JENA-CAUC

WORKING PAPERS SERIES

WORKING PAPER №
September 2023

How Resilient are the Economies of the South Caucasus?

Economic vulnerabilities of the South Caucasus Countries and the Relevance of the Eastern Partnership Policy

Elguja Khokrishvili

FRIEDRICH-SCHILLER-UNIVERSITÄT JENA

Edited by:
Jena-Cauc Team

All working papers are freely accessible under
https://www.kaukasiologie.uni-jena.de/jena-cauc/working-papers

Recommended citing:
Elguja Khokrishvili. 2022. "How Resilient are the Economies of the South Caucasus? Economic vulnerabilities of the South Caucasus Countries and the Relevance of the Eastern Partnership Policy." Jena-Cauc Working Paper Series, no. 1 (September 2023).

Friedrich-Schiller-University Jena
Institute for Slavonic Languages and Caucasus Studies
Jenergasse 8
07743 Jena

JENA-CAUC - Resilience in the South Caucasus: prospects and challenges of a new EU foreign policy concept
https://www.kaukasiologie.uni-jena.de/jena-cauc
jenacauc@uni-jena.de

This working paper is an output of the research project “Resilience in the South Caucasus: prospects and challenges of a new EU foreign policy concept” (JENA-CAUC), funded by the German Federal Ministry of Education and Research (BMBF) and implemented by FSU Jena. Any opinions or claims contained in this Working Paper do not necessarily reflect the views of FSU Jena.

KAUKASUSSTUDIEN/
CAUCASUS STUDIES
FRIEDRICH-SCHILLER-UNIVERSITY
JENA

Bundesministerium
für Bildung
und Forschung

JENA CAUC | Caucasus Studies at FSU Jena

Elguja Khokrishvili

How Resilient are the Economies of the South Caucasus? Economic vulnerabilities of the South Caucasus Countries and the Relevance of the Eastern Partnership Policy

Abstract

This paper discusses the economic dynamics of the countries of the South Caucasus during their transition periods and the development gaps in their ex-post phases of the most relevant crises that have affected the region. The analysis places three countries of the European Union's Eastern Partnership within the Resilience Framework and highlights the main sources of various internal vulnerabilities that must be addressed in order to strengthen the capacity for economic resilience within the countries.

Biographical Note

Elguja Khokrishvili is a Visiting Professor at the Free University of Berlin, where he conducts research and teaching under the Erasmus+ Jean-Monnet Chair in External Economic Relations of the EU. He also serves as a Non-resident Fellow at both the Georgian Institute for Politics (GIP) and the International School of Economics at TSU (ISET).

Keywords

economic resilience, Eastern Partnership, economic crises, South Caucasus, vulnerability

1. Introduction

The Covid-19 crisis and its ongoing impact on economies have revitalized the debate on resilience. Between various regions and countries, the degree of vulnerability and countermeasures applied so far differ clearly. Because of this, economic and social divergence willincrease. Therefore, it is more important that countries are resilient, which will lead to faster recovery and stronger responsiveness (Bertelsmann Stiftgung 2020).

Although there has been debate about the need for resilient economies over the past decade, precise definitions and measurements remain ambiguous. In recent years, both researchers and policymakers have introduced and applied several resilience indicators (Alessi et al 2020, 1-14). The lack of a common definition and measurement approach makes it hard to use the concept of resilience in the policy context. However, international policy organizations (EU, OECD, IMF) have started to put resilience at the top of their political agendas(ibid)Resilience is usually defined as the ability of a system to recover from an external shock[1]. According to the OECD definition, “economic resilience is the capacity of an economy to reduce vulnerability, resist shocks, and recover quickly” (Bertelsmann Stiftgung 2020). Economic resilience consists of multiple phases, including vulnerability, endogenous/exogenous shocks, robustness, resistance, and recoverability (Birkmann et al. 2017, 12-38). The vulnerability to shocks is highly dependent on the structure of the economy, the share of public debt in GDP, as well as foreign imports. The ability to resist shock reflects the capacity of the economy to reduce the immediate effects of the shock by restricting job losses and output decrease. This capacity is strongly linked to labor market conditions and foreign investments.

The recovery depends on the flexibility of the labour market and the swift redistribution of disposable resources to productive activities (Gerasymchuk 2019, 433-440).

There is increasing discussion in European politics about the link between resilience, sustainability and well-being (European Commission 2017b) At the 6th Eastern Partnership Summit in Brussles scheduled on 15 Decemeber 2021 the European Commission plans to propose a new reform agenda for the Eastern Partnership for 2025 in five priority areas under the theme of resilience: “digital transformation, green transition, fair and inclusive societies, economies that benefit all, and stronger fundamentals" (Mirel 2021, 1-6).

---

[1] See Briguglio et al. 2009, 1-2., Rose and Krausmann 2013, 73-83., Perrings 2006, 418-425., Holling and Gunderson 2002, 25-42., Pendall et al., 2017.

The concept of resilience in relation to the dynamics between the countries of the South Caucasus can help identify vulnerabilities to internal and external shocks and suggest appropriate measures to strengthen resilience capacity, as well as accelerating their convergence to EU standards. An analysis based on the resilience concept can identify structural weaknesses in different systems, such as cases of inefficient governance.

This paper examines the economic performance of the countries of the South Caucasus, focusing on their capacity to increase their own resilience. Sie befasst sich mit der wirtschaftlichen Dynamik der Länder in der Zeit des politischen und wirtschaftlichen Übergangs sowie mit den aktuellen Entwicklungsrückständen nach den wichtigsten Krisen, von denen die gesamte Region betroffen war. It examines the economic dynamics of the countries during the period of political and economic transition, as well as the current development deficits following the main crises that affected the entire region. The final section addresses the most relevant causes of internal vulnerabilities that need to be tackled in order to increase the resilience capacity within the countries of the South Caucasus.

2. Eastern Partnership and Resilience: Why resilience matters

The countries of the Eastern Partnership are undergoing major economic and political changes. I International and regional dynamics determined by the role of Russia and EU in the region have put more pressure on these countries. In these circumstances, resilience is of particular importance to the Eastern Partners. A high-level engagement of the European Union in Eastern Europe was marked by the launch of the Eastern Partnership (EaP) in 2009, as the eastern dimension of the European Neighborhood Policy (Marciacq and Flessenkemper 2018, 28). The EU recognized that “not all partners aspire to comply with EU rules and standards and has opened the door to greater differentiation in its relations with its eastern partners. Each country shall be able to determine the nature and scope of the partnership with the EU that they intend to develop as well as their level of engagement, based on their national interest and regional security context” (Ibid). Ukraine, Georgia and Moldova have recently reached important milestones with the conclusion of association agreements and DCFTAs (Deep and Comprehensive Free Trade Agreements) as well as the introduction of visa liberalization rules. In contrast, relations with Azerbaijan and Armenia have developed less intensively due to differing strategic interests and security priorities. Armenia signed a Comprehensive and Enhanced Partnership Agreement with the European Union in 2017. It is also a member of the Eurasian Customs Union. Concerning export of goods, CEPA does not eliminate EU tariffs for Armenian goods (and vice versa). Therefore, the CEPA is not a free trade agreement (European Parliament 2017). Relationships between the EU and Azerbaijan have developed on the basis of the Partnership and Cooperation Agreement, which was signed in 1996 and has been in force since 1999. Relations have deepened since Azerbaijan's accession to the ENP in 2004 and the Eastern Partnership in 2009. At present, the trade between the European Union and Azerbaijan is conducted under the Most Favoured Nation (MFN) regime (Alieva 2017, 2-32).

In the political discourse of the European Union, resilience is already considered in areas of strategic importance, such as growth and sustainable development, energy, climate change and the labour market (EC and EEAS 2015). According to the European Union institutions, resilience is defined as “the ability of an individual, a household, or community to withstand and adapt to stresses and shocks” (EEAS 2016). The European Union faces multiple crises, such as the refugee crisis and the Covid 19 pandemic, and therefore needs to become more resilient to both internal and external challenges (Joint Research Centre 2015, European Commission 2017c).

There is no unified methodology for operationalization and measurement of economic resilience. However, quantitative methods can be used to examine national resilience capabilities. Resilience-based analysis can help to reveal the capacities and capabilities of a region or a particular country, and it allows for a better understanding of the vulnerability of a socio-economic system (Folke et al. 2010).A number of experts and organizations (OECD, World Bank, UNDP) also suggest that resilience tends to replace sustainability as the goal of development[2] (Alessi et al 2020, 1-14).

3. Economies During the Transition Process

The general regression in the former Soviet Union, which began in the early 1990s, led to a chaotic transformation instead of an organized and manageable transition (Cornell 2001, 2-10). All three South Caucasus states were in a deep economic crisis, which led to a sharp fall in output, high inflation, and a drop in living standards. The conflicts have slowed down economic development of all three countries (Curtis 1995, 48-49; 116 -117; 190-191).

Almost two decades have passed since beginning the process of transitioning to a market economy. In the 2011–2012 report of the World Economic Forum, which examined the results of the two decades of transition, post-Soviet economies were divided into two different groups: factor-driven economies and transitioning economies. Economies based on a

[2] Some authors consider resilience to be a necessary precondition for sustainability (Perrings 2006), while others (Holling et al. 2003) consider the two concepts to be basically equivalent. An alternative view is that resilience is not sufficient for sustainability and cannot be taken as an objective of its own (Alessi et al 2020, 1-14).

primarily unskilled labor force and natural resources are considered the first stage of development, while countries with efficiency-driven economies are considered the second stage of development. Armament, Azerbaijan, and Georgia were categorized to be transitioning economies, which is between stage 1 and stage 2[3] (Socoliuc and Maha 2019).

The processes of price liberalization and privatization faced considerable hurdles in the countries of the South Caucasus after the restoration of their national independence in 1991. The implementation of market-economy reforms in the absence of strong state institutions was doomed to fail. The economies of the countries were strongly dependent on resources from Russia. The dissolution of the Soviet Union led to a breakdown of cooperative relations between the companies of the former Soviet states. Most of the industrial companies of the countries were unable to meet the requirements of international competition. The economies of each of these countries could not survive deindustrialization. The absence of a skilled labor force and capital, the economies' higher dependence on only one sector and higher levels of corruption left the countries vulnerable during the entire transition process. Azerbaijan's economy was characterized by a sufficiently developed industrial base, while Georgia and Armenia's economies were comparatively agrarian (Curtis 1995, 49-51; 122; 203.). The transition process became difficult as it lacked concrete measures to boost economic development, attract FDI and support the private sector. As of 1995, the private sector had a 25 percent share in the GDP of Azerbaijan, followed by Georgia and Armenia (European Bank for Reconstruction and Development 1995). In Georgia, the GDP for 1990–1994 declined by 72 percent, while the volume of industrial production fell by 84 percent. By 1994, the Armenian economy was in a poor condition. The economic potential of the country fell by 90 percent as GDP fell by ten times and industrial production fell by 80 percent. The production volumes and industrial output decreased significantly in Azerbaijan in 1995 as well, reaching only 72 percent of the production output in 1990 (Papava et al. 2005, 162-172).

The active implementation of reform policies starting in the years 1995–1996 initiated trends toward stabilization and economic improvement in all countries of the South Caucasus. South Caucasus countries underwent economic reforms with the direct participation of the International Monetary Fund and the World Bank. Therefore, it's not surprising that these

---

[3] The economic theory of development uses two criteria to allocate countries into stages of development. The first is the GDP per capita at market exchange rates. A second measure looks at how dependent countries are on one or more factors. This is measured by the share of exports of mineral products in total exports of goods and services. (World Economic Forum 2012)

reforms were mostly similar. Only Azerbaijan, with its significant hydrocarbon resources, did not jump at the opportunity for cooperation with the international financial institutions, meaning that its market reforms came a bit later than those in Armenia and Georgia (Ibid). Next, I examine the differences between the three economies as they move toward full-fledged market economies.

4. Economic Development – A Comparative Perspective

Considering the growing geopolitical rivalry between the West and East, political and economic stability of the region as a whole and of each country of the South Caucasus is an issue of growing interest for European security. The region's ability to consolidate a stable macroeconomic environment will no doubt strengthen its resilience to new shocks. To better represent the economic dynamics of each country, focus will lie on the main internal events of a political, social or economic nature that have had a direct impact on the economic area. There have been economic crises that have had a significant impact on the economies of all three countries, such as the crisis that Russia underwent in 1998 as a result of the collapse in oil prices and the great crisis of 2008[4].

a. Economic Performance and the Impact of Relevant Crises

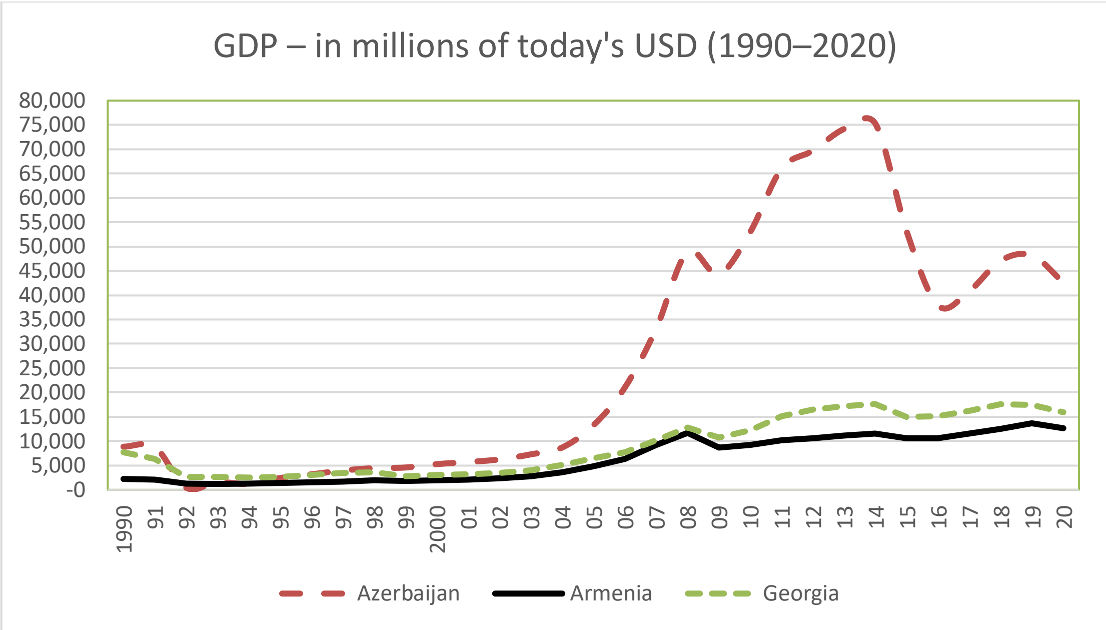
From a policy perspective, the transition to a market-oriented economic system was not successful. In addition to a poor institutional transformation to create the basic conditions of a market economy, the South Caucasus countries experienced several military conflicts, including the fighting between Armenia and Azerbaijan over the Nagorno-Karabakh region and the fighting between Georgia and Russia. Georgia was also involved in conflicts over the breakaway regions of Abkhazia and Tskhinvali in the early 1990s. Separatist groups in both regions were supported by Russia. In 2008, Russia invaded Georgia, occupying 20 percent of its territory. All these open conflicts were costly and only hampered the development of these countries. (Cornell et.al 2009, 2-7).

