INTERNATIONAL ECONOMIC COMPETITIVENESS OF SOUTH CAUCASUS COUNTRIES: GEORGIA, AZERBAIJAN, ARMENIA

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INTRODUCTION

International trade today is a dynamically developing part of global economics and the following factors influence its constant growth: increase of international division of work; globalization and internationalization of production; liberalization of international trade by WTO regulation; transnational competition enabling creation of new branches of economics, renew main capital, etc. . The small size of South Caucasus Countries' economies, with close to half of the countries having a population of less than 10 million, is often cited as a major constraint to their economic development. But a small size is not necessarily a cause for failure. Experience elsewhere shows that in small countries it is often easier to implement reforms and changes in policy. There are many well-run small countries that have developed quickly and that are at the top of world rankings; these include the Nordic countries, Singapore, Switzerland, and so on.

In this paper we will focus on international economic competitiveness of South Caucasus Countries In economic literature, there are many definitions of international competitiveness of economy.

"A nation's competitiveness is the degree to which it can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously expanding the real incomes of its citizens. Competitiveness at the national level is based on superior productivity performance and the economy's ability to shift output to high productivity activities which in turn can generate high levels of real wages. Competitiveness is associated with rising living standards, expanding employment opportunities, and the ability of a nation to maintain its international obligations. It is not just a measure of the nation's ability to sell abroad, and to maintain atrade equilibrium" (The Report of the President's Commission on Competitiveness, 1984). "[Competitiveness] may be defined as the degree to which, under open market conditions, a country can produce goods and services that meet the test of foreign competition while simultaneously maintaining and expanding domestic real income" (OECD Programme on technology and the Economy, 1992)

"An economy is competitive if its population can enjoy high and rising standards of living and high employment on a sustainable basis. More precisely, the level of economic activity should not cause an unsustainable external balance of the economy nor should it compromise the welfare of future generations" (European Competitiveness Report, 2000). Most often, the international competitiveness of economy is defined as an ability to derive the possibly largest advantages from participation in international division of labor. Next, the international competitive position (called as a competitiveness of outcome type) is the narrower notion than the international competitiveness of economy (the international competitive ability) and it mainly treats economy in the sense of international trade.

Therefore, it concerns the international exchange of goods, services and production factors (Misala, 2006). Despite its popularity in economic literature and public policy, the concept of national economic competitiveness remains unclear and the object of criticism. The lack of clarity was recognized early by Michael Porter, whose name more than any other is associated with the concept of national competitiveness.

Critics such as Paul Krugman went further. For him, the concept of competitiveness where countries are treated as companies competing in a market is not only based on wrong premises, but is also dangerous: it may lead to wrong allocation of resources and even to protectionism.

It is thus essential to define national economic competitiveness and, as a logical consequence, critically assess how to measure it.

In practice, many indexes are used to evaluate the international competitiveness and competitive position of a given country. The most often used measures are as follows: the indexes of macroeconomic stabilization pentagon, indexes of economic freedom, shares in world trade, indexes of revealed comparative advantages, indexes of intra-industry trade, balance of global capital flows, balance of foreign direct investments and changes of real effective exchange rates (Misala, 2001; Vissak, 2009).

LITERARY REVIEW OF MEASUREMENT OF ECONOMIC COMPETITIVENESS

Several definitions have been given to the economic competitiveness of a country. The most systematic work has been done by Trabold, who highlighted four important aspects of competitiveness (Trabold 1995 p.169):

- ability to sell (export ability);
- ability to attract (location);
- ability to adjust;
- ability to earn.

Generalizing different interpretations of competitiveness are presented below (Figure 1) the relationships between the competitiveness of different economic levels.

