. However, it is no surprise why farmers act this way and not another. First of all, vaccinating cattle only won't make any huge difference if not combined with better care, and improved fodder; it does not positively affect a profit margin. Therefore, farmers only refer to vet services when they have no doubt that a help of a vet would make a real difference to their farm.

One of the biggest advantages of artificial insemination is that it allows farmers to breed either dairy or meat cattle. This kind of “specialization” significantly increases output per animal and therefore, positively affects a farm income. In general, 70% of product quality depends on the food cattle are fed with but on the other hand, 30% of the productivity and quality is entirely predisposed by an animal breed. In case of artificial insemination of dairy cattle combined with proper diet, the fourth generation of the animals will be able to produce almost 5 times more output compared to the initial generation; whereas in case of meat cattle production amount starts to increase instantly from the first generation of artificially bred animals by producing 50% more output than before. The core reason why artificial insemination (AI) remains the least used way for cattle breeding lays in the fact that AI technicians are largely inexperienced and lack necessary skills. As a result, success rate of artificial inseminations stays quite low, fluctuating around 30 to 40%. Compared to Europe the same indicator is as high as 70%. It is no surprise why farmers refrain from artificially breeding their cows as the risk that it won't work and the money invested will be lost in vain is pretty high. In other words, return is not worth the risk.

Changing a philosophy of population is not an easy task. It mostly takes generations and many years to turn the way of thinking of people around and make them see things from a different angle. In my opinion, the main role here should be played by motivation and changes should be introduced step by step. The catch is to motivate people to ask for and ultimately accept the changes. This can be achieved by demonstrating to them how well they can live if they abandon their current attitude and become open to new opportunities.

In fact, improved farming practices significantly affect a farmer's income. A farmer earning 1 GEL could triple their profit simply being less neglectful about their cattle. In order to convince farmers to see how high they can raise their living standard by simply taking more care of the farm showing only a financial side of is not enough. Perceiving numbers as persuasive and meaningful data is an ability of those who have a long-time exposure to information of this type. For farmers, they are just numbers. Thusly, the initial approach can be decisive. If you fail to convince them for the first time, it will be harder to do it on the second try. In my opinion, showing farmers a real-life example of benefits of improved farming practices is very important. Competition is what drives people forward. Hence, seeing that a farmer just like them is better-off simply because he exercises different farming approach can be a significant motivator for many. So, there should be a so-called model farmer that will set something like a 'standard' for other farmers who will follow the lead. Once this sequence is started it goes and goes on. In addition, it is very important to restore faith in the future. Nobody will start investing in their farm if



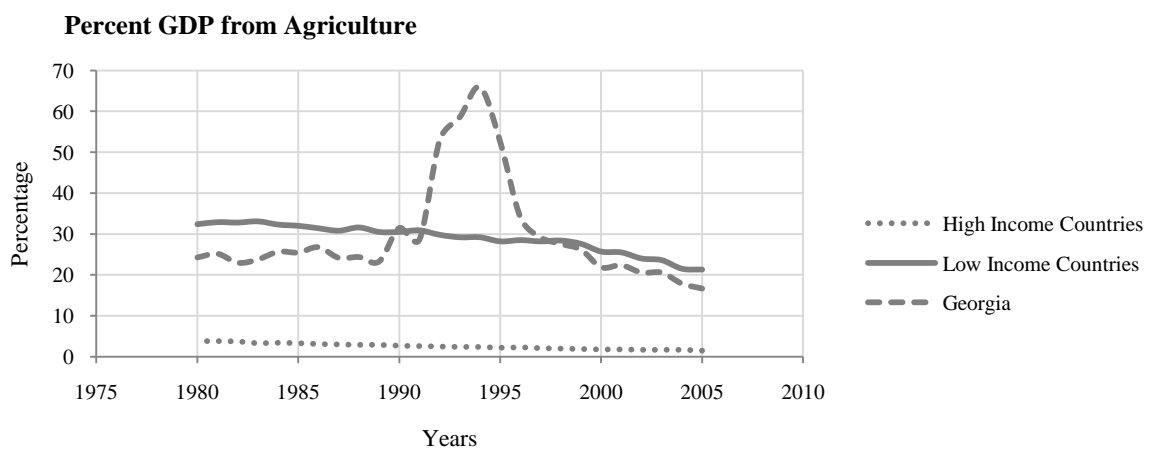
they thing that all their efforts could go up in a smoke one day. The environment should be stable and property should be protected. As an example, take any high-income country; citizens of such countries have a good faith in the future and are not intimidated by thinking about what awaits them the next day.

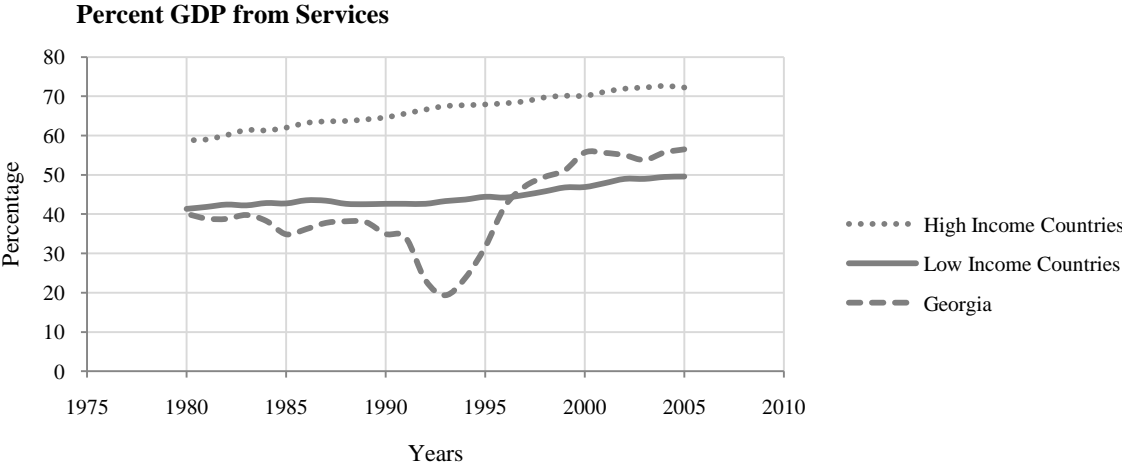
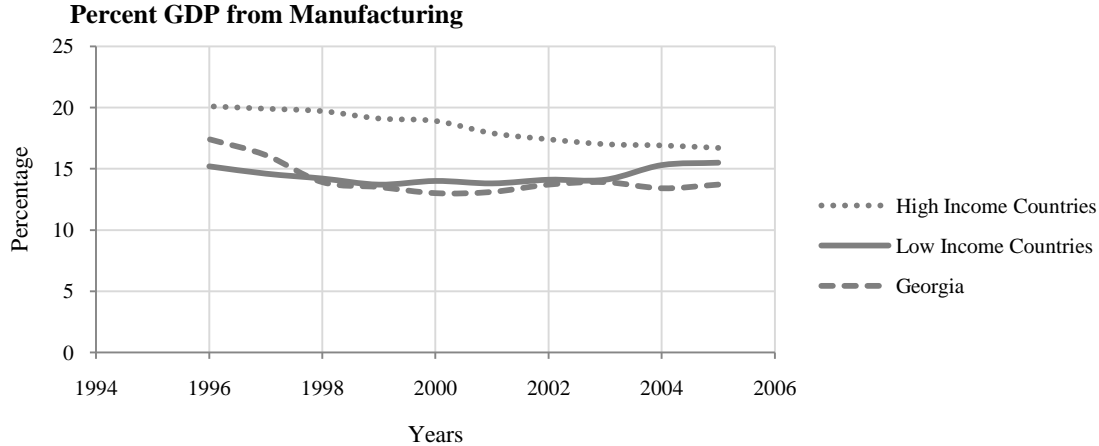
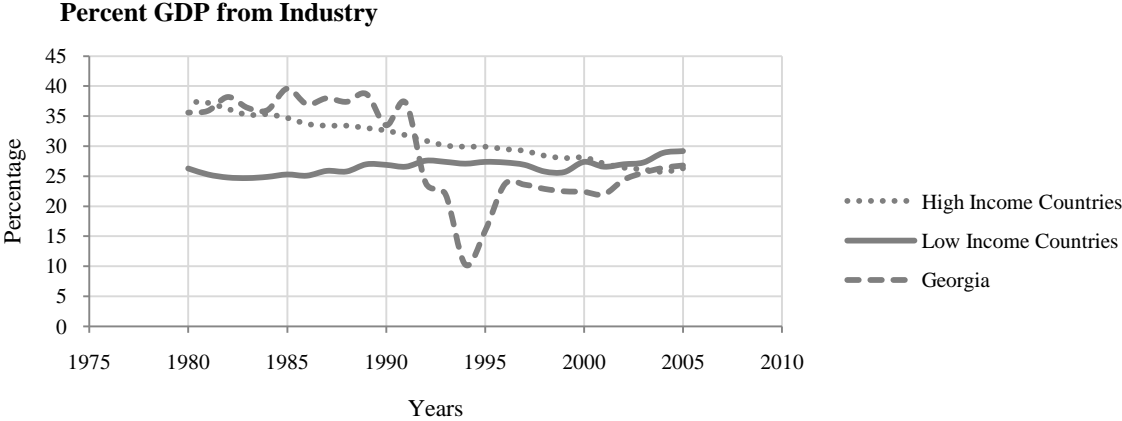
One of the wrong approaches in my opinion is allowing farmers to use veterinary, AI or any other service for free. Keeping these services free long enough so that farmers get convinced they should definitely use them will require tremendous amount of resources. In addition, suddenly making people pay for things that used to be free could cause even more distrust and confusion. On the other hand, keeping services free for a short period gives no effect as farmers do not have enough time get used to them and truly behold their beneficial nature. Thusly, it's also a waste of resources in vain as what was brought by wind will be taken by wind back. The best thing would be to allow farmers take loans with low interest rate in order to improve their farms. The funds could come from government budget but it should not be a charity or a subsidy. Subsidies usually complicate things making pure competition complicated; these funds should be available for every cow farmer with acceptable interest rate based on risk. This could foster development and further improvement as farmers get used to using financial services at the same time managing their business.

In addition, I think It could also be beneficial if an agricultural consultants were assigned to villages. The consultant would give a free advice to farmers in case of need, help them manage farm in the right way, establish contact, market their product and so on. The consultant would be paid by government and their salary would be collected as a tax from farmers the consultant is supposed to assist. I think this could significantly raise farmers' confidence, awareness and well-being. In conclusion, farmers are hard to persuade but if approached properly, it is possible to change their mind. Most likely, it will be more fruitful to talk with younger generation of farmers rather than the old ones. However, the approach should be very carefully planned and well-executed.

**Annex 1**

As of 2005 Georgia easily corresponds to a general picture of a low income country. Since then several years have passed and many changes were introduced. Hence, in reality, Georgia most likely should be somewhere between middle and low income countries today.

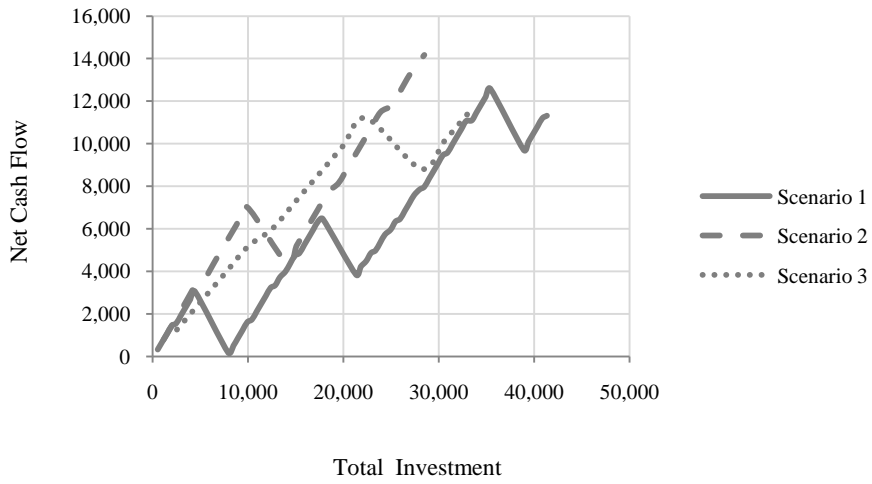




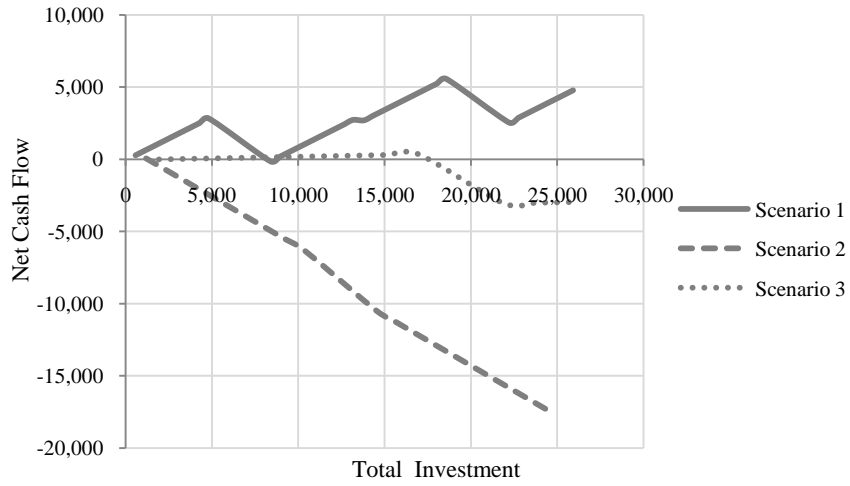
**Annex 2**

A generalized financial analysis of improved farming practices.  
 Scenario 1 – income in case of current farming practices  
 Scenario 2 – income in case of slightly improved farming practices  
 Scenario 3 – income in case of improved farming practices  
 A meat farmer has two possibilities: selling a new-born calf immediately or keeping it and selling it later after a year; income for these two ways differ

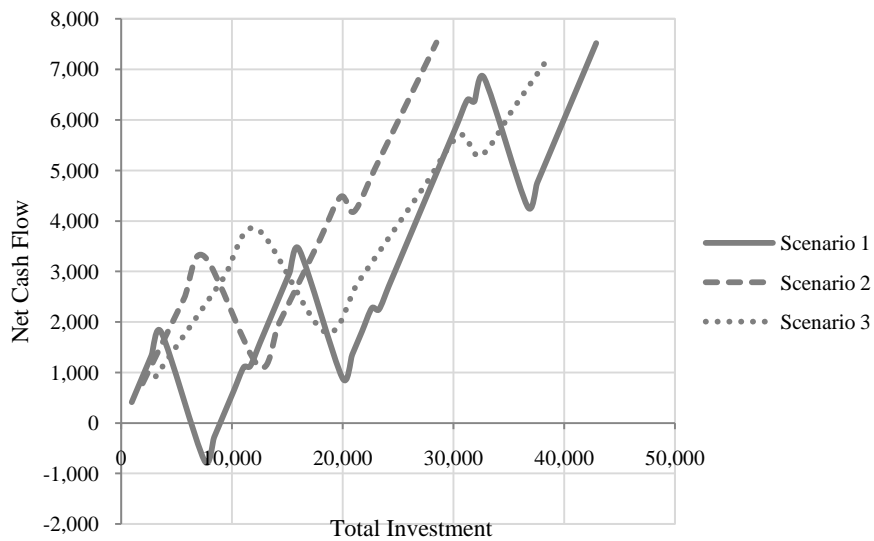
**Dairy Farm**



**Meat Farm (Selling a Calf)**



**Meat Farm (Keeping a Calf)**



### **List of the applied literature:**

1. <http://www.merriam-webster.com/dictionary/agriculture>
2. <http://courses.washington.edu/anth457/agorigin.htm>
3. <http://earthtrends.wri.org>
4. <http://www.professor-frithjof-kuhnen.de/publications/agricultural-colleges/1.htm>
5. Interviews with local population
6. Consultation with agricultural specialists

## **Current Economic Condition of Cow Farmers in Kakheti and the Ways of Increasing Their Well-being**

*Annotation*

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***Juris Doctoris***

*Master of Business Administration*

The main purpose of this work is to describe current economic conditions of cow farmers in Kakheti and offer suggestions to solve the problems the farmers face in that particular region. The work will also argue about positive effects of increased well-being of the farmers on living standards of other parties. The problem of increased urbanization in Georgia will be also addressed briefly offering that it can be partially solved along with cow farmers' dilemmas.

Although Agriculture usually does not have a huge slice in the pie of economy, still it is an important player in lives of many people and can significantly affect numerous economical aspect of a state. Considering current situation in the countryside of Georgia the work argues that by implementing modern technologies and spreading information among farmers can not only increase family incomes of the parties directly involved but also have a positive spill-over effect upon the society in general.

Taking into account the examples of other countries as well as locally conducted researches the work reconciles their accumulated experience and expertise and offers possible ways of solving current problems.

# **South Caucasus in search of a common identity or the South Caucasian states (Armenia, Georgia, Azerbaijan and Turkey) in the European Neighborhood Policy**

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*Instructor: Khzmalyan Ara Tigrann, Ph.D.*

In writing this article, the author sets the following goals:

- To consider the main priorities of EU policy in the Caucasian integration;
- To examine the need for an objective and mutually beneficial integration the South Caucasus into the EU;
- To bring the considerable factors that impedes the integration process.

To achieve these goals the author uses the method of comparative legal analysis. The object of this article is the problems associated with the modern processes of political integration in the EU in such a complicated geopolitical region as the South Caucasus. A subject of the article is to analyze the political situation in the area and assessment of the prospects of Georgia, Armenia, Azerbaijan and Turkey related to the entry in the «European family».

In the first half of the last decade, the European Union gradually became aware of the fact that the EU has its own interests in the South Caucasus. Main of them is the maintenance of stability, security and prosperity in the neighboring region, as well as his development as an energy and transport corridor to the Caspian Sea and beyond.

To Brussels, however, took time to decide whether to take part in the regional affairs, so poorly understood. Are the newly opened opportunities to outweigh the existing risks? Thus, it is difficult to dispel the widespread fears that the interaction with the South Caucasus will mean competition and confrontation with Russia, rather than an incentive for cooperation.

In the end, the EU marked his interest in several ways:

- To include this region in the European Security Strategy in 2003;
- Invited the South Caucasus countries to become parties of a new European policy towards the neighboring regions

And

- Creating the post of Special Representative for South Caucasus.

EU member states interested in expanding their influence in Caucasus region, considering it not only as a strategically important market for energy, but also as geographically, economically profitable transport routes, as well as the original springboard, which provides direct access to the resources of the Caspian Sea, Iran, Central Asia and China. Accordingly, increasing the strategic importance of Transcaucasia for stability and security in Europe.

The main priority in the socio-economic sphere EU Caucasian policy is the development of economy market and creating a business climate attractive for European investors. In order to assist CIS countries as EU technical assistance received substantial funds under the TACIS program - Program of the European Union. The EU has opened in the new states Coordinating Bureau of the technical assistance TACIS program. As a priority, the program describes the development of the

transit route between the Black and Caspian Seas and Central Asia and Caucasus countries in order to optimize the use of highways<sup>1</sup>.

In addition, the South Caucasus region is important for Europe for its energy projects. Prospects for a significant increase in oil production in the Caspian Sea, is envisaged to increase its role in global energy supply determine the special interest of Europe to this region. The aim of the EU INOGATE (Interstate oil and gas pipelines project) is a technical assistance in the maintenance of oil and gas pipelines and the management of the CIS countries, as well as the elaboration of new transportation routes for Caspian oil to Europe<sup>2</sup>.

The involvement of the South Caucasus countries in the European Neighborhood Policy (ENP) means that the EU had more tools and financial resources to help these countries develop in a European direction. With the help of the EU intends to promote the economic, social and political development of the region.

For the three South Caucasus states ENP (Armenia, Georgia, Azerbaijan) - is an opportunity to diversify their foreign policy, opposition against Russia, as well as a new form of support. Basically, it is funded from the EU budget to support projects of governmental reforms.

In 2006 November, in the framework of the ENP three Transcaucasian states have adopted action plans for developing concrete criteria in several areas, including human rights. Their compliance will depend on the development of economic, social and cultural co-operation with the European Union, which gives the latter an effective leverage on human rights issues<sup>3</sup>.

The «Wider Europe» provides some of the advantages of EU membership: full freedom of movement of people, goods, services and capital, provided that the countries of the South Caucasus will take the values and rules of the European Union. The intensity of cooperation with countries of the Caucasus will also be determined by their success in resolving regional conflicts. The program currently does not provide for the ENP countries of the Caucasus enters the EU.

Taking the decision to include the three South Caucasian states in the ENP, Brussels adopted the principle of a balanced policy towards all countries in the region. However, the complex-regional or balanced approach to the South Caucasus is simplistic and artificial in nature and can become an obstacle to deepening the partnership.

The desire to become part of Europe from the South Caucasus, gives to the EU the basis for the requirements of the implementation of norms and standards that characterize the European institutions and procedures.

Although the EU implements the program of cooperation with South Caucasus states since they gained independence, his work is little known to the general public in the region.

Dialogue between the EU-Georgia declared by the parties based on mutual commitment to international peace and security and the peaceful settlement of disputes. The main elements of the partnership between the EU - Georgia is respect for international law, human rights and commitment to economy a market European Union through the expansion of privileges in economic cooperation

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<sup>1</sup> Буров А. А.(2008) Политическая интеграция стран Южного Кавказа: проблемы и перспективы. Журнал научных публикаций.

<sup>2</sup> Буров А. А.(2008) Политическая интеграция стран Южного Кавказа: проблемы и перспективы. Журнал научных публикаций.

<sup>3</sup> Хаас М. де. (2006.) Современная геостратегия Запада на Южном Кавказе // Независимое военное обозрение.

encouraged Georgia to the fact that it took over its political values. This, in turn, led to an increase in the importance of Brussels in the foreign policy of Tbilisi.

However, the EU at this stage is not interested in the legal registration of the integration process in Georgia. The EU does not make sense to take on additional responsibility for pulling the country up to European level. However, the EU already has a significant impact on Georgia diversified, because without the support of the European Union, the United States, NATO, official Tbilisi is unable to ensure the territorial integrity and economic development<sup>4</sup>.

The EU is ready to cooperate actively in the peace processes in Georgia. The presence of «hot spots» in the surrounding region to the EU increases «the desire of Brussels» to expand its military and political influence in Georgia.

From an economic point of view of Tbilisi, has no strategic importance to Brussels as a supplier of raw materials or consumer goods market. However, Georgia is a bridge for trade and communication between the Caucasus, Central Asia and Europe. Moreover, the diversification of energy supplies is one of the main tasks of the EU and Georgia, thanks to its geographical location, can assist in achieving this objective. Most transit routes passing through this country can bypass the «fragile state» and provide Europe with direct access to the resources of Central Asia and the Caspian Sea. Thus, Georgia can become a major alternative artery. In turn, it seeks to become a transit country for the purpose of obtaining economic benefits and solve their energy problems. However, in the event the level of confrontation in Georgia, and in its relations with Russia, investors may be undermined confidence in the ability to guarantee the safety of Tbilisi for the EU's strategic pipelines.

In the economic area the EU is potentially a major trading partner of the West Georgia and a source of investment capital. Since independence, the TACIS program has contributed to the transition to a market economy in the first place, helping in the conduct of legislative reform and supporting Georgia while joining the WTO. In addition, the program of food security has become an important tool to support reforms in agriculture, social welfare and public finance management. However, Brussels has rejected Tbilisi's attempts at an accelerated pace to create a free trade area between EU and Georgia.

It is obvious that in the economic sphere, the EU is interested in Georgia as a transit country, and partly as a space for investment. However, the EU is not interested in deepening economic integration with Georgia because of the low level of development of the economy, the lack of promising industries and natural sources of raw materials. However, the EU remains a major humanitarian donor to Georgia.

In summary, should be noted that Georgia's relations with the EU represent a form of dependence on foreign models, both in politics and economics. The European Union, increasing the penetration in Georgia tends to consolidate its presence in the South Caucasus generally, including through the provision of political influence on the Georgian ruling elite. Political incommensurability EU and Georgia led to the involvement of Tbilisi in the orbit of the EU, which means that depending on the appearance of the country. In addition, the economic cooperation of different-sized parties with the potential also helps to the consistent subordination of the weaker ones.

The European direction has become a major in foreign policy of Armenia. Yerevan is increasingly leaning toward Brussels in order to overcome isolation.

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<sup>4</sup> Joint staff working paper, Implementation of the European Neighborhood Policy in 2010 Country report: Georgia

For Armenia is essential the partnership program under the ENP, which provides for the transition from cooperation to integration with the EU in certain areas and expanding field for bilateral dialogue. EU's strategic interest in the success of the transition of Armenia to democracy and market economy. Armenia is taking serious steps to improve the military-political cooperation with European countries. In addition, with the goal of integration into European structures, Armenia aspires to closer institutional compatibility with the EU. The European Neighbourhood Policy is important not only to Yerevan from the perspective of economic and military security, but also conceptually, as it involves the use of integration processes in order to achieve sustainable regional development and approval of the South Caucasus, an atmosphere of mutual trust. On the Action Plan of Armenia is invited to approve the intense political, economic and cultural relations with the EU. The process of implementing the action plan suggests the possibility of the presence of Yerevan in the domestic market of the European Union and participation in key areas of EU policies and programs. This will encourage reform in Armenia in order to consolidate the elements of the rule of law and market economy and stabilize the situation in the country. But, above all, Armenia is interested in developing cooperation in the framework of the ENP is based on the desire for overcoming isolation through involvement in regional projects initiated by the EU. While the EU has not started to be active in this area, Russia must develop as quickly as possible their economic projects with the participation of all countries of the South Caucasus, using the remaining political and humanitarian ties and joint infrastructure in the region<sup>5</sup>.

Truly, the process of cooperation within the ENP involves reforms in the political and economic fields, the rule of law and human rights. The program currently provides partnership reform in the spheres of politics, economy, justice, market relations, manufacturing, energy and transport. The Armenian Government, in cooperation with the EU focuses its efforts on issues such as combating corruption, reducing poverty and social inequality, stable economic growth, international trade. It is assumed that as a result of the necessary requirements of the social, political and economic system of Armenia come close to European standards. This will lead to intensive political dialogue, trade growth, enhance social and community interactions, and higher mutual security. At the same time, we can assume that Armenia will multiply their efforts to conform to political standards of the EU.

However, Armenia, suffering from corruption and the consequences of the Karabakh war, far from being able to meet the EU criteria. At the same time, we can assume that Armenia will multiply their efforts to at least formal compliance with EU political standards by attracting European mentors. After all a consequence of foreign policy could be greater integration with the EU in various areas of financial and economic assistance, as well as the intercession of the EU in settling the Nagorno-Karabakh conflict.

The European Neighbourhood Policy also provides for the settlement of conflicts, in particular, the Nagorno-Karabakh which consists in assistance the work of the OSCE Minsk Group co-chairs. Necessary to note that in the MG are actively involved in France, Germany, Sweden, which represent the EU in the process of Karabakh settlement. The EU is ready to support the script on placement peacekeeping contingent, as agreed by the parties of the conflict, and to provide

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<sup>5</sup> Joint staff working paper, Implementation of the European NEIGHBOURHOOD POLICY in 2010 Country report: Armenia



substantial financial assistance for the restoration of the conflict zone, through its specialized funds. The EU is interested in resolving the Karabakh conflict, taking into account also the site of the expansion. After the accession of two new Black Sea states - Romania and Bulgaria - and to start negotiations with Turkey, South Caucasus is no longer for the EU in some abstract and distant region.

Proceeding from its own geopolitical interests, the EU is also tends to an early normalization of Armenian-Turkish relations. In case of success of the European mediators in the normalization of Turkish-Armenian and Armenian-Azerbaijani relations, the prospect of the three South Caucasian states (along with the current unrecognized republics) in the enlarged Europe could become a reality.

In turn, that the Armenian course of European integration does not carry a declarative nature, according to the reforms undertaken in recent years in economic, social and legal areas, the process of liberalizing the economy, etc. Trade and economic relations with Europe are a priority for Yerevan. The EU provides assistance to Armenia through a number of donor programs such as TACIS, food security, emergency financial assistance, humanitarian aid, the European Initiative for Democracy and Human Rights. Thus, additional financial assistance from the EU, deepen economic and trade cooperation, harmonization of economic legislation, progressive reduction of tariff trade restrictions will boost investments in Armenian economy.

Thus it is necessary to take into account that the main purpose of economic assistance Brussels to Yerevan is a reorientation of its foreign policy in the European direction. Accordingly, Russia, in order to maintain the achieved level of political alliance with Armenia should actively participate in its economic life, while the interaction of this field is given insufficient attention.

Should be aware that all large-scale economic projects in the South Caucasus bypass Armenia. Accordingly, Yerevan is taking steps establishing closer relations with the EU, so as not to be isolated, fraught with economic backwardness of the developing neighborhood. In this case, the European Union, primarily interested in the rapid change of the regime in the Republic, whose purpose - to have controlled Armenia, using a variety of leverage. In this question the main obstacle to the EU is a strategic partnership between Armenia and Russia.

With regard to Baku, the EU is interested precisely in the economic cooperation with Azerbaijan, which is a supplier of energy and an important transit country. It is expected that in an effort to become the primary economic partner of Baku, Brussels will go for a political convergence with him, regardless of the humanitarian situation in the country.

At the same time in order to integrate into the EU Azerbaijan should pursue a policy that will make society and the country's political system closer to European standards.

The cooperation within the framework of the ENP, except for political dialogue, also covers the economic, social, domestic and legal issues. Action Plan for the EU and Azerbaijan is based on common values and principles - democracy, human rights, economy market and the challenges posed by terrorism, proliferation of weapons of mass destruction, the contribution to conflict resolution and following an international law<sup>6</sup>.

The plan also includes regular dialogue, including in the sphere of socio-economic development and trade, with the gradual opening of the European market with the approach of Azerbaijan to its standards.

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<sup>6</sup> Joint staff working paper Implementation of the European Neighborhood Policy in 2010 Country report: Azerbaijan

Baku has made some progress in economic cooperation with European countries. The EU is becoming an important source for Baku promising regional projects and investments. However, due to the possession of the country energy reserves, in a sense, self-sufficiency, but suffers from corruption and is far from being able to meet the EU criteria.

The EU is also negotiating for the admission of Turkey into its ranks, which borders with the three countries of the South Caucasus region.

The value of Turkey is obvious because all three countries in the region have a border with this very serious economic partner - thanks to the transit of energy resources, trade and development assistance. Turkish blockade of Armenia has allowed Ankara to participate indirectly in the delicate negotiations on the Nagorno-Karabakh. It seems obvious are several ways of interaction between the EU and Turkey on the South Caucasus: raising the issues in the region in the context of Turkey's multifaceted bilateral relations with the countries of the European Union and through the implementation of joint programs of assistance to the region.

Opportunities of Turkey in the South Caucasus remain limited, because the conflicts in the region have on it the most direct influence. Armenian Question remains a matter of stormy emotions, the Turkish population strongly supports Azerbaijan, and the voice of a large community of Abkhazians and Circassians in Turkey is also clearly heard.

The difficulties that Turkey faced, seeking to play a more active role in the Caucasus, as reflected in the mirror in her unsuccessful attempt to normalize relations with Armenia. And without this, it can not become an important player here<sup>7</sup>.

Brussels strongly supported the normalization process between Ankara and Yerevan, being strongly convinced that opening the border will set the pulse of the positive dynamics that can facilitate the resolution of other conflicts.

The failure of the ratification of the reached agreements was a huge disappointment, but the joint efforts of the European Union and its partners, at least serve as a guarantee that the process is only slowed but not stalled.

Therefore, we see that the modern geopolitical situation in the South Caucasus requires all of the above countries in the region thought political integration strategy, involving flexibility and balance in the relationship.

The unresolved problems of the local settlement of ethnic conflicts in the Transcaucasus, their evolution in the direction of «unrecognized states» along with the obstinacy of the parties in the political dialogue drive the process of integration of EU and South Caucasus countries to a standstill.

It is hard to imagine that the new EU members could become the country who, for objective reasons complicate the already much separates the picture of the European Union, adding to the total bouquet of additional difficulties in the face of a cultural code, the economic problems of labor migration.

Of course, the process of convergence with the EU will be long and gradual. First of all, the Europeans must be convinced that the South Caucasian countries interested in strengthening role of the EU in the region. On the other hand, at the present stage of integration is complicated by a number of issues that may take many years. The most significant among them are international

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<sup>7</sup> Уразов А.М. (2006). Интеграция ЕС и стран Закавказья: факты и реальность. Информационно-аналитический центр. Публикации.

organized crime, the problems of religious extremism and terrorism, unresolved ethnic conflicts, regional arms race, environmental problems.

It is difficult to predict what will lead in the end hardly today shows through the reality of integration, however, based on the experience of other countries, the viability of this way is not in doubt.

Identifying conditions for the formation of a single geopolitical structure of the South Caucasus - a worthy goal for the study of experts and the results brought to the political elites and international organizations can facilitate the implementation of most pragmatic models of integration.

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**South Caucasus in search of a common identity or the South Caucasian states  
(Armenia, Georgia, Azerbaijan and Turkey) in the European Neighborhood  
Policy**

*Annotation*

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The article is devoted to the most current issues related to the modern processes of political integration in the EU so complicated geopolitical region as the South Caucasus. The author analyzes the political situation in this zone and assesses the perspectives for Georgia, Armenia, Azerbaijan and Turkey connected with the entry in the "European family".

In the first half of the last decade, the European Union gradually realized the fact that the EU has its own interests in the South Caucasus. Main of them is the maintenance of stability, security and prosperity in the neighboring region.

EU member states interested in expanding its influence in the Caucasus region, considering it not only as a strategically important market for energy, but also geographically, economically profitable transport routes, as well as a kind of springboard that provides direct access to the resources of the Caspian Sea, Iran, Central Asia and China and accordingly it increases the strategic importance of the Transcaucasia for stability and security in Europe.

In this article:

1. Will be discussed the main priorities for EU in the Caucasus integration policy.
2. Will be discussed an objective need and mutual benefit of integration of the South Caucasus into the EU.
3. Will be discussed the facts and the reality of integration.
4. Will be displayed the substantial factors that impede the integration process.
5. Used a comparative legal analysis method.

# Migration flows in the South Caucasus in the context of integration into the European Area

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International migration is not a new thing. People always left their homes in order to find better economic opportunities. And economic globalization has served as one more factor for the global migration as it makes the inequality between countries deeper. In this case, the migration for many people doesn't become their own choice but an economic necessity.

For the past half-century migration has acquired a truly global scale affecting all levels of society and almost every country. And it is quite justified that 20th century was named as "migration era".

It is estimated that about 180 million people, or 3% of the world's population, live in other countries. But until recently, the impact of migration on sending and migrant-receiving countries hasn't been explored enough, mainly due to the scarcity of data. Later, there was created a program that focused on the development of International migration and on the improvement of the knowledges about the effects of migration on the countries and also on the definition of migration policy, the rules and institutional reforms, which will lead to better development outcomes<sup>1</sup>.

Now it is impossible to imagine the development of countries and economic regions outside the international context. The events that are taking place in the world are already global in nature and influence the international development as a whole. And all these changes affect not only the interests of individual states, politicians or business people, but also the interests of the general public. World economic system became the subject of serious study, scientific research, the object of the state policy of the leading states.

A large number of foreigners permanently work in different branches of foreign companies and embassies. Annually borders are crossed by the students, businessmen and scientists. And international migration, in this context, is one of the factors of the world development and globalization. As a result, it accelerates the economic and social progress throughout the world.

The objective of this work is to show the relationship of the country's economic development and international migration in the context of globalization and also to highlight the fact that international migration, which includes labor migration, intellectual migration (the so-called "brain drain"), business migration and other categories, should be considered as an economic phenomenon, which has a direct impact on the economic development of developed countries and the countries that are involved in this process.

For entry into the European Union the country-candidate must correspond the Copenhagen criteria, adopted in June 1993 at the meeting of the European Council in Copenhagen and approved in December 1995, at a meeting of the European Council in Madrid. The criteria's requirement is the following by the state the democratic principles, the principles of freedom and respect the human rights and also the principle of the legal state. Also there should be a competitive market economy in the country and there should be regarded the common rules and standards of the EU, including adherence to the aims of political, economic and monetary union. In general, there are 3 criterions for accession to the EU:

- Political

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<sup>1</sup> World Bank

- Economic
- Legislative

The political criteria is first of all the democracy. Functioning democratic government must ensure the equal right for all citizens of the country, the opportunity to take part in political decision-making processes at all levels of government, from the local government to the national. Speaking about the human rights, they are "inalienable" and belong to all people, that is, they cannot be given, restricted, exchanged or sold (for example, a person may not sell himself into slavery). These include the right to life, the right to be brought to criminal responsibility only in accordance with the laws which exist at the moment of committing the crime, the right to be free from slavery and the right to be free from torture.

What about the economic criteria, in the broadest sense, they require that the candidate countries had functioning market economy and their producers could handle with the competitive pressure within the Union.

And finally, officially, not the Copenhagen criteria. The additional requirement is that all potential members should bring their laws into the correspondence to the principles of European law that were formed throughout the history of the Alliance known as acts of the community.

Thus, the countries that wish to become the members of EU must correspond to these requirements.

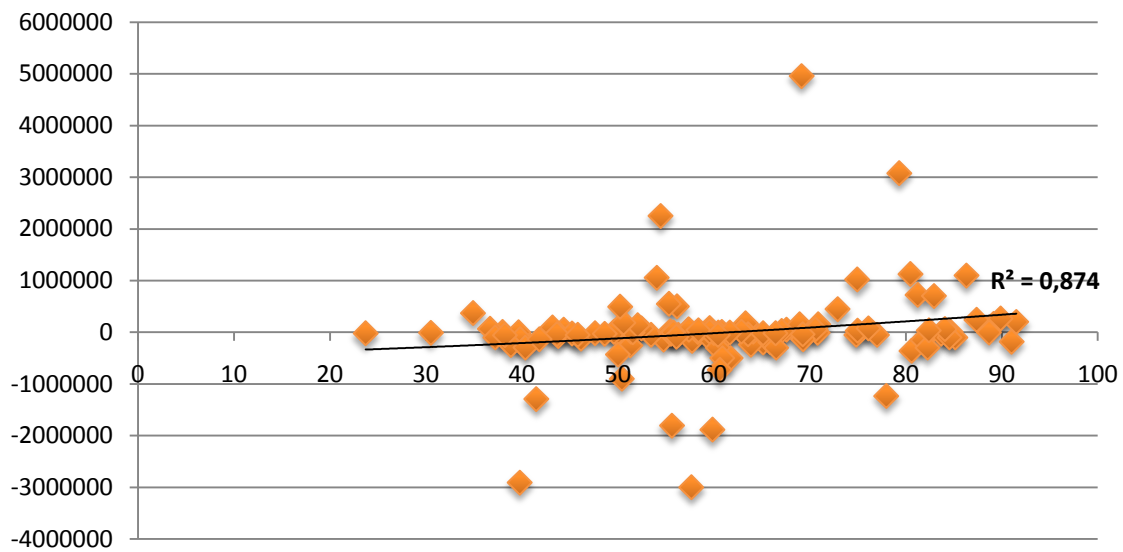
The development of the common market between the member-countries (later renamed into the single market) as well as the creation of the Customs Union was two main purposes of the creation of the European Economic Community. In this case, if the customs Union implies the prohibition of all customs duties in trade relations between member States and the formation of the common customs tariff towards to the third countries, the common market extends these principles on the other obstacles for competition and the interaction of the counties' economies of the Union ensuring the so-called four freedoms: freedom of movement of goods, freedom of movement of persons, freedom of movement of services and freedom of movement of capital.

The freedom of movement of persons means that EU citizens may freely move between the countries of the Union in the purpose of residence (including retirement), work and study. Providing these opportunities includes the simplification of formalities in case of relocation and mutual recognition of professional qualifications. We focus our attention on this factor.

Thus, in order to become a member of the European Union, the country must always correspond the set requirements.

In the conditions of modern globalization human got the opportunity to choose not only a place of rest but also the place of residence, place of work. The concept of the globalization has itself already implied the blurring of borders. We performed a correlation analysis the results of which have shown a relationship between the migration indicator and the globalization. This suggests that the more globalized the world becomes the index of migration also grows.

Figure 1: Correlation of the index of globalization and the migration (2010)



Source: World Bank - [worldbank.org](http://worldbank.org)

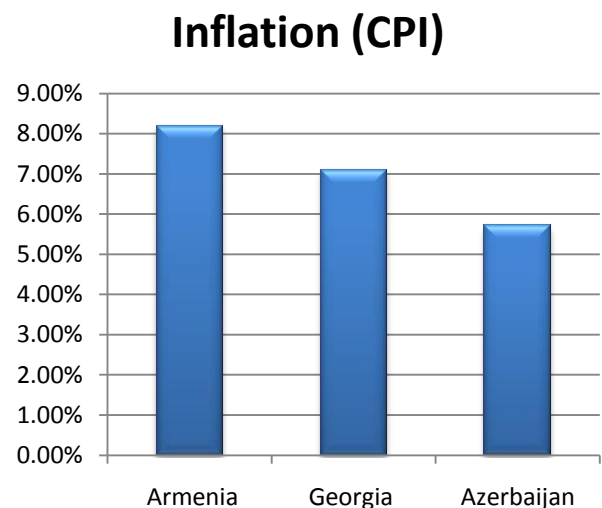
KOF Index of Globalization - <http://globalization.kof.ethz.ch>

But why do people migrate? Let us consider some of the reasons. The reasons for migration of the population can be several:

- the unfavorable economic situation in the country: inflation, mass unemployment;
- civil war;
- the ecological catastrophe in the region or state;
- The level of corruption.

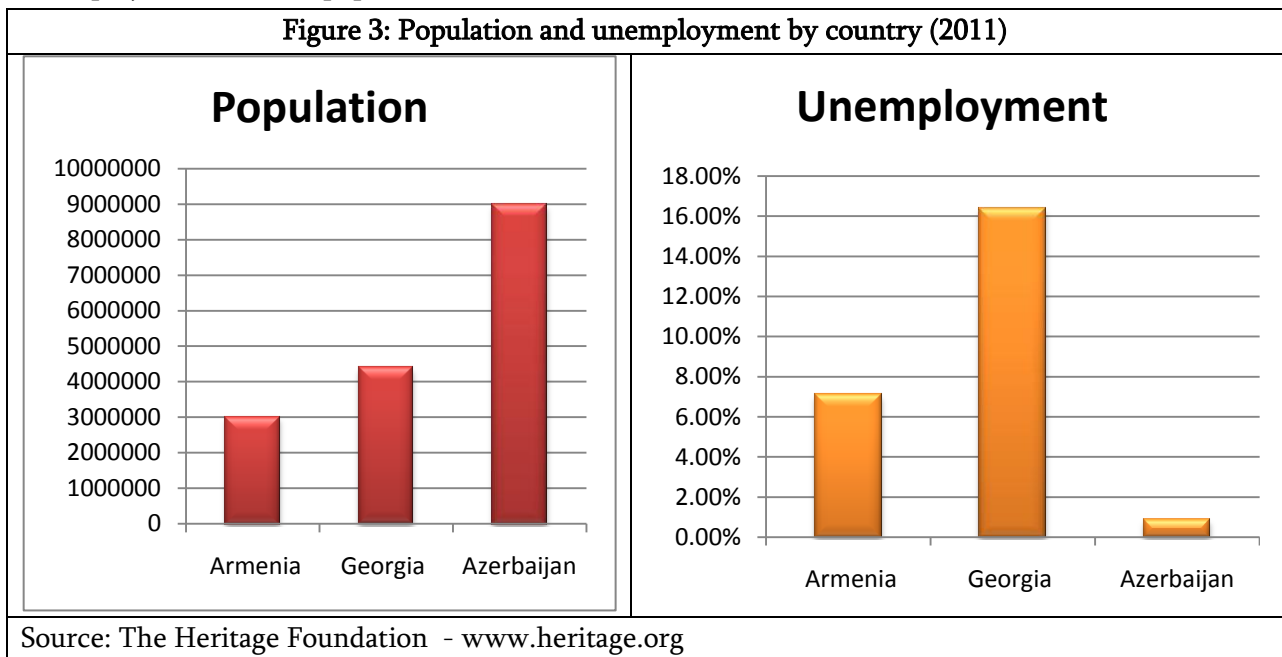
Consider these reasons separately for countries and analyze the results.

Figure 2: GDP and Inflation by country (2011)

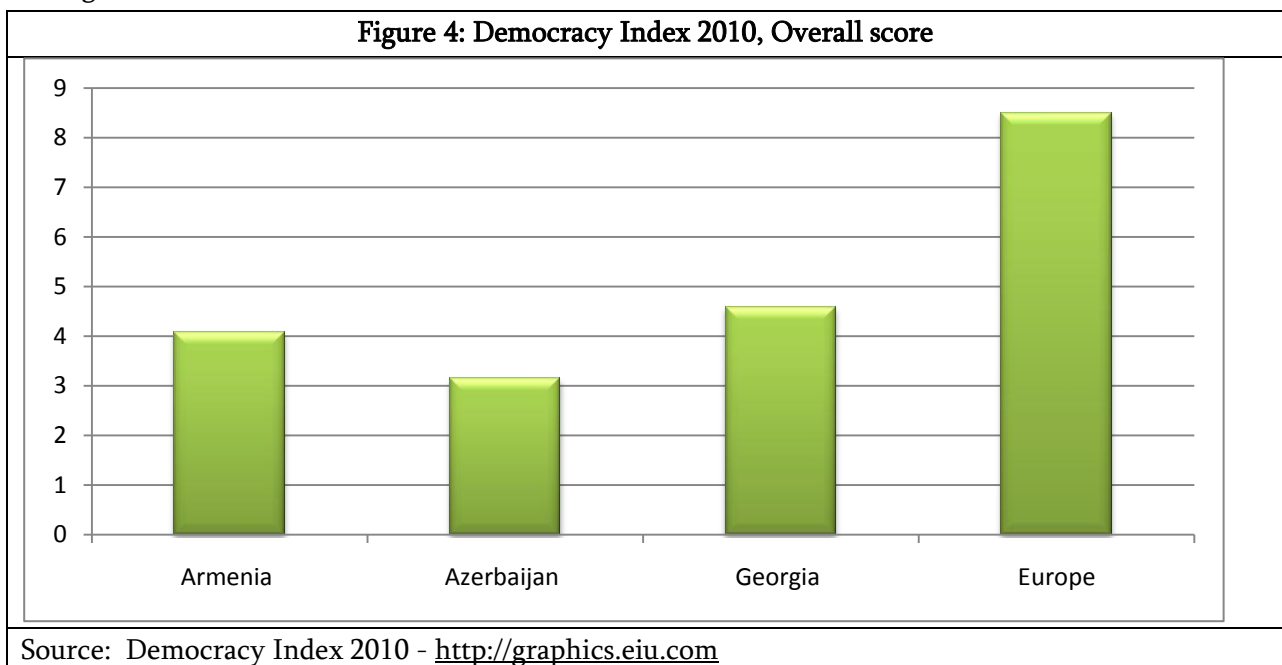


Source: The Heritage Foundation - [www.heritage.org](http://www.heritage.org)

Based on the figure in the worst condition are both Armenia and Georgia. If we consider the unemployment rate and population, then the situation is as follows:

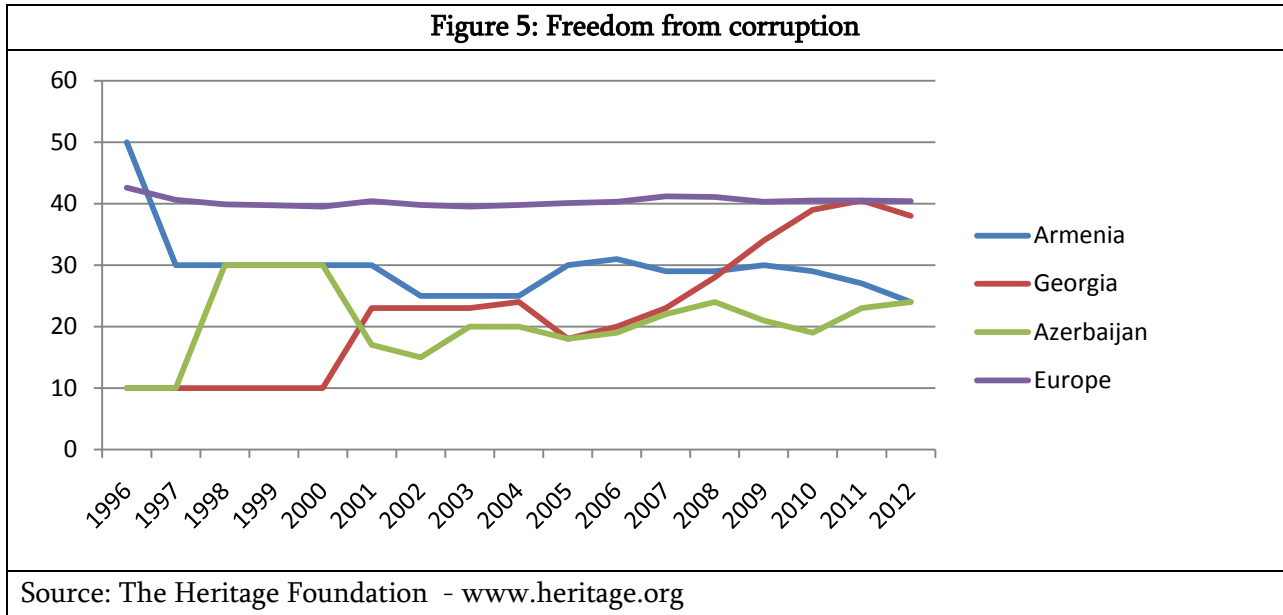


Very often, scientists, economists see the main causes of migration only in economic problems of the country. Yes, people leave in search of a better life, more worthy of agencies, but the cause of migration can also serve as social factors. Take for example the index of democracy in the country. Often the person can live in a society with low income, but the important thing is that he should feel that he is human that the government can protect he's rights. Of the three countries, the highest figure has Georgia.

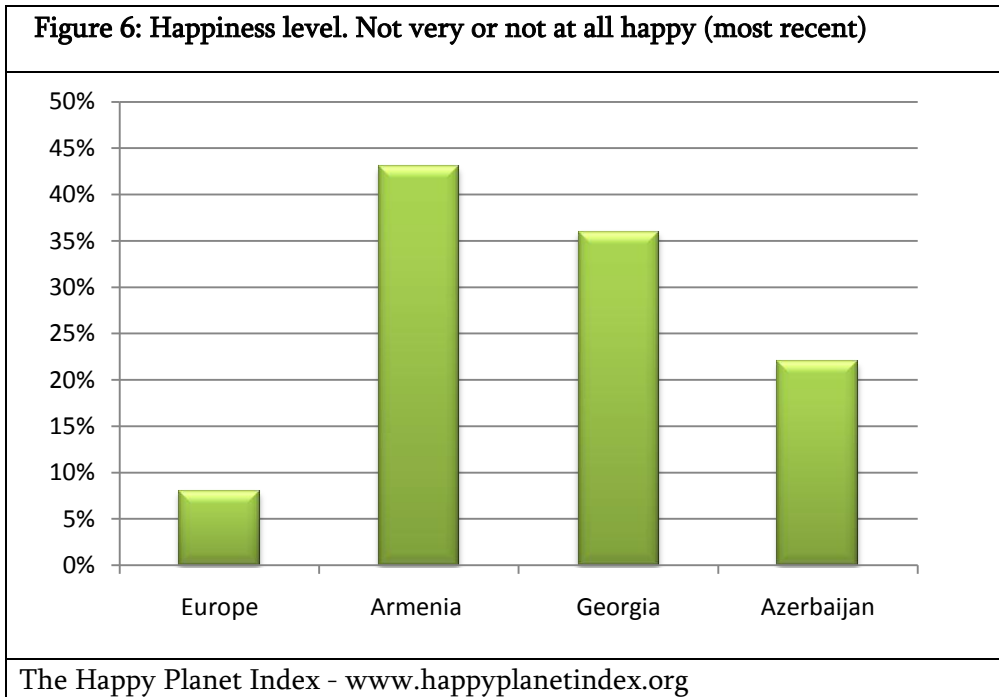




Another important indicator is also an index of freedom from corruption.



As can be seen from the figure, only Georgia is close to the average position for Europe. Not everyone knows that the aggregate of all these parameters is called the index of happiness.



As can be seen from the figure the unhappy country is Armenia. People leave their homes; their country in order to get decent housing, work as a consequence, this indicator should be considered. So, summing up, we can say that first of all countries like Armenia, Georgia and Azerbaijan should regulate their economic, social, political indicators, try to make their people happier and only after that think about integration into the European Area. After opening the borders countries can lose their main resource like people the lack of which makes the state more vulnerable. In the case of integration into the EU people will be able to move from one border to another in a simpler way, thus seeking a more favorable place in the sun. First you need to make every effort to make people a little happier, and then integrate into the EU.

### List of Applied Literature:

1. World Bank - [www.worldbank.org](http://www.worldbank.org)
2. KOF Index of Globalization - <http://globalization.kof.ethz.ch>
3. The Heritage Foundation - [www.heritage.org](http://www.heritage.org)
4. Democracy Index 2010 - <http://graphics.eiu.com>
5. The Happy Planet Index - [www.happyplanetindex.org](http://www.happyplanetindex.org)

## Migration flows in the South Caucasus in the context of integration into the European Area

*Annotation*

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Migration is one of the major problems of population and is considered not only as a simple mechanical movement of people, but as a complex social process that involves many aspects of social and economic life. Migration played a prominent role in the history of mankind; it is associated with the processes of settlement, economic development land, and development of productive forces, education, and the mixing of races, languages and peoples.

In today's globalizing world, international population has become an important factor in world development, providing flexibility in the international labor market, joining the more backward countries of the world culture of production, more efficient in terms of world progress reallocation of factors of production, interaction and mutual enrichment of cultures.

As social changes of the last decade have dramatically changed the political and social situation in the former Soviet Union the migration issues become more and more significant and millions have become potential migrants.

*The purpose of this paper* is to review the status of migratory flows in the South Caucasus and give a qualitative description of the effects of EU accession. There is a need to analyze how integration into the EU will affect the migration flows, will be discussed positive and negative aspects of this issue.

To achieve these goals, it is necessary to carry out cross-country analysis and also to make the regression analysis between rates of migration and globalization to understand the role of migration flows into the issues of integration in European area.

In the process of writing the work will be used the following methods: induction and deduction, the method of analysis, a statistical method, and econometric methods.

# The influence of the railway construction on the development of the regions (In South Caucasus Region)

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*Student of the first year of Master degree at the faculty of Economics*

*Instructor: Artak Pogosyan, PhD.*

The transport unites regions, countries, meets the needs of the national economy in peoples' and goods' transportation, it is kind of an inter link between producers and consumers of goods and services. That is his huge socio-economic significance for the government and the society in general. Damages in the transportation functioning can bring to serious negative consequences for the country's economic safety. The growth of the track system's effectiveness is of a greater significance for those countries that do not have an outlet to the sea and are restricted in participation in regional and global programs. Such countries experience expenditures of entry points' inefficiency and of transit through neighbor countries in the developing countries and transition economy countries transportation problems considerably reduce the competitiveness and economy's investment attractiveness. E.S Stroeve, L.S Blyakhman, M.I. Krotov mark that the absence of modern railroads and highways in CIS countries is equal to additional 30% tax on all the commercial firms.<sup>1</sup> The Republic of Armenia is also not an exclusion from this list of the countries.

**The aim** of this work is to study the railways of the South Caucasus and the influence of the railway construction on the development of the regions, identify the advantages and disadvantages of railway construction, and offer the most efficient rail-road line that links the country of the South Caucasus.

**The objectives** of the study are:

- The study of the railway system in South Caucasus;
- The review of the railway System of Armenia and its relationship with the countries of the region;
- There would be suggested some recommendations for an efficient functioning of rail transportation in the South-Caucasian region.

**The object** of this scientific article is the construction of railroads and their impact on socio-economic development.

**The subject** of the research is to study the railroads impact on the development of country of the South Caucasus.

**The methodological basis** of the study is methods of system analysis, mathematical, statistical methods, method comparisons and analogies.

Rail transport rates the second goods turnover (after the maritime) and of the passenger-turnover (after the automobile). According to the whole length of the roads (about 1.2 m. km. ) it gives in not only to the automobile roads but also to the air carrier. The main function of the railroad transport is the transportation of mass industrial and agricultural goods (coal, steel, grain and others.) to long distances.<sup>2</sup> The formation and the development of the South-Caucasian transportation passage's system is one of the

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<sup>1</sup> Шевчук В.А. "Международные финансовые институты: политика в секторе экономической инфраструктуры".

<sup>2</sup> В. П. Желтиков, "Экономическая география", 2001

leading factors of the economy's development, which supplies the growth of the transportations in the region in general, rising of their quality and security.

### **The railway in South Caucasian countries**

After the collapse of the Soviet Union all South Caucasian countries (SCC) appeared in blockades of various plane and all due to well-known conflicts in the region. Today all countries realize the importance of integration of transportation networks, improvement of existing infrastructure and do borrow heavily from International Financial Institutions to raise the general status of railways, roads, seaports, airports, etc. Geographically the transportation networks of SCC are located on the crossroads of the North-South and East-West, have borders with Russia, Turkey and Iran and are by two seas-Caspian and Black. In the 1 schedule are shown the railroad lengths of the given region.

<b>Schedule 1.</b> The railroad lengths of the given region				
Assessed criteria	Azerbaijan	Armenia	Georgia	Total Region
Surface	<b>86,6</b>	<b>29,8</b>	<b>69,7</b>	<b>186,1</b>
Railway lengths in km	<b>2125</b>	<b>1328,6</b>	<b>1575</b>	<b>5028,6</b>

**Source:** National Statistical Services of Armenia ([www.armstat.am](http://www.armstat.am)), Georgia ([www.statistics.ge](http://www.statistics.ge)), Azerbaijan ([www.azstat.org](http://www.azstat.org))

The normalization of economic situation today greatly depends on dynamic development of transportation corridors and will require unified efforts of all participant states and entities. Overall, integration and development of transportation and particularly railway in the region will positively affect all three countries in the region and surely stimulate regional development as well. Thus establishment of a homogeneous and simplified customs environment will serve to the benefit of railways in all SCCs and eventually affect the regional economic growth.

Armenia exported 554.4 thousand tons of goods by: road (210.3 thousand tones), railway (340.80 thousand tones) and air (3.3 thousand tones) in 2010. In the same year, Armenia imported 2,210.7 thousand tons of goods (about four times more than exported) by: road (779.3 thousand tones), railway (1,425.9 thousand tones) and air (5.5 thousand tones).<sup>3</sup> Transportation of goods from Armenia on railway transport compared with road transport is approximately 39.6% less.<sup>4</sup>

<sup>3</sup> Armenia's Transport Outlook. Transport Sector Master Plan. Transport and Communications, Armenia 2011. Asian Development Bank.

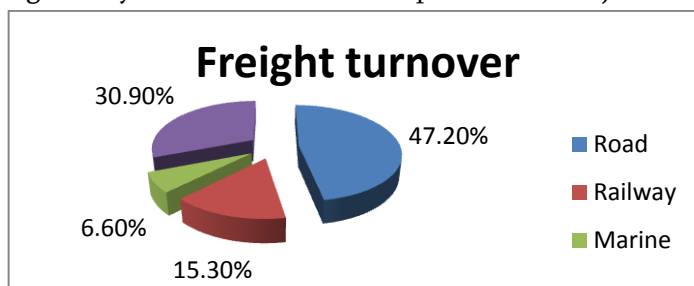
<sup>4</sup> Абрамян В.Г., Григорян В.В. "Формирование транспортных коридоров и эффективность функционирования экономики Армении"

Transportation of goods by various modes of transport in Armenia are showed in Pic.1 and Pic.2.

<p><b>Pic. 1</b> Export of goods by various modes of transport</p>	<p><b>Pic. 2</b> Import of goods by various modes of transport</p>																
<table border="1"> <caption>Export of goods by various modes of transport</caption> <thead> <tr> <th>Mode of Transport</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Railway</td> <td>61.50%</td> </tr> <tr> <td>Road</td> <td>37.90%</td> </tr> <tr> <td>Air Transport</td> <td>0.60%</td> </tr> </tbody> </table>	Mode of Transport	Percentage	Railway	61.50%	Road	37.90%	Air Transport	0.60%	<table border="1"> <caption>Import of goods by various modes of transport</caption> <thead> <tr> <th>Mode of Transport</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Railway</td> <td>64.50%</td> </tr> <tr> <td>Road</td> <td>35.30%</td> </tr> <tr> <td>Air Transport</td> <td>0.20%</td> </tr> </tbody> </table>	Mode of Transport	Percentage	Railway	64.50%	Road	35.30%	Air Transport	0.20%
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<p>Source: National Statistical Service of the Republic of Armenia (Official website: <a href="http://www.armstat.am">www.armstat.am</a>)</p>	<p>Source: National Statistical Service of the Republic of Armenia (Official website: <a href="http://www.armstat.am">www.armstat.am</a>)</p>																

According State Statistics Committee in recent years the annual average of transportation by the vehicles in the Republic of Azerbaijan is 177.8 million tons, 47.2 % of which falls to the share of road transportation, 15.3% -the railway, 6.6% - sea transport, 30.9%- pipeline (including 18.2% of BTC, 1.8% South Caucasian Pipeline).(Pic.3)

Pic.3 Transportation of goods by various modes of transport in Azerbaijan.