Figure 1 illustrates the nominal GDP of the three countries during the transition period until today. From these results, it is clear that the above-mentioned wars and political instabilities had a direct impact on economic performance. In the early stages of transition, Azerbaijan, Armenia and Georgia recorded the worst economic performance, with a GDP of less than $20 billion. This confirms the negative economic impact of wars and political instability. The best-performing country was Azerbaijan, where the economic dynamics were rather symmetrical and 2007 and 2014 served as turning points in its economic development. All

[4] To some extent the crisis of 2014, namely the war in the Donbass region and the annexation of Crimea by Russia.

of the economies were faced significant drops in GDP after 1990, 2008, 2014 (the 2014 crisis refers to the war in the Donbass region and the annexation of Crimea by Russia and, with regard to the oil-producing country of Azerbaijan, the fall in world oil prices) and 2020. The economic decline was even more visible for Azerbaijan due the additional fall of oil prices worldwide. As Armenia and Georgia were less developed, their downturn was less extreme (Socoliuc and Maha 2019).

Fig.1 *GDP—current US billions of Dollars (1990–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

The countries' greater economic dependence on Russia and the Russia crisis of 1998 led to severe economic imbalances of the countries. That could justify the decline in their GDP. The devaluation of national currencies and high foreign debts were other factors that made the economic decline even worse. All three countries were hurt by the drop in exports to Russia and the loss of remittances from Russia. Georgia's GDP diminished from $3.61 billion to $2.8 billion, while Armenia's GDP fell from $1.89 billion to $1.84 billion (Fig. 1). Georgian exports to Russia accounted for more than 50% of total exports andthe crisis had a negative impact on the Georgian agricultural sector. The economic downturn had a major effect on people's lives, including many job losses, significant cuts in pensions, and social services.

The economic recovery after the crisis led to higher unemployment rates in both Armenia (16.36 percent) and Georgia (17.87 percent). More people left these countries because of unemployment, especially young workers. As a result, problems such as poverty, high income inequality, insufficient education and health reforms, and uneven private sector development remained serious obstacles to be addressed (World Bank 2009). The situation changed after 2004–2005 when a positive development was observed. Azerbaijan started to implement new policies, which helped attract investors from abroad and created a stable economic environment. After the peaceful "Rose Revolution" in 2003, the Georgian government implemented economic and institutional reforms aimed at liberalizing, privatizing and deregulating the economy. In the initial phase, policymakers supported the prevailing ideology that economic liberalization would lead to economic growth. From 2003 to 2008, the state abstained from intervention, allowing economic development to depend solely on market forces. Reforms helped improve the business climate, attract foreign direct investment, and accelerate economic growth (Jugheli 2019, 14-19).

Due to the 2008 crisis, most economies have retreated from their positive course. Both Armenia and Georgia were severely affected, while Azerbaijan‘s economy experienced a limited downturn. Although the Azerbaijani economy is heavily dependent on the international price of oil, it is only somewhat integrated into the global economy – a state of affairs that protected the country from aggressive negative effects of the crisis (Khachatrian and Hübner 2010).[5]

For Georgia, the decline in GDP was substantial at almost 4 percent, given its limited economic performance. Georgia faced some new economic challenges after Russia's military invasion of Georgia in 2008 and due to the global financial crisis. In 2009, the Georgian economy suffered a significant decline – real GDP was only 96.1 percent of that in 2008. (Papava 2021)[6].

For years, the government in Armenia ignored the problems of brain drain, poverty, and higher unemployment. The global financial crisis had a significant impact on the Armenian economy. The real GDP of Armenia was only 85.9 per cent of what it was in 2008, one of the worst drops in performance in the world. During the crisis, the economy was heavily dependent on imports, which became more expensive, and its shadow economy further contributed to the country’s vulnerability (OECD 2011a).

As a result of the crisis, these countries requested financial support from the International

---

[5] The crisis hit Azerbaijan when the price of oil and gas fell dramatically in the second half of 2008 from a high of $146 per barrel to below $40 per barrel towards the end of 2008. However, the price of oil did not immediately drop, as the annual average price of crude oil in 2008 was $97 per barrel, a figure that was above government expectations (Khachatrian and Hübner 2010).

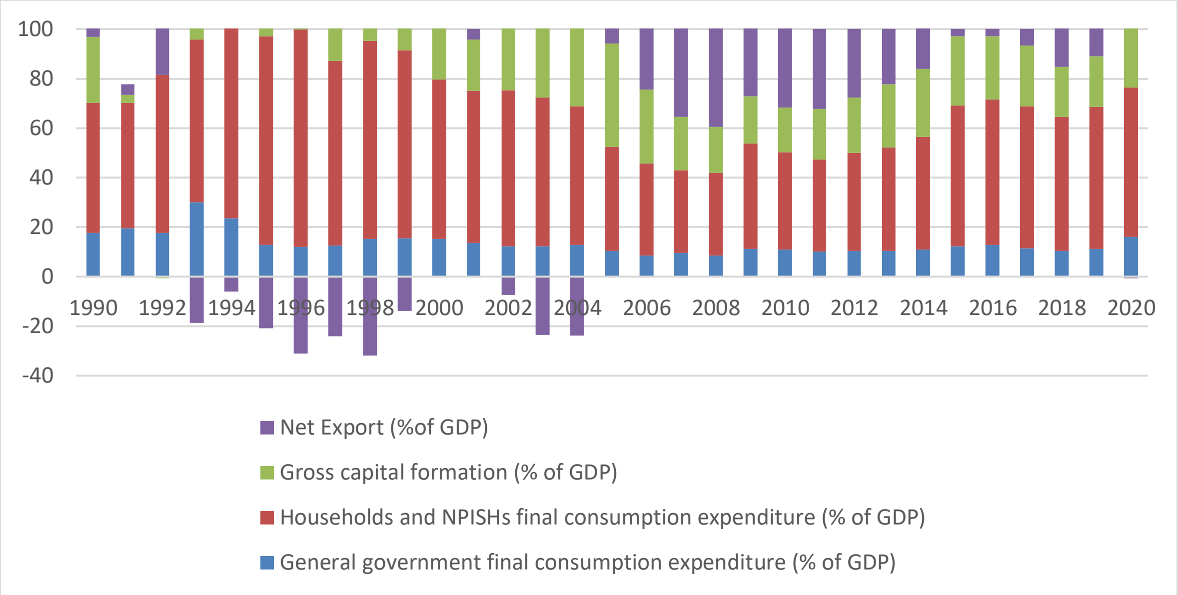
[6] Georgia received $4.55 billion in financial aid during 2008-2010 A substantial amount of aid was spent on the liquidation of economic damage caused to Georgia by Russia's military aggression(Papava 2021).

Organizations (IMF, WB, ect.). This led to more external debt, but also problems with inflation and unemployment. Georgia and Armenia desperately needed financial support to support their economies, especially after 2008 crises. Both Armenia and Georgia had weak economic sectors and were heavily dependent on remittances, as well as a large share of the shadow economy in GDP. Therefore, external financial support was needed to offset the higher government spending (ibid).

The money borrowed was used to pay social services, but not to support the private sector or to improve education and health care. The crisis also led to an increase in taxes, which put additional pressure on the small private sector (Khachatrian and Hübner 2010).

The only country with positive net exports as a percentage of GDP is Azerbaijan. Georgia and Armenia suffered from negative net exports as a percentage of GDP (Figs. 2, 3 and 4). The relative abundance of natural resources and specialization of Azerbaijan explain this.

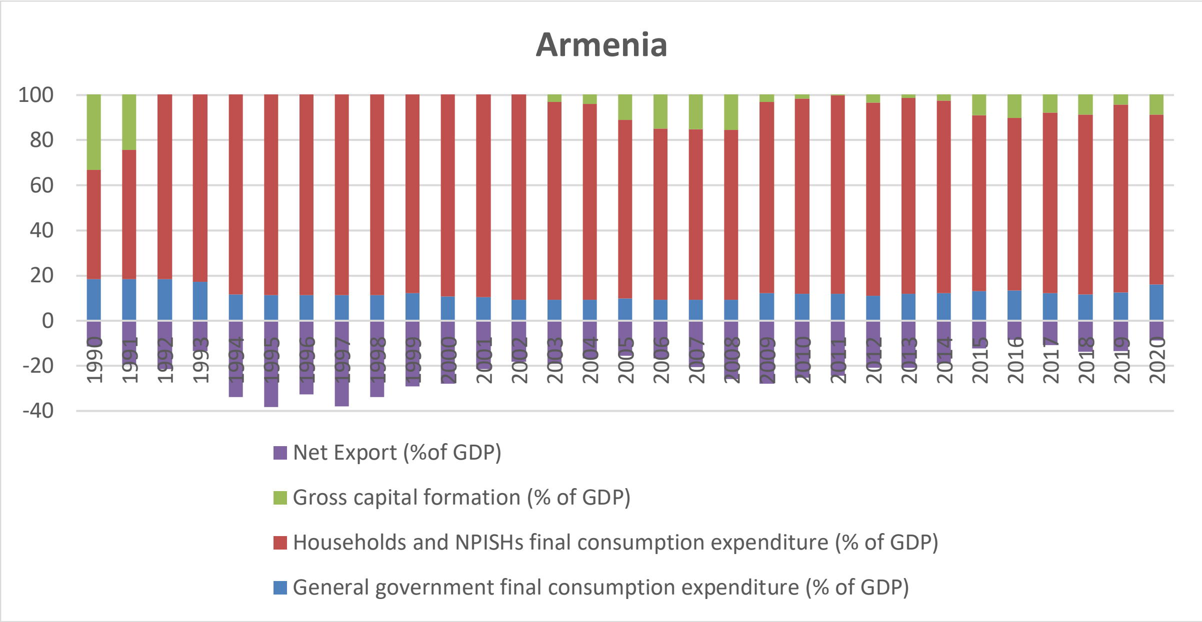
Fig. 2 *GDP components for Azerbaijan (1990–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

Spending on industrial machinery and equipment was higher in Azerbaijan because of industrial activities. Industrial activity in Armenia and Georgia is rather modest, and fixed capital investment follows the same limited trend (Socoliuc and Maha 2019) Compared to other countries, Azerbaijan's share of gross fixed capital formation is higher, which indicates that net investment in fixed capital has been a government priority.

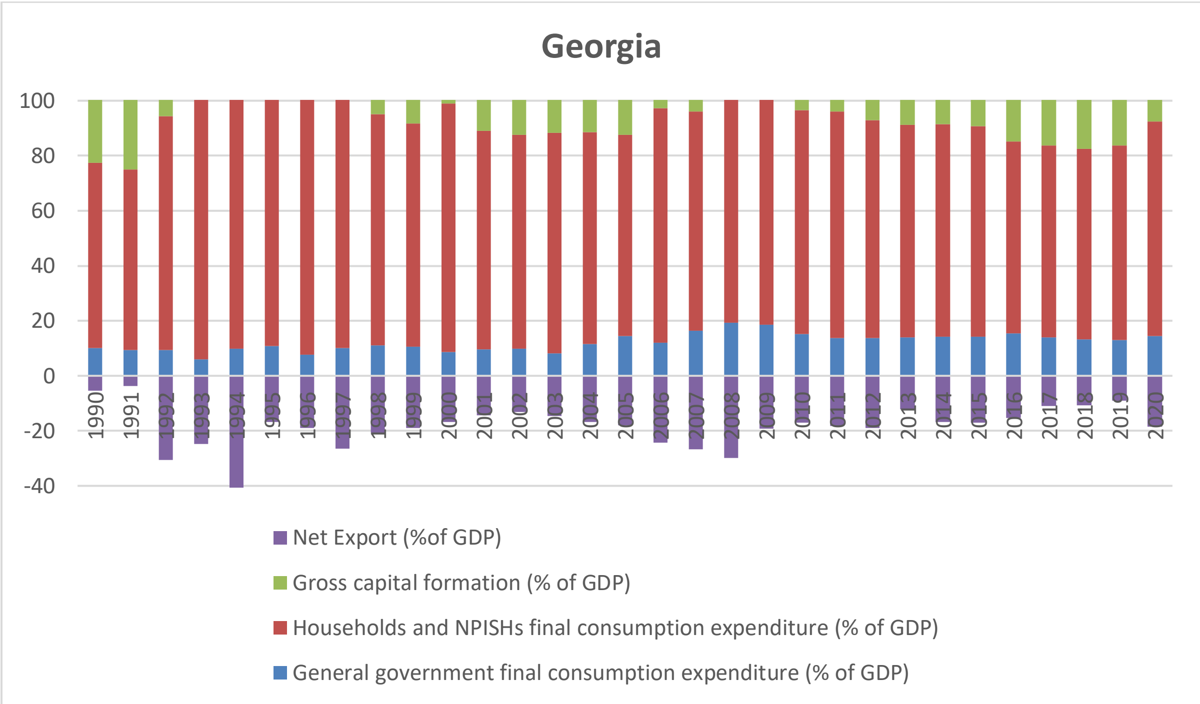
Fig. 3 *GDP components for Armenia (1990–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

Georgia has a poor industrial sector and focuses mainly on agriculture. Its industrial activity was mainly dependent on imports of materials, which made his economic activity especially vulnerable to crises and external shocks.

