Non-Traditional Security Threats and Regional Cooperation in the Southern Caucasus

Edited by

Mustafa Aydin

Department of International Relations, Kadir Has University,
Istanbul, Turkey

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Economic Transformation and the Impacts of the Global Financial Crisis in the Southern Caucasus

Vladimer PAPAVA¹
Dr., Senior Fellow, Georgian Foundation for Strategic and International Studies, Georgia

Abstract. The South Caucasian economies suffer from the same basic problems as all the other post-Communist countries with the global financial crisis having created some general threats for all of the post-Communist countries of the world. Unlike developed economies, which are exposed to the threat of the zombie-ing of the economy under the conditions of a financial crisis, this threat is even greater for the post-Communist countries owing also to their exposure to the necroeconomy. Under the financial crisis, in all South Caucasian economies there is a paradoxical situation: Armenia has a “Paradox of a Diaspora,” Azerbaijan, a “Paradox of a Closed Economy,” and Georgia, a “Paradox of War.”

Keywords. The South Caucasus, global financial crisis, necroeconomy, zombie-economy.

Introduction

The first signs of the crisis appeared in the US financial system in the summer of 2007. Later it expanded to Western Europe and Japan and reached all developing countries and economies in transition by the end of 2008.

Although financial markets are not well-developed in the countries of the South Caucasus—Armenia, Azerbaijan and Georgia— it was also expected that even these countries could not escape any negative implications of the global financial crisis. Further, this is not at all unusual if one bears in mind the fact that the South Caucasian economies depend largely upon economic situations in Russia, the EU and the USA (for example, [4]). According to the International Monetary Fund (IMF), whilst the economic growth rate across the countries of the South Caucasus and the Central Asia amounted to 12 percent a year in 2007, up from 6 percent in 2006, this indicator is...
expected to drop to less than 2 percent in 2009 (for example, [5]). Compared to other
countries of the region, this economic decline is observed to be particularly drastic in
Armenia, Georgia and Kazakhstan [6]. Unsurprisingly, the IMF has closely co-
operated with various post-Communist countries [7] including those of the South
Caucasus [8] [9] [10].

The impact of the global economic crisis upon the countries of the South Caucasus
is not homogeneous at all. There is much in common between Armenia and Georgia,
both of which are open economies having no significant deposits of hydrocarbon
resources. The key differences between the two are associated with the Russian-
Georgian war of August 2008 (for example, [11]) which had specific consequences for
Georgia’s economy. As for Azerbaijan, its revenues from oil and gas make for a rather
different economic picture.

Before embarking upon a direct analysis of the economic problems which
Southern Caucasian countries have come to face as a result of the global financial
crisis, it would be prudent to touch upon some general trends and threats which may be
observed in practically all post-Communist countries.

1. The General Economic Problems of the Post-Communist Countries under the
Financial Crisis

After the collapse of the Communist regimes and their command economies, the
countries of the former Soviet Union found themselves with only a very small amount
of goods to supply to the global market. With few exceptions, such as some hydro
energy outputs, oil and gas extraction and the primary processing of raw materials, the
goods they manufactured failed to meet the high international standards as a result of
their overall low quality and or high prices. In fact, no markets existed for these
particular products. Moreover, in principle, there was no way that they could have
existed, in that an economy of this type is nothing more than a corpse or a so-called
“necroeconomy” [12] [13].

If any segment of an economy is “dead,” then theoretically there should be no
problems within. This explains the limited focus from the side of economic theory
upon the problems of such a post-Communist market economy in which necrocompanies exist.

Specifically, in post-Communist countries, a necroeconomy has developed from
the roots of the command economy’s technical bases.

As international experience shows, dead firms do exist and “successfully” function
in the most developed of economies, with Japan being the most obvious example [14].
These insolvent and, in fact, bankrupt firms which continue to operate despite their
“mortality” are commonly referred to as “zombie-firms.”