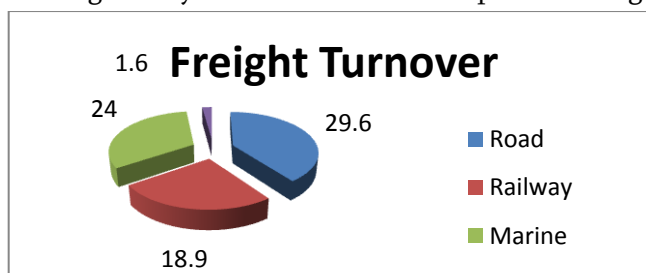


Source: The state statistical Committee of the Republic of Azerbaijan (Official website: [www.azstat.org](http://www.azstat.org))

Azerbaijan Railways that carry significant volume of traffic of freight and passengers has deployed network of railways in the country. Ongoing running of international passenger trains Baku-Moscow, Baku-Kiev, Baku Rostov, Baku-Kharkov, Baku-Astrakhan and Baku-Tbilisi. In recent years there has been a steady increase in traffic volume. One of the important factors contributing to such increase was the construction of oil transshipment terminal and marine oil loading station in Dubendi in 1998, based on an agreement between Azerbaijan and Kazakhstan. Vehicles in Georgia shipped about 45.8 million tones of cargo, of which 18.9 million tones by rail transport, 29.6 million tones by road, 24 million tones by sea, 1.6 million tones by air.

(Pic.4)

Pic.4. Transportation of goods by various modes of transport in Georgia.



Source: National Statistical Office of Georgia (Official website: <http://www.geostat.ge/>)

It should be noticed that in Georgia there is no Ministry of Transportation. A Key Ministry is the Ministry of Economic development Department of Transport of which deals with all issues related to the transportation. Railways in Georgia are crucial link in Eurasian transit and serves as the shortest route linking Europe and Central Asia. The Georgian railway system is directly linked to railway system of Armenia, Azerbaijan and Russia. To maintain the volume of freight by means of railway transport and attract additional freight volumetric and preferential tariffs were introduced. For example, volumetric tariff rate on crude oil is 5\$ and 7\$ per ton of oil products.

As is seen in all countries of the region the export and the import are accomplished mainly by railroads.

The importance of facilitation of transport procedures must be emphasized in particular facilitation of cross-border traffic can increase the efficiency of transport and can promote trade. The schedule below illustrates the timing and costs of exports and imports of three South Caucasus countries.

Schedule 2: The timing and costs of exports and imports of three South Caucasus countries							
Country	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US\$ per container)	Rank
Armenia	4	13	1815	8	18	2195	104
Azerbaijan	8	38	2905	10	10	3405	170
Georgia	4	10	1595	4	13	1715	54

Source: Official website of the Doing Business (<http://www.doingbusiness.org/>)

As we can see in the transport procedures during trans-boundary movements are more time-consuming in Azerbaijan, in Georgia these procedures are organized in most effective way.

### **The Railway System of Armenia and its relationship with the countries of the region**

Armenia is surrounded by four countries but can only carry international trade through Georgia and Iran, and as a result most of the freight is carried through the Georgian port of Poti. More than 90% of Armenian goods pass through Georgia. In this regard Georgia has the dominating position in the sphere of international freight traffic. The result of all this is the fact that local exporters and importers face a problem of relatively high transportation costs, which is a serious problem for the trade. For Armenia, that does not have direct outlet to the sea, rail transport is of great strategic importance in ensuring a reliable transport link, contributing to economic and social development of the country. To date, approximately 30,000 tones of containerized cargo per year are imported via Georgian port Poti.<sup>5</sup> By means of Railway transport 30% of these shipments are made and the rest 70% is transported by truck, which is about 400 thousand tones. Nowadays, railroads operate at 15% of their capacity. In 2010 the volume of goods exported by rail to Armenia is 636 thousand tons, from which the main part of export belonged to goods such as cement, industrial raw materials and metal concentrates. That same year the volume of goods imported into Armenia by rail totaled 1374.3 thousand tones, in which grain cargo had a significant share of this commodity group as 27% of total imports of that made by railway. In 2010, the total volume of freight traffic on the share of rail transport was 29.3%.

Closed borders with Azerbaijan and Turkey are the main reason that affects the economic development of Armenia; there is no investment in the transport sector as well. Since in the near future

<sup>5</sup> Armenia's Transport Outlook. Transport Sector Master Plan. Transport and Communications. Armenia 2011. Asian Development Bank.

borders between Armenia and two neighboring countries will not open, Armenia seeks to be engaged in projects of international transport corridors. Armenia is a member of TRACECA (Europe- Caucasus-Asia), which is set to implement a technical assistance program financed by the EU to develop a transport corridor west to east, starting with Europe via Black Sea from the Caucasus and the Caspian Sea to Central Asia. It should be noticed that within his project it is planned to construct the railway line Baku-Tbilisi-Kars (BTK), which can be become a regional channel rail service. The construction of this railway will connect the railways of Turkey and Georgia. Construction work on the project began in November 2007. However, in August 8, 2009, construction of the railway line of BTK had been suspended because of the Georgian-Ossetian conflict and environmental issues. The length of a railway from Kars to the Georgian city of Akhalkalaki will be 105 km, and from there, there is a railway to Baku. If the Turkey – Armenian borders are opened the railroad BTK will be constructed, the cargo transportations would be cheaper for 18.3%, than by the existing road Kars-Dogukapi-Akhuryan.<sup>6</sup> Assuming that the borders between Armenia and Turkey will soon be opened, the railway transport corridor BTK can be a major competitor of the railroad Turkey-Armenia-Georgia. Comparative analysis of rail freight rates and a 20-foot container to the following directions was made:

1. Istanbul-Sivas-Kars-Dogukapi-Akhuryan-Sadakhlo-Tbilisi (2245km)
2. Stambul-Sivas-Kars-Akhalkalaki-Tbilisi (2211km)

However, this project is more political in nature and according to the latest data construction of the new railroad will last until 2012.

Another important project, in which Armenia takes part is an international transport corridor “North-South”, which provides transit transport from Baltic Sea to Indian Sea and Indian ports (through Russia, the Caspian Sea, Iran and the Persian Gulf – by land and by water). The corridor reduces transportation of cargo from North Europe to South Asia, at least for 10 days: the way by sea through the Suez Canal takes 35 days, and by the ITC “North-South” -20-25 days. It should be mentioned that within this corridor Armenia should have a rail link with Russia via Georgia and then via Abkhazia (Abkhaz railway is currently closed In case of engaging Abkhaz railway Armenia could carry freight not via Georgian port of Poti, and then ferry to Russia but use low-cost rail connection.

One of the projects of ITC “North-South” is the construction of a new railway between Armenia and Iran. A new section of railway will be 496, 6 km at a speed of train 40km/h is planned to complete the project within 5 years. The road begins at the village Gagarin (Gagarin) and comes to Iranian city of Merand (Gagarin-Gavar-Martuni-Jermuk-Sisian-Meghri-Merand). If the construction of the railway will become real, Armenia will not only be associated with neighboring Iran though the rail, but can use the railway leading to the Persian Gulf, and through it to the neighboring regions and states. Railway Iran-Armenia will provide some competition for the Black Sea Ports, thereby lowering transport costs in connection with the countries of East Asia.

Azerbaijan has no direct communication with Turkey and if Turkish-Armenian and Armenian-Azerbaijani borders will be opened goods may be exported from Azerbaijan to Turkey via Armenian railways (Midjevan (Azerbaijan)-Meghri(Armenia)-Iran. This is an alternative route for Azerbaijan and Iran, extending 47 km along the southern part of the territory of Armenia. Azerbaijan and Iran also have railway communication (Meghri (Armenia) –Nakhichevan (Armenia) – Eraskh (Armenia) - Gyumri (Armenia) – Ayrum (Armenia) - Georgia). The use of this corridor have a positive impact on the

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<sup>6</sup> В.Г.Абрамян, В.В. Григорян. Оценка основных направлений развития железнодорожных транспортных коридоров Армении.

competitiveness of Copper Industry in Armenia, as well as facilitate with Iran, Georgia and other countries (Kars (Turkey) – Akhuryan (Armenia) – Gyumri (Armenia) – Ayrum - Georgia). The use of this corridor will have a significant impact on increasing transit flows through Armenia to Georgia, Azerbaijan and Central Asia.

There is no doubt that goods imported from Turkey via Georgia raise their cost. According to the calculation of Armenian experts, because of the blockade annual damage of Turkey to its own economy is approximately 500-600 million dollars. According to US State Department, the blockade increased costs of Armenia by 30-35. According to World Bank and IMF researches, if the borders are open Armenia could double its export and reduce by half the trade deficit.

The main economic benefit from the peaceful settlement will be the profit from the trade. The opening of borders will resume normal trade between these three countries and their immediate neighbors: Russia, Turkey and Iran. This, in its turn, will enable Armenia, Azerbaijan and Georgia use their advantageous geographical location, natural and human resources to enter new markets and increase exports, that will serve as a stimulus for foreign investments, rapid economic growth, new job places and reduction of poverty level.

There would appear new alternative possibilities of the cargo transportation's accomplishment to Turkey and then to Europe, Middle East, and North and South America. together with the Black Sea ones there would be chances to use Mediterranean ports, which are situated closer to the international transportation nets. Besides such an organization of transportation would be much cheaper, than through the Georgian port Poti.

The construction of Baku-Tbilisi-Kars-Akhalkalaki railway will lead to diversification of routes of transportation of cargoes and passengers, it will create a competitive environment in the transport sphere in the region, especially in the case of the opening the railway Baku-Tbilisi-Gyumri-Kars. The construction of Gyumri-Kars railway in short terms will solve the problem of transport accessibility, and later it will lead to the formation of ring road in the South Caucasus, and improve the transport links in the region. The presence of several competing routes of freights will allow transport companies to offer shippers and consignees the most effective ways to deliver the cargoes and the passengers to choose the most convenient routes of travel. The implement of r/d Baku-Tbilisi-Kars (BTK) is important not only for the region, but also for the world Countries that take advantage of this project in terms of regional cooperation will come closer The realization of this project will reduce to 600,0 km transportation between Asia and Europe, which will increase the efficiency of transit along the TRACECA corridor and enhance its competitiveness.

After running the railway branch of Baku-Tbilisi-Kars (BTK) railway amount of freight and passengers will increase significantly.

So, examined the Armenian railroad system and its bonds of the region's countries, it is possible to say that the state of the railroad's infrastructure is mainly poor, the surface of the passages is damaged in many places. In this system it is possible to single out a row of problems: railroad restrictions, old rolling stock, absence of reliable side tracks, and the absence of the needed technical service. The railroads; work is made difficult by the usage of the occurring everywhere outdated tariffs, low degree of integration and restricted institutional facilities.

The main advantages of rail transport are: high transportation capability; possibility of the delivery of goods under any weather conditions; effectiveness of transportation of mass cargoes to large distances; comparatively high speeds; low transportation prices; less influence on the environment, than in the



case of other kinds of the transport. It should also be singled out, that this kind of transport has its disadvantages too.

As to me one of the evident shortages is consignees' and consignors' low transportation availability by railroads (often they do not have their own railway sidings), that acquires the usage of automobile transport during the initial and final stages of the cargo delivery. Thus, for all the countries of the south Caucasian region this kind of disadvantage is particularly important. Railroad passages are the cheapest way of cargo transportation. Of course, closed borders are the main cause impeding their development and having a negative effect on the foreign trade, what in turn lowers the investment attractiveness of the country, raises transportation expenses on the transportation and on the final product price. The railroad system of the countries of South Caucasus is very poorly developed, and in this "poor" development the main part carries the political component. At present, for Armenia the main goal must be the removal of this "political" component, in order to pass to a new step of the development.

### **List of the applied literature:**

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5. В.Г.Абрамян, В.В. Григорян. Оценка основных направлений развития железнодорожных транспортных коридоров Армении.
6. National Statistical Service of the Republic of Armenia (Official website: [www.armstat.am](http://www.armstat.am))
7. National Statistical Office of Georgia (Official website: <http://www.geostat.ge/>)
8. The state statistical Committee of the Republic of Azerbaijan (Official website: [www.azstat.org](http://www.azstat.org) )

## **The influence of the railway construction on the development of the regions (South Caucasus Region)**

*Annotation*

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### **The relevance of this study**

Transport is a necessary condition for economic development of the population. Railroads erase differences in the interests of different regions, and do not allow the centrifugal tendencies, the desire for closure.

Rail transport is the most versatile mode of transport for the transport of inter-and intra-in messages. Railways compared to other modes of transport have less impact on the environment and need lower energy intensity of carriage work. Rail transport is best suited to mass transport. It operates day and night regardless of season and weather conditions.

Construction and operation of railways leads socio-economic development of regions, which in turn leads to the creation of new jobs, reduction of unemployment, creation of prerequisite conditions to enhance the attractiveness and competitiveness of regions in order to attract investment, etc.

Railroads contributed to the emergence of new industries, industrial areas, expansion of domestic and foreign trade, banking system development, the creation of the fuel and energy base.

**The aim** of this work is to study the railways of the South Caucasus and their influence of the railway construction on the urban development of the regions, to identify the advantages and disadvantages of railway construction, to offer the most efficient rail-road line that links the country of the South Caucasus, which would lead to economic, social and political integration of countries in this region and the development of their economies.

**The object** of this scientific article is the construction of railroads and their impact on socio-economic development.

**The methodological basis** of the study is methods of system analysis, mathematical, statistical methods, methodic comparisons and analogies, the method of generalization.

**The information base** for research is legal documents, data from national statistical offices, analytical and information materials of international organizations, proceedings of international conferences.

# The opportunities and impact of road construction in urban development (In Armenia, Azerbaijan and Georgia)

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Nowadays, when there are structural changes in the global economy and revised balance between the economic centers, the role of cities and territories is increasing. Geographic features of each country determine the strategic importance of the role of transport in the development of competitive advantage globally. The transition to an innovative, socially-oriented type of development requires the adoption of appropriate policy decisions, including the development of one of the important sectors of the economy, construction of roads, which depends on the state of the economy. In this aspect of strategic importance is a well-functioning transportation system as a republican and interstate value.

The purpose and main objectives of the paper are analyzing the current situation of the transportation system in Armenia, Georgia and Azerbaijan, identification of the problems and making recommendation for further development.

The object of this paper is the internal and external roads in the region that fund the modernization and construction of roads in each country.

The subjects of the study are the financial condition, the negative factors and unsolved problems which are determining their current status.

Methodological bases of research are economic and graphics research and comparative analysis of statistical information.

The information base for research is legal documents, data from national statistical offices as well as analytical and information materials of international organizations, proceedings of international conferences.

For developing countries seeking to ensure economic growth in an ever competitive environment, development and modernization of the road system is a necessary and integral to the policy of these states. The upgraded transport system is particularly important for developing countries such as Armenia, Georgia and Azerbaijan in terms of their political relations, as well as geographic location and the stage of economic development. The interests of both public and private sectors are intertwined in the development of the transport system of the country, as well as the political, economic, social, commercial and urban development are touched on. Key element of the transportation system is developed and modernized road network - one of the most important sectors of the economy, which provides the relative economic and social growth. The effective functioning of roads provides a relatively uniform development of the region promotes the growth of economic activity, increases the investment attractiveness of regions, which reduce to new job, decreases unemployment, increases the overall welfare of the nation, and consequently increases the rating and the image of the country in the world market.

Today road transport in the region is an important engine for domestic and international trade, which is used for most of the freight, passenger, mail and courier activities. The determining factors of current economical development of Armenia, Azerbaijan, Georgia, are economic and geographical location, historical peculiarities, the level of resort provision, the existence of outlets to the seaports, the level of socio-economic progress, which needs an appropriate highways system generation. Geographical

feature and the complexity of the Transcaucasia region characterize its mountainous landscape, with its inherent complexities and peculiarities. Current status and length of the interstate highways as well as of national importance is not fully complying with performance standards and meets the needs of target groups (schedule 1).

<i>Schedule 1. The length of highways interstate in kilometers</i>		
	Public roads	Interstate roads
Azerbaijan <sup>1</sup>	24,981	1,684
Georgia <sup>2</sup>	20,329	1,495
Armenia <sup>3</sup>	7,705	1,686

Armenia, Azerbaijan and Georgia are the states parties to the transportation system corridor Europe-Caucasus-Asia (EU program TRACECA), which is the most important factor of the improvement of transport infrastructure and plays key role for the TRACECA countries. According to the national statistical services on average in 2010 to 2011, annual road carried about 47.2% of goods in general for Azerbaijan and 31.2% of the corridor TRACECA; 58,5% in Armenia, compared with 2008 increased 1.5 times and 63% in Georgia.<sup>4</sup>

Highways have several advantages over railway and sea: agility, flexibility, movement schedule, and the relatively high rate of movement of goods without intermediate unloading, movement in inaccessible places, delivered "from gate to gate", the convenience and comfort of movement, safety, economy of motion, durability, and relatively low cost, environmental safety, traffic management of the Transcaucasia region, lack of financial resources, which have negative effects on the development. In the framework of various programs of international organizations, the region is allocated funding to assist in the reconstruction of old and construction of new roads.

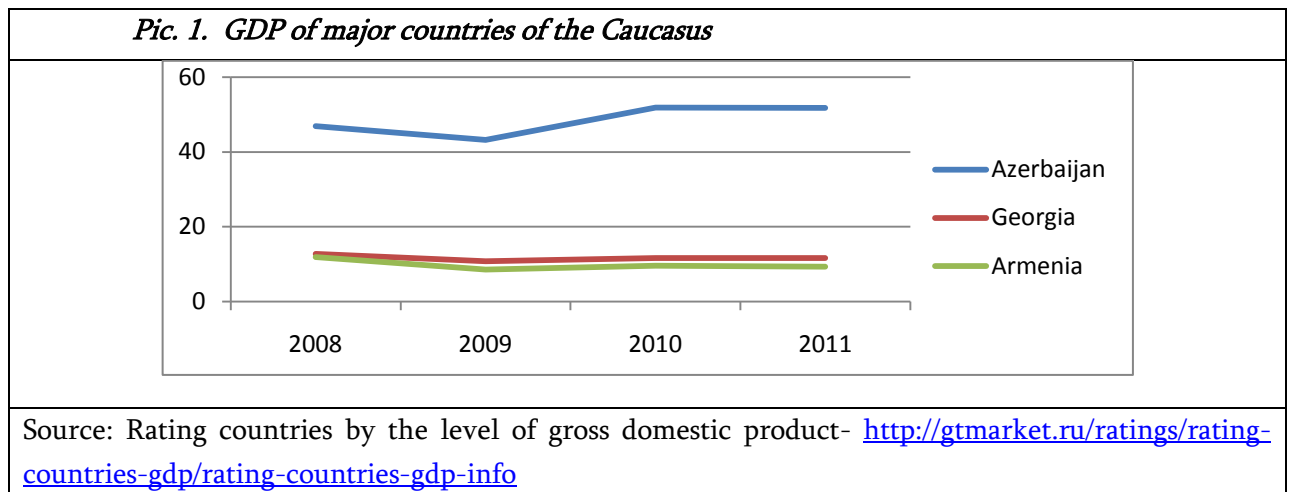
The effectiveness of modernization and development of roads associated with an increase in the speed of vehicles, increasing the reliability of communication over a network of interstate highways and national importance. Reducing costs of road transport organizations makes it possible to reduce the rates for freight and passengers, which affects the value of goods and services and leads to lower production costs, allowing you to increase the added value that results in an increase in demand for manufactured goods and services, resulting in the growth of real gross domestic product (picture 1)

<sup>1</sup>Transport Corridor Europe Caucasus Asia, <http://www.traceca-org.org/ru/strany/azerbaidzhan/transportnyi-sektor-azerbaidzhanskoi-respubliki/>

<sup>2</sup> Путешествие на авто, website <http://autotraveler.ru/georgia/>

<sup>3</sup> National Statistics Service of the Republic of Armenia, website <http://www.armstat.am/file/doc/99466688.pdf>

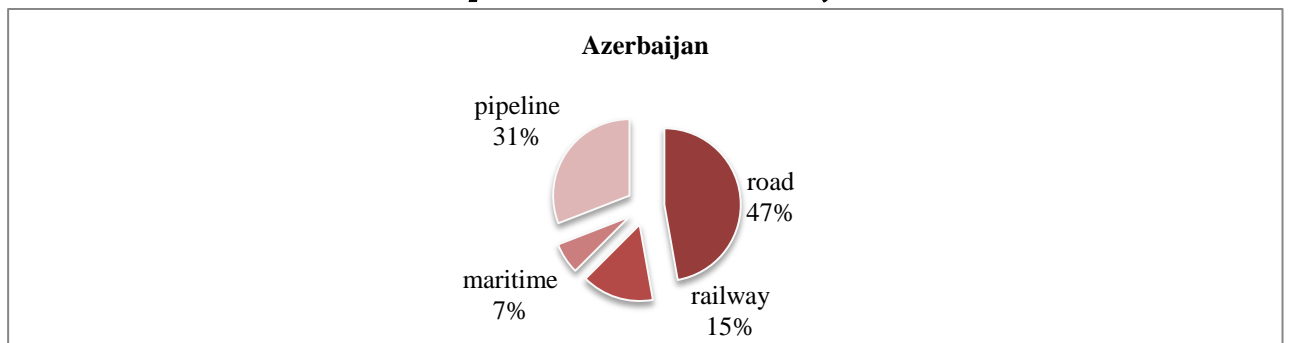
<sup>4</sup> Средства массовой информации Russian-club.net, [http://www.georgia.russian-club.net/spravka\\_economic.html](http://www.georgia.russian-club.net/spravka_economic.html)



The transport system of the Transcaucasia region with their different characteristics and on the basis of the foregoing is necessary to consider each state of the road sector.

Azerbaijan has an existing transport system, which includes rail, road, sea, air and pipeline transport. Azerbaijan is taking measures to improve road infrastructure in order to increase the volume of transit cargo. According to State Statistics Committee, in recent years an annual average of vehicles in the Republic of Azerbaijan transported 177.8 million tons of cargo.<sup>5</sup>

**Pic.2. The share of each mode of transport in total traffic in recent years**



Source: Газета “Зеркало Азейрбаджана”, <http://www.zerkalo.az/2010-05-21/economics/9604-adb-doroga -21.05.2010>

In 2006 the Asian Development Bank (ADB) under the program "Road of life" Azerbaijan has allocated funding for the reconstruction of old roads and building new sites. To date, compared with other countries, Azerbaijan has the highest level of financial security of the state roads - 57.6 thousand dollars per 1 km of the road.<sup>6</sup> Over the period 1999 - 2010, reconstructed in Azerbaijan about 538, 2 miles, the cost of which amounted to \$1 217.3 million.<sup>7</sup>

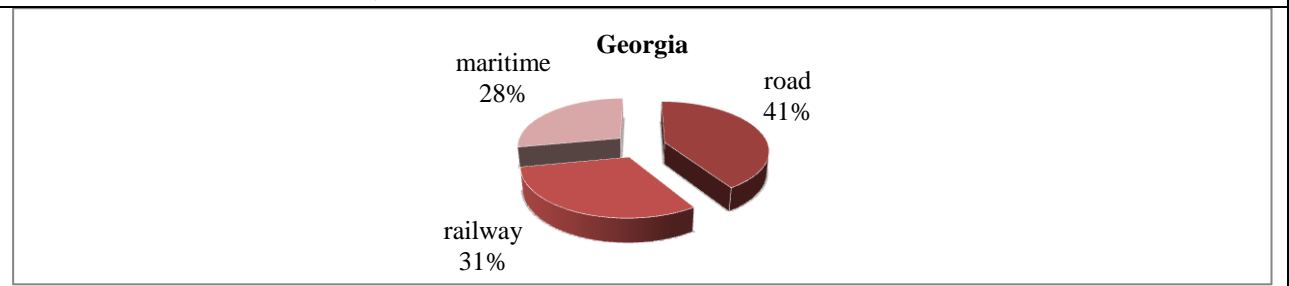
Due to its geographical location Georgia is of great importance in the transit corridor Europe-Caucasus-Asia, providing access to the Black Sea and there are all kinds of transport routes, which have a positive effect on economic development. In 2011 the volume of cargo transportation by land and by sea amounted to 48.9 million tons.

<sup>5</sup> Газета “Зеркало Азейрбаджана”, <http://www.zerkalo.az/2010-05-21/economics/9604-adb-doroga -21.05.2010>

<sup>6</sup> Газета “Зеркало Азейрбаджана”, <http://www.zerkalo.az/2010-05-21/economics/9604-adb-doroga -21.05.2010>

<sup>7</sup> Информационно-аналитический материал исполнительного комитета стран СНГ “О состоянии и развитии автомобильных дорог СНГ” - Москва, 2012 год.

**Pic. 3. The volume of traffic by land and sea transport in 2011**

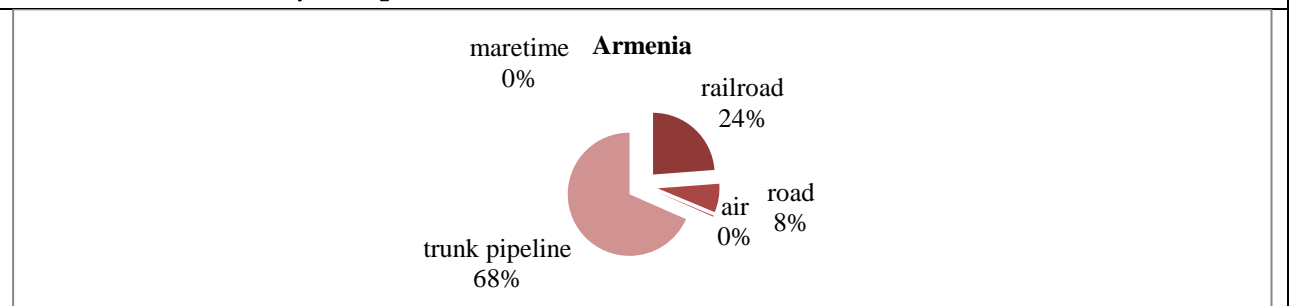


Source: Magazine “Business time Georgia”, <http://www.newsgeorgia.ru/economy/20120323/214857305.html>

In recent years, as a result of cooperation between Georgia and the World Bank and UN involvement in the projects funds for the reconstruction and upgrading of strategic roads were allocated in the country, introduce modern technologies to road maintenance. Since 1992 The World Bank has financed all 52 Georgia road projects totaling \$ 1.62 billion, and funding for ongoing road projects is \$ 440 million in 2012. The World Bank has committed \$ 70 million for projects to repair roads in national and local.<sup>8</sup>

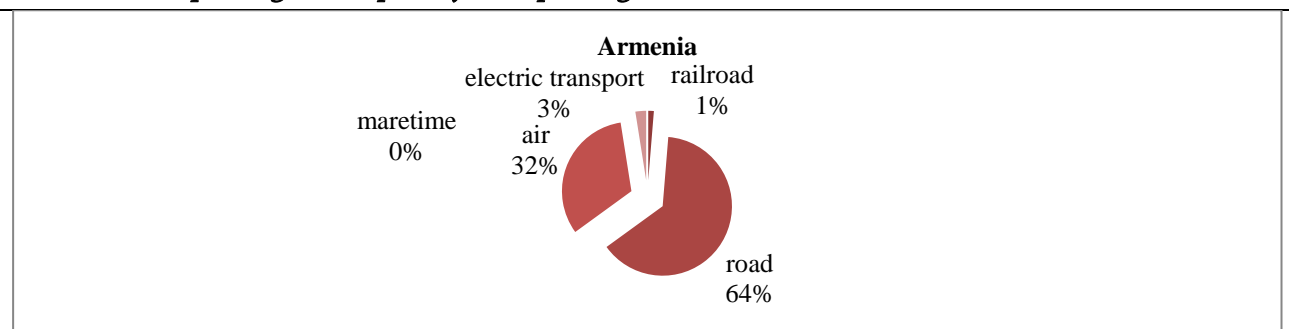
Armenia is not landlocked and having an open international border with Georgia and Iran, depends on the roads in the area of freight and passenger.

**Pic. 4. Share turnover by transport in total CARGO in 2010**



Source: National Statistics Service of the Republic of Armenia -2011, <http://www.armstat.am/file/doc/99466688.pdf>

**Pic.5. Share of passenger transport by total passenger in 2010**



Source: National Statistics Service of the Republic of Armenia -2011, <http://www.armstat.am/file/doc/99466688.pdf>

Because of the unbalanced regional development, aging and inadequate road services, public transport, as well as growth in the number of accidents are undermined by the economic potential of the country. Between 1999 and 2010 in Armenia was reconstructed 371 km. worth 195.7 million dollars, the

<sup>8</sup> Журнал “Business time Georgia”, <http://www.newsgeorgia.ru/economy/20120323/214857305.html>

level of financial security of the state roads - 15.6 thousand dollars per 1 km of the road. ADB Program "to Help Armenia Improve Urban Transport" has allocated an investment of the first tranche of about \$ 50 million for the modernization of urban transport and road construction, which will help improve living conditions, strengthen economic opportunities, create jobs and improve mobility, encourage economic activity in urban areas, the program consists of five tranches and will be completed by December 2020. The quality of transport infrastructure of the RA behind the developed countries, only 3% of settlements have a satisfactory road link with the regional centers, only 40% Republican and 10% of local roads have a satisfactory condition. According to the annual report of the competitiveness of the World Economic Forum, RA among 134 countries on the quality of the railway, aviation and automobile infrastructure is 83, 85 and 79 seats respectively. Expenditures exceed revenues of the transport sector, both in passenger and in freight transportation by all kinds of running unprofitable and low economic efficiency. After the construction of a total length of 556 km., the road will provide strategic importance slight movement from the southern boundary of Armenia to Georgia's borders, then, toward the Black Sea ports, will allow for freight and passenger transportation in accordance with European standards. Armenia cooperates with Georgia, mainly on trade and transit through Georgia to Armenia and from various kinds of goods and the import of energy resources through Georgia. At different times, depending on the political conjuncture transit of Armenian goods through the territory of Georgia with the passage of time had different dynamics. According to the NSS export of Georgian products in 2009, Armenia has made, the amount of \$ 40.890 million, while imports of Armenian in Georgia - \$ 52.806 million<sup>9</sup>

Transportation is a key sector in the economy, one of the major subsystems of the infrastructure of the economy, a tool that plays an important role in the treatment of resources and improves the efficiency of production factors, thus extending the capabilities of the economy, ensuring social and economic development of countries and regions. Summarizing the above, you can draw some conclusions and give some suggestions for improving the transportation system.

**The development of transport infrastructure and services are affected by a number of factors:**

- regional factors - political, legal, socio-economic and geographic;
- Global factors - information technology, global competition and international integration, scientific and technological progress and environmental aspect.

**The development of the transport sector of RA inhibits a number of unresolved issues:**

- lack of regulatory framework attractive to investors;
- failure to provide the minimum required levels of mobility products and mobility of the population;
- Insecurity of qualified personnel potential industry, lack of investment interest in promising regional projects due to the unresolved political disputes, the impossibility of full integration of transport systems in the region.

**For the development of interstate highways and the intrinsic value of the region should:**

- improvement of existing and development of new regulations: the creation of a common regional legal, information platforms, minimize customs and administrative procedures;
- reconstruction of existing and construction of new roads;
- control over the use of budgetary funds to road construction;
- reduction in operating costs for road users;

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<sup>9</sup> Статистический Ежегодник Армении – 2010. Ереван, 2010

- stimulating overall economic development of adjacent lands;
- Introduction of advanced technologies and materials.

Resolution of mentioned problems will improve the development of road infrastructure and the modernization of the transport system will have a positive effect for the region leading to increase of the investment attractiveness of the region; reduction of time for the transport of goods; reduction of transport costs and depreciation of vehicles because of poor road quality; increase productivity and the demand for road service, reduction of the number of road accidents. In addition to impact on economic development, it also has a positive social impact by increasing mobility and any fluctuations in the state of the automotive system will lead to changes in the economy.

### **List of the applied literature:**

1. Transport Corridor Europe Caucasus Asia, <http://www.traceca.org/ru/strany/azerbaidzhan/transportnyi-sektor-azerbaidzhanskoi-respubliki/>
2. Путешествие на авто, website <http://autotraveler.ru/georgia/>
3. National Statistics Service of the Republic of Armenia, website <http://www.armstat.am/file/doc/99466688.pdf>
4. Средства массовой информации Russian-club.net, [http://www.georgia.russian-club.net/spravka\\_economic.html](http://www.georgia.russian-club.net/spravka_economic.html)
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10. External Trade of Georgia, 2009. National Statistic Office of Georgia. Tbilisi, 2010.



**Opportunities and impact of road construction in urban development  
(In the region of Armenia, Azerbaijan and Georgia)**

*Annotation*

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Nowadays when there are structural changes in the global economy and balance between the economic centers, the role of cities and territories increases. Geographic features of each country determine the strategic importance of the role of transport in the development of competitive advantage globally. The transition to an innovative, socially-oriented type of development requires the adoption of appropriate policy decisions, including the development of one of the important sectors of the economy, construction of roads, which depends on the state of the economy. In the development of transport system intertwined interests of both public sector and private sector were affected by political, economic, social, commercial, urban issues. In many countries the way out of the crisis is the development of road construction which is the most accessible one to all citizens in contrast to other roads. The roads play an important role in the complex system of the transport communication of the region providing relatively uniform development of the region, promoting the growth of economic activity thus raising the investment attractiveness of the city, region and giving rise to new jobs, decreasing unemployment, increasing the overall welfare of the nation, and consequently increasing rating and image of the country in the world market. The importance of an effective road system in the economic development of the country and the region determine the relevance of this study.

The purpose of this work is to study and analyze the current state of the transport system in the region identifying positive and negative sides, as well as proposals to build a new system of roads tying the Republic of Armenia, Azerbaijan Republic and the Republic of Georgia, which is an important condition for developing the economies of our region.

The object of this paper is to study internal and external systems of roads and ways to improve their operation by building new ones as well as upgrading and modernizing the old ones.

Methodological bases of research are analysis, synthesis, economic and graphics research and comparative analysis of statistical information.

The information base for research is legal documents, data from national statistical offices as well as analytical and information materials of international organizations, proceedings of international conferences.

# Free Market Policy in South Caucasia Countries as an instrument for integration to European Area

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## Introduction

The article has a purpose to demonstrate a comparative analysis of the legislation of South Caucasian countries from the perspective of legal instruments that the later contains on guaranteeing free market policies within their territory. Furtheron, in the scope of such analysis the author will propose the most significant of relevant areas, where legal reforms should be maintained in order to facilitate the integration of South Caucasus region to European area.

It is a well known fact that in all Post-Soviet countries a vast amount of barriers to trade still remains, which can be explicitly found in relevant laws on taxation and customs. Moreover, taking into consideration non sustainable economic relations that exist within South Caucasus region, the author aims to research not only the tariff barriers to trade, but also the non tariff barriers which distinctly preclude the maintenance of free market policy within the region.

Throughout the mentioned research, the author will conduct a comparative legal analysis of laws on taxes and customs of Armenia, Georgia and Azerbaijan and will evaluate the compliance of such with the international policies of guaranteeing access to market. The subject matter research will explore the obstacles to establishing free market that exist within the region and suggest according improvements of legislation and policies.

In this research the author aims to assert that provision of free market policies and maintenance of sustainable trade relations based on such is the primary premise for a successful integration of this region into the European area.

## I. COMMONWEALTH OF INDEPENDENT STATES AFTER COLLAPSE OF SOVIET UNION

In 1991, after the collapse of Soviet Union, the newly independent states sought to transform their economies into free market economies. However, the choice of international integration was not an easy option for either country. Some former Soviet states experienced an economic boost from structural and institutional reforms that gradually produced more open and efficient economies. Other states, however, struggled in their transition, mostly due to a lack of strong political support for the implementation of economic reforms, absence of an adequate legal system, non-democratic decision making processes, lack of accountability and corruption in the government, etc.<sup>1</sup> As a result, these states were mostly not able to integrate into the global marketplace.

Opening to the international economy challenged Commonwealth of Independent States (hereinafter, CIS) to comply with highly demanding terms on integration, as it assumes joining international institutions, which often invokes rigid rules imminently affecting upon internal economic practices. This is not anyhow to demonstrate that integration may not be successful, however it may not be denied that the compressed timeframe and multiple dimensions of change are a very real threat to the stability of these countries, as opposed to most of the countries, which had at least decades, if not centuries, to work through the balance of economic change and political stability.<sup>2</sup> It is thus apparent

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<sup>1</sup> Andriy Tsintsiruk, Sustainable Economic Growth in Ukraine: Challenges and Opportunities during the Post-Soviet Transition, September 2, 2008, p.1 (<https://www2.bc.edu/andriy-tsintsiruk/Post-Soviet.pdf>)

<sup>2</sup> Celeste A. Wallander and Robert Legvold, Economics and Security in the Post-Soviet Space, Cambridge: The MIT Press, 2004, p.16

that throughout last two decades CIS countries, including Armenia, Georgia and Azerbaijan, are challenged to conduct an overall reform of the economic system, while at the meantime building a new political and governing system.

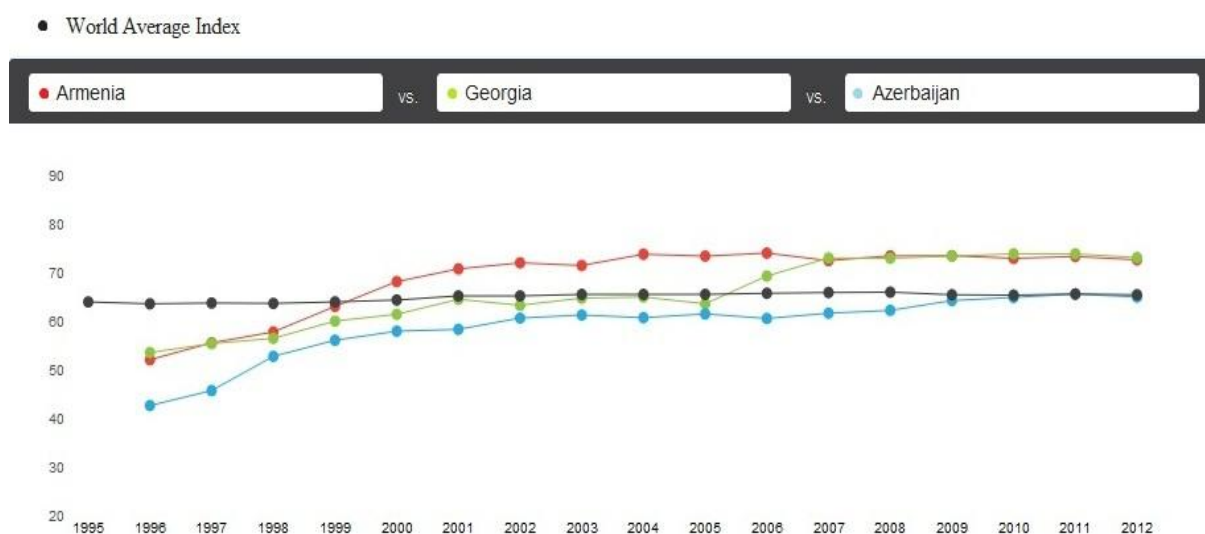
Nonetheless, it should be highlighted that different CIS countries face the process of integration into international community and economy by different means. At that, South Caucasus should be specifically distinguished in its developments from other CIS countries both due to its unique geopolitical situation and due to the process of its integration into European economy through different mechanisms, such as Eastern Neighbourhood Policy.

## II. FREE MARKET POLICY IN SOUTH CAUCASUS

### 1. Economic Freedom in South Caucasus region

Although being neighbours, Armenia, Georgia and Azerbaijan have significantly distinguishable state of development and freedom of economy. According to 2012 Index of Economic Freedom estimated by the Heritage Foundation in conjunction with Wall Street Journal<sup>3</sup>, the economic freedom in Georgia and Armenia is significantly higher than that of Azerbaijan, by ranking accordingly on 34<sup>th</sup> and 39<sup>th</sup> places constituting “moderately free” economy<sup>45</sup>, as opposed to their third neighbour, which ranks on 91<sup>st</sup> place, constituting “mostly unfree” economy.<sup>6</sup>

The following graph demonstrates to what extent the Index of Economic Freedom of the three states changed throughout last years, as opposed to the World Average Index and to each other.



**Graph 1. 2012 Index of Economic Freedom**

From this graph, it becomes evident that already in 2000 Armenia established free economy, thus moving significantly ahead of its neighbours. At the same time, notwithstanding to its further developments, Armenian economy has not yet reached the status of “mostly free” economy. Meanwhile, Georgia was remaining to have an ‘unfree’ economy with an Index below World Average, by reaching Armenia only by 2007 after launching several effective reforms. Nonetheless, nowadays these two countries have already reached to a worthy level of economic freedom, while Azerbaijan has not demonstrated much progress during last ten years, having rather closed economy.

<sup>3</sup> 2012 Index of Economic Freedom: Promoting Economic Opportunity and Prosperity, Washington D.C., the Heritage Foundation and the Wall Street Journal, (<http://www.heritage.org/index>)

<sup>4</sup> *Ibid*, pp. 89-90, (<http://www.heritage.org/index/country/armenia>)

<sup>5</sup> *Ibid*, pp. 199-200 (<http://www.heritage.org/index/country/georgia>)

<sup>6</sup> *Ibid*, pp. 95-96 (<http://www.heritage.org/index/country/azerbaijan>)

The above mentioned Index on Economic Freedom allows to see the overall economic environment of the three neighbouring countries, however it should be noted, that it is an economic evaluation performed based on various criteria, while the subject matter “market access” established by distinguishable market policies of states is a legal concept, evaluated and mostly regulated by World Trade Organization (hereinafter, WTO) documents.

## **2. Access to market in South Caucasus**

It is universally accepted in the international community that World Trade Organization is the primary international body to promote free trade. Nonetheless, although membership in World Trade Organization promises protection against unfair trading practices by other member states, but it also requires internal policy changes that are politically costly and potentially de-stabilizing, such as reducing subsidies to domestic industrial interests and other challenges.<sup>7</sup>

Today, only Armenia and Georgia are members of WTO, while Azerbaijan is still in process of negotiations and needs to perform a vast amount of reforms in order to obtain membership. This mere fact makes it evident that the laws on taxes and customs in Azerbaijan are not in compliance with international law requirements and particularly WTO requirements on guaranteeing access to market. Consequently, there is a substantial amount of barriers to trade, which include both tariff and non-tariff barriers to trade<sup>8</sup>, that still remains in Azerbaijanian legislation.

At the same time, this is not to say that Armenian or Georgian legislation does not need to be further reformed in order to comply with international requirements for guaranteeing free trade and access to market, but *per contra* it is maintained, that notwithstanding to significant differences of economic environment, South Caucasian countries lack efficient and transparent system of taxation and customs to one extent or another. This statement is further affirmed by the recent assessments of European Bank for Reconstruction and Development in its 2011 Transition report.<sup>9</sup>

From this perspective, Georgia may serve as an interesting example to demonstrate this fact. In the light of its improvements in the business environment and establishment of relevant economic sustainability, Georgia is notably ahead of its two neighbours. This becomes evident from the researches and reports of universally recognized ranking international organizations, particularly in 2012 Doing Business Report<sup>10</sup>, 2012 Index of Economic Freedom<sup>11</sup>, 2011 Transition report<sup>12</sup> and other documents. Nonetheless, a comparative research of its indicator shows that it has obtained such distinguishable achievements only during last three years. Particularly, in 2009 Georgian legislation provided for 30 different tax payments that should have been done annually. However, already in 2010 it has decreased the amount of later almost twice, by requiring only 18 payments. And finally, in 2012 there are only 4 tax payments that tax laws of Georgia establish. Furthermore, Georgia along with Armenia and

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<sup>7</sup> Celeste A. Wallander and Robert Legvold, *Economics and Security in the Post-Soviet Space*, Cambridge: The MIT Press, 2004, p.16

<sup>8</sup> Understanding the WTO: Basics, Principles of the Trading System, [http://www.wto.org/english/thewto\\_e/whatise\\_e/tif\\_e/fact2\\_e.htm](http://www.wto.org/english/thewto_e/whatise_e/tif_e/fact2_e.htm)

<sup>9</sup> Transition Report 2011, *Crisis in Transition: The People's Perspective*, European Bank for Reconstruction and Development (<http://www.ebrd.com/downloads/research/transition/tr11.pdf>)

<sup>10</sup> Doing Business 2012: *Doing Business in a More Transparent World Report*, World Bank and International Finance Corporation (<http://www.doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>)

<sup>11</sup> 2012 Index of Economic Freedom: *Promoting Economic Opportunity and Prosperity*, Washington D.C., the Heritage Foundation and the Wall Street Journal, (<http://www.heritage.org/index>)

<sup>12</sup> Transition Report 2011, *Crisis in Transition: The People's Perspective*, European Bank for Reconstruction and Development (<http://www.ebrd.com/downloads/research/transition/tr11.pdf>)

Azerbaijan has implemented an e-filing system and electronic processing of tax returns, by improving the tax administration in the country.

Nevertheless, considering all reforms conducted in Georgia and the fact that it has ranked on the 16<sup>th</sup> place on Ease of Doing Business in 2012, having most successful improvements in the region it still has a major issue of guaranteeing access to market, as it has rather restrictive laws on customs along with Armenia and Azerbaijan. From Annex 2 it becomes apparent that all three South Caucasian countries have maintained reforms on taxation during last three years. Moreover, all three countries are parties to several treaties on avoiding double taxation and bilateral investment treaties with other states, including EU countries. However, the legislation on import and export in these countries remains rather limiting, which creates significant barriers to trade. At that, as opposed to its improvements in other spheres Georgia has declined in 20 ranks since 2011 on trading across boarder indicator<sup>13</sup>. Thus it is evident that notwithstanding to the reforms and strategies maintained in Armenia, Georgia and Azerbaijan, as well as their rankings in different international indicators of economic environment, access to market from the legal perspective, particularly in the light of WTO and EU regulations on free market policies, is yet to be improved in all those countries.

Acknowledging that one of the fundamental principles of European Union is guaranteeing the famous “four freedoms”, it is maintained that one of the most essentials challenges that should be taken by Armenia, Georgia and Azerbaijan in order to secure a successful improvement toward European integration is establishing transparent, sustainable and free trade over the border, thus guaranteeing access to market in compliance with the provisions of international and European Law.

## **CONCLUSION**

In this research paper the author conducted an overall overview of the situation that emerged after the collapse of Soviet Union and the challenged that were put forward to all newly independent states. It is evident that there are several factors that allow distinguishing the South Caucasian region from other states and those are primarily the specific political and economic characteristics of the region, as well as the diverse extent of intention of those three states to be integrated within the European system.

Furtheron, a comparative analysis of the economic environment existing in Armenia, Georgia and Azerbaijan and the consequent differences of those was maintained in course of this research. The analysis allows to constitute that during recent years Georgia has made significant achievements in establishing a more accessible business environment in the country, thus approaching to the integration within European economy to bigger extent then Armenia and Azerbaijan.

Nevertheless, it has been demonstrated that legislations of all three states contain significant obstacles for providing access to market from the perspective of import and export. It is evident that none of the states has established effective legal instruments for guaranteeing free trade over the border thus complying with the standards and demands on free market policies set in international law, in general, and European law, particularly.

Based on all the above mentioned, it is maintained that, notwithstanding to the distinguishable economic environment and all reforms consequently conducted by states, the primary premise of possible and successful integration of Armenia, Georgia and Azerbaijan to European economy is the establishment of transparent, sustainable and free market policies in compliance with the provisions of international and European Law.

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<sup>13</sup> See Annex 2

## 2012 DOING BUSINESS: PAYING TAXES

Economy	Year	Ease of Doing Business Rank	Paying Taxes - Rank	Paying Taxes - Payments (number per year)	Paying Taxes - Time (hours per year)	Paying Taxes - Profit tax (%)	Paying Taxes - Labor tax and contributions (%)	Paying Taxes - Other taxes (%)	Paying Taxes - Total tax rate (% profit)	Trading Across Borders - Rank	Trading Across Borders - Documents to export (number)	Trading Across Borders - Time to export (days)	Trading Across Borders - Cost to export (US\$ per container)	Trading Across Borders - Documents to import (number)	Trading Across Borders - Time to import (days)	Trading Across Borders - Cost to import (US\$ per container)
Armenia	2006	..	..	50	580	..	..	..	38.7	..	6	34	1,600	6	37	1,880
	2007	..	..	50	580	..	..	..	38.7	..	6	34	1,600	6	37	1,880
	2008	..	..	50	581	..	..	..	40.7	..	6	30	1,165	8	24	1,465
	2009	..	..	50	581	..	..	..	40.7	..	6	30	1,746	8	24	2,111
	2010	..	..	50	581	..	..	..	40.7	..	7	17	1,731	9	20	2,096
	2011	61	159	50	581	..	..	..	40.7	103	5	13	1,665	8	18	2,045
	2012	55	153	34	500	16.8	23	1.1	40.9	104	5	13	1,815	8	18	2,195
Azerbaijan	2006	..	..	37	756	..	..	..	46.4	..	8	43	2,715	10	52	2,945
	2007	..	..	37	1,000	..	..	..	42.2	..	8	43	2,715	10	52	2,945
	2008	..	..	37	952	..	..	..	40.9	..	8	43	2,715	10	52	2,945
	2009	..	..	22	376	..	..	..	40.9	..	8	43	3,075	10	52	3,420
	2010	..	..	22	376	..	..	..	40.9	..	8	41	2,980	10	46	3,480
	2011	69	105	18	306	..	..	..	40.9	169	8	38	2,980	10	42	3,480
	2012	66	81	18	225	12.9	24.8	2.2	40	170	8	38	2,905	10	42	3,405
Georgia	2006	..	..	46	448	..	..	..	57	..	9	54	1,570	15	52	1,570
	2007	..	..	33	387	..	..	..	38.6	..	8	12	1,305	7	14	1,305
	2008	..	..	30	387	..	..	..	38.6	..	8	12	1,305	7	14	1,305
	2009	..	..	30	387	..	..	..	38.6	..	8	12	1,380	7	14	1,340
	2010	..	..	18	387	..	..	..	15.3	..	4	10	1,270	4	13	1,250
	2011	17	62	18	387	..	..	..	15.3	34	4	10	1,329	4	13	1,316
	2012	16	42	4	387	14.3	0	2.2	16.5	54	4	10	1,595	4	13	1,715

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## **Free Market policy in south Caucasian countries as an instrument for integration to European Area**

*Annotation*

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The article has a purpose to demonstrate a comparative analysis of the legislation of South Caucasian countries from the perspective of legal instruments that the later contains on guaranteeing free market policies within their territory. Further on, in the scope of such analysis the author will propose the most significant of relevant areas, where legal reforms should be maintained in order to facilitate the integration of South Caucasus region to European area.

It is a well established fact that in all Post-Soviet countries a vast amount of barriers to trade still remains, which can be explicitly found in relevant laws on taxation and customs. Moreover, taking into consideration non sustainable economic relations that exist within South Caucasus region, the author aims to research not only the tariff barriers to trade, but also the non tariff barriers which distinctly preclude the maintenance of free market policy within the region.

Throughout the mentioned research, the author will conduct a comparative legal analysis of taxation and custom laws of Armenia, Georgia and Azerbaijan, as well as other relevant laws, and will evaluate the compliance of such with the EU policies of guaranteeing free market relations. The subject matter research will explore the obstacles to providing free market that exist within the region and suggest according improvements of legislation and policies.

In this research the author aims to assert that provision of free market policies and maintenance of sustainable trade relations based on such is the primary premise for a successful integration of this region into the European area.



# Law of Georgia on Diplomatic Service and the International Law

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The purpose of this paper is to present the most important issues of diplomacy, diplomatic law and international relations of Georgia, a country with ancient history, traditions and culture, and which successfully proceeds along the path of democratic development.

Georgia is the country that fights for its territorial integrity and its inalienable right to enjoy full sovereignty. Being one of the oldest European countries having a favorable geopolitical location, Georgia remains adheres closely to its European and Euro-Atlantic aspirations and seeks to find the solution of its problematic issues on the basis of an active foreign policy, multilateral diplomacy as well as effective reforms of legislative, economic and state institutions in conformity with those of European standards thus facilitating its successful integration into Euro-Atlantic structures.

Georgia believes that effective diplomacy is one of the most important tools for protecting national interests. The aim of Georgia is to conduct an effective and transparent foreign policy strictly adhering to and observing the principles and norms of international law. Diplomatic Service of Georgia, together with the Parliament and other government institutions make every possible effort to integrate the state into Western institutional space, to develop economic cooperation, to contribute to the protection of international security and establish in the community of democratic states. Therefore, in order to ensure safe and democratic development of the country, Georgia is engaged in bilateral and multilateral relations pursuing a policy of the European and Euro-Atlantic integration. This policy is an integral part of the process of building a united, free and peaceful Europe.

However, the contemporary politics of the Russian Federation is different. Its primary tool is military threat and blackmail, which is a serious threat not only for the security of Georgia, but for the entire Black Sea region and Europe as a whole.

Nowadays Georgia, and above all, its diplomatic service, faces with serious challenge of building a democratic and economically developed country. In order to describe promptly and accurately what exactly Georgian diplomacy is, this paper offers the analysis of the Law of Georgia on Diplomatic Service, in order to determine its compliance with the norms of the international law, appropriate international act, the Vienna Convention on Diplomatic Relations, 1961.

The preamble of the Convention includes the provision stating that an international convention on diplomatic relations, privileges and immunities would contribute to the development of friendly relations among nations, irrespective of their differing constitutional and social systems. The purpose of such privileges and immunities is not to benefit individuals but to ensure the efficient performance of the functions of diplomatic missions as representing States. The rules of customary international law should continue to govern questions not expressly regulated by the provisions of the present Convention. In the article 16, paragraph C of The Law of Georgia on Diplomatic Service is a record of an obligation for the diplomatic agent, not to use diplomatic rights and immunity for personal interests.

Article 2 of the Convention reflects the international standard practice that the current diplomatic relations between states are performed by diplomatic missions, acting as the authority of the State. At

the same time the Convention states that the establishment of diplomatic relations between States, and of permanent diplomatic missions, is realized on the basis of mutual consent.<sup>1</sup>

Constitution of Georgia recognizes the supremacy of a ratified international law over the national law of Georgia if it does not conflict with the Constitution of Georgia. The procedures and principles for establishing diplomatic relations are not specified in the Georgian Law. By the practice of Georgia, they are implemented from the Vienna Convention on Diplomatic Relations. At the same time, the Georgian Law does not contain provisions opposing to the accepted norm of the Vienna Convention. Article 3 paragraph 1 of the Convention sets out basic functions of a diplomatic mission. In items a, b, c and d widely recognized so-called classical functions of missions are described. While in item E, new area of cooperation between the sending and the host country – the development of relations in economy, culture and science is added to the classical notions on the proposal of Professor Jaroslav Zourek, a lawyer from Czechoslovakia. According to the Vienna Convention mission's functions are as follows: a) Representing the sending state in the receiving State; b) Protecting in the receiving State the interests of the sending State and of its nationals, within the limits permitted by international law; c) Negotiating with the Government of the receiving state; d) Ascertaining by all lawful means, conditions and the developments in the receiving State, and reporting thereon to the Government of the sending state; e) Promoting friendly relations between the sending State and the receiving State, and developing their economic, cultural and scientific relations.<sup>2</sup>

In this case, it is worth quoting the article of the Georgian Law, which sets out the basic tasks and functions of the diplomatic service of Georgia. It is article 3, and above all, the point g and e, as it is mentioned in Vienna Convention, where it is indicated that the presentation and protection of the interests of Georgia, as well as political, economic and scientific consolidation are the main tasks and functions of the diplomatic service of Georgia.

Article 3 of the Convention is supplemented by paragraph 2, which states that nothing in the present Convention shall be construed as preventing the performance of consular functions by a diplomatic mission.<sup>3</sup>

The Georgian Law has no determination, while taking into account the statement of article 2 paragraph d of Law of Georgia on Diplomatic Service, where the interpretation of various terms used in the Law are presented. As a consular office, the Law provides an overseas branch of the Ministry of Foreign Affairs, which in the host country represents Georgia in the consular relations, although in the diplomatic relations - with the host country, where Georgia does not have a diplomatic mission.

Articles 4-9 of the Convention regulate issues of the appointment of persons in the staff of the mission. In contrast to the one operating, the Havana Convention on Diplomatic Officers, 1928, as well as from existing resolutions and projects of various legal institutions and scientific works in the field of diplomatic law, which usually refer to the status of diplomatic employees, the Convention regulates the status of employees of all categories of missions. Furthermore, article 8 and 9 define the host country's rights in its relations with the head and members of the diplomatic staff.

In this case, in the Georgian Law, for a diplomatic officer, there is a revocation warrant from his position if he/she will be declared as *persona non grata* by the host country. It is article 24, paragraph g.

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<sup>1</sup> Art. 2, of the Vienna Convention from 18 April 1961, *on Diplomatic Relations*.

<sup>2</sup> Art. 3, par. 1, items a), b), c), d) e) of the Vienna Convention from 18 April 1961, ..., *op. cit.*

<sup>3</sup> Art. 3, par. 2, *ibidem*.

At the same time, in accordance with article 17 of the Law which refers to the appointment of persons on diplomatic positions, the Law sets out that the diplomatic positions can be obtained only by citizens of Georgia.

Articles 10 and 11 of the Convention regulate issues related to the notification of the Ministry of Foreign Affairs of the receiving State in respect of the number of members of mission as well as number of private servants of the members of mission. Currently in the Georgian Law there are no guidelines to regulate the above-mentioned issues. In the case of Georgia, in such circumstances shall be applied regulations set out in the Vienna Convention.

Article 12 sets out the terms and conditions relating to the offices forming a part of the mission in localities other than those where the mission is established.

Georgian Law does not specify conditions for the establishment of such offices, but also does not contain any provisions that would oppose to the article 12 of the Convention, while in practice there are agencies that are part of the diplomatic missions of Georgia. One example of this is the Embassy of Georgia to the Kingdom of Sweden and Finland.

Embassy's headquarters, the ambassador and diplomatic officials, is in Stockholm, whereas there is an office in Helsinki, which falls under the jurisdiction of the Embassy, with the Liaison Officer, subordinated to the Ambassador of Georgia to the Kingdom of Sweden and Finland.

Articles 13-19 of the Convention regulate such issues that are related to the ranks of the heads of diplomatic missions and provisional performance of this function, when the post of the head of the mission is vacant, or if the head of the mission is unable to perform his functions.<sup>4</sup> In this regard, article 12 of the Law presents the Ambassador Extraordinary and Plenipotentiary as the sole head of the diplomatic mission and the Permanent Representative of Georgia in the case of a Permanent Representation to the International Organization. The highest-ranking is given also to the Extraordinary and Plenipotentiary Minister-Counselor, who in the absence of an ambassador acts as the head of a diplomatic mission. Nowadays, the practice of assignment of a *chargé d'affaires en titre* as a head of a mission is no more actual in Georgia. However, in accordance with the article 30 of the Georgian Law the mode of the assignment of a *chargé d'affaires ad interim* is determined, which is in full compliance with the regulation of Vienna Convention. The contents of article 30, paragraph 1 of the Law of Georgia on Diplomatic Service is as follows: In case of temporary failure by the head of a diplomatic representation to fulfill his/her duties, the diplomatic representation shall be headed by a *charges d'affaire*.<sup>5</sup> The second paragraph of that article stresses that as a *chargé d'affaires* shall be appointed a person working on a diplomatic position.

Further, comparing the Law of Georgia to the provisions of the Vienna Convention, it should be noted the article 20 of the Convention, which establishes the right of representation and of the head of mission to use the attributes of the sending State, and article 21 of the Convention, which suggests the host state to grant aid to sending countries regarding the matters of representation of mission and also assistance in obtaining suitable premises for the staff of a diplomatic mission. These are the articles which are not reflected in the Georgian Law. Nevertheless, taking into account the priority of the International Law, in accordance with the Constitution of Georgia, the rules described above are directly implemented in practice of Georgia.

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<sup>4</sup> Art. 19, par. 1 of the Vienna Convention from 18 April 1961..., *op. cit.*

<sup>5</sup> Art. 30, par. 1 of the Law of Georgia from 7 December 2007, *on Diplomatic Service*.

Issue of diplomatic privileges and immunities constitute a big and quite complex problem of a legal nature in the theory of International Law. This important issue was granted a special place in the Vienna Convention. It should be noted that the UN conference, during which on the April 14, 1961 the Convention was adopted was called "The United Nations Conference on Diplomatic Relations and Immunities". In this study it is also worthwhile to discuss this issue and pay it a special attention. In its commentary, the UN International Law Commission, which drafted the Convention, drew attention to the theory of "representative nature" of the Embassy, according to which diplomatic privileges and immunities are based on the assumption that a diplomatic mission personifies the sending state, and the existence of the theory of "functional necessity", which justifies the need for the privileges and immunities in provision of caring out duties of the mission.<sup>6</sup>

The Commission was guided by both of the theories. It seems that none of these theories are able to resolve all the issues from the representative law sphere, but it is obvious that both have the right to exist. It is also clear that, in the long run, the diplomatic immunity results from a sovereign character of States.

The Convention refers to two conditions of diplomatic privileges and immunities. Its preamble states that the privileges and immunities are not entitled to benefit individuals but to ensure the efficient performance of the functions of diplomatic missions as an institution representing the State. So, it denotes the existence of primary significance for understanding the nature of diplomatic immunity – the representative nature of Embassies and Missions.

Since, in the contemporary International Law a State institution with all the consequences arising from it, is a diplomatic mission, according to the International Law Commission, privileges and different kinds of immunities, as they are enshrined in the Convention, may be divided into the following three groups (although this classification is not exhaustive): a) relating to the premises of a Mission; b) relating to the work of a Mission, c) the personal privileges and immunities of heads and staff of a Mission.

Universally recognized immunity of a Diplomatic Mission is the inviolability of its premises, equipment and means of transport.

Article 22 of the Convention does not allow for any waivers from the standards outlined above, as it is clearly stated in article 24 to give immunity to the archives and documents of a diplomatic mission, while Article 23 gives to a diplomatic mission privileges exempting them from taxes.

Articles 25 and 26 require the host country to provide full facilities to diplomatic missions in order to perform their functions and shall ensure to all members of the mission freedom of movement and travel on its territory.<sup>7</sup> However, by the article 27 of the Convention the receiving State shall permit and protect free communication on the part of the mission for all official purposes.<sup>8</sup> At the same time it declares the inviolability of official correspondence of mission and its diplomatic post. This article gives the privileges and immunities to the diplomatic courier.

The Georgian Law contains two articles regarding the issues set out in articles 24 and 27 of Vienna Convention. Article 47, paragraph 1 of the Law, in accordance with the Constitution of Georgia, international agreements and arrangements, and the Georgian legislation requires the State to provide

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<sup>6</sup> Movchan A., Ushakov N., *Vienna Convention Regarding the Diplomatic Relations and Immunities*. Soviet State and Law N 2/1962, p. 114-121.