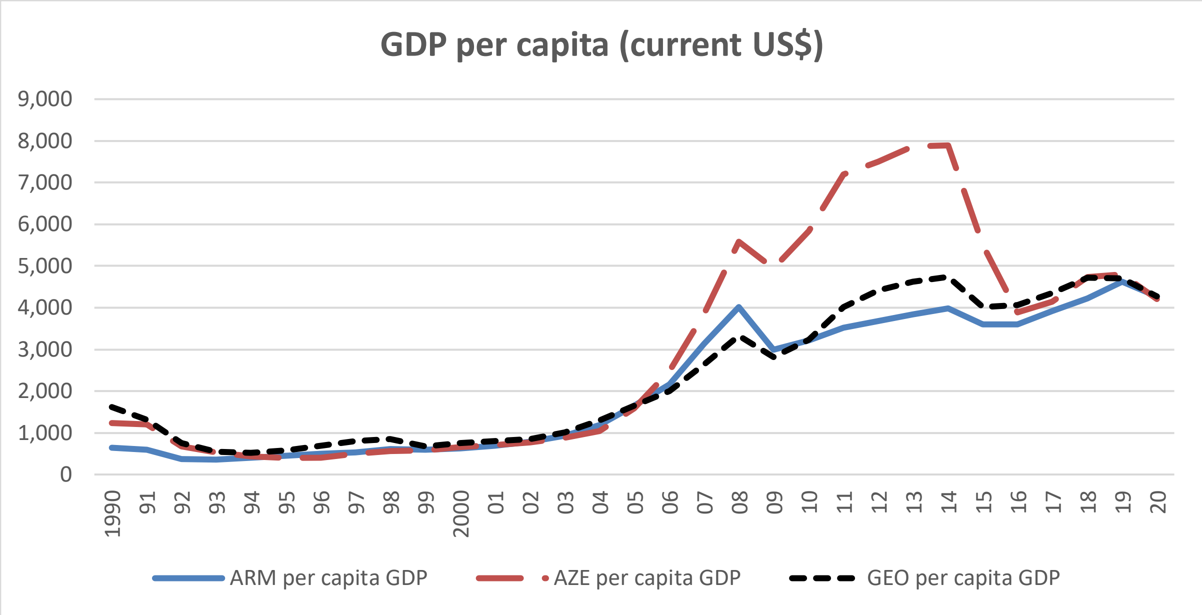
Fig. 4 *GDP components for Georgia (1990–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

The situation changes when considering per capita GDP (Fig. 5)The Azerbaijani economy appears to be the highest performer and there are enough reasons previously mentioned to support this. In 2014, per capita GDP in Azerbaijan reached a maximum of $7,891, while the economies of Armenia and Georgia experienced lower levels of between $3,900–$4,700.

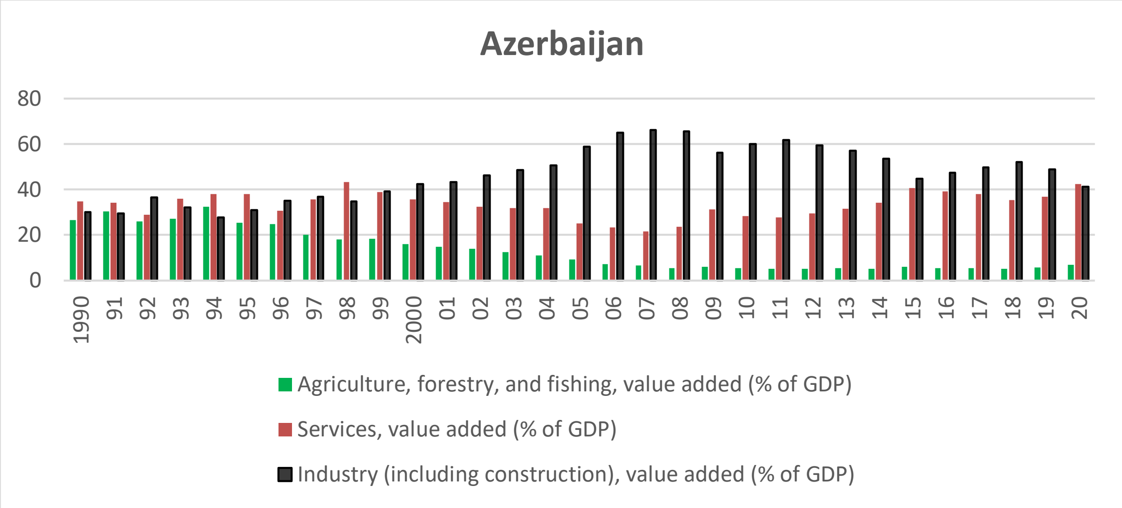
Fig. 5 *Per capita GDP – in today's USD (1990–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

A closer look at the sectoral distribution of GDP shows important characteristics related to specialization and the right sectors that can make a country more resilient economically. On the one hand, we have the best performing economy in Azerbaijan, which recorded the highest values of GDP and per capita GDP among all three countries. In Azerbaijan, the economy was mainly supported by industry (35-65 percent of GDP), while the agricultural sector has decreased since 1990 (Fig. 6a). The country has a strong industrial base because of its natural resources, such as gas and oil. In 1991, the country was able to reduce the share of agriculture in its economy from 31 percent to 5.6 percent by 2019. The government created a stable macroeconomic environment to take advantage of the oil resources and attract foreign direct investors. Especially after 2000, when people started to return to the country due to the positive economic dynamics, industry became a core sector in the economy (Aslanli et al. 2013).

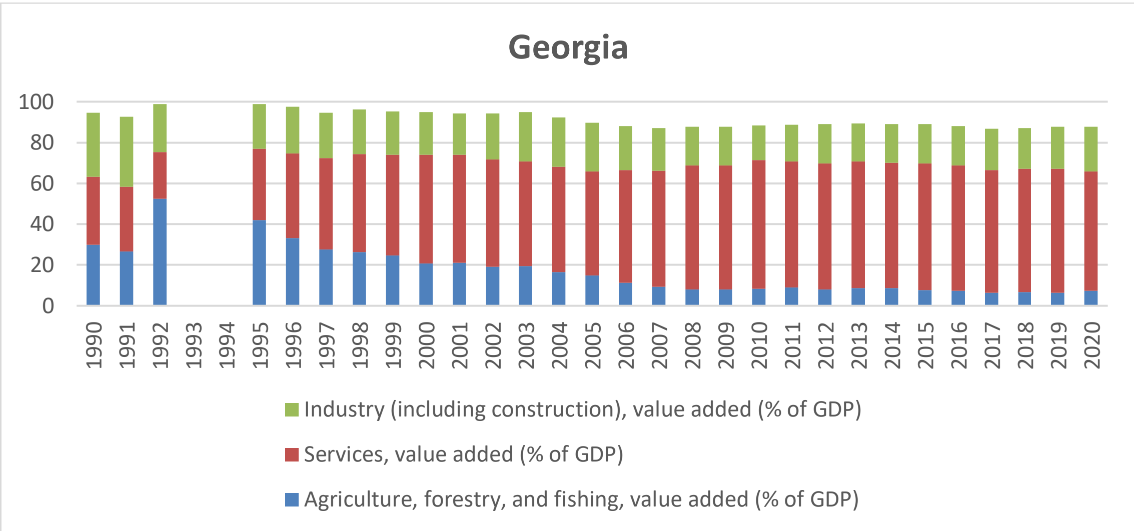
Fig. 6a *Sectoral Distribution of GDP (1990–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

Armenia and Georgia (Figs. 6b, 6c) lack intensive industrial activity; instead, they mainly have services, the share of which has increased over time and now comprises 25–50 percent of GDP, while the share of agriculture has decreased to 7–11 percent of GDP.[7]

Fig. 6b *Sectoral Distribution of GDP (1990–2020)*



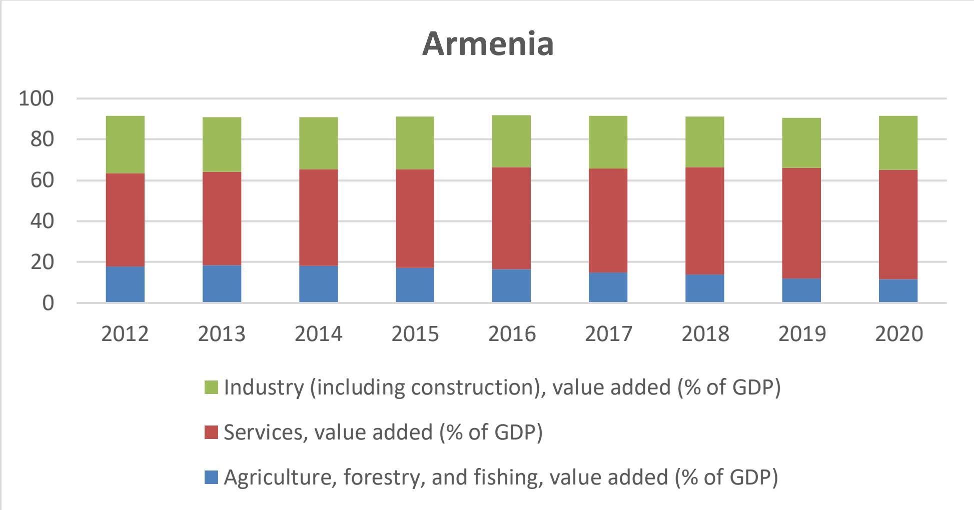
Source: Calculations are based on the World Bank World Development Indicators database 2021

Under these circumstances, economies are particularly vulnerable to external shocks because service sectors are the first to be hit by a crisis and the limited industrial sector cannot be supported with internal resources. Imported resources that are bought at higher

[7] Some years lack figures for Armenia and Azerbaijan.

prices further increase inflation (Socoliuc and Maha 2019).

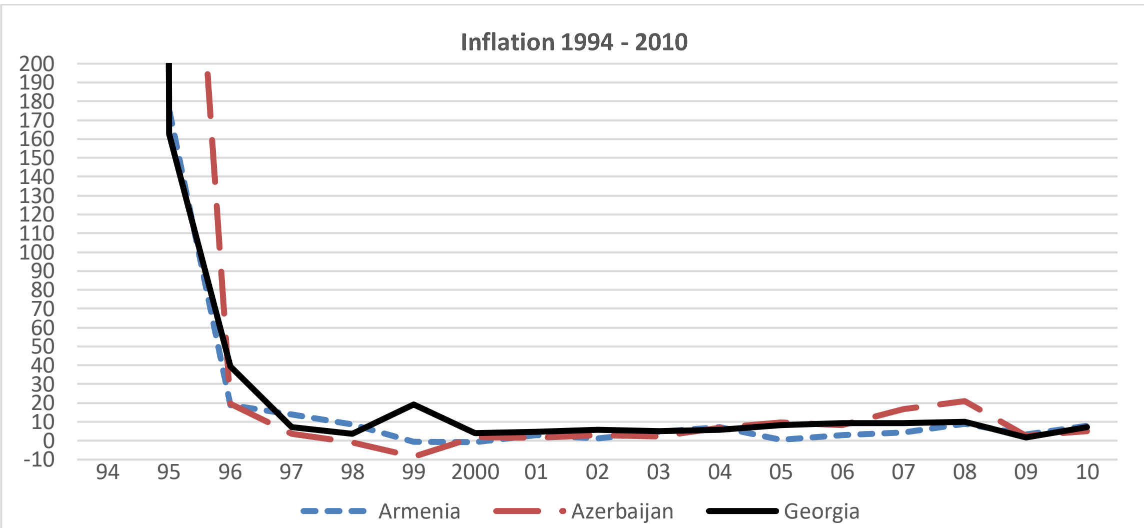
Fig. 6c *Sectorial Distribution of GDP (2012–2020)*



Source Calculations are based on the World Bank World Development Indicators database 2021

In looking at more recent data for the three countries, only Azerbaijan has seen an inflation rate above 20 percent since the global crisis of 2007–2008, while the other two countries have managed to limit inflation to around 8–10 percent. Armenia, Azerbaijan, and Georgia have been able to stabilize inflation with financial support from the International Monetary Fund and the European Union. In 2009, all three countries were able to keep inflation at 3.4 percent in Armenia, 2.5 percent in Azerbaijan, and 1.7 percent in Georgia (Khachatrian and Hübner 2010).

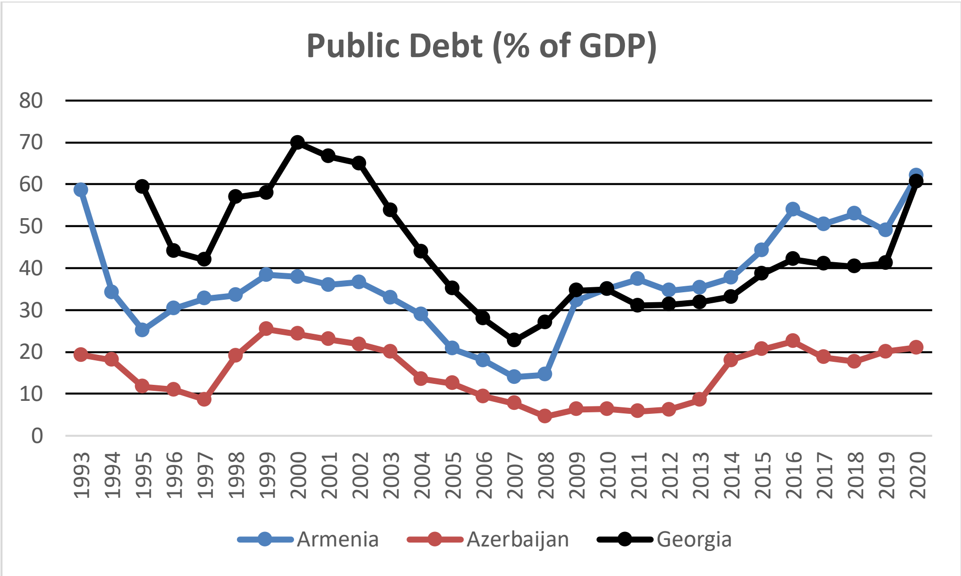
Fig. 7 *Consumer Price Inflation in 1995–2010 in Armenia, Azerbaijan and Georgia (annual average, percentage change)*



Source: Caucasus Analytical Digest (2010)

In terms of economic resilience, government debt has been an indicator that has provided clear feedback in this regard. Debt is a means of boosting aggregate demand, which has fallen sharply after crises. However, higher debt leads to a crowding-out effect on capital which consequently leads to a decline in economic output. Countries with higher government debt-to-GDP ratios are less resilient and more vulnerable to shocks (Briguglio at al. 2009, 231-238).