A system of continued lending is the key source of the sustainability of these
zombie-firms [15] [16], with loans granted by so-called “zombie-banks” which extend
beneficial credits to the firms (in particular, interest rates for such loans are lower than
average rates at the market level) [16]. At the risk of stating the obvious, these
unreasonable loans can only lead these banks to direct and inevitable losses [17]. As a

3 Georgia and Armenia have been members of the World Trade Organisation (WTO) since 14 June 2000
and 5 February 2003 respectively. Azerbaijan is negotiating its WTO membership.
rule, such banks are backed by their country’s governments [18] which grant them all
kinds of guarantees and assure their deposits, amongst other things, which eventually
means that zombie-banks exist at the expense of taxpayers [19]. To a certain degree,
such a financial system even encourages “healthy” firms to turn into zombies [14].

As a result of the aforementioned relationships between zombie-firms, zombie-
banks and their governments, a “zombie-economy,” then, develops which becomes a
heavy burden for the “healthy” segments of the economy.

A zombie-economy takes its roots in times of a financial crisis [17]. Under the
conditions of stagnation, the economy becomes characterised by a stoppage of
production and trade for a relatively long period of time which, in turn, gives rise to
unemployment, a reduction in wages and salaries, and the overall decline of the
standard of living. During these times, governments, as a rule, are called upon to help
the economy overcome such difficult conditions through the provision of bailouts and
other attempts at keeping the banking sector (to avoid a banking crisis) and the entire
economy afloat.

After the end of a financial crisis, the economy receives its own lifeless portion as
a legacy of the difficulties and continues to try to preserve the old system of the
government’s financial aid which was readily available to it during the crisis. A
zombie-economy, therefore, can be viewed as a legacy of a financial crisis.

A necroeconomy and a zombie-economy both developed in essentially different
economic systems. The necroeconomy grew forth from a command economy whilst
the zombie-economy is the offspring of a market economy. Further, a necroeconomy, in
fact, has nothing to do with a financial crisis whereas a zombie-economy is the
immediate end result thereof.

A necroeconomy, therefore, generally expands to large- and medium-size
manufacturing industries as opposed to zombie-firms which show no traces of
existence therein as evidenced by the situation in Japan’s economy [14]. Moreover, the
large manufacturing enterprises in a post-Communist country have the greater
probability of becoming a part of a necroeconomy. On the other hand, as the same
Japanese experience demonstrates, most large-size firms, due to their great financial
powers, are not zombie-firms but may also often be encountered in those so-called
small businesses which are relatively “larger” than others [14].

One may arrive at the conclusion, therefore, that necroeconomies and zombie-
economies are related to each other but still differ to a great degree from each other as
individual economic phenomena. Theoretically, it must be made clear that the effective
elimination of a necroeconomy is unthinkable without an effective bankruptcy law. As
the experience of many post-Communist countries has shown, most of the past attempts
at formally adopting bankruptcy laws have unfortunately produced only “stillborn
babies” [20]. An effective bankruptcy law is an effective tool in the fight against
zombie-firms and zombie-banks as well. It is precisely within the context of the current
crisis that the subject of the attack of zombie-firms upon the global economy has
become so topical [21] [22].

It is an established fact that many developed post-Communist countries have
resorted to certain special governmental bailout programmes in support of their
financial institutions and real estate businesses [23] which creates a threat for the
development of a new zombie-economic routine. This threat may become quite real if
the financial crisis continues long enough to enable the zombie-economic routine to
take solid root.
Unlike developed economies, which are exposed to the threat of the zombie-ing of the economy under the conditions of a financial crisis, this threat is even greater for the post-Communist countries owing also to their exposure to necroeconomy. In view of the fact that it is precisely the financial crisis which creates the favourable conditions for the establishment of zombie-economy foundations—that is, the zombie-ing of an economy—the zombie-ing of a necroeconomy is what happens in the post-Communist countries which, in fact, is even worse than the simple economic zombie-ing which takes place in developed economies. If in Japan, for example, the zombie-economy never affected processing industries, as we have seen, then one of the qualities of the necroeconomy is that it concentrates precisely upon this sector of the economy.