<sup>7</sup> Art. 26, of the Vienna Convention from 18 April 1961..., *op. cit.*

<sup>8</sup> Art. 27, par. 1, *ibidem*.

special protection to the diplomatic service, its staff and property both, within Georgia and beyond its borders. Though the article 48 of the Law, Georgia's diplomatic service can have an independent courier service system, use a special system of government communications, as well as general communications services and postal system. Simultaneously, in paragraph 2 of the above-mentioned article is marked, that the Diplomatic Service has its own archives, where important documents of diplomatic relations are protected.

So analyzing the article 47 of the Georgian Law, it can be concluded that in case of Georgia, the property of the Diplomatic Mission of Georgia will be protected by Georgia, as well as under the provisions of Vienna Convention. However article 48 of the Law defines protection of the communications of the Diplomatic Missions of Georgia, but the protection and the issues of privileges and immunities are protected by corresponding provisions of the Vienna Convention.

According to the article 28 of the Convention the fees and charges levied by the mission in the course of its official duties shall be exempt from all dues and taxes.<sup>9</sup>

As presented, Georgian legislation does not regulate separately the diplomatic privileges and immunities, directly accepts and respects all the provisions of the Vienna Convention on the above-mentioned issues. Law of Georgia on Diplomatic Service includes only the condition that it may refuse the use of immunities to the diplomatic staff and the head of mission, which is in accordance with the above presented division, these are the privileges and immunities from the group c) - personal privileges and immunities of the heads and staff of a Mission which Vienna Convention regulates in articles 29-41. In subsequent articles, the Convention regulates the privileges and immunities of individuals known in the Convention as diplomatic agents. Thus, articles 29, 30, 31 of the Convention confirm personal inviolability of a diplomatic agent, i.e. the head and the staff of the Diplomatic Mission, its jurisdictional privileges and immunities, inviolability of residence, documents and property. For the regulation of the Convention in the article 31, the appropriate article of the Georgian Law is the article 41 paragraph 1 according to which the person sent to Diplomatic Mission with his/her family, on the basis of the international agreements of Georgia profits from the diplomatic and consular immunities.

According the article 32, paragraph 1 of the Convention the immunity from jurisdiction of diplomatic agents and of persons enjoying immunity may be waived by the sending State.<sup>10</sup>

In this case, it is worth quoting article 41 paragraph 2 and 3 of the Law of Georgia on Diplomatic Service. In accordance with the paragraph 2 aside from the head of the diplomatic mission and his/her family members, the decision of refusing of profit from diplomatic and consular immunities by the diplomatic agent and his family members is made by the Minister of Foreign Affairs of Georgia, however in the paragraph 3 is mentioned, that the decision of denial of use of immunities by the Head of diplomatic mission and his/her family members is made by the President of Georgia. By the articles 33, 34, 35, 36 the Convention represents traditional, universally recognized privileges and immunities of diplomatic agents and their families: exemption from taxes, levies and duties that are referred in articles 33 and 34 of the Convention; according to the article 35 - exemption from all personal services and from military obligations accepted in the host country, regarding the article 36 - exemption from customs duties and revision. The Vienna Convention, by the article 37 grants the similar privileges and immunities to the family members living with the diplomatic agent that the agent is profiting himself. At the same time, this provision gives the relevant privileges and immunities to the administrative and

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<sup>9</sup> Art. 28, *ibidem*.

<sup>10</sup> Art. 32, par. 1, *ibidem*.

technical personnel and their family members, also to members of the service staff of mission who are not nationals of the host country. At the same time, this article defines the scope of the privileges and immunities of the members of staff of mission and service staff who are nationals of the receiving state or residing in that country. It should be noted that under the article 17, paragraph 1 of the Law of Georgia on the Diplomatic Service, on the diplomatic positions shall be appointed only the citizens of Georgia, so in the case of Georgia, the provision of article 38 paragraph 1 of the Convention cannot be applied, although the extent of privileges and immunities regulated by the article 38 paragraph 2 of the Convention does not have a corresponding entry in the Georgian Law, which means that Georgia uses norm of the International Law submitted in Vienna Convention.

Article 39 provides the conditions for the start and the end of the privileges and immunities for a person entitled to them. Furthermore, paragraph 4 regulates the issues related to the exportation and the inheritance of property in case of death of an employee of a mission. Among the articles of the Georgian Law there are no proper records relating to the regulation of the beginning and termination of privileges and immunities, only, as cited above in the article of the Law, the Minister of Foreign Affairs and the President of Georgia may decide to refuse the privileges and immunities of a diplomatic agent. However, in the article 45 of the Law, in case of death of a person assigned to a diplomatic representation and a consular office or his/her family member, the Ministry shall cover all expenses, including cost of transportation of a dead body to Georgia.<sup>11</sup>

Article 40 sets out the responsibilities of the third countries in relation to the diplomatic agents, administrative and technical or service staff of a missions, also to members of their families, diplomatic couriers, diplomatic post, official correspondence, which due to force majeure reasons are transit on the territory of the third countries. Article 41 requires all persons profiting from privileges and immunities to the necessary respect of the laws and regulations of the host country, requiring them not to interfere in the internal affairs of that country. In addition, the provision of article 41 requires that all official business with the receiving state entrusted to the mission by the sending state shall be conducted with or through the Ministry for Foreign Affairs of the receiving state or such other ministry as may be agreed.<sup>12</sup> The article also includes a provision on prohibiting the inconsistent with the function of the Mission use of premises.

The regulations given in the above article have no corresponding entry in the Georgian Law. Only according to the article 3 a warrant to honor the universally recognized norms of the International Law is shown. Closing the theme on the diplomatic privileges and immunities included in Vienna Convention, it is easy to see that the Law of Georgia on Diplomatic Service does not contain many provisions on this issue. In this part of the work it should be mentioned about the experience of Georgia concerning the denial of use of privileges and immunities by the diplomatic agent of Georgia. Such a case occurred in 1997 when diplomatic employee of the Embassy of Georgia in Washington D.C., driving a motor vehicle under the influence of alcohol caused an accident of five cars resulting, the death of a sixteen years old United States citizen. Due to the current provisions on privileges and immunities of Vienna Convention diplomat has not been tested. Of course, the government of the United States has asked Georgia to waive the immunity to its diplomat. After several days of diplomatic and political negotiations, on January 11, 1997, Georgia has decided to withdraw to George Makharadze,

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<sup>11</sup> Art. 45, par. 3 of the Law of Georgia from 7 December 2007..., *op. cit.*

<sup>12</sup> Art. 41, par. 2 of the Vienna Convention from 18 April 1961..., *op. cit.*

a young Georgian diplomat, the immunity from jurisdiction. Announcing this decision, Georgian President Eduard Shevardnadze said: "I cannot imagine diplomacy and politics devoid of moral principles." Later, asked about the reasons for his decision, the President replied that such was the will of the Georgian nation.<sup>13</sup>

Consequently, the Georgian diplomat G. Makharadze remained in the United States by the end of the investigation, and admitted his guilt: to one count of involuntary manslaughter and four counts of aggravated assault.<sup>14</sup>

Further considering the regulations of the Vienna Convention it is worthy to present the article 42 which prohibits to a diplomatic Mission to hold a professional or commercial activity aimed at personal gain in a host country. In the Georgian Law there is an article 15 under the title Incompatibility of Diplomatic Position with Political Activity. A diplomat is ordered to stop any active political activity after assuming a diplomatic position and maintain a neutral political status. At the same time a record of positional incompatibility is in the article 40 item 1 of the Law. It is one of the reasons why a person can be released from the diplomatic service, however the provision does not provide interpretation of the concept. In article 43 of the Convention there is a set out conditions for terminating functions of a diplomatic agent. According to the Convention, this happens when the sending State shall notify the receiving state that the functions of a diplomatic agent has come to an end, also when the host state shall notify the sending state that it considers diplomatic representative as a *persona non grata*. In the Georgian Law a provision corresponding to the article 43 paragraph 2 of the Convention is in article 24, paragraph 1 item c. It is as follows: If an assigned person is declared *persona non grata* or undesirable person by the host state, the Minister of Foreign Affairs of Georgia shall carry out pre-scheduled suspension of the above-mentioned person. At the same time article 24 in its scope presents a number of other circumstances of a pre-scheduled suspension of an employee of the diplomatic mission: closure or/and reorganization of a diplomatic representation or a consular office; serious complication of international situation which may impede further work of a diplomatic or a consular agent in the host state; staff reduction at a diplomatic representation or a consular office; reassignment of an agent to another position with his/her consent; request of an agent; grave illness of an agent which disables him/her to fulfill his/her tasks; death of an agent; improper fulfillment of duties by an agent; other cases prescribed by the Law of Georgia on Diplomatic Service.

In accordance with the article 44 of the Convention in case of an armed conflict, the host country is obliged to provide assistance to persons profiting the privileges and immunities and are not nationals of the host country, as well as to their family members regardless of their nationality so that they could leave its territory in the shortest possible period. In this case, regarding and in compliance with the International Law, Georgia, by the Law on the Diplomatic Service takes responsibility for the safety of its diplomatic agents. According to article 43 paragraph 2 of the Georgian Law, in case of armed or civil conflicts in the host state and endangering the life and property of a diplomatic agent and his/her family members, Georgia shall take all necessary measures to insure safety and protection of their lives and property.<sup>15</sup>

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<sup>13</sup> *Private conversation of the author with Eduard Shevardnadze, the President of Georgia in 1995 – 2003*, date: 22.11.2010. Source: Protocol of the conversation.

<sup>14</sup> National News Briefs; New York Times Online. *Envoy Claims Immunity in Wrongful-Death Suit*. <http://www.nytimes.com/1998/04/26/us/national-news-briefs-envoy-claims-immunity-in-wrongful-death-suit.html>, by the date: 20.03.2012.

<sup>15</sup> Art. 43, par. 2 of the Law of Georgia from 7 December 2007... *op. cit.*

Article 45 in its content, obliges the host country, in case of rupture of diplomatic relations between the two countries, or permanent or temporary cancellation of the mission, even in case of an armed conflict, respect and protect the premises of the mission, together with its property and archives. In accordance with that article, the sending state shall have the right to entrust the protection of the premises of the mission, together with its property and archives to a third country, which will be acceptable to the host country, it can also entrust the protection of its interests and the interests of its nationals to a third country, which also will be acceptable to the host country.

Regulation of the article 45 of the Convention is very important for Georgia. It should be also noted that before making changes in the Law of Georgia on Diplomatic Service, the Law did not governed the presented subject, however after the Russian aggression in 2008 and the following amendments to the Georgian Law in 2009, appeared a new term in article 6 as an item 1<sup>1</sup> which is fully seized from the Vienna Convention on Diplomatic Relations.

Article 6 paragraph 1<sup>1</sup> reads as follows: In case of rupture of diplomatic relations between the two countries, and/or permanent or temporary revocation of a diplomatic mission, protection of the interests of the state, and its nationals may be entrusted to the third State, which is acceptable for the host country.<sup>16</sup>

In case of Georgia and Russia, the functions of a third country took over the Swiss Confederation, which on the territory of Georgia represents the interests of the Russian Federation, while in Russia – represents the interests of Georgia. At the same time Georgia, according to the regulation of the article 45 of the Convention protecting the premises with the property and archives of the Embassy of the Russian Federation to Georgia, fully complies the obligations imposed by the norm of the International Law.

Considering the other articles of the Convention, can be presented article 46, which grants the right to the sending State with the prior consent of the host country and at the request of a third State not represented in the receiving State, undertake the temporary protection of the interests of that third country and its citizens, and the article 47, which obliges the host country not to make discrimination between countries while applying the provisions of this Convention. In case of both articles, in the Georgian Law there are no entries regulating the mentioned issues. Georgia, also in this case, in accordance with the Constitution gives a priority to the International Law standards and makes the direct application of articles of the Vienna Convention on Diplomatic Relations, ratified by Georgia in 1993. While articles 48-53 of the Convention concern the general issues of a procedural nature, and from the point of view of the topic of this work cannot be a subject of interest.

### **Conclusion**

Comparing the Vienna Convention on Diplomatic Relations and the Law on Diplomatic Service of Georgia, it is easy to see that Georgian Law does not fully regulate all issues related to the diplomatic service; however it directly implements the regulations of Vienna Convention. It is the obligation of the Georgian State, while, as it has been repeatedly mentioned the norms of the International law ratified by the Parliament of Georgia, which are not inconsistent with the Constitution of Georgia, have supremacy over the domestic legislation of the country and can be applied directly. However, it has to be considered a young practice and experience of Georgia in the codification of the laws regulating the diplomatic service, while the first Law of Georgia on Diplomatic Service was adopted in 1995, and the

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<sup>16</sup> Art. 6, par. 1<sup>1</sup>, *ibidem*.



next was only in 2007. On the other hand, it should be assessed positively the dynamics of the Georgian Law, which results either from the appropriate changes made in it, or within the statutory reform of Georgia, also by the experience of recent years. Concluding, it can certainly be stated that the Law on the Diplomatic Service of Georgia is similar to the model of the laws of the West-European countries and, together with the Vienna Convention provides the smooth functioning of the diplomatic service of Georgia.

So, after careful examination and analysis of Georgian Law regulating the international relations and its comparison with the norm of the International Law, it can be stated that the Law on Diplomatic Service of Georgia is in line with the requirements set out in the International Law.

The foreign policy of the State - the general direction of State policy in international relations; The foreign policy of the State regulates relations with other States and Nations, using various measures and techniques. The most important foreign policy tool is the diplomacy.

Both the professional planning of practical tasks of the diplomatic service, and careful development of methods and techniques for solving existing problems, do not guarantee success if the most important conditions will not come together: the foreign policy of the State should be based on realities that are dictated by the existing geopolitical situation. Political action should not be in conflict and isolation from the basic, generally accepted principles and values of humanity.

Georgia, in accordance with the set by it principles and objectives, bases its foreign policy on the realities of the XXI century, persistently tends through the path of reform towards democracy and integration with the European Union and the North Atlantic Treaty Organization.

#### **List of the applied literature:**

1. Vienna Convention on Diplomatic Relations, 1961;
2. Law of Georgia on Diplomatic Service, 2007;
3. Movchan A., Ushakov N., Vienna Convention Regarding the Diplomatic Relations and Immunities. Soviet State and Law N 2/1962;
4. National News Briefs; New York Times Online. Envoy Claims Immunity in Wrongful-Death Suit. <http://www.nytimes.com/1998/04/26/us/national-news-briefs-envoy-claims-immunity-in-wrongful-death-suit.html>, by the date: 20.03.2012.

## Law on Diplomatic Service of Georgia and the International Law

*Annotation*

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This work presents the main legal issues of Georgian Diplomacy. It also presents the historical aspects of Georgian State diplomatic activity, regarding the period at the time of the Kingdom of Georgia, after regaining independence in 1918, during the period of being a constituent republic of the Soviet Union, and after regaining independence in 1991.

This paper also describes the achievements of modern diplomacy of Georgia, its goals and aspirations. At the same time the paper presents analyze of the most important law of Georgia for the foreign service of the country, i.e. Law on Diplomatic Service of Georgia. Mentioned law has been compared with the relevant convention, i.e. Vienna Convention on Diplomatic Relations, in order to examine the extent of how much Georgian law is harmonized with generally accepted norms of the international law.

# The Financial Crisis as a Test for Economic and Monetary Union

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## EU as an attractive/desirable partner for Southern Caucasus in the 21<sup>st</sup> century?

European Union is still a tempting offer for many developing countries. However, in the capitals of EU member states the benefits of integration are more and more being questioned. 'Brussels', being an example of economic, legal and institutional stability for many years, proved to be not enough resistant to internal egoism raising in several member states. The economic crisis revealed internal problems and political divisions. This situation may accelerate the process of marginalisation of the European Union in the international relations in favour of China, Russia or other emerging powers.

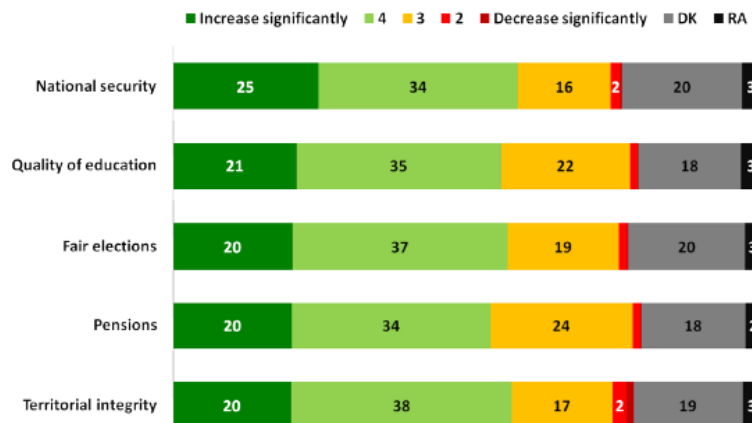
### EU, Russia, China?

The economic success of China may be an attractive counter-proposal for developing countries, which may be perceived as a threat from the Western democratic countries' point of view. Although it seems unreal yet, the increasing activity of China in Africa or in Belarus has to be recognised, not mentioning the political involvement of Russia in Caucasus. That is why, according to the author of this analysis, the long-term perspective of integration of Caucasus with Europe in 21<sup>st</sup> century does not have to be the only solution. It is a fact, that the EU is perceived in many aspects as an attractive partner. But it does not mean it will always remain the same. The earliest European leaders become aware of this, the better for Europe and Southern Caucasus.

### Georgia...

The increase of support among Georgian citizens for joining the EU is strictly justifiable by the need of security and political stability. In one of the polls Georgians asked: "How will the following issues change if Georgia becomes an EU member?" indicated the increase of national security (59%) and territorial integrity (58%) as main issues, followed by fair elections (57%), increase of the quality of education (56%) and increase of salaries (54%). It shows that the expectations of Georgian society towards European Union are very high and what is more, some of the expectations are not necessarily connected to the cooperation with EU.

**Schedule 1.** How will the following issues change if Georgia becomes an EU member? (%) 2011



**Source:** Report: *Knowledge and Attitudes toward the EU in Georgia* (2011), The Caucasus Research Centers (CRRC)

Current economic crisis as a test for the Economic and Monetary Union may be a good time for potential candidate countries, such as Georgia, to verify their opinion on EU and the illusion of its political and economic stability. The way EU is dealing with the economic crisis is a perfect proof of efficiency or inefficiency of the EU law and institutions. It is therefore important to repeat the statement of this article: is saving the Eurozone and Greece not resulting in decreasing the credibility of governments and EU institutions and leading to internal divisions within the EU?

**Chapter 1: Analysis of convergence criteria and ways of executing them**

The potential and power of the EU is a result of combining the interests of many different countries. The Treaties are the results of many compromises and therefore they are milestones for the political and economic integration of the European Union. The Treaties are constructing the so-called primary law of the EU. The Treaty of Maastricht (1993) established the Economic and Monetary Union, with the idea of ‘euro’ as a common currency. But ‘euro’ is just one element of the Economic and Monetary Union. The introduction of the common currency can be divided into three steps of integration, among which the most important were establishing the European Monetary Institute (EMI), signing the Growth and Stability Pact, mechanism ERM II, establishing the European System of Central Bank (ESCB) and European Central Bank (ECB). The Treaty of Maastricht established the Euro convergence criteria, which are now included into the Treaty of Lisbon, article 140. The Treaty of Maastricht states that (Article 104c): *Member States shall avoid excessive government deficits. And later: The reference values referred to in Article 104c(2) of this Treaty are:*<sup>1</sup>

- 3% for the ratio of the planned or actual government deficit to gross domestic product at market prices;
- 60% for the ratio of government debt to gross domestic product at market prices.

Although the above-mentioned criteria were applied for the countries that expressed their will to join the Eurozone at the very beginning, no efficient instruments were set out to ensure that the criteria will be applied by member states. As shown below, even France and Germany did not fully respect the criteria regarding the deficit in their budgets.

**Schedule 2: Budget balances in EU Member States (% of GDP)**

	Budget balance					Structural balance					Structural primary balance				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
BE	-1.3	-5.9	-4.1	-3.7	-4.2	-1.9	-3.6	-2.9	-2.8	-3.7	1.9	0.0	0.5	0.6	-0.3
DE	0.1	-3.0	-3.3	-2.0	-1.2	-0.2	-0.8	-1.9	-1.4	-0.8	2.5	1.8	0.5	0.9	1.6
EE	-2.8	-1.7	0.1	-0.6	-2.4	-4.0	-0.2	-0.4	-0.9	-1.1	-3.8	0.1	-0.3	-0.7	-0.8
IE	-7.3	-14.3	-32.4	-10.5	-8.8	-7.4	-10.0	-10.5	-9.5	-8.5	-6.0	-7.9	-7.2	-5.7	-3.9
EL	-9.8	-15.4	-10.5	-9.5	-9.3	-9.5	-14.0	-8.6	-7.4	-7.9	-4.6	-8.9	-3.0	-0.7	-0.4
ES	-4.2	-11.1	-9.2	-6.3	-5.3	-3.8	-8.6	-7.0	-4.3	-3.9	-2.2	-6.8	-5.1	-2.1	-1.4
FR	-3.3	-7.5	-7.0	-5.8	-5.3	-3.5	-5.6	-4.9	-3.9	-3.7	-0.7	-3.2	-2.5	-1.3	-0.8
IT	-2.7	-5.4	-4.6	-4.0	-3.2	-3.4	-3.9	-3.1	-2.7	-2.3	1.8	0.8	1.4	2.1	2.8
LU	3.0	-0.9	-1.7	-1.0	-1.1	2.3	1.5	0.1	0.3	-0.4	2.6	1.9	0.5	0.8	0.1
NL	0.6	-5.5	-5.4	-3.7	-2.3	-0.5	-3.6	-3.7	-2.5	-1.3	1.7	-1.4	-1.7	-0.4	0.9
AT	-0.9	-4.1	-4.6	-3.7	-3.3	-2.2	-2.9	-4.0	-3.2	-2.9	0.4	-0.1	-1.3	-0.4	0.0
PT	-3.5	-10.1	-9.1	-5.9	-4.5	-3.5	-8.8	-9.2	-5.4	-3.1	-0.5	-5.9	-6.1	-1.2	1.7
SI	-1.8	-6.0	-5.6	-5.8	-5.0	-4.6	-3.5	-3.0	-2.9	-3.3	-3.5	-2.2	-1.4	-1.1	-1.3
FI	4.2	-2.6	-2.5	-1.0	-0.7	2.5	0.7	0.3	0.8	0.7	3.9	1.9	1.4	2.0	2.1
MT	-4.5	-3.7	-3.6	-3.0	-3.0	-5.6	-3.4	-4.3	-3.1	-3.1	-2.4	-0.2	-1.3	0.0	0.0
CY	0.9	-6.0	-5.3	-5.1	-4.9	-0.1	-5.8	-5.1	-4.6	-4.8	2.7	-3.3	-2.9	-2.1	-2.4
SK	-2.1	-8.0	-7.9	-5.1	-4.6	-4.2	-7.5	-7.3	-4.8	-4.8	-3.0	-6.1	-5.9	-3.3	-3.1
EA-17	-2.0	-6.3	-6.0	-4.3	-3.5	-2.5	-4.3	-4.0	-3.0	-2.6	0.6	-1.4	-1.2	0.0	0.6
BG	1.7	-4.7	-3.2	-2.7	-1.6	-0.2	-3.4	-1.3	-1.2	-0.6	0.6	-2.6	-0.7	-0.3	0.3
CZ	-2.7	-5.9	-4.7	-4.4	-4.1	-4.5	-5.5	-4.1	-3.5	-3.6	-3.4	-4.1	-2.7	-1.8	-1.8
DK	3.2	-2.7	-2.7	-4.1	-3.2	3.0	0.9	0.2	-2.2	-1.8	4.4	2.7	2.0	-0.3	0.2
LV	-4.2	-9.7	-7.7	-4.5	-3.8	-6.3	-6.1	-3.7	-4.0	-4.5	-5.7	-4.6	-2.1	-2.1	-2.5
LT	-3.3	-9.5	-7.1	-5.5	-4.8	-5.4	-7.5	-5.7	-5.3	-5.4	-4.7	-6.3	-3.9	-3.3	-3.4
HU	-3.7	-4.5	-4.2	1.6	-3.3	-4.1	-2.0	-3.1	-5.2	-4.0	0.0	2.7	1.0	-1.4	-0.3
PL	-3.7	-7.3	-7.9	-5.8	-3.6	-4.6	-7.4	-7.4	-5.3	-3.1	-2.4	-4.7	-4.7	-2.6	-0.3
RO	-5.7	-8.5	-6.4	-4.7	-3.6	-8.2	-8.8	-5.5	-3.3	-2.8	-7.5	-7.2	-3.9	-1.5	-1.0
SE	2.2	-0.7	0.0	0.9	2.0	1.4	2.6	1.4	1.3	2.1	3.0	3.6	2.1	2.0	2.9
UK	-5.0	-11.4	-10.4	-8.6	-7.0	-4.8	-8.9	-8.2	-6.5	-5.3	-2.5	-6.9	-5.2	-3.5	-1.9
EU-27	-2.4	-6.8	-6.4	-4.7	-3.8	-2.8	-4.7	-4.4	-3.4	-2.8	0.0	-2.1	-1.8	-0.6	0.2

<sup>1</sup> The Treaty of Maastricht, [online], <http://eur-lex.europa.eu>.

**Source:** Commission services' spring 2011 European Economic Forecast

### **Stability and Growth Pact**

German Minister of Finance, Theo Waigel, in November 1995 proposed a stability pact, which aim was to establish a framework for fiscal policies of each member state of the Eurozone by defining the level of deficit and public debt, 3% GDP and 60% GDP respectively<sup>2</sup>. According to the regulation 1466/97/WE each member state of the Eurozone was obliged to prepare annual plans/programmes for stability. The task of the EU Council is to monitor budgets of member states and warn the member states when the risk of excessive deficit appears. The regulation 1467/97/WE provide details for former regulations and sets out the sanctions for member states which do not respect the recommendation of the EU Council. The maximum sanction can be 0, 5% of GDP<sup>3</sup>.

However, even these strict measures did not protect the Eurozone from the crisis. Cases of France and Germany in 2003-2005 time periods showed certain institutional weakness of the EU when facing the conflict with national governments. The European Commission recommended France and Germany to limit their excessive deficit; those two member states did not follow the recommendation of the European Commission, who wanted then to impose sanctions on them. But the European Council rejected the Commission's proposal with a majority of votes.

### **Chapter II: Analysis of the Reaction of the European Institutions and EU Governments Related to the Financial Crisis.**

In the year 2005 changes have been made to the Stability and Growth Pact, which resulted in a reduction of stringent provisions on countries exceeding budget deficits. The most important change was justification for exceeding the reference value of 3% of GDP as an **exceptional** and **temporary** basis when it results from:

- **Unusual event beyond the control of a Member State** or serious weakening of the economy. The deficit can be regarded as temporary if it returns to the reference value immediately after an unusual event or cyclical weakness.<sup>4</sup>

Withdrawn from the strict provisions of the Stability and Growth Pact in 2005, which was a result of political pressure regarding France and Germany, is one of the key elements of the EU's loss of credibility on financial markets, which in times of crisis has increased even more. The European Union has given a clear signal that among its members are those who can do more and those who can do less. The first years of the reforms of the Stability and Growth Pact seemed to bring an improvement, reduction of budget deficits in many countries. Between 2005 and 2008 global economic growth was noted, which effectively repel any shortcomings of the institutional mechanisms and regulation in the EU.

The consequence of the change of the Stability and Growth records Pact in 2005, was a domino effect during the crisis period (Schedule 2). Since 2009, almost all countries were included into an excessive deficit procedure – with the exception of Sweden, Luxembourg and Estonia. According to preliminary reports of the European Commission, these procedures will be completed (in most cases) in 2013, but in countries such as Ireland and the UK it is planned for 2015.

First reaction to the global economic crisis coming from EU member states was the European Economic Recovery Plan, announced by the European Commission on 26 November 2008. Its principles

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<sup>2</sup> Skiba, L. (2011), 'Polityka fiskalna w Unii Europejskiej', Maria Curie – Skłodowska University in Lublin, p. 121.

<sup>3</sup> Skiba, L. (2011), 'Polityka fiskalna w Unii Europejskiej', Maria Curie – Skłodowska University in Lublin, p. 122-123.

<sup>4</sup> Based on: Zawadzki, K. 'Pakt stabilności i wzrostu – strażnik porządku Unii Gospodarczej i Walutowej?', Gdansk University of Technology.

were based on the Growth and Stability Pact and the Lisbon Strategy for Growth and Jobs.<sup>5</sup> One of the main actions envisaged by the plan was transferring 200 billion euro<sup>6</sup> (1,5% of EU GDP), including increasing budgetary discipline of 170 billion euro (1,2% of EU GDP) and supporting immediate actions taken by EU member states with 30 billion euro (0,3% of EU GDP). There were also several community priority actions envisaged by the Lisbon Strategy. It was quite obvious that EU member states in short-term perspective were supposed to increase public expenditures and in long-term perspective would influence the economy by increasing tax allowances in order to stimulate economic growth.<sup>7</sup> However, not all countries followed the path of increasing public expenditures and increasing public deficit. Poland chose the opposite solution: reducing the expenditures and introducing strict financial discipline, but at the same time keeping the growth of GDP at a stable level thanks to internal market demand.

#### **EU initiatives in fighting the economic crisis; The Fiscal Treaty**

During last several year EU has taken different activities in order to fight the crisis. At the end of 2010 a European Systemic Risk Board was established, which was responsible for macro-prudential oversight and for monitoring and assessment systemic risk in normal times for the purpose of mitigating the exposure of the system to the risk of failure of systemic components and enhancing the financial system's resilience to shocks<sup>8</sup>.

In parallel to these actions several other were envisaged, such as adopting by the European Parliament the 'six pack' in September 2011, which increases the capabilities of EU institutions to stimulate, control and sanction countries exceeding the budgetary indicators.

On 2 March the Fiscal Treaty, a controversial intergovernmental agreement, was signed by 25 countries (all EU member states except for UK and Czech Republic).

From 1 January 2013 Eurozone member states agree to respect the 'golden rule', which says that annual structural deficit cannot exceed 0,5 % of nominal GDP.

The biggest controversy is not the fact of delegation of certain competences regarding national budgets from the level of national governments to EU institutional level, but the missing clause of the possibility of withdrawing from the Treaty. It means that it is easier to leave European Union than resign from respecting the rules of this Treaty. As the Germany's example shows certain problems with ratification of the Treaty may occur in member states which would have to change their constitutions.

#### **Assistance for Greece and EU law**

The economic crisis and means taken to fight it were easily noticed in Greece in the beginning of 2010 already, when it occurred that the real public debt reached 126% in 2009 and the deficit was 15,4% GDP. However the 'Greek crisis' is not only a result of the global crisis. In 2009 public opinion and EU institutions noticed that when entering the Eurozone Greece's accountancy was not entirely playing according the rules, with certain help of Goldman Sachs bank.<sup>9</sup> 'Creative accountancy', as it was widely called, the lack of reforms, budgetary discipline and the access to 'cheap currency' lead Greece to the crisis, which became a threat also to other EU member states. The bankruptcy was more and more probable, what according to many experts and politicians might have led to the collapse of the common

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<sup>5</sup> Report: 'Kryzys grecki – geneza i konsekwencje (2010)', Ministry of Finance of the Republic of Poland, p. 26-28.

<sup>6</sup> This amount was increased to 600 mld €.

<sup>7</sup> Report: 'Kryzys grecki – geneza i konsekwencje (2010)', Ministry of Finance of the Republic of Poland, p. 27-30.

<sup>8</sup> Regulation (EU) No1092/2010 of European Parliament and of the Council.

<sup>9</sup> Story, L. 'Wall St. Helped to Mask Debt Fueling Europe's Crisis', (2010) The New York Times, [online]: <http://www.nytimes.com/2010/02/14/business/global/14debt.html?pagewanted=all>.

currency. Greek crisis proved to the European politicians that certain negligence appeared as far as the monitoring and the execution of convergence criteria is concerned.

All actions of the European Union described in this article aimed to enforce the execution of the convergence criteria and the assistance provided to Greece aimed at restoring the faith in the Eurozone.

However, assistance given to Greece in the opinion of many experts is breaking the EU law and undermining its reliability in the view of financial markets. The Treaty of Maastricht says (confirmed by the Treaty of Lisbon) that Eurozone member states cannot be responsible for paying their reciprocal debts. Article 104 of the Treaty of Maastricht says:<sup>10</sup>

*Overdraft facilities or any other type of credit facility with the ECB or with the central banks of the Member States (hereinafter referred to as 'national central banks') in favor of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the ECB or national central banks of debt instruments.*

The only reason for granting such assistance would be situation described in article 103a:<sup>11</sup>

*Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by exceptional occurrences beyond its control, the Council may, acting unanimously on a proposal from the Commission, grant, under certain conditions, Community financial assistance to the Member State concerned. Where the severe difficulties are caused by natural disasters, the Council shall act by qualified majority. The President of the Council shall inform the European Parliament of the decision taken.*

That is why European Union recognized the crisis in Greece as “exceptional occurrences beyond the control of the government”. It is difficult to agree with this statement when keeping in mind all real reasons of economic collapse in Greece and long-term negligence of the country. German professor, PhD Matthias Ruffert, seems to be supporting this statement:

*“From the beginning, the Member States’ rescuing activity has been under close legal scrutiny by European legal scholars, and rightly so. There are good reasons to submit that this policy is in breach of important provisions of the TFEU.”<sup>12</sup>*

The unprecedented case of Greece seems to be dangerous, because the EU proved that the EU law and EU institutions when facing national interests are not powerful enough and therefore on the lost position. This should be a good lesson not only for EU countries, but also for the leaders of potential candidate countries and all interested in joining the European Union.

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<sup>10</sup> *Treaty of Maastricht and Treaty of Lisbon*, [online], <http://eur-lex.europa.eu>.

<sup>11</sup> *Treaty of Maastricht and Treaty of Lisbon*, [online], <http://eur-lex.europa.eu>.

<sup>12</sup> Ruffert, M. ‘*The European debt crisis and European Union law (2011)*’, *Common Market Law Review*, 1777–1805.

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## **The Financial Crisis as a Test for Economic and Monetary Union**

*Annotation*

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### *Description:*

Debate on the Polish membership in the monetary union, after the start of the global financial crisis and problems in the euro zone, has taken new shapes. The problems of Greece and other EU member states have given new arguments for the opponents of Polish membership in the euro zone. Most importantly, it has shown imperfections in the process of compliance with the convergence criteria. The consequences of erroneous financial policy in Greece as well as the lack of adequate response of the other EU members during the excessive indebtedness of the state lead to the financial chain reaction. The question should be asked whether or not rescuing the monetary union and Greece would not happen at the expense of a loss of credibility of governments and EU institutions, as well as lead to the internal division of the European Union (**thesis**).

### **Chapter I: Analysis of the Convergence Criteria and Methods for their Enforcement.**

In this section the author attempts to show the main objectives of the monetary union, national law's adjustments and its enforcement. Research method adopted was based on an analysis of the Maastricht Treaty, the Stability and Growth Pact and examination of the European Central Bank's role in the Euro system. The purpose of this chapter is to show ways of arriving at joint decisions by the EU institutions and national governments, projected plans and instruments for their implementation.

### **Chapter II: Analysis of the Reaction of the European Institutions and EU Governments Related to the Financial Crisis.**

It seems that the financial crisis in the Monetary Union has two sources. First, the failure to comply with objectives and principles of fiscal policy (which are described in Chapter I). Second, the influence of external factors (crisis in the United States) and the importance of external players on the financial markets - credit rating agencies and speculators. In the author's opinion the external situation was difficult to predict and control, however both the law and the European Institutions had a chance to avoid the crisis in the Euro zone. The purpose of this chapter is to show the solutions adopted by EU to save the monetary union (an intergovernmental agreement, "New EU Fiscal Pact", new the Stability and Growth Pact).

# Innovations, Science and Technology: New Perspectives towards the Future

## Development of the Eastern Partnership

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### **Abstract:**

The research points out the significant and decisive role of innovations in the modern economy, clarifies the tendencies in Information and Communication Technologies (ICT) development, cluster common problems and potential of EaP countries and emphasize the role of the EU in the process on stretching boundaries in transnational collaboration. Challenges of modernization and innovation are expected to provide achievement of the new level of productivity with a help of EaP Platform 2 and regional development.

*Key words:* era of informatization, innovations, ICT, R&D, international collaboration, regional development, 7<sup>th</sup> FP, EU, EaP.

### **1. Introduction**

Since May 2009, in the framework of the Eastern Partnership Program (EaP), the EU has offered to enhance cooperation with Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan. Polish-Swedish initiative has developed the EU's European Neighbourhood Policy (ENP) into specific Eastern dimension. Meanwhile, among multilateral platforms, one of the most important is the Platform 2 "Economic integration and convergence with EU policies"<sup>1</sup>.

Actuality of building collaboration of EaP countries and the EU in the sphere of innovations, emphasizing the role of science and technologies, lays under the priorities of the Europe 2020 strategy<sup>2</sup> and growing tendencies of innovations' development in the global economy.

Innovation is an important driver of growth and recently its importance became even more significant. In the challenging period of global economic crisis, an extraordinary capacity of innovations can play a critical role not only in the recovery of facilitating countries but also in providing sustainable economic growth of all regions<sup>2</sup>. More than ever, Europe and the EaP countries need to reboot the economies with a more intelligent type of growth.

As more and more developing countries tend to set up their economic systems on the basics of advanced innovative models, the innovative approach has received growing attention from analysts. Economists underline the pivotal role of knowledge, particularly research and development (R&D) to promote science and technology, in the economic success of the country.

The ICT sector is one of the most dynamic sectors of innovations in the world. The development of ICT is momentous and with actual target being employed to provide economic growth.

In the EU the ICT sector accounts for 6-8% of GDP, making EU-27 be among the world leaders in the development of digital economy. At the same time, countries like Ukraine, Belarus, Moldova, Armenia, Georgia and Azerbaijan still have sufficient difficulties within development in R&D<sup>3</sup>. As a

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<sup>1</sup> COM(2008) "Eastern Partnership", [http://eeas.europa.eu/eastern/docs/com08\\_823\\_en.pdf](http://eeas.europa.eu/eastern/docs/com08_823_en.pdf), 21 December 2010

<sup>2</sup> COM (2010) 'Europe 2020: a strategy for smart sustainable and inclusive growth', [http://europa.eu/press\\_room/pdf/complet\\_en\\_barroso\\_\\_007\\_-\\_europe\\_2020\\_-\\_en\\_version.pdf](http://europa.eu/press_room/pdf/complet_en_barroso__007_-_europe_2020_-_en_version.pdf), 10 December 2010

<sup>3</sup> Europe ICT and Outsourcing Market (2007-2011), <http://www.telecomsmarketresearch.com/research/TMAACKI-Eastern-Europe-ICT-and-Outsourcing-Market--2007-2011-.shtml>, 18 December 2010

result the EaP countries, mostly in transition from Soviet era legacy to modern governance, display lower competitiveness and productivity compared to other countries.

New opportunities and certain methods of enhancing the economic integration could be found with the EaP. Positive spillover is foreseen in the opening of the new resource potentials for technological capacity with reducing the pressure of international borders and cooperating in the frames of Regional partner strategies.

The purpose of the paper is to study growth determinants in EaP collaboration under the Platform of Economic integration and its convergence with EU policies, focusing upon innovations, information and communication technologies and arguments in favor of regional policy contribution. First of all, tendencies in the innovations' development and the EU approach are outlined. Secondly, features and problems in the development of relations between the EaP countries and the EU in the sphere of ICT are provided. Thirdly, new opportunities for the EaP towards the development of EU-EaP countries collaboration are proposed.

## **2. Tendencies in the development of innovations and the EU approach**

Innovative type of the development is rapidly becoming the fundamental determination of the economic growth. Innovation becomes a complex process of transformation of new ideas and knowledge into an object of economic relations. And it certainly was and continues to be the driving force for the dramatic changes.

In these challenging times the capacity of innovations to boost growth must not be overlooked, since it might play a critical role not only in facilitating countries' recovery but also in sustaining national competitiveness in the medium to long term<sup>4</sup>.

Economic theory of innovations is widely represented by foreign classics, such as A. Smit, D. Ricardo, D. Bernal, E.Hansen, J. Shumper, R. Hajek, M. Tugan-Baranovskuj, M. Kondratjev, P. Sorokin. And, of course, Chris Freeman, who produced the conception of the national innovation system. From the beginning of 1990<sup>th</sup> his conception becomes popular among such researchers as K. Edkvist, B.Lundvala, R.Nelson, N.Rozenberg, B.Amabl, R. Mansella., N. Ivanova, Y.Yakovec, G. Saltykova and many others<sup>5</sup>. The conception is portrayed by exogenous growth models, also known as the neo-classical growth models (for example Solow's model<sup>6</sup>).

That is how innovations are closely associated with technologically led economic growth, and scientists regard them to be important for the advanced living standards. Among the main elements, underpinning these developments have been the growing knowledge-driven nature of innovation; the quickly changing organization of research, driven by information technologies, collaboration, the sharing of knowledge; changes in markets, the competition environment, and technology.

Researches made by Graham Vickery and Sacha Wunsch-Vincent from Organization for Economic Co-operation and Development (OECD) note that structures of R&D, science performance, invention, and innovation are in transition. The main dimensions of change are the absolute growth of R&D and innovation-related activities; the rise of the economies in scientific and technological fields; significant globalization of R&D; more performance of R&D in the services sector; and a growing focus on non-technological innovation, enhanced internationalization and mobility of highly skilled people, and increased internationalized patenting<sup>4</sup>.

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<sup>4</sup> The Global Information Technology Report 2008-2009, <http://www.weforum.org/reports>, 15 December 2010

<sup>5</sup> Chris Freeman (1995), p. 5-24

<sup>6</sup> Solow, Robert M. (1957), p.313

According to the report “Eastern Europe ICT and Outsourcing Market (2007-2011)”, the ICT industry in Europe is considered to be one of the fastest growing globally. Its emergence is tightly related with potential for the foreign investigations in the ICT sector and relatively low cost of the manpower services in Europe and Eastern Europe.

Europe’s Information Society point on fact that within building Europe on Knowledge “half of the productivity gains in EU’s economies are explained by the impact of ICTs”<sup>7</sup>. ICT sector in EU is playing a crucial role in as it’s gained to

- improve competitiveness throughout the economy in the face of globalization, boosting innovation, creativity and efficiency;
- provide scientific and technological;
- to modernize sectors as diverse as education, security, energy and transport;
- Tackling social challenges and improving quality of life.

The development of innovations finds its strategic planning and is highlighted in the EU’s official documents both as external and internal affairs.

Within the EU’s strategy “Europe 2020” José Manuel BARROSO (Brussels, 3.3.2010) explained that “the Commission is proposing five measurable EU targets for 2020 that will steer the process and will be translated into national targets, one of them is research and innovations”. In this regard, Europe 2020 puts forward three mutually reinforcing priorities:

- Smart growth: developing of the economy based on knowledge and innovation.
- innovation: the improvement of framework conditions and access to finance for research and innovation so as to strengthen the innovation chain and boost levels of investment throughout the EU flagship initiative "Innovation Union".
- Inclusive growth: unleashing the Europe's innovative capabilities, improving educational outcomes and quality and the outputs of education institutions, and exploiting the economic and societal benefits of a digital society.

Strategy explains the delivering role of these policies to the regional, national and EU levels. Stressing the importance of strengthening synergy between the EU’s support policies in the area of research and innovation and reinforcing economic, social and territorial cohesion, “Europe 2020” is supporting the contribution of EU Regional policy.

### **3. Features and problems in relations’ development between EaP countries and the EU in the sphere of ICT.**

Growing rate of the EaP countries in innovation development is structurally lower than in the EU, largely due to a productivity gap that has widened over the last decade. Much of this is due to differences in business structures combined with lower levels of investment in R&D and innovation, insufficient use of information and communications technologies, reluctance in some parts of our societies to embrace innovation, barriers to market access and a less dynamic business environment<sup>8</sup>.

For the EaP countries a key problem is the discrepancy between the stated goals and actual implementation of policy measures. Real innovation challenges, identified on the basis of R&D and innovation, are not defined clearly in official documents. Declarations on the need of innovation development are not supported by carefully tailored measures and, especially, the mechanisms of their implementation. Notes about the need of improvement business climate, reform of the state R&D sector

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<sup>7</sup> [http://ec.europa.eu/information\\_society/tl/research](http://ec.europa.eu/information_society/tl/research) - Europe’s Information Society

<sup>8</sup> Information and Communications for Development 2009,

<http://issuu.com/world.bank.publications/docs/9780821376058>, 18 December 2010

and policy implementation and design are dispersed among different state documents, but they are not backed by precise measures or these measures cannot be implemented due to juridical controversies in the process of their implementation. The lack of quantitative and corresponding indicators makes it difficult to control the process of innovation activity in the EaP countries.

For example, the EU is using European Innovation Scoreboard (EIS) which helps to provide (under the EU Lisbon Strategy) a comparative assessment of the innovation performance of EU-27<sup>9</sup>. There is no available data for the EaP countries to measure the Innovation development within the same criteria, except Global Innovation Index<sup>10</sup>. Unfortunately, the National Committees of Statistics only collects data on a very limited number of indicators in the innovation sphere and so, it is difficult to make a comprehensive analysis of the situation. Work distinguishing these indicators and harmonizing them with the corresponding EU indicators should become a key task to be tackled in the near future.

The responsibilities of key actors are not well-defined as state ministries. Agencies, which are responsible for supporting innovation activity, are not efficient, their competencies overlap and are not clearly defined. Mechanisms for implementation of innovation policy tend to be weak because innovation policy is not the main focus of the state authorities. Legal acts on innovation support have a lower priority when compared to some other state acts (e.g. Law on State Budget).

Analyzing entrepreneurship and innovation development in EaP countries (Legatum Prosperity Index)<sup>11</sup> we can say in general that underdeveloped technological infrastructure and limited government investment restrict innovations. The situation is quite similar in all EaP countries as high barriers to entry discourage entrepreneurship. The value added to the service industry is low, indicating an economy as still reliant on agriculture and manufacturing. A poor internet infrastructure and limited access to personal computers hurt the technological sector and poor communications infrastructure is offset by high investment in R&D, leaving EaP countries to perform near global averages.

However, the positive tendencies are expected to appear in the near future. Following the researches of International Telecommunication Union (ITU), it is worth mentioning that developing countries have higher level of ICT development index (around 38, 2% increase) in comparison with developed countries (36, 1 %)<sup>12</sup>.

Since 2009 the EU initiates Eastern Europe and Central Asia (EECA) ICT cluster with the support of the European Commission under the Information and Communication Technologies Thematic area of the 7th Framework Program (FP7-ICT)<sup>13</sup>. It aims to enable diffusion of information about research activities and exploration of new opportunities for ICT R&D collaboration between the EU and the EECA countries (Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan).

EECA ICT cluster comprises 3 complementary FP7-ICT support actions, which share common objectives and deploy a wide range of activities:<sup>14</sup>

- ISTOK-SOYUZ,
- SCUBE-ICT,

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<sup>9</sup> <http://www.proinno-europe.eu> - European Innovation Scoreboard (EIS)

<sup>10</sup> <http://www.globalinnovationindex.org> - The Global Innovation Index (GII) and Report 2009-2010

<sup>11</sup> The 2009 Legatum Prosperity Index, <http://www.prosperity.com>, 12 December 2010

<sup>12</sup> International Telecommunication Union (ITU), <http://www.itu.int>

<sup>13</sup> EU-Eastern Europe and Central Asia (EECA) Gateway on Information and Communication Technologies (ICT) research and development, <http://www.eeca-ict.eu>, 12 December 2010

<sup>14</sup> Information Society Technologies to Open Knowledge for Eastern Europe and Central Asia, <http://www.istok-soyuz.eu>, 12 December 2010

- EXTEND.

Targeting the EaP countries in the framework of EECA ICT cluster, we can outline the possibility to join the support actions (see Table 1).

Country	Ukraine	Belarus	Armenia	Azerbaijan	Georgia	Moldova
ISTOK-SOYUZ	V	V	V			
SCUBE-ICT	V	V				
EXTEND	V	V	V	V	V	V

**Table1.** EECA Cluster targeting EaP countries<sup>13</sup>

EECA ICT cluster is aimed to identify and analyze the ICT research priorities in the EECA countries, key ICT areas of mutual interest that may result to substantial socio-economic benefits and impact on all regions. Cluster also provides series of policy/consultation meetings for open discussions and exchange of ideas for the strengthen collaboration between the EU and the EECA region in the future<sup>14</sup>.

Concerning the data of National report under the EECA ICT cluster, the EaP countries have big potential in ICT and R&D. It’s possible to define the national ICT priorities, based on the ICT objectives of the 7th Framework Program for Research and Technological Development of the European Union:

Armenia:

- Cloud Computing, Internet of Services and Advanced Software Engineering;
- Digital Preservation;
- Computing Systems;
- Trustworthy ICT;
- Intelligent Information Management;
- Language Technologies;
- Technology-Enhanced Learning.

- Internet of Services, Software & virtualization;
- Language Based Interaction;
- Computing Systems;
- Digital libraries and digital preservation;
- Technology-Enhanced Learning;
- Intelligent information management;
- ICT and Ageing;
- ICT for Governance and Policy Modeling.

- Internet of Services, Software & Virtualization;
- Cognitive Systems and Robotics;
- Nanoelectronics Technology
- Design of Semiconductor Components and Electronic-based Miniaturized Systems;
- Computing Systems;
- Photonics;
- Digital libraries and digital preservation;
- Personal Health Systems;
- ICT for Patient Safety;
- ICT for Governance & Policy Modeling.
- solution of technical problems;
- Maximum inequalities for rearrangements; applications to functional analysis and scheduling theory;
- Generalized random

Azerbaijan:

- Georgia:
- High Performance Computing and Networking;
- Operations research and discrete mathematics;
- Stochastic processes and applied statistics;

Belarus:

- Research focuses on new technologies in decision-making (on the basis of fuzzy logics);
- Cryptograph systems, methods of numerical

elements and stochastic integrals in infinite dimensions, and best approximation and characterization of inner product spaces;

- Quantum computations; automated systems of pattern recognition;
- Photo-physical effects in photonics and quantum optics;
- Optical and photo-electrical properties of nano-structures, and optical chemistry, etc.

Moldova:

- Digital Libraries and digital preservation;
- Focus on learning in 21 st century; the new links between individual and organizational learning, and creativity; adaptive and

intuitive systems for learning; knowledge management;

- Intelligent Information Management;
- Focus on multi-core and polymorphic system architectures; new systems software, programming paradigms, engineering of large distributed systems;
- Nanoelectronics Technology;
- ICT for Patient Safety: safer surgery, integration of clinical research and clinical care, early detection of public health events.

Ukraine:

- Computing systems;
- Microsystems and smart miniaturized systems;

- Internet of services, software & virtualization;
- Cognitive systems and robotics;
- Technology enhanced learning;
- Intelligent information management;
- ICT for environmental services.



Pic. 1. The map of EECA Cluster in EaP countries<sup>13</sup>

#### 4. New opportunities of Eastern Partnership towards development of EU - EaP countries collaboration

The EaP is aimed to assist reforms, legislative approximation and economic integration. In the economic sphere the EU is not limiting possibilities by creating deep and comprehensive free trade areas (DCFTA) only, but rather a common economic union in the region, assisting economic approximation in each of the countries<sup>15</sup>.

The EU proposes to the EaP countries to use the economic policy instruments and participation in institutions and agencies, which were previously usually available for the EU candidate countries. In such a way, the economic integration in the EaP will take place through intensification of trade and flow of funds, as well as approaching of economic activity regulation rules and keeping in mind the positions of the Partnership Partner States in the process of policy making<sup>16</sup>.

Platform 2 "Economic Integration and Convergence with EU Policies" (9.10.2009) defined core objects as follows<sup>17</sup>:

- trade and trade related regulatory approximation to DCFTA;
- microeconomic and financial cooperation;
- socio-economic development;
- environment and climate change;
- Cooperation in the field of transport.

The objectives of socio-economic development particularly refer cooperation on regional policy issues, using the examples of the achievements of the EU cohesion policy.

Within socio-economic development and regional policy issues, the EaP is opening new opportunities to develop the collaboration in the field of innovations development, ICT and R&D under the Platform 2. It is considered that technology diffusion, reducing regional income inequality and providing development is possible through the regional growth.

##### *Theoretical framework:*

Regional growth theory is based on the neoclassical theory and explains the distinctive feature emphasizing issues of unevenness of growth in neighboring economies (regions). It also explains that a given region may not be considered in isolation from other regions of an integral national economy, it provides for certain constraints associated with a possible unevenness of growth and differences in initial conditions<sup>18</sup>.

To consider such constraints new models were designed, particularly, agglomeration (Fiani (1984)), "nucleus-periphery" (Murdal (1957) and Hirschman (1958), Ottaviano and al. (2002)) and model of random growth (Allison and Glazer (1997), Holmes and Stevens (2002), Davis and Wainstein (2002))<sup>18</sup>.

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<sup>15</sup> COM (2006) 'On Strengthening the European Neighborhood Policy', [http://ec.europa.eu/world/enp/pdf/com06\\_726\\_en.pdf](http://ec.europa.eu/world/enp/pdf/com06_726_en.pdf), 12 December 2010

<sup>16</sup> Martyniuk, Vitalii (2009), p. 38

<sup>17</sup> Platform 2 "Economic Integration and Convergence with EU Policies". Core objectives and proposed Work Programme 2009 — 2011, [http://eeas.europa.eu/eastern/platforms/docs/platform2\\_151109\\_en.pdf](http://eeas.europa.eu/eastern/platforms/docs/platform2_151109_en.pdf), 10 December 2010

<sup>18</sup> Research undertaken in the framework of CEPRA: Factors of Economic Growth in Russia's Regions, <http://www.iet.ru/files/text/cepra/ecorosten.pdf>, 10 December 2010



The Role of Innovations in Differences in regional growth is studied into factors of regional development by Andersson and Mancinen<sup>19</sup>, who employed the theory of knowledge creation and diffusion. The authors model regions with the neoclassical production function as follows:

$$Q_r = F_r(C_r, ar),$$

( $C_r$  – amount of capital in region  $r$ ,  $ar$  – availability of knowledge in region  $r$ , is found according to formula:  $ar = \sum_s \exp\{-\beta d_{rs}\} K_s$  where  $d_{rs}$  – distance between regions  $r$  and  $s$ ,  $K_s$  – accumulated amount of knowledge.

The model suggests that capital and knowledge grow in proportion to the aptness to savings  $\sigma_r$ , while the distribution between share of investment in physical capital and R&D is determined by the share of the latter in the total capital accumulation:

$$C_r = (1 - \rho_r) \sigma_r F_r(C_r, \sum_s e^{-\beta d_{rs}} K_s),$$

$$K_r = H_r(K_r, \rho_r, \sigma_r F_r(C_r, \sum_s e^{-\beta d_{rs}} K_s)), r = 1, \dots, n$$

( $H_r$  – positive, smooth functions, found in  $R+$ )

The authors demonstrated that this system sees an equilibrium for which the capital to knowledge ratio is constant. The analysis of the system's dynamics allows showing that with any distance  $d_{rs}$  reducing, the growth rate for all the regions rises in equilibrium. In the frame of assumptions of increasing return from economies of scale and the existence of spatial frictions, the model in question predicts that the bias of the R&D share in the total capital towards values higher than an equilibrium value may lead to an initial short-term rise in the regional income inequality.

*Practical application through EaP:*

Regional development in the EaP takes prominent place, and it is possible to combine strategically important issues within the great interest of the EU in innovations' development and certain EaP countries' potential in ICT and R&D. This provides favorable background for the cooperation, taking into the consideration the mechanisms of regional cooperation. It's possible to open new resource potentials for technological capacity with reducing the pressure of international borders<sup>20</sup>.

In the bilateral dimension the EaP is implementing in parallel with the Comprehensive Institution-Building Program (CIB) a new Regional Development Program, which is supposed to get about 20% of the additional finances as they are added to the national envelop of the European Union assistance to each country within the framework of the European Neighborhood Policy<sup>21</sup>

CIB program with an overall budget €175m is aimed to improve the institutional performance in the partner states, and their compatibility with EU institutions. The EU already signed Memoranda of Understanding with Armenia, Moldova, Georgia and Ukraine. Soon similar agreement would be negotiated for Azerbaijan. During 2011-2013 the CIB will cost around €32 in Armenia, €50m in Moldova, €31m in Georgia, and €40m in Ukraine.

Plans for Pilot Regional Development Programs (PRDP) are going to be modeled on EU cohesion policy. The EU has allocated €75m for PRDPs and should be agreed by 2012<sup>21</sup>.

<sup>19</sup> Andersson, A., E., J. Mantsinen (1981), p. 5

<sup>20</sup> Porter, M. E. (1998), p. 77

<sup>21</sup> Eastern Partnership Funds, <http://www.easternpartnership.org/programmes/eastern-partnership>, 15 December 2010

Funding for supporting preparation of the regional Partner Strategies, which stimulates raising the level of stability through internal approval and decrease of number of social and economic distinctions, should play crucial role in promoting trans-border international projects.

### **5. Concluding remarks and recommendations**

Innovations, particularly ICT, play significant and decisive role in the global economy. EU-27, as one of the world leaders in the digital economy, is emphasizing development of ICT and R&D sectors by strategically planning in official documents both the external and internal affairs.

Building collaboration between the EaP countries and the EU in the sphere of innovations and emphasizing the role of science and technologies is essentially actual, as it lays under the priorities of the Europe 2020 strategy and growing tendencies of innovations' development in the global economy. Provided theoretical framework of neoclassical models of innovation development and its role in regional growth, is arguing the necessity of collaboration for the technology diffusion, reducing of regional income inequality and providing further growth.

The EaP countries have certain drawbacks, but, at the same time, big potential for the future development. Possibilities for collaboration, implemented within EECA ICT cluster under the 7th FP for Research and Technological Development of the European Union, outlining the national priorities of Ukraine, Belarus, Moldova, Georgia, Armenia and Azerbaijan in ICT.

The research clarifies growth determinants in EaP collaboration under the Platform of Economic integration and its convergence with EU policies in favor of regional policy contribution. Concerning this, for the future development of collaboration under the EaP next steps are recommended:

- regional approach of EaP countries is to facilitate the trans-border projects on the topics ICT and R&D. Regarding this, national ICT priorities, corresponding with the EU must be clustered in accordance with geographical diffusion.

- EaP countries have to implement CIB for creating new inter-institutions providing Regional development program;

- EaP countries have to define ICT priorities of growth both in National and regional official documents, pointing on international aspects of development, in particular the EU and EaP.

The potential development of EU – EaP countries collaboration in the nearest future would also be influenced by the fact that after the Polish Presidency of the Council of the EU in 2011 – one of the EaP initiators with strategic and regional interests in the EaP region – the Danish Presidency is going to continue to “strongly support a strengthening of the EU external and development policies”<sup>22</sup>.

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## **Mechanisms of developing democratization and globalization under the frames of the Eastern Partnership**

*Annotation*

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The rapid development of global Internet networks and developing of its' opportunities have influence on variety of human life and activity. This leads to appearance of new kinds of social relations and organizational structures.

Integral image of socio-economic innovation is the so-called "online community". It's a group of individuals who, in a state of interdependence of each other, coordinate and harmonize their joint activities with the help of Internet technology, and make new structure of strong social capital. The principal feature of virtual communities is so that, use of Internet technologies in the process of joint activity, allows people to a greater extent than before, to implement its regulation on the basis of direct information exchange and interaction among all community members. These new features allow members of virtual communities to design new rules of the socio-democratic behavior and appropriate regulatory institutional arrangements, which also influence on globalization processes.

There are many opportunities for good quality communication in today's world. Society has mobile telephones, Internet, 3G etc. Communications are designed to build true understanding between people. Understanding, successful cooperation and goals reaching are results of quality information transfers. In my research, I'm taking social capital and virtual communities as tools for achieving the best quality democratization of European societies, their cultural and economic globalization under the frames of Eastern Partnership.

Accelerating informatization is predictable and the most visible vector of the impact of new technologies on the social structure of society, globalization and democratization (Transformation of the economic and socio-political institutions in the transition to information society [electronic resource] / Shadrin - Mode of access: <http://rvles.ieie.nsc.ru:8101/parinov/arteml.htm>. - Headline. from the screen. The impact of information technology on social organization: the use of new media radically reduces the cost of information transmission, simplified and rapidly accelerates the process of establishing geographically dispersed social groups (networks), which characterized by a predominance of non-hierarchical "horizontal" communication, the ability to communicate with everybody (Chuchkevich M. What is a network organization? / M. Chuchkevich. - M., 1999) and this has big influence on process of globalization. This modifies democratization and globalization levels. Lifelong learning, using all communication technologies (especially virtual communities), making the level of trust and understanding of citizens much higher, what have great influence on quality development of democratization and globalization?

Methods and means for implementing the proposed solutions in the project are based on the ideas of factor analysis and system STATISTICA.

# New view of South Caucasus: Perspectives and Possibilities

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## Introduction

If creation of Soviet Union changed the world political structure and political climate, its collapse also became the source of global changes, especially for its members, as far as their economics, based on the system dictated from Moscow, and foreign policy and relations, closed, isolated from another world appeared unsecured from the problems they faced with.

South Caucasus seems to be one of the most vulnerable to transformation. Meanwhile the collapse of the Soviet Union and severe political changes in south Caucasus, global international world had been changing also, in which began developing idea of democratic values, global markets, contemporary global system became interdependent, that enhance meaning of collaboration and cooperation. All this makes the South Caucasus to take European, western experience for its future development. Thus my thesis during my essay will be that ruination of south Caucasus as one geopolitical entity is the best way to reunion their powers and abilities to ensure their stable regional development.

This idea have been raised by Mikheil Saakashvili, the President of Georgia, who made the statement *“I strongly believe that a common market, shared interests and political and economic interdependence will one day give birth to a united Caucasus...”*. The completion of this idea would contribute to formation strong new South Caucasus; especially if we take under consideration European experience, benefits are really amazing. But having the Nagorno-Kharabakh dispute yet pending to be solved between Armenia and Azerbaijan, and the issues of Abkhazian break-away region and the South Ossetian separatist territories the issue of united Caucasus might seem a long shot.