Fig. 8 *Public Debt (% of GDP) in 1993–2020 in Armenia, Azerbaijan and Georgia*



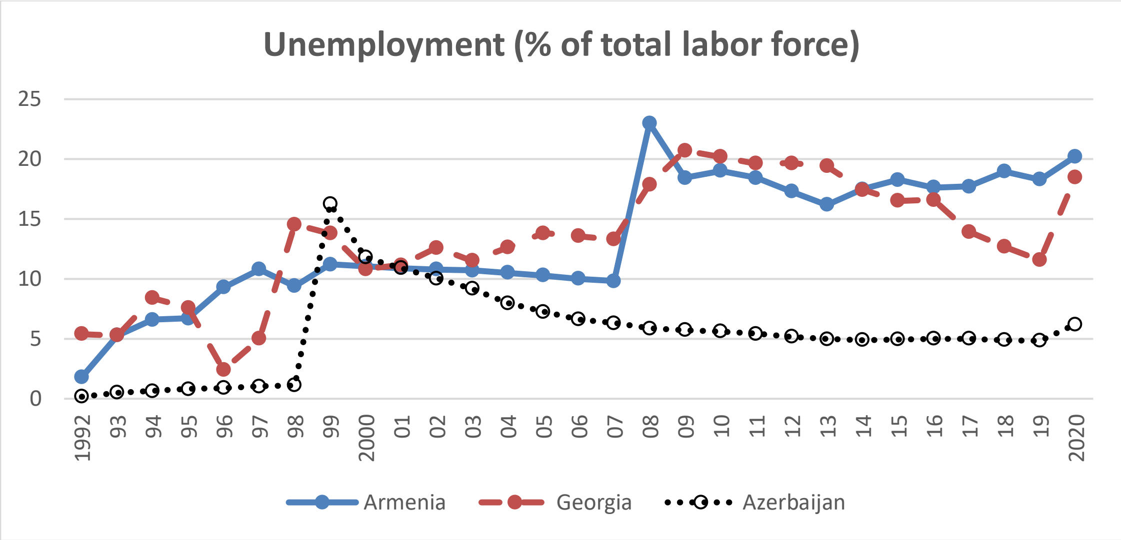
Source: Calculations are based on the World Bank World Development Indicators database 2021

During the transformation process, the entire region faced higher levels of public debt (Fig. 8). In order to support economic recovery, all three countries increased their public debt in 1999, 2008, 2014, and 2020. In Azerbaijan, the share of public debt in GDP was 25%, 6%, 18%, and 21%, followed by 70%, 35%, 33%, and 60% percent in Georgia and almost 38%, 32%, 38%, and 62% percent in Armenia.

b. The Labor Market and Human Capital

A negative shock can have significant consequences in an economy with a high unemployment rate, whereas economies with low unemployment and debt can absorb shocks without incurring any welfare expenses. Unemployment and inflation are thus closely linked to the capacity to withstand shocks (Briguglio et al. 2009, 230-235). Figure 9 shows the dynamics of unemployment in countries from 1990 to 2020.

__Fig. 9__ Unemployment Rate (% of total labor force) in 1992–2020



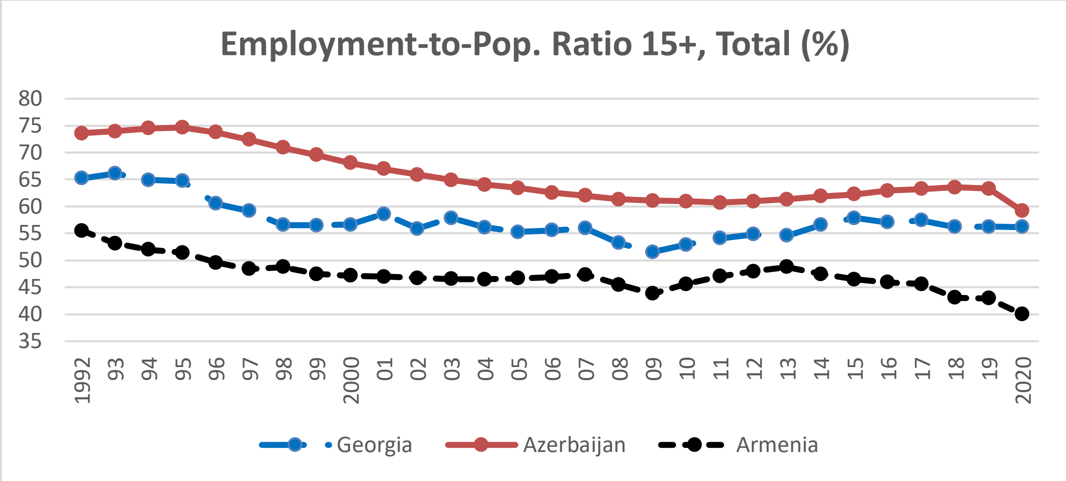
Source: Calculations are based on the World Bank World Development Indicators database 2021

In 1999 and 2008, unemployment was high in Armenia at almost 11–23 percent and in Georgia at 13–20 percent. Brain drain has not been stopped yet (Fig. 10). Unemployment in Azerbaijan on the other hand was moderate, at a rate of 4–5 percent. The impact of the global economic crisis in 1998 and 2008 on the countries of the South Caucasus was not at all consistent. Both Armenia and Georgia share many similarities, both of which are open economies without significant resources. The main differences are related to the Russian-Georgian War of August 2008, which had some specific effects on the economies of Georgia and Armenia (Papava 2021, 62-70).[8]

We observe little fluctuation in overall employment rates at the beginning of independence (Fig. 10). Georgia and Azerbaijan were the countries with the highest employment, at almost 65 percent and 73 percent respectively. Russia and global economic crises affected the countries, but they recovered in a short time. The decisive factors were conditions in the labour market, government policies, and the sectoral distribution of economic activity.

[8]The direct and indirect damage to Armenia from the war is estimated to be $700 million (Khachatrian 2009)

Fig. 10 *Employment-to-Population Ratio 15+, Total (%) (1992–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

More than 45 percent of Georgia's population works in the service sector, followed by agriculture with 38 percent and industry with 10 percent.[9]. Azerbaijan's employment profile is 40 per cent agriculture, 47 per cent services and 15 per cent industry. In recent years, industrial activity has increased by up to 5 percent A more balanced economic structure can provide further stability in the event of internal or external imbalances.

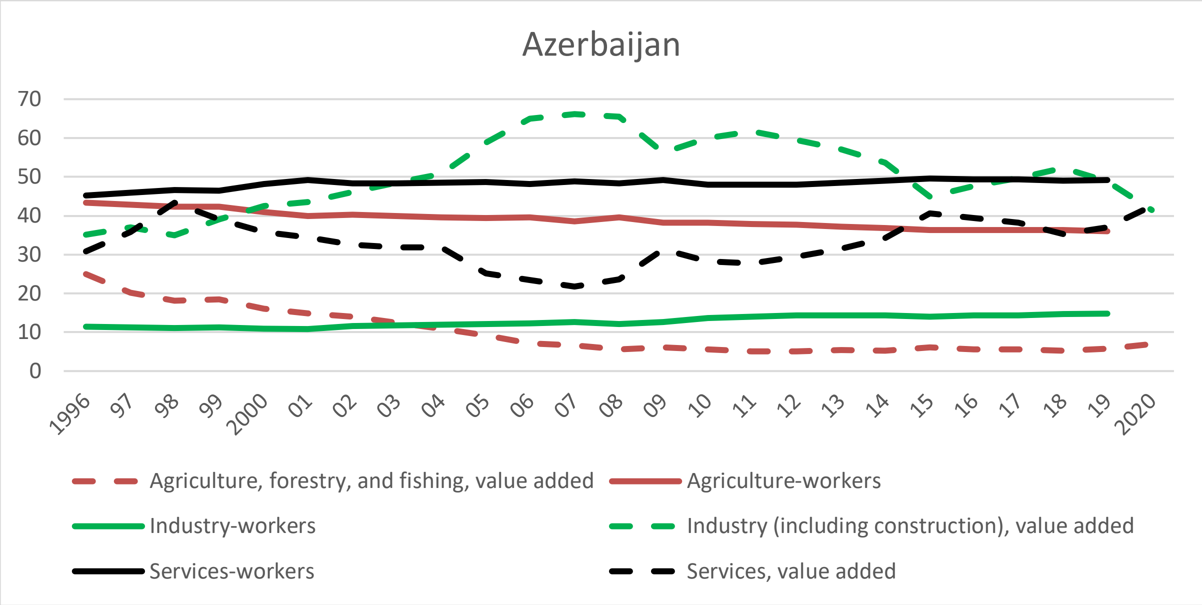
The comparison of the sectoral profile of each economy with the value added created by the employed labor force in each sector (the efficient labor force employed) shows how the labor force is distributed across economic sectors and how much it contributes to GDP. This allows us to draw important conclusions about the country's economic resilience, including how the labour force can be used to absorb external shocks (Socoliuc and Maha 2019).

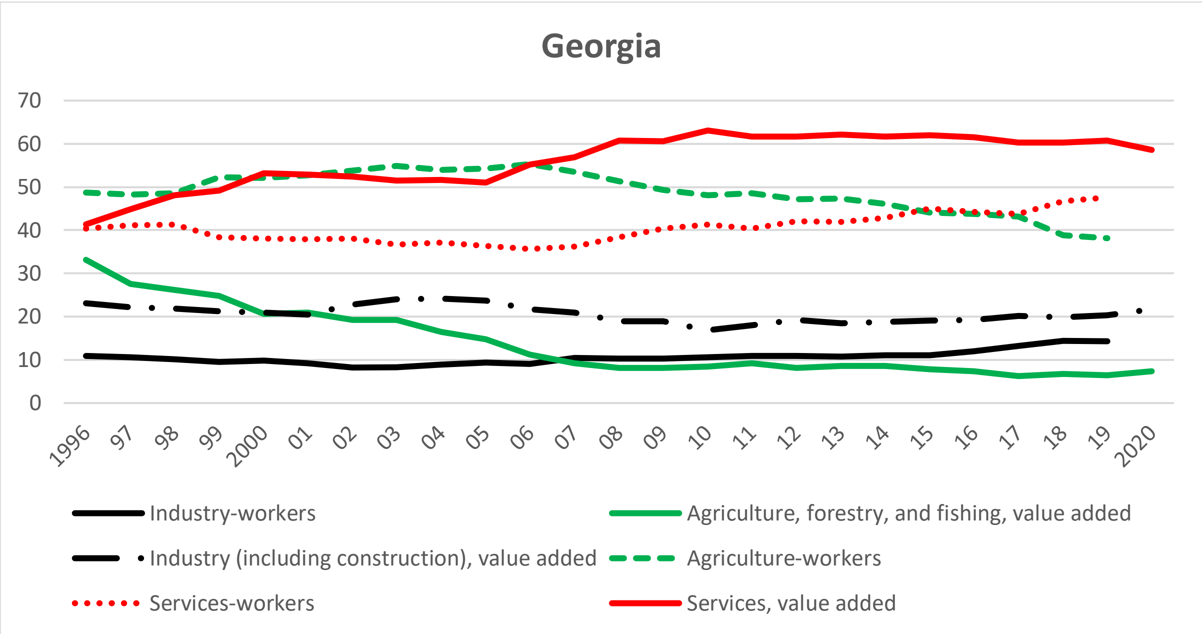
Shifting labour from sectors with a higher share of GDP but low economic productivity to sectors with high productivity will strengthen the efficient allocation of human resources. This is seen as a tool for economic development. Figure 11 presents results from an examination of economic productivity, which measures how much the agricultural, industrial, and service sectors contribute to each country's output. It uses value added per worker as a measure of labor productivity by sector (ibid)[10].

[9] The self-employment segment – a vulnerable group – in Georgia remains high at 50 percent. This segment mostly works in agriculture or as own-account workers (private tutors, taxi drivers, independent salespeople, etc.) who work at least one hour per week to generate income but much less than officially employed workers. Around 1.1 million individuals are not seeking jobs or not working at all and are considered economically inactive (Danish Trade Union Development Agency: Georgia Labor Market Profile 2021).

[10] Value added denotes the net output of a sector after adding up all outputs and subtracting intermediate inputs. Data are in constant 2010 USD.

***Fig. 11** Aggregate Sector Employment Share (%) and Value Added (% of GDP) in Azerbaijan and Georgia (1996–2020)*





Source: Calculations are based on the World Bank World Development Indicators database 2021

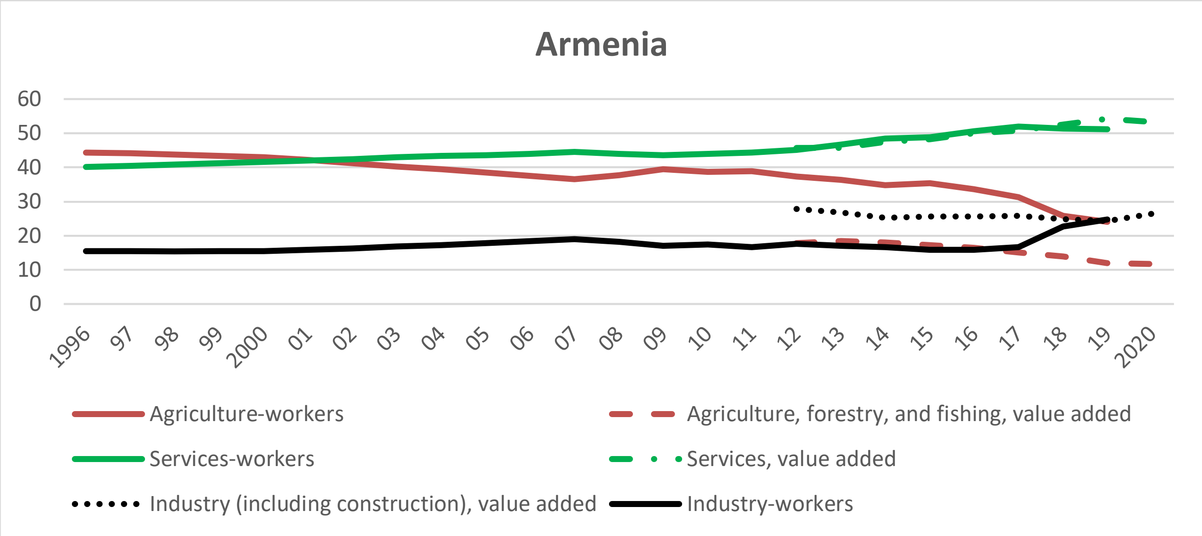
Georgia's productivity profile is not sustainable (Fig. 11). In industry and services, labor productivity is high, whereas in agriculture, it is very low. Most of the labor force works in agriculture and services. As Fig. 11 shows, most of the labor force works in agriculture and services. This means that resources are not being used efficiently.

Moreover, the economy is heavily dependent on services, which were hit hard by the crisis of 2008, 2014 and 2020.[11]. Furthermore, we see that sectoral shifts in employment are underway in Georgia. First, the share of employment in the agricultural sector declined in the 2010s and has been displaced by the services sector since 2017. Second, the share of employment in industry and services increased marginally. The agricultural employment share is significantly higher than the sector's value added in GDP. This is in line with the country's relatively low labor productivity. Currently, the agricultural sector contributes 6.2 percent to GDP and employs 43 percent of the working population. Most (98 percent) farmers are self-employed, while production is mostly for self-consumption (Danish Trade Union Development Agency 2021). Azerbaijan has relatively low labor productivity in the agriculture sector for the entire time period, with less than \$3,000 in 2003–2013 and \$2,500 in 2019. Agriculture has a very limited contribution to GDP, as it is not based on products with higher value added. In terms of labor productivity, the services sector is on an upward trend. Lastly, the highest labor productivity is found in the industrial sector, where a sharp decline appeared after the crises of 2008 and 2014. The decline in oil prices on the financial markets, as well as the limited number of investors who remained after the two crises, explain this decline.