2. On the Economy of the Soviet South Caucasus

The South Caucasus is distinguished by its extremely diverse landscape and natural-geographical conditions. This, as well as the interests of territorial distribution of production in the former U.S.S.R., helped to form the special features of economic development in the South Caucasian countries [24] [25].

The economy of Soviet Armenia was characterized by the products of the chemical industry, ferrous metals, machine-tools, precision tools, textiles, clothing, leather footwear, and so on. Particular mention should be made of electric power generation and of the atomic power station, which was and still is the only one in the entire South Caucasus. Cognac production in the food industry still occupies a special place in the Armenian economy.

The economy of Soviet Azerbaijan was characterized by a sufficiently developed industrial base. This primarily applies to oil production and oil refinery, while metallurgy and the production of mineral fertilizers, fuels, lubricants, herbicides, and synthetic rubber were also of great importance. Cotton-, wool-, and footwear-manufacturing plants should be singled out among the enterprises of the light industry. As for agriculture, its produce was consumed not only in Azerbaijan, but also in other regions of the former U.S.S.R.

A sufficiently developed industrial base was also characteristic of the economy of Soviet Georgia—metallurgy, the production of ferrous alloys, machine-building (agricultural machinery industry, aeronautical engineering, shipbuilding) and machine-tool industry, and the chemical industry. The agricultural produce and foodstuffs (primarily wine, mineral water, tea, and citrus fruit) were mainly exported beyond Georgia and was in demand essentially throughout the former U.S.S.R.

The collapse of the communist system in the Soviet society and the disintegration of the U.S.S.R. led to a breakdown in cooperative relations among the enterprises of the former U.S.S.R. and the disappearance of the system for supporting the consumption of these enterprises’ products. The question of reorienting foreign trade became urgent. Most industrial enterprises of the South Caucasian countries (as of the whole of the former U.S.S.R.) were incapable of meeting the demands of international competition, so they constituted the network of a necroeconomy.
3. Concerning the Impact of the Global Financial Crisis on Armenia’s Economy or “The Paradox of a Diaspora”

In 2008, under the conditions of an annual inflation rate of 9.0 percent, the GDP growth rate in Armenia amounted to 6.8 percent [26, p. 49].

In the absence of any serious deposits of natural resources, the global financial crisis had a very serious impact upon Armenia. This country was also gravely affected by the Russian-Georgian war. In particular, according to official sources, the direct and indirect damage caused to Armenia by the war is estimated to amount to USD 700 million [26]. For the first ten months of 2009, the GDP accounted for just 82.5 percent of its amount for the same period of last year [27]. National budget revenues in the first quarter of 2009 fell almost 10 percent against the level of the previous year [28]. Pursuant forecasts made by the Central Bank and the government, the country will face some 6-8 percent decline of its economy in 2009 [29] [30].

As was expected, the crisis hit the country’s industrial sector first, wherein the enterprises of necroeconomy are concentrated. In 2008, the production rate in metallurgical and chemical industries fell to 9.6 and 14.8 percent, respectively, as compared to 2007 [26]. In this regard, it must be noted that only 98.7 percent of the total industrial production volume was sold in 2008 and, more remarkably, some 70 percent of those sales took place in the domestic market [26] which is a clear indication of the necroeconomic nature of some key sectors of the Armenian economy. So, the main problems in the Armenian economy are concentrated in the real sector [30].

In November 2008, the Armenian Government came up with an anti-crisis programme which, inter alia, provides for the support of local industries by means of subsidising or issuing governmental guarantees to companies experiencing certain difficulties and even taking a stake in some of them [28]. Under the framework of this approach, more than twenty companies have already received governmental assistance in the aggregate amount of USD 67 million [28].