During my research I'll depend on *case study*, as I use the European integration as ideal model for South Caucasus, and show how the “spill over” effect works. I highly believe that integration among the countries of South Caucasus instead of difficulties will help them to develop fundamental changes ensuring their successful relations and further development under the European umbrella.

## Two historical experiences

While starting discussions about the perspectives and possibilities of a new South Caucasian region, it would be useful to consider some historical experience. Thus I'll review two historical efforts which aimed at creating a common space: the first is “Common Caucasian House”, and the second- European Union, in order to reasonably assess the strategy which the south Caucasus should implement to insure its own stability and security under the common space. Bearing in mind the mistakes and facts those made this two ideas accomplished and unaccomplished will help us to create a more realistic approach to this issue.

Therefore the formation of the idea of a Common Caucasian House become notable after the collapse of the Soviet Union, as it created a new political climate. It should be mentioned that the development of the concept of a “Common Caucasian House” for that period was not reasonable. To begin with, such an attitude was mainly due to political aspects. The authors of the idea tended to perceive its accomplishment differently- : some of them talked about “the Caucasian Parliament”, - and some of them stressed the entity which would have much in common with the European Union. The emphasis was made on the political aspects of the confrontation with Russia that contributed to staying

out of sight the most important thing for such unification – common outlook, common values, and common aspects of economic and informational space.

The only thing, that became more accomplish, was the Confederation of Mountain People, which soon transformed into the Confederation of Caucasian People, with the aim of active involvement of Cossacks and other people within it, the improvement of the social-cultural and political relations among Caucasian people, in order to avoid ethnical or confrontations of other kinds, find peaceful resolutions, and create a common coordinated defense system.<sup>1</sup>

This idea in practical terms tended to be much more idealistic. It wasn't based on a specific predefined view and often showed its unstable nature. The politically and economically unformed approach was determined by the emotional attitude of confrontation with Russia. Nowadays, when we are talking about Caucasus as common cultural and economic space, we should develop a more complex and careful approach. Caucasian consolidation should be more thoughtful process. At this stage, the real basis for regional consolidation is the foundation common economic space among the South Caucasian countries.

The second case I would like to discuss is the EU. As we mentioned previously European experience would explain in the best way how the political problems can be replaced by economical cooperation. The issue should be analyzed by two main schools of scholars studying European integration. The inter governmentalist would say that attempt to create such a common space cannot be expected because it would be against the interests of national interests of national governments to transfer significant power to the European level. It is not to be expected for better or worse that the governments would really go ahead with this process of deepening in the European.

The second answer is the answer of the neo-functionalists and they argue with a “spill over” effect. To keep the EU alive you cannot stand still. It must go forward; this is the answer, based on the past experience of European integration. The inter governmentalist argue that the EU will be what it is, an international organization with some federal elements and the national governments will take care of this status quo, no significant trend will be allowed towards a strong supranational character of the union. The neo-functionalists would argue that there is already a specific experience that the EU is able to develop beyond its present stage despite status quo oriented interests of the national governments. This is the spillover effect which has been observed in the past, when you consider that the EU started as a common market. And because it was a common market, it had to become, after a certain experience, a single market. Because it was a single market, it had to become a monetary union, and because it is a monetary union, it has to become a political union. Not because it is on the agenda of the national governments but because it is in the logic of the development of integration. One aspect, especially when you talk about federalism and the federalists is the question, “Can you learn from other experiences; can you learn from history?”<sup>2</sup> Of course you can, the South Caucasus has real potential to achieve the same.

So we face with two historical experiences, in the first case Caucasian unification remained unrealized due to its emotional bases, and in the second case through emphasizes on economic aspects and cooperation, and by neglecting political approaches that led the whole Europe to bloody wars over centuries, resulted enormous achievement, from economical to political unification.

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<sup>1</sup> The North Caucasian people unity: myth and reality.- Strategic and analytic center of Ministry of Foreign Affairs of Georgia, bulletin 7 (16), Tbilisi, 1991, pp. 20-21

<sup>2</sup> M. Gehler, L. Kuhnhardt, R. Steininger, G. Bischof, *Towards a European Constitution, A Historical and Political Comparison with the United States*, 2005, pp. 526-527

The economical projects in South Caucasus are important aspects for the regional integration because willy-nilly make involve the states within the interdependence space and bring as a result improvement of relations in other fields.

Except the economical factors social-technological progress has raised the new aspects. In particular, social links, a variety of informational sources made the society direct participant of current political processes; made them vulnerable to political decisions that conduct the relations among the countries of region. And the religious and cultural differences are no more significant determinant. Muslim Azerbaijan develops close relations with Christian Georgia, while the Armenia expands economical cooperation with Islamic Iran. It indicates that not religious or other distinctive cultural features but common economic interests and expanded relations on individual level give the optimistic view of regional integration.

Experience shows that international trade and closer economic ties not only lower the risk of conflicts breaking out, but that they foster an atmosphere of tolerance and trust that is necessary for the resolution of conflicts at the same time as facilitating business activities. Conflicts can be settled more effectively when the settlement process is supplemented by emergence of mutually beneficial economic activity. Creating a unified economic space and economic cooperation could thus be means for settling conflicts. Hence, incorporating the South Caucasus economies into the wider regional market, and thus global market, is vitally important in the context, entrepreneurial activity must be supported both at national and regional level.<sup>3</sup>

#### **The South Caucasus - Overlook of Security Dimension**

Before discussing economic cooperation among countries in South Caucasus, political and security issues of the region need to be assessed as they are distinctly related to each other. Prospects of long-term stability in South Caucasus still remain uncertain; the prime reason of this is unresolved conflicts of the South Caucasian Region (namely the conflicts of Nagorno-Karabakh, South Ossetia and Abkhazia) as it entailed instability, political disagreement and economic decline.

Military security threats:

- Unresolved conflicts
- Russian military presence in the region
- Drug trafficking and drug consumption

The situation is aggravated by the fact that there is no common strategy among those countries, understanding of their threats and security sometimes differs from each other. Furthermore, they are contradictory, which interrupt development of each country and a whole region as well.

All the abovementioned confirms that the problem can only be solved through economic cooperation and understanding of South Caucasus as one security region. According to Bari Buzan: „A security complex is a group of states whose primary security concerns link together sufficiently closely that their national securities cannot realistically be considered apart from one another.” It’s important to say that such type of interdependence means rivalry relations (enmity) as wells as shared interest (amity). So, the South Caucasus can be considered as sub region, whose countries’ securities are highly interdependent. Any destabilization in the region may have negative consequences on each of these countries. Therefore, it’s important to mention that no stability can be achieved unless there is common regional vision and strategy. It is possible only by economic cooperation and integration, however,

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<sup>3</sup> Anjia Wittich, Achim Maas, *Regional Cooperation In the South Caucasus, Lessons for Peace building, from Economy and Environment*, Initiative for peace building, 2009, p. 13

Azerbaijan, Armenia and Georgia are unable to overcome all difficulties independently, and external actors have decisive role in it.

Buzan defines two types of security complex: Lower and Higher. Low security complex means that it is composed of countries, whose power does not extend the region, while High security complex includes states that have sufficient resources and strength to intervene in other region.<sup>4</sup> In this context, South Caucasus security analyzes is impossible without considering the role of such players as Russia, EU, USA, Iran and Turkey.

#### **Prospects of economic collaboration in South Caucasus**

The old Soviet central planning system ensured distribution of goods and services among all the constituent republics, including the Armenian, Azeri and Georgian SSRs. This is how the supply-demand ratio was balanced. Armenia had a strong industrial sector, supplying machine tools, textiles, shoes and manufactured goods to other republics in exchange for raw materials and energy. The bulk of the Azeri industrial capacity was involved in drilling and processing oil and gas commodities. Concomitantly, however, the non-energy sector remained in shatters. The Georgian economy was centered on Black Sea tourism, cultivation of citrus fruits, tea and grapes, mining of manganese and copper and production of wine, metals, machinery, chemicals, and textiles (East West Institute, 2003b). Georgia suffered from energy shortages and imported the bulk of its energy needs. Thus, the Soviet regime ensured interaction among the Armenian, Azeri and Georgian SSRs.<sup>5</sup>

After independence the Soviet-style industrial complex turned out to be antiquated and unable to compete in the open market. The agricultural sector also experienced a shock because of abolition of collective ownership and speedy privatization. All the former Soviet states were confronted with the urgency of restructuring their economies on their own and anew.

After the dissolution of USSR, south Caucasian countries started developing their economies. Firstly, this meant moving from centralized to market based economies implementing number of economic reforms. The 90's appeared to be hard for the region, as the economic crisis hit each of them. The overall situation is much improved now, but the countries still have their own problems, challenges and factors that affect their economic development. Unemployment, political influence on economy and other features act as common drawbacks. The countries also have their economic course, achievements. The main direction of Georgian economy is rapprochement with EU including free trade relations. Azerbaijan is a leading country in the region mainly due to its gas and oil natural resources. Its main goal is to join WTO that will greatly benefit its economic condition. In the common perspective of problems, all these countries have regional territorial conflicts such as Nagorno-Karabakh, Abkhazia or South Ossetia that act as an obstacle for developing free economic relations among countries. But it's worth mentioning that Europe is particularly interested in the region and it creates additional opportunities for new economic projects and collaboration.

EU- South Caucasus relations have been centered on three main issues: assistance to political and economic transition processes; conflict resolution; and support to the development of the energy potential of the region. These priorities also illustrate the commitment of the ENP (European Neighborhood Policy) to a cross-cutting approach, as well as to the development of soft and hard mechanisms under a common framework. These choices place the EU in a central position to create

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<sup>4</sup> Buzan Barry, *People, States, and Fear: an Agenda for International Security Studies in the Post ColdWar Era* 2<sup>nd</sup> ed. (1991), p. 195

<sup>5</sup> Syuzanna Vasilyan, *The Policy of "Regional Cooperation in the South Caucasus"*, Centro Argentino de Estudios Internacionales, [www.caei.com.ar](http://www.caei.com.ar), p. 9



stability in the wider Black Sea area, providing it with more visibly and increasing coordination and efficacy of its instruments.<sup>6</sup>

It would be useful to discuss the economic integration of South Caucasus and its importance in three directions so called “levels”:

The first is “local” level - bilateral communications, interstate relations and the agreements that have usual character and tend to bring continuous economic gains. For instance, Georgia has free trade agreements with both of the region countries-Armenia and Azerbaijan. Surely, deepening these kind of relations is necessary for more economic gains.

Secondly, “regional” level- we should discuss the influence and importance of South Caucasian region more broadly on the Black sea and Caspian sea region. Georgia’s geographic position with access to the Black Sea and, thus, the West is advantageous. Two of the strategically valuable ports of Batumi and Soukhumi, however, belong to the separatist regions of Abkhazia and Adjara, respectively. Therefore, Georgia’s prospect of economic development is tied to preservation of its sovereignty and territorial integrity. Simultaneously, Tbilisi has always cherished the construction of Baku (Azerbaijan) - Tbilisi (Georgia) - Ceyhan (Turkey) oil and Baku (Azerbaijan) – Tbilisi (Georgia) – Erzurum (Turkey) gas pipelines, which would raise investments in the Georgian economy. Internally torn since the collapse of the Soviet Union, Georgian has managed to sustain economic relations both with Armenia and Azerbaijan. That is particularly interesting as it deals with relations with Turkey and other black sea region countries. For this region, the organizations such as BSEC and GUAM can play their role if used reasonably and accordingly to the main objectives of these organizations.

Thirdly, “global” level - on the broader sense, the more important is the geostrategic importance of the region for US and especially for EU, which became more active in the later periods. The South Caucasus is the source of alternative energy resources for Europe and it is important not only for economic sense but for security, because it reduces the dependency of Europe on Russian oil and gas. From the projects with these intentions, the most important is building Nabucco, Baku-Tbilisi-Ceyhan and south Caucasian pipelines. It will provide Georgia and Azerbaijan with alternative resources and help improving their economic relations. Besides it will become additional source for Europe as well. It’s obvious that these projects intend to lessen dependency on Russian energy resources and it’s directly connected with security issue and relationship with Russia as it also plays an important role in the region. We need to mention the importance of Karsi-Tbilisi-Baku railway that will start exploiting in 2013. The project will have importance for Azerbaijan and Georgia for making countries’ economies dependent on each other, besides improving tourist flow between them. The projects mentioned above have not only regional but broader, geostrategic importance.

It should be noted some problematic aspects as well. The economic threats can be classified as following:

- Armenia’s non-participation in the major regional infrastructure projects
- Uneven distribution of wealth
- Underdeveloped manufacturing sectors, especially knowledge-intensive and high technology fields
- Monopolization and unfair competition
- Appreciation of national currencies

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<sup>6</sup> Licinia Simao, *EU-South Caucasus Relations: Do Good Governance and Security Go Together?* University of Coimbra, *Political Perspectives*, 2011, Volume 5(2), 33-57, pp.47-48

- Russia's policy of purchasing critical infrastructures, industries and financial institutions;
- Existence of unresolved conflicts
- Closed borders and economic<sup>7</sup>

Armenia's non-participation in the major regional infrastructure projects are among major economics treats. Moreover, Armenia develops military agreements with Russia, one of the concerns which upgrades a 1995 treaty allowing Russian forces to be stationed in Gyumri, extends the Russian military presence from the initial 25 years to 49 years, ending in 2044.<sup>8</sup> Also it should be consider Armenia's close economic ties with Iran. All these in the security context damage the strategic chain that should become the key point in creation common South Caucasian economic space. Thus Armenia's more integrity in common economic projects is essential to stability in order to avoid further problems by separating it from common regional processes.<sup>9</sup>

### **Conclusion**

In conclusion, it should be say that economic integration is the most real basis for South Caucasian integration that is widely supported by existing economic projects, also by contemporary more cultural and social integrity, and what is one of the most important, EU interests is becoming an increasing from its strategic economic and energy security perspective. There are several reasons for the growing EU interest. From the economic dimension through its policy EU has got closer to the South Caucasus geographically and gained new members to which this region matters more. European attention is turned to the oil and gas resources in the Caspian basin and the transit possibilities in the South Caucasus. By using all this possibilities the South Caucasus has real potential for gaining more integrated economic space that will contribute to conflict resolution and creating common security, cultural, social space.

As a recommendation, concrete projects should be encouraged. Success in one sector will stimulate cooperation in other sectors too. The "functional" approach is promising because of several reasons: a) specific sectors of common interest are easier to find; b) it creates the sense of cooperation and stimulates confidence-building; c) it delivers tangible results.

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<sup>7</sup> The South Caucasus Security Platform, Strategy from the Perspective of the Civil Society, Norwegian Atlantic Committee, Oslo, Norway, 2007, p.10

<sup>8</sup> Medvedev: 'Russia Treats Commitments as Ally Very Seriously', <http://www.armenianweekly.com/2010/08/21/medvedev-russia-treats-its-commitments-as-an-ally-very-seriously/>, 30.03.2012

<sup>9</sup> David Pipinashvili, *The South Caucasian Conflicts and the Problems of Regional Stability*, Tbilisi University Press, 2009, p. 173

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## **New view of South Caucasus: Perspectives and Possibilities**

*Annotation*

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If creation of Soviet Union changed the world political structure and political climate, its collapse also became the source of global changes, especially for its members, as far as their economics, based on the system dictated from Moscow, and foreign policy and relations, closed, isolated from another world appeared unsecured from the problems they faced with.

South Caucasus seems to be one of the most vulnerable to transformation. Meanwhile the collapse of the Soviet Union and severe political changes in south Caucasus, global international world had been changing also, in which began developing idea of democratic values, global markets, contemporary global system became interdependent, that enhance meaning of collaboration and cooperation. All this makes the South Caucasus to take European, western experience for its future development. Thus my thesis during the essay will be that more economic integrity in the region will eventually contribute to development of further cooperation. A web of regional cooperation formats that has been established throughout the South Caucasus aim to support dialogue, confidence-building, conflicts transformation and create fertile ground for achieving regional integrity in other spheres, especially when this process is highly supported by EU from its energy security perspectives.

Furthermore the idea of creating common regional space have been raised by Mikheil Saakashvili, the President of Georgia, who made the statement "*I strongly believe that a common market, shared interests and political and economic interdependence will one day give birth to a united Caucasus...*". The completion of this idea would contribute to formation strong new South Caucasus; especially if we take under consideration European experience, benefits are really amazing. But having the Nagorno-Kharabakh dispute yet pending to be solved between Armenia and Azerbaijan, and the issues of Abkhazian break-away region and the South Ossetian separatist territories the issue of united Caucasus might seem to obstacle increasing process.

During my research I'll depend on *case study*, as I use the European integration as ideal model for South Caucasus, and show how the "spill over" effect works. I highly believe that integration among the countries of South Caucasus instead of difficulties will help them to develop fundamental changes ensuring their successful relations and further development under the European umbrella.

# Excusable necessity in legislations of Georgia and European States

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## Introduction

The past of humanity is the history of creation of order. A natural condition of mankind, which is similar to one individual human being, is chaotic and in this condition one is against all<sup>1</sup>. The way famous British thinker Thomas Hobbes describes this condition of mankind is that in this state of nature one's life is "solitary, poor, nasty, brutish and short"<sup>2</sup>, because humans fear each other<sup>3</sup>. This is happening because one's life is threatened by everybody else. So, probably that's way first law was made, to create order, discipline.

First laws ever created seem to be more criminal norms, for example norms from bible: "Thou shalt not kill", "Thou shalt not commit adultery", "Thou shalt not kill"<sup>4</sup>, or norms from Hammurabi's code: "If any one steal the property of a temple or of the court, he shall be put to death, and also the one who receives the stolen thing from him shall be put to death."<sup>5</sup>

History of a study of criminal law showed that all these norms are imperative and peremptory, a list of punishable crimes should be comprehensive in a criminal code. Nobody has right to expand this list and justifiable or excusable circumstances should be perfectly listed too. But in reality almost in every civilized nation criminal law contains some circumstances which are not perfectly listed in their criminal code. In this cases so called judicial law starts to interpret. It is true that legislator does not perfectly give us some special circumstances, but than judge creates law, by exclusion of punishment for such crimes.<sup>6</sup>

In reality it is impossible to create a code, which is perfect, which contains all possible cases of mankind, or even one human being. During centuries norms were created and fulfilled, problems were solved, but one special circumstance is still a question for arguing to philosophers and lawyers. This circumstance is known as "tragic collision".

Tragic collision cases usually occur, when there is collision of interests of equal importance, when conflict is created, in which decision should be made for saving one legal interest at the expense of unlawful encroachment of another one<sup>7</sup>

In this paper I am going to formulate the essence of tragic collision cases, to give full of arguments for and against my position, that people who take part in these cases should not be punished. I want to justify that in the tragic collision cases survivor should be excused crime. Also I am going to show you the arguments against my position, so that excusable necessity or tragic collision should be analyzed as perfectly as it might be. Finally I am going to explain or show what step Georgia can make in European integration process by writing a new norm in our code of excusable necessity.

## Historical Review

### Hypothetical Cases

### Plank of Carneades<sup>8</sup>

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<sup>1</sup> Thomas Hobbes: *Leviathan*, Cambridge University Press 1991, pg. 11.

<sup>2</sup> John Locke: *Questions Concerning the Law of Nature*, Cornel University Press, 1990, pg. 12. Hobbes

<sup>3</sup> Thomas Hobbes: *Leviathan*, Cambridge University Press 1991, pg. 8.

<sup>4</sup> David Hazony: *The Ten Commandments: How Our Most Ancient Moral Text Can Renew Modern Life*, New York: Scribner 2010, pg. 53.

<sup>5</sup> Marc Mierop: *King Hammurabi of Babylon: a Biography*, Cambridge: Blackwell Publishers 2004, pg. 102.

<sup>6</sup> Otar Gamkrelidze: *Explanation of Georgian Criminal Code*, 2008, pg. 259.

<sup>7</sup> Merab Turava: *Criminal Law: General Part*, Eighth Edition, 2010, pg. 243.

When we start to talk about tragic collision cases, first of all we have to remember famous philosopher from ancient Greece – Carneades. Carneades from Cyrene was first thinker who gave puzzle to other philosophers.

His thought experiment, so called plank of Carneades, looks like this: There are two shipwrecked sailors, A and B. They both see a plank that can only support one of them and both of them swim towards it. Sailor A gets to the plank first. Sailor B, who is going to drown, pushes A off and away from the plank and, thus, ultimately, causes A to drown. Sailor B gets on the plank and is later saved by a rescue team. Can sailor B be tried for murder?<sup>9</sup>

First thinker, who tried to answer this question, was Roman stoic Hecaton. He was thinking that somehow shipwrecked sailors should draw lots and it is permissible to push the other from the plank only if he lost in lottery and refuses to cede his place, so lucky one should survive.<sup>10</sup>

After Hecaton, Cicero started to review the case of Plank of Carneades. Thoughts of Cicero were expanded by Grotius. They maintained that the duty to avoid inflicting harm on another ought weight the entitlement to fight for one's survival. They think it is not permissible to push the other of the plank even if he lost in the lottery. Cicero once said: "Wise man will not steal bread from another, even thou he know he would die with hunger."<sup>11</sup>

It was not until Kant however, that we come to modern understanding of tragic collision, or in this case plank problem. He answered to the question of Carneades: "There can be no penal law that would assign the death penalty to someone in shipwreck, who in order to save his life, shoves another, whose life is equally in danger of a plank on which he has saved himself. For the punishment threatened by the law could not be greater than the loss of his own life. A penal law of this sort could not have the effect intended, since the threat of an evil, that is still uncertain (death penalty), ought not to weight the fear of an evil which is certain (drowning). Hence the deed of saving one's life by violence is not to be judged inculpable, but only unpunishable."<sup>12</sup>

From Kant's discussion I want to underline that a judge while blaming on a person a crime, should compare a motivation to obey to a motivation provided to commit it.<sup>13</sup> As much stronger impulsive motivator is blame of a person is less in committing of a crime. In plank case motivation provide by imminent fear of death is so strong, that we can not compare it to any constitutional way of punishment. So the crime should be excused and person should not be punished.<sup>14</sup>

There are several problems with Kant's arguments in passage, but they are not concern to us right now, because criminal law made huge steps thanks to this thinker. I just want to highlight and agree one of his ideas, that an action of a person who pushed another from a plank should not be justified, because crime is

<sup>8</sup> Carneades ( 214/3-129/8 BC) was an Academic skeptic born in Cyrene. He seems to have doubted the ability, not just of the senses but of reason too, in acquiring truth. His skepticism was, however, moderated by the belief that we can, nevertheless, ascertain probabilities of truth, to enable us to live and act correctly.

<sup>9</sup> Look for exapmple, U. Kindhäuser: *Strafrecht*, AT, Fourth Edition, 2009, pg. 190.

<sup>10</sup> Hecaton, *Moral Duties*. See in book, Cicero: *De Officiis*, Book III, xxiii, (trans. Walter Miller), Harvard University Press 1975, pg. 108.

<sup>11</sup> Grotius, *The Rights of War and Peace* , (Translation, A.C. Campbell) Hyperion Press 1979, pg. 34.

<sup>12</sup> Immanuel Kant: *Metaphysik Der Sitten*, Akademie-Ausgabe vol VI, (trans. Mary Gregor) Cambridge University Press 1991, pg. 228.

<sup>13</sup> Joachim Hruschka: *Rechtfertigungs-und Entschuldigungsgründe: Das Brett des Carneades bei Gentz und Kant*, Goldammer's Archiv 1991, pg. 12.

<sup>14</sup> Sharon Byrd, *On Getting The Reasonable Person Out of the Courtroom*, Cambridge University Press 2005, pg. 202.

still crime and there is no way that we justify murder, call it “good faith”, but considering tragic collision crime should be excused.

Kant was not alone in discussing plank case, he had a very strong opposition. They were thinking that an action should be justified. I want to highlight ideas of two of them: Bacon and Blackstone. Both are inclined to see pushing another from the plank as justified.<sup>15</sup> They disagree only about the justification in issue. Bacon makes strange suggestion that the privilege here is the similar to self-defense, but stronger.<sup>16</sup> Blackstone, by contrast thinks that pushing other off the plank is a kind of self-defense<sup>17</sup>. But both think there is an entitlement to push another off a plank, a privilege that allows an agent fully to justify, not merely excuse his doing so.

Both, Bacon and Blackstone, found their approach in Pufendorf's ideas. Samuel Pufendorf said: “If to men are in immediate danger of both perishing, one is allowed to do anything to hasten the death of other (since the other would perish anyway) in order to save himself.<sup>18</sup> Moreover, Pufendorf thinks that even if one lost in the lottery he is still entitled to resist being pushed off the plank when the other attempts to enforce the bargain.

As we see, approaches of Kant and Puffendorf are differed with one word – right. That time criminal law did not knew difference between justifiable and excusable circumstances. This difference gives as a permit to say that a person committed a crime by we excuse him.<sup>19</sup>

Main point is that both, Kant and Pufendorf, agree on one thing, that one who pushes another from the plank should not be punished. So I would like to stop at this point comparing ideas of this thinkers in last chapters of my paper, right now I want to justify that this kind of person should not be punished for saving own life.

### **The Case of the Speluncean Explorers**

The Case of the Speluncean Explorers is a famous hypothetical legal case used in the study of law, which was written by Lon Fuller in 1949 for the Harvard Law Review<sup>20</sup>: Action is going in future in year of 4300 in the supreme court of the state of Newgrath. The defendants, having been indicted for the crime of murder, were convicted and sentenced to be hanged by the Court of General Instances of the County of Stowfield. They bring a petition of error before this Court. The facts sufficiently appear in the opinion of the Chief Justice. “The four defendants are members of the Speluncean Society, an organization of amateurs interested in the exploration of caves.

Early in May of 4299 they, in the company of Roger Whetmore, then also a member of the Society, penetrated into the interior of a limestone cavern of the type found in the Central Plateau of this Commonwealth. While they were in a position remote from the entrance to the cave, a landslide occurred. Heavy boulders fell in such a manner as to block completely the only known opening to the cave. When the men discovered their predicament they settled themselves near the obstructed entrance to wait until a rescue party should remove the detritus that prevented them from leaving their underground prison. On the failure of Whetmore and the defendants to return to their homes, the Secretary of the Society was notified by their families. It appears that the explorers had left indications at the headquarters of the Society

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<sup>15</sup> Claire Oakes Flinkestein: *Two Men and a Plank*. pg. 250,

See: <https://www.law.upenn.edu/cf/faculty/cfinkels/workingpapers/Two%20Men%20and%20a%20Plank.pdf>;

<sup>16</sup> *The Works of Francis Bacon*, Shedding, Ellis & Heath eds. 1859, pg. 343.

<sup>17</sup> William Blackstone: *Comentaries*, Cambridge University Press 1913, გვ.12.

<sup>18</sup> Samuel Pufendorf: *On the Duty of Man and Citizen According to Natural Law*, 1706. James Tully, Cambridge University Press, 1991, pg. 21.

<sup>19</sup> Merab Turava: *Criminal Law: General Part*, Eighth Edition, 2010, pg. 243.

<sup>20</sup> Lon L. Fuller: *The Case of The Speluncean Explorers*, Harvard Law Review 1949, pg.115.

concerning the location of the cave they proposed to visit. A rescue party was promptly dispatched to the spot.

The work of removing the obstruction was several times frustrated by fresh landslides. Success was finally achieved on the thirty-second day after the men entered the cave. Since it was known that the explorers had carried with them only scant provisions, and since it was also known that there was no animal or vegetable matter within the cave on which they might subsist, anxiety was early felt that they might meet death by starvation before access to them could be obtained. On the twentieth day of their imprisonment it was learned for the first time that they had taken with them into the cave a portable wireless machine capable of both sending and receiving messages. A similar machine was promptly installed in the rescue camp and oral communication established with the unfortunate men within the mountain.

They asked to be informed how long a time would be required to release them. The engineers in charge of the project answered that at least ten days would be required even if no new landslides occurred. The explorers then asked if any physicians were present, and were placed in communication with a committee of medical experts. The imprisoned men described their condition and the rations they had taken with them, and asked for a medical opinion whether they would be likely to live without food for ten days longer. The chairman of the committee of physicians told them that there was little possibility of this. The wireless machine within the cave then remained silent for eight hours. When communication was re-established the men asked to speak again with the physicians. The chairman of the physicians' committee was placed before the apparatus, and Whetmore, speaking on behalf of himself and the defendants, asked whether they would be able to survive for ten days longer if they consumed the flesh of one of their number. The physicians' chairman reluctantly answered this question in the affirmative.

Thereafter no further messages were received from within the cave, and it was assumed (erroneously, it later appeared) that the electric batteries of the explorers' wireless machine had become exhausted. When the imprisoned men were finally released it was learned that on the twenty-third day after their entrance into the cave Whetmore had been killed and eaten by his companions<sup>21</sup>

Fuller finishes paper with these words: "The case was constructed for the sole purpose of bringing into a common focus certain divergent philosophies of law and government. These philosophies presented men with live questions of choice in the days of Plato and Aristotle. Perhaps they will continue to do so when our era has had its say about them. If there is any element of prediction in the case, it does not go beyond a suggestion that the questions involved are among the permanent problems of the human race"<sup>22</sup>

As the review of this case I can say that it is truly tragic situation, what these men did was done in pursuance of an agreement accepted by all of them and first proposed by Whetmore himself. Since it was apparent that their extraordinary predicament made inapplicable the usual principles that regulate men's relations with one another, it was necessary for them to draw, as it were, a new charter of government appropriate to the situation in which they found themselves. But the court sentenced them death penalty, because in the law of Newgrath there was nothing what can grant freedom of defendants.

As I already said I am for excusing this kind of men, because they are victims themselves. But there are many scholars, even nowadays and even in Georgia that believe that they should be executed. For example T. Tsereteli thinks that it is unauthorized to take someone's life, because of saving oneself, that's why this kind of action is similar to a regular crime<sup>23</sup>

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<sup>21</sup> Lon L. Fuller: *The Case of The Speluncean Explorers*, Harvard Law Review 1949, See: <http://www.nullapoena.de/stud/explorers.html>

<sup>22</sup> Same↑

<sup>23</sup> T. Tsereteli and G. Tkesheliadze: *Comentaries of Criminal Code of USSR Georgia*, 1976, pg.112.

In contrast, Merab Turava, another Georgian scholar thinks that approach of Tsereteli about this topic is unacceptable for modern criminal law. I completely agree with him, because government can not demand from individual to sacrifice his own life to save another's. So, I think that my way of arguing is correct and for more argumentation I'm going to use some real cases.

### **Real Cases**

#### **Her Majesty the Queen vs. Dudley and Stephens<sup>24</sup>**

*R v Dudley and Stephens* [1884] is a leading English criminal case which established a precedent, throughout the common law world, that necessity is no defense to a charge of murder.

The English yacht *Mignonette* was sailing for Sydney from Southampton on 19 May 1884 with a crew of four: Tom Dudley, the captain; Edwin Stephens; Edmund Brooks; and Richard Parker, the cabin boy. Parker was 17 years old and an inexperienced seaman. *Mignonette* sank within five minutes of being struck and the crew abandoned ship for the lifeboat, managing only to salvage vital navigational instruments along with two tins of turnips and no fresh water.

Dudley managed to improvise a sea anchor to keep the lifeboat headed into the waves and maintain her stability. Over the first night, the crew had to fight off a shark with their oars. Dudley kept the first tin of turnips until 7 July when its five pieces were shared among the men to last two days. On or around 9 July, Brooks spotted a turtle which Stephens dragged on board. The crews were resolutely avoiding drinking seawater as it was then universally held to be fatal and, though they devoured the turtle, they forewent drinking its blood when it became contaminated with seawater.

The crew consistently failed to catch any rainwater and by 13 July, with no other source of fluid, they began to drink their own urine. It was probably on 20 July that Parker became ill through drinking seawater. Stephens was also unwell, possibly having experimented with seawater. Drawing lots in order to choose a sacrificial victim who would die to feed the others was possibly first discussed on 16 or 17 July, and debate seems to have intensified on 21 July but without resolution. On 23 or 24 July, with Parker probably in a coma, Dudley told the others that it was better that one of them die so that the others survive and that they should draw lots. Brooks refused. That night, Dudley again raised the matter with Stephens pointing out that Parker was probably dying and that he and Stephens had wives and families. They agreed to leave the matter until the morning. The following day, with no prospect of rescue in sight, Dudley and Stephens silently signaled to each other that Parker would be killed. Killing Parker before his natural death would better preserve his blood to drink.

Few days after murder sailors were found. On the trail Dudley said: "I can assure you I shall never forget the sight of my two unfortunate companions over that ghastly meal we all was like mad wolfs who should get the most and for men fathers of children to commit such a deed we could not have our right reason"<sup>25</sup>

I give myself right to show you the quote from the Judgment of these defendants: "To preserve one's life is generally speaking a duty, but it may be the plainest and the highest duty to sacrifice it. War is full of instances in which it is a man's duty not to live, but to die. The duty, in case of shipwreck, of a captain to his crew, of the crew to the passengers, of soldiers to women and children, as in the noble case of the *Birkenhead*; these duties impose on men the moral necessity, not of the preservation, but of the sacrifice of their lives for others, from which in no country, least of all, it is to be hoped, in England, will men ever shrink, as indeed, they have not shrunk... It must not be supposed that in refusing to admit temptation to be

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<sup>24</sup> You can see the case fully in Simpson, A. W. B.: *Cannibalism and the Common Law: The Story of the Tragic Last Voyage of the Mignonette and the Strange Legal Proceedings to Which It Gave Rise*, Chicago: University of Chicago Press 1984

<sup>25</sup> Simpson, A. W. B.: *Cannibalism and the Common Law: The Story of the Tragic Last Voyage of the Mignonette and the Strange Legal Proceedings to Which It Gave Rise*, Chicago: University of Chicago Press 1984, pg. 184.



an excuse for crime it is forgotten how terrible the temptation was; how awful the suffering; how hard in such trials to keep the judgment straight and the conduct pure. We are often compelled to set up standards we cannot reach ourselves, and to lay down rules which we could not ourselves satisfy. But a man has no right to declare temptation to be an excuse, though he might himself have yielded to it, nor allow compassion for the criminal to change or weaken in any manner the legal definition of the crime.<sup>26</sup>

Dudley and Stephens were found guilty because there was no law, statute or precedent that could grant their freedom, they were sentenced death penalty. But nobody really knew what they would do if they were at the same place. I think that's why few months later both of the prisoners were set free by amnesty. The problem was that in Common law, which was the law of England, there was not such a thing called criminal code. The main source of law is a precedent and these kinds of precedents are not too much. In this case judges realized that the action of Dudley and Stephens was not subject to justification (because it was an unlawful act), but at the same time they realized, that they should not punish victims already, that's why they recommended pardon.

### **Erdemović Case**

One of the most famous cases of all time worldwide is Erdemović case.<sup>27</sup> One of those places was the farm in Pilica, 15 kilometers from the border with Serbia, where Erdemović and the 10th Sabotage Detachment were tasked by General Ratko Mladić to execute about 1,200 Bosniak men and boys between the ages of approximately 17 and 60 years, who had surrendered to the members of the Bosnian Serb police or army near Srebrenica. On July 16, the prisoners were bussed to the farm and gunned down in groups of ten. Erdemović allegedly resisted the order, but was then told that he either shot them, or hand his gun to another, and join those to be killed. After the murders were over the victims were buried in mass graves. While it is unknown exactly how many people were personally killed by Erdemović, he estimated it was around 70 men and boys.

As modern scholars say nowadays this case is duress, kind of excusable necessity, but Tribunal of ex-Yugoslavia did not analyze this case like this. This Erdemović case was significant in the Tribunal as it was the first application of the defense of duress, claiming that his life had been threatened and that he had no choice. It was found that it did not absolve him of guilt, but could be a mitigating factor in sentencing. On November 29, 1996, Dražen Erdemović was sentenced to ten years in prison, convicted of murder as a crime against humanity.

It happened because there was not this kind of special circumstance with which freedom could be granted, but nowadays Statute of Rome has developed idea of duress in excusable necessity.<sup>28</sup> So this is the time I want to go back to Kant and Pufendorf to see a difference between justifiable and excusable circumstances.

### **Justification or Excuse**

#### **Pufendorf and Kant**

At this point readers should have few questions because of proceeding of my paper and that was my porpoise, because this global wide problem now is decreased in concrete questions. Can two individuals, each of whom needs a certain resource for his survival have equal and conflicting rights to that resource? Answer on this question, in my opinion, is affirmative. If there is still anybody that thinks in opposite way I would like to ask them to try to imagine the situation we are talking about. All of us remember the movie

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<sup>26</sup> Same↑ pg. 185.

<sup>27</sup> K. Ambos: *Internationales Strafrecht*, Second Edition, 2008, pg. 135.

<sup>28</sup> Luis. E. Chiesa: *Duress, Demanding Heroism and Proportionality: The Erdemovic Case and Beyond*, 2008, page 15.

Titanic. Last scene of this movie shows how main character played by Leonardo De Caprio – Jack – drowns himself to save his beloved one by plank. This makes people cry, because this is heroism, but can we demand heroism from everybody? Answer is no. Law is for all the people heroes and cowards and even this division is wrong because everybody should be equal for law. This kind of attitude can be produced by priests, or ideologists but not from lawyers and scholars of law.

If so, is each entitled to try to exclude the other from its use? Now, I'm going to talk about word – entitlement and this way going in debate with Kant and Pufendorf. As I already mentioned Pufendorf thought that this collision was conflict of rights. In his opinion a person has right to kill if his own life is under threat of death. So that his action is not unlawful because he is under justifiable necessity, so in this kind of circumstance a person should be justified during the trial. In simple words it would say: A person killing other person is right if he saves his own.

In contrast, Kant thought that it is unacceptable to give people right to kill each other, but this does not mean person survived from tragic collision cases should be punished for action. The point is crime is crime, but in some circumstances this crime can be excused. This is same what happened in R v Dudley and Stephens case, they found defendants guilty, but excused their crime. There is no principle they said, that would exonerate a defendant who kills someone not presently threatening him for the sake of preserving ones own life. They considered, but quickly rejected, Bacon's position that "necessity carrieth a privilege in it." But having closed the front door on Bacon's approach they let it in the back, by suggesting that the Crown pardon the defendants on precisely the grounds they had rejected in law.

### **Clash of the Notions**

To differ justifiable and excusable necessities from each other I would like to use the scheme of Georgian scholar Merab Turava:

At the time of justifiable necessity damaged legal interest has less importance than surviving one, when at the time of excusable necessity they have equal importance.

At the time of justifiable necessity there is no limitation, but any of legal interest can be involved, while at the time of excusable one only life, health and freedom.

At the time of justifiable necessity complicity is unaccepted, while at the time of excusable one it is.

At the time of justifiable necessity self-defense against a person whose acts are lawful is unaccepted, while at the time of excusable necessity it is.

At the time of justifiable necessity mistake might exclude punishment, but in excusable one it might not.

You may ask what is the purpose of this division, main idea of both notions is that person does not go to jail, but it is wrong. This difference has practical value. For example group of tourists got lost in the forest, they are starving to death. Suddenly they saw a house and got into it to eat food. This time they are acting in the justifiable circumstance, so owner of the house can not use self-defense against them and if he does he gets punished.

On the other hand if A kidnapped son of B and tells him to kill C, or his son will die. While B tries to kill C he is under circumstance of excusable necessity, so C can use self-defense and rescue himself, so if he does he will be exempt from punishment.

### **Conclusion**

#### **Tragic Collision and Georgia**

After collapse of Soviet Union Georgia encountered many problems in many sphere. Georgian people chose the path to the Euro-Atlantic space to themselves, but it seems to hard to switch rails. However, we are getting far from the milieu which did not allow us to have an opportunity to create something of our own.

Law is the matter which unites a nation into a state and unites states into a coalition. So we have to accept the principles and knowledge of the countries which made more steps than we did to exist among them as equal friendly states. Georgian Criminal code as German one has the norm of special circumstances for exclusion of blame in the Article 38. The vast majority of Georgian scholars have Russian or Soviet influences and they think tragic collision is not even excluding blame. For example T. Surguladze wrote that "it is unacceptable to save one's life at the expense of another, even if this is the only chance of survival."<sup>29</sup> Same position is held by N. Todua, who thought that saving oneself on the expense of another is morally or legally condemnatory.<sup>30</sup> However, despite of the variety of opinions, as I mentioned, Georgian criminal law still is familiar with excusable necessity in the nor of the special circumstances for excluding punishment in the Article 38 in Criminal Code.

It is strange that criminal code gives to a judge a wide gap for interpretation in criminal law, in which it is fundamental principle that all circumstances which exclude punishment should be listed precisely. Because of this wide gap judge can make subjective decision, not even considering some plank of Carneades as tragic collision case, as N.Todua thinks<sup>31</sup>. That's why I suppose to create a new nor, new article as in German code paragraph 35, or Statute of Rome Article 31. This project was already drafted by O. Gamkrelidze several years ago, but it was neglected by legislator, for the reason that article 38 is wider. But this is strange explanation because these to articles can exist even together and having one does not mean not to have second one. We shall not forget that fundamental principal of criminal code I was talking above and try to be as precise as possible, because this is what modern criminal law needs. The project of article by O. Gamkrelidze:

1. A person who, faced with an imminent danger to life, limb or freedom which cannot otherwise be averted, commits an unlawful act to avert the danger from himself, a relative or person close to him acts without guilt.
2. This shall not apply if and to the extent that the offender could be expected under the circumstances to accept the danger, in particular, because he himself had caused the danger, or was under a special legal obligation to do so;
3. If at the time of the commission of the act a person mistakenly assumes that circumstances exist which would excuse him under subsection above, he will only be liable if the mistake was avoidable.

The same idea is promoted by E. Phutkaradze in his thesis.<sup>32</sup>

### **Inference**

Georgian criminal science is making great strides into the process of integration in Euro-Atlantic sphere, but resolving few dilemmas are pending. This pendency is inherited from Soviet Union. In addition, Georgian people think that dilemma of tragic collision must be addressed by heroic death.

This can indicate high morality rate in society, but heroism should not be matter of law but matter of spirituality, religion and morality. Centuries earlier this dilemma was still unsolved. It used to be thought that the men are obligated to draw lots in ancient times and it was permissible to push the other off the plank only if one had received the short straw in a lottery and second refuses to cede his place.

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<sup>29</sup> T. Shavgulidze, L.Surguladze: *The threat of justification in the circumstances of the Criminal Justice*, 1988.

<sup>30</sup> G. Nachlebia, I.Dvalidze (Editor): *General Part of Criminal Law*, 2007.

<sup>31</sup> G. Nachlebia, I.Dvalidze (Editor): *General Part of Criminal Law*, 2007.

<sup>32</sup> Edisher Phutkaradze: *Necessity in Georgian and German Law*, Thesis, 2003.

The activities of climbers are often as tragic as risky. Many climbers donated own lives, for friends life-saving. We call these people heroes, but would they be Heroes, if they saved friends because of law and not because of their inner belief.

In my opinion, it is obvious that an act of taking other's life to obtain yours is an illegal act. Murder of a man, who is not threatening your life was and will always be a crime. However, sometimes person is surrounded by milieu, which does not live choice to him. In this kind of situations I think crime should be excusable.

Europe has taken steps to remedy this problem, while Georgia and Georgian scientists in the Soviet Union had not had the opportunity to develop their idea, or catch up with their European colleagues. But now, when we are working with the great enthusiasm for Euro-Atlantic integration, I think it is time to share their achievements. For example Statute of Rome, or German penal code, make urgent need for excusable necessity in blame exclusion section of Georgian Criminal Code. By this a big step will be taken in the direction of the distant prospects of all responsibly in the circumstances of the offering, directly and thoroughly to be listed in the Code.

Tragic collision cases make scholars change their ideas from time to time. Every new lawyer has new idea about it, this notion goes on circle, but on every turn it gets close to the position I stand for, that's why I want to finish where I started.

The past of humanity is the history of creation of order. A natural condition of mankind, which is similar to one individual human being, is chaotic and in this condition one is against all.<sup>33</sup> The way famous British thinker Thomas Hobbes describes this condition of mankind is that in this state of nature one's life is "solitary, poor, nasty, brutish and short"<sup>34</sup>, because humans fear each other<sup>35</sup>. This is happening because one's life is threatened by everybody else. So, probably that's way first law was made, to create order, discipline.

### **List of the applied literature:**

1. Thomas Hobbes: *Leviathan*, Cambridge University Press 1991.
2. John Locke: *Questions Concerning the Law of Nature*, Cornell University Press, 1990.
3. David Hazony: *The Ten Commandments: How Our Most Ancient Moral Text Can Renew Modern Life*, New York: Scribner 2010.
4. Marc Mieroop: *King Hammurabi of Babylon: a Biography*, Cambridge: Blackwell Publishers 2004.
5. Otar Gamkrelidze: *Explanation of Georgian Criminal Code*, 2008.
6. Merab Turava: *Criminal Law: General Part*, Eighth Edition, 2010.
7. U. Kindhäuser: *Strafrecht*, AT, Fourth Edition, 2009.
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## Excusable Necessity in Legislations of Georgia and European Countries

*Annotation*

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This paper is about blame excluding circumstance or tragic collision cases more known as excusable necessity in criminal law. In this work I am trying to answer several questions like can two individuals, each of whom needs a certain resource for his survival have equal and conflicting rights to that resource? If so, is each entitled to try to exclude the other from its use? My opinion concerning to these questions is that person in the tragic collision case is not entitled to kill another, but doing so he will not get punished but excused by the court.

Discussions about this topic are pending within many centuries. An old theoretical experiment, first made by Carneades of Cyrene, of moral and legal philosophy raises the problem. So I am going to use in this paper some theoretical cases, because this kind of cases are so rare in real life that there is not many true

examples I can show to a reader, but of course I will try to show any possible cases like R v. Dudley and Stephens case in High Court of Justice of London, or Erdemovic case in Tribunal of ex-Yugoslavia.

My paper will be fulfilled with the ideas of mostly German, or other European and Georgian thinkers, scholars and lawyers, because as we know Georgian criminal law has inherited German criminal law.

It corresponds with the subject of this conference, because Georgian criminal science is making great strides into the process of integration in Euro-Atlantic sphere, but resolving few dilemmas are pending. This pendency is inherited from Soviet Union. In addition, Georgian people think that dilemma of tragic collision must be addressed by heroic death.

This can indicate high morality rate in society, but heroism should not be matter of law but matter of spirituality, religion and morality. Europe has taken steps to remedy this problem, while Georgia and Georgian scientists in the Soviet Union had not had the opportunity to develop their idea, or catch up with their European colleagues. But now, when we are working with the great enthusiasm for Euro-Atlantic integration, I think it is time to share their achievements. For example Statute of Rome, or German penal code, make urgent need for excusable necessity in blame exclusion section of Georgian Criminal Code. By this a big step will be taken in the direction of the distant prospects of all responsibly in the circumstances of the offering, directly and thoroughly to be listed in the Code.

# The European Union and Georgia - Finding a way forward

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## Introduction

Georgia has long been a country with European aspirations. But it is still struggling with the legacy of a post-Soviet legal and political culture, with weak market institutions, and a low scaled economic and social development. It is thus unlikely to expect a rapid transformation. Nonetheless, Georgia has attempted to put itself on a track toward permanent rapprochement and gradual integration with the EU. Accession to the EU is considered to be a long-term goal. In Georgia, the European Neighborhood Policy (ENP) is considered to be a proper tool for EU engagement in the process of Georgia's reforms, and a good institutional anchor making deviation from the "European way" less likely. The ENP opens opportunities for the expansion of trade with the EU, and holds the potential for a new level of political relations, including cooperation in CFSP-related issues, and the development of stronger partnerships in science, education, sectoral policies, and other areas.

The ENP also serves as an institutional anchor for Georgia's political and economic reforms. Participation in the ENP ensures that the process of reform can be subordinated to something broader than national policy. The ENP creates soft external guarantees that the reform process will continue on the correct path, no matter which government comes to power. The ENP also makes Georgia a participant in a wider international process, in which each country, and Georgia in particular, may contribute by supporting and deepening the stability and cooperation incentives.

This makes the country responsible for changes on an international level.\*

## I. Georgia's aspirations

The survey carried out in 2009 was the first comprehensive study of the Georgian population to look at attitudes towards EU integration. It demonstrated that Georgians have extremely positive views regarding the EU, with some four fifths (79%) of people supporting membership. Over the past two years, Georgians have become even more favorable towards the EU in many respects. Georgians believe themselves to be more ready to join the EU. Many people are confident they live in a democracy that has room for improvement, and more Georgians are likely to say active citizenship is important, including participation in protests, being critical of government, and working as a volunteer. The data also show that Georgians' conservative views on some issues are slowly declining. But while Georgians say they have a generally positive relationship with the EU, they are not overly optimistic; many Georgians still consider EU-Georgian relations to be neutral, and many don't know when Georgia will be ready to join the EU, or when it will actually do so. Furthermore, Georgians remain uncertain as to what the benefits of EU membership will be, and that uncertainty has increased since 2009.\*\*

Eighty percent of Georgians would vote to join the EU (79% in 2009), and 88% think Georgia should be a member of the EU, up from 81% in 2009. People are also more confident about Georgia's readiness to integrate than they were in 2009. Thirty-eight percent of Georgians say the country will be ready to join the EU in five years or less (up from 31% in 2009), while a third believe Georgia actually will join in five years or less. However, these results should not be taken to mean Georgians are delusionally optimistic about the prospects of EU membership. Thirty-one percent don't know when Georgia will be prepared for membership, while 37% don't know when Georgia actually will join. Similarly, many Georgians are not overly optimistic when it comes to evaluating their country's

relationship with the EU. While 5% of Georgians say it is very good and a further 43% say quite good, 41% characterize the relationship as neutral.

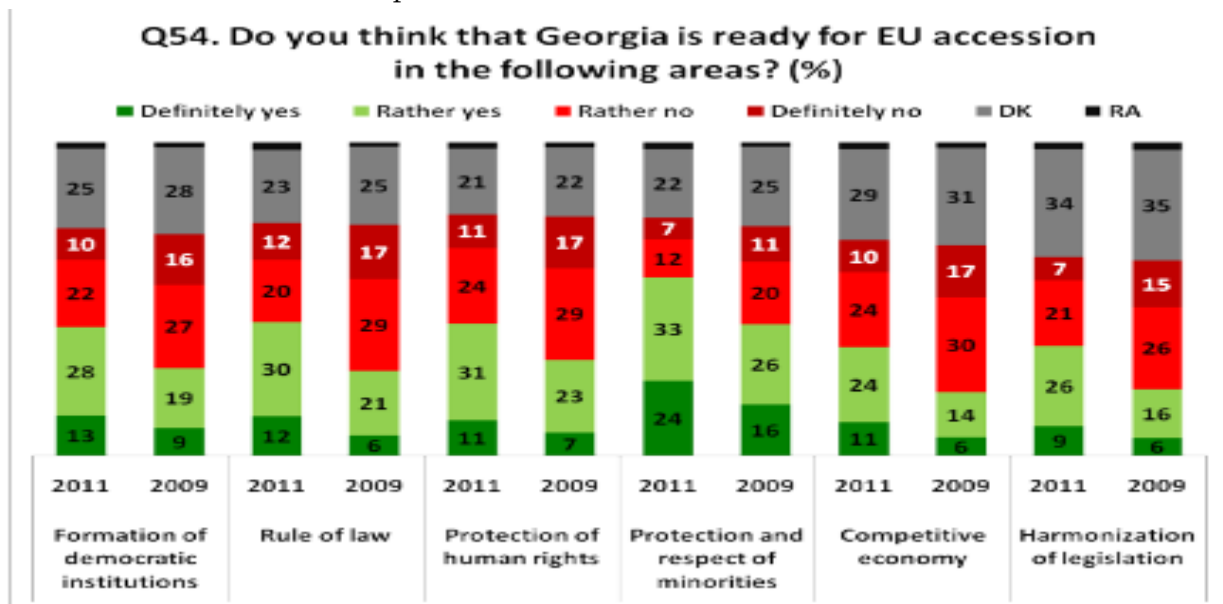


Table 1

**II .The EU’s Caucasian “dance”**

The EU has based its relations with South Caucasus nations on the far-reaching ideological objectives of promoting democratic state-building and encouraging conditions favorable to a stronger economic engagement, primarily through trade and investment. Russia in particular and the United States to a large extent are each motivated by geopolitical interests in their foreign policies; the EU does not ignore such interests, but places more emphasis on other issues, like governance, development, values and democracy.

The EU has no national idea on which it can base its own external policy. Consequently, any EU strategy is aimed at satisfy the criteria of promoting stability, peace, democracy, a market economy and so on. But the EU faces problems in reaching its external political objectives. Such problems have been evident in EU policy toward Russia, which before the Putin era showed great interest in finding common political ground, and in becoming a credible partner for the EU.

Hence, EU policy in the South Caucasus region has been a classic demonstration of its approach to foreign policy. Thus in 2004 EU decided to include Armenia, Azerbaijan and Georgia in the ENP. It is important that this decision was made after two important factors appear—Russia’s reluctance to join the European Neighborhood Initiative (which later became the ENP) and Georgia’s Rose Revolution at the end of 2003.

Further developments showed that Russia's ambitions lay far in advance of being a simple EU partner, with Russian anxiety increasing due to Western plans to encourage an East-West Energy corridor through the South Caucasus.

The South Caucasus, as a very important region, appeared to be host to controversial interests on the part of both the EU and Russia. It was thus logical to include all three South Caucasian states in the policy, which allows the EU to develop a special partnership that may ultimately play a crucial role in the EU’s energy security.

Georgia’s active involvement in Black Sea cooperative efforts offers the chance to tighten relations with the EU, as well as a potentially stable path toward EU integration. The EU’s engagement



in cooperative efforts around the Black Sea in the areas of infrastructure development (oil and gas pipelines), security and stability (cooperation on border protection, and antiterrorist, military, legal and conflict resolution issues), scientific projects, educational development, and environmental projects will inevitably allow the region to develop into a “European area of stability, security and justice.”

Another serious step in shaping a new regional scope of cooperation and the EU's involvement in the wider region of Eastern Europe and the South Caucasus is the emerging Eastern Partnership. Eastern Partnership gives the EU full *carte blanche* in developing closer trade, economic, political or cultural relations with all or any of its eastern partners, without any “permission” from Russia or any other big actor

In conclusion, Georgia is seen as a country of substantial geopolitical importance for the EU. At the same time, it has strong European aspirations, and this is not just the view of elites, but the will of the Georgian people.

### **III. EU credibility in the post-war environment**

With the outbreak of the Georgian-Russian-Ossetian war, the EU took on a new role of an actively mediating third party. It has also mobilized impressive financial resources for relief and post-war reconstruction efforts in Georgia. In October 2008, the EU co-organized a donors' conference where up to €500 million was pledged for these goals. Since that time, the Georgian government has consistently asked to have the EU more actively involved, seeking support for Georgian positions vis-à-vis Russia. \*\*\*

In search for a new role of the EU Certainly, the war in Georgia changed the rate of EU activity toward the region, and especially towards Georgia itself. The Union's engagement in the resolution process may extend at least as long as the EU mission is allowed inside of disputed Georgian territories. This mission, if succeeded will have a monitoring function aimed at ensuring secure conditions for the safe return of Georgian refugees to their homes, a demilitarization of breakaway territories, ongoing peace negotiations and the reestablishment of territorial integrity

It is becoming evident that without very strong pressure from the side of the EU and other international community actors a solution of the problem is not expected for a long time.

### **IV. Regional cooperation**

The first and most promising framework aimed at establishing cooperation in the Black Sea region seemed to be the most appropriate framework for regional development. The 11 Black Sea and adjacent states joined the Black Sea Economic Cooperation (BSEC) pact gradually.

The following were identified as potential areas for the group's joint effort: economic development and trade, tourism, telecommunication, environmental protection, agriculture and agricultural industry, energy, science and technology, statistics, health care, transport, and law.

In its Communication on Black Sea Synergy, the EC paid special attention to the Black Sea Economic Cooperation (BSEC) as a framework for the discussion and development of multilateral projects.

Cooperation is getting more and more vitality progressively in the eyes of European Union. Especially for the Eastern side of the European Union BSEC found its meaning in time. In the context of BSEC, EU foreign policy requires “free and preferential trade agreements” and they are guided for the neighboring countries.

There are two crucial points in order to talk about necessity of the cooperation for EU:

1. With regard to EU neighbor policies BSEC fills the gap and existence of BSEC helps to achieving “negotiated conditionality”.

2. For the relations between EU-Russia and EU-Eastern Europe BSEC playing a critical role in the sense of diminishing harsh conflicting circumstances. \*\*\*\*

Other frameworks for cooperation in the Black Sea region are predominantly of a thematic nature, focusing on specific issues of multilateral interest. Examples of this kind of cooperation include transport and infrastructure development programs and projects such as the Transport Corridor Europe-Caucasus-Asia (TRACECA) project, and the Interstate Oil and Gas Transport to Europe (INOGATE) program, mainly funded by the EC.

The Black Sea Environmental Program (BSEP) was established in 1993 as a joint effort of the United Nations and EU.

The four-country GUAM group (Georgia, Ukraine, Azerbaijan and Moldova) has also increased its activities in the last two years.

Despite some reluctance being voiced by the Moldovan government, this group has developed dimensions of cooperation such as the new Baku-Supsa-Brody energy route, and free trade arrangements among the member states. Georgia actively participates in GUAM's virtual center for combating terrorism, organized crime, drug trafficking and other serious crimes, as well as in an international association of GUAM member states' law enforcement agencies. An element of cooperation is the GUAMU.

The creation of a proposed "New European Energy Corridor" was strongly promoted at a meeting of the heads of state of Georgia, Azerbaijan, Ukraine, Poland and Lithuania, held in Krakow, Poland on May 11 and 12, 2007. A working group is currently elaborating concrete steps in developing this energy corridor, linking the Caspian Sea with the Black and Baltic Seas. This project may play an important role in the energy diversification of the East and North European states.

Regional projects on energy and transport in partnership with Turkey and Azerbaijan are especially important for Georgia. Border Management program, aims at harmonizing border management practices at border crossing points. Georgia also participates in multilateral cooperative programs such as the EU supported Regional Environmental Center, as well as efforts to protect the Danube river basin, in particular by creating a system of information sharing.

## **V. The Black Sea Synergy**

The most promising framework for regional cooperation, which at the same time represents a new dimension for EU policy, is the Black Sea Synergy initiative formulated by the April 15, 2007. The document outlines these main fields of cooperation:

### a) Democracy, human rights and good governance

The EU will use training and exchange programs, and support regional civil society dialogue.

### b) Managing movement and improving security

This includes the management of all kinds of trans-maritime activities.

### c) Frozen conflicts

The EC advocates a more active role for the EU through increased involvement in ongoing conflict resolution efforts

### d) Energy

The region is characterized as an important component of the EU's external energy strategy. In the Commission's communication, it is said that the EU will seek to develop a transparent and non-discriminatory framework for discussions on energy security. It is also noted that the EC is developing gas transportation routes from Central Asia across the Black and Caspian Seas to the EU. For this purpose, it will attract significant investment.

e) Transportation

This policy replicates the goals of TRACECA. This would increase the importance of the Black Sea and Georgia in particular. It is probably necessary to increase the interest of Europe and the EC in particular in the Baku-Tbilisi-Kars railway route, which is not presently supported by the EU.

g) Maritime policy

The EU will support the unification of maritime policies throughout the region, with the goal of encouraging coastal industry.

h) Fisheries

The EU will attempt to support the reversal of poor fishery conditions in some areas while promoting sustainable development and production

i) Trade

The EU appears to want to encourage trade liberalization in the Black Sea region by promoting the adoption of its own standards. The aim is to reduce non-tariff barriers that impede the free exchange of goods and services, largely by approximating EU legislation and regulatory frameworks. . It is noteworthy that in the future, five ENP participant states (including Georgia) will gradually be granted free (deep) trade regimes with the EU.

j) Research and education

EU will seek to link all the countries of the region with the pan- European area GEANT data network.

**Conclusion**

As Russia grows increasingly aggressive as an actor by aiming to dominate the foreign-policy orientation of the region's smaller countries, the situation may further destabilize, which would clearly have a negative impact upon the development of cooperation projects. Stronger role of EU is needed.

The EU's advancement in the region has been strongly welcomed by Georgia. Developing multilateral trade relations by establishing free trade regimes in the Black Sea region is a tangible means of speeding the process of Europeanization in the area. This will primarily take place through the approximation of EU legal and regulatory frameworks on the part of regional governments. By taking on a more active role in the region, the EU will not only improve its image there but ease a wider acceptance of the values and models of state-building that the EU tends to promote throughout its neighborhood. What benefit would Georgia derive if EU policy were to be based on an individualized approach? Certainly, it would acquire a guarantee for a higher level of security, financial injections, trade advantages, modern technologies, institutional development, and higher standards of living. But Georgia's economy is still very small, which makes it difficult to attract strong EU interest. A regional approach, as with the Black Sea region overall, may improve Georgia's opportunity in reaching higher levels of industrial, agricultural, technical and commercial development. This would in turn allow Georgia to make better progress toward integration with the EU.

However, it is also fair to ask what Europe might achieve by establishing closer relations with Georgia. First of all, because Georgia serves as a bridge leading to the Caspian Sea and Central Asia—and perhaps to the Middle East—Georgia could take on a significant role in the architecture of European security as a close partner and ally of the EU. Georgia might also acquire an important place in establishing Europe's energy security and become a significant platform for the dissemination of European values in the neighborhood. All these factors inspire hope for further progress in EU-Georgia relations.

**Recommendations:**

We can outline several Fundamental areas that need to be considered in order to achieve EU integration.

**Priority area 1:**

Strengthen rule of law especially through reform of the judicial system, including the penitentiary system, and through rebuilding state institutions. Strengthen democratic institutions and respect for human rights and fundamental freedoms in compliance with international commitments of Georgia.

Specific actions:

- Reform of the whole judicial system in line with European standards notably through the implementation of the reform strategy for the criminal justice system, developed with the assistance of EUJUST Themes.

**Priority area 2:**

Improve the business and investment climate, including a transparent privatization process, and continue the fight against corruption.