In the case of Armenia, some data is lacking, but Fig. 12 shows the aggregate sector employment share (%) and value added in the respective sector (% of GDP) comparison. The trend indicates that the highest employment productivity came from the services sector, where the trend was positive. Labor productivity in the industrial and agricultural sectors stayed low for the whole time period.

[11] The tourism sector, including related services and restaurant businesses, made up about 25 percent of Georgia's GDP in 2020. This is a significant portion of the country's GDP and its contribution fell by 81 percent in 2020 (\$2.7 billion). The Covid-19 crisis clearly illustrated the vulnerability of Georgia's economy. The country suffered a 6.2-percent drop in its economy in 2020. (GeoStat 2021).

__Fig. 12__ Aggregate Sector Employment Share (%) and Value Added (% of GDP) in Armenia (1996–2020)

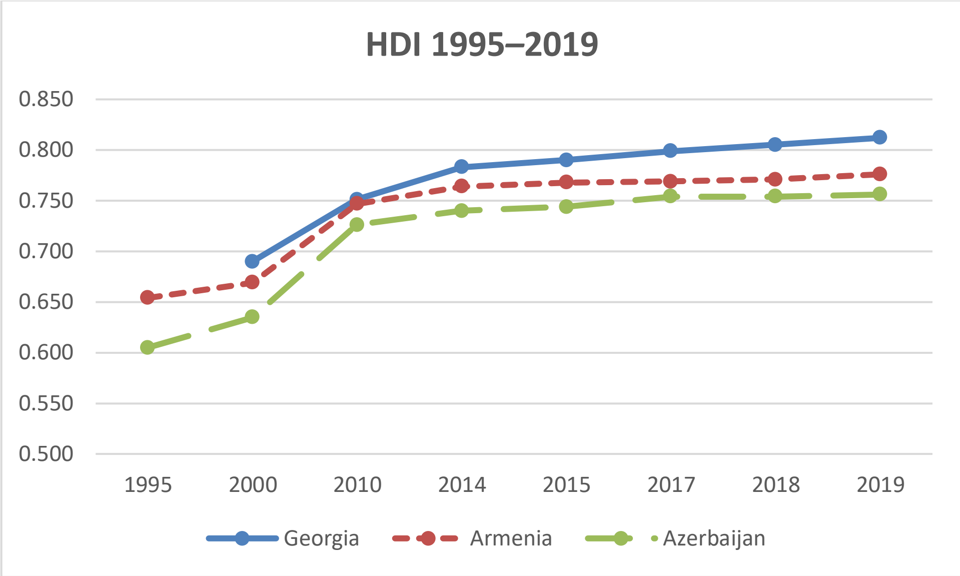


Source: Calculations are based on the World Bank World Development Indicators database 2021

The economies of Georgia and Azerbaijan were mainly dependent on the service sector and therefore most affected by the shocks in 2008 and 2014. They were less resilient in times of crisis because there were no other developed sectors capable of absorbing the unemployed or using human resources in various productive activities. When most of the labor force is employed in non-productive sectors, it limits a counties' capacity for resilience, as well as when an economy depends more on sectors that are vulnerable and highly affected by external imbalances.

The economic literature indicates that human capital, together with investment and macroeconomic conditions, is an important driver for economic development and growth. It is important in developing countries, and it is a significant component of economic dynamics in relation to labor markets.. As shown in Fig. 13, all three countries have had general positive developments in recent years in terms of health, education and living standards from the perspective of the Human Development Index (UNDP 2018).

***Fig. 13** Human Development Index HDI (1995–2019)*

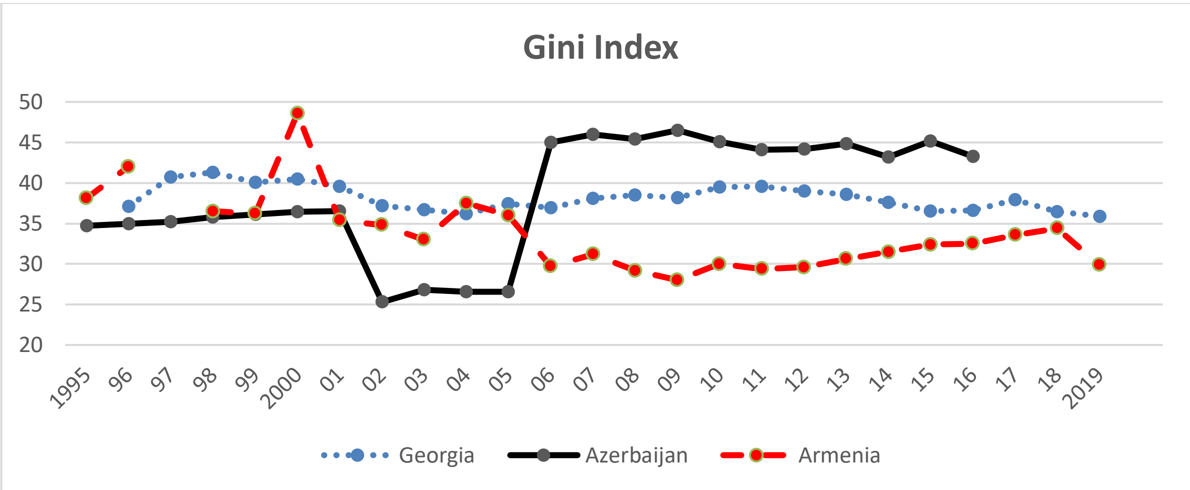


Source: Calculations are based on the United Nations Human Development Index (2019)

In terms of human development, the countries spend about 2–3 percent of their GDP on education, which remains very modest. (Human Development Report 2019).

The Gini index provides another perspective in examining discrepancies between the three countries in terms of economic inequalities. Higher values of the Gini index indicate greater income inequality in a country.

***Fig. 14** Gini Index for Georgia, Armenia, Azerbaijan (1995–2019)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

Despite some missing data, Fig. 14 provides a general overview of the development of income disparities between the three economies between 1995 and 2019. We can see that Income inequality is highest in Georgia, reaching 41.3 after the 1998 crisis and 39.6 after

2008. For Armenia, we can observe a higher Gini index value of 48.6 after the 1998 crisis and 37.5 after 2003, showing that the 1998 crisis and conflict over Nagorno-Karabakh led to greater inequalities. Inequalities can be increased by crises and strong economic contraction. In general, Inequalities can increase during crises and economic downturns. The same factors caused peak index values of 36.5 in 2000 and 46 in 2005 in the case of Azerbaijan.

5. Economic Openness

A country with a high degree of economic openness is more likely to be affected by economic conditions outside its control. In theory, openness to international trade can be influenced by policy, and therefore is a matter of promoted resilience. The degree of economic openness is a bigger factor than trade policy in influencing the nature of a countries external trade flows. Small countries have few opportunities to rely on exports, and countries with limited natural resources tend to import a lot. Openness to international trade is a sign that a country is successful in international markets. But this argument ignores the fact that more active participation in international trade makes a country more vulnerable to shocks that it has limited control over (Briguglio et al. 2009, 235-242). A lack of diversification and a narrow range of exports make the country more vulnerable to economic shocks. Furthermore, a geographic export concentration – i.e., a greater dependence on specific trading partners – is also an important indicator of fragility.[12]

a. International Trade

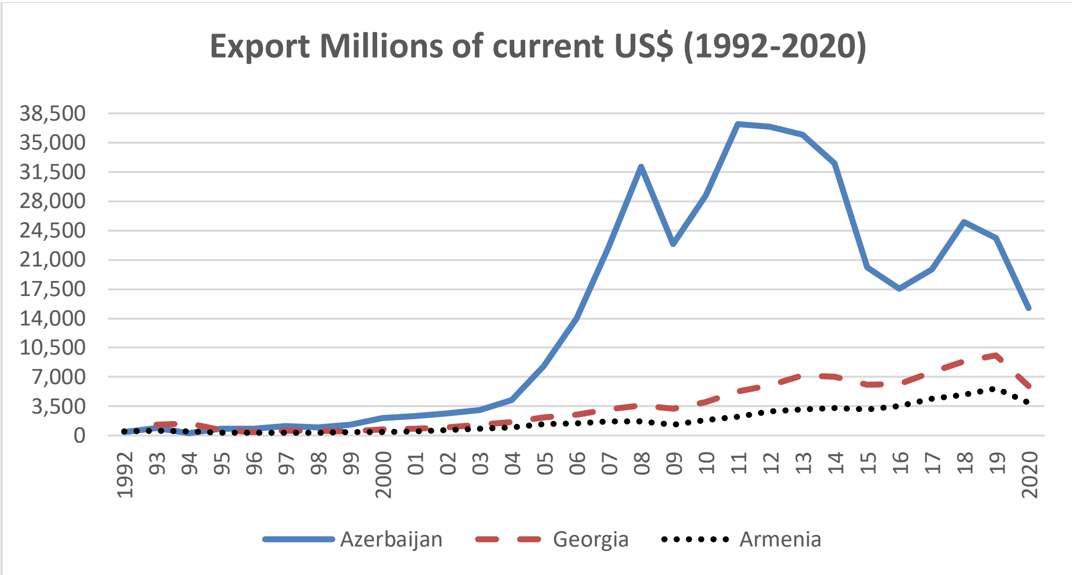
An important factor in international trade is the economies dependence on its neighbors and its long-term chances of improving its internal trade vulnerabilities. The economic dependence on exports and imports from Russia and the Commonwealth of Independent States (CIS) is high, and the economic dependency on Russia for all three economies is a source of great instability and risk. Additionally, the dependence on strategic imports to sustain its industrial and energy sector would make an economy vulnerable to shocks. Azerbaijan was supported by international companies to extract the existing natural resources with their own technologies. These companies signed important contracts with the state and extracted most of the resources. Moments of crisis (Fig. 15), which limited Azerbaijan‘s exports in the context of decreased foreign demand, include the 1998 crisis, with a smaller impact, and those of 2008, 2014 and 2020, with larger declines of almost $10

[12] For example, dependence on strategic imports such as food and fuel, which are highly inelastic in terms of price and income, exacerbate an open economy’s vulnerability to shocks.

billion for 2008; $12 billion for 2014 and $8 billion for 2020.

The CIS countries continued to be Georgia's and Armenia's largest trading partners. Each country's exports depended too much on the Russian market. In 2005, Russia started to put trade restrictions on imports from Georgia and agricultural products. This hurt the economy.[13] Georgia's exports of goods and services increased

Fig. 15 *The total exports - millions of current US Dollars (1992–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

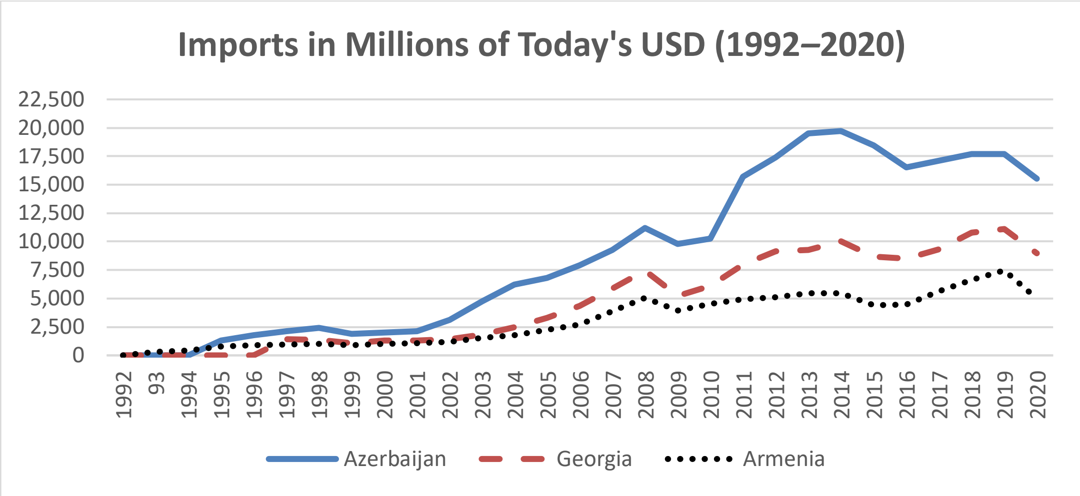
significantly during the 2010s from $4 billion (33 percent of GDP) in 2010 to $9.5 billion (54 percent of GDP) in 2019 (Timm and Zabanova 2019,).

In terms of imports (Fig. 16) Georgia and Armenia remain among the developing countries whose imports are higher than their exports, indicating a strong vulnerability of their economies from the point of view of trade openness. Georgia's and Armenia's imports are amount to about 71 percent and 66 percent of total external trade turnover in 2020 (World Bank 2019). Azerbaijan shows a lower level of imports. As a country rich in natural resources, its dependency on external markets is reduced, rendering the country less vulnerable in moments of crisis (Fig. 16).

---

[13] Russia's share in Georgia's total exports was 18 percent ($154 million) when Russia announced a trade boycott on Georgia in 2006. Immediately after that, Georgian exports to Russia almost stopped. Russia's share was down to 2 percent in 2008–2012, an average of $34 million a year (Transparency international Georgia 2020).

Fig. 16 *Total Imports – in Millions of Today's USD (1992–2020)*



Source: Calculations are based on the World Bank World Development Indicators database 2021

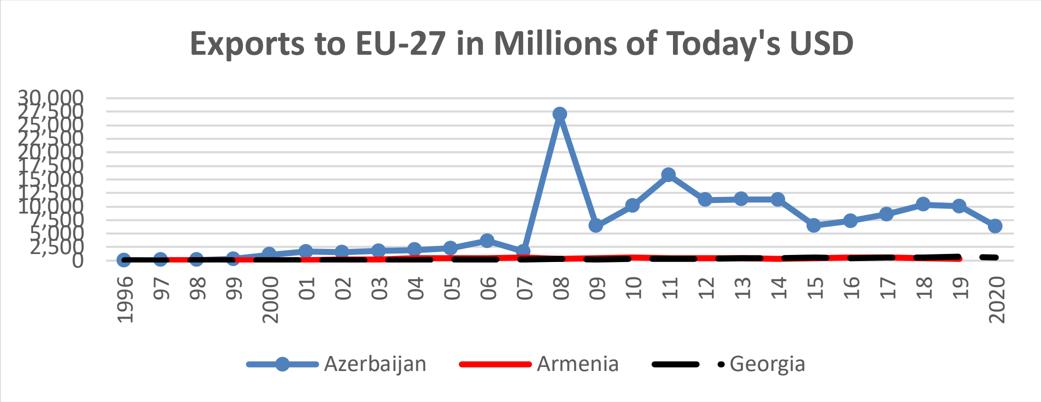
The destination of traded goods and services plays an important role. All three economies have joined the Eastern Partnership and only Georgia has signed an Association Agreement with the EU in 2014.[14]. Before the DCFTA, Georgia already had the Generalised Scheme of Preferences Plus (GSP+) which allowed it to use preferential trade arrangements with EU countries[15]. According to the CEPA agreement (Armenia–EU Comprehensive and Enhanced Partnership Agreement), Armenia will continue to benefit from the GSP+, which gives beneficial access to the EU market through the full removal of tariffs on over 66% of tariff lines (European Parliament 2017).