The significant role played by the Armenian Diaspora in essentially all spheres of Armenia’s development should be particularly emphasized, primarily in its rendering of economic aid and in investments in the national economy [31]. The main goal of the anti-crisis programme is to attract the funds of non-residents, particularly Diaspora Armenians, into Armenian banking and, in the end, the launching of the All-Armenian bank by the government which will also act as a major shareholder (aimed at attracting the funds of Diaspora Armenians for investments in Armenia) [28]. As more than 70 percent of Armenian migrant workers are in Russia, the crisis might force some of the Armenians living abroad (mostly in Russia) to return home which might cause an even higher rate of unemployment and, correspondingly, more of a burden on the national budget [28].

In summary, it may be stated that Armenia is a country where the “Paradox of a Diaspora” has been manifested very clearly: even though the high level of Diaspora inclusion into the economy pushes the country’s economic development ahead, the global financial crisis may force many migrants—mostly in Russia—to return to Armenia which can promote a higher rate of unemployment and, correspondingly, a greater burden upon the national budget.

Presently, there is broad consensus over the fact that Azerbaijan has suffered the least damage from the global financial crisis as compared to other countries of the post-Soviet world (for example, [32]). In 2008, under the conditions of an annual inflation rate of 20.8 percent, the GDP growth rate in Azerbaijan amounted to 10.8 percent [33]. In this regard, it must be noted that the economic growth in Azerbaijan in 2008 was basically conditioned by a 7 percent growth of the oil sector and a 15.7 percent growth of the non-oil sector [33]. The national economy’s domination by the oil and gas extracting industries is translated into the following figures: the share of those sectors in Azerbaijan’s GDP exceeded 60 percent in 2008 which made up 60 percent of all state revenues and almost 100 percent of all exports [32].

Azerbaijan’s ability to cope with the global financial crisis easier than any other post-Soviet country is fuelled by the following two factors: the underdevelopment of its financial sector and the domination of the oil and gas sector in the national economy (for example, [32]).

The underdevelopment of the financial sector is typical for practically all post-Soviet countries. The problem, however, is that Azerbaijan is distinguished by an even greater underdevelopment of this sector than countries like Russia, Ukraine and even its neighbours in the South Caucasus [32]. In other words, the deficiency of a developed financial sector turned into an “advantage” for Azerbaijan under the conditions of the global financial crisis which lessened the negative impact of the crisis on its economy.

At the same time, it is noteworthy that the loans attracted from foreign financial markets did not exceed 25 percent of all banking liabilities in Azerbaijan’s banking sector [34]. This explains the fact that Azerbaijan’s relatively underdeveloped banking sector (like those of Armenia and Georgia) did not suffer much damage from the global financial crisis [32].

Although the price of oil has significantly dropped under the conditions of the global financial crisis, the country’s foreign currency reserves make it possible to alleviate the negative impacts of the crisis. It is important to note that the amount of Azerbaijan’s existing strategic currency reserves is enough to finance the country’s imports for 27 consecutive months [33].

In summary, it may be stated that Azerbaijan is a country where the “Paradox of a Closed Economy” has been manifested very clearly: even though, on the one hand, the high level of the economy’s “closedness” slows down the country’s economic development, under the conditions of the global financial crisis, on the other hand, it is this “closedness” which diminishes the negative impact of the crisis.

Despite the abovementioned “paradox of a closed economy,” it would be a mistake to think that the global financial crisis had no impact at all upon Azerbaijan’s economy. In late 2008, Azerbaijani banks had to pay off approximately USD 1 billion of external debt [33]. Furthermore, due to the scarcity of lending resources in world markets, all of those banks reduced their lending programmes and some of them completely stopped providing loans to Azerbaijani households and enterprises [32]. To maintain the stability of the exchange rate of the national currency, the National Bank of
Azerbaijan, as the country’s central bank, spent some USD 1.2 billion to buy manats in the first four months of 2009 [32].