Specific actions:

- Develop and implement a comprehensive program to improve the business climate, in particular to improve the conditions to starting a business, hiring and firing workers, registering property, getting credit, protecting investors, enforcing contracts, and closing a business;
- Adopt (in 2006) and implement a new Customs Code in line with EU and international standards;
- Set up a mechanism to ensure regular consultation/information of the trade community on import and export regulations and procedures;
- Continue the modernization, simplification and computerization of the tax administration. Ensure the smooth enforcement of the new Tax Code also by defining all necessary administrative structures and procedures, including a fiscal control strategy, audit and investigation methods, co-operation with the tax payers and tax compliance;

**Priority area 3:**

Encourage economic development and enhance poverty reduction efforts and social cohesion promote sustainable development including the protection of the environment; further convergence of economic legislation and administrative practices

Specific actions:

- Maintain macroeconomic stability by implementing prudent monetary and fiscal policies including through ensuring the independence of the National Bank of Georgia; further improve strategic planning of expenditures through a Medium Term Expenditure Framework;
- Conduct a systematic review and revision of the government's reform strategy document, with particular emphasis on poverty reduction;
- Continue reforms in public finance management, including by implementing a comprehensive Medium-Term Expenditure Framework consistent with the Georgian government strategy;
- Develop a Research and Innovation policy directly relevant to the sustainable and equitable economic development policy objectives of Georgia;
- Improve the quality in statistics;

**Priority area 4:**

Enhance cooperation in the field of justice, freedom and security, including in the field of border management

Specific actions:

Border management

- Develop a comprehensive border management strategy in cooperation with the EUSR (implementation date: by 2006) and cooperate on border issues in the context of the activities of the EUSR Support Team based in Tbilisi under the EU Special Representative for the Southern Caucasus ;

**Priority area 5:**

Strengthen regional cooperation

Specific actions:

- Enhance participation in regional cooperation initiatives in the Black Sea region, including the Southern Caucasus, e.g. environment, education, border management, transport as well as in the parliamentary sphere;
- Continue cooperation in the Energy, Transport and Science and Technological development fields in the context of the EU/Black Sea/Caspian littoral states and neighboring countries initiative;

**Priority area 6:**

Promote peaceful resolution of internal conflicts

Specific actions:

- Contribute to the conflicts settlement in Abkhazia, Georgia and Tskhinvali Region/South Ossetia, Georgia, based on respect of the sovereignty and territorial integrity of Georgia within its internationally recognized borders;
- Enhanced efforts at confidence building;
- Consideration of further economic assistance in light of the progress in the conflict settlement process;

**Priority area 7:**

Cooperation on Foreign and Security Policy

- Enhance EU-Georgia cooperation on Common Foreign and Security Policy, including European Security and Defense Policy;
- Georgia may be invited, on a case by case basis, to align itself with EU positions on regional and international issues.

**Priority area 8:**

Transport and Energy

Cooperation addressing the issues of transport security and safety, interoperability, promotion of multi-modal services, efficiency of freight transport and simplification of border crossing procedures in line with the recommendations of the High Level Group on Transport

With a view to regional integration and progressive integration with the EU energy market and system and Georgia's role as energy transit country, encourage the development of diversified infrastructure connected to development of Caspian energy resources and facilitate transit.

**List of the applied literature:**

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2. Knowledge and Attitudes toward the EU in Georgia, December, 2011;
3. Public Opinion Toward the European Union in Georgia Martin Müller;
4. Georgia's Conflicts: What Role for the EU as Mediator? Magdalena Frichova Grono, March 2010;
5. BSEC and EU Synergy, Ruhet Genc,Phd, Beykent University;
6. EU/GEORGIA ACTION PLAN;
7. Sharpening EU policy towards Georgia, Dov Lynch, 18 January 2006.

## The European Union and Georgia- Finding a way forward

*Annotation*

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The purpose of this paper is to present the relatively brief history of relations between the European Union (EU) and one of the Republic of South Caucasus, Georgia and to explore the issues that will be central to those relations in the years to come. In that purpose I have divided the paper into six parts: 1. Georgia's aspirations, 2. The EU's Caucasian "dance", 3. EU credibility in the post-war environment, 4. Regional cooperation: state of play, 5. The Black Sea Synergy and 6. Threats to regional cooperation

For the first hand this paper discusses the public perceptions of the EU in Georgia and clearly emphasizes that majority of Georgians believe that the country has a "future in Europe". Herewith, this part also shows that though Georgia has introduced many democratic and liberal changes, but these have not always matched the EU approach.

The second part describes issues, like governance, development, values and democracy. Also, I will briefly go through the subjects like: The changed relationship between the EU and Russia, A common approach to the "post-Soviet space", Emerging sub-regional differences, Russian interests and Energy Supply, The Black Sea as new framework and finally, Eastern Partnership. At this point it is necessary arises to emphasize that by saying not only EU and its member countries are to be meant, but also such important non EU countries like Russia and America , are the cornerstones of contemporary European values and society.

The aim of the present paper is to study and analyze the expansion of European organizations in the post-cold war period, the establishment and development processes of the relations between these organizations and Georgia. Also, Paper shows rising credibility of the EU and Georgia's changing role in EU.

Furthermore, there are given some more examples of Georgia's effort to cooperate with both other South Caucasian states on a bilateral level by creating Black Sea Economic Cooperation (BSEC) and other collaboration in security related issues.

Furthermore, the paper describes **The Black Sea Synergy**, its pros and cons, which at the same time represents a new dimension for EU policy. This is also worthwhile to emphasize the attitude of EU toward creating this cooperation and its initiative to promote such efforts and take part in them.

This document also involves the disadvantages and threats of regional collaboration: Absence of a common regional identity and Open conflicts and Russia's interests.

In conclusion, the paper shows the growing need of EU and requirements from the country to have more individualized approach in order to enter European Union. What benefit would Georgia derive if EU policy were to be based on an individualized approach? Certainly, it would acquire a guarantee for a higher level of security, financial injections, trade advantages, modern technologies, institutional development, and higher standards of living. But Georgia's economy is still very small, which makes it difficult to attract strong EU interest. A regional approach, as with the Black Sea region overall, may improve Georgia's opportunity in reaching higher levels of industrial, agricultural, technical and commercial development. This would in turn allow Georgia to make better progress toward integration with the EU.

# The possible keys of European Integration in the context of Armenian mentality

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## Chapter 1

### 'Democracy' as a special way of thinking

There is no secret, that at the end of last century, an ideological vacuum was formed in all post-Soviet countries after the collapse of the Soviet Union, and the process of enculturation to the values of Europe became one of the agendas in the foreign policy conjuncture of the independent Republic of Armenia. The process, which was recognized as a shortest way to democracy, started in 90's continues till now. What are the main aspects of that process? What kind of impact does it have? Can we prove that liberalization, democratization – are the only way of success? We will try to answer on these questions in this work.

First of all, it is important to understand, that the process of democratization was not just a 'privilege' of Independent Armenia. Most of post-Soviet countries tried to adopt European values, but, speaking the truth, the process of inheritance was more about quantitative copy of those values than qualitative. On that stage of democratic development, despite of many new western institutes opening, the process was chaotic.

I am a supporter of the idea, that only strong will to the deep democratic reforms and aimed strategic planning of development - are the main keys to the successful and bright future. But Democracy is said not to be just a realization of reforms it is *the way of thinking*, it is a *lifestyle*. In this case high-quality education, which should be one of the major rights of human along with the right of freedom and free intentions, pretends to be the main factor in the process of establishment that way of thinking. Based on this, the influence of Europe on Armenia, Armenian possible and real integration into the European democratic family through Eastern Partnership and other projects are playing one of the most important roles today.

That is why major political and economical processes in Europe directly affect on Armenia. The last example is the financial crisis in 2008, consequences of which are still seen. According to this, it would be useful for Armenia to take the entire experience of European countries in an affair of fight against negative consequences of the crisis. Meanwhile, the process of simple coping the European rules seems to be not so correct. Armenia (as a Georgia) occupies an important place in Caucasus region. Our countries have played and continue playing an important role as sub-cultural countries in the centre of intersection of Western and Eastern cultures. Regarding to this, the process of democratization should be realized gradually, stage-by-stage, considering our local, national habits, characteristics.

Nowadays, the choice of the further development way for Armenia, as for the country with deep cultural, traditional, family values, is one of the major tasks. With the beginning of new Millennium different political sides, social parts suggest their own advice relating to this. Some of them see Armenia as the typical European country, another imagine our country as a supporter of Eastern properties and values. Others advise to adopt from democracy only the principles of free market with the basic rules of competitive economics. But something is unchangeable in all types of views. It is a wide-spread worldview that the only way of development is held in democratization. That is why during the period of the research we tried to see, how the basic principles of democracy could be moved on Armenian reality, taking into account the features of Armenian mentality, another words, whether we can affirm

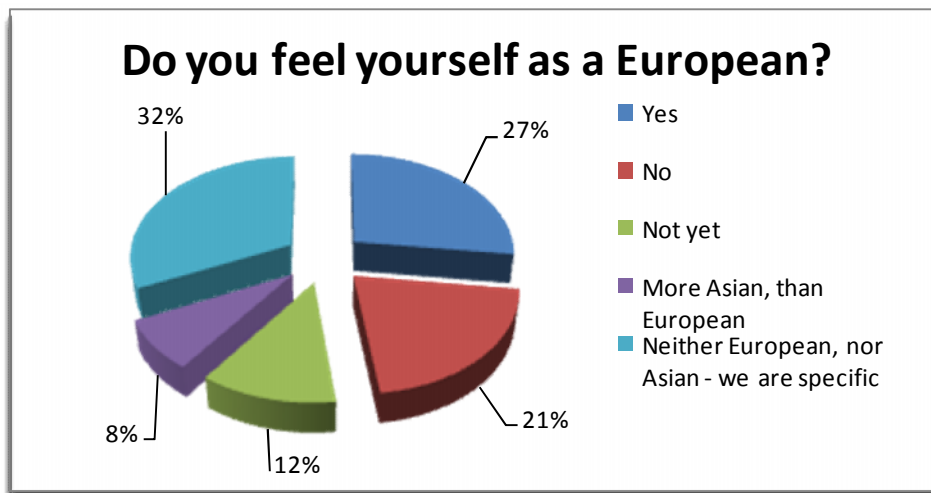
that European values face the hedge of Armenian mental roots or we are ready to be involved in that worldview system.

## Chapter 2

### Main research

During the research it was tried to know how Armenians see the possible ways of the integration into the Europe and how the national, traditional values could be affected by that process. The research took place among 500 Armenians (mostly students of different Armenian Universities) whose age varied from 20 years old to ~40,

**The first schedule of the research describes the simplest attitude of Armenians on the question ‘Do you feel yourself as a European?’**



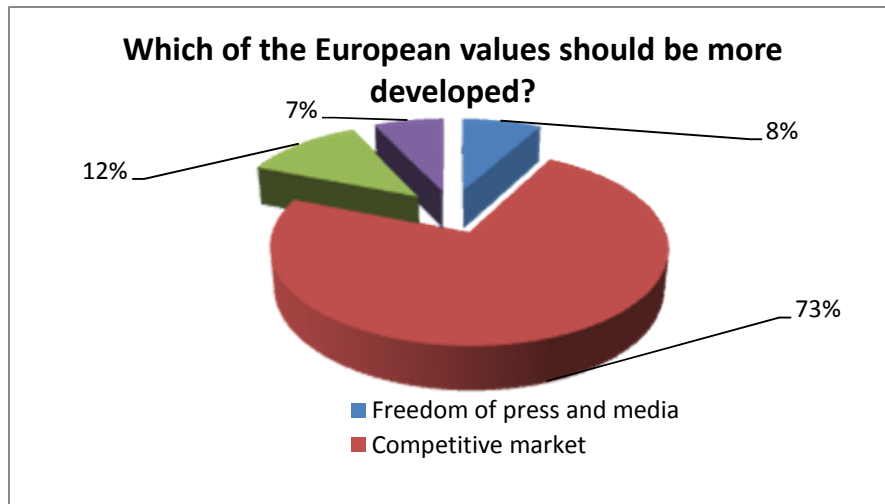
**Pic.1. Armenians' self-determination about their origin**

As it can be probably seen the first graph illustrates how many opinions are spread in our society about the question “Who we are”. What is interesting, most of asked people, 32%, think that we are some unique nation, neither European, nor Asian, i.e. nation which is on an intersection between these two big types of cultures.

**The second graph illustrates people's attitude on the main European values. Which of them are seen as the most important to be realized in Armenia**

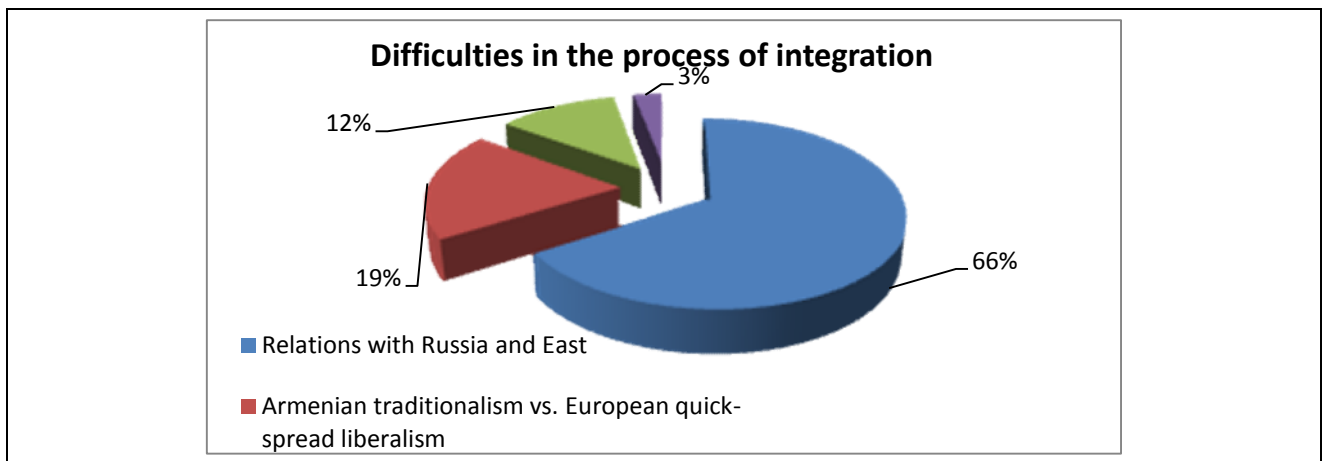
The first thing we can 'see with half an eye', is a huge number of people whose thoughts are about competitive reforms in economical area of Armenia. Total majority of them thinks that we can take the European experience. It is noteworthy, that only 8% of interviewed people think that the main aim of reforms should be freedom in mass-media. In some case we can affirm, that this problem is no longer relevant in Armenia.





*Pic.2. Armenians’ opinion about the most important European values which should be developed*

The last schedule illustrates the possibilities of Armenian-European development of relational integration regarding to the Armenian mentality, i.e. what are the major barriers which stands in front of us.



*Pic.3. Armenians’ opinion about the difficulties in the process of European integration*

The answers on this question were very varied, that is why we combine them into 3 main groups: more than half of interviewed audience thinks that the process of integration with EU is impossible, because it faces to Russia and East. In other words, in Armenian reality there is a stereotype that the country could chose only one way of development: either mentioned integration with EU, or with Russian Federations friendly relations with which come from ages. Another group of answers we amalgamated in one group of answers, called “traditionalism versus quick-spread liberalism”. It means Armenian society sees some difficulties in the European system of values that could not be transformed into the Armenian reality. For example, freedom of self-expression of sexual minorities; Nearly the same number of audience thinks that it is impossible to build strong European country and integrate in the European family without friendly relations with all regional borders.

**Chapter 3**

**Conclusion**

As it was mentioned above, our research is based on nearly 500 people’s opinions about the possibilities of integration within European family and the reflection of our minds and mentality on that integration. To sum up, we think that the research should be continued for better understanding the ways of our interstate and regional development. And in the process of integration is extremely

important to remember about our roots – who we are, and what we are. In this the experience of democratization is a unique opportunity to develop intercultural dialogue, to establish a new level of trust and belief in the bright future that we should start to build from now.

### **List of the applied literature:**

1. Engoyan A. (1996), 'The ideological basis of social and political transformations in the post-Soviet Armenia'. Yerevan, RAU.
2. Afanasyan G. (2011), 'Both - the European integration of Armenia with the Eurasian vector'. In The Analyticon Analytical Monthly Journal, N11.

### **The possible keys of European Integration in the context of Armenian mentality**

*Annotation*

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At the end of last century, an ideological vacuum was formed in all post-Soviet countries after the collapse of the Soviet Union, and the process of enculturation to the values of Europe became one of the agendas in the foreign policy conjuncture of the independent Republic of Armenia.

I am a supporter of the idea, that only strong will to the deep democratic reforms and aimed strategic planning of development - are the main keys to the successful and bright future. But Democracy is said not to be just a realization of reforms it is the way of thinking, it is a lifestyle. In this case high-quality education, which should be one of the major rights of human along with the right of freedom and free intentions, pretends to be the main factor in the process of establishment that way of thinking. Based on this, the influence of Europe on Armenia, Armenian possible and real integration into the European democratic family through Eastern Partnership and other projects are playing one of the most important roles today.

That is why major political and economical processes in Europe directly affect on Armenia. The last example is the financial crisis in 2008, consequences of which are still seen. According to this, it would be useful for Armenia to take the entire experience of European countries in an affair of fight against negative consequences of the crisis.

During the research it was tried to know how Armenians see the possible ways of the integration into the Europe and how the national, traditional values could be affected by that process.

# Corruption as one of the obstacles for the Post-Soviet States' Integrity into the European Union and the innovative tools for the Anti-Corruption Structure

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In a society undergoing a transformation, aggravated social contradictions arise economic, political, legal and other problems in different areas appears corruption. Corruption as a socially dangerous phenomenon has a complicated multi factorial causal mechanism, and numerous manifestations. Corruption, as a socio-legal, political, economic and moral phenomenon paralyzes the healthy social organism, affects the state structures, encroaches on the most important social values, violating both moral and legal norms.

This phenomenon causes great economic, political and moral damage to society as a whole. An irrepressible spread of corruption, a sharp deterioration in the socio-economic status of their activity prevents the integration process.

Corruption - is an international problem. It is common to all countries regardless of the political system and economic development. Concerned only on the scale. No country can be insured from corruption.

This topic is actual to the post-Soviet countries, since the post-Soviet countries have faced economic and political crisis, which in some countries in spite of the measurable results, continues to cause damage to reputation of the States, getting them actively involved in the integration processes.

In writing this report, the author set the following goals:

1. To consider the causes and conditions of corruption in post-Soviet states.
2. To analyze the state of corruption in some post-Soviet countries.
3. To show most effective measures against corruption in Georgia.
4. To consider the role of civil society and monitoring, as well as the role of international cooperation in the fight against corruption.

Speaking about the specifics of the prevalence of corruption in post-Soviet countries should be more detailed analyzed the whole complex of reasons and conditions leading to an extremely dangerous phenomenon typical to all countries of the former socialist camp, which have chosen the path of market economic reforms.

After establishing of Soviet power appeared a few basic conditions and the reasons for the increase in the prevalence of corruption, which, in our opinion, can be divided into several groups:

**1. *The wage policy of workers and employees.*** Based on one form of state-owned economic relations with the equation of wage workers and employees have generated indifference of citizens to the results of their work. The established system in which the worker was not financially interested in increasing the productivity of work and incomes of citizens did not satisfy their growing needs. It is in this situation more clearly was manifested conflict of interest of public servants at all levels, which, because official powers had the real possibilities of unlawful way obtain the necessary material resources to satisfy all personal needs.

**2. *The prohibition to engage in private business activities.*** This prohibition has created a shadow economy, which is expressed in the illegal production of goods and activities in the service sector. None of criminal and administrative measures could stop the growing interest in the illegal business. Instead of

serious economic reforms, repressive measures were applied effects that may in any way interfered with the increasing prevalence of the shadow economy in all the republics of the former Soviet Union<sup>1</sup>.

**3. Command-administrative board.** One of the reasons of spreading corruption has become the very essence of command and board, while the Soviet official-bureaucrat had no legal opportunities to secure their financial situation; at the same time he had an excessive and uncontrolled power to take decisions in all spheres of socio-political system and economic governance. Total nature of management, the existence of a large number of restrictions and prohibitions of multiple layers of management staff, the need to take a lot of instances, the decision-making in economic and domestic issues, to seek approval at different levels, and even more so in the absence of proper democratic control of public - all this created favorable conditions to corrupt<sup>2</sup>.

All of the abovementioned reasons are prerequisites for the spread of corruption in post-Soviet states, which continues in various forms to this day. As part of the same whole, they share common patterns and causes of corruption in the countries that gained independence.

There are five main patterns and reasons:

1. The dramatic change in policy which was accompanied by adoption of the Constitutions, which proclaimed democratic principles as a priority, a change of the state apparatus and the creation of new administrative units, as well as taking on new international commitments. All of the above stemmed without the proper staffing of personnel who could ensure the correct implementation of the objectives set by the state as well as the destruction of the old system of state control and the incompleteness of a new effective system of legal control and legal responsibility. As a result, the state apparatus did not fulfill its legitimate obligations.
2. With the proclamation of the market relations and the priority of private property has begun a large-scale privatization process. In the first years of more than 90% of state property was privatized for pennies in a disproportionate way, and eventually most of the former state property was concentrated in the hands of a certain group of people that created a sharp imbalance in society, and has resulted in the development of "oligarch" criminal layers using their benefits monopolized the market. The oligarchs were bribed or were themselves the government officials. Against this background, there is widely distributed protectionism.
3. After Soviet foundations civil society was not formed, and ultimately the level of legal awareness was low. And the state has not taken any measures to maintain the authority of the state as a whole and its structures.
4. Instead of the party, political and professional formation of authority the clan principle of "like-minded team" prevailed. That gave rise to irresponsibility, clan system, nepotism, the desire to please the first person.
5. The weakness of the judicial system<sup>3</sup>. Court poverty and lack of quality control under judicial decisions replace the formal independence of the courts of their real dependence on almost any source of financing that can carry, including a criminal nature. Thus, the weakness of the court not only deprives the society and the state tools to combat corruption, but also makes it impossible for the court, that is

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<sup>1</sup> Corruption preventing support center law program, bulletin June 2002, Yerevan 2002, p.25-26

<sup>2</sup> Цагикян С.Ш. (2006). "Противодействие коррупции в Армении", "Антаpec", С.104-105

<sup>3</sup>EUROPEAN NEIGHBOURHOOD POLICY MONITORING ARMENIA'S ANTI-CORRUPTION COMMITMENTS 2010 pp, 11-12

completely legal, dispute settlement, by forcing it to supplement informal and usually illegal activities. And it is - a classic service provided by organized crime is inextricably connected with corruption.

Also insufficient effectiveness of law enforcement system of the country for the prevention and the fight against corruption, which is due the following reasons:

- In law enforcement bodies are very few professionals who understand the nature of corruption;
- Some measures of criminal prosecution are not enough to shake the position of large-scale corruption;
- Law enforcement bodies corroded themselves by corruption;
- The law enforcement system can not cope with this task, if the state does not make it a priority to all of its units.

In such a way, the causes that have arisen in the Soviet period, rooted in the new formations in the post-Soviet period. Despite the conduct of the struggle of almost all countries have achieved visible results are just a few of them, such as Georgia.

Based on the analysis widespread trends determining the essence of the concept of corruption, should be considered the index of corruption in post-Soviet countries to 2011. Index of corruption (or rather, corruption perception index) shows how citizens of a country and the international community assess the degree of corruption in the country. The higher the index is the lower is the corruption. Corruption perception index is calculated on the basis of studies and surveys conducted by various international organizations. In the conditional scale score of 10 means that the public officials of this country - most incorruptibility of the world (or rather, that people believe it is), 0 points means that all the corrupt through and through. Let us consider the following table, which displays the latest data for 2011.

Armenia	2,6
Georgia	4,1
Azerbaijan	2,4
Russia	2,4
Ukraine	2,3
Byelorussia	2,4
Estonia	6,4

**Table 1:** corruption perception index

The most incorrupt countries are New Zealand- 9.5 points, Denmark and Finland - 9.4, Sweden 9.3, etc. Among post-Soviet countries, the most incorrupt country is Estonia<sup>4</sup>.

According to our research and a table, in a short time Georgia had reached the best results among the countries of the Caucasus.

Georgia managed to avoid the adverse effects of corruption, resulting in the most attractive country for investment in the region. She managed to create favorable conditions for both classes of open business, and established an effective administrative apparatus, avoiding the numerous mechanical bureaucratic problems. One of the most effective measures to minimize contact of the citizen-official is the implementation electronic systems in various areas of state and municipal government. Another effective way to fight against corruption, which has been introduced, is numerous non-governmental organizations engaged in monitoring the state-level corruption, implement measures to fight against corruption, are deterrent powers and form a public sense of justice<sup>5</sup>.

<sup>4</sup> Corruption perception index 2011 <http://transparency.org/publications>

<sup>5</sup> [http://ru.wikipedia.org/wiki/Саакашвили,\\_Михаил\\_Николозович](http://ru.wikipedia.org/wiki/Саакашвили,_Михаил_Николозович)

As pointed out by various sources of Georgia managed to achieve such significant results using not only the impact of government measures but also by involvement of society in the anti-corruption policy. We should take into account also the factor that in Georgia are several non-governmental organizations who are concerned about corruption.

As shown by the practice of foreign countries which have made significant results in the field of anti-corruption, civil society, and monitoring are one of the fundamental factors favorable to the fight against corruption<sup>6</sup>.

In our understanding, the civil society is the collection of those organizations and structures that are outside of government.

Developed civil society is an important check on the functioning of public authorities and, therefore, deterring corruption. Built "from bottom to top" and closed autocratic governing system, controlled by the state in many ways held back the development of civil society and allow government officials to act in an atmosphere of lack of accountability and transparency<sup>7</sup>.

The reality demands from government structures a clear perception of the public as a powerful force that is interested in solving the problems of corruption, the immediate development and adoption of legislation that provides the necessary space for the functioning of society, including freedom of speech, freedom of association and the possibility of formation of unrestricted and free of non-governmental organizations. Moreover, it is obvious to promote a system of public monitoring committee for the prevention of crimes of corruption focus. It should be noted that the practice of involving ordinary members of society as independent members of temporary committees of observation has been used successfully in many countries, for example, in New Zealand, Australia, New South Wales.

For the organization of a real counteraction of an irrepressible spread of corruption is extremely important conducting purposeful public propaganda work to change the general mood of doom on the confidence of success in countering corruption. This contributes to the spread of experience implementing successful anti-corruption programs in other states and the widespread use of the Internet.

Taking into account importance and necessity of the development and adoption of ethical conduct for employees of all structures involved in corruption prevention and compliance with these standards generally accepted moral values, it is important to involve all segments of the population to fulfill their civic duty to participate in this process. As in the States there is an obvious lack of theoretical development of educational literature on complex problem-corruption, the government must fill the gap with the publication of the special benefits available outlining the rules of the various administrative procedures and legal framework.

The most important mechanism for public participation in monitoring the implementation of anti-corruption policy is a system of public monitoring. Monitoring - is the information about whether the implementation of a program developed by the policy and strategy, goals and objectives. The monitoring system is designed to monitor the implementation of the program in terms of strategy, identify the stages of progress in solving its problems in the prison<sup>8</sup>. Thus, monitoring is the foundation and an essential element of good governance in every anti-corruption program.

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<sup>6</sup> Global Corruption Report: Climate Change, <http://transparency.org/publications>

<sup>7</sup> К.Байболов (2009), "КОРРУПЦИЯ ВЗЯТОЧНИЧЕСТВО ОТВЕТСТВЕННОСТЬ" " КРСУ " с. 89

<sup>8</sup> Цагикян С.Ш. (2006). "Противодействие коррупции в Армении", "Антарес", С.255.

In turn, monitoring of corruption - it is a large-scale long-term process that requires a large expenditure. Summarizing the results is possible in the long-term solutions for the nomination and short-term objectives. Corruption is difficult identifiable social disease<sup>9</sup>.

Studies and experience of foreign countries show that most of the corruption offenses is outside the purview of law enforcement. To overcome the uncertainty of information should be formed to empower the process of monitoring.

The objectives of monitoring are:

1. Determination of the most common types of corruption
2. Identification the degree of involvement of various sectors of the population in a corrupt relationship.
3. Control over the formed practices of the relationship between citizens and the judicial, law enforcement, tax service, etc.
4. Identification of the vicissitudes of perception of various corruption offenses by different groups.
5. Study of the relationship of different groups to corruption, their evaluation and understanding of the possible methods and prospects for the eradication of this phenomenon.

One of the main directions of cooperation in this area is the exchange of national experiences in the prevention and suppression of acts of corruption, persecution for their commitment, as well as development of relevant international standards as an advisory and non-binding. Considerable space is devoted to legal aid in the investigation and adjudication of individual cases of acts of corruption.

No state is unable effectively fight isolated without the help of other states<sup>10</sup>.

The international community has taken a number of fundamental documents that convene the world to take all measures within their jurisdiction to prevent corruption. In particular, these documents are adopted by 15.12. 1975. Resolution 3514 the UN General Assembly adopted by 17.12. 1979. Code of Conduct for Law Enforcement, adopted by the UN General Assembly in 1996. Declaration against Corruption and bribery in international business transactions, etc. person identify the proportion of international cooperation to combat this social evil<sup>11</sup>.

Active work on the issue of fighting corruption makes the European Union. The European Commission adopted in May 1997 Address to the European Council and European Parliament. It describes a comprehensive EU policy against corruption both within the European Union and in its relations with countries beyond its borders. For countries outside the EU, the policy of the European Union aims to create anti-corruption programs in conjunction with the States which have concluded agreements on cooperation and EU aid.

Taking into account global and transnational corruption and the importance of international cooperation, we need to urgently establish a legal framework for this cooperation to take the necessary efforts to improve the mechanisms of interaction, by acceding to all the fundamental inter-state agreements and convergence of a legal framework to fight corruption on the principles of priority of national interests and equality of conditions for cooperation of all States in the implementation of anti-corruption policy.

Of course, international cooperation in the fight against corruption has only a supporting role in relation to domestic anti-corruption policy, but it would be unwise not to use the opportunities for States in the event of its active participation in this cooperation.

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<sup>9</sup> Corruption preventing support center law program, bulletin June 2002, Yerevan 2002, p.6

<sup>10</sup> Материалы конференции «Россия и мировой опыт противодействия коррупции» (Москва, 23 – 24 июня 1999 г.) с.32

Summarizing all the above, we can note that for an effective fight against corruption, it is important to study the causes of it, the main areas and forms of corruption, to develop science-based proposals for general and special measures to prevent corruption offenses. To counteract the growth of corruption should be clarified priorities the fight the social, economic, political, administrative, law enforcement, tax, customs and other fields. Especially important to the active participation of civil society institutions, which are indispensable to overcome the corruption phenomena. It is necessary to increase the level of legal consciousness and legal culture of society and create an atmosphere of intolerance to corruption to overcome legal nihilism.

### **List of the applied literature:**

1. Corruption preventing support center law program, bulletin June 2002, Yerevan 2002;
2. Цагикян С.Ш. (2006). “Противодействие коррупции в Армении”, “Антарес”;
3. EUROPEAN NEIGHBOURHOOD POLICY MONITORING ARMENIA’S ANTI-CORRUPTION COMMITMENTS 2010;
4. Corruption perception index 2011 <http://transparency.org/publications>;
5. Global Corruption Report: Climate Change, <http://transparency.org/publications>;
6. К.Байболов (2009), “КОРРУПЦИЯ ВЗЯТОЧНИЧЕСТВО ОТВЕТСТВЕННОСТЬ”, “КРСУ ”;
7. Материалы конференции «Россия и мировой опыт противодействия коррупции» (Москва, 23 – 24 июня 1999 г.); <http://wikipedia.org>

## **Corruption as one of the obstacles for the post-soviet states’ integration into the European Union and the Innovative tools for Anti-corruption struggle**

*Annotation*

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A society in transition undergoes a period of social instability, and is exposed to economic, political, legal and other problems including corruption.

The corruption strikes all spheres of both state mechanism and private sector and a special type of corruption is transnational corruption.

The article presents:

1. The reasons and conditions for rise in corruption particularly in post-soviet states;
2. Statistics will be used to determine the most corrupted spheres of life;
3. The analysis of the state of corruption in the Caucasian states will be used to determine the obstacles for the integration;
4. Comparative legal study will be conducted to revile the countries that succeeded in anti corruption struggle and particularly to determine the most effective tools for resolving this problem;
5. Along with the special role of civil society and international cooperation in anti-corruption struggle as innovative tools the role of NGOs in control of this struggle will be examined.

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<sup>11</sup> Цагикян С.Ш. (2006). “Противодействие коррупции в Армении”, “Антарес”, С.261



# The role of Ombudsman Institute in the development of legal state in countries of South Caucasus Region and its influence on integration in European Area

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## Introduction

This work is a brief research of such an important component of democracy as ***Human Rights protection***. Its main thesis is the following: *Ombudsman institute promotes the development of legal state.*

The ***main aim*** of the work was to review the level of productivity of the Ombudsman Institution in the countries of South Caucasus region. As an *objective* of research Ombudsman Institutions of Armenia, Georgia and Azerbaijan were chosen. Threats of Human Rights development in these three countries and also mechanisms of its solution are the *main subject* of this research.

### ***Major points of the work are:***

- ❖ Analysis of premises that brought to establishment of the institution in the region;
- ❖ Examination of the significance of this institution in “Society – Government” cooperation and consolidation;
- ❖ Implementation of the institution in the countries of South Caucasus Region;
- ❖ Examination of the suggestions and recommendations of international organizations and NGO’s.

General research method is *comparative-analysis* along with archival documentation analysis, interviews and empirical observations.

In this work was also made an attempt to discover to what extent Democratic institutes of the region corresponds on demands of European Area. Also there is given a linkage on EU role with its strong Democratic institutes, whose influence on this process is significant.

## **The origin of Ombudsmen institute and its implementation in the post-socialist countries**

“It is impossible to imagine the modern world without human rights and fundamental freedoms, based on the principles of freedom, equality, and justice”<sup>1</sup>. Position of the person in a society, its fundamental rights, freedom and duties of citizens are regulated by norms of constitutional law. Citizens ‘rights ensuring makes the main sense of a democratic legal state, but the measure of development of this institute is caused by many features: socio-economic situation, political regime in each country. The rights and freedom are violated in totalitarian states; they don’t have necessary guarantees in developing countries. The problem of the rights protection remains relevant even in developed democratic countries.

In constitutional law science there is no certain understanding of essence of the Ombudsman institute. There are many definitions of this concept, which significantly differ from each other. Well,

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<sup>1</sup>XII Yerevan International Conference of the Constitutional court of the Republic of Armenia, subject: “*International experience of the cooperation between Constitutional Courts and Ombudsmen in the field of ensuring and Protection of Human Rights*”, **October 5-6, 2007**;  
Speech of the Ombudsman of the Republic of Armenia **Armen Harutyunyan** (20-th February 2006-2011) - <http://concourt.am/english/events/conferences/2007/index.htm>

it's not accidental, whereas the very nature and legal status of this institution didn't take final shape yet, and objective and subjective factors which define the essence, are ambivalent, ambiguous.

"*Ombudsman*" is an indigenous *Swedish term*, and etymologically rooted in the Old Norse word essentially meaning "representative". The first Ombudsman Institution was established in 1809. The typical duties of an ombudsman are to investigate constituent complaints and attempt to resolve them, usually through recommendations (binding or not) or mediation, as well as to supervise the implementation of legislative acts by the parliament and other authorities.

Complication of functions of state has promoted the distribution of Ombudsman Institute, and also growth of number of state activity types, which inevitable consequence is continuous growth of number of governmental employees. This tendency was facilitated by growth of array of legal norms and rules, informative deficit of parliament in regard to activity of executive power, congestion of courts. In addition, to the governmental power more strict requirements are imposed. On the one hand, it should work effectively, and on the other, - fairly, impartially and to be "friendly" towards the citizens. In this sense the state machinery must serve to the citizen, his interests, but not vice versa.

***Among the most important features of the institution's formation are the following:***

- ❖ rather high level of development of productive forces;
- ❖ completion of the capitalization process in the majority of the countries of the world and a way out on the historical arena of European countries, that had made a great progress in their forward motion to the:
- ❖ division of public labor;
- ❖ production of material welfares;
- ❖ accumulation of public wealth, as well as
- ❖ government forms improvement;
- ❖ national and state building;
- ❖ Social processes' management.

There are a number of special factors that influenced on the development of Ombudsman Institute. Some of them promoted that process and the others, on the contrary, decelerated it.

***To the positive factors could be ascribed the following:***

1. *Democratization of political system in whole and of political regime in particular.* Number of political movements sees in Ombudsman a very useful innovation for their country. They consider that the establishment and development of this institution is one of the most important factors of successfulness in democratic transit and democratic legal state building.
2. *Activities of the human rights movement, aimed at adoption of human rights as the supreme value.* In a number of the post-socialist countries human rights activists initiated the work on creation of Human Rights Protector Institute.
3. *International organizations' activities.* It is necessary to note here that a great role in establishment and popularization of ombudsman institutions in post-socialist countries played such international organizations as UN (*United Nations*), CoE (*Council of Europe*), OSCE (*Organization for Security and Co-operation in Europe*). They encouraged and supported national Human Rights institutions, including ombudsman institute. The assistance of international organizations in the establishment of ombudsman institute in post-socialist countries is based not only on support in creation of applicable normative background. They also render material and technical assistance; conjoint juridical educational programs are worked out, ombudsman offices' staff trainings are held.

4. Activity of the international and foreign non-governmental funds and organizations. These structures play an essential role in the development of the Institute of Human Rights Defender, and this activity is most expressed for the post-Soviet countries. Thus, international funds almost completely keep up the development of discussed institute as an important part of creation of new legal democratic institutions and democratic transition in general.

Common for all ombudsman institutions of post-socialist states is the fact that they were founded when these countries have been enduring a critical period of the development of state and society – their motion from one socio-economical formation to another. In political terms, this is a transition from, in essence, totalitarian system to democratic one and creation of a legal state.

*General conditions of establishment of ombudsman institutions' in post-socialist countries were the following:*

1. Transition of the society towards new political and economic system. Political life of post-socialist states is immature. Primitivism of political culture brings the subjects of political system to a certain state in which they recognize an enemy in anyone who adheres to an opposite political position or even tries to keep political neutrality.

2. Consequences of totalitarian system in public consciousness. Society in post-socialist states is, “paternalistically degraded” in the sense that it is the exact opposite to “civil society”. Under the socialist system citizen treats himself (and citizen is treated) as an object of manifestation of favor from the authorities, and not as a subject who realizes and carries out his or her own rights. Among the major factors that turns the citizen from the subject into an object of public administration, could be mentioned the circumstance that the government prohibited any associations and initiative groups which express interests of separate social groups; ambiguity of legal rules, government’s refusal to accept any complaints on its address from the citizen, etc. Citizen, socially and spiritually paralyzed, doesn’t want to act independently. He hopes that “someone” will solve all his problems instead.

*“Moreover, the very nature of activities of these institutes contributes to the formation of not simply passive citizens, waiting for the public organs to guarantee the protection of their rights, but quite the opposite, constitutional philosophy, underlying these organs, helps to form personalities with active civil position, people, ready to fight for their rights. And this is very important, because **there is no external freedom without internal one**”<sup>2</sup>*

3. Total absence of “ombudsman” tradition (to be exact, in the socialist states there was “anti-tradition” in form of legal institution of «complaints and statements of citizens»). In post-socialist countries the ombudsman institute originated almost from scratch. The exception is Estonia, where the institution of the Chancellor of Justice has existed since 1938.

Coming up to the implementation of the institutions in the region following legislative acts should be mentioned:

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<sup>2</sup>XII Yerevan International Conference of the Constitutional court of the Republic of Armenia, subject: “International experience of the cooperation between Constitutional Courts and Ombudsmen in the field of ensuring and Protection of Human Rights”, **October 5-6, 2007**; Speech of the Ombudsman of the Republic of Armenia **Armen Harutyunyan** (20-th February 2006-2011) - <http://concourt.am/english/events/conferences/2007/index.htm>

Republic of Georgia, where the Ombudsman institute was established by article 43 of the Constitution of the Republic of Georgia on August 24, 1995. The status and authorities of the Ombudsman are specified in the Act of May 16, 1996, "on Public Defender".<sup>3</sup>

Republic of Armenia, where the Institute of Human Rights Defender has been introduced by the Act of November 19, 2003. HO-23 "On the Human Rights Defender," and constitutional grounds, as one of the guarantees of the rights and freedoms of man and citizen, was received by art. 18 of the Constitution of the Republic of Armenia after the approval of the November 27, 2005 amendments to the Constitution by referendum.<sup>4</sup>

Constitutional Law of the Republic of Azerbaijan on the Commissioner for Human Rights (Ombudsman) of the Republic of Azerbaijan was adopted on 28 December, 2001.<sup>5</sup>

Only the fact of adoption of these legislative acts itself, signifies that democracy level in these three countries is high enough to shift to the next step. Step of further *development of legal state, civil society maturation, "Society – Government" cooperation and consolidation*. However, as we can see, this "step" towards democratic values and traditions is not the last one. There are a lot of peculiarities the states ought to manage with first to correspond to EU standards.

More detailed analysis of proceeding of the region's ombudsman institutions, since the moment of establishment, will be given below.

### **Functioning of Ombudsman Institutions' of the South Caucasus Region states and the support of international organizations and NGO's**

#### **Ombudsman office in the Republic of Armenia**

Since the establishment of this institution there were *three* Human Rights defenders in Armenia: Larisa Alaverdyan<sup>6</sup>, Armen Harutyunyan<sup>7</sup> and Karen Andreasyan<sup>8</sup>.

For more close-up analysis of the functioning of Ombudsman's Office in Armenia, a report provided by the US Department of State concerning the following points was taken into consideration:

❖ *Arbitrary or Unlawful Deprivation of Life*. The government or its agents did not commit any politically motivated killings; however, four police officers stood trial for allegedly beating and inducing the suicide of a suspect in their custody, and suspicious deaths of military personnel occurred under noncombat conditions.<sup>9</sup> Unfortunately, it is not the first case, and, most likely, is not the last.

❖ *Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment*. While the law prohibits such practices, members of the security forces regularly employed them. Witnesses continued to report that police beat citizens during arrest and interrogation. Human rights nongovernmental

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<sup>3</sup> The official web-site of the of the parliament of the Republic of Georgia - <http://www.parliament.ge>

<sup>4</sup> The official web-site of the of the parliament of the Republic of Armenia - <http://www.parliament.am/legislation.php?lang=eng>

<sup>5</sup> The official web-site of the of the parliament of the Republic of Azerbaijan - <http://www.meclis.gov.az/?/az/topcontent/31>

<sup>6</sup> Larisa Alaverdyan was Defender of Human Rights of the Republic of Armenia from the *19<sup>th</sup> of February 2004 to 2006* - <http://ombuds.am>

<sup>7</sup> On *17 February 2006*, Armen Harutyunyan was elected for a six-year term as the Human Rights Defender (ombudsman) of Armenia, with more than 3/5 of the votes of deputies in the National Assembly. He held the office *until 2011* - <http://ombuds.am>

<sup>8</sup> Karen Andreasyan (born in 1977) is a Human Rights Defender of Armenia. He is a Doctor of Law and Member of Chamber of Advocates of Armenia (*since 2006*) - <http://ombuds.am>

<sup>9</sup> The official web-site of U.S. Department of State, 2010 Human Rights Report: Armenia; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p. [2-3] - <http://www.state.gov/j/drl/rls/hrrpt/2010/eur/154411.htm>

organizations (NGOs) reported similar allegations; however, most cases of police mistreatment continued to go unreported due to fear of retaliation.<sup>10</sup>

❖ *Freedom of Speech and Press.* The constitution provides for freedom of speech and of the press; however, the government did not always respect these rights in practice. There continued to be incidents of violence and intimidation of the press and press self-censorship throughout the year.<sup>11</sup> As a generalization of the above-listed points an annual report of the non-governmental organization Human Rights Watch (HRW) is given as an example: *More than three years after street clashes between police and opposition protesters turned deadly, meaningful accountability for the excessive use of force by law enforcement remains remote. Armenia decriminalized libel in May 2010, but amendments to the civil code introduced high monetary fines for libel and led to an increase in lawsuits against newspapers, particularly by public officials. In some cases the excessive damages awarded by courts threaten the survival of newspapers. Authorities continue to restrict freedom of assembly. Torture and ill-treatment in police custody persist, and the government has failed to effectively investigate a troubling number of deaths in custody, as well as non-combat deaths in the military.*<sup>12</sup>

#### Ombudsman office in the Republic of Georgia

Since the establishment of this institution there were *two* Public defenders in Georgia: Sozar Subari<sup>13</sup> and Giorgi Tugushi<sup>14</sup>.

For more close-up analysis of the functioning of Ombudsman's Office in Georgia, a report provided by the US Department of State concerning the following points was taken into consideration:

❖ *Arbitrary or Unlawful Deprivation of Life.* There were reports that the government or its agents committed arbitrary or unlawful killings during the year. Georgian government officials and de fact authorities accused one another of committing attacks that resulted in arbitrary and unlawful killings in the occupied regions of South Ossetia and Abkhazia during the year. The Ministry of Internal Affairs reported that there were two cases of police officers fatally using their weapons.<sup>15</sup>

❖ *Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment.* The constitution and law prohibit such practices; however, there were reports that government officials continued to employ them with limited accountability. In a June 26 speech, the public defender stated that accountability for torture and other inhuman treatment remained a problem.<sup>16</sup>

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<sup>10</sup>The official web-site of U.S. Department of State, 2010 Human Rights Report: Armenia; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p.[6]-  
<http://www.state.gov/j/drl/rls/hrrpt/2010/eur/154411.htm>

<sup>11</sup>The official web-site of U.S. Department of State, 2010 Human Rights Report: Armenia; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p. [29-30] -  
<http://www.state.gov/j/drl/rls/hrrpt/2010/eur/154411.htm>

<sup>12</sup>The official web-site of the non-governmental organization Human Rights Watch (HRW), Annual report on Armenia - <http://www.hrw.org/europecentral-asia/armenia>

<sup>13</sup>Sozar Subari (born November 4, 1964) is a Georgian journalist and human rights activist who served as a Public Defender (Ombudsman) of Georgia *from 2004 to 2009* - <http://ombudsman.ge>

<sup>14</sup>Giorgi Tugushi was elected as a Public Defender (Ombudsman) of Georgia by the Parliament of Georgia on *July 31, 2009* - <http://ombudsman.ge>

<sup>15</sup>The official web-site of U.S. Department of State, 2010 Human Rights Report: Georgia ; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p. [2-3] -  
<http://www.state.gov/j/drl/rls/hrrpt/2010/eur/154425.htm>

<sup>16</sup>The official web-site of U.S. Department of State, 2010 Human Rights Report: Georgia ; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p. [4] -  
<http://www.state.gov/j/drl/rls/hrrpt/2010/eur/154425.htm>

❖ *Freedom of Speech and Press.* The constitution and law provide for freedom of speech and of the press; however, there were credible reports that the government restricted freedom of speech and the press. There were approximately 200 independent newspapers, although most were local and extremely limited in circulation and influence.<sup>17</sup>

As a generalization of the above-listed points an annual report of the non-governmental organization Human Rights Watch (HRW) is cited as an example: *The Georgian government uses the Code of Administrative Offenses to lock up protestors and activists at times of political tension. The code allows for a person to be imprisoned for up to 90 days for certain minor offenses, but lacks due process and a fair trial required by international law. The government used excessive force to disperse anti-government protests in Tbilisi, the capital, in May, and prosecuted dozens of demonstrators in these administrative trials, failing to fully respect their due process rights. The authorities also failed to effectively investigate past instances of excessive use of force. Other concerns include restrictions on the media and on freedom of association, as well as forced evictions of internally displaced persons.*<sup>18</sup>

#### Ombudsman office in the Republic of Azerbaijan

The first ombudsman, Elmira Suleymanova<sup>19</sup>, was elected by the Parliament on 2 July 2002, and was reappointed in 2010 for a second term.

For more close-up analysis of the functioning of Ombudsman's Office in Armenia, a report provided by the US Department of State concerning the following points was taken into consideration:

❖ *Arbitrary or Unlawful Deprivation of Life.* There were no reports that the government or its agents committed any arbitrary or unlawful killings during the year; however, human rights monitors reported that at least seven persons died in police or military custody.<sup>20</sup>

❖ *Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment.* The constitution and criminal code prohibit such practices and provide for penalties of up to 10 years' imprisonment; however, there were credible reports that security forces beat detainees to extract confessions and that military personnel physically abused subordinates. During the year domestic human rights monitors reported that 169 persons were tortured in custody by security forces. There were reports that at least seven of these individuals subsequently died.<sup>21</sup>

❖ *Freedom of Speech and Press.* The law provides for freedom of speech and of the press and specifically prohibits press censorship; however, the government often did not respect these rights in

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<sup>17</sup>The official web-site of U.S. Department of State, 2010 Human Rights Report: Georgia ; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p. [36-44] - <http://www.state.gov/j/drl/rls/hrrpt/2010/eur/154425.htm>

<sup>18</sup> The official web-site of the non-governmental organization Human Rights Watch (HRW), Annual report on Georgia - <http://www.hrw.org/europecentral-asia/georgia>

<sup>19</sup> *Elmira Suleymanova* (born on 17 July, 1937). Holds a degree of Ph.D., doctor of Chemistry (1980). From 1990 one of the Leaders of women's movement in Azerbaijan - <http://www.ombudsman.gov.az>

<sup>20</sup>The official web-site of U.S. Department of State, 2010 Human Rights Report: Azerbaijan; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p. [2] - <http://www.state.gov/j/drl/rls/hrrpt/2009/eur/136020.htm>

<sup>21</sup>The official web-site of U.S. Department of State, 2010 Human Rights Report: Azerbaijan; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p. [4-5] - <http://www.state.gov/j/drl/rls/hrrpt/2009/eur/136020.htm>

practice. During the year the government released six journalists and two bloggers, but limited media independence remained a problem.<sup>22</sup>

As a generalization of the above-listed points an annual report of the non-governmental organization Human Rights Watch (HRW) is brought as an example: *The government cracked down on all forms of public protest, at times violently, and imprisoned activists on politically-motivated charges. The atmosphere for journalists is hostile, and government officials continue to initiate criminal and civil libel cases against journalists. The government tightened restrictions on religious groups, and banned women from wearing head scarves in schools and universities, leading thousands to drop out. Torture and ill-treatment in police custody continue with impunity. The Baku mayor's office has forcibly evicted thousands of residents and demolished their homes, including in a neighborhood next to the National Flag Square, where the anticipated venue for the May 2012 Eurovision Song Contest is being built.*<sup>23</sup>

If not the first, than one of the major international institutions, created to maintain dialogue and negotiation between East and West in promoting the full respect of human rights and fundamental freedoms, is the OSCE (*Organization for Security and Co-operation in Europe*). Meeting over two years in *Helsinki and Geneva*, the *CSCE*<sup>24</sup> reached agreement on the *Helsinki Final Act*<sup>25</sup>, which was signed on **1 August 1975**.<sup>26</sup> The OSCE monitors the human rights situation in its **56** participating countries. During the monitoring a great amount of recommendations on how to maintain this or that issue are given to the countries.

***The latest suggestions and support projects concerning South Caucasus Region are the following:***

- ❖ ***Support of Armenia's Ombudsman's Office ahead of elections.*** The project envisages establishing six regional offices, supporting a hotline to report alleged human rights violations and establishing rapid reaction groups to ensure prompt response to alleged human rights violations during the elections and pre-election campaigns.<sup>27</sup>
- ❖ ***Guidelines on the Implementation of the Law on Freedom of Assembly of the Republic of Azerbaijan.*** In this guidelines is given a summary of recommendations on the Law on Freedom of Assembly, the Venice Commission noted that it meets most of the international standards in relation to freedom of assembly.<sup>28</sup>
- ❖ ***Roundtable on Increasing Accuracy of Voter Lists, Tbilisi, 22 November 2011: Conclusions and Recommendations.*** Participants at the roundtable discussed a number of issues that concerned increasing accuracy of voter lists in Georgia, focusing on international standards and good practices as well as Georgian experiences in developing voter lists. <sup>29</sup>

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<sup>22</sup>The official web-site of U.S. Department of State, 2010 Human Rights Report: Azerbaijan; BUREAU OF DEMOCRACY, HUMAN RIGHTS, AND LABOR; April 8, 2011, p. [15] - <http://www.state.gov/j/drl/rls/hrrpt/2009/eur/136020.htm>

<sup>23</sup> The official web-site of the non-governmental organization Human Rights Watch (HRW), Annual report on Azerbaijan - <http://www.hrw.org/europecentral-asia/azerbaijan>

<sup>24</sup> As part of the institutionalization process, the name was changed from the CSCE to the OSCE by a decision of the Budapest Summit of Heads of State or Government in December 1994.

<sup>25</sup>This document contained a number of key commitments on political, military, economic and environmental and human rights issues that became central to the so-called "*Helsinki process*".

<sup>26</sup> The official web-site of Organization for Security and Co-operation in Europe (OSCE) - <http://www.osce.org/who/87>

<sup>27</sup> The official web-site of Organization for Security and Co-operation in Europe (OSCE) - <http://www.osce.org/yerevan/8899>

<sup>28</sup> The official web-site of Organization for Security and Co-operation in Europe (OSCE) - <http://www.osce.org/odihr/34311>

<sup>29</sup> The official web-site of Organization for Security and Co-operation in Europe (OSCE) - <http://www.osce.org/odihr/87077>

*All these annual reports of non-governmental organizations, that describe the situation in the countries; projects undertaken and sponsored by them, in order to develop and to improve the performance of the Human Rights Defender's institution, in particular, and democracy, as a whole, are good examples of the interest of European Community in the maintenance and coordination of aspirations and ambitions of the states of South Caucasus region in sense of development of the legal state.*

### **Conclusion**

Since the establishment of the Ombudsman Institutions in each of the states, a certain progress has been made (according to the statistics of international organizations). However, alongside with benefits there are also violations of common rules and traditions, which entails some kind of "step back" in the *development of a mature legal state*, on the way to democratization, and, thereafter, on the way towards *integration in the European area*. However, such situation is natural in a view of gradual motion towards an objective - means overcoming obstacles, such as, for example, vestiges of the Soviet regime. In this sense, *support of the European community is a key factor*.

This factor, undoubtedly, influences on the *development of democratic institutions* in these three countries, and in particular, on Ombudsman Institute. By means of this, citizens begin to perceive their *rights and freedoms*, in other words - a *maturation of civil society* takes place. A civil society, in its turn, is generally known to be *as a basis of legal state*.

In summary, it should be noted, that while analyzing the activities of Ombudsman Institutions in each of the three states, it is certain, that even if *some goals have been reached* - much more still have to be achieved as well. However, such diversification of objectives often leads to incorrect arrangement of priorities, which will inevitably entail inefficient decisions' acceptance. *The optimal solution* of this problem is to promote in the foreground *three or four highest priority* objectives and to realize them *gradually*.

*"Human rights are inalienable. Nobody can deprive a person of his natural rights - to life, to personal security, free choice of the means of his vital functions, freedom of conscience, persuasions, freedom to hold opinions, autonomy in the sphere of private life and other rights."*<sup>30</sup>

### **List of the applied literature:**

1. XII Yerevan International Conference of the Constitutional court of the Republic of Armenia, subject: *"International experience of the cooperation between Constitutional Courts and Ombudsmen in the field of ensuring and Protection of Human Rights"*, October 5-6, 2007 – <http://concourt.am/english/events/conferences/2007/index.htm>;
2. The official web-site of the of the parliament of the Republic of Georgia - <http://www.parliament.ge>;
3. The official web-site of the of the parliament of the Republic of Armenia - <http://www.parliament.am>;
4. The official web-site of the of the parliament of the Republic of Azerbaijan - <http://www.meclis.gov.az>;

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<sup>30</sup>XII Yerevan International Conference of the Constitutional court of the Republic of Armenia, subject: *"International experience of the cooperation between Constitutional Courts and Ombudsmen in the field of ensuring and Protection of Human Rights"*, **October 5-6, 2007**; Speech of the Ombudsman of the Republic of Armenia **Armen Harutyunyan** (20-th February 2006-2011) - <http://concourt.am/english/events/conferences/2007/index.htm>



5. The official web-site of the of the Human Rights Defender (Ombudsman)of the Republic of Armenia - <http://ombuds.am>;
6. The official web-site of the of the Ombudsman of the Republic of Azerbaijan - <http://www.ombudsman.gov.az>;
7. The official web-site of the of the Public Defender (Ombudsman) of the Republic of Georgia - <http://ombudsman.ge>;
8. The official web-site of U.S. Department of State - <http://www.state.gov>;
9. The official web-site of the non-governmental organization Human Rights Watch (HRW) - <http://www.hrw.org>;
10. The official web-site of Organization for Security and Co-operation in Europe (OSCE) - <http://www.osce.org>;
11. The official web-site of Council of Europe (CoE) – <http://coe.int>;
12. The official web-site of an independent peace building organization International Alert - <http://www.international-alert.org>;
13. The official web-site of European Commission - <http://ec.europa.eu>;
14. The official web-site of European Commission, European Neighborhood Policy - [http://ec.europa.eu/world/enp/documents\\_en.htm](http://ec.europa.eu/world/enp/documents_en.htm);
15. Baglay, M. (2008), ‘Constitutional law of foreign countries’.

## **The role of Ombudsman Institute in the development of legal state in Armenia, Georgia and Azerbaijan, and its influence on integration in European Area**

*Annotation*

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This work is a brief research of such an important component of democracy as Human Rights protection. In the work is reviewed the level of it productivity in these countries. So as the level of Human Rights protection is the principal indicator of the presence of legal state. Since the guarantor of Human Rights in every country, just after the creation of this Institute, is Ombudsmen - the work examines the significance of Ombudsman institute in “Society – Government” cooperation and consolidation. Some examples of threats of Human Rights development in Armenia, Georgia and Azerbaijan are adduced and also mechanisms of its solution are given.

In the work is given a comparative analysis of functioning of Ombudsman Institutions in South Caucasus Region and the measure of maturation of legal state in these three countries. In this work was made an attempt to discover to what extent Democratic institutes of the region corresponds on demands of European Area. Also there is given a linkage on EU role with its strong Democratic institutes, whose influence on this process is significant.

# Criminal law policy – points of admissibility

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## **Essence of criminal law policy**

At first we should discuss about the essence of criminal law policy. Essence of criminal law policy should define from the justify of existence of criminal law. Historical experiences obvious, that existence of criminal law is justified in accordance with social needs. Criminal law provides protection of social wellbeing and stability. It's fair to say, that criminal law is a regime of peace in the state, which is based on the system of social-ethical values and is oriented on its goals. Government use different kinds of goals to achieve its main aims. Among them is law. This is the most effective method. Furthermore, force of law is growing in accordance with inevitability. For instance, there where, civil or administrative law is unable to provide optimal and reasonable satisfaction of social interest, legislator is rightful to use criminal law, as an instrument of last resort.

In the filed of social plural, there are these kinds of obligation, which is the most important to develop people's life. So, the only case to use criminal law as "ultima ratio" mechanism, is justified there, where the other instruments and sphere of law is not enough to protect values in the democratic society<sup>1</sup>. To give just a simple example, it's unacceptable to use criminal law alongside the amoral actions. Because it does not give us enough basis for punishment. That's why legislator should consider, is it reasonable to use criminal law penalty or not. Its unarguable, that policy produce judiciary. The main problem is only the question - how consider policy the ideas of justice, or the social impressions on it. The only valuable basis to create a policy in contemporary state is to protect general principles of our constitution and the norms of international law. It is unreasonable, to speak about the democratic state, when there is obvious resistance between the system of policy and justice. So, in democratic state, as law as policy should found only the main idea of existence – provide protection of human dignity. In a word, it is practical unimaginable to exist neutral law, - far from policy. But in the process of lawmaking, it is particularly important to consider the life of nation, interests of several social groups. Only after that, legislator is eligible to make a drastic action.

Criminal law policy<sup>2</sup>, should define as a process, which has its own logic of development. All changes of political strategies and tactics would be alongside the social practice. Legislator changes methods in accordance with reality. All these are blatant in terms of criminalization or decriminalization. Chang tactics is acquitted in terms of criminal law policy. but only with the complex of methods, which don't disclaim the main ideas of democratic state, and would be warranted by the public interest. Only in this case we can unanimously say that criminal law policy is in accordance with the social interests.

Lastly, the essence of criminal law policy, should define as a struggle of contemporary countries against the crime.

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<sup>1</sup> Veselsi/boilke:"General part of criminal law, crime and its construction" Tbilisi, 2010, p: 8

<sup>2</sup> M.Ivanidze:" essence of criminal law policy"2008y, p:34

### **Problem of criminalization/decriminalization in Georgian criminal law**

As we above mentioned, our main goal is to discuss the novation in the filed of Georgian criminal law. In the last period legislator held, 50 new crimes in criminal code. These engender problems of its admissibility. First of all we should consider, had Georgian legislators legal basis for criminalization this actions or not? And where is the divining line between deviant actions and criminal acts?

The function of criminal law is to lay down a set of standards of what is permissible or not. It is a method of social control, a framework specifying the parameters of acceptable behaviour. At all stages of the process from criminalization to punishment there is scope for the mechanism to falter. It may well be that there are groups in society powerful enough to prevent the criminalization if behaviour that otherwise appears to be a prime candidate for such treatment. In order to make sense of criminal law and of the substantive rules that make up the whole, it is important to establish a framework. First, what conduct should be prohibited by criminal law? If one accepts that one of the objects of the criminal law is to prevent people unjustifiably being deprived of their property why should it be theft if you take property away from someone, but only breach of contract (generally not a criminal offence) if you take their property pursuant to a contract without performing your obligations under that contract? If one understands how theft should be define so as to distinguish it from breach of contract<sup>3</sup>.