Azerbaijan exported a significant amount of mineral fuels to the EU in 2007 and continues to be an important export partner for the EU. (Fig. 17).

[14]The Deep and Comprehensive Free Trade Areas (DCFTA) are part of Georgia - EU Association Agreement. It gives the country access to the EU's large internal market.

[15] Georgian exports to EU countries have increased by more than 30 percent since 2014. From 2019 to 2020, 22 percent of all Georgian exports went to EU countries. Products that are exported to EU markets are agricultural (wine, fruits and vegetables) and industrial (copper ores and concentrates, manganese oxides, textiles). European Commission 2020.

Fig. 17 *Exports to EU-27 in Millions of Today's USD (1996–2020)*



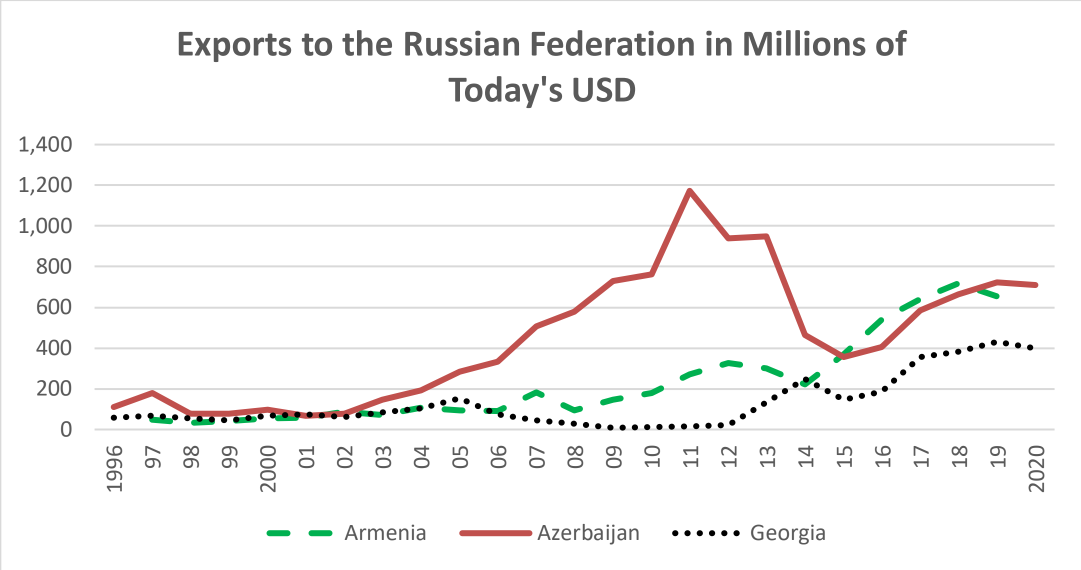
Source: Calculations are based the World Integrated Trade Solution-WITS (2021)

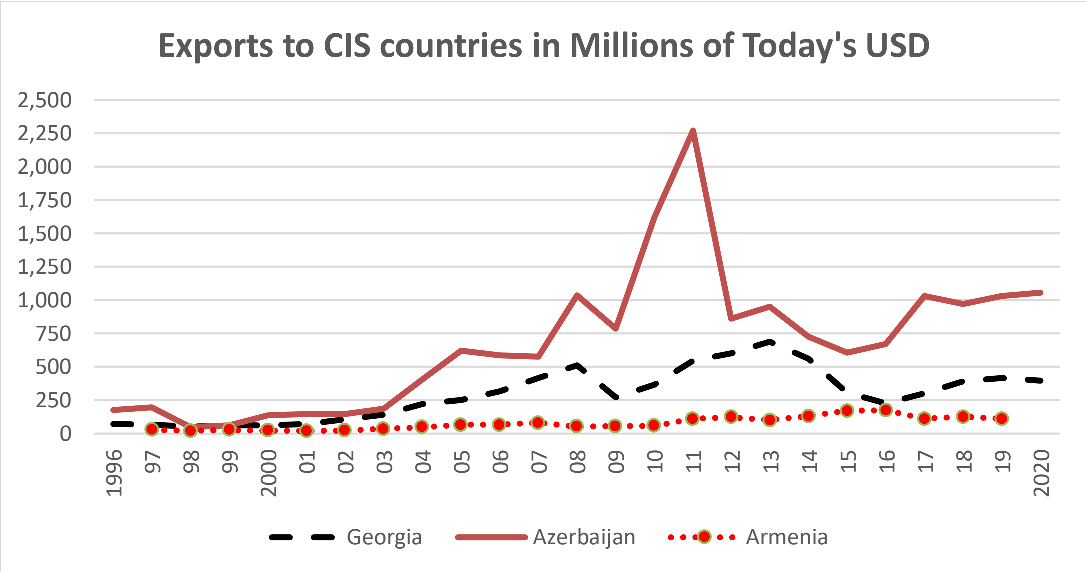
The crisis also affected exports and the decline in 2008 and 2015, which can be explained by the impact of the crisis on the economy. In 2008-2016, oil prices went from $150 a barrel to less than $30 a barrel, which hurt the economy. During the same year, the national currency was devalued twice and depreciated more than twice (European Parliament 2017).

The trade between the EU and Azerbaijan is subject to the Most Favored Nation (MFN) regime, which was granted to Azerbaijan despite its only observer status in the WTO. Since 2008, the country has been able to use the GSP+, which has increased the number of products and decreased the tariffs. In February 2013, it was decided that Azerbaijan was not eligible for the GSP+ because of its income level, which was higher than needed to qualify (Ibid). Despite the varying levels of exports directed to European domestic markets, Eastern Partnership membership has undoubtedly made a significant contribution to rebalancing trade flows in favor of positive economic outcomes and has also increased the ability to mitigate external vulnerabilities and risks by having a presence in multiple markets. For Georgia, export products were slightly diversified, i.e., there was a greater variety of fresh and dried fruits. For the industrial category, plastic utensils, animal houses, and isotopes were also added. Since 2014, the number of companies exporting from Georgia to the EU has increased by 46 percent (European Commission 2020).

Azerbaijan has its own resources and does not depend on oil and gas imports from Russia. It also exports modestly to CIS countries (Fig. 18).

Fig. 18 *Exports to the Russian Federation and CIS Countries in Millions of Today's USD (1996–2020)*



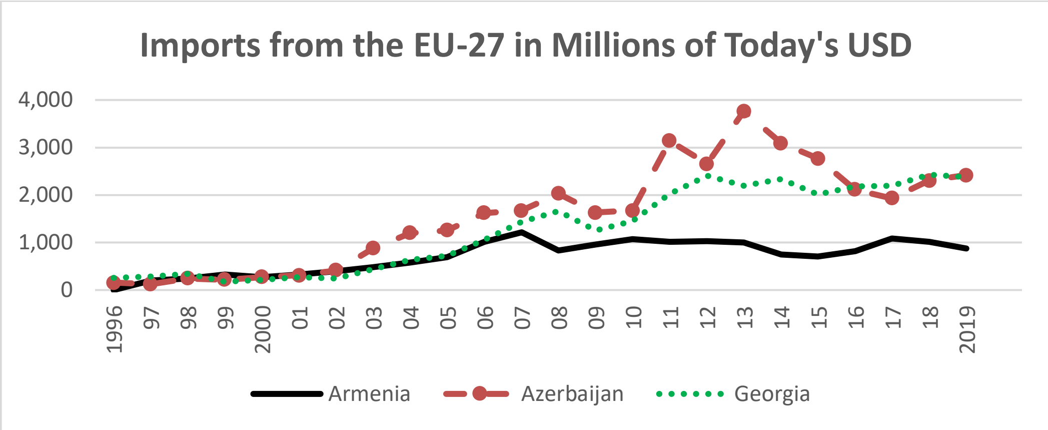


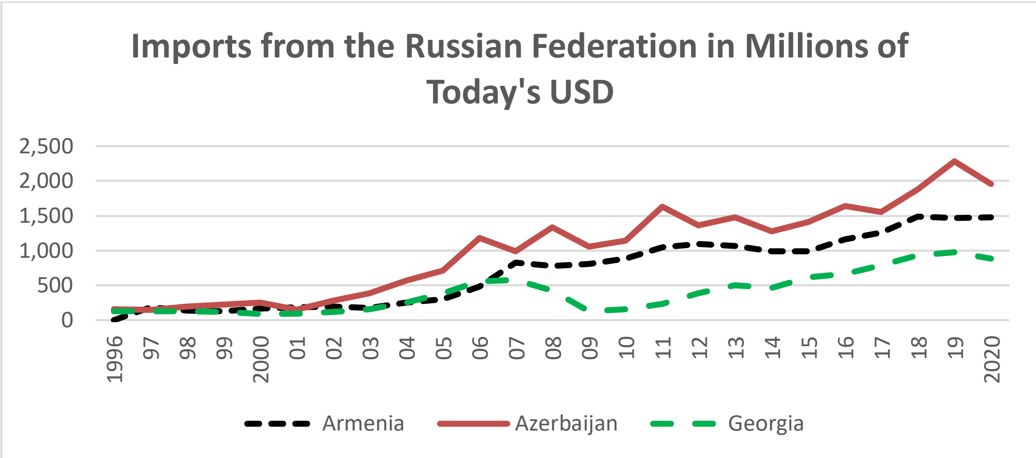
Source: Calculations are based on World Integrated Trade Solution-WITS (2021)

A serious risk for the economic resilience of a country is if it depends predominantly on one or a few export products. Armenia experienced market diversification losses between 2000 and 2018. Georgia managed to diversify its export markets, but became more concentrated in export product groups. Azerbaijan had a highly diversified export market structure (Timm and Zabanaova 2019). Georgian exports to Russia increased by 487 percent in 2013–2014 compared to 2012, despite the de facto trade boycott imposed by Russia in 2006. In 2019, Russia had a 13.2 percent share of Georgian exports. Georgia exported $497 million of products to Russia in 2020, which was 2.8 percent of the country's GDP (Transparency International Georgia 2020).

Fig. 19 gives a general picture of the post-independence development of imports up to the present.

Fig. 19 *The Imports of Countries from the EU-27 and Russian Federation in Millions of Today's USD (1996–2020)*

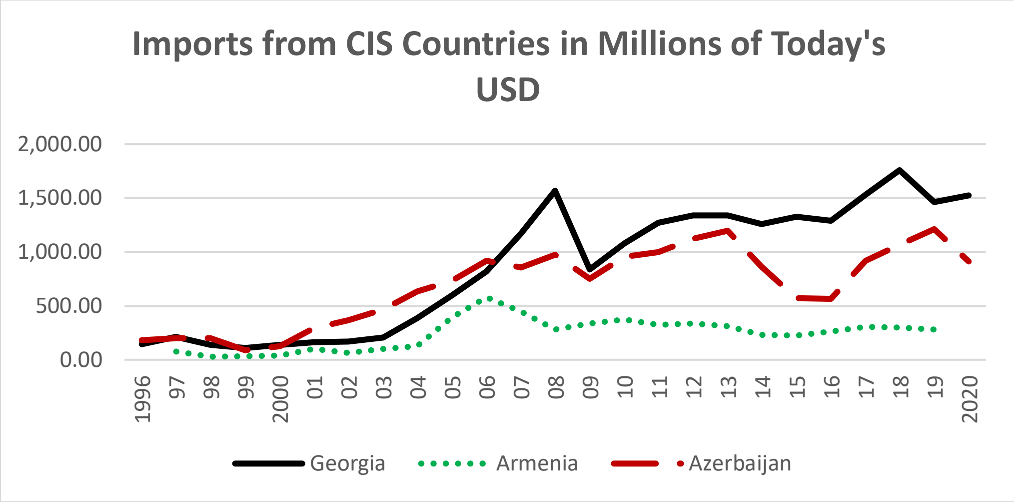




Source: Calculations are based on World Integrated Trade Solution-WITS (2021)

Armenia and Georgia remain more dependent on imports from Russia in terms of raw materials and agriculture products. Georgia's imports from Russia have been on a growing spree in recent years, and have almost doubled since 2012. Russia ranks second behind Turkey in terms of Georgia 's imports. Georgia's imports have always been higher than its exports. Imports made up 71% of the total foreign trade turnover in 2020. In this respect, the EU is an important trading partner, even though it accounts for the smallest share of exports. The shocks didn't have a big effect on the value of imports because all three countries have a weaker position in international trade. Azerbaijan is more dependent on imports from CIS countries than from Russia, while Georgia and Armenia remain linked to Russian imports (Fig. 20).

***Fig. 20** Imports from CIS countries in Millions of Today's USD (1996–2020)*



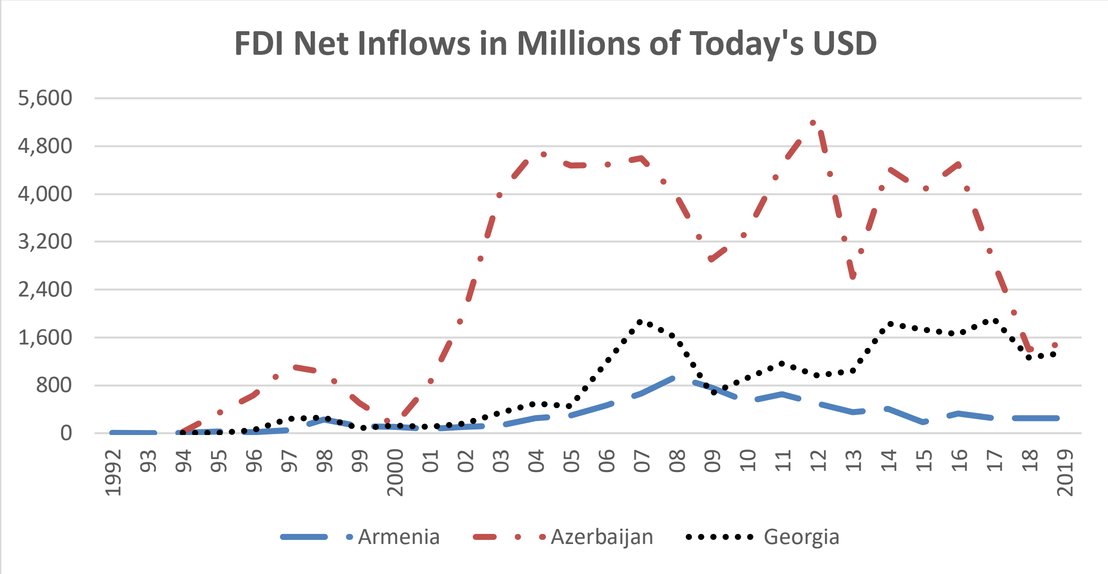
Source: Calculations are based on World Integrated Trade Solution-WITS (2021)

In the case of imports, two common features can be identified. In the case of imports, two common features can be identified. First, Azerbaijan and Armenia are still the most important partners for both the CIS and Russia when it comes to imports of goods and services. Second, Russia has a massive influence on all three economies, and the trend in imports from Russia is quite similar for all countries of the South Caucasus.

b. Foreign Direct Investment

Foreign direct investment (FDI) is another factor of growth and development for the country. Foreign direct investment tends to be directed towards countries with a large domestic market and natural resources endowments. Smaller states are often disadvantaged in this regard. Good economic governance, which leads to competitiveness and resilience, could make up for these shortcomings and help attract FDI (Briguglio et. al. 2019, 55-58). Resource-rich countries are expected to be most attractive to foreign investors, but without neglect of those countries' internal vulnerabilities, political risks or conflicts that might cause investors to shy away (Briguglio et. al. 2019, 62-68).