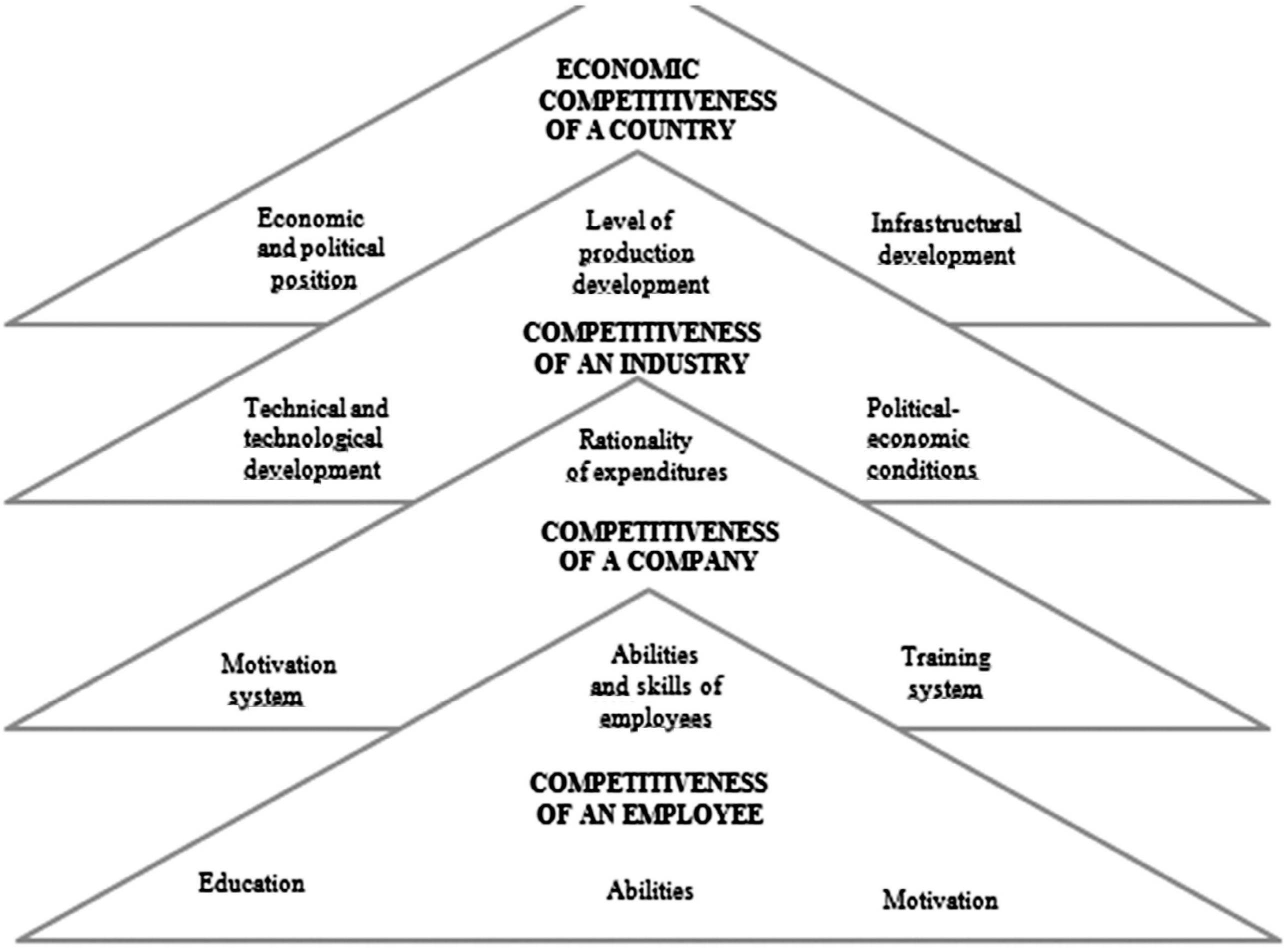

Figure 1. Links between economic competitiveness of entities on different economic levels
Source: Reiljan, Hinrikus, Ivanov, 2000, p.24

This approach considers the ability to earn as the most general indicator of country's competitiveness, whereas ability to export, attractiveness and ability to adjust are seen as factors. At the same time, in regard to (foreign) investment, ability to export and attractiveness function as sophisticated phenomena,that are independent indicators of competitiveness of a country. According to R. Reich national competitiveness depends less on citizens' savings and investments (they flow to the most efficient place) and more on the ideas and skills people can offer to the world economy (Reich 1997, p. 142).

Hierarchical structure of national competitiveness is also presented in J. Fagerberg's works (Fagerberg 1985, p. 2):

- resources, industrial, technological and institutional structure, foreign trade;
- country's economic policy and its aims; for example economic growth and decrease unemployment rate decrease;

- comparison with other countries, also of their tendencies in aggregate demand and supply.