Secondly, why do we punish those who break the rules of criminal law? In the above theft example, why is the property law sanction not sufficient? Who do we punish and how much punishment should be imposed? What conduct should be criminalized? Conduct should not be prohibited unless it can be regarded as wrongful. There is, however no agreement as to the criteria for establishing wrongfulness. Three main strands of thinking can be discerned. First, there is the view that conduct is wrongful if it is immoral. Secondly many assert that conduct is only wrongful if it causes harm or serious offence to others. Thirdly, there are those who assert that conduct is wrongful if it causes harm neither to others nor to the actor.

In any case, the growing tendency of criminalization in state, makes obvious state desire – fight against crime with repression policy. From the health view, nowadays, when our state aspires to democratic values, criminal law policy should have a liberal course. But practical situation is another. Tendency of criminalization is growing, and the penalty is so high. It's a fact that Georgian government is in face of acute problems, because of bitter criminogenic situation. The idea of liberal policy is to satisfy social interest, alongside the reasonable limitation of human rights. So, liberalization of criminal law policy, should define as provision a human as a fundamental values.

Object of criminalization is some action of person, which is punishable by the law and decriminalization conversely – action doesn't regard as crime and has a legal character. So, crime doesn't exist without social danger. As European court of human rights held, criminalization should consider legitimate, when just satisfaction of interests without criminal law is unachievable<sup>4</sup>.

As for decriminalization, it's fair to say, that it is extreme stage of liberalization. Because it is not crime and has a legal face. As a rule, objection of decriminalization is immoral actions. For examples, homosexuality is decriminalized almost everywhere. As European court of human rights held, most part

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<sup>3</sup> C. Clarkson:"criminal law", London, 1998, p. 21

<sup>4</sup> see the case: *Dudgen v the U.K*

of states regard that these kinds of actions wouldn't be crime. Because criminal penalty is unproportionate to protect morals<sup>5</sup>.

Decriminalization is so problematic not only theoretically, but also practically. In face of this problem was Georgian Supreme Court in 2007 year. Question was referred about 184 articles in Georgian criminal code. Which considered criminal responsibility, for misappropriate of car temporarily. After legislative changes this article is taken out from criminal code. According to the decision of Georgian Supreme Court, this was not decriminalization, but a "show of decriminalization". That's why court has not legal right for impunity this kind of action. All temporary misappropriate of car regard as a criminal act, and regards responsibility as a crime against property. It is now standard practice.

It is interesting to say, that there are not concurring opinion about this question, among scientists. Some of them regard, that it is classical decriminalization and criminal responsibility for this is only the egregious mistake of Georgian Supreme Court. For discussing this problem, we admit that, it is necessary to consider legislators desire first of all, and than right of court of interpretation the norms. During the working to these issues we getting explanation letter of 184 article. Where parliament apparently held, that temporary misappropriate of car is decriminalized. According to this it is possible to say, that Supreme Court abrogates its authority. The only rightful subject to take social-political decisions is parliament. That's why the interpretation should be appropriate to the legislator's desire and not to breach its own margins.

#### **Problem of Penalty individualization in Georgian criminal code.**

Among the principles of criminal law, penalty individualization is one of the important principles. We should say that practically, penalty individualization is not contemporary problem of criminal law. But in Georgian practice, in the nearest past this has become an actual question. It's particularly problematic alongside the juvenile's criminal responsibility. In Georgian criminal code admit fine as a penalty. According to this article, in case of insolvency of juvenile, obligation imposes to his/her parents or other legal representatives.

Constitutional court of Georgia, was examine conformity of this article to the constitution. And nowadays it regards in accordance with supreme law. Court held that, fine as an alternative kind of classical penalty is always associated with real losses. What is more important, criminal responsibility doesn't exist without crime. Furthermore, crime is acknowledged only after it is held at court. The only guilty is juvenile. And in this case, parents are responsible for their child's action. As well as in civil law this kind of responsibility in the field of criminal law is not acceptable<sup>6</sup>.

We think that in this case, the penalty has not enough power. The main idea of punishment is resocialization, correction of guilty. And when guilty person doesn't feel the penal himself, the expectation of his correction can not be justified. That's why, we think, that nowadays, in Georgian criminal codes, this article is the brutal pattern of recapitalization of guilty person. In this case, the penalties don't achieve its aims. Unfortunately, this norm is in force now and has an intensive utilization in practice.

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<sup>5</sup> See the case : "Chapmen v the U.K"

<sup>6</sup> See decision of constitutional court of georgia:2011,11.07N3/2416

### **Zero tolerance principle in Georgia and new direction of criminal law policy**

According to the bitter criminogenic field our state takes serious measures against crime. And one of the methods was zero tolerance principle. It's a fact, that zero tolerance policy is not a Georgian new word in criminal law.

Zero tolerance policy is a generic term of policing style that is proactive, confident and assertive. While American theorist Wilson described the viewpoints that were subsequently to be labelled as "zero tolerance" policing, not all of its proponents have actually adopted to term. It is fair to say, that the term "zero tolerance" had found a life of its own, and it is applied freely to many an initiative in criminal justice that might well be rather remote to the original idea<sup>7</sup>.

Wilson and Kelling's so-called broken-window in a building is not repaired, then people will assume that no one cares. That lowers the threshold for others to also break windows. More and more windows will be broken and soon the building will have no windows. A quick reaction to the first broken window is therefore imperative: it needs to be fixed as soon as possible. That is the idea behind zero tolerance policing, and it is in opposition to the notion that when crime is rife, the police should focus on only the most serious crimes. Zero tolerance policing is about making an effort to tackle minor crimes and misdemeanours. In that way a sense of law and order can be regained, this will serve as a deterrent with regard to more serious crimes. Signs of improvement in the law-and-order front will allow the local community to gain confident in the police as well as in the community itself.

In the philosophy of zero tolerance policing, its relation to the community rests in a different footing from community policing. Whereas in the Japanese example, communities care and communicate. Zero tolerance policing has been particularly successful in Ney York City. A particular focus was the so-called "quality of life" crimes. These included graffiti, vagrancy, begging, illegal vending, street-level drug dealing and street prostitution. These offences were pursued to regain and demonstrate control of the streets<sup>8</sup>.

During the initial period of zero tolerance policing, between 1993-1996, arrests for misdemeanours rose by 40 per cent and arrest for minor drug offences rose by 97 per cent. The same can say about Georgian practice. Between 2003-2006 arrests rose twice. If in 2003 the statistic index of prisoners were 8402 people, for 2006 year the number was extremely raised and it consists of 17155 persons. But these statistics is imminent part of zero tolerance policy.

Despite protest from various interests groups, it seems that zero tolerance approached has been success. The success of zero tolerance policy might tell us something about the communities to which it is applied. In order for it to be successful, it would seem that the situation before zero tolerance must be quite bad in terms of crime rates and public confidence. In some communities zero tolerance approach might be the best, or perhaps the only, answer. Zero tolerance emphasizes criminalization: whereas community-policing strategies would focus on problem –solving, zero tolerance policing would instead focus on making arrests, with the likely result of more people ending up with a criminal record.

According to the Georgian examples, zero tolerance policy worked also In the field of juvenile delinquency. As you are familiar with Georgian practice of juvenile justice, in 2007 year legislator held 12 year as an age of criminal responsibility. Also towards to the white colour crimes, corruption, and other kinds of felonies. Today, when zero tolerance police have already given us its own results, state is

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<sup>7</sup> F. pakes:"comparative criminal justice" Canada, 2004 p:24

<sup>8</sup> C.Wells:"the criminal law response" oxford univeristy press, 1997, p:56

in face of necessity of liberalization. We can proudly say, that in this side, government take same measures, particularly alongside the juvenile justice. In the nearest past program of mediation was affirmed, which operate not only in term of juveniles, but also alongside the adults. The project is oriented to avoid criminal responsibility and hearing in court. In this process prosecutors play the main role, where they use the principles of discretion peruse.

In case of adults, they should satisfy some demands. First of all, crime, makes by them wouldn't be felon, in addition she/he has obligation to indemnification damage, full or partly.

All in all, we can say that the new direction of criminal law policy really consists liberal conditions. And the difference between zero tolerance and liberal policy of criminal law is very mark indeed. But how it will work in Georgian reality is future issue.

### **Summarize**

Our main goal was to discuss about the novation in Georgian legislation, define all interesting and problematic issues in the field of criminal law policy. In addition, we tried to consider all those points not only theoretically, but also practically. In this modest article, first of all, we discussed the essence of criminal law policy, then the problem of criminalisation/decriminalization. In addition, we touched upon of penalty individualization in Georgian contemporary criminal code. In this article we also spoke about the “zero tolerance” policy in Georgia and its results. What is more important, there was discussed the new direction of criminal law policy and the question of liberalization. All these points were considered alongside the practical experiences of foreign countries. There was given examples of methods of approach of Georgian Supreme Court, constitutional court of Georgia, constitutional court of Germany, and produce individual views of European court of human rights. In addition, there was data of international survey.

From our modest article, it is obvious that, state has already expressed its own desire against some kinds of felons. Its thru that, about this political direction there is not concurring opinion. According to the surveys, we can say that, contemporary policy of criminal law is absolutely acceptable and necessary, because government really had reasons of using repressive methods against crime. Unruling situation, which was in our country before the reforms was enough basic for government.

To sum up, it is fair to say, that the new way of criminal law policy is absolutely necessary and acceptable. government should only consider, that take care of human is the challenge of contemporary time, and all aspects which influence human (economical, political, social condition, ect. . . ) should be provided so that, human should definitely have a stable place in the system of values.

### **Policy of criminal law – points of admissibility**

Policy as a method of achieving outstanding social interests is elicited by its own way in law. existence separate spheres of law is unimaginable without policy. it also refers to criminal law.

Policy of criminal law, means the whole complex of methods, which are used by state to satisfy social interests. According to this, all expressions of state desire are interesting in terms of admissibility. That's why the problem of criminal law policy is always an actual issue.

According to the general principles, policy as a complex of mechanism, should answer the main idea of democratic state,- **provide protection of old human dignity**. In accordance with constitutional principles, policy should be justified by the public interest in a democratic society. Furthermore, policy should be oriented to the common needs, and should supervene from it. Objective state of society is an encouragement for government to take reasonable measures. It's a fact, that state, (and especially, parliament) always faces acute problems. Parliament is obliged to find a reasonable way against the crime. All these methods should provide optimal and reasonable satisfaction of social interests.

In lately period, our government has expressed genuine political goodwill towards wrongful acts. narco crime, white colour crime, juvenile delinquency, etc... They all were so acute before the reforms. All this is interesting in terms of criminal law policy.

Accordingly, our main goal was to discuss the novation in Georgian legislation, define all interesting and problematic issues in the field of criminal law policy. In addition, we tried to consider all those points not only theoretically, but also practically. In this modest article, first of all, we discussed the essence of criminal law policy, then the problem of criminalisation/decriminalization. In addition, we touched upon of penalty individualization in Georgian contemporary criminal code. In this article we also spoke about the “zero tolerance” policy in Georgia and its results. What is more important, there was discussed the new direction of criminal law policy and the question of liberalization. All these points was considered alongside the practical experiences of foreign countries. There was give examples of methods of approach of Georgian Supreme Court, constitutional court of Georgia, constitutional court of Germany, and produce individual views of European court of human rights. In addition, there was data of international survey.

According to the article, essence of criminal law policy should be regarded an expression of contemporary states measures against the crime. Policy of criminal law is generally reflected in criminal code. The criminal law is a series of rules, with its own set of sanctions, aimed as controlling behaviour. The function of criminal law is to lay down a set of standards of what is permissible or not. It is a method of social control, framework specifying the parameters of acceptable behaviour. First of all it refers to the points of criminalization/decriminalization. It obviously expresses legislator’s will. Moreover, what conduct should be criminalized? We ssm content to leave some “wrongful” conduct to morality or religion: for example, telling lies as to why an essay has not been completed on time. Other such conduct is left to the law of tort, for example. Telling lies about other people so as to damage their reputation, or to the law of contract, for example, deliberately ot performing one’s obligations under a contract. it must be conceded at the outset that many, if not most, decisions to criminalise conduct are simply a response either to pressure groups or to perceived public opinion. All in all, conduct should not be prohibited unless it can be retarded as wrongful. There is, however, no agreement as to the criteria for establishing the view that conduct is wrongful if it is immoral. (legal moralism). Secondly, many assert that conduct ks only wrongful if it causes harm or serious offence to others (the harm principle or liberalism). thirdly, there are those who assert that conduct is wrongful if it causes harm to others or to the actor(paternalism) when is legislator rightful to use a criminal law as an “**ultima ratio**” mechanism? It is submitted that is assessing the relationship between immorality and the criminal law, and the concept of harm and the criminal law, a framework has been provided by which specific activities can be adjudged. it is not enough that a proactive is widely regarded as immoral. Nor is enough that it should cause harm. Both of these are minimal conditions for action by means of the criminal law but they are not sufficient. Whenever, through this article, we refer to the necessity form “harm done”, it is envisaged that the harm will have been subjected to rigorous scrutiny such as that suggested by Packer. As we marked above, nowadays in Georgia the tendency of criminalization is growing. It demonstrates criminogenic background in a state. Which is the basic idea for legislators for criminalization.

In this article we approached also to the problem of penalty individualization in contemporary Georgian criminal code. This question is interesting alongside the new decision of Georgian constitutional court. as we are aware of, constitutional court held that, 42. 5 (1) article is in accordance with the constitution. This point is questionable and there is not common view among the scientists.

Lastly, we touched the meaning of “zero tolerance” principles in Georgia, its aim and results; then to the importance of liberalization. “Zero tolerance” policing is a generic term for a policing style, that is proactive. Confident and assertive. It is fair to say that, zero tolerance principle has found a lift of its own, and it is applied freely to many initiative in criminal justice that might well be rather remote to the original idea. Zero tolerance policing is about making an effort to tackle minor crimes and misdemeanors. In that way a sense of law and order can be regained, which will serve as a deterrent with regard to more serious crimes. Signs of improvement on the law-and-order front will allow the local community to gain confidence in the police as well as in the community itself.

Despite the protest from various interests groups, who complained about policy heavy-handedness; it seems that zero tolerance approach has been success. Although other major cities have seen reduction in crime in the same time period, the NeY your city data are quite remarkable.

The success of “zero tolerance” policing might tell us something about the communities to which it is applied. In order for it to be successful, it would seem that zero tolerance must be quite bad in terms of crime rates and public confidence.

Liberalization - new direction of Georgian criminal law policy, includes project of mediation together with the juvenile justice, principle of prosecution discretion... the program of mediation is particularly interesting in terms of juvenile justice. as we are familiar with, in 2007-2010 years the criminogenic found alongside the juveniles was the acutest. That's why legislator consider 12 year as an age of criminal responsibility. but, on the other hand it has not strong enough reasons, because of specific of juvenile justice. Unfortunately, nowadays in Georgia, there is not condition for their resocialization. From a healthy view, in this condition 12 age was unacceptable alternative for age of criminal responsibility. In contrast of this, today in Georgian criminal code, the age of responsibility is held as 14 year, which is really admissible. This is a tendency of liberalization in its way. Furthermore, the project of mediation maintains to the juveniles' resocialization and contains the principles of judicial economic. According to this project, case doesn't go to the court, and the prosecutors have right to take a measures against the crime in accordance with the optimal satisfaction of victims.

What is more important, this project spread not only to the juveniles, but also to the adults. it is a innovation in Georgian legislation, and it would be fair if we say that, this project is working successful either in theoretical or in practical side. According to the official data of ministry of justice, nowadays we have 98 juvenile, who work in the project of mediation.

To sum up, it is fair to say, that the new way of criminal law policy is absolutely necessary and acceptable. government should only consider, that take care of human is the challenge of contemporary time, and all aspects which influence human (economical, political, social condition, etc. . . ) should be provided so that, human should definitely have a stable place in the system of values.

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## **Criminal law policy – points of admissibility**

*Annotation*

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Policy as a method of achieving outstanding social interests is elicited by its own way in law. Without policy, it is particularly unimaginable to exist several spheres of law. It also refers to criminal law.

Criminal law policy should consider as a whole complex of methods and mechanisms which are used by the state to achieve its main reasons, -provide optimal and reasonable satisfaction of social interests, that' why that all desire of state is interesting in terms of admissibility. And particularly now, when our government make serious steps towards steady development of society. First of all, it expressed in the states action against the crime. It was white colour rime, narco crime, corruption and so on. All these make serious problems not only theoretically, but also practically.

According to the general principles, policy as a complex of methods should answer to the main idea of democratic state – provide protection of human dignity. This should be defining in all terms of state desire, alongside the satisfaction of social needs. So, objective social conditions are the push for government to take reasonable and acceptable measures. It's a fact that, the government is also face acute problems. Because it is oblige to create mechanisms against crimes, which cams from pressing social needs and is relevant and sufficient.

Point of criminal law policy consists of problems of criminalization or decriminalization. In this field it is interesting when legislator is eligible to make a decision of criminalization and what is the legal

basic of decriminalization. Moreover, tendency of criminalization or decriminalization, obvious directions of criminal law policy. This point, in Georgian practice has never been bitter than it is today. That's why in this theme we will consider all these interesting questions.

In this theme, we first of all consider essence of criminal law policy, then the problems of criminalization/decriminalization. We will discuss about penalty individualization problem in contemporary Georgian criminal law. In addition we will touch zero tolerance policy and to new direction of criminal law policy. All relevant issues will be discussed not only theoretically, but also practically.

Accordingly, our main goal is to answer to the acute question – is Georgian criminal law policy acceptable and admissible in democratic society? Could state find a reasonable way against crime or not?

# The Role of Compensation for Moral Damage in Strengthening the Rule of Law

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## **Introduction**

The characteristic feature of any legal state is the presence of high level provision of human rights and freedoms, as well as human values where not only material but ideal goods are included. Just for this purpose the Institute of Compensation for Moral Damage functions, the role and the meaning of which for the present day have gained much importance.

The problem that is studied in the present scientific work is one the most vital and crucial issues, which is difficult to solve in the South Caucasian countries. There are many reasons to that and regular attempts to solve them often lead to a deadlock. That's why one of the most important democratic institutes of law in a legal system of a number of states hasn't been ascertained in a legislative way up to now, which is an unacceptable phenomenon on the path of building a legal state and undertaking certain steps concerning European integration.

Correspondingly, as an object of the investigation of the research work is the Institute of Compensation for Moral Damage as one the most important components of a legal state.

The main goal is the study of the given legal Institute in the South Caucasian countries and the attempt to promote its certain suggestions on the improvement of the mentioned sphere.

As a result of the above-mentioned, we'll try to accentuate our attention on the following issues: The Institute of Compensation for Moral Damage in the South Caucasian countries; the analysis of legislation of the considering countries and their definite comparison as well as the analysis of rich experience of European states. The perspectives and possible ways of development in the process of legislative affirmation and practical realization of the Institute of Compensation for Moral Damage in the South Caucasian countries will be estimated.

Gaining of the independence of the former Soviet republics after the collapse of the USSR led to essential changes on the political arena of the South Caucasian countries, where European political presence became more vividly expressed. Practically, from the very beginning European states has taken attempts to integrate them into their self "sensible" space notwithstanding the fact that for a long time the given presence has been enough nominal. Evidently, the South Caucasian countries are faced to do a large amount of work on the way of full European integration which will certainly demand some reformations and time. At present none of the countries of the observed region is ready for those changes. However, there are all the ascertainments and what is of no less importance, some certain steps have already been taken in this direction.

On the way of achieving that very aim many spheres of the states are to undergo reformations, for example, economics and legal system and their completion in general as one comes out of the other, and there is a tight interconnection.

Building of a legal state through the improvement of the legislation and the establishment of democratic institutes is one of the important steps on the way of European integration. And despite certain difficulties that we'll speak about, they should be overcome and not turn a blind eye on them, considering the problem unsolvable.

The Institute of Compensation for Moral Damage is the most interesting and complicated one in its judicial essence of legal phenomenon, disputes and discussions on which are still on. However, the

rich experience of European states vividly demonstrates the effectiveness of its legislative affirmation and practical realization.

So, states considering themselves as legal have, as a rule, quite a continuous experience of applying of this legal Institute. Still, in the 17<sup>th</sup> century a Dutch jurist Hugo Grotius wrote: "... damage is also done to honor and reputation, as by blows, insults, abuse, calumny, derision, and other similar means. In these acts, no less than in theft and other crimes, the criminality of the act must be distinguished from its effects. For to the former punishment corresponds, and reparation for the loss to the latter, and reparation is made by confession of the fault, by manifestation of honor, by witness of innocence and through the means which are similar to these. Nevertheless, such a damage may be made good with money, if the injured party so desires, because money is the common measure of useful things."<sup>1</sup> At present, in legal states the compensation for moral damage is quite effectively used for protection of the citizens' personal non-property rights. Here, we can mention the legal systems of Anglo-Saxon countries (England, USA) and right of Roman-Germanic countries (France, Germany), as well as the control body of the Council of Europe, i.e. European Court for Human Rights.

The problem of the compensation for moral damage has been discussed in moral doctrine for many years. Different points of view are mentioned: from admission of the necessity of the compensation for moral damage on equal bases with the property damage to negation of the issue itself on monetary compensation for moral damage as immoral. The necessity of the establishment of the Institute of Compensation for Moral Damage, finding reflection in legislation and judiciary practice of many states, is closely connected with the rise of the individual personality, growing multi-complicated relations, with confirmation in the legal system of many states of the principles and norms and international law.

On the whole, "damage" is a social notion, and it could be defined as consequences of instigation on the social relations as well as consequences of violation of rights and interests of the state, organizations or citizens, protected by law.<sup>2</sup> Damage is of two types - moral and property. Property damage is the negative consequences expressed in the reduction of the property of the injured party, as a result of violations of rights and goods belonging to him.<sup>3</sup> Moral damage is a self consequence of human rights violations, that's why it can be compensated by itself independently of the availability of property damage or together with the property damage.

So what is a moral damage? To disclose the present notion the immediate bases of its use are of essential value. In the countries where the studied Institute effectively functions, as the latter are "human rights," "right of self-determination of the private life" in Austria, Germany, "right to private life" in the USA. The main essence is to give the human rights to the person himself.

The compensation for moral damage is of Anglo-Saxon legal system origin where statutory losses are mentioned, prescribed by the law. They present a form of so-called punitive damages.<sup>4</sup>

In German Civil Law the notion "personlichkeit" is principally equivalent to "punitive damages". The interesting moment is that here the monetary compensation is not the only means of protection. The main principle of responsibility is the restitution that is the return of the injured party to the

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<sup>1</sup> Hugo Grotius, *The Law of War and Peace*, 1994, p. 425//Huig de Groot, *De Jure Belli ac Pacis*

<sup>2</sup> Malein N. S., *Возмещение вреда, причиненного личности*, Judicial Literature, 1965, p. 5

<sup>3</sup> Malein N. S., *Имущественная ответственность в хозяйственных отношениях*, 1998, p. 96

<sup>4</sup> Bainbridge D., *Intellectual Property*, 1999, pp. 154 - 155

situation, which he would have if it weren't for the breach of law and only in case when the restitution is impossible totally or partially, the damage is compensated in cash.

In its turn, the French Civil Law doesn't mark any difference between material and non-material damage. So, the French Civil Code defining the losses tells about the compensation for damage or loss in general not restricting monetary damage, which includes the possibility of non-material compensation.

As it comes from the given analysis of the functioning foreign legislation more progressive from the point of view of the states in all the normative-legal systems the term "moral damage" is present in the form of more developed institutes similar in content.<sup>5</sup>

Revealing the notion "moral damage" let's turn to the example of the Civil Code of the Russian Federation (hereinafter RF CC), the situation which causes special interest in force of resemblance of building models of the CC of Armenia and Russia. The Article 151 of the RF CC discloses moral damage as "physical or moral sufferings."<sup>6</sup> It's evident that the legislator uses the word "suffering" as a key word in definition of moral damage. It seems quite grounded. The term "suffering" necessarily predetermines that the actions of the instigator of the moral damage must be reflected in the conscience of the injured party, cause certain psychiatric reaction. Hence, the harmful changes in the protected goods reflect in the conscience in the form of feelings (physical sufferings) and understandings (moral sufferings). Closer to the notion "moral sufferings" we'll consider the notion "emotional experiences." The content of the emotional experiences can be fear, shame, humiliation, other unfavorable situation in psychological aspect.<sup>7</sup>

Speaking about the Institute of Compensation for Moral Damage in the South Caucasian countries for the beginning we'll observe the Republic of Armenia, in the legislation of which the present Institute of Law as such is absent. In our opinion, the mentioned situation for the present day is just inadmissible. However, it will be fair to mention that from 1997 to 1999 the CC of the Republic of Armenia (hereinafter RA CC) contained in itself compensation for moral damage. But in force of absence of strict criteria defining its size, which led to many disputable situations and abuse from the judges in 1999, it was cancelled. Nevertheless, the reality "dictated" its demands that gradually revealed the necessity of legislative reforms in the sphere of protection of non-material rights of a person. As a result, in May 2011 in the RA CC some amendments and changes were made concerning the compensation for damage, caused *honor dignity and business reputation*.<sup>8</sup> The paragraph 4 of the Article 19 of the RA CC says that the citizen to whom are spread the information damaging his/her honor, dignity and business reputation have the right to require together with the denial of such information compensation of losses incurred by its spreading<sup>9</sup>.

What testifies to the given fact? In different states the Institute of Compensation for Moral Damage covers non-similar amount of non-material personal rights and goods, subjected to legal protection. Somewhere the list is wider, and somewhere it covers quite a narrow circle of rights. The list of non-material rights is the same in the Republic of Armenia, in violation of which the citizens are

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<sup>5</sup> Степанов М. А., Понятие неэкономического вреда: (Опыт Германии и его использование в России), Твер, 1996, p. 65

<sup>6</sup> The Civil Code of the Russian Federation. A part 1 from November, 30th, 1994

<sup>7</sup> Erdelevsky A. M., Моральный вред и компенсация за страдания. Scientific-Practical Manual, M.: Publication VEK, 1998, p. 188

<sup>8</sup> RA Law " On Amendments in the Civil Code" May, 18. 10 //

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<sup>9</sup> The Civil Code of Republic Armenia from May, 5th, 1998. №-239//The Official Bulletin of Republic Armenia 1998. 08.10/17 (50)

eligible to demand compensation, is restricted only by the honor, dignity and business reputation. What conclusion does it suggest itself? Everything is simple - Institute of moral damage compensation to some extent has practical use, however they don't hurry to ascertain it by law. We suppose no matter how "literate" the legislator ignored the given situation, the issue requires an unequivocal solution – to include one of the most democratic law institutes into present acting RA CC. One of the main reasons, impeding the solution of the given issue, is the absence of distinct criteria of definition of the size of compensation for moral damage. It causes quite grounded fear with the legislators for including of the observing Institute in the CC may again cause many violations and deadlocked situations in solving similar cases. However, the way out of this given situation is not the ignoring of the issue, but the attempt to establish corresponding universal criteria of evaluation.

Besides, there is a widely spread opinion on the fact that the mentality of our people disturbs them to look at the situation in a cold and adequate way, if necessary. And the size of compensation which will be defined by the judges will hardly satisfy them. It will become one more reason of the citizens' numerous dissatisfaction and endless attempts to appeal judgments of the Code. Unfortunately, we can't fully deny the given fact. However, this won't in no way be the reason not to include the Institute of moral damage compensation in our legislation. It's another matter that a non-simple task is before the state to bring up a law-binding citizen as well as the society in which, first of all, will respect the law, respect and faith in the justice of the court, in the fair decisions made by them. Certainly, it won't be reached for a day, however years of laborious work – and desirable result won't make it wait. So, on the way of building a lawful state for relatively "young" Armenia it's not quite simple to adopt literate normative - legal acts – in parallel, it's necessary to bring up a citizen respecting his law. We are convinced that we may hardly call a state which has not faced the given problems at the initial phase, however time passed and we see that in many European countries the people perceive the given Institute of Law as granted and necessary as one of the most important ways of protection of its non-material rights and interests. They've come to this conclusion not in a day. That's why to speak about the impossibility of our citizens to adequately perceive the compensation for moral damage is hardly necessary.

The similar situation of relatively considering issue also exists in Azerbaijan, in the norms of the Civil Code of which are only fixed concerning the protection of honor, dignity and business reputation. The Article 23 of Azerbaijan CC has a similar structure with the Article 19 of the RA CC with a little difference in that, that in the paragraph 1 of the given article of Azerbaijan CC notes, besides the above-mentioned three elements, also mentions the information violating the secret of the personal life and personal immunity. This rule is also applied in case of incomplete publication of factual information, if as a result of such publication a person's honor, dignity and business reputation is damaged.<sup>10</sup> One of the distinguished features which we'd like to note is the circle of subjects on which the action of the given norm is spread. If in the RA CC as such are only the citizens then in Azerbaijan CC are the physical persons. In our opinion, in the second case the legislator approached the issue in a more literate way as the notion in "physical person" is much wider in its judicial content than the citizen where besides the citizens and foreign citizens are persons without nationality and the persons with several nationalities are included.

Unlike the legislations of Armenia and Azerbaijan, Georgia CC immediately affirms the Institute of Compensation for Moral Damage, which certainly is a positive phenomenon. However, its action is spread on cases precisely prescribed by the law in the form of reasonable and just compensation (p. 1,

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<sup>10</sup> The Civil Code of Azerbaijan from December, 27th, 1999

art. 413 of the CC). Compensation for moral damage is allowed only in two cases. Firstly, in guilty instigation on personal non-property rights (Article 18 of the CC). And, secondly, in cases of corporal injuries and harm to health (p. 2, Article 413 of Georgia CC)<sup>11</sup>.

We'll turn to the practice of Higher Court of Georgia which is rich in cases connected with compensation for moral damage. However, one solution is worth of special attention. In accordance with p. 2 of the Article 18 of Georgia CC, "a person has a right of denial of information damaging his/her honor, dignity and business reputation by law, violating the secret personal life or personal immunity, if the one spreading the information will not prove its authenticity". The CC doesn't contain norms regulating the relations in spreading right authentic information but damaging the honor and secret of the person's private life. In one of the newspaper articles information from a criminal case on raping of a woman was published. The publication contained exact information on raping a claimant established by court sentence, who the latter considered damaging her honor and secret of personal life. The Higher Court satisfied the requirement on compensation for moral damage, substantiating her decision by the Article 20 of the Constitution of Georgia, which keeps the secret of personal life and the Article 992 of Georgia CC, in accordance with which "a person, instigating the other person with anti-law, deliberate or careless actions, shall compensate this incurred damage."

Analyzing the above mentioned we'd like to note that the times, when under the good, being the subject of private law, they exclusively understand the material values, visual subjects, about which the previous legislator cared. The given changes reflect significant progress in the law conscience of Europe. Together with declaration of the principle of priority of all-human values progress of establishing human rights and freedoms also takes place in our countries, which naturally is of positive character with respect of law. The strengthening of the role of the individual personality is reflected in the legislation and judicial practice, accentuating its attention to the protection of personal non-property rights. And one of the more effective ways of protection of the given non-property rights is the Institute of Compensation for Moral Damage, the presence of which in the legislation of any country, calling itself lawful, is necessary.

Here the key circle, determining the fruitful of functioning of the norms of the Institute of Compensation for Moral Damage is the issue of defining the criteria of the size of compensation for incurring moral damage. As criteria of defining the size of compensation for incurring moral damage in different countries the public estimation of the factual circumstance (circumstances), incurring damage, the sphere of spreading information on the events, the degree of the defendant's guilt, the force of the incurring damage, the material and social situation of the parties, local conditions and manners, the individual peculiarities of the injured party are suggested. However, the rules, immediately fixed in the laws of a number of states, by which the court is to be led in definition of the size of compensation for the moral damage, are obviously insufficient, as they differ by indefiniteness and incorrectness. In connection with this, the uniform practice of the solution of the given issue is not worked out: the judges are independently obliged – stemming from their understanding of right, convictions and life experience – define the size of monetary compensation for moral damage. The result of such regulations is the non-orderliness of judicial solutions and exceeding quantity of the submitted claims on compensation for moral damage.

From this, we'll note that one of the main tasks of the lawyers is the attempt to work out distinct criteria of defining the size of compensation for incurring moral damage, which will help the given

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<sup>11</sup> The Civil Code of Georgia from June, 26th, 1997

Institute of Law to obtain wide spreading and will exclude the emergence of such big amount of unsolved issues in connection with its use.

In our opinion, one of the true ways of solving the given problem is the attempt to work out certain “universal formulas” or schemes, with the help of which to make the calculations of the size of compensation for moral damage will become more comfortable and practical. This will to some extent exclude the possibility of judicial abuses and will prevent the emergency of many disputable situations. Besides, it will help to save the trial time.

To disclose our proposal we'll turn to the experience of England. To compensate the psychiatric damage caused by the crime in the majority of cases the injured party can't submit the claim in the order of civil trial, but to turn to the scheme especially prescribed by law to compensate the damage caused by the crime. In England such a tariff scheme have been in force since August 1, 1964 thus subjected to a regular innovation. At present, 1994 scheme functions, in it the terms of compensation payment are described in detail. However, it can be provided in cases of incurring not any psychiatric damage but only “depriving life activeness” (the reduction of work capability or ability to learn, breach or essential loss of social relations and sexual disturbance is supposed) for a period more than six weeks from the moment of the incident the psychiatric damage is to be revealed in a concrete psychiatric and physical symptoms: anxiety, tension, insomnia, excitement, a sense of distrust, thoughts of suicide etc. The degree of weight of psychiatric damage depends on the length of the period of loss of life activeness. Thus, separate kinds of damage are split into 25 groups, in each of which a single size of compensation is envisaged. The low level of compensation is 1000 pounds. Each statement is observed on the basis of factual circumstances of each concrete case by a Special Committee on Damage Compensation Issues, caused by crime. It's remarkable that if even a criminal is not identified, the injured party has the right to compensation for moral damage at the expense of means of the state.<sup>12</sup>

In our opinion, in defining of the size of compensation for moral damage it was reasonable to apply such scheme in wider coverage: to group possible ways of incurring moral damage on similar features and fix for them certain size of compensation within the lower and higher limits. Correspondingly, the judges can fix the size of compensation only within the given limits, leaning already on the circumstances of the concrete case. So, in the USA the compensation is considered in varieties of property sanctions. Under the paragraph 504 (c) of the Title 17 of the Code of Laws of the USA at any time before the announcement of the final verdict the law obtainer has the right to require exempts of statute losses from 750 dollars to 30000 dollars (the size is defined by court, stemmed from the considerations of justice) instead of compensation for factual losses.<sup>13</sup>

Besides, taking into account that suffering is, first of all, a category of physiological, as well as psychological at the same time, but not a judicial construction, to the estimation of suffering we should approach from the position of medicine, also psychology. And only as a consequence of complex analysis of the above mentioned subjects of the concrete circumstances of the case, in the court will become possible the true judicial estimation and the establishment of the fair size of compensation for moral damage.

We'd also like to notice that to our mind such cases are to be tackled with by not usual civil judges but specialized judicial bodies, in whose power there are exclusively the analysis of the case concerning the compensation for moral damage. In the work of the given bodies not only judges should

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<sup>12</sup> Belyatskin S. A., Возмещение морального (неимущественного) вреда, 1996, p. 18.

<sup>13</sup> Artur R. Miller, Michael H. Davis, Intellectual property, Patents, trademark and copyright in a Nutshell, Third edition. St. Paul, Minn, 2000, p. 411.



take part but a certain group of qualified psychologists and medical experts, the conclusion of which will be considered while announcing the final decision of the judge and the establishment of the size of the compensation for moral damage. And finally, we'll touch upon the issue of the form of the compensation for damage. We suppose that the necessity to establish the compensation for moral damage in cash or in other form satisfying the interests of the injured party, of course, taking into account that the certain objection of the guilty person has grown.

Thus, we come to the following conclusions. In the modern world where the human rights became a unique ideal the judicial ascertainment of the latter originates obligation of the states on their provision. And today in the South Caucasian countries finally the society realized the necessity and the value of inseparable human rights; however it is still incapable to provide their full and guaranteed realization. That's why the urgent task is to strengthen the guarantees of ensuring rights and freedoms. The search of judicial mechanisms of protection of human rights stipulated the creation of the Institute of Compensation for Moral Damage as one of the essential lawful guarantees of human rights.

Accordingly, we consider fully grounded the proposal to include the given Institute of Law in the legislation of Armenia and Azerbaijan on the example of Georgia, in the CC of which it is ascertained, and it has quite effective use. Besides, once more we accentuate our attention to the necessity of working out universal criteria for the definition of the size of compensation for moral damage bringing forward our certain proposals. And finally we'd like to mention that only in the state where literate normative-legal regulation of this or that sphere coincides with the existing reality, and reflects in the life of the society, it's really possible to build a legal state. This very fact will give the opportunity to the South Caucasian countries to take confident steps on the way of integration into European Union.

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## The Role of Compensation for Moral Damage in Strengthening the Rule of Law

*Annotation*

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The characteristic features of states with established rule of law is the existence and effective operation of mechanisms for ensuring the protection of rights and freedoms of an individual. It is precisely for these purposes the institute of compensation for moral damage functions, and in an ever globalizing world, where different ideas and values clash more and more often, the role and significance of this institute becomes more topical than ever.

Turning our eyes on the experience of the European countries, we come to the conclusion that despite the definite complications in interpretation and practical application of the given institute, the necessity of its legislative consolidation and effective operation are indisputable.

As respects to the South Caucasus countries, the situation is far from satisfactory in the given sphere, as since the institute of compensation for moral damage in either misses at all, such as in Armenia, in spite of certain steps in the given direction, or its consolidation in the legal norms is interweaved with considerable difficulties in the process of practical realization.

We suggest that the given situation is unacceptable and is prejudicial to the establishment of rule of law in the South Caucasus states, as well as to the movement towards European integration, as since the one of the foreground tasks of contemporary mankind is the protection of rights and fundamental freedom of an individual. Correspondingly the impossibility of its effective enforcement is rather serious problem for the legal system of any country.

The given scientific work is devoted to the consideration of the following issues: the institute of compensation for moral damage in the South Caucasus countries; analysis and comparison of legislation; as well as the experience of European countries in the given sphere; assessment of perspectives and possible ways of development in the process of legislative consolidation and practical realization of the institute of compensation for moral damage in the South Caucasus countries. Moreover, we try to put forward our particular suggestions related to the improvement in this sphere.

# Legal Regulations of Purchasing Property in Good Faith from an Unauthorized Person

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## Chapter I. Good Faith: Notion, Essence, and Importance in the Georgian Civil Code

The notion of good faith is a commonly acknowledged and widespread principle in Continental European Law, which is reflected in their Civil Codes. Obviously, the codification of European countries, mainly the influence of the German Civil Code, in the Georgian Civil Code has been reflected in various articles.<sup>1</sup>

The principle of good faith is characterized by its double function. On the one hand, in judicial law it is used for the onset of the fair results, and on the other hand, as a preventive standard to avoid unjust results. At the same time, it was recognized as "the royal norm", which aimed at the moralization of the whole German Law.<sup>2</sup>

What is the principle of good faith? Some authors consider it as a norm<sup>3</sup>, others as the legal principle<sup>4</sup>, the standard rules of behavior,<sup>5</sup> unwritten sources of law,<sup>6</sup> a general reservation, the highest standards of norms, the queen of norms<sup>7</sup> etc. In any case, this argument does lead to one thing - the principle of good faith in the codes is different from other norms. Therefore, it is an open norm. Its content may be determined by not only abstract, but also the factual circumstances of the case to which it is used.<sup>8</sup>

Due to the widespread recognition in the contractual law, the principle of good faith has been reflected in most European Civil Codes, and later was adopted in the "European Contractual Law Principles".

"The parties of the legal relations are bound to exercise their rights and duties under the notion of good faith"<sup>9</sup>. This article is a general civil law provision, which is detailed in separate articles of the Civil Code. Also, special attention is given to the second part of the Article 361, of the Civil Code that the "obligation must be performed properly, under good faith, at the proper time and place."

We may say that this norm is the result of reception of the paragraph of the German Civil Code, which states that "a debtor is obliged to fulfill responsibilities in a good faith, as required by the customs of the civil turnover."<sup>10</sup> These two chapters are the cornerstones of the civil transaction, by which the code establishes social-ethical values in the legal relations and enables us to evaluate any relationship

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<sup>1</sup> A. Ioseliani, *The Notion of Good Faith in Contractual Law*, 2007. pg. 1.

<sup>2</sup> *Lando*, *Salient Features of the Principles of European Contract Law: A Comparison with the UCC*, *Pace International Law Review*, Fall 2001, 339.

<sup>3</sup> Larenz, *Lehrbuch des Schuldrechts, I Band Allgemeiner Teil*, 14 Auflage, München, 1987, 129.

<sup>4</sup> Stathopoulos, *Contract Law in Hellas*, The Hague-London-Boston/Athens, 1995, 50.

<sup>5</sup> Bianca, *Diritto Civile, III, Contratto*, Milano, 1987, 233.

<sup>6</sup> Hartkamp, Mr. C. Asser's handleiding tot de bepefening van het Nederlands burgerlijk recht, *Verbintenissenrecht, Deel II Algemene leer der overeenkomsten*, 9th ed., Zwolle, 1997, 305.

<sup>7</sup> *Lando*, *Salient Features of the Principles of European Contract law: A Comparison with the UCC*, *Pace International Law Review*, Fall 2001, 339-340.

<sup>8</sup> Hesselink, *Good Faith, Towards a European Civil Code*, 2. ed., The Hague/London/Boston (Kluwer Law International), 1998, 288.

<sup>9</sup> Article 8 of the Georgian Civil code.

<sup>10</sup> A. Ioseliani, *The Notion of Good Faith in Contractual Law*, 2007. Pg. 3.

under the notion of “ex ante”<sup>11</sup>. Consequently, it is only logical that these norms must be clear and imperative.<sup>12</sup>

## **Chapter II. The Rights of Unauthorized Buyer Acting in Good Faith**

Widespread and commonly acknowledged sources of protection of the property are vindicating (reclaiming) appeals. Through their help the person is authorized to protect his property and act against the person violating his rights. When the property rights of the owner are revoked, they make a vindicating claim. So, vindicating is reclaiming the property rights from the unauthorized ownership of another person by the initial/actual owner.<sup>13</sup>

Let's consider the case when the property comes out without the will of owner. For example when the owner loses or someone steals the property or even when the property is seized after the certain illegal sanctions.<sup>14</sup>

According to the Georgian Civil Code, notwithstanding the identity of the person who has the property in the possession, who would be the last buyer, acting in good faith or not, the property inevitably must be returned to the owner of the property. For example, imagine the relation between the owner of the property, the buyer of the property acting in good faith and the stealer of the object in question. This relationship between the parties will certainly raise the conflict of interest, which finally would be resolved in favor of the owner. The item would be deprived from the ownership of the buyer acting in good faith and in order to protect these rights he would be entitled to apply to whoever had sold the item to him and require from him paying the money back. In case it is impossible to verify the identity of the person, then to the Civil Code and, in general, justice has nothing better than compassion to offer.<sup>15</sup>

So the legislator has decided the conflict of interests arising between the parties in advantage of the owner. The situation in which property comes out of the owner's possession under his will and subsequent relationship between/among the parties is regulated by different legal provisions. I.e. a situation when the item is delivered by the owner to another person on the contractual basis. Imagine the case when the owner gave the item to another person, who, in one case sold this property and in the second case – gifted it to third party.

Let's suppose that in both cases the buyer was acting in good faith. In such circumstances, the conflict of interest still arising between the parties and their dispute would be resolved in favor of the buyer acting in good faith when he purchases the item from the person other than the owner. However, if the person was gifted with the property, the aforesaid case repeats itself and the conflict is resolved favorably for the actual owner. The legislator clarified the given decision in the following way:

If we compare both cases to each other, we will notice that in the first case, the owner was in a better situation, than in the second one, because the whole process depended on the fact that property came out of the possession of the owner. If the similar situation is compared under the interest of the buyer acting in good faith, we can conclude that the rights of the buyer fully depends on such circumstances which are not known in advance; therefore, whether they will keep the property or not, depends on the probability of its happening.

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<sup>11</sup> "before the event" <http://www.investopedia.com/terms/e/exante.asp>.

<sup>12</sup> Comments to the Georgian Civil Code. Third Book, 2001. Pg. 271.

<sup>13</sup> Comments to the Georgian Civil Code. Second Book, 1999. Pg. 87.

<sup>14</sup> B. Zoidze, Georgian Property Law, 2003. Pg. 97..

<sup>15</sup> B. Zoidze, Georgian Property Law, 2003. Pg. 98,

Imagine two buyers acting in good faith who have bought an item. Those who found the item or bought it from stealers, finally find it confiscated and returned to the owner, but those who purchase from a leaser or borrower, maintain the possession of the item.

Important peculiarity/feature of the civil transaction is that every party might be the bearer of the burden that it can carry. When it is established that the party is unable to bear the load, the issue of responsibility is duly removed. In this case the owner and the buyer acting in good faith face each other. Their circumstances are essentially different when purchasing movable or immovable (real) property.

According to the article 186 of the civil code, purchasing the rights to the movable item happens through handing the actual item to the buyer. Here we have the circumstances when the owner of the item and the buyer face each other. There is no body or a person between them who or which would take the responsibility of some kind.

The fate of purchasing the item is fully depended on the legal situation of the seller and the prudence and accuracy of the buyer. Mostly, here ownership defeats acting in good faith and the decisions are made in favor of the owner.

### **Chapter III. Special Risk Factor Related to Purchasing Movable Property**

In the legal relations it is very difficult to determine whether a person is authorized to alienate or dispose of the property, when it comes to movable property. In the Georgian Civil Code there is an assumption that the person who has in his possession the object is the owner of that item.<sup>16</sup> The civil turnover has contributed to the establishment of a norm from that assumption.<sup>17</sup>

Of course the risk still exists that the seller of the movable object is acting unlawfully and he doesn't have any authority to this item. It is clear from the practice, that there are certain circumstances that directly or indirectly indicate the buyer on the seller's legal authority. For example the price of the item: After examination of the item we may assume the probable and approximate cost of it and when the purchase price is much less than the market value of that object this fact indirectly provides information to the buyer that there is the possibility that the seller may be acting illegally or unlawfully.<sup>18</sup>

The second issue is how to evaluate the approximate value of the item. Of course, no one is expected to evaluate the same facts and events similarly, because it would be impossible. So what criteria should be used to determine it? German scientists think that we should take the middle-income person as an indicator and rely on his evaluation in order to find out whether the person purchasing the object would have been able to make assumptions about the status of the object or the seller and assess the circumstances that would qualify the seller as authorized or unauthorized.

### **Chapter IV. Active and Passive behavior on Behalf of the Buyer Acting in Good Faith**

The buyer acting in good faith often makes a mistake which can be considered as his active or passive behavior. In the case of active behavior the buyer doesn't know and has no possibility to find out whether or not the seller has authority to sell the or dispose the object in question.<sup>19</sup> In contrast, in the case of passive behavior the buyer has the possibility to determine it but he doesn't even try to identify the legal right of the seller.<sup>20</sup> The buyer completely relies on "legal" information given by seller and buys "his" property.<sup>21</sup>

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<sup>16</sup> Article 153 of the Georgian Civil Code.

<sup>17</sup> G. Vashakidze, Good Faith under the Georgian Civil Code, 2007. Pg. 37.

<sup>18</sup> B. Zoidze, Georgian Property Law, 2003. Pg 103.

<sup>19</sup> Z. Chechelashvili, Property Law, 2008. Pg. 58.

<sup>20</sup> B. Zoidze, Georgian Property Law, 2003. Pg. 101.

<sup>21</sup> Comments to the Georgian Civil Code. Second Book, 1999. Pg. 53.

We cannot consider the situation as a mistake when the buyer of the property has not only actual also legal possibility to determine the rights of the seller while purchasing property. When it comes to buying the real property, there is a completely different picture. Here the “arbiter” between the opposing parties is the public registrar. The main burden of responsibility that the buyer had, that of ascertaining the fact that the seller’s rights to the property are genuine, is shifted to the public registrar. This circumstance simplifies the situation for the buyer acting in good faith. In regard to the data provided by the public registrar, presumption of authenticity and completion is commonly applied.

The buyer has limited authority to ascertain the property rights of the seller. Hence, the scope of his or her prudence is narrow.<sup>22</sup> While it is true that the legislator allows for the possibility that the buyer might have prior knowledge that “the seller is not the owner”, such fact is difficult to ascertain. If we approach the property rights in a rather fetishist manner, we will naturally find it hard to adapt and concede that ownership rights are overcome by the rights of a buyer acting in good faith. Perceiving this is truly difficult in the reality when the owner and the buyer acting in good faith are not privileged in any way. On the one hand, when the seller is the third party, whose property rights are erroneously registered at the public registrar, why should the real owner suffer the consequences? Can the purchase during which errors occurred be considered as a completed transaction? Isn’t the objective ground for the transaction the real basis for it and not the subjective will of the parties? However, it is not only the subjective will of the participants that we can observe; here we also have the flawed objective statement from the public registrar. Shortly, it is the case, in which the subjective will correct the error in the objective source, i.e. if the buyer is acting in good faith, the flawed record of the registrar is outweighed and it can no longer help the owner, whose rights to the property are revoked.<sup>23</sup>

In case of transactions involving movable or immovable property, legislation regulates the interest conflict between the owner of the property and the buyer acting in good faith quite differently. If in the first case the interests of the owner were of paramount importance, but in the second case the interests of the buyer acting in good faith prevail and become superior.

In the Article 183 of the code it is stated that: “In order to purchase the real property, it is mandatory to have a certified document and the registration of the buyer at the public registrar. Application for the registration can be made by the seller as well as by the buyer”.

This rule concerning the purchase of the real property results in giving ground for regulating and protecting the interests of the buyer acting in good faith. According to the article 185 of the civil code has been formed a norm which harmoniously fits within the framework of European Law. Namely, this article states: “Stemming from the interests of the buyer, the seller is considered as the owner if he or she is registered as such at the public registrar, apart from the cases, in which the buyer had prior knowledge that the seller was not the owner”.<sup>24</sup>

This formulation of rights that the buyer acting in good faith has is caused by the specific purpose of the public registrar in civil transactions. More specifically, the data provided by the public registrar is automatically regarded by the legislator as trustworthy and reliable. Article 312 of the civil code states: “1. the data provided by the public registrar are regarded authentic and are equipped with the

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<sup>22</sup> Zhenxing Huang, *The Economics of Good-Faith Purchase*, 2005, p.1.

<sup>23</sup> Трофимова О.Е. Мусульмане и ислам в западной Европе. Ж., «Мировая экономика и международные отношения», М., 2009, №10.

<sup>24</sup> Z. Chechelashvili, *Property Law*, 2008. 62.

presumption of completion/authenticity, i.e. regarded as correct until proven otherwise. 2. In accordance with the rights of the buyer who, on the basis of the agreement, purchases the rights to certain property that is registered at the public registrar as the property of the seller, the new document (stating that the buyer is the new owner) is considered correct, apart from cases in which the complaint was registered prior to the transaction or the buyer had prior knowledge that the public registrar data about the property were incorrect or inaccurate”.

### **Chapter V. Harmonization of the Norms Protecting the Rights of the Buyer Acting in Good Faith**

As it is known, stemming from the individualistic character of the property law, regulations to protect the rights of the buyer acting in good faith, those that are provided by different legislations, are quite different from one another. Additionally, these differences are not only important, but also essential, and very frequently, controversial. All above mentioned makes it extremely difficult to regulate these issues legally and to harmonize the norms and create universal, coherent approach.<sup>25</sup>

The different systems of justice in European continental law regulate the conflict of interest between the buyer acting in good faith and the owner of the property in a quite different way. Even in case of selling the same property twice, the attitude of the legal system is not homogenous and varies. It has to be mentioned that different approaches and discrepancies in the regulations of the property relations result in various social-economic consequences and affects the attitudes of the parties differently.<sup>26</sup>

The legislative systems inclined to protect the buyers acting in good faith provide as the argument the fact that it is important to encourage civil transactions and trade relations and ensure their stability. The legal systems, which tend to protect the rights of the initial owners and disregard those of the buyers acting in good faith, defend their position by stating that the rights to property are of paramount importance.<sup>27</sup>

#### **Summary**

On the basis of the conducted research it is safe to conclude that:

1. The notion (principle) of good faith mainly represents a moral principle; guaranteeing its proper protection from the side of all interested parties speaks volumes about the society and represents an effective indicator for assessing how legally cultured the civil society is;
2. The principle of good faith is fundamentally different from the other norms/regulations in civil law. It is a moral and at the same time legal norm that amounts to a rather wide-ranging, general, legal normative concept which is commonly acknowledged and widespread notion in Continental European Law (civil law) and Muslim law;
3. Detailed regulation of the rights of the buyer in good faith represents one of the noticeable peculiarities in the Georgian Code. In this respect, the code is in absolute consistence and harmony with the legislative practices and the European Private Law. In this case, the main issue and the core idea is to justly balance the rights of the owners and those buyers acting in good faith. Civil Code deals with this issue not only based on or in consideration with the particular interest groups involved in the turnover (transactions) but also in consideration with the stability and firmness of the given transaction.

<sup>25</sup> G. Vashakidze, *Good Faith under the Georgian Civil Code*, 2007. Pg. 43.

<sup>26</sup> Arthur F. Salomons, *How to draft new rules on the bona fide acquisition of movables for Europe? Some remarks on method and content*, Centre for the Study of European Contract Law Working Paper Series, No 2007/2, p. 2

<sup>27</sup> Caspar Rose, *The Transfer of Property Rights by Theft – An Economic Analysis*, Lefic Working Paper 2005-09, p. 8

4. It is vitally important that we delineate the situational differences of purchasing from an unempowered seller acting in good faith: above all, the buyer purchasing property in good faith has to be active and apply reasonable precautions in order to ascertain the credibility and legal authority of the seller over the property in the public registrar before concluding the agreement. On the other hand, it is recommended that the public registry officer provide further assistance and guide the buyer beyond the basic responsibilities outlined by Georgian Civil Code, and advise the buyer acting in good faith about further responsibilities and preventive measures to avoid the possible unfair consequences of the risk involved in the purchase.

5. In case of transactions involving movable or immovable property, legislation regulates the interest conflict between the owner of the property and the buyer acting in good faith quite differently. If in the first case the interests of the owner were of paramount importance, but in the second case the interests of the buyer acting in good faith prevail and become superior. In the Article 183 of the code it is stated that: "In order to purchase the real property, it is mandatory to have a certified document and the registration of the buyer at the public registrar. Application for the registration can be made by the seller as well as by the buyer".

This rule concerning the purchase of the real property results in giving ground for regulating and protecting the interests of the buyer acting in good faith. According to the article 185 of the civil code has been formed a norm which harmoniously fits within the framework of European Law. Namely, this article states: "Stemming from the interests of the buyer, the seller is considered as the owner if he or she is registered as such at the public registrar, apart from the cases, in which the buyer had prior knowledge that the seller was not the owner".

This formulation of rights that the buyer acting in good faith has is caused by the specific purpose of the public registrar in civil transactions. More specifically, the data provided by the public registrar is automatically regarded by the legislator as trustworthy and reliable. Article 312 of the civil code states: "1. the data provided by the public registrar are regarded authentic and are equipped with the presumption of completion/authenticity, i.e. regarded as correct until proven otherwise. 2. In accordance with the rights of the buyer who, on the basis of the agreement, purchases the rights to certain property that is registered at the public registrar as the property of the seller, the new document (stating that the buyer is the new owner) is considered correct, apart from cases in which the complaint was registered prior to the transaction or the buyer had prior knowledge that the public registrar data about the property were incorrect or inaccurate".

6. Important peculiarity/feature of the civil transaction is that every party might be the bearer of the burden that it can carry. When it is established that the party is unable to bear the load, the issue of responsibility is duly removed. In this case the owner and the buyer acting in good faith face each other. Their circumstances are essentially different when purchasing movable or immovable (real) property. According to the article 186 of the civil code, purchasing the rights to the movable item happens through handing the actual item to the buyer. Here we have the circumstances when the owner of the item and the buyer face each other. There is no body or a person between them who or which would take the responsibility of some kind. The fate of purchasing the item is fully depended on the legal situation of the seller and the prudence and accuracy of the buyer. Mostly, here ownership defeats acting in good faith and the decisions are made in favor of the owner.

7. The given research clearly demonstrated that in order to turn the recommendations into tangible legislative thought, further research, case-based approach, relevant statistics, and simulation



models have to be used. This will create favorable ground for understanding this highly debatable and legally intricate issue.

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## Legal Regulations of Purchasing Property in Good Faith from an Unauthorized Person

*Annotation*

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In relations among people the term good faith is frequently used to denote a certain action. This term is generally associated with prudence, honesty, but from the legal point of view, in our case, the term is used to characterize the buyer of movable or immovable (real) property, acting according the principles of good faith.

The notion of purchasing the rights to the property from an unauthorized person has been known in the world legislative/legal practices. Current interest in and growing actuality of the field has been triggered by the changes in the character of economic transactions and the state system that took place in the recent past in our country during privatization.

This issue requires a lot of research in order to clarify the consequences from the legal regulations of purchasing property in good faith from an unauthorized person. We would discuss the conflict of interests and its regulation under the Georgian Civil Law, which was arisen between the owner of the property and the buyer of the property acting within the scope of good faith.

One of the topic of our research would be the widespread and commonly acknowledged sources of protection of the property are vindicating (reclaiming) appeals. We would separate the legal effects which is related to the fate of purchasing item when it comes to buying movable and immovable property.

In case of transactions involving movable or immovable property, legislation regulates the interest conflict between the owner of the property and the buyer acting in good faith quite differently. One of the main purpose of the following research would be determination of this different issues and clarify its legal effects and regulations.

# Social Media as a Campaigning Tool

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## **Introduction**

Nowadays due to internet widespread, social media has become profound in every field of human activity. People can communicate with the whole world in seconds without losing time and efforts. Via social media, every single person has an ability to involve themselves in the international activities, debates, information, knowledge-swapping processes. Social media is a 'place' where people 'are', where they 'live' in terms of communicating.

Therefore, when I want to analyze political campaigns, I have to do a lot with people and their hired politicians. So, the best 'place' to visit for 'investigation' is undoubtedly a social media. The main question of our study is as follows: do social media play an important role in election campaigns and if yes, in what ways does social media affect people's decisions? Has social media through times become a governing tool?

The major case study of this research paper is election campaigns that took place in 2008 in the United States were groundbreaking from the point of view of developing and utilizing social media. Especially, Barack Obama's campaign was a turning point in the history of the United States of America, since it used methods that have never been used in election campaigns. The following research is supposed to be comparative, since I am going to compare Obama's campaign with McCain's and his failure during the election time. Throughout the paper there will included the mistakes done by Obama's main rival, while highlighting the steps taken by him. I will also indicate, why and in what ways was the Obama campaign different, if it was at all. Today, due to the internet widespread, our surrounding world has changed a lot in many ways. Through this research my aim is to depict the transformed campaigning reality with which today's politicians will aspire to not only raise funds in favor but also attract citizens including serious number of youth.

In this study there will be discussed the example of Georgia as well. I will discuss how social media is used in Georgian population and in what terms and at what stage is the usage of social media in this country.

The work is to analyze and reflect how technology has changed campaigning and how politicians use the web space.

## **Social Media and its use in politics**

The term Social Media refers to the use of web-based and mobile technologies to turn communication into an interactive dialogue. Andreas Kaplan and Michael Haenlein define social media as a group of Internet-based applications that build on the ideological and technological foundations of Web 2.0 and that allow the creation and exchange of user-generated content. Social media are media for social interaction, as a superset beyond social communication. Enabled by ubiquitously accessible and scalable communication techniques, social media substantially change the way of communication between organizations, communities, as well as individuals<sup>1</sup>.

Social media describes the online technologies and practices that people use to share opinions, insights, experiences, and perspectives. It can take many different forms, including text, images, audio,

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<sup>1</sup> Cf. Kaplan, Andreas; Haenlein, Michael (2010): „Users of the world, unite! The challenges and opportunities of Social Media“. *Business Horizons, Volume 53, Issue 1, pp59-68.*

and video. These sites typically use technologies such as blogs, message boards, podcasts, wikis, and vlogs to allow users to interact<sup>2</sup>. Social Media is the democratization of content and the understanding of the role people play in the process of not only reading and disseminating information, but also how they share and create content for others to participate. It is the shift from a broadcast mechanism to a many-to-many model, rooted in a conversational format between authors and people. Social media is not about what each one of us does or says, but about what we do and say together, worldwide, to communicate in all directions at any time, by any possible (digital) means.

Social media is part of internet and internet provides and contributes spread of democracy. "Internet should function to maximize individual opportunities for participation deliberation and that, if it fails in this regard, digital technologies will have minimal impact on democracy"- is mentioned in Pippa Norris book *Digital Divide*<sup>3</sup>.

Democracy involves three dimensions: pluralistic competition, participation, civil and political liberties to speak, publish and organize<sup>4</sup>.

Social media play important role in campaigning process, it is easy and profitable way to manage and make good and successful election campaign. You don't need to meet your supporter-this process is made in network system. To ensure your social media campaign is an unqualified success in every sense of the word, here are eight characteristics of effective social media campaigns:

- Targeted (set of clear objectives and success criteria)
- Focused (ensure that your campaign is of the direct response variety and focused on a specific issue)

Effectiveness of social media-as a campaigning tool seems for Barack Obama's election campaign. Barack Obama is the first "Social Media President" in history<sup>5</sup>. This case was first and successful example of election campaign via social media.

#### **Barack Obama's use of Social Media for political campaign**

After the 4th November 2008, when Barack Obama has finally entered the White House, there was no doubt worldwide, that he and his campaign team have changed the traditional way of political campaigns. Just as John F. Kennedy initially established the television to the political campaign, Obama's, presidential campaign changed the way political campaigns utilized the Internet, specifically social media, for political purposes<sup>6</sup>. Although, the effect of the Internet has already been increasing during the previous presidential elections and they showed that Web sites are an important tool for direct communication between the candidates and their electorate and to mobilize fund-raising. However, with the 2008 presidential election, Barack Obama, the candidate of the Democratic party, brought the long-promised political power of the internet to bear on his presidential campaign by revolutionizing its traditional means to reach out to their audience and how to fundraised. Through his online presence he stayed in stable contact and extremely fast information exchange with thousands

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<sup>2</sup> Cf. Webpronews (2011): „The Definition of Social Media“, <http://www.webpronews.com/the-definition-of-social-media-2007-06>.