Fig. 21 *FDI Net Inflows (BoP) in Millions of Today's USD (1992–2019)*

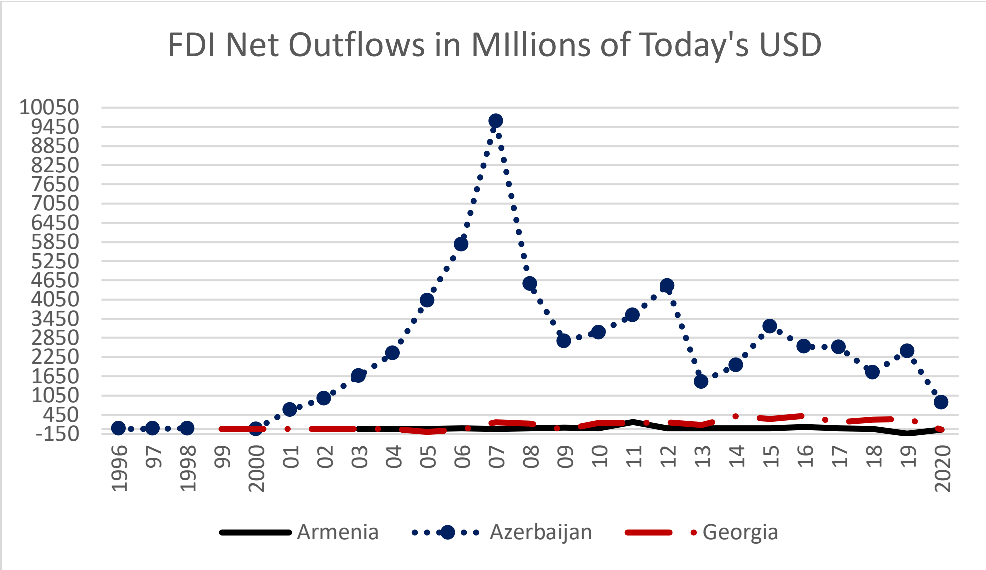


Source: Calculations are based on the World Bank World Development Indicators database 2021

Fig. 21 shows that inflows of FDI for all three countries were rather modest at the beginning of the transition process. After 1995 and until 2000, Azerbaijan was the most attractive country for foreign investors, especially because of its large oil and gas reserves. The Russian crisis in 1998 had a negative impact on FDI inflows in Azerbaijan because oil prices fell significantly at that time and most of the investments were made in the oil sector. However, after the Russian crisis and until the next global crisis in 2008, FDI increased again (Socoliuc and Maha 2019). Azerbaijan and Georgia have benefited from FDI inflows, while Armenia has enjoyed only limited FDI inflows of below $600 million. In the case of Georgia, in recent years it has become clear that despite important progress, reforms have not been sufficient to ensure a prolonged steady inflow of FDI – which has been in decline since 2017; they have reforms maximized the potential gains from foreign investment, as productivity and exports have remained low and unemployment and poverty high). In 2020, Georgia received its lowest volume of investment since 2005: $572 million, a 57-percent drop from 2019. This drop was significantly greater than the average FDI decline across the world (34 percent) or for developing economies (8 percent). Before the havoc wreaked by Covid-19 pandemic, a declining trend in FDI was already evident. Specifically, while Georgia's 2014 FDI reached $1.8 billion, by 2019 it was only about $1.3 billion – a 27% drop (PMCG 2021).

Fig. 22 shows a completely different situation. Foreign direct investment net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies. This series shows net investment outflows from the reporting country to the rest of the world (World Bank Database 2021).

__Fig. 22__ FDI Net Outflows (BoP) in Millions of Today's USD (1996–2020)



Source: Calculations are based on the World Bank World Development Indicators database 2021

Azerbaijan's economy exhibited significant investment outflows of $9,800 million in 2007 and $2,800 million post-crisis in 2009. Georgia experienced negative FDI outflows in 2002 and 2005 due to internal economic fragility and limited results in transformation achievements.

All three countries have been facing vulnerabilities and macroeconomic disruptions that their governments have struggled to control. Furthermore, as repeated internal crises affect local currencies and increase unemployment and institutional fragility, the ability of these countries to attract foreign investors remains unsatisfactory.

6. Conclusion

Over the past two decades, the development of the countries has been uneven and their ability to better absorb external shocks has remained limited. Poor governance and weak institutions are important flaws that must be addressed to improve the effectiveness of implemented policies and increase the confidence of the country's own citizens in the economy as well as the confidence of potential foreign investors and partners. Georgia has made good progress in improving its investment climate, while Armenia and Azerbaijan need more effective outcomes and less political fragility to become more resilient. Another problem in all three economies that needs to be fixed is the lack of transparency in business regulation. This makes the economic environment less predictable (Socoliuc and Maha 2019).

Armenia and Georgia still rely too much on Russia, and Azerbaijan is the only economy that has gained some independence from Russia because of its natural resources.

Russia has also provoked a significant political imbalance to destabilize the Western course of the countries, in the case of Georgia, by the use of force and armed conflicts. This dependence means more insecurity, especially considering the bans on Russian imports from Armenia and Georgia, which are based on reasons that were hard to justify. These aspects demonstrate the enormous vulnerability of these economies to any maneuvers by Russia. From this perspective, the Eastern Partnership offers the possibility of increasing energy efficiency based on the use of renewable energy sources, limiting higher expenditures in this area, and also expanding the local economy in order to support consumption based on internal production (Ibid).

Another weakness of the economies is the great dependence on imports. Although both agriculture and industry are both established sectors in these countries, they have not invested in new technologies to increase their productivity, and they have not paid attention to sectors with high potential for sustainable economic growth. Azerbaijan is an example of a resource-rich country that is increasingly dependent on foreign companies for extraction. The dominance of the extractive industry in Azerbaijan has created a situation that jeopardizes the industrial sector and the economy in the long run while diverting the government's attention away from the development of other sectors such as agriculture and manufacturing[16]. Georgia and Armenia'sexports are mainly based on raw materials or low value-added products, so their constant trade deficits can be justified by low competitiveness and limited economic diversification (Timm and Zabanova 2019). The labor-market problem of limited productivity in industry and the agriculture sector is another vulnerability. Especially for Armenia and Georgia, the problem of migration and the increasing importance of remittances[26] must be highlighted. In the long run, the countries will suffer, as most well-educated people will leave the country for better lives elsewhere. As a result, the remaining human capital will not be able to support further development (World Bank 2017). Moreover, a new vulnerability emerges that depends on money from abroad, as remittances can also

[16] The situation could also be described as a Dutch disease phenomenon. The first two symptoms of this phenomenon are the chronic overvaluation of the national currency during the oil boom coupled with an appreciation of real wages in the mining industry that outperformed other sectors – particularly the manufacturing sector. The increased share of the service sector in national output during unrecovered manufacturing (the fourth symptom) leads to a big slowdown in industrial production, which is also called de-industrialization (Niftiyev 2020)

[26] Armenia and Georgia have benefited most from significant transfers from abroad, which accounted for more than 10 percent of their GDP in 2017. Emigrants from Armenia totaled almost a third of that country's population in 2017. Unlike Armenia and Georgia, Azerbaijan halved its diaspora between 1995 (22 percent) and 2017 (12 percent).

have destabilizing macroeconomic effects.

The heavy dependence of some economies on only one sector is another sign of the economic fragility facing the three countries. In the case of Azerbaijan, it is the oil sector – in the event of a crisis, and oil prices fall sharply, the entire economy suffers. The recent drop in revenue from the tourism sector in Georgia, which was exacerbated by the Covid-19 pandemic, is another example that emphasizes the urgency of economic reforms.[17] Therefore, diversification is required to achieve economic stability.

In general, the economies of the countries of the South Caucasus have an abundance of internal and regional vulnerabilities, while their capacity to withstand the shock remains very limited. The EU has already become a greater player in the region through the Eastern Partnership, and it should target its support towards developing a strategy to foster the formation of sustainable economic growth in all three countries.

Generally, the process of building a country's resilience requires more attention to be paid to reforms in the areas of democracy, rule of law, good governance and anti-corruption. From the perspective of the 2020–21 Eastern Partnership Index, the EU must improve the conditions for granting financial assistance to these countries in line with its effective results.Georgia has taken important steps in terms of EU integration and convergence, but there is still much to do in terms of sectoral cooperation. The latest developments in Georgia show that conditions are much worse, as there are weaknesses and problems in terms of democracy, EU integration and political dialogue. Moreover, Georgia lost a significant number of points in relation to the independence of its judiciary, while its rating for independent media also declined (Eastern Partnership 2021).

The independent judiciary, anti-corruption measures and independent media make Armenia a leader in democratic rights and elections. Moreover, the gap between Armenia's rating concerning anti-corruption and a free media and the next best rating – that of Georgia – is striking. On market-related aspects, Armenia outperforms Georgia, but it is weaker on trade convergence and sectoral cooperation. The results of the EaP 2020–21 Index show that Armenia ranked first in 2021 in terms of democracy and good governance, but ranked fourth in terms of political convergence. The less demanding nature of a CEPA compared to Association Agreements/DCFTAs could explain this. Although Armenia was successful in some areas, its economic weaknesses, such as its monopolies in important business areas,

[17] In the case of Georgia's tourism sector, including related services (restaurant businesses), makes up about 25 percent of GDP; as a result of the pandemic, its income decreased by 81 percent in 2020.

its small export base and trade partners, and the influence of Russia over its economy and regional security, led to the country's decline in the index (Eastern Partnership 2021).

The worst-ranked country in the Eastern Partnership is Azerbaijan. It performs worst in the independence of its judiciary, the independence of its media and state accountability. The enhancement of transparency and accountability in its public finance management system is essential, which should be fortified by measures to roll back monopolies in key business sectors in order to foment a competitive and favorable environment for small and medium-sized enterprises (SMEs) as well as a concerted policy towards diversifying its exports (ibid).

The crisis has highlighted vulnerabilities and development gaps in all three South Caucasus countries. The recent Covid-19 crisis has also shown how important it is to set policy goals for the Eastern Partnership after 2020. These include the need to strengthen the economy through stronger partnerships and strengthen reform processes in terms of accountable institutions and the rule of law to increase the chances to attract investment. Consequently, it is only political and economic reforms that can lay the foundation for more resilient and inclusive economies in all three countries.

References

Aida Caldera Sánchez, Morten Rasmussen, Oliver Röhn, 2016. "Economic Resilience: What Role for Policies?. OECD Economic Policy Paper, No. 20, Dec. 2016. p.1-26. Retrieved from https://www.oecd.org/economy/growth/Strengthening-economic-resilience-insights-from-the-post-1970-record-of-severe-recessions-and-financial-crises-policy-paper-december-2016.pdf.

Alieva, Leila., Delcour, Laura., Kostanyan, Hrant. Europén Parliament. Directorate-General for external policies. Policy Department. EU relations with Armenia and Azerbaijan. October 2017. Retrieved July 2021 from https://www.europarl.europa.eu/cmsdata/133502/EU%20relations%20with%20Armenia%20and%20Azerbaijan.pdf

Aslanli, Kanan., Zohrab, Ismail, Rovshan, Agayev, & Azer, Mehtiyev. 2013. "The Assessment of Economic and Export Diversification." *Natural Resource Governance Institute & Free Economy Center.* Retrieved from http://www.freeeconomy.az/site/assets/files/1188/iqtisadi_diversifikasiya_az.pdf.

Birkmann, J. (2013). Measuring Vulnerability to Natural Hazards: Towards

Bertelsmann Stiftung. 2020. How resilient are European countries and regions? Policy Brief. Europe's Future. July 2020. Retrieved from http://aei.pitt.edu/103200/1/200727_Corona_resilience_Policy_Brief_FINAL.pdf

Disaster Resilient Societies (2nd ed.). Tokyo: United Nations University Press. Retrieved from https://collections.unu.edu/eserv/UNU:2880/n9789280812022_text.pdf.

Briguglio, Lino., Gordon, Cordina, Nadia, Farrugia, & Stephanie Vella. 2009. "Economic Vulnerability and Resilience: Concepts and Measurements." *Oxford Developments Studies* 37(3): 229–247. Retrieved from https://www.researchgate.net/publication/46527233_Economic_Vulnerability_and_Resilience_Concepts_and_Measurements.

Briguglio, Lino., Melchior, Vella.2019 "The small states of the European Union and the resilience/competitiveness nexus." *Small States & Territories* Vol. 2, No. 1: 55-68.

Cornell, Svante. 2001. *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus.* Surrey: Curzon Press.

Cornell, Svante. E., and . Frederick, Starr, eds. *The Guns of August 2008: Russia's War in Georgia.* Armonk: M.E. Sharpe, 2009. 1-7.

Council of the European Union. 2008. "Council Conclusions on European Neighbourhood Policy." Retrieved July 2021 from http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/98790.pdf.

Cohen, Ariel, and Robert E. Hamilton. "THE RUSSIAN MILITARY AND THE GEORGIA WAR: LESSONS AND IMPLICATIONS." Strategic Studies Institute, US Army War College, 2011. http://www.jstor.org/stable/resrep11808.

Curtis, Glenn E, and Library Of Congress. Federal Research Division. Armenia, Azerbaijan, and Georgia: country studies. Washington, D.C.: Federal Research Division, Library of Congress: For sale by the Supt. of Docs., U.S. G.P.O, 1995. Pdf. https://www.loc.gov/item/94045459/.