K. Aiginger also sees welfare, ability to earn and ability to sell as an integral unit determining competitiveness of a country. He considers a nation competitive if (Aiginger 1996, p. 125):

- sale of products and services is sufficient;
- profits gained from factors of production correspond to the efforts made or are similar to these of other countries with similar aspirations;
- citizens are satisfied with macro-economic conditions.

Economic structure of South Caucasus countries are based on principles of free market economy. The reforms made during the transition period of 90's in the economic sector and on legal environment that regulates many aspects of economic life gave a stimulus for development of free market economy based on liberal values .Although many of this attempts to make reforms ended with failure, South Caucasus countries economic system survived after all this turmoil. Started from the beginning of the decade In the area of foreign trade the attention concentrated on continuing the process of trade liberalization, as well as on deepening the process of economic integration with European Union countries. Economic policy led in this way finds one's reflection in changes of indexes of macroeconomic stabilization pentagon (see Table 2).

table 2

Indexes of macroeconomic stabilization pentagon for the South Caucasus countries (2002-2011) %

Criteria	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*
Armenia										
GDP growth rate.	*12.7*	*9.9*	*9*	*13.9*	*13.4*	*13.7*	*6.8*	*-14.2*	*2.6*	*4.4*
Unemployment	*1.1*	*4.8*	*3.5*	*0.6*	*2.9*	*4.4*	*9*	*3.4*	*6.9*	*7.7*
Inflation	*8.6*	*2.003*	*-0.182*	*5.356*	*6.684*	*5.307*	*6.717*	*8.482*	*4.703*	*4.452*
Share of Current Account Deficit	*-6.789*	*-0.549*	*-1.05*	*-1.835*	*-6.401*	*-11.849*	*-15.805*	*-14.653*	*-12.321*	*-11.043*
Government Revenue Percent of GDP	*17.778*	*15.387*	*17.82*	*17.966*	*20.085*	*20.479*	*20.867*	*20.97*	*21.769*	*21.148*
Azerbaijan										
GDP growth rate.	*7.276*	*8.682*	*13.245*	*21.027*	*33.09*	*46.378*	*43.076*	*51.698*	*62.321*	*72.182*
Unemployment	*9.665*	*8.387*	*7.625*	*6.829*	*6.545*	*6.072*	*6.048*	*6.048*	*6.048*	*6.048*
Inflation	*3.551*	*10.441*	*5.549*	*11.385*	*19.533*	*15.4*	*0.676*	*7.881*	*5.55*	*5.64*
Share of Current Account Deficit	*-27.775*	*-29.824*	*1.263*	*17.632*	*27.256*	*35.477*	*23.628*	*29.091*	*26.311*	*21.789*
Government Revenue Percent of GDP	*26.753*	*26.826*	*25.101*	*28.019*	*28.232*	*51.113*	*41.551*	*46.684*	*46.07*	*43.548*
Georgia										
GDP growth rate.	*3.992*	*5.126*	*6.411*	*7.768*	*10.224*	*12.87*	*10.768*	*11.638*	*14.347*	*15.984*
Unemployment	*11.501*	*12.624*	*13.8*	*13.578*	*13.279*	*16.469*	*16.85*	*16.291*	*14.927*	*14.085*
Inflation	*8.622*	*7.212*	*6.179*	*8.778*	*10.975*	*5.548*	*2.986*	*11.241*	*2.041*	*5*
Share of Current Account Deficit	*-9.617*	*-6.904*	*-11.062*	*-15.129*	*-19.66*	*-22.628*	*-11.251*	*-11.46*	*-12.658*	*-10.311*
Government Revenue Percent of GDP	*15.971*	*23.075*	*24.42*	*26.669*	*29.259*	*30.69*	*29.27*	*28.28*	*28.356*	*27.251*

Source: own compilation IMF Yearly Report on Economic Outlook, 2012.

The analysis of individual macroeconomic indexes does not show full situation of the economy and this makes difficult for the evaluation of economic situation changes in time.

A more effective method of analysis is simultaneous view on several main economic measures of country. One of instrument, which enables evaluation of five such macroeconomic indexes, is the graphic presentations in the form of macroeconomic stabilization pentagon (BabiDska, 2004). With this method, the statistical data is used concerning five basic macroeconomic measures, such as GDP growth rate (GDP), unemployment rate (U), inflation rate (CPI), share of revenue in GDP (RG) and share of current account deficit in GDP (CA). The points of macroeconomic stabilization pentagon are scaled in such a way that the better situations in the range of analyzed macroeconomic indexes, the farther from the system centre points are laid, marked on individual axes (Bukowski, 2003).