<sup>3</sup> Norris, Pippa (2001): "Digital Divide" ("Evaluating The Democratic Functions Of The Internet", Cambridge University Press. P.101.

<sup>4</sup> Cf. Lbid. (2001), p102.

<sup>5</sup> Evans, Li (2008): "Barack Obama The First Social Media President?", [http://www.searchmarketinggurus.com/search\\_marketing\\_gurus/2008/11/barack-obama-the-first-social-mediapresident.html](http://www.searchmarketinggurus.com/search_marketing_gurus/2008/11/barack-obama-the-first-social-mediapresident.html).

<sup>6</sup> Cf. Smith (2011), p13.

supporters<sup>7</sup>. In particular, the social media was used and nowadays, Facebook, Twitter and blogging, seem to have become a political campaigning must have. Obama's team utilized their features such as interactivity and connectivity to diffuse information, mobilize supporters and to raise donations for supplying the campaign<sup>8</sup>.

Therefore, the most important political function of social media for Obama's campaign was the opinion-expressing process, within which the individual interacts with others, participates in online communities and discuss political issues. The second political activity describes its contribution to the electorate's information-seeking process<sup>9</sup>.

### **Opinion-expressing**

The primary important role of social media for political campaigns is its ability to express political views and opinion. The past political campaigns were characterized by traditional means where the electorate could express its support and consent such as rallies, campaigning events and demonstrations. In the presidential election 2008, the way of opinion-expression has dramatically changed and developed more openly, directly and intensively through the usage of social media. Since the idea behind social media primarily is the individual's participation to the collective, „[s]ocial media allow users to not only seek information but also interact with others through online expression such as posting political commentaries on blogs and social network sites and sharing multimedia commentary<sup>10</sup>.“

Via those networks, users can express themselves politically in various ways such as changing their status, *liking*, *commenting* and *posting* specific political information or videos and sharing them with friends and donating online. Especially Facebook-Groups as a forum for political expression played an important role in 2008<sup>11</sup>. While Obama's professional campaign team contributed pages for Obama, voters and supporter-generated groups also created groups like *One Million Strong for Barack* which over 850.000 user joined<sup>12</sup>. According to Woolley's study, those groups were mainly used as a symbolic gesture of support and consent with a specific candidate and part of the opinion-expressing. This creating and updating the own network profile while expressing opinions, personal news and information, is one of the social media's prominent feature and all friends, family and acquaintances can instantly learn about an user's slightest comment on a political issue. These personal connotations again invoke interest and attractiveness since „the more an issue is perceived relevant and interesting, the greater the need for information, which increases information oriented media use<sup>13</sup>“. Politics and especially Obama's view on it, seemed to be the predominant issue on the Internet and all around in the social media, which one could barely escape from, but in fact got involved and also kept informed as the following shows.

### **Information-seeking**

In contrast to the traditional media such as newspaper or television where the news production is organized and the contributor is separated from the audience, the structure of this social media is open and non-organized: „The growth of online political behavior has been facilitated partly by the recent emergence of new interactive, media-rich Web sites.“<sup>14</sup> The flow of information remains uncontrolled, neither by biased news organizations nor journalists, nor by the subjective political

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<sup>7</sup> Cf. Lbid, p13.

<sup>8</sup> Cf. Johnson, Perlmutter (2010), p555.

<sup>9</sup> Cf. Kushin, Yamamoto (2010), p611.

<sup>10</sup> Lbid. (2010), p613.

<sup>11</sup> Cf. Woolley, Limperos, Oliver (2010), p646.

<sup>12</sup> Cf. Lbid. (2010), p633

<sup>13</sup> Kushin, Yamamoto (2010), p.610

<sup>14</sup> Lbid. (2010), 612.

candidate and his campaign team who seek to diffuse only news which stress the candidate's constructed image. The users can directly influence the agenda setting, decide the source of information and interpret the events by themselves. Additionally, the extreme fast and interactive technology allows the users to react and also comment immediately on news. Furthermore, the boundaries between producer and consumer are blurred or even eliminated with the users creating the content for each other. This user-generated news production provides information which might not be accessible under the restricted circumstances of the traditional media. Also, its open and collaborative nature lowers the barriers of entry into politics, especially for less politically sophisticated groups. Studies examining the voters' electoral behavior prove that as a result of this, the users have the feeling of a truly democratic election and a real freedom of opinion and expression, pluralistic competition, which again fostered a greater civic engagement, especially among the young voters<sup>15</sup>. The voters were particularly attracted by the social media's ability to connect the production of information, its accumulation and exchange as well as the possibility to actively participate in this process. This interactive level of information-seeking and exchanging increased the situational involvement in politics, which is an important aspect of the individual's willingness to engage and participate in the political process<sup>16</sup>.

Another aspect of social media that encouraged the voters to further information-seeking was its network character. Sources and news are often recommended by friends and family which provides and trustful and credible filter<sup>17</sup>. Especially the use of Facebook-Groups, where user who share the same political interest and have similar beliefs congregate, played an important role in the peoples' information. Via those virtual spaces, „individuals [could] present a wide variety of information about their support or discontent for a cause, issue, or candidate“<sup>18</sup>. Also, particular opinions could be issued and discussed and convincing graphics and information could be uploaded. Furthermore, those groups were predominantly and interactively connected with other network pages or Obama's personal Web site, as well as many original non-political Facebook profiles and YouTube videos lead to political information. Consequently, even people who were not actively looking for any political information, but for entertainment, were very often lead to political news through their social network.

However, the use of social media not only affected the peoples' information-seeking and hence political participation, but it also had a significant influence on the peoples' actual political behavior which is their vote. Barack Obama's online presence, his personal profiles on Facebook and Twitter and his Web pages were providing a constant flow of updates and information. This more personal level of information about the candidate built a stronger identification and personal bonding. The presentation of Obama's favorite books and movies on his Facebook profile, the status updates and the constant tweets on Twitter as well, brought Obama closer to his supporters. Again, the Facebook groups seem to have a strong influence on the American electorate<sup>19</sup>. In these times, when most of the citizens feel barely represented or even abandoned by their political representatives and the biggest threat to democracy is disenchantment with politics, the feeling of accessibility is the key to success. Hence, Obama and his team used the social media to create this image of a caring and close candidate representative and the biggest threat to democracy is disenchantment with politics, the feeling of accessibility is the key to success. Hence, Obama and his team used the social media to create this image

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<sup>15</sup> Cf. Johnson, Perlmutter (2010), p556.

<sup>16</sup> Cf. Kushin, Yamamoto (2010), p.609-613.

<sup>17</sup> Cf. Smith (2011), p. 18.

<sup>18</sup> Woolley, Limperos, Oliver (2010), p.637

<sup>19</sup> Cf. Lbid. (2010), p.638

of a caring and close candidate<sup>20</sup>. Through those Facebook groups, either professional or user-generated, personalized messages were disseminated to the supporters, keeping up a constant contact. This interpersonal perception and personal engagement with the candidate was one of most important features of Obama's political campaign. It increased the belief and trusts in his or her political skills and stabilizes the willingness to support.

Consequently, the social media helped to enrich Obama's political campaign with much information and to intensify the political discourse and successfully attached a personal touch to make it more attractive to the majority of the Americans. As Obama's entry into the White House proves, this concept of using social media and its persuasive technologies was a successful means to encourage the American people to support and vote the young and first Afro-American president of the history of the United States.

### **Involvement of youth**

When speaking about social media and the usage of it, the involvement of youth should be highlighted. Empirical studies have shown that, "over 60% of 13 – 17 year olds have profiles on social networking sites (SNS). Many young people are spending upwards of two hours a night on online social networking activities<sup>21</sup>". In addition to this, as Nancy Fraser, an American critical theorist states, "publics are arenas for the formation and enactment of social identities<sup>22</sup>". Via social media and interaction with unknown people, young people are socializing. They are becoming more engaged in activities that are related to politics, culture, science and many important fields in the existence of a society.

During 2008 elections in the US, young voters were quite active and they showed great support for Barack Obama. For instance, according to CIRCLE, a non-partisan organization that promotes research on the political engagement of Americans, young voters preferred Obama over John McCain by 66 percent to 32 percent — the highest share of the youth vote obtained by any candidate since exit polls began reporting results by age in 1976<sup>23</sup>. Therefore, it is obvious that young generation of the US has become more active in civic engagements than they were before. This fact itself means that the contribution of younger part of a society in building a democratic state has arisen.

People who worked on Obama's campaign and catered to his victory were really using the web rather than just throwing things online. It is widely known that Obama spent millions of dollars in hardware and software<sup>24</sup> to gain the attraction of youth. Youth media practitioners understood long ago the simple fact that the messenger and medium is as important as the message itself. That is why they have worked to give youth the resources and tools to tell their stories to get more young people engaged to address issues that are dear to them: pressure, discrimination, poverty, education, healthcare, ending the war, and jobs. Through social media and daily posting, commenting, photo, video sharing, everyday computer to computer relations ex-Senator Obama has offered youth a sense of empowerment and feeling that someone will listen to them.

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<sup>20</sup> Cf. Powell, Richmond, Williams (2011), p. 333.

<sup>21</sup> Davies, Tim; Cranston, Pete (2008): „Youth Work and Social Networking“ Final Research Report. P.5 <http://www.scribd.com/doc/25985402/Youth-Work-and-Social-Networking-Final-Report>.

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<sup>24</sup> Cf. Delany, Colin (2008): “Is the Obama Campaign a Model for Online Politics?”, <http://techpresident.com/blogentry/obama-campaign-model-online-politics>.

### **McCain's Failure**

Barack Obama's main rival – John McCain failed in election campaign, otherwise he would be the highest official of the United States of America. What was the main mistake?

From the start, it should be included that his main problem was associated with finance. What he chose was to accept public funds, knowing it could exploit loopholes to raise private money for the party through a “joint” candidate party committee<sup>25</sup>.

But the major failure in terms of our research is that the McCain campaign “was a campaign out of the 20th century, while the Democrats were running a campaign in the 21st century”<sup>26</sup>. McCain and his advisors failed to convert his online donors into votes, attract young generation, become more active in daily communication with people through social media. Moreover, In addition to Obama's 13 million member e-mail list and the 3 million mobile and SMS subscribers – tools that the McCain campaign failed to effectively utilize – the Obama campaign also built advantages in Web site traffic, YouTube viewers and social networking friends through a better coordinated effort and a 10-to-1 advantage in online staff<sup>27</sup>.

McCain's campaign lacked all the tools of social media to give ordinary Americans access to resources usually reserved for professional campaign operatives. Barack Obama's campaign, though, compared with both his Democratic primary challengers and the McCain campaign, his operation was cycles ahead. Taking into consideration the importance of the internet and Web 2.0, we can state that Barack Obama's election campaign was a revolutionary thing in some ways. First the campaign was based on the concept of advertising effects and the response model. Second, every single message from him was designed to get the intended response from the Americans. Thirdly, Obama branded himself since a new logo for him was created. Furthermore, his official website was created not only as a manifestation that he somehow existed beyond the blue screen, but it was launched to communicate the messages and to make more interactions with the web audience. As for interactive and internet media, his campaign was ensured to use roughly 16 community websites to build his social groups on the web. Mainly - YouTube, Facebook, Myspace, Twitter, flicker etc.

Additionally, mobile marketing was also included, such as ringtones, videos, wallpapers and messages were sent to evoke voters to action. Although, Obama's campaign was revolutionary in the abovementioned aspects, it ultimately used the same tools that many campaigns had previously employed. For example, active participation in debates, appearances in hot TV shows, meeting people in the streets and using other traditional techniques.

The main characteristic when analyzing Barack Obama's successful 2008 election campaign is the achieved communication between two. One of them was a candidate himself, who gave the audience the means with which they could interact with each other. Another one out of this two, was an audience which was reflective of the information and advertisements given to it.

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<sup>25</sup> Cf. Green, Clifford J; Coffey, Daniel J. (2010): „The State of the Parties: The Changing Role of Contemporary American Parties“, Rowmann&Littlefields Publishers. P.211.

<sup>26</sup> Reagan, Michael (2008): ” Why McCain Lost”, <http://www.humanevents.com/article.php?id=29398>.

<sup>27</sup> Cf. Monte, Lutz (2009): “ The Social Pulpit; Barack Obama's Media Toolkit”, *SVP-Digital Public Affairs, Edelman*, <http://www.edelman.com/image/insights/content/social%20pulpit%20-%20barack%20obamas%20social%20media%20toolkit%201.09.pdf>. P.3-5.



**Georgia and Social Media**

The abovementioned discussion of concrete examples makes clear that social media play a big role in the United States. It is important to analyze the situation in Georgia in terms of the usage of social media.

"Republican Party" has its own page in the Internet space, and constant updating of information in there. On the web - page written an interested person may obtain information by different means like written versions as well as photos and audio. This site is interesting because, unlike other parties, the Republicans are using the so-called "Livestream" - a - live, the conference held via the Internet, where anyone can participate.

During the 2010 election of self government of Tbilisi, the candidates had their own pages on social networks, but not all of them were highly active. Gigi Ugulava's and Irakli Alasania's pages on Facebook were constantly updated and there was news about these subjects. It is also notable that the mayor has his own site, where the activities of mayor can be scrutinized daily and where the information is updated via videos, photos or writing. Web site is also important to the extent that Internet users can ask questions to the Mayor, and this question is not supposed to be only in verbal form. Mayor site, allows the possibility that the video format of the question can be placed on the web - site. Answering these question is another subject.

The "Free Democrats" also have a very active web page and they use Facebook at the same time. The Press Democrat - head Vako Avaliani noted that "Facebook and Twitter-I plays an important role in the next election, because the most recent researches estimate that the number of Internet users are growing steadily.

The funds allocated are not sufficient to learn and use the new media, by the party "Sakartvelos Gza". However, as the press agency of the party states - the party's activities in social networks are of great importance.

**Conclusion**

As it was mentioned and discussed above, social media has indeed changed the political milieu, within which politicians and or people who aspire to become active in the political life. Hence, the means and practices of becoming a player of the game have transformed. What we found out through this research was that, in these times of political apathy, a candidate has to attract and reach out for the electorate in a more modern and personalized way. The vivid example of this was and still is Barack Obama's political campaign for the presidential elections in 2008. With the help of social media, Obama scattered the image that a politician is a unreachable and 'untouchable' high official who lives in 'far far away'. In addition to this, he revolutionized the ways of fund-raising, informing and communicating with the audience, the citizens. Moreover, the use of these trendy and flourishing social networks mobilized the youth and engaged them in the political campaign. This was the very clever part of his strategy, since the involvement of young people equals to the support of the most active and creative side of a society, which in turn means the control of a whole movement in favor. As the example of McCain's failure demonstrates, not only the mere usage of social media matters, but rather the intensive and efficient one.

As a result of this successful integration of social media into political campaign, its features and advantages are still implemented in the political lifeline. For instance, the Facebook group *One Million strong for Barack* still serves as a platform for discussions of current political events.

As for the social media in Georgia it is step - by step and day by day becoming more popular. This is confirmed by the fact that various political parties use social networking. Political parties are

actively using Facebook-it's the personal pages of questions - and answers to communicate with voters. However, the electorate and the subjects still prefer the traditional means of appealing to traditional media.. Unlike the examples discussed in the United States, Georgia, does not have such a large role in social media.

In addition, it should be noted that according to the Georgian National Communications Commission's annual report on the electronic communications market, Georgia in 2010 had 300 thousand Internet users, who regularly uses the Internet, while mobile Internet customers numbered 789 thousand. When the population is 4. 469.2 million People and out of them only 300.000 people are regular Internet users how can it create a political climate? While social media campaigning is important in the United States, Georgia is still on the verge of starting the use of social media as a campaigning tool.

Lastly, the idea of conducting permanent campaign via social networks has also got drawbacks and needs to be considered critically. Although social media is already widely spread in almost every part of the developed world, there are still many people without the access or even the will to join this virtual world. Therefore, instead of enhancing democratic principles, as it actually is supposed to do, social media might even decrease the ideal of a thorough participation of the electorate. Lastly, can the control of social media lead to the popular participation of people in choosing their political affiliation and thus, their future?

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## **Social Media as a Campaigning Tool**

*Annotation*

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### **The main research question**

Do social media play an important role in election campaigns and if yes, in what ways does social media affect people's decisions? Has social media through times become a governing tool?

### **What you hope to find out**

At that very moment I look forward to find out that, recently social media changed political reality deeply. It's obvious that the game has changed and rules through which this game is governed have also become transformed. Nowadays, a politician, aspiring political seat, doesn't have to go out, roll down the streets, meet electorate and shake their hands... A Blackberry in his hand is sufficient to attract millions of voters! That's what Obama did and he actually did it well. At least, the result is presidency.

### **Describe, how you are going to answer the research question (methodology)**

Mostly, I will do qualitative research since I am going to analyze newest works about Obama's campaigns. In addition the research is also going to be comparative – there will be discussed the case of Georgia. This research will compare Obama's campaign with McCain's and his failure during the election time. Furthermore, I will do a brief research of a history of political campaigns in US. Therefore, there will be indicated, why and in what ways was the Obama campaign different, if it was at all. (Generally, research is going to have a case study approach, mostly).

### **The theoretical framework you are going to use (at least 2 sources from the course readings list)**

I will include some of the bits from Pippa Norris - Digital Divide:

- E-governance
- Civic engagement, information poverty, internet worldwide
- Civic society

### **Answer also the question, why you think your research/study is important and relevant?**

Nowadays, due to the internet widespread, our surrounding world has changed a lot in many ways. Through this research my aim is to depict the transformed campaigning reality with which today's politicians will aspire to attract not only citizens together with youth, but also raise funds in favour. This research is important in ways that without realizing the importance of social media in elections' time people might don't have an idea of what is going on and may be able to detect that their affiliations are controlled via internet.

# Facilitated Visa Regime between the European Union and Georgia: Outcomes and Prospects

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**„I am Georgian, thus I am European“**

*Zurab Zhvania*

At the beginning of the 90s after the dissolution of the Soviet Union and collapse of the Socialist camp, the newly formed states went through a hard path of reforms and transformation and achieved different results of development. One of these results was bringing former Soviet republics in close relationship with the West and the best example of this is Georgia.

After the Rose Revolution in 2003 every action of Georgia's new government is aimed at the integration with the Euro-Atlantic bodies, namely, NATO and the European Union.

It is without doubt that obtaining a room in the European Family requires specific preconditions to be fulfilled. For this purpose Georgia has to show the progress achieved through modernization and reforms, for the latter is like a test and examination for Georgia and in case of passing it successfully, its final goal – Euro integration – will not be a further prospect. Agreements on visa regime facilitation between Georgia and the European Union and Readmission may be considered in this context.

Thus, improvement of the Agreement on facilitated visa regime between Georgia and the European Union is very specific and particularly relevant.

The research was aimed at discussing and evaluating the present results of the visa regime facilitation between Georgia and the European Union: how the process of visa regime facilitation between Georgia and the European Union goes on; are there any vivid abrogation in the accomplishment and improvement of the mentioned process;

The urgency of the research emphasizes the fact that the problem itself is complex, gradual, dynamic and it requires the systematic study of the current processes and their management. Processually the visa regime facilitation is still on the first stage and there are two more stages to be overcome (2<sup>nd</sup> stage – obtaining the “ROAD MAP” for the visa-free regime, 3<sup>rd</sup> stage – visa-free travel). The novelty obtained by the research is the outcome monitoring of the facilitated visa regime between Georgia and the European Union, determining the information level of the society, demonstrating a real picture of facilitated visa regime outcomes and those obstacles that the citizens of Georgia faced when dealing with them.

In June 17, 2010 the Agreement between Georgia and the European Union on the facilitation of the issuance of visas was signed in Brussels which came into force since March 1, 2011.

Georgian politicians discuss this fact from the political point of view. They welcome the fact of visa regime facilitation with the European Union and consider it a significant outcome for the citizens of Georgia as it will enable them travel in most European countries on business or other purposes without any obstacles. “Fees for processing visa application are put on half pay, some categories will be granted visas free of charge; Thus bringing Georgia close to the European Family” [1].

This is what the President of Georgia Michael Saakashvili meant when he, while making his speech, emphasized that the free travel and the free trade in Europe is achievable, that this issue is actively engaged in bureaucratic processes and that he has an “ambition” Georgia to have visa-free

regime with Europe before the expiry of his presidency in 2013 which he thinks it real and very feasible prospect [2].

In the present work we intent to evaluate how the privileges granted on the basis of the facilitated visa regime are put in practice.

In the process of facilitated visa regime implementation there emerged specific gaps regarding those people defined by the Agreement. There exist real problems that became evident due to the practical study of the issue. One of the most vivid examples deals with the (e) category of Article 4 under the Agreement. Regarding those determined under this category we witness the abrogation of the mentioned paragraph, which is given in details in the below case.

Eliso Chapidze, a journalist, was invited to the European Union Summit that was to be held in Brussels and Warsaw (26-30 September), after which she had to participate in the internship program at the newspaper "Die Kleine Zeitung" from 30 September until 13 October (the project of the Ministry of Justice of Georgia and the European Union) and again attend the journalists' conference in Brussels on October 10-11.

Present barriers:

- Belgium visa is issued by the Embassy of the Netherlands in Georgia. Considering the fact that the first visit was in Brussels, the journalist, in order to get a visa, applied to the Embassy of the Netherlands with all the necessary documents and invitation letters.
- She was asked to pay the fees for processing visa application (EUR 35).

By the time fixed the journalist was granted a five day visa instead of visa with the term of validity of up to a month, which meant that she would not be able to participate in the internship in Austria (c. Graz).

- After the mentioned fact the journalist again applied to the Embassy of the Netherlands to get a four-day visa in order to attend the journalists' conference in Brussels (10-11 October). This time she was granted a visa with the term of validity of up to 30 days instead of the requested one.

After the given case we can conclude that on one side we face the abrogation of the implementation of the Agreement between the European Union and Georgia on the facilitation of issuance of visas already existing between Georgia and the European Union, for according to Article 6 of the Agreement, journalists belong to the category who are exempted from the fee requirement for visa application processing, and on the other side, the inadequate attitude towards the issuance of visa becomes evident; when a journalist needed a visa with the term of validity of up to a month, she got only a five-day visa, due to what she was unable to participate in internship, that might grant her with the opportunity to upgrade qualifications. And after requesting a four-day visa she was granted a visa with the term of validity of up to 30 days.

The same (fee requirement for visa application processing) happened with the journalist Diana Trapaidze (The given cases are studied on the basis of the appropriate documents).

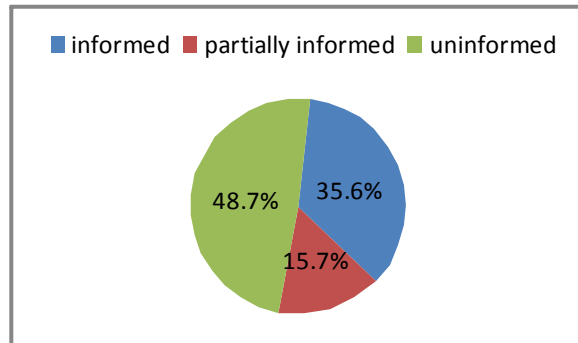
In order to find out the information level of the society and what people think about the Agreement between the European Union and Georgia on the facilitation of the issuance of visas, by using a public opinion poll we carried out two small scale questionings – One with the citizens and the other with those people waiting in front of Embassies and waiting to get visas.\*

Naturally, research of this type does not allow making precise evaluation though it makes it easier to get the real image of the present situation.

Information level of the society about the facilitated visa regime between the European Union and Georgia.

Among questioned citizens –  
 Informed – 35.6%  
 Uninformed – 48.7%  
 Partially informed – 15.7%

Diagram 1.

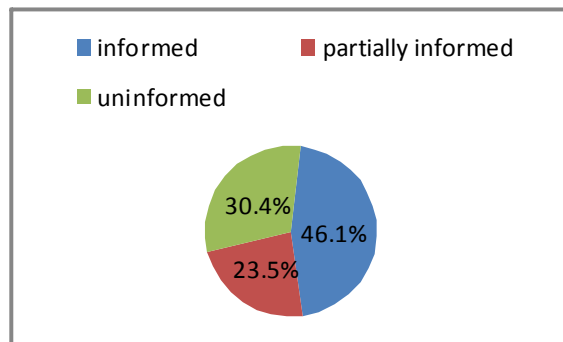


\*Place of polling: nearby territories of the Embassies of Germany, Italy, Poland and Check Republic. Number of respondents – 115 people; Period of polling – 20-30 November; 57.4% of the respondents is women, and 42.6% - men (Age 20-50).

Place of polling: Pekini Ave.; nearby territory of Tbilisi Technical University 6<sup>th</sup> building; Chavchavadze Ave.; nearby territory of Tbilisi State University 2<sup>nd</sup> building. Number of respondents - 54% - women, and 46% - men (Age 18-60).

Among people concerned to get visas: Informed – 46.1%  
 Uninformed – 30.4%  
 Partially informed – 23.5%

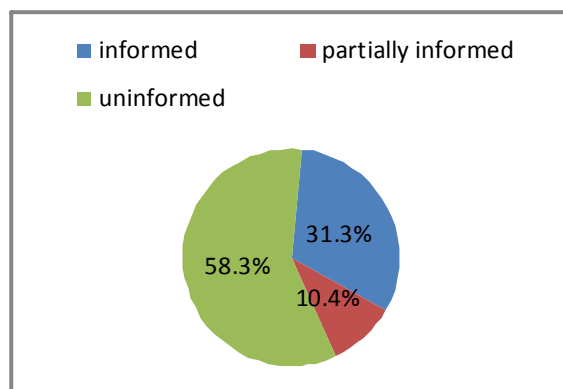
Diagram 2.



Information level of the society about the Readmission Agreement in force between the European Union and Georgia

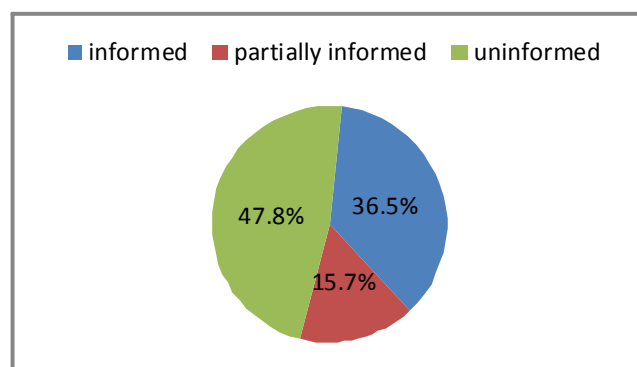
Among questioned citizens – Informed – 31.3%  
 - Uninformed – 58.3%  
 - Partially informed – 10.4%

Diagram 3.



Among people concerned to get visas: Informed – 36.5%  
 Uninformed – 47.8%  
 Partially informed – 15.7%

Diagram 4.



The aforementioned diagrams unambiguously point out that the society is unaware about the ongoing processes. Based on the poll results it may be said that society lacks information; and mass media, which is considered to be the main source of information for the society, fails to provide people with it.

Thus, on the background of the Agreement between the European Union and Georgia on the facilitated visa regime, in order to get a real picture the problem is considered from the practical point of view in the present work. Accordingly, it is discussed on the basis of various specific examples (only one case is considered in the present work) that made it possible to arrive to specific conclusions.

The goal of Georgia - become a plenipotentiary member of the European Family –requires permanent and effective steps from Georgia to be taken for the execution of the European Union requirements and correspondingly, effective implementation of the reforms by means of which it will gradually come close to Euro structures and become a member of the European Union is just a matter of future prospect.

The instable climate existing in the European Union and unsuccessful approach to the admission of new States to the Union is caused by the so-called “danger” that gradually becomes more acute. Hence the examples of other states the European Union worked out some kind of a “model” that became a protective mechanism for him and that is why he is a very careful “host” to each new Member State, especially at present, though at the same time the Union respects his devoted “guests” who are stubbornly striving at achieving their goal.

Agreements on the facilitation of visa regime and Readmission are a tandem which is stipulated by each other. Though the European Union prefers the implementation of the obligations provided in the Agreement of Readmission, as the mentioned fact is an inevitable precondition for Georgia to shift to the visa-free regime travelling. The Agreement of Readmission is more valuable and relevant for the European Union which the Union suggested as a counterbalance for the facilitated visa regime as it is important for the Union Georgia to manage migration processes in the right way and solve the problem of illegal migrants residing in the European countries.

We have tried to give a real picture about how the visa issuance procedure for those categories envisaged in the Agreement is adequate to reality. Research of the aforesaid case revealed abrogation of commitments provided in the Agreement which are stipulated by various conditions: 1. Different approach in case of visa issuance; 2. Compulsory payment of the fee for processing visa applications, instead of exemption from it; 3. Unsociability and indifference.

Besides this, in the practical part of the work we dealt with one more issue, namely, the information level of the society regarding the facilitated visa regime between the European Union and Georgia; from this point of view, according to the polling results, it was ascertained that the society not only lacks information but the word “facilitate” is wrongly interpreted as well.



The Georgian society unanimously positively evaluates the facilitated visa regime in force between the European Union and Georgia. The majority of the questioned people approves the mentioned agreement and considers that the significance of this Agreement is determined not only by achieved results but by those prospects, which in case of the successful implementation of the commitments provided in the agreement, is feasible and inevitable for Georgia.

### **List of the applied literature:**

1. <http://www.radiotavisupleba.ge/content/article/2279774.html>
  - a. (Travelling in Europe is facilitated for the citizens of Georgia)
2. <http://geworld.net/index.php/home/rubrikebi/msofli/299-katmsoflio/3142-germaniis-presidentma-medvedevs-uari-utxra>
  - a. \_\_\_\_\_
3. Agreement between the European Union and Georgia on the facilitation of the issuance of visas.
4. Agreement between the European Union and Georgia on readmission of people residing without permission;
5. Georgian Law on the Judicial Status of Foreigners;
6. Regulations (EC) No 810/2009 of the European parliament and of the Council of 13 July 2009 establishing a Community Code on Visas (Visa Code);
7. The EU Visa Code will apply from 5 April 2010;
8. Joint declaration on a mobility partnership between Georgia and the European Union;

## **Facilitated Visa Regime between the European Union and Georgia:**

### **Outcomes and Prospects**

*Annotation*

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The present article recent outcomes of the visa regime facilitation between the European Union and Georgia discussed and evaluated on the basis of the research results - namely, how the privileges adopted on the basis of the agreement are implemented in practice; and how the attitudes and opinions of Georgian citizens regarding the mentioned issue are revealed. There are also several specific issues discussed in the document the implementation of which is a precondition for Georgia to move to the visa-free travel regime in the countries of the European Union and, once and for all, achieve its goal - gain the status of a plenipotentiary member of the European Family.

# Ontology-based assistance by mobile devices in the context of AAL

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## Introduction

Today our society is exposed to a progressive aging process. High standards in medical science, nutrition and general living conditions with simultaneously dropping birth rates lead to a rapid increase of the average age in industrial countries [1]. Life expectancy, not only related to birth, but to any age, is ascending also. In Austria the span of life rose around two to three years in the last decades which places 'us' in the first third in European ranking already today [2]. But this development is also accompanied by age-related indispositions that lead to serious issues concerning health care, retirement and financial systems. Decreasing cognitive capabilities like dementia and dissonance represent only a (small) part of these diseases. However, obliviousness in general not only occurs in maturity, especially when it comes down to tasks that are not done often or on a regular basis. There is also a trend to live alone. The accretive mechanization and the complexity of modern electronically devices contribute to challenge persons who are affected with cognitive limitations to cope with tasks of daily living.

This is where the project "Human Behavior Monitoring and Support" (HBMS), which can be positioned in the field of Ambient Assisted Living (AAL), tries to overcome these challenges. The aim of HBMS is to enlarge the personal autonomy of a person via the technical support of its individual cognitive capabilities. HBMS is a research project of the Alpen-Adria-Universität Klagenfurt which is promoted by the Klaus Tschira foundation, Heidelberg.

The vision is to capture the episodic knowledge of a person in Human Cognitive Model (HCM) in order to offer support, in case this knowledge is not accessible oder understandable any more. Determining is here, that this information represents the individual knowledge of the person and is not comparable with instructions from a third party. This approach is not technology-centered, but focuses on the individual. On general level, the process steps shown in Figure 1 are carried out. Each step can be seen as an individual but interconnected subproject of HBMS. This paper covers academic and practical work related to the Explication.

Elizitation: The behavior of a person to manage activities of daily life is captured and persisted (as a model) in a database, which is part of the HCM.

**Figure 2:** Modeling Domain.

Integration: The determination of new (unknown to the system) lines of actions of the observed person generates new models, which have to be integrated into the HCM. To prevent inconsistencies and assure the homogeneity of the schema, known methods of model integration is applied.

**Figure 2:** Modeling Domain.

Transformation: The model, which holds the description of the behavior, is then transformed into suitable ontology representation language. The database and the ontology combined represent the HCM as mentioned above. Figure 2: Ontology Domain. Reasoning: Based on the ontology, logic reasoning makes it possible to gather information that exists only implicit within the HCM. With the introduction of axioms it is also possible to sustain consistency.

**Figure 2:** Ontology Domain.

Explication: In this step the knowledge of the HCM is accessed and used to support the user, if

needed. Figure 2: Service and End Device Domain.



**Figure 1:** General process steps of the project Human Behavior Monitoring & Support The intended application of the system HBMS is composed of three phases:

*The learning phase:* Users have to be in almost full possession of their cognitive abilities respectively is able to manage everyday life in a usual manner. This is essential in order to learn from the observed person and to build up the knowledge base.

*The support phase:* The episodic memory of the user is already impaired so that this affects daily life in a negative way, but the person is still able to request support from the HBMS system. This can be seen as a pull strategy.

*The phase of automatic support:* This potential phase represents a long-term vision and requires an according living environment. It should be possible to autonomously determine (e.g. via sensory feedback in a smart home) when and in which form support is offered or, in case of an emergency, self-triggered. The realization of the project HBMS follows several successive stages of expansion which, with regards to contents, adhere to the previously mentioned phases of usage. On a technical level HBMS is developed in subproject mainly corresponding to the process steps in Figure 1.

The focus of this paper is the implementation of the subproject Explication, which in other words provide the functionality for the knowledge transfer from the HCM to the assisted person. This includes the tasks of querying the ontology (model extraction) as well as the explication. In the following, 'explication' is used in terms of bringing support information into the users perception, rather than outlining the subproject itself like shown in Figure 1. Topical approaches, architectures and technologies were investigated to supply the basis for suitable design decisions to reach the following goals:

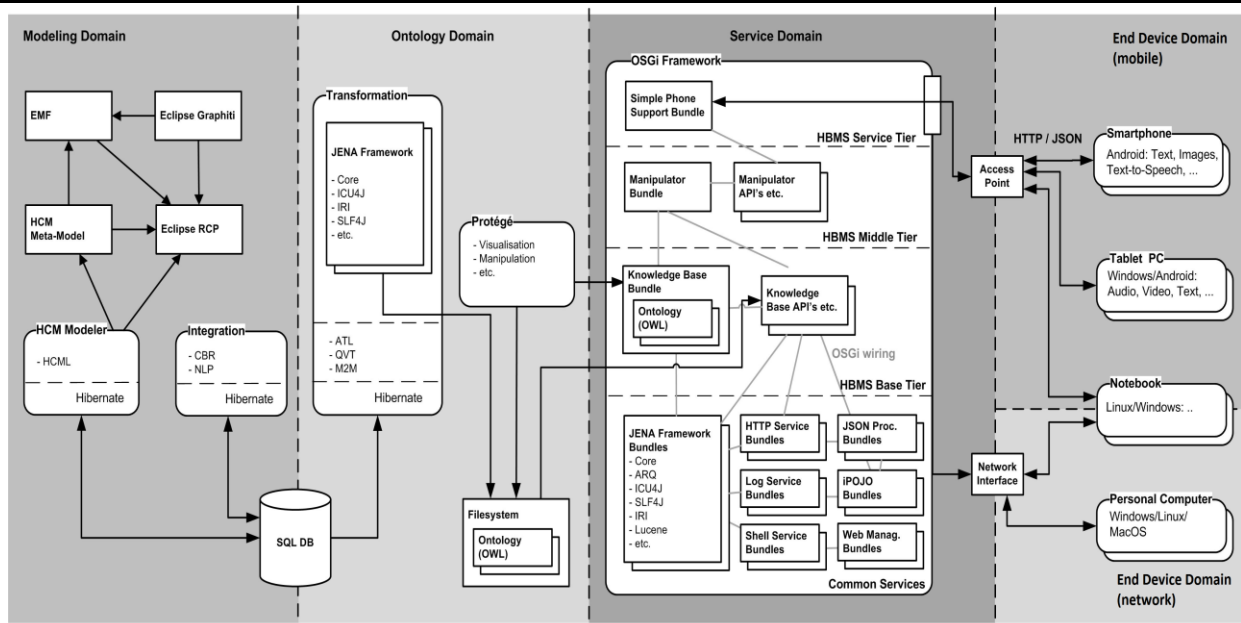
- Timely conception and implementation of a functional (research) prototype in the context of HBMS as an operational goal.
- Consideration of requirements that emerge from the field of research AAL as a strategic goal.

The first prototype (concerning the subproject Explication) should cover the application of mobile end devices (Smartphone, tablets) that provide the user with textual support to a given task. The user must also be able to request assistance self-contained. No autonomous behavior of the system.

## 2 Conceptions

As mentioned in section 1 Ambient Assisted Living is quite a 'young' field of research with many new system in development and planning. Therefore it is to expect, that a systems ability to integrate in a heterogeneous environment will be of crucial relevance. During implementation of model extraction and explication, consideration of interoperability should never be out of focus.

The system HBMS will not only be extended in future expansion stages, it should also become more intelligent, flexible, adoptive and 'ambient'. To ensure this, the conception of a centralized instance that is able to process (however) the data extracted from the HCM before passing it to release routines should be seriously considered. Therefore a refinement of the process step respectively the subproject 'Explication' (Figure 1) into a Service Domain (Section 2.1) and End Device Domain (Section 2.2) seems reasonable. In the following, these two areas are discussed in more detail. An architectural overview of the system HBMS is shown in figure 2.



**Figure 2:** Architectural overview of the system HBMS. Elization and Integration is located in the Modelling Domain (left column), Transformation and Reasoning in the Ontology Domain (first column from the left). The Explication is carried out in the Service and End Device Domain (columns to the right).

## 2.1 Service Domain

Which technical possibilities exist to access the HCM respectively the ontology? To answer this question, several technologies, frameworks, protocols and languages were investigated. Here a rough (not complete) overview: Jena [3], ARQ, SPARQL, RDQL, SquishQL, N3QL, SPARQL Engine for Java, Joseki [4], Fuseki [5].

So it is basically feasible to access the HCM directly from the selected end devices for the prototype. Because of the strategy to address as many potential end devices as possible, which could lead to heaps of redundant, distributed (hard to maintain) code, this approach should be questioned though. To provide maximum interoperability and extensibility of the system, the appliance of some kind of middleware, e.g. in form of service oriented architecture between the knowledgebase and end devices, should be explored [6]. For this reason, several dynamic and modular software platforms, specified by the OSGi Alliance [7], were investigated [8][9]. Amongst others, following projects were examined: Apache Felix [10], a free OSGi implementation (of the Core Specification [11] as well as the Service Compendium [12]) of the Apache Software Foundation. Also Equinox, a java-based Framework provided by the Eclipse Foundation and Knopflerfish were analyzed in detail.

### 2.1.1 Implementation

In general, free and open source technologies and projects were preferred over commercial ones. As state-of-the-art software project management and build environment, Maven (3.0.3) was chosen. Maven also provides, besides the general support for dependency management, multiple module projects, code/configuration reuse/centralization and a vast number of plug-ins for e.g. unit testing, logging, reporting and documentation, a good support for OSGi development. The programming language of choice is Java (7). As a framework for the implementation, Apache Felix (R4) [10] was selected, because it has good support and a big developer community. As programming environment Eclipse Indigo (for Java Developers) was picked because also in this case, there are a lot of useful plug-ins e.g. for the integration of Maven as well as for coding OSGi bundles, which were carried out in individually (sub)modules. From the technical point of view, a OSGi bundle is nothing more than a 'special' java archive, which basically contains a package structure, a couple of classes, maybe other resources and a manifest file. This comprises attributes, in form of key-value

pairs that are required for the intended purpose of it. What extends a jar file to conform bundle are OSGi specific attributes (like unique identifier/name, possible packages to export, required packages from other bundles etc.) that enable the management (wiring) within the framework. In general there are two different approaches in developing OSGi applications:

Manifest-first: The manifest file is handled like a source file, therefore edited per hand or supported by GUI's which can be provided by tools like Apache Tycho or Eclipse PDE.

This approach forces the developer to over think or explicitly controls dependency management (which is a good thing in general). But there is the risk of getting lost in details when the number of (developed) bundles grows.

POM-first: Following this approach means that the manifest file is automatically generated and not edited per hand in general. Tools that support this are for example BND [13] or Osmorc. The idea behind this is to make the development process faster and less fault-prone.

The approach used for developing the HBMS service is POM-first respectively (auto)generated manifest with the BND tool, that can be used with Maven and Eclipse. The interfaces of the Service Domain are on the one hand that to the knowledgebase respectively the ontology and on the other hand the one to the End Device Domain. The query engine ARQ of the Jena framework with SPARQL Protocol was determined to access the HCM. Causes for this were the extensive functionality of Jena. The (current) downside of Jena is that there is no OSGi qualified distribution available. To extend the archives in such a way, also the BND tool was used to identify the dependencies automatically and to enrich the manifest files accordingly [14]. HTTP was chosen to be the protocol for the gateway to the End Device Domain. It is generic, well accepted and adequate for the first prototype, which will only provide textual support. Per default, Jena comes with a SLF4J (Simple Logging Facade for Java) bundle and the required bridge to an LOG4J implementation. In non-OSGi context, LOG4J is executable (although inoperable) without configuration, but this is not the case here. Therefore, and to meet the modular concept of OSGi, a fragment bundle, that just hold the property files without functional code, was developed.

The concept of the whole HBMS service can logical be seen as tier architecture (Figure 2.). "Only" logical, because OSGi bundles (if they are well-implemented) are autonomously organized by the framework (which is called wiring) and do not reflect this tier architecture on technical level. Although there is a mechanism to position bundles on specific start level [11].

The HBMS Base Tier can be seen as a persistence layer, even though there is no data manipulation in Service and End Device Domain. But the low-level access to the HCM, including querying, result set handling etc., takes place here. Also the only code-related dependency to the Jena framework exists here.

The HBMS Middle Tier is, as the name suggests, a layer in between that hold 'business logic' that is not directly aimed to fulfill the target objective, but provide general functionality to support this. The reason for that is, that on the part of modeling and the HBMS metaontology, it is mandatory to cover also more sophisticated concepts e.g. concurrency, conditions, alternatives, resources etc. in order to capture human behavior. For a concrete assistance with HBMS, there may not all possible or once observed steps required or correct to achieve a certain goal. It is also to expect, that in following expansion stages of the project, the support for different end device and the need to adopt, to filter or enhance contents will require this kind of middle tier to remain flexible. For the first prototype, a simple model that is based on steps was designed. In more detail, this model is actually a graph whose nodes correspond to behavioral steps (respectively the support to these) that have one or more successors. So, a support routine is basically the navigation through this

graph (or parts of it) to achieve the desired goal. The functionality of this tier is to process the 'raw' data received from the HCM to a generic step-based data structure.

The HBMS Service Tier can be seen as a presentation layer in the broader sense. Here, a public service is implemented to which mobile devices can connect themselves respectively can request support information. Behind this service, the generic data structure is, if necessary, adopted to meet the demands/options of specific end devices and/or communication channel. To provide HTTP connectivity for mobile devices, Jetty (an lightweight HTTP server and servlet container) was used as an OSGi service to register Servlets that deliver the content. In fact, this 'top-level' service invokes also the employments of the other tiers respectively bundles. The implementation of the respective layers follows the modular OSGi concept. That means that the provided functionality is encapsulated in an discrete bundle and is only accessible via an interface that represents an internal service, which can be used by other bundles inside the framework. The interfaces by one are discrete bundles too. This pattern is quite valuable in an OSGi domain, because it affects the versioning that in turn concerns dependency management in runtime (wiring) as well as the development with Maven [6]. In order to reduce OSGi-specific code and to make the whole application even more modular, the inversion of control (IoC) pattern in form of dependency injection (DI) was applied throughout the implementation. iPOJO [15] was used to configure and declare the HBMS as well as OSGi services via xml in order to inject them (into plain java classes) wherever required. The bundles of the specific HBMS tier were also assigned to different start level according to their logical organization, which brings again advantages for development and runtime.

## 2.2 End Device Domain

Today the usage of mobile devices is increasing. Therefore, this development will be important for HBMS use cases too, even in non-AAL environments. Even a confined range of devices such as smart phones, tablets and notebooks indicate the considerably differences in hardware, software and handling. The effective programming of such devices, not least because of the rapid progress in this market, is therefore a real challenge [16]. In general, the re-development of the same application for different platforms is not a desirable strategy. Because of the fact that present mobile devices are nearly all ways online, the border between web and local applications gets blurry. Therefore, different development approaches were investigated.

- Native respectively device- and platform-specific programming.
- Development of a sophisticated web-application.
- The appliance of a hybrid approach using standard web technologies and third party tools like PhoneGap [17], Rhodes, Titanium Mobile, etc.

### 2.2.1 Implementation

Also here, there was the ambition to use open source technologies for the setup and implementation. Like mentioned in section 1, the first device to address was a Smartphone, namely a Motorola Milestone with Android 2.3.7 as platform. Furthermore, the approach with standard web technologies in combination with Phone Gap [17] was chosen in order to accelerate the development, have cross-platform support and to get early feedback for future stages of expansion [18][19]. For programming, the free IDE Eclipse Classic (Indigo) on the basis of Android SDK (r16) in combination with the Android Development Tools plug-in (17.0.0) was used. The interfaces and protocols in the Service and End Device Domain were already described in section 2.1.1. The mobile app was designed to be basically an (empty) representation container that is prepared to handle step-based data structures (see 2.1.1) and only the content is transferred from the service to the phone. This brings up the question in which format the content should be send, respectively wrapped to be transmitted via HTTP. Several strategies and notations were investigated (e.g. XHR, JSON, XML,

SOAP) and it came down to JSON (JavaScript Object Notation) [20]. Therefore, the HBMS Service Tier has to do a transformation of the generic step-based java structure to a JSON graph. For this reason several libraries (a comprehensive collection can be found here [20]) were analyzed to find the most suitable. Finally, Jackson, a high-performance JSON processor library [21], was used to support the handling of requests send by mobile devices, which in turn are realized with AJAX (Asynchronous JavaScript and XML). Once a JSON graph is received, it is parsed and graphical represented with JQuery [22], [23] respectively with standard web technologies. As an entry point, a sorted list of behavioral steps is displayed in order to fulfill a certain goal. This makes it also possible to jump directly to any step, in case just one or a subset of acts is forgotten by the user. After a step is selected, the support graph is 'browsable' in detail, displaying descriptive names and instructions. Via the application of a Phone Gap plug-in (that addresses the Pico module of the Smartphone) it is also possible to let the Smartphone read the instructions (TTS, text-to-speech). In order to make the application easy to operate with hands and fingers on a touch screen, the free JavaScript library JQTouch [24] was used to build graphical controls. This not only alleviates and accelerates the task of implementing GUI's; it also provides the accustomed and expected look-and-feel of mobile applications. During development Android Virtual Devices (AVD) that represented the target platform in combination with an emulator were used for testing.

### **3. Conclusions**

In general, the implementation (Service and End Device Domain) of the prototype was successful. To mention is that the development in an OSGi context, comes with an observable overhead, especially when oneself is not familiar with the concepts in this field. But the decision to use Apache Felix respectively an OSGi framework in general was suitable so far. Because of the modular concept, it is also easy to combine different technologies together, but possibly occurring side effects have also wider consequences and may not be easy to de- bug. The hybrid approach with PhoneGap for the development of the mobile app seems to be appropriate too and showed up some advantages/disadvantages already:

Native programming:

- + Unlimited access to (specific) hardware of the according device.
- + Best performance, resource management and useability of the application.
- Binding to the concrete language of the target platform, therefore expensive to port.
- Slower development cycle.

Native programming:

- + Cross-platform support by third party tools.
- Limitations to API's of these tools, resulting in not comprehensive hardware access.
- Binding to the concrete language of the target platform, therefore expensive to port.
- Slower development cycle.

To overcome the downsides of the hybrid approach, additional plug-ins can be developed. But given the nature of such plug-ins, programming with native languages becomes more attractive. Considering the importance of usability in the context of HBMS and the planned (more sophisticated) expansion stages, my recommendation tends towards the native development.

**List of applied literature:**

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## **Ontology-based assistance by mobile devices in the context of AAL**

*Annotation*

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Today our society is exposed to a progressive ageing process which leads to major issues concerning health care, retirement and financial systems. This topic also raises questions about personal autonomy, security, ethics and furthermore quality of life.

Thus, Ambient Assisted Living (AAL) has become an important and fast-growing area of research. The project Human Behavior Monitoring and Support (HBMS), which can be positioned in the field of AAL, addresses the assistance of people who experience an incremental loss of their cognitive abilities. On that account the individual behavior and the knowledge about activities of everyday life is captured within a cognitive model (Human Cognitive Model, HCM) and transformed into ontology. In case of mental prostration, access to this individual knowledge should ease the tasks of daily living.

This work can be seen as a subproject of HBMS and it's focus is: The knowledge transfer from ontology to the assisted person. It is readily apparent that such a system has particular requirements concerning usability, availability and reliability. Beside this, the emerging and architectural very heterogeneous domain AAL also demands attention regarding interoperability, modularity, flexibility and integration. This is essential in order to be open for future technologies and to be able to connect with other systems (e.g. a smart home environment).

To achieve this, an application will be developed that on the one hand implements the interface to the ontology, and on the other hand provides the necessary connectivity to address as much potential ways of explication as possible. Within the first expansion stage of the project HBMS, a functional prototype which covers the adoption of mobile end devices (smart phones, tablets) is to realize. The work includes the identification and evaluation of suitable technologies as well as the design and implementation of the prototype following state-of-the-art approaches. This should gain useful insights for the further devolution of the project and contribute to the research in the area of AAL in the long term.

# Create and manipulate ontologies to compensate memory loss with logical reasoning in AAL use cases

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## 1. Introduction

It happens to every one of us: sometimes we forget how to use a certain technical device or how to accomplish tasks which we used to execute on a regular basis. Due to the ageing of the population in Europe, these problems accruing with memory loss will become a more and more important issue in our society.

The demographics in the western world, foremost in Europe, are rapidly changing. By 2020, 25% of the EU's population will be over 65. Therefore the European Commission decided to boost a number of research projects in the AAL domain. [5]

*"There is no reason for older people in Europe to miss out on the benefits of new technologies. The solutions and services resulting from this programme will help them to remain active in society as well as staying socially connected and independent for a longer time,"* said Viviane Reding, former EU Commissioner for the Information Society and Media. The aim of the AAL JP (Ambient Assisted Living Joint Programme) is to found and combine these research projects. [5]

This paper presents the project HBMS (Human Behaviour Monitoring and Support) which has the aim to assist people with memory gaps and to enable them to continue their autonomous and independent lives. Therefore our project corresponds to the AAL JP and its motivation to provide solutions for issues which come with the demographic change and ageing in Europe.

To meet these requirements HBMS creates a so called HCM (Human Cognitive Model) for each user. The HCM represents the individual knowledge about activities of a user. These are stored in a conceptual model which gets transformed into ontologies. In case of mental prostration these ontologies are used as knowledge base. Thereby we are able to fill the gaps in memory with ontology reasoning using the very own knowledge of the user.

This paper introduces briefly the different parts of the whole HBMS project but its main focus lies on the modelling process of the ontology and the possibilities of automatic reasoning. For this purpose we investigate established standards to model and process ontologies. Both the Jena Framework and OWL API are adequate tools to develop ontology centred software systems. The Jena Framework is based on RDF (Resource Description Language) in contrast to the OWL API which is based on OWL notation. We evaluate both approaches and afterward we decide which one of these approaches is better suited to fulfil the requirements of HBMS.

SPARQL (SPAQL Protocol and RDF Query Language) is used to retrieve from the HCM what was learned before. The Pellet reasoner provides a logic reasoning services for OWL and can be used with the Jena Framework as well as with the OWL API.

## 2. HBMS

For the aim to support the user in their domestic and usual home with intelligent technologies as an AAL-solutions we have to deal with a great number of different fields of technologies and other areas of expertise. [7]

Therefore our project members come not only from the computer science department but also from the psychology institute at the University Klagenfurt, to provide the software developers with

insight into the wishes and point of view of the user. The target group of HBMS is not only elderly people but any person who can use support to recall forgotten knowledge.

For the developers of HBMS it is especially important that the users (or so called assisted persons) retain their dignity. In spite of the fact that they lose some physical and mental skills by growing older they should still be capable of achieving activities of their daily needs. Some examples for these daily activities are:

- Medication
- Cooking
- Personal hygiene
- Electronic communication
- Reminding to switch of the cooker or close the windows when leaving home

In all these use-cases there are several devices like sensors, actuators, thermometers, sphygmomanometers, electronic communication devices, and so forth involved. [7] Due to the different requirements of these devices and for future flexibility by using different types of these devices HBMS uses the Open Services Gateway initiative framework (OSGi) in order to be open to a large set of interfaces. In a first year we focus on mobile devices like smart phones and tablets. This is described in detail in the paper of Werner Gratzner.

The whole HBMS project is divided into three sub-projects or three modules. The first module deals with the modelling of the human behaviour. The second module stores this model as ontology, enhances them with logical reasoning and provides the knowledge to the third module, the user interface. The following section of this paper describes these models more detailed.

## **2.1 Modelling**

The HCM (Human Cognitive Model) is the core concept of the HBMS project. It is used for modelling behaviour of elderly persons to store their knowledge about daily activities. In the first HBMS prototype separate models are created for each observed person. In the first prototype this behavioural model is created by a domain expert using KCPM [2].

Activities of these behavioural models look like kinds of Business process models, so it may be sufficient to model them with BPMN [12]. But BPMN covers only the dynamic part and no static concepts. So it is impossible to model everything we need with BPMN. That's why we decided to use KCPM as modelling notation.

### **2.1.1 KCPM**

KCPM (Klagenfurt Conceptual Pre-design Model) bridges the gap between Requirement Analysis and Conceptual Design and introduces a conceptual Pre-design. [3] In this process the data collected in the Requirement Analysis, which is mainly provided in natural language, is inserted into a table scheme, the KCPM itself. [2]

In opposite to object oriented model languages the KCPM notation does not deal with classes, associations, attributes and values but uses thing types and connection types. These are less formal and therefore more comfortable when used by domain experts who are not experienced with formal modelling. In addition KCPM determines the perspective of certain concepts and the constraints (e.g. value constraints) of these concepts. One example for different perspectives is "A football team has several players" or "Several players build one football team".

### **2.1.2 HCM**

The final goal of the modelling process is comprehensive behavioural model, but due to difficulties of requirements gathering step (observing person) there may be some inconsistencies in the model.

That's why it is necessary to have the possibility to adopt current model accordingly to additional information.

- Each step may be modelled more detailed as sub-activity. Some sets of steps may be aggregated and presented as a single step (super-activity).
- Very often human behaviour is not just a sequence of steps, but set of actions to fulfil preconditions for the next step. Sometimes, people try to do several high-level activities at the same time and in this case it's really easy to forget something.

In this aspect the most interesting concept needed for modelling human behaviour is condition, which may be a post condition for some step and a precondition for other. Some condition may be just as "previous step is finished", but other may be complex and refer to environment state. That is the way of doing things parallel, because preconditions may be fulfilled for more than one activity in the same time. It is possible to have parallel branches of activity sequence, but we must have the possibility to convert parallelism to sequence (preferably, in optimal way), because this is the only way to support the user efficiently.

**Example 1** To make coffee with a machine, the user needs to put water and coffee beans into the coffee machine, but the order is not important. First, we can show them an aggregated step like 'put water and coffee'. But if the user wants to see this step's explanation in details, we show two choices, to put water first into the tank then to refill the coffee beans or the other way round. And after finishing the first task we automatically display the second one.

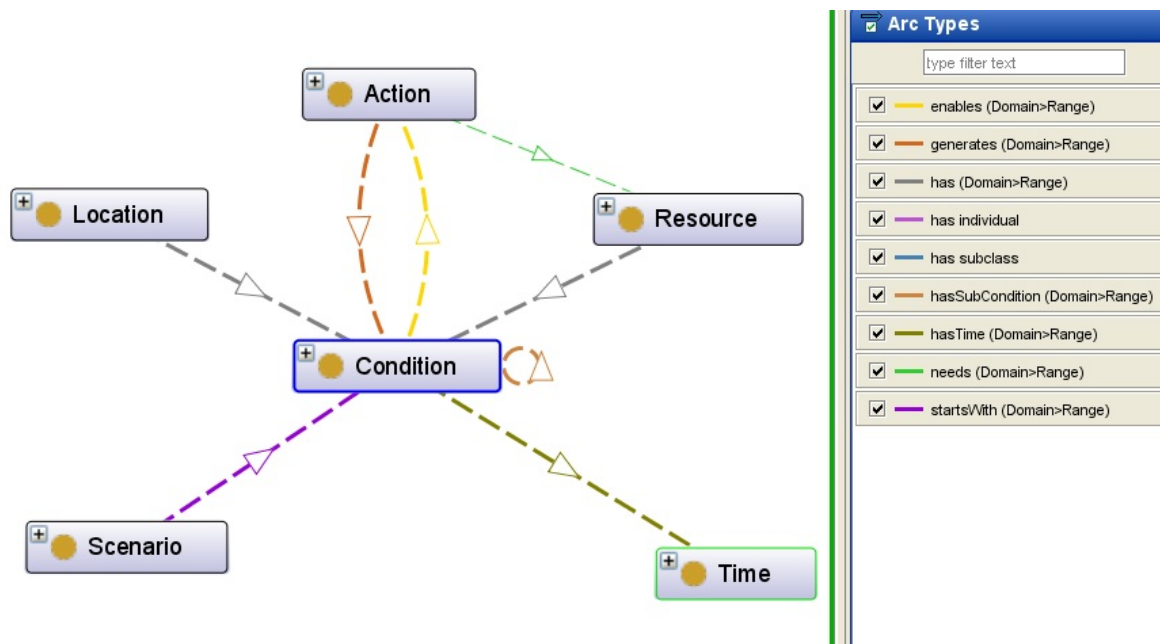
**Example 2** When the user wants to cook soup, he/she must boil water, cut some vegetables, fry onion and so on. In fact, it doesn't matter in which order these activities will be done, but the user needs to have all of them done in a certain moment of time, when he/she will put all this together.

## 2.2 Ontology

In computer science a so called ontology is a formal and machine readable representation of knowledge of a certain domain. This representation is composed of concepts and relationships. It can be used to reason about the entities within that domain and may be used to describe the domain [8]. HBMS uses ontologies to develop and store the HCM and furthermore to merge a set of behaviour models from different observations of the same process to one coherent HCM.

Today there are several AAL projects using ontologies as a core concept. [6], [8], [9]

In contrast to the majority of cases in which ontologies are used to describe static circumstances, our application deals with episodic memory. Therefore HBMS creates so called process ontologies to map the process specific properties of the user's episodic memory. These processes can be activities, e.g. medication in correct order and at the correct time, the use of electronic equipment at home or at public places (e.g. ticket machines), and any repeatable procedure of daily life you can think of.



**Figure 1 - Process Ontology**

Figure 1 shows the generic model of the HBMS process ontology. The process itself is represented as a sequence of actions. Every action needs a pre-condition to be executable and generates a post-condition after its execution. This post-condition might be again a pre-condition for optional actions. Therefore pre and post-conditions are generalised to conditions, which lie in the centre of the HBMS process ontology. Every condition belongs to a scenario (e.g. medication, using an electronic device), it might involve resources like the used device, cooking ingredient and so forth, and a condition is bind to a special location and time.