As was to be expected, particular hardships have been suffered by necroeconomic enterprises; specifically, the steel, aluminium and chemical industries [32]. Pursuant to official statistics, whilst the overall growth of industrial output in Azerbaijan was at 103.9 percent during the eight months of 2009 as compared to the same period in 2008, the non-oil sector has demonstrated some decline; that is, the production rate for the same period of 2009 comprised only 94.3 percent of the similar indicator for the same period in 2008 [35]. The City of Sumgayit, which is Azerbaijan’s third largest city by population and was famous in the Soviet period for its military-industrial complex, presently represents a classic example of a necroeconomic centre. Almost all of its enterprises—namely the state-owned chemical company Azerkimya plants, the state-owned Azerboru pipe factory and Azeraluminum—remain either completely idle or work at extremely low capacities [36]. Also inoperative (or close to that status) are all steel and metal-rolling factories which were created in the years of Azerbaijan’s independence; namely, the Baku Steel Company, Baki Poladtekme JSC, and DHT Metal JSC [37].

One has to bear in mind the fact that the system of Azerbaijan’s economic management still retains some of the old-fashioned institutional schemes such as the independent disposition by almost all state-owned large industrial and infrastructure companies of their material and financial resources, the availability for many of those companies of some large budget assignations and their privilege of enjoying some “tax holidays” [38].

In early 2009, the Government of Azerbaijan came up with a package of anti-crisis measures [39]. It includes some preventive steps against the artificial growth of prices on the consumer market, the depositing of foreign currency reserves which are kept abroad in the most reliable of local banks and ensuring reliable governmental control over the investing of these resources in the real sector of economy, enhancing assistance to export-oriented enterprises, increasing the volume of privileged loans to businessmen and intensifying the government’s support of agriculture, and so on. [34].

The existence of the large necroeconomic sector, as well as the practice of financing businesses from public resources as one of the methods of combating the crisis, is a clear indication of exposure of the economy of Azerbaijan (including necroeconomy) to the danger of zombie-ing which was discussed above in the general context of post-Communist countries.

5. Concerning the Impact of the Global Financial Crisis upon Georgia’s Economy or “The Paradox of War”

Generally speaking, the Georgian economy stood the test of the five-day Russian-Georgian war in August 2008 [11] even though it has had to deal with a number of considerable difficulties in the aftermath of the conflict [40] [41] [42]. In the course of 2008, all doubts regarding the negative impact of the global financial crisis on Georgia’s economy disappeared. It must be noted that the summary economic indicators for 2008 clearly reflect the implications of both the global financial crisis and the Russian military aggression against Georgia.
According to the official statistics, the economic growth rate in Georgia amounted to as little as 2.1 percent in 2008, (it was 9.6 percent in 2005, 9.4 percent in 2006 and 12.3 percent in 2007) [43]. The annual inflation rate amounted to 5.5 percent [44]. It must be noted in this context that the apparent deficiency of Georgia’s GDP resides in the fact that the public administration represents the biggest segment of economy whose share in the GDP accounts for 17 percent [45].

As far as Georgia’s economic crisis is concerned, it must be noted that the crisis also has its own domestic roots. These latter consist in the economic policy mistakes that the post-revolution government has made in the aftermath of the Rose Revolution [46] [47]. Other factors which have contributed directly to the rise of the economic crisis in Georgia should also be mentioned as follows:

1. Huge amounts of FDI streamed into privatisations and acquisitions of real estate which led to an obvious misbalance in which the inflow of financial resources into the country substantially exceeded the real sector’s growth rates.

2. With the government’s lesser control of the developments in the construction sector, the industry became dominated by “financial pyramids.”

3. Banks incremented their lending resources basically by accumulating cheap resources from European financial markets with the majority of such resources having been lent for construction and acquisition of consumer goods of which 100 percent are imported in Georgia. Almost all of the imported lending resources, therefore, were used to finance the construction businesses infected by “financial pyramids” and the import of consumer goods. Obviously, such developments could not positively influence the country’s economy.