Delcour, Laure. (2015), "Between the Eastern Partnership and Eurasian Integration: Explaining Post-Soviet Countries' Engagement in (Competing) Region-Building Projects", Problems of Post-Communism, Vol. 62, Issue 6, pp. 1-12.

Danish Trade Union Development Agency. 2021. Georgia Labour Market Profile 2020. Retrieved July 2021 from

https://www.ulandssekretariatet.dk/wp-content/uploads/2021/01/LMP-Georgia-2021-final-rev.pdf.

Eastern Partnership 2021. "Eastern Partnership Index 2020-21, Charting Performance in the Eastern Partnership: Democracy and Good Governance, Policy Convergence and Sustainable Development." EaP Civil Society Forum. Retrieved June 2021, from https://eap-csf.eu/eastern-partnership-index/#section-fillup-1.

European Bank for Reconstruction and Development – EBRD. 1995. "Transition Report – Investment and Enterprise Development. Economic Transition in Eastern Europe and the Former Soviet Union." Retrieved from https://www.ebrd.com/.../transition-report-1995-english.pdf

European Commission and European External Action Service. 2015. "Review of the European Neighbourhood Policy (JOIN/2015/50)." Retrieved June 2021, from http://eur-lex.europa.eu/legalcontent/ en/TXT/?uri=celex:52015JC0050.

European Commission. 2015. “Review of the European Neighbourhood Policy (ENP): Stronger Partnerships or a Stronger Neighbourhood.” 18 November 2015. Retrieved June 2021, from http://europa.eu/rapid/press-release_IP-15-6121_ en.htm.

European Commission. 2017a. “Economic Resilience in EMU – Thematic Discussion on Growth and Jobs.” Retrieved July 2021, from www.consilium.europa.eu/media/23535/eurogroup-15-september-item1- com-note-economic-resilience-in-emu.pdf.

European Commission. 2017b. “Eastern Partnership – 20 Deliverables for 2020 Focusing on Key Priorities and Tangible Results.” Retrieved July 2021, from https:// eeas.europa.eu/sites/eeas/files/swd_2017_300_f1_joint_staff_working_ paper_en_v5_p1_940530.pdf.

European Commission. 2017c. “Communication from the Commission to the Council and the European Parliament. Wider Europe – Neighbourhood: A New Framework for Relations with Our Eastern and Southern Neighbours.” Retrieved July 2021, from https://eeas.europa.eu/sites/eeas/files/swd_2017_300_f1_ joint_staff_working_paper_en_v5_p1_940530.pdf.

European Commission. 2020. “Eastern Partnership policy beyond 2020. Reinforcing Resilience - an Eastern Partnership that delivers for all.” Brussels 18.03.2020. Retrieved July 2021, from https://eeas.europa.eu/sites/default/files/1_en_act_part1_v6.pdf.

European Commission & HRUFASP. 2015. “Review of the European Neighbourhood Policy.” Communication, JOIN 50 final. Brussels: European Commission and High Representative of the Union for Foreign Affairs and Security Policy.

European Parliament. 2017. “EU relations with Armenia and Azerbaijan, Directorate-General for external policies, Policy Department.” Retrieved July 2021, from https://www.europarl.europa.eu/RegData/etudes/IDAN/2017/603846/EXPO_IDA(2017)603846_EN.pdf.Figueiredo, Lorena., Taku Honiden, & Abel, Schumann. 2018. “Indicators for Resilient Cities.” *OECD Regional Development, Working Papers* No 2018/02, OECD Publishing, Paris

Folke, Carl., Stephen. R, Carpenter, Brian, Walker, Marten, Scheffer, Terry, Chapin, & Johan, Rockström. 2010. “Resilience thinking: Integrating resilience, adaptability, and transformability.” *Ecology and Society* 15(4), Art 20. 1-9.

Folke, Carl., Steve, Carpenter, Thomas, Elmqvist, Lance. H, Gunderson, C.S, Holling, & Brian, Walker. 2002. Resilience and sustainable development: Building adaptive

capacity in a world of transformations. Scientific background paper on resilience for the process of The World Summit on Sustainable Development on behalf of The Environmental Advisory Council to the Swedish Government.

Götz, Linde., Svanidze, Miranda. 2020. “Agriculture and trade with Russia.” *Caucasus Analytical Digest* 117. September. 1-15.

Gerasymchuk, Sergiy. (2019). The Eastern Partnership and the Idea of Europeanisation Challenged in the Age of Hybrid Challenges. In: Rouet, G., Pascariu, G.C. (eds) Resilience and the EU's Eastern Neighbourhood Countries. Palgrave Macmillan, Cham. Retrieved Oktober 2021, from https://doi.org/10.1007/978-3-030-25606-7_14

GeoStat – National Statistics Office of Georgia. 2021. Statistical Yearbook of Georgia. Retrieved September 2021, from https://www.geostat.ge/media/42476/Yearbook_2021.pdf.

Heyne, P., Boettke, P., & Prychitko, D. (2003). The Economic Way of Thinking. London: Pearson Education.

Hill, E. W., Wial, H., & Wolman, H. (2008). Exploring Regional Resilience, Working Paper 2008–04. Berkeley, CA: Macarthur Foundation Research Network on Building Resilient Regions, Institute for Urban and Regional Development, University of California. Retrieved from https://www.researchgate.net/publication/286379676_Exploring_Regional_Economic_Resilience.

Holling, C. S., & Brian, Walker. 2003. "Resilience defined." *International Society of Ecological Economics (Ed.), Internet encyclopedia of ecological economics.* Retrieved from http://isecoeco.org/pdf/resilience.pdf.

Holling, C., & Gunderson, L. (2002). Resilience and Adaptive Cycles. In L. Gunderson & C. Holling (Eds.), Panarchy: Understanding Transformations in Human and Natural Systems. Washington, DC: Island Press. Retrieved from http://www.loisellelab.org/wp-content/uploads/2015/08/Holling-Gundersen-2002-Resilience-and-Adaptive-Cycles.pdf.

International Monetary Fund – Staff Country Reports. 2019. "Ukraine: Request for Stand-By Arrangement and Cancellation of Arrangement Under the Extended Fund Facility – Press Release. Staff Report and Statement by the Executive Director for Ukraine." Retrieved July 2021, from https:// www.imf.org/en/Publications/CR/Issues/2019/01/08/Ukraine -Request- for-Stand-By-Arrangement-and-Cancellation-of-Arrangement-Under-the¬Extended-46499

Ismailzade Fariz Glen E Howard Jamestown Foundation (Washington D.C.) and Strateji Araşdırmalar Märkäzi. 2012. The South Caucasus 2021 : Oil Democracy and Geopolitics. Baku Azerbaijan Washington D.C: Center for Strategic Studies ; Jamestown Foundation.

Youngs, Richard. 2017. *Europe's Eastern Crisis. The Geopolitics of Asymmetry.* Cambridge: Cambridge University Press.

Jugheli, Tamar (2019). The Elements of Industrial Policy in Georgia . industrial policy in the South Caucasus. *Caucasus Analytical Digest* 10. 17 May. 14-21.

Khachatrian, Haroutiun., Hübner, Gerald., Sakevarishvili, Revaz. 2010. "The South Caucasus after the Global Financial Crisis." *Caucasus Analytical Digest* 18. 5 July. 1-26.

Khachatrian , H. 2009. "Republic of Armenia: Economy," in Central Eurasia 2008. Luleå: CA&CC Press, 48-54.

Langbein, Julia. 2020. "Economic cooperation between the EU and the associated countries: Making the most of development opportunities under the DCFTA." *LibMod Policy Paper Zentrum Liberale Moderne.* Retrieved July 2021, from https://libmod.de/wp-content/uploads/LibMod_PolicyPaper_EaP_Economic-Cooperation.pdf.

Martin, Ron. (2012). Regional Economic Resilience, Hysteresis and Recessionary Shocks. Journal of Economic Geography, 12(1), 1–32.

Martin, Ron., Peter, Sunley. 2015. "On the notion of regional economic resilience: conceptualization and explanation." *Journal of Economic Geography* 15(1): 1-42. Retrieved from https://doi.org/10.1093/jeg/lbu015.

Mirel, Perre. (2021). The Eastern Partnership: between resilience and interference. The Fondation Robert Schuman. Policy paper. European issues 589, 30th March 2021.

Marciacq, Florent., Flessenkemper, Tobias. (2018). The European Union and its Eastern Partners: Beyond the Limits of Current Approaches to Regional Cooperation. Istituto Affari Internazionali. Documents IAI. 18/02 march 2018. Retrieved April, 2019, Retrieved from https://www.iai.it/sites/default/files/iai1802.pdf.

Niftiyev, Ibrahim. 2020. "Dutch Disease Symptoms in Azerbaijan Economy." *Journal of Economic Cooperation and Development* 41 (3): 33-67.

OECD. 2011a. "Development in Eastern Europe and the South Caucasus: Armenia, Azerbaijan, Georgia, Republic of Moldova and Ukraine." OECD Publishing

OECD. 2011b. "Economic Significance of Natural Resources: Key Points for Forms in Eastern Europe, Caucasus and Central Asia." OECD Publishing. Retrieved April, 2019, Retrieved from http://www.oecd.org/env/outreach/2011 _AB_Economic%20 significance%20of%20NR%20in%20EECCA_ENG.pdf.

Papava, Vladimer. 2009. "Georgia's Economy: Post-revolutionary Development and Post-War Difficulties," Central Asian Survey, 28/2, 199-213. Retrieved Jule 2021, from https://www.researchgate.net/publication/242219324_Georgia's_Economy_Post-Revolutionary_Development_and_Post-War_Difficulties

Papava, Vladimer; Teimuraz Beridze (2005). Ocherki politicheskoi ekonomii post-kommunisticheskogo kapitalizma (Essays on the Political Economy of Post-Communist Capitalism). Moscow: Delo i Service. Retrieved July 2021, from https://www.researchgate.net/publication/313447591_Ocerki_politiceskoj_ekonomii_post kommunisticeskogo_kapitalizma.

Papava, Vladimer. (2021). Qualitative Economic Features of the South Caucasian Countries: Past, Present and Future in the European Context. pp 61-81. In Ismailzade Fariz Glen E Howard Jamestown Foundation (Washington D.C.) and Strateji Araşdırmalar Märkäzi. 2012. The South Caucasus 2021 : Oil Democracy and Geopolitics. Baku Azerbaijan Washington D.C: Center for Strategic Studies ; Jamestown Foundation.

Pendall, Rolf., Kathryn A. Foster, & Margaret, Cowell. 2010. Resilience and Regions:

Building Understanding of the Metaphor. Cambridge Journal of Regions,

Economy and Society, 3(1), 59–70.

Perrings, Charles (2006). Resilience and sustainable development. Environment and Development Economics, 11, 417–427. Retrieved from https://www.public.asu.edu/~cperring/Perrings,%20EDE%20(2006).pdf.

PMCG. 2021. "Foreign Direct Investment Trends in Georgia". *Economic Outlook and Indicators* Issue 131.

Redeker, Nils., Natasha, Hainbach. 2020. "Flattening the Recession Curve: Comparing Initial Fiscal Responses to the Corona Crisis Across the EU." *Bertelsmann Stiftung., Hertie School Jacques Delors Centre Policy Paper*. 1-15.

Rose, Adam., Elizabeth, Krausmann. 2013. "An economic framework for the development of a resilience index for business recovery." *International Journal of Disaster Risk Reduction* 5: 73–83.

Sensier, Marianne., Gillian, Bristow, & Adrian, Healy. 2016. "Measuring regional economic resilience across Europe: Operationalizing a complex concept." *Spatial Economic Analysis*11(2):128–151.

Sondermann, David. 2018. "Towards more resilient economies: The role of well-functioning economic structures." *Journal of Policy Modeling* 40(1): 97–117.

United Nations Development Program. 2014. "Human Development Report 2014: Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience." Retrieved July 2021, from http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf.

Socoliuc, OR., Maha, LG. (2019). The Economic Dynamics of the Eastern Partnership Countries: Between Development Gaps and Internal Fragilities. In: Rouet, G., Pascariu, G. (eds) Resilience and the EU's Eastern Neighbourhood Countries. Palgrave Macmillan, Cham. https://doi.org/10.1007/978-3-030-25606-7_4.

Timm, Christian., Zabanova, Yana. 2019. "Industrial policy in South Caucasus." *Caucasus Analytical Digest* 110. 17 May. 1-21.

The World Bank. 2009. "The World Bank in Georgia 1993–2007." IEG World Bank, Washington DC. Retrieved July 2021, from https://documents1.worldbank.org/curated/en/854491467993489399/pdf/The-World-Bank-in-Georgia-1993-2007.pdf.

The World Bank. 2012. "Fighting Corruption in Public Services. Chronicling Georgia's Reforms."

Washington DC. Retrieved July 2021, from https://openknowledge.worldbank.org/handle/10986/2234?show=full.

The World Bank 2014. "Building Resilience for Sustainable Development of the Sundarbans: strategy report." Report No.88061-IN. Retrieved July 2021, from http://documents.worldbank.org/curated/en/879351468259748207/pdf/880610 REVISED00ns000Strategy0Report.pdf.

The World Bank. 2017. "Migration and Mobility." Washington, DC: World Bank Group. Retrieved July 2021, from https://documents1.worldbank.org/curated/en/445651508415857577/pdf/120539-replacement-PUBLIC.pdf

The World Bank. 2019. "World Integrated Trade Solutions." Retrieved July 2021, from https://wits.worldbank.org/CountryPrfile/en/Coutry/UKR/ StartYear/1998/EndYear/2017/TradeFlow/Export/Indicator/XPRT¬TRD-VL/Partner/WLD/Product/sitc-rev2-groups#.

The World Bank Database. 2021. "Resources Statistics." Retrieved June 2021, from https://databank.worldbank.org/data/reports.aspx?source=2&series= AG.LND.ARBL.ZS&country=#.

UNSPECIFIED (1999) The Russian crisis and its impact on the New Independent States and Mongolia. Communication from the Commission to the European Parliament and the Council. COM (99) 8 final, 20 January 1999. (1-18). Retrieved from http://aei.pitt.edu/4286/ .

United Nations Development Programme. 2009. "Impact of Global Financial Crisis on Local Communities in Moldova." Retrieved July 2021, from https://www.expert-grup.org/media/k2/attachments/Impact_of_the_Global_Financial_Crisis_on_Local_Communities_in_Moldova.pdf.

United Nations Development Programme - UNDP. 2018. "Human Development Reports – Human Development Index." Retrieved July 2021, from http://hdr.undp.org/en/content/human-development-index-hdi.