The Jena Framework (described below) is used to generate the ontology files from the behaviour model. In order to visualise and to manipulate this ontology manually we use Protégé, which was developed in order to create knowledge databases and accordingly ontologies. [10]

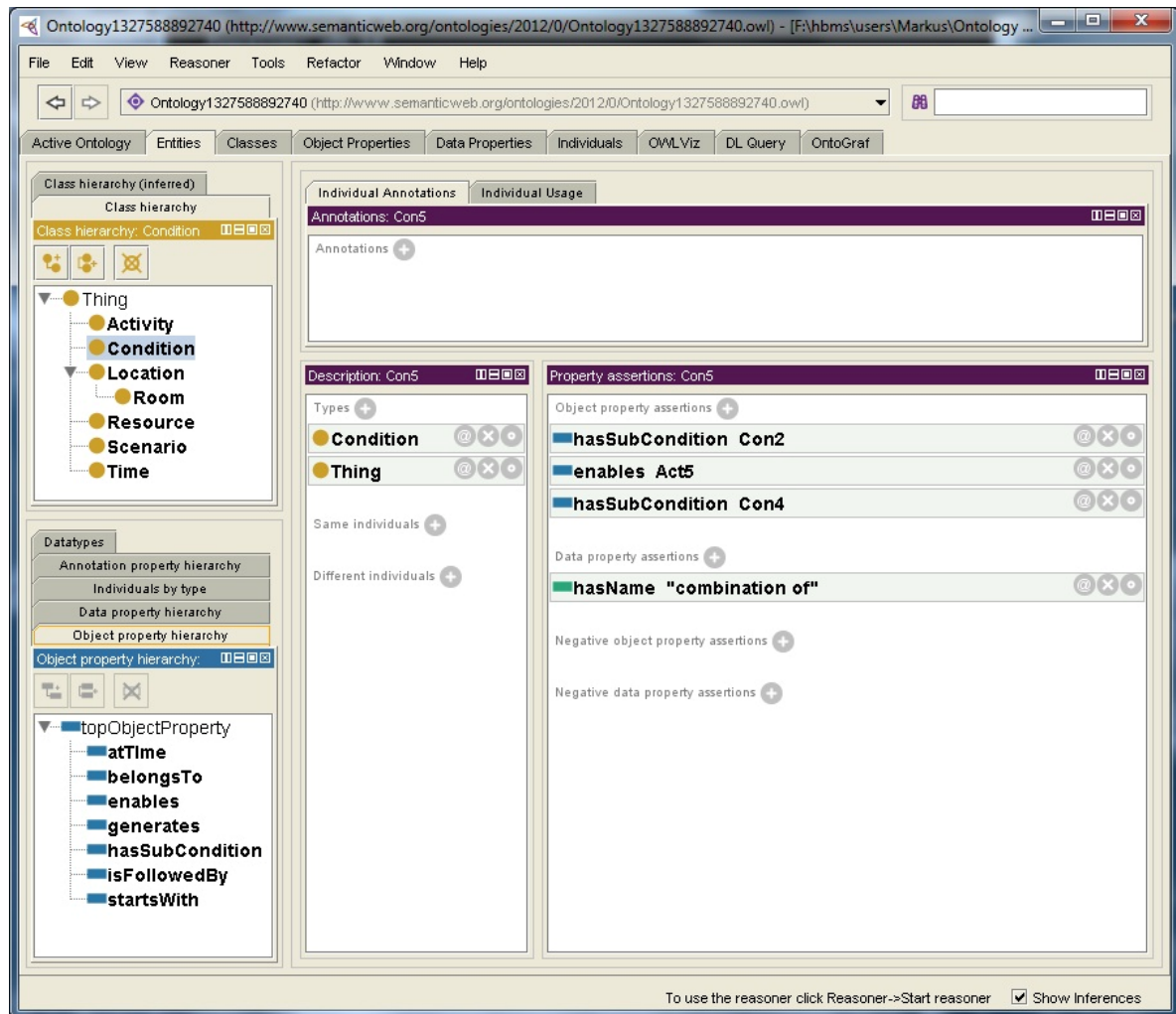


Figure 2 - Protégé

Protégé is able to create such ontologies, to fill them with information and knowledge and retrieve it later. There are two different options to model knowledge with Protégé:

- Protégé-frames uses a frame-based approach of knowledge representation of information about distinct domains in a hierarchic structure of concepts, attributes of these concepts and concept instances (individuals).
- Protégé-OWL is based on OWL (Web Ontology Language), which is the standard of ontology development for the semantic web [1], [4]. In contrast to the frame-based approach OWL contains logical mechanisms to infer implicit knowledge comprehensively from different ontology sources.

Figure 2 shows a screenshot of the Protégé tool with the a instance of the HBMS process ontology

### 2.3 User Interface

The user interface is described in detail in the paper of Werner Gratzner. In the first phase of development we use Android devices but we also take care to be open to a big number of different devices in future.

### 3 Technologies

To create and manipulate the ontology, which is the core of our project we had to consider to optional approaches. Both the Jena Framework and the OWL API (described in the next paragraphs) are able to fulfil our requirements. [11] After testing both tools we decided to use Jena because of its flexibility in

the possibility to use different reasoners. Its interfaces enable a smooth embedding in the whole HBMS architecture.

### **3.1 Jena Framework**

Jena is a Java based open source framework for semantic networks and provides a programmable interface to load and store data in RDF standard (Resource Description Framework).

Jena stores RDF graphs in abstract models in the working storage or in data sources like files or relational data bases. Next to RDF Jena is also able to handle OWL files [1]. The data accessed with SPARQL and manipulated with SPARUL. Jena offers the possibility to use several reasoners. HBMS uses the Pellet reasoner to detect incoherency in the HCM and to enhance the HCM by making implicit knowledge explicit.

### **3.2 OWL API**

Like its name already suggests, the OWL API is based on the OWL standard [4]. This API supports parsing and rendering in the representation languages RDF/XML and OWL/XML of the Manchester OWL Syntax, which are described in the W3C specifications.

The reference implementation of the OWL API is implemented in JAVA and contains a validation tool for the different OWL profiles: OWL 2 QL, OWL 2 EL and OWL 2 RL.

### **4 Conclusion and further work**

The discipline of AAL is increasingly important because of the aging of the population of the western world. The aim of HBMS is to enlarge the personal autonomy of a person via the technical support of its individual cognitive capability. The individual memory of a person is preserved by building a cognitive model of her/his behaviour.

In future devolvement of the HBMS project it will be necessary to merge different models, created in different observation and combine them into one coherent cognitive model.

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## **Create and manipulate ontologies to compensate memory loss with logical reasoning in**

### **AAL use cases**

*Annotation*

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*Master Thesis*

*Instructor: O.Univ.-Prof.Dr.Dr.hc. Heinrich Mayr*

It happens to every one of us: sometimes we forget how to use a certain technical device or how to accomplish tasks which we used to execute on a regular basis. The aim of the HBMS project (Human Behaviour Monitoring & Support) is to assist people with memory gaps and to enable them to continue their autonomous and independent lives. Therefore our project corresponds to the AAL JP (Ambient Assisted Living Joint Programme) and its motivation to provide solutions for issues which come with the demographic change and ageing in Europe.

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This paper presents the modelling process of this ontology and the possibilities of automatic reasoning. For this purpose we investigate established standards to model and process ontologies. Both the Jena Framework and OWL API are adequate tools to develop ontology centred software systems. The Jena Framework is based on RDF (Resource Description Language) in contrast to the OWL API which is based on OWL notation. We evaluate both approaches and list their assets and drawbacks. Afterward we decide which one of these approaches is better suited to fulfil the requirements of HBMS.

SPARQL (SPAQL Protocol and RDF Query Language) is used to retrieve from the HCM what was learned before. The Pellet reasoner provides a logic reasoning services for OWL and can be used with the Jena Framework as well as with the OWL API.



# Global Trends in the Energy Efficient Lighting Market

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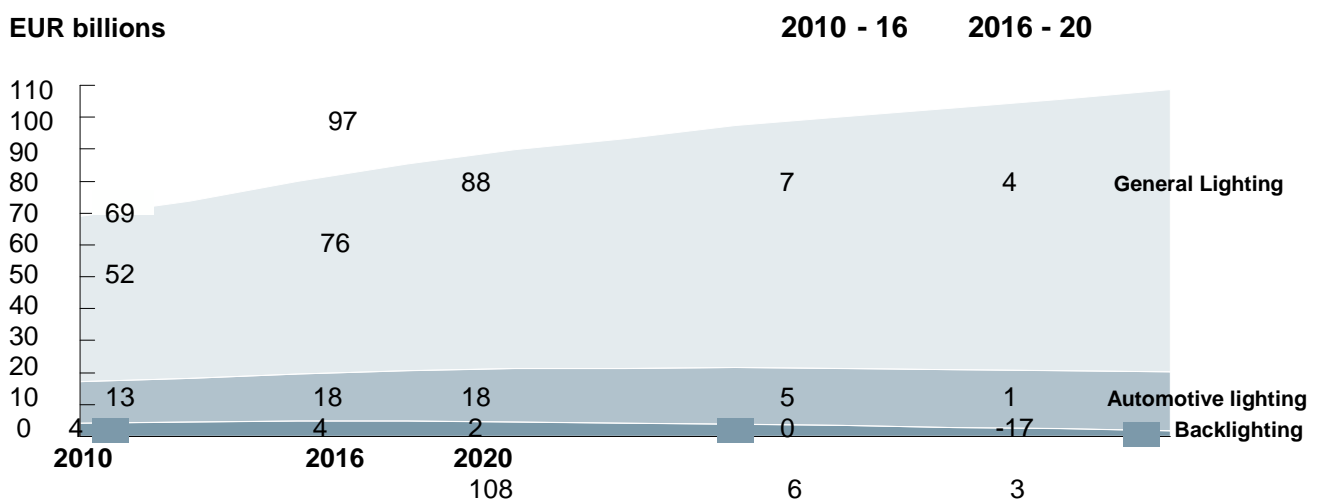
The famous US comedian, Milton Berle once said: “We owe a lot to Thomas Edison - if it wasn't for him, we'd be watching television by candlelight”. In fact, the only light source granted to man as a “gift from the heavens”, starting from the ancient era, was fire, while the torch can be seen as the first portable lamp. Improving a 50-old concept, Thomas Edison’s development of a practical, incandescent electric light-bulb made a real revolution. For more than 1 century consumers worldwide have been using incandescent lamps.

According to the International Energy Agency, lighting nowadays uses more power globally than is generated by all nuclear or hydro-power plants (greater than 2200 TW-h/year). Lighting accounts for ~17.5% of global electricity consumption with the largest share used in commercial and public buildings, followed by residential lighting, industrial sector lighting and outdoor/street lighting. This level of electricity usage could be significantly reduced for the same level of lighting, if only there were less energy wastage occurring from the use of inefficient lighting technologies, a lack of adequate controls, a failure to make better use of natural daylight and wide variations in recommended lighting levels /1/. It has been predicted that if all electrical lighting is converted to energy efficient lighting by 2050, the anticipated savings in global energy consumption would be 1300 TW-h in 2030 and 3000 TW-h by 2050, enabling a reinvestment of between €190 and €450 billion per year in economic growth rather than on fuel bills /2/.

The global lighting market is growing at full speed. Following the findings of McKinsey’s first large scale-research of the global lighting market, the latter is expected to reach revenues of about EUR 100 billion in 2020, with 6% annual growth from 2010-2016 and 3% - from 2016-2020. The steady growth is reflected in the Global Lighting Market Model (Fig. 1) which shows that the global lighting market is similar in size to that of the global TV market /3/.

**Figure 1**

## Global Lighting Market Model



**General lighting** is the dominant market, with total market revenues of around EUR 52 billion in 2010, which is close to a 75 % share of the total light market. This is expected to increase to some EUR 88 billion by 2020 – approximately 80% of the total lighting market.

**The automotive lighting** market size is estimated at EUR 13 billion in 2010, amounting to 20% of the total lighting market. This is expected to climb to EUR 18 billion by 2020.

**The backlighting** market is estimated to have had revenues of EUR 4 billion in 2010 at the light source level - 6 % of the total lighting market. This market will remain stable, with revenues of EUR 4 billion in 2016.

There are a number of megatrends driving the growth of the lighting market:

1. One major trend is **population growth**, especially in developing countries:

The world's population is expected to grow from 6.9 billion in 2010 to 7.7 billion in 2020. This is a key driver for growing lighting demand, in all areas of lighting, especially in residential. This trend mainly originates from Asia, with a 78 % share in the 0.8 billion additional population between 2010 and 2020. The focus of population growth will be on developing countries, as their populations will grow 7 times faster than that of developed countries, ultimately reaching 7 billion people by 2030. City infrastructures will face new challenges as 59% of the world population will live in cities in 2030 – this figure will be as high as 81% in developed countries vs. 55% in the developing world. This represents a global increase of 8.5 percentage points over the next 20 years and an acceleration of urbanization growth compared to the past/4/.

2. Secondly, **rising incomes** also imply stronger consumer spending on lighting.

3. The third is **urbanization**, with usage of light being larger in urbanized areas than in rural areas: the global economy is expected to grow by 3-4 % p.a. from 2010 to 2020 in real terms. The major growth will be pushed by initiatives in cities which directly affect lighting market demand, especially general lighting. McKinsey Global Institute's recent research has revealed that 600 urban centers are expected to account for about 60 % of worldwide GDP growth in 2025. Urbanized cities are lighter than rural areas, so the urbanization trend will be a strong driver of light usage going forward.

4. Demand for energy-efficient products, created by **resource scarcity and climate changes**, has become a global movement that is bringing about a gradual shift to higher prices in the lighting market. Climate change is expected to have far-reaching effects on the sustainable development of developing countries. Global consumption of primary energy will increase by 26%. Oil will lose some market share to renewables. The gap in energy consumption between developed and developing countries will widen, with developing countries consuming 79% more energy than developed countries in 2030.

The global lighting market has witnessed striking technological progress in the past few years: the conventional incandescent bulbs (which account of about 31% of lighting electricity demand, as opposed to 44% for fluorescent lamps and 25% for HIDs) are projected to reach obsolescence with the onset of CFL (compact fluorescent lamps) and LEDs. The already mentioned environmental concerns are driving the low-power-consuming lighting systems, so most of the recent developments in the lighting market seek to provide more energy-efficient products that give higher output at less power consumption.

Nowadays light emitting diodes (LEDs) and organic light emitting diodes (OLEDs) are leading and most advanced forms of energy saving lighting technologies. The common term for both is Solid State Lighting (SSL). LED lighting is growing especially fast due to its outstanding features: being 50-90% more energy efficient than traditional lighting, it can reduce the world's electricity usage by 12-15%. Which features make LED lighting so outstanding and essential?

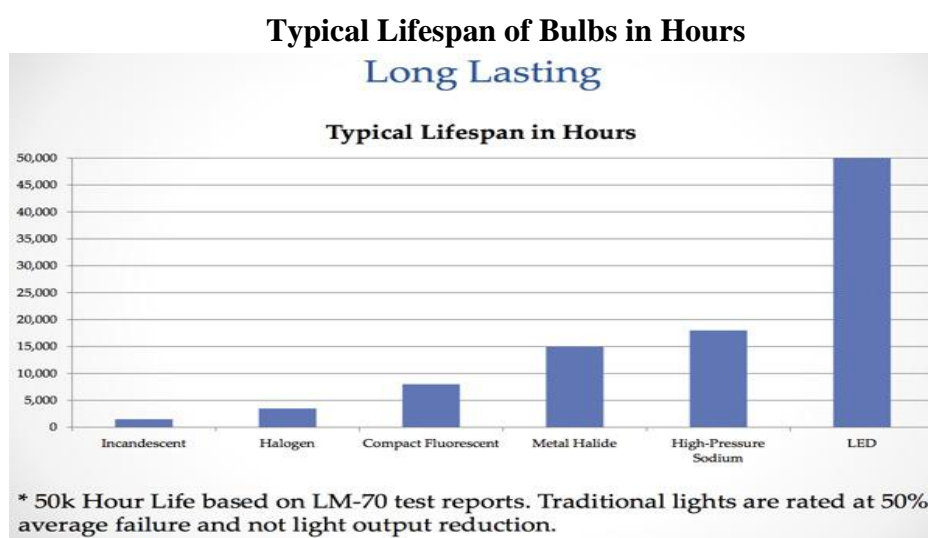
**-Reduced energy consumption:** LED lighting is 30-50% more efficient than CFLs (compact fluorescent) bulbs and 90% more efficient than the old incandescent light bulbs. This results in huge energy savings after replacing all of the old light bulbs. The benefits to the consumer include: considerably reduced energy costs: reduced electricity bills and operating costs and improved cash flow. The benefits to the environment include: reduced carbon emissions and reduced demand on already overstretched resources.

**-Lower temperature:** LED lighting emits far less heat than either incandescent or CFL bulbs as it uses energy more efficiently converting more of it to light than either of the others. This is a great advantage when it is used in enclosed or recessed light fixtures. It is also a great benefit in situations where lots of lighting is being used; previously the heat emitted from the lighting would have affected the room temperature, adding to the load on the air-conditioning. Less than 10% of the electricity used is converted to heat, meaning that they don't heat up the building or facility. That reduces the load on HVAC, extends its life and lowers the air-conditioning bill.

**-Very long lifetime:** LED lighting has a lifespan of 50,000 hours, as opposed to the 10,000 credited to CFLs under ideal circumstances. CFLs often fail to live up to their claims and early failure rate is quite high. Another reason the LEDs have such a long life-span is that by their nature they are less fragile than CFLs or incandescent bulbs. Being a solid state bulb there are fewer breakable parts, so while CFLs are very vulnerable to accidental breakage, LEDs are far more robust. While CFLs have mainly reached maturity on the product development life cycle curve, LEDs are in the early stages of development and have great potential for further design and cost improvements.

The major hurdle for LEDs is pricing – a 60 watt LED bulb costs about \$40 compared to \$1 for an equivalent CFL. Though the price poses a big question for consumers when deciding on replacement lighting, the move to LED lighting can be viewed as an investment/5/ because longer life means less bulb changes or re-lamping, lower maintenance expenses and less garbage in the landfill. According to the U.S. Department of Energy, incandescent lamps cost \$4.80 a year to run, halogens cost \$3.50, CFLs cost \$1.20, and LEDs cost a measly \$1.00/6/. Typical bulb lifespan is shown in Figure 2.

**Figure 2**



**-No hazard:** LED lights are 100% recyclable. They do not contain any mercury or other harmful elements. LED lights have the smallest carbon footprint of any light source other than the sun. A big concern about CFLs for many is that they contain mercury which is extremely toxic, and if a CFL is broken in the home (a not infrequent occurrence), this toxic substance is released. It also creates a problem in disposing of CFLs safely. LEDs contain no mercury and, though they should also be sensibly disposed of and recycled, they don't pose the threat to the environment of CFLs

with so many toxic substances being disposed of carelessly into land-fills, where they can leach into the water supply. Plus because their life-span is so much longer, there are far fewer LEDs per household to be disposed of.

**-No UV radiation:** Concerns have been raised about the UV radiation emitted by CFLs, affecting the indoor environment with electrical fields. This can cause health problems for those exposed to them over long periods. LEDs are neutral in this respect, lighting indoor spaces cleanly and harmoniously.

LED lighting emits no ultra-violet (UV) or infra-red (IR) light. Because of this, LED lighting will not harm the eyes or skin. In a computer-intensive environment such as a call center, LED lighting can increase worker efficiency because it does not cause headaches and sore eyes like florescent and incandescent light can.

**-Long-lasting color:** High quality LED lights will not discolor, degrade or damage illuminated surfaces or objects. They maintain lighting color and consistently over their life.

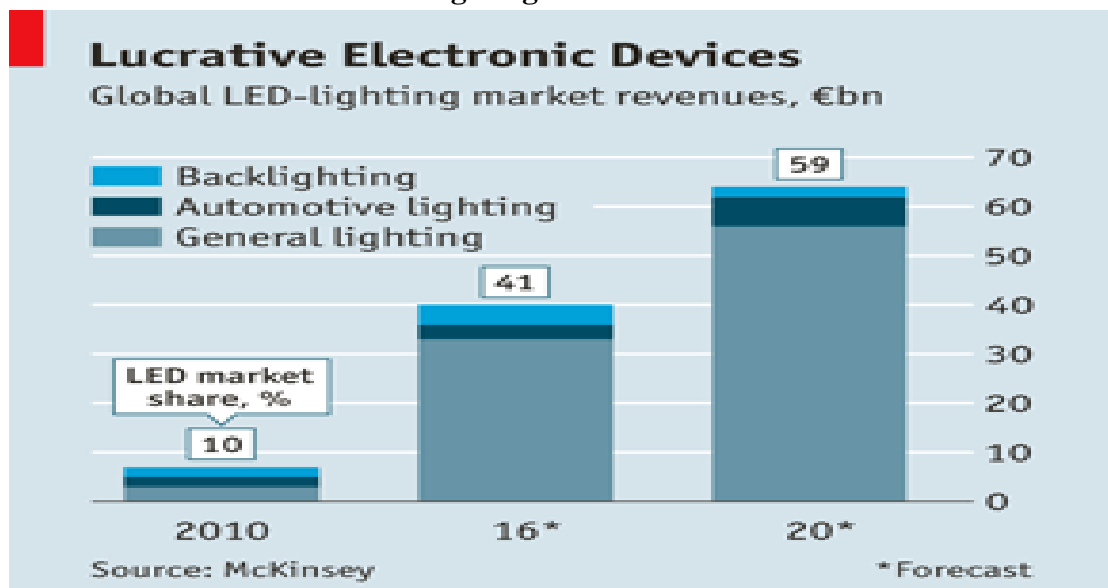
**-Safe and reliable:** LED lights contain no high-pressure gasses or thin filaments. This makes them highly-resistant to vibration and temperature changes. In addition, their lack of glass makes them safe for use in and around food manufacturing, preparation and storage areas.

**-Dimmable:** LED lights turn on instantly and are dimmable. LED lights do not require a long warm-up or cool-down period before they can be turned on. They are also dimmable down to 1% without losing their color temperature.

With these advantages, improved technology and gradually falling prices, LED lighting is going to be the most effective, healthy and cost-efficient energy-saving lighting for the future.

According to McKinsey's a.m. research, the 2010 figure for the LED lighting market's size in the general lighting, automotive lighting and backlight sectors is estimated at around EUR 7 billion, which amounts to approximately 10 % of the entire lighting market on a value basis. The McKinsey model forecasts a 41% market share by 2016, with revenues of about EUR 40 billion, and by 2020, as a result of a relatively slower growth, a market share of 59%, with the EUR 65 billion revenue (Fig. 3):

**Figure 3 Global LED-lighting Market Revenues**



The first commercially usable LEDs were developed in 1962, thanks to the work of General Electric Company employee Nick Holonyak, Jr. He invented a way to synthesize gallium arsenide phosphide (GaAsP) that revealed visible light. This was the red LED, and it soon was embraced for

use in electronic display devices for watches and radios. With further work through the 1970s, more colors and wavelengths became available<sup>7/</sup>. The full color spectrums they now offer make them the clear fourth-generation candidate, set to shatter the whole lighting market.

LED entered the backlight market first but has “invaded” the automotive market, as well. According to McKinsey, nowadays LED also penetrates the general lighting. The reason for LED’s low market share in 2010 is its price which is regarded as high by many, and is still expensive for high-brightness applications. For example, a LED equivalent to a 60-watt bulb costs over 50 USD compared with a 1 USD-worth regular bulb. But the prices are tending downwards, owing to the global movement towards energy savings. Also, According to America’s Department of Energy, new production technology should decrease costs: in ten years’ time LEDs will cost a tenth of the current price<sup>8/</sup>.

As energy saving awareness rises globally, several measures have been taken to discontinue incandescent and other ordinary type bulbs and to encourage the uptake and development of eco-friendly lighting technologies. This is a big challenge, as according to Philip Smallwood of IMS Research, almost half the world’s light sockets have an incandescent bulb. But many developed economies, such as America, Japan and EU are on the verge of discontinuing them. Other countries are likely to join the list, too. Examples include US federal lighting efficiency standards, which have started to uproot incandescent bulbs altogether in 2012 so that 100-watt incandescent bulbs shall no longer be produced, with 75-watt bulbs phasing out in 2013, and 60- and 40-watt bulbs disappearing in 2014.

While the transition is progressing fast in the USA and Asia, SSL market uptake is slow in Europe, which has a huge and one of the best lighting markets in the world. SSL technologies for general lighting applications comprise LED and OLED light sources, luminaires and control gear. LEDs are already mature in terms of technology and current developments are focusing on product design and lifetime optimization, while OLEDs are an emerging technology and only high-end small batch products are currently available on the market. Certain circumstances hinder the development and growth of these energy efficient technologies. With the aim of stimulating the uptake of innovative lighting technologies, the European Commission adopted a “**Green Paper: Lighting the Future: Accelerating the Deployment of Innovative Lighting Technologies**” on December 15, 2011<sup>9/</sup>. Though Europe already has a wide range of practices, procedures and strategies to foster the rapid implementation of energy-saving technologies, The Green Paper raises the question of the need for new instruments at the European level to help stimulate a large-scale deployment of SSL. The Green Paper pursues two closely linked key objectives:

1. With regard to **European users** (the demand side): raise awareness among European users, professional or public, about the quality of SSL technologies and their energy and cost efficiency potential; propose new initiatives to prevent early market failure.
2. With regard to the **European lighting industry** (the supply side): propose policies which foster the competitiveness and global leadership of the lighting industry and contribute to the creation of new jobs in Europe.

The Green Paper called upon all interested parties in Europe: individual consumers and professional users, the lighting industry, the building and construction sector, architects, lighting designers, electrical installers, municipalities, public authorities, civil society communities, professional associations and all other relevant stakeholders to participate in a large public debate, which was open until 29.02.2012. Member states and the European Parliament were also invited.

The Green Paper further points out that lighting account for 50% of the electricity usage of European cities. The potential of LED deployment in Europe is very large as 75% of existing

lighting installations are older than 25 years. Street lighting is one of the most popular LED installations in cities, and even small towns. Many cities are developing sustainable urban lighting strategies in close cooperation with light designers, architects and city planners. More and more businesses and cities are replacing their old energy-wasting lighting fixtures with LED lamps. Many European cities have launched pilot actions to familiarize themselves with this technology, to practice its main benefits and understand possible disadvantage.

The Green Paper emphasizes a number of initiatives that could be taken at EU level to promote the extensive deployment of SSL products:

❖ **Objectives relating to consumers and users:**

Challenges include: **1) Low quality LED products:** alongside some really good –quality LED products, many LED products offered on the European market are fairly poor in design and manufacture. **2) High initial purchase price:** as already stated above, LED products costs are rather high, though one should bear in mind its longer lifetime which means reduced maintenance costs in the end. So when deciding on a lighting product, the costs should be calculated considering total ownership costs. **3) Users are ignorant of the beneficial features of the LEDs.** **4) Poor product information provided during buying process.** **5) Rapid technology obsolescence and missing standards.** **5) Concerns for biological safety (the “blue light hazard”):** there has been anxiety about the effects of potential photochemical induced retinal injury caused by the absorption of light by photoreceptors in the eye. Nevertheless, the draft report of the Scientific Committee on Emerging and Newly Identified Health Risks (SCENIHR) on “Health effects of artificial light” did not recognize any proof of such risk. **6) Special challenges for cities:** due to the high initial investment costs, lack of trust and quality certification many cities today are hesitant about using SSL massively in street lighting.

Taking these challenges into account, the following actions need to be taken:

- **Give more information to consumers** on SSL products and ensure that the latter conform to EU legislation on minimum product performance and safety requirements;

- **Create SSL lead markets** for cities for SSL products by mobilizing the ELENA (European Local Energy Assistance, established by the Commission and the European Investment Bank) technical assistance facility or the European Energy Efficiency Fund (EEEF) or any other existing structural funds and financial mechanisms and organize awareness campaigns to cities;

- **Create SSL lead markets** for SSL products in public and residential buildings by complete implementation of political and legislative instruments and providing incentives. E.g. the Energy Performance of Buildings Directive requires that all new public buildings become “nearly zero-energy buildings” by 2019. Member States shall be responsible for ensuring minimum energy performance requirements for buildings.

❖ **Objectives relating to the European lighting industry:**

- **Strengthen the SSL value chain** required to overcome existing fragmentation in the lighting industry and create cooperation platforms along the value chain;

- **Boost cooperation between the SSL industry and other involved players along the extended value chain**, which is important for the development of new business models and for switching from lighting products to lighting systems and services.

- **Concerning the future of SSL production in Europe**, strategic decisions will be necessary, involving both LED and particularly, emerging OLED technology.

- **Secure the supply of scarce raw materials** and improve recycling of end-of-life products;

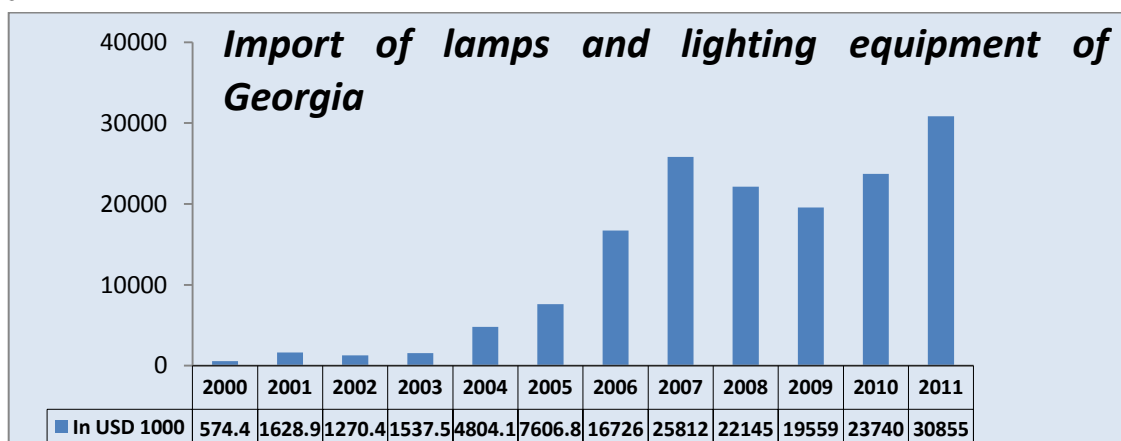
*Innovation capacity and global competitiveness issues:*

- **Improve access to intellectual property rights and SSL product standardization**, including safety issues, environmental aspects and procedures and common methodologies for measuring the performance of SSL products and systems;
- **Access to low cost routes of investment.**
- **Improve learning and training** through vocational and lifelong learning and training of the actors of the sector;
- Strengthen **R&D** in photonics in general and in SSL in particular, and improve the market uptake of R&D results;
- **Strengthen the links between the industry and consumers** to encourage a fast uptake of products;
- **Develop a European approach to SSL** bringing together the European Commission and industry representatives.

The European lighting industry, represented by its European Associations **CELMA** (the Federation of National Manufacturers Associations for Luminaries and Electro technical Components for Luminaries in the European Union) and **ELC** (the Federation of European Lamp Companies) profoundly welcomed the publication of the Green Paper/10/. In their response, issued on 02.02.2012, the European Commission's initiative has been assessed as "a step into the right direction in order to close the increasing gap between Europe and other regions in the world actively involved in the development of Solid State Lighting (SSL), namely the USA, China, Korea and Japan that begins to be noted as for research, development and marketing of the new SSL technology". The European lighting industry believes that the Green Paper has come just in time to address the threat that Europe faces – to lose its technology leader position. CELMA-ELC express their readiness to respond to this challenge and calls on the European politicians and law-makers to take necessary political and legislative initiatives and support implementation of the Green Paper.

If we take a look at the import figures of lamps and lighting equipment in **Georgia** for the last 12 years, we will see the tendency which is for the most part towards growth (Fig. 4: data provided by National Statistics Office of Georgia) /11/:

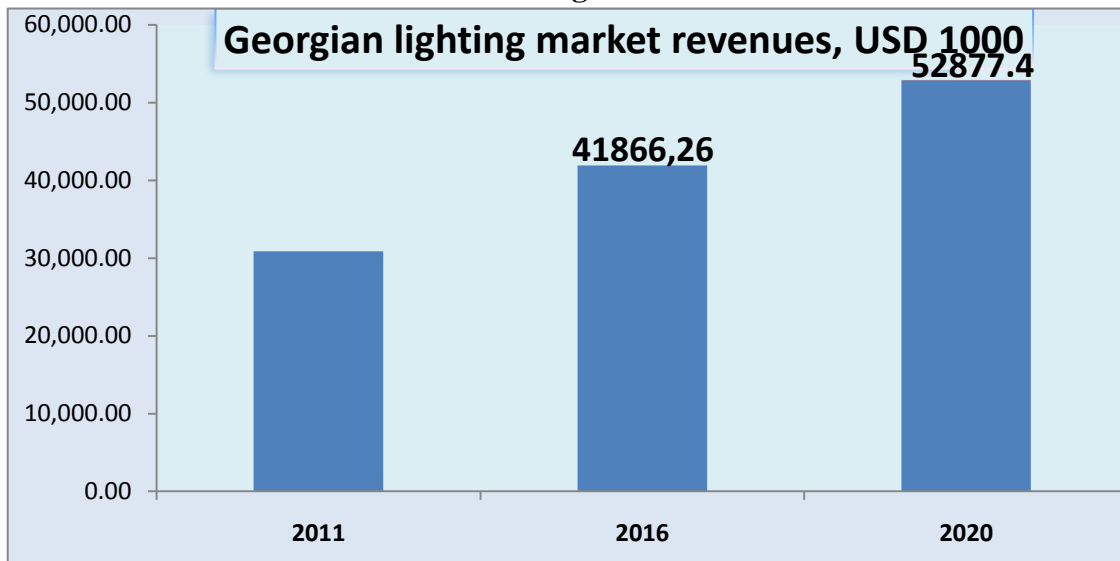
**Figure 4**



Based on these data the average import figure during 2000-2011 years amounts to about USD 13 million USD, with the annual average growth of about USD 2.75 million. If such a trend persists for the coming years, we can predict that from 2011 - 2016 the import figure will reach approximately USD 41.8 million (35% increase) and from 2016 - 2020 – about USD 52.8 million (26% increase), (Fig. 5).



Figure 5:



With respect to energy efficient lighting trends in Georgia, we should first note that a few years ago about 95% of the market consisted of inefficient lighting lamps – incandescent and halogen, while efficient lighting bulbs, such as compact fluorescent ones, were used in a limited number. Rather, the transition to energy saving lamps was spontaneous by nature and without strong government stimulation and informational support was developing at a slower pace. Notable is that energy efficient lighting in Georgia has been recognized as the most lucrative and easily realizable energy efficiency measure. According to the USAID report “Energy Efficient Construction Materials Sector in Georgia” (published on 28.03.2008), replacement of six million bulbs would make a positive contribution of USD 85.6 million on Georgia’s external trade balance over a 5-year period, with discounted present value of USD 54.3 million. Complete replacement of efficient lighting could diminish the necessity of budget subsidization in the energy sector by USD 26 million every year/12/.

Nowadays, we see a different picture. Though the process of switching to energy saving lighting is not so extensive, nearly in all the major new projects LED fixtures are used for façade illumination. Examples are: recently renovated Marjanishvili Square, a part of Rustaveli Avenue, the new building of Tbilisi Sakrebulo (Tbilisi Assembly), etc. One of the prominent LED projects is a new pedestrian Bridge of Peace, which was opened in May 2010 in Tbilisi. With its interactive all-white LED light display lighting up the Mtkvari River for hours every day and night, the bridge is seen as a study case in a new kind of art enabled by SSL technology: essentially painting with light/13/.

Within EU energy efficiency priorities municipalities have been assigned a leading role in steering the development and implementation of the **Sustainable Energy Action Plan (SEAP)**/14/. At the Covenant of Mayors conference, held in Tbilisi in October 2010, the particular functions of cities as complex systems having a large capacity to fight greenhouse gas emissions was stressed. On April 12, 2010, by signing the Covenant of Mayors, Tbilisi City Hall became a part of the initiative under which Tbilisi should become a “low carbon city” by 2020. In order to realize this target, the Tbilisi City Hall developed the Sustainable Energy Action Plan for Tbilisi which implied:

- Development of an overall strategy for the reduction of energy consumption in the capital.
- Development of a Baseline Emissions Inventory (BEI) for Tbilisi
- Development of a sustainable energy action plan with selected energy efficiency measures for the period until 2020.



- Acknowledgement of the role of Tbilisi City Hall as the main administrative driving force in carrying out responsibilities addressing all activities related to energy consumption and use of renewable energy in transport, buildings and municipal infrastructure sectors that can't be implemented without municipality support.
- Raising public awareness by promoting information about the application of energy saving measures.

The main purpose of SEAP for Tbilisi is to reduce CO<sub>2</sub> emissions caused by city energy usage. Together with the Covenant of Mayors, Tbilisi City Hall strives towards making Tbilisi the “Green Capital” of the South Caucasus. Three main energy sectors have been discussed in the SEAP of Tbilisi – transport, buildings, and infrastructure (municipal waste and waste water management treatment, **street lighting**, electricity and gas distribution networks, and green spaces) and strategies and main actions for each sector were elaborated:

- **Building sector: Lighting**

Lighting is the largest single consumer of electric energy in Tbilisi households who consume less than 300 kW of electricity per month. Energy efficiency in this case can be easily achieved with the replacement of old incandescent bulbs with compact fluorescent ones. In such a case lighting efficiency increases 4-5 times with a corresponding reduction of energy consumption and expenditures. At the same time, according to the expert's evaluation, about 25-30% of consumers in 101-300 kW categories and about 15-20% of consumers in the 300+ kWh category use CFL bulbs for lighting purposes. The poorest consumers hardly use such efficient bulbs as on the local market they cost at least 8-10 times more than incandescent bulbs providing the same light. For households (especially the poorer ones) a one-time investment is very expensive than the gradual replacement of cheaper ones, even if they lose money in the long run. Under the local conditions the efficient lifetime of CLF bulbs is usually relatively less than publicized, which also makes potential customers vary in their use. The reasons are the multitude of low quality, often counterfeit products on the local market as well as frequent fluctuations of the electric current, which also make a negative impact on even the best CLF bulbs.

As world practice shows, under such conditions it is recommended to distribute energy efficient bulbs free of charge or at least at heavily subsidized prices through a government program, as is done in the UK for instance. This may apply only to the poorest consumers, who constitute about 2/5 of all active consumers in Tbilisi, but will at least create the interest and show the advantages of energy efficient bulbs versus the traditional ones.

Another way is to prohibit the use of traditional bulbs by law, as Russia aims to do; although this is less feasible. Efficient quality control both at electricity and appliance markets will also help greatly.

Energy efficiency measures in this sector for the period of 2011-2020 include installation of efficient lighting fixtures in at least 30 municipal buildings. CO<sub>2</sub> emission reductions for this measure will constitute 14.93 t/year.

- **Street lighting sector:**

With energy costs of 2.4 million GEL due to street lighting in 2006, the Tbilisi Municipality launched a campaign to replace lighting with energy saving lamps. Over 60% of existing mercury bulbs have already been replaced with 1.5-3 times more energy efficient lamps. Various other measures would make street lighting even more energy efficient if they were implemented. As it was estimated in the Tbilisi City Energy Efficiency Concept Paper of 2008, the installation of LED traffic lights has the potential to bring significant energy savings. The actions that anticipate

bringing significant energy efficiency in the street lighting sector within the SEAP are described below:

- **Action S1 – Intelligent Street Lighting Management Centre:** The core element of intelligent street lighting system is stepless dimming of the lamp depending on the situation, e.g. according to the time of the day or intensity of car traffic on the highways if detectors are installed. The system will allow for the reduction of the intensity of the light output at night in the case of empty streets and roads and will increase the voltage when cars approach the area. The same mechanism could work in tunnels as well. The development and integration of an intelligent street lighting system will increase the savings of electricity by 40%-60%. Preliminary works will be conducted in 2012 and the project will be fully implemented in 2013.
- **Action S2 – LED Light for Street Lamps (alternative action):** The action implies that in 2011-2013 a factory of the LED light bulbs will be constructed in Tbilisi. In 2014-2018 all street lighting lamps will be gradually replaced by the LED light bulbs. The total cost of the project is 76,000,000 GEL.

In total, as a result of project implementation 28,727,868 kWh of electricity will be saved while the number of the street lamps will remain the same. As a result of this action 11.1 thousand tons of CO2 equivalent emissions will be reduced.

Lastly, we should all lend an ear to the motto of the Energy University of the global leader in energy sector, Schneider Electric: “Energy isn’t free, but learning to save it is”. General public should become fully aware of the energy saving benefits and the notorious practice of keeping air conditioners and heaters switched on next to open windows and lighting fixtures burning idly should be finally rooted out.

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## **Global Trends in the Energy Efficient Lighting Market**

*Annotation*

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The global lighting market has witnessed striking technological progress in the past few years: the conventional incandescent bulbs are projected to reach obsolescence with the onset of CFL (compact fluorescent lamps) and LEDs (light emitting diodes). LED lighting is growing especially fast due to its outstanding features: high energy-efficiency, long operational life and robust weather resistant design.

While the global lighting market is expected to reach revenues of about EUR 100 billion in 2020, the size similar to that of the global TV market, the LED lighting applications are likely to see double-digit growth with the highest market share in overall lighting market by 2020. There are a number of megatrends that account for such expansion: global population growth and urbanization, together with resource scarcity and climate changes are driving technological advances in the lighting industry.

This article is based on various recent studies conducted with the aim to explore the global lighting market perspectives (e.g. the research by McKinsey&Company) and intends to review the current and future trends of the energy efficient lighting market, its driving forces, advantages of LED lighting solutions and other related issues.

# Managing Commercialization of Innovations: European perspective for Georgian SME

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Innovation is introduction of something new that improves the past experience in business, it means there was a way people were doing something and it has been changed by the innovation. But everything there is newly invented or produced can't be considered as innovation, it has some characteristics by which it can be distinguished.

It must enhance or replace existing technologies. (<http://www.cloudave.com/202/definition-of-innovation/>) we can simply name the examples of innovation with its thin understanding, like telephone, computer, calculator that improved and eased ways people can do their jobs. It replaced old methods that were used to calculate, communicate and many other things.

When a technology goes through major transformation phase and yields a successful innovation then it becomes a great learning experience not only for the parent industry but for other industries as well. Big innovations are generally the outcome of inter and interdisciplinary networking among technological sectors along with combination of implicit and explicit knowledge. Networking is required but network integration (networking of networks) is the key to success for complex innovation in today's era where diverse technologies are available at its best. Social economic zone, technology corridor, free trade agreement and technology cluster are some of the ways to encourage organizational networking and cross functional innovations. To win with innovation in a flat world we definitely need complex networking and crowd-sourcing. (wikipedia.org). Let us talk about what factors do countries or businesses need to produce innovations or be the distributors of innovations. The brightest example of producing innovations is Japan. It is one of the most developed countries in the world with its economy and with its capabilities of producing products and services. As we know it could succeed without having natural resources and by importing them it could make its country one of the most successful in manufacturing goods and services and claimed to be one of the most innovative countries in the world. The factor by which a country can produce innovative products is technological development that requires good economic conditions and necessary resources. Of course every country can have bright ideas, a scientist can invent something that can improve everyone's economic welfare, but we are not talking about one scientist or retail manufacturing we are talking about mass production of innovations. One of the latest innovations that Japanese invented was the car which can work by the water, it can be considered as one of the most important innovations that will change not only the economic situation of people but also will have tremendous effects on the world. We've mentioned economic situation as a factor of innovative production, a country must be first of all be independent with its economy, what does that mean. It means that imports should not be as greater as a country can be considered as dependent on some other countries' goods. How can it produce something and make it more innovative than other products if it is dependent on others' contributions.

What can be said about the sizes of the market. Realization of products requires markets in which these goods or services can be sold. Europe has a tremendously big market with 731 million populations. So every market can accept every new product and assimilate it. Germany is producing much innovative products and can make them be sold. But let us make a parallel with Georgia. Georgia is a small country with only 3.5 million population. GDP Per capita in 2011 (nbg.ge) is 5421.4. So can we

consider Georgia as a producer of innovative products and does it have capabilities to share the experiences of European countries. In one sight it cant because There are no factories in Georgia, there are no technological development centers, it doesn't have the scientific union that can work with the projects, and also the economic condition doesn't support that. Belgium GDP per capita on 2009 (estimate <http://www.gfmag.com/gdp-data-country-reports/318-belgium-gdp-country-report.html#axzz1qCsLe3BV>) is \$36,834 International Dollars, If we compare it to the Georgian example difference is easier to be seen.

Innovation is of course needed in the companies. Businesses presented in Georgia is focused on the internal market and developes in the way market need it. It means that development is increased in the possibilities for the Georgian market to endure it with its financial resources. But innovation is far more complex thing. We can proudly say that Georgian citizens adapt new technologies and innovative products very easily and quickly but these technologies is not produced in Georgia and it is not the idea of Georgian companies. Ideas that Georgian banks offer to the customers is already experienced by other banks of the world long before, Activities that are held by other sectors of businesses are the imitation of other companies activites. and why? because Georgia is not capable to produce new things with existing resourcec. Factors are needed for the claim of innovative status.

How many companies can we list that are established in Georgia and manufactures goods that are important for economic growth. This list is not too big. Nowadays Government of Georgia is focused on development of turism. In order to improve Georgian companies innovative strategies government should intervene and support them with all possible resources.

What is important for SME's to become more successful in innovation strategies? First important thing that must be done is to link to sphere to each other, industry and the science. Innovation requires sufficient financing options, borrowing constraints are one of the most greatest obstacles in the innovation process for SME's. also important factor is standardization, opportunities that small and medium enterprises have to compete with rival representatives of their business. it supports competitive advantage of business to create more productive innovation strategies in order to have chance to be better developed. ([http://www.bmbf.de/pub/hts\\_2020\\_en.pdf](http://www.bmbf.de/pub/hts_2020_en.pdf))

[http://papava.info/publications/Ismailov\\_Papava\\_A.pdf](http://papava.info/publications/Ismailov_Papava_A.pdf)

Economic progress of Georgia is depended on the openness and integration rate into globalized economy. So first of all it must be more interacted with neighbours in order to enhance the market, which gives Georgia and neighbour countries to have more investments and more financial resources to focus on technological improvements, with mutual resources and possibilities these countries can make better steps in focusing on this issue. In the example of Georgia and considering with its factorial conditions, best way to get in touch with European experiences in managing innovations and commercialize them is to get other countires innovations and get the legal rights to produce within the country and to export them in the Europe. After soviet union was destroyed and Georgia could become independed, sovereign, business sector was rapidly developed, trade relations were established and budget of Georgia increased tremendously. opportunities of interaction with other parts of the world is high and this opportunities are succesfully used. But the question that many people asks is e.g why Georgian government do not think about producing the cars or gets the right from other vehicle manufacturers to produce their products like Russia did earlier by getting rights to produce Toyota. answer is clear, there is no need of it, market is not such big to justify the decision to assign so many financial resources to that.

Increasing use of innovative technologies is one of the ways to satisfy growing needs of society. Innovative technologies present scientific-technical achievement implementation and its rapid introduction of the use in all services and real sector.

As we know, society always looks for the ways to get more out of less, which is on one hand, shortest way to get richer. This last one allows people to decrease work time and spend more time on personal entertainment and spiritual rest.

Therefore, implementation of innovative technologies drives society to economical independence that presents freedom of person in terms of its spirit.

We can proudly say that the second half of 20<sup>th</sup> century presents innovative revolution era that covered such important directions of economics as informatics and automation, nano technologies, utilization of non-conventional energy resources, bio technology, management and etc.

From the above stated, we can conclude that, commercialization of innovative technologies is the main locomotive, which will stipulate intensive type of reproduction, which in turn will lead to GDP growth, fundamental reduce of material production in the share of total product.

It could be said that, economies of developed countries are less “difficult”, than it was around 50 years ago. Indeed, in the total value of economy, the share of service value has increased by 70-80 percent and therefore, it has affected material production sphere.

According to statistics, in USA employees in agricultural field present 3 percent of total number of employee and innovative technologies allowed them with such a small figure of employee to support not only 320 million citizens of USA but is a major exporter of corn and wheat in the world. As for material production sphere, its total share in USA economy is 15-17 percent, meaning that biggest of GDP goes to products produced in service field. On the other hand, these processes have caused changes in the quality and structure of labor force. Today, incredibly high demand goes to bank-financial system managers, (low, middle and high class employees), IT professionals for its implementation and etc.

Our goal is to show at this stage of country’s development, to manage maintenance of current factor incomes, while radical reforms of the government in economy and almost in all spheres of public life. On the other hand, increasing economic growth is prerequisite for population prosperity. Unfortunately, current level of Georgia’s economic development does not allow stimulating scientific researches in the direction of innovative technologies, considering 7 times increase of budget and even more of GDP.

It is obvious, that innovative technology scientific research is directly connected to expenses that Georgia does not have today. But it does not mean that there is nothing that could be done in this field. We believe, foreign investments are one of the best examples, as there is number of funding for innovative technology researches. The example of practical steps is aiming to establish scientific center in Batumi that once again proves good will of our strategic partner, USA.

At this time, despite the need to increase economic activity, our higher priority is rapid implementation of existing innovative technologies for further commercialization. As an example we can use the results of government’s utilization of existing innovative technologies in management systems that were precondition of the success of reforms in the country. Moreover, the results of reforms has so impressed not only neighbor countries so as well “Good neighbors”, that their governmental delegations come to Georgia not only to study but also to implement the same reforms in their countries. This was so systematic that government of Georgia has introduced new bill to the parliament to establish new entity “Reforms and Cooperation Agency” that will be legal entity, introducing all Georgian reform and innovation information to the world. As there are a big number of applicants to copy existing innovations and reforms in Georgia to their countries, this agency will support them in this direction as

well. In case of amending this bill, following will be determined: agency's activity sphere, functions, structure and sources of funding.

If we look back to the history, key of the Japanese economic development was purchasing licenses and patents of all innovations and reforms conducted by USA. Classical example of this approach of Japanese is the history of Americans invention of micro-electronics technology "transistor". This impressive innovation of American was rapidly patented by Japanese and managed to produce first radio receiver that was successfully sold in whole American continent. This is where Japanese economic prosperity begins, that is not reflected by the limited natural resources of the country and its location in tectonic zone that causes number of natural disasters.

South Korea is classical example of one country with same ethnical population, divided into two, to reach total different result of economic development. North Korea is considered as poor and non perspective country compare to wide economic growth of South Korea. As for South Korea it achieved its success on American other country's market in different way. With production of special "Colorful Color" dresses it was successful to attract the attention of American women and the field became the locomotive of further development of other fields of the country, beginning with electrical equipment ended by heavy machinery spheres.

In our country, similar mission can perform commercialization of innovative technologies used in above mentioned reforms. Exactly, reform agency must be able to play a role of locomotive that will stimulate country's economic prosperity.

Besides above stated, we can identify other priorities. First of all, this is related to agriculture. Here, it is possible to implement such bio technologies that will allow country to be exporter of agriculture products. As an example we can use experiment of incredibly high crop corn cultivation in the country, if the results won't be followed as expected by this experiment organizers, will not be a cause of lack of perspective of this experiment. The reason of failure of the experiment, we should look in agro-technical norms that did not allow us to have the expected result that does not mean the experiment was not successful.

Meantime, country has unique opportunity to utilize to introduce ecological fresh food production technologies. Considering the fact that Georgia presents historically combination of climate-geography unique bio-zone, country has resource to produce variety of ecological fresh food. It concerns to production of food so as well food processing industry.

Besides, we believe, historical technologies in agriculture, food production, food processing industry and etc, presents innovative technology examples. We have resource to patent these technologies and sell on world market, as variety of technological innovation. As an example we can use Georgian product "Borjomi", "Khvanchkara," and etc. Also, it is known fact that number of American and European cities has food places where production of number of products is done with Georgian technology. Such as "Lavash – Bread, Khachapuri, cottage, Khinkali" and etc. We have to patent each of these and commercialize, that will definitely support country's economic prosperity.

In terms of wine production, pure Georgian production technology is production of taniniani wine. This kind of wine is made only by Kakhetian grapes and it must be done in pitchers. As one of the popular wine experts has noted, we can be distinguished on world wine market exactly with this unique technology.

Similar reserves exist in flower field, honey production, mebaxCeobis. Despite of historical tradition of Dutch flower care, analogy of impressive smell of Georgian rose could be hardly found. Georgian bee is a different case to talk about; this is truly a miracle of Georgian flora-fauna.

Preservation and maintaining of Georgian dog Shepherd breed presents example of innovative commercialization, so as well Georgian sheep, the demand of which has been dramatically increasing from neighbour countries.

As we can see, patenting the incomplete list of traditional technologies in agriculture for its further commercialization is so perspective that we can proudly talk about use of countries huge reserves, that will allow country to increase its GDP 4-5 times at least, that in absolute indicator mean 90-100 milliard GEL.

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## **Managing Commercialization of Innovations: European perspective for Georgian SME**

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Innovation is introduction of something new that improves the past experience in business, it means there was a way people were doing something and it has been changed by the innovation. But everything there is newly invented or produced can't be considered as innovation, it has some characteristics by which it can be distinguished.

It must enhance or replace existing technologies.

We can simply name the examples of innovation with its thin understanding, like telephone, computer, calculator that improved and eased ways people can do their jobs. It replaced old methods that was used to calculate, communicate and many other things.



# The Role of CRM Systems in Business Development

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In the development of the scientific-technical progress the effective implementation and application of modern information technologies is becoming more important. Companies are trying to develop a strategy and to improve relations with suppliers, partners and customers. There is a recent increase in popularity of customer-orientation and the example of this is the Customer Relationship Management (CRM), which is the result of the fast development of information technologies. Therefore, the use and implementation of CRM systems in businesses becomes actual gradually. Due to the fact that in the rising competition in the world customer relationship has a special meaning, there is high demand on CRM systems in the world.

What is CRM system and why is it necessary?

CRM is a corporate information system, which is intended for automation of the company's CRM strategy. Namely, for increasing the level of sales, optimization of marketing and customer service improvements, to storage the information about clients and their relationships. CRM is a module of interaction with customers, during which all the methods and choices of communication, together with the customer's expectations and their requirements, works about the decisions and foresee of advantages. Consequently, customized CRM system means an information system, which on the one hand, preserves clients' needs and on the other hand, provides optimization in the company's business.

The notion of CRM (Customer Relationship Management) became actual especially in 90s of the XX century and its purpose gradually grows. Nowadays it is of a great importance for business development in general. In the condition of a great competition customer relationship is of a special importance. There is a great demand on CRM system in the World.<sup>1</sup>

CRM, or Customer Relationship Management, is a company-wide business strategy designed to reduce costs and increase profitability by solidifying customer loyalty. True CRM brings together information from all data sources within an organization (and where appropriate, from outside the organization) to give one, holistic view of each customer in real time. This allows customer facing employees in such areas as sales, customer support, and marketing to make quick yet informed decisions on everything from cross-selling and up selling opportunities to target marketing strategies to competitive positioning tactics.

Once thought of as a type of software, CRM has evolved into a customer-centric philosophy that must permeate an entire organization. There are three key elements to a successful CRM initiative: **people, process, and technology.**

It's a strategy used to learn more about customers' needs and behaviors in order to develop stronger relationships with them. After all, good customer relationships are at the heart of business success. There are many technological components to CRM, but thinking about CRM in primarily technological terms is a mistake. The more useful way to think about CRM is as a process that will help bring together lots of pieces of information about customers, sales, marketing effectiveness, responsiveness and market trends.

If customer relationships are the heart of business success, then CRM is the valve the pumps a company's life blood. As such, CRM is best suited to help businesses use people, processes, and technology to gain insight into the behavior and value of customers. This insight allows for improved customer service, increased call center efficiency, added cross-sell and up sell opportunities, improved close rates, streamlined sales and marketing processes, improved customer profiling and targeting, reduced costs, and increased share of customer and overall profitability.

This sounds like a panacea, but CRM is not without its challenges. For CRM to be truly effective, an organization must convince its staff that change is good and that CRM will benefit them. Then it must analyze its business processes to decide which need to be reengineered and how best to go about it. Next is to decide what kind of customer information is relevant and how it will be used. Finally, a team of carefully selected executives must choose the right technology to automate what it is that needs to be automated. This process, depending upon the size of the company and the breadth of data, can take anywhere from a few weeks to a year or more. And although some firms are using Web-based CRM technologies for only hundreds of dollars per month per user, large companies may spend millions to purchase, install, and customize the technology required to support its CRM initiative.

CRM system includes the following components: Knowledge management, Scheduling and Resource reservation, Contact management, Activity management, Project management, Activity management, Opportunity management.

A successful implementation of a CRM system depends, first of all, on the readiness of the company, the correct choice of the system and on the clear formulation of the given task.

In Georgia the whole business is developing very fast. The competition for securing consumers in certain directions of the business has heightened. The companies are no longer able to curtail their tariffs to draw the clients. It only remains for them to join in the competition by qualitative indices, i.e. by improving the work with the clients and the service level.

There have been taken effective steps for implementing the CRM system by some companies, such as: "Energo-Pro Georgia", "TBC Bank", "Aldagi BCI", "Geocell", "Public Registry", etc. <sup>2</sup>

Customer needs change over time, and technology can make it easier to find out more about customers and ensure that everyone in an organization can exploit this information. A Customer Relationship Management system may be chosen because it is thought to provide the following advantages: business reputation, security concerns, sales force automation, marketing, customer service and support, social media, strategy implementation, statistics.

- ***Business reputation***

Building and maintaining a strong business reputation has become increasingly challenging. The outcome of internal fragmentation that is observed and commented upon by customers is now visible to the rest of the world in the era of the social customer; in the past, only employees or partners were aware of it. Addressing the fragmentation requires a shift in philosophy and mindset in an organization so that everyone considers the impact to the customer of policy, decisions and actions. Human response at all levels of the organization can affect the customer experience for good or ill. Even one unhappy customer can deliver a body blow to a business. <sup>3</sup>

Some developments and shifts have made companies more conscious of the life-cycle of a customer relationship management system. Companies now consider the possibility of brand loyalty and persistence of its users to purchase updates, upgrades and future editions of software. <sup>4</sup>

Additionally, CRM systems face the challenge of producing viable financial profits, with a 2002 study suggesting that less than half of CRM projects are expected to provide a significant return on

investment. Poor usability and low usage rates lead many companies to indicate that it was difficult to justify investment in the software without the potential for more tangible gains.<sup>5</sup>

- ***Security concerns***

A large challenge faced by developers and users is found in striking a balance between ease of use in the CRM interface and suitable and acceptable security measures and features. Corporations investing in CRM software do so expecting a relative ease of use while also requiring that customer and other sensitive data remain secure. This balance can be difficult, as many believe that improvements in security come at the expense of system usability.<sup>6</sup>

Research and study show the importance of designing and developing technology that balances a positive user interface with security features that meet industry and corporate standards.<sup>7</sup> A 2002 study shows, however, that security and usability can coexist harmoniously.<sup>6</sup> In many ways, a secure CRM system can become more usable.

- ***Marketing***

CRM systems for marketing help the enterprise identify and target potential clients and generate leads for the sales team. A key marketing capability is tracking and measuring multichannel campaigns, including email, search, social media, telephone and direct mail. Metrics monitored include clicks, responses, leads, deals, and revenue. Alternatively, Prospect Relationship Management (PRM) solutions offer to track customer behavior and nurture them from first contact to sale, often cutting out the active sales process altogether.

In a web-focused marketing CRM solution, organizations create and track specific web activities that help develop the client relationship. These activities may include such activities as free downloads, online video content, and online web presentations.

- ***Customer service and support***

CRM software provides a business with the ability to create, assign and manage requests made by customers. An example would be Call Center software which helps to direct a customer to the agent who can best help them with their current problem. Recognizing that this type of service is an important factor in attracting and retaining customers, organizations are increasingly turning to technology to help them improve their clients' experience while aiming to increase efficiency and minimize costs.<sup>8</sup> CRM software can also be used to identify and reward loyal customers which in turn will help customer retention. Even so, a 2009 study revealed that only 39% of corporate executives believe their employees have the right tools and authority to solve client problems.<sup>9</sup>

- ***Social media***

Social media sites like Twitter, LinkedIn, Facebook and Google Plus are amplifying the voice of people in the marketplace and are having profound and far-reaching effects on the ways in which people buy. Customers can now research companies online and then ask for recommendations through social media channels, making their buying media to share opinions and experiences on companies, products and services. As social media is not as widely moderated or censored as mainstream media, individuals can say anything they want about a company or brand, positive or negative.

Increasingly, companies are looking to gain access to these conversations and take part in the dialogue. More than a few systems are now integrating to social networking sites. Social media promoters cite a number of business advantages, such as using online communities as a source of high-quality leads and a vehicle for crowd sourcing solutions to client-support problems. Companies can also leverage client stated habits and preferences to "Hyper targeting" their sales and marketing communications.<sup>10</sup>

- ***Strategy***

For larger-scale enterprises, a complete and detailed plan is required to obtain the funding, resources, and company-wide support that can make the initiative of choosing and implementing a system successfully. Benefits must be defined, risks assessed, and cost quantified in three general areas:

**Processes:** Though these systems have many technological components, business processes lie at its core. It can be seen as a more client-centric way of doing business, enabled by technology that consolidates and intelligently distributes pertinent information about clients, sales, marketing effectiveness, responsiveness, and market trends. Therefore, a company must analyze its business workflows and processes before choosing a technology platform; some will likely need re-engineering to better serve the overall goal of winning and satisfying clients. Moreover, planners need to determine the types of client information that are most relevant, and how best to employ them.<sup>11</sup>

**People:** For an initiative to be effective, an organization must convince its staff that the new technology and workflows will benefit employees as well as clients. Senior executives need to be strong and visible advocates who can clearly state and support the case for change. Collaboration, teamwork, and two-way communication should be encouraged across hierarchical boundaries, especially with respect to process improvement.<sup>12</sup>

**Technology:** In evaluating technology, key factors include alignment with the company's business process strategy and goals, including the ability to deliver the right data to the right employees and sufficient ease of adoption and use. Platform selection is best undertaken by a carefully chosen group of executives who understand the business processes to be automated as well as the software issues. Depending upon the size of the company and the breadth of data, choosing an application can take anywhere from a few weeks to a year or more.<sup>11</sup>

- ***Statistics***

In a 2007 survey from the UK, four-fifths of senior executives reported that their biggest challenge is getting their staff to use the systems they had installed. Further, 43 percent of respondents said they use less than half the functionality of their existing system; 72 percent indicated they would trade functionality for ease of use; 51 percent cited data synchronization as a major issue; and 67 percent said that finding time to evaluate systems was a major problem. With expenditures expected to exceed \$11 billion in 2010,<sup>13</sup> enterprises need to address and overcome persistent adoption challenges.

The amount of time needed for the development and implementation of a customer relationship management system can prove costly to the implementation as well. Research indicates that implementation timelines that are greater than 90 days in length run an increased risk in the CRM system failing to yield successful results.<sup>5</sup>

In conclusion, Customer Relationship Management (CRM) is important in running a successful business. The better the relationship, the easier it is to conduct business and generate revenue. Therefore using technology to improve CRM makes good business sense. Making investments in the CRM system implies the increase of the loyalty of the clients as the marketing active.

At present to engender the consumer's loyalty CRM systems have been widely used in the whole world and there is a hope that it will be as successfully implemented in Georgian companies as in foreign companies.

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## **The Role of CRM Systems in Business Development**

*Annotation*

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What is CRM system and why is it necessary?

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hand, preserves clients' needs and on the other hand, provides optimization in the company's business.

CRM system incorporates the following components:

- The company's database of products, services and prices;
- Knowledge management;
- Scheduling and Resource reservation;
- Contact management;
- Activity management;
- Project management;
- Opportunity management.

CRM system is less being used in Georgia. There have been taken effective steps for implementing the CRM system by some companies, such as: "Energo-Pro Georgia", "TBC Bank", "Aldagi BCI", "Geocell", "Public Registry", etc.

This paper discusses the concept of CRM system and its importance in the development of business, the relevant statistical data, analyzes the main factors, which ultimately determines the success of CRM system. The work provides development of CRM system in Georgia, the main problems in this field and the author's recommendations for the companies operating in this sector.



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