In reply to the Russian aggression, the international community extended significant financial assistance to Georgia as a victim of the aggression. At the conference held in Brussels under the aegis of the World Bank in October 2008, it was decided to allocate USD 4.55 billion in financial aid for post-war Georgia of which USD 2 billion is a grant and the remainder a loan [48]. Georgia will receive these funds during 2008-2010 and a major part of it will be spent for the liquidation of economic damage caused to Georgia by the Russian military aggression.

After the war with Russia (on September 15, 2008), the IMF, acting within the scope of its Stand-By Arrangement (SBA), extended Georgia USD 750 million in support of the country’s macroeconomic stability of which USD 250 had already been transferred to the NBG reserves in the fall of 2008. On August 6, 2009, the IMF’s Executive Board approved an increase in the credit available under the SBA of about US$420 million, as well as the SBA’s extension to June 14, 2011 [10].

The crisis has also badly affected the national budget. In June 2009, the Parliament of Georgia approved a USD 300 million cutting of tax revenues of the national budget which accounts for 10.5 percent of all tax revenues previously planned for the fiscal year of 2009. At the same time, the national budget grew with the lion’s share belonging to the abovementioned international donor assistance [49].

The negative effects of the Georgian economic crisis might have been far more distressing had the international community not extended a helping hand in response to the Russian military aggression. In other words, although war by essence is a negative phenomenon, it had a positive implication for Georgia, to a certain degree, to the extent that the country received an enormous amount of international financial assistance. This creates, therefore, a so-called “Paradox of War” or a situation wherein aggressive entails not only negative consequences but some positive ones, too.
2009 has hitherto been marked with an apparent decline in the Georgian economy. The year’s first quarter GDP rate accounted for only 94.9 percent of what it was in 2008, and the second and third quarters were at 89.9 percent and 98.8 percent, respectively [43]. According to the rather accurate calculations of the IMF, the economic decline in Georgia will amount to 4 percent at the end of 2009 [50].

Under such circumstances, the ten largest companies in Georgia significantly reduced their production capacities and some stopped operating entirely [51] thereby creating favourable conditions for the succession of a necroeconomy. Although the government periodically buys large amounts of fertiliser from Georgia’s largest chemical factory, Azot, even this enterprise has had to stop its production [51]. Most surprisingly, however, these enterprises continued producing their products for the first months of 2009, in the “best” tradition of a necroeconomy, and in spite of the obvious crisis in the Georgian economy, even though there was no demand for their output. They simply stopped their activities in April and May when the warehouses were completely filled with unwanted products [51].

To help the country overcome the economic crisis, the Government of Georgia developed a so-called “new financial package” which is basically targeted to strengthen the banking and construction sectors [52]. Specifically, the government is planning to issue some treasury bills with an aggregate value of GEL 260 million which will be invested in infrastructure projects. The government, thereby, aims to provide some assistance to commercial banks which are going to be the key recipients of those treasury bills. In times of economic crisis, the treasury bills will enable the banks to raise some assured income from national budget funds. In addition, the package provides for the weakening of the governmental regulation of banks. As a result, the government hopes that the banks will be able to attract some additional GEL 700 million of lending resources. Further, the package envisages the issuance by the Tbilisi City Hall of some financial guarantees to construction companies as a means of encouraging banks to lend money to the construction companies which will then be spent for the renovation of the old sections of the capital.

As one can see, although the problem of necroeconomy in times of an economic crisis is still a very timely one, fortunately, the government’s anti-crisis plans have hitherto not given any indication that the government is going to finance necroeconomic facilities. On the other hand, it must be remembered that no official bankruptcy proceedings have been initiated to this point with respect to any of the necroeconomic enterprises of Georgia. Furthermore, as was noted above, the government of Georgia is going to provide financial assistance to the construction companies many of which represent “financial pyramids.” This is nothing else but a step towards the zombie-ing of those construction companies and also of those banks which will be extending loans to such construction companies owing to the financial guarantees from Tbilisi’s City Hall.