Figure 2

Source: own compilation based on IMF Yearly Report on Economic Outlook, 2012

MEASURES OF INTERNATIONAL COMPETITIVE POSITION OF THE SOUTH CAUCASUS COUNTRIES

One of the most often used measures of competitive position of given country is Revealed Comparative Advantage Index (RCAi). It expresses relative advantage of country A in export of given good (group of goods) to country B (or the group of countries) in relation to the share of the country A in total export to the country B (or the group of countries). Economic competitiveness can be identified from the factors used to predict the performance of the export industry. ***Index of Revealed Comparative Advantage (RCA),*** is a measure of export performance that shows a comparison of commodities of a country's market share compared with the average percentage of exports of the country in total world exports. RCA Index is an index to evaluate a country's comparative advantage was first developed by Balassa in 1965. RCA index show specialization of a country commodity exports relative to exports of a commodity trading communities, such as world, regional, and so on. RCA formula is expressed as follows :

$$RCA_{ij} = \frac{X_{ij} / X_{it}}{X_{nj} / X_{nt}}$$

where X represents exports, i is a country, j is a commodity (or industry), n is the set of states, and t is the set of commodities (or industries). A country is said to have a comparative advantage in a commodity, if the RCA index value for that commodity more than 1, and if the RCA is less than 1 then the country has no comparative advantage (comparative disadvantage) in that commodity. In other words a country has a comparative advantage if the market share for the commodity exceeds the average percentage of exports of the country in total world exports.

CONCLUSION

On the basis of conducted analysis, one may say, that the international competitiveness

and competitive position of the South Caucasus countries is relatively high in specific fields. Moreover, in years 2002-2011 took place the gradual growth of competitiveness and competitive position of the South Caucasus countries, and it was confirmed by favorable changes of analyzed competitiveness indexes.

The possibilities of being competitive depended on that, whether the South Caucasus countries will fully use existing chances resulting from the neighboring with the European Union. Moreover, improvement of the international Competitiveness of the South Caucasus countries is depended on the possibilities of developmental barriers overcoming, such as increasing deficits in current accounts, increasing inflation rates, continuation of structural reforms and reorientation of economic policy towards the knowledge based economy.

It is necessary to emphasize, that the growth of competitive ability of the South Caucasus countries' economies will be only possible thanks to suitable economic policy focused on competition protection and favorable climate creation for companies' development (especially micro, small and medium firms). The economic policy should also characterize greater elasticity,

what will enable quick adaptation to changing conditions in international environment.

The following table demonstrates the data concerning RCA indexes in of the South Caucasus countries foreign trade in years 2002-2011.

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საერთაშორისო ეკონომიკური კონკურენტუნარიანობა სამხრეთ კავკასიის ქვეყნებში: საქართველო, აზერბაიჯანი, სომხეთი

აზერ დილანჩიევი
სტუ-ს დოქტორანტი

გლობალიზაციისა და ინტეგრაციის პროცესი მნიშვნელოვან ზეგავლენას ახდენს სამხრეთ კავკასიის ქვეყნების საერთაშორისო კონკურენტუნარიანობაზე. ეკონომიკური ინტეგრაცია და კონკურენცია აუცილებელი ეკონომიკის გარდამავალ პერიოდში. მოცემული სტატია აანალიზებს საერთაშორისო კონკურენტუნარიანობას და კონკურენტუნარიან პოზიციას სამხრეთ კავკასიის ქვეყნებში (საქართველო, აზერბაიჯანი, სომხეთი). კონკურენტუნარიანობის ღონისძიებების ჩამოყალიბება მოხდა სხვადასხვა განსაზღვრებებისა და საშუალებების პოპულარული ლიტერატურისა და თანამედროვე ეკონომიკურ თეორიებში გამოყენებით.

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Globalization and integration processes are having a major impact on international competitiveness of South Caucasus countries. The economic integration and competition is crucial to the economies in transition period. The article analyses the international competitiveness and competitive position of South Caucasus countries (Georgia, Azerbaijan and Armenia). The measure of competitiveness were constructed based on definitions and tools used in popular literature as well as on modern economic theories.