Conclusions

The heritage of the command economy is a “necroeconomy”—dead industrial companies. The goods they manufactured failed to meet the high international standards as a result of their overall low quality and or high prices.
International experience shows, dead firms do exist and “successfully” function in the most developed of economies. These insolvent and, in fact, bankrupt firms which continue to operate despite their “mortality” are commonly referred to as “zombie-firms.”

A zombie-economy takes its roots in times of a financial crisis. During these times, governments, as a rule, are called to help the economy to overcome such difficult conditions through the provision of bailouts and other attempts at keeping the banking sector and the entire economy alive. After the end of a financial crisis, the economy receives its own lifeless portion as a legacy of the difficulties and continues to try to preserve the old system of the government’s financial aid which was readily available to it during the crisis.

Unlike developed economies, which are exposed to the threat of the zombie-ing of the economy under the conditions of a financial crisis, this threat is even greater for the post-Communist countries owing also to their exposure to necroeconomy. The only effective mechanism to get rid of both a necroeconomy and a zombie-economy is to adopt a sound bankruptcy law which, in turn, requires the strong political will of the ruling elite.

The South Caucasian economies suffer from the same basic problems as all the other post-Communist countries with the global financial crisis having created some general threats for all of the post-Communist countries of the world.

In the absence of any serious deposits of natural resources, the global financial crisis had a very serious impact upon Armenia. As was to be expected, the crisis hit the country’s industrial sector first and, primarily, metallurgical and chemical industries wherein the enterprises of a necroeconomy are concentrated. The Armenian government came up with an anti-crisis programme which, inter alia, provides for the support of local industries by means of subsidising or issuing governmental guarantees to companies experiencing certain difficulties and even taking a stake in some of them. Obviously, the Armenian economy is exposed to a critical danger of zombie-ing under the conditions of the global financial crisis.

Armenia is a country where the “Paradox of a Diaspora” has been manifested very clearly: even though the high level of Diaspora inclusion into the economy pushes the country’s economic development ahead, the global financial crisis may force many migrants—mostly in Russia—to return to Armenia which can promote a higher rate of unemployment and, correspondingly, a greater burden upon the national budget.

Azerbaijan’s ability to cope with the global financial crisis easier than any other post-Soviet country is fuelled by the following two factors: the underdevelopment of the financial sector and the domination of the oil and gas sector within the national economy. As was to be expected, particular hardships have been suffered by necroeconomic enterprises such as, specifically, the steel, aluminium and chemical industries. The existence of a necroeconomic sector, as well as the practice of financing businesses from public resources as one of the methods of combating the crisis, is a clear indication of the exposure of the economy of Azerbaijan (including necroeconomy) to the danger of zombie-ing.

Azerbaijan is a country where the “Paradox of a Closed Economy” has been manifested very clearly: even though, on the one hand, the high level of the economy’s “closedness” slows down the country’s economic development, under the conditions of the global financial crisis, on the other hand, it is this “closedness” which diminishes the negative impact of the crisis.
The summary economic indicators for 2008 clearly reflect the implications of both the global financial crisis and the Russian military aggression against Georgia. In Georgia, the economic crisis also has its own domestic roots. Under such circumstances, the ten largest companies in Georgia have significantly reduced their production capacities with some of them having stopped operating entirely and, therefore, creating favourable conditions for the succession of a necroeconomy. Although the problem of a necroeconomy in times of an economic crisis is still very timely, fortunately, the government’s anti-crisis plans have hitherto not given any indication that the government is going to finance necroeconomic facilities. Furthermore, the government of Georgia is going to provide financial assistance to construction companies, many of which represent “financial pyramids.” This is nothing else but a step towards the zombie-ing of those construction companies and also of those banks which will be extending loans to such construction companies.

The negative effects of the Georgian economic crisis might have been far more distressing had the international community not extended a helping hand in response to the Russian military aggression. Although war by essence is a negative phenomenon, it had a positive implication for Georgia, to a certain degree, to the extent that the country received an enormous amount of international financial assistance. This creates, therefore, a so-called “Paradox of War” or a situation wherein aggressive entails not only negative consequences but some positive ones, too.

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