THE IMPACT OF GLOBALIZATION ON THE GEORGIAN ECONOMY

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Abstract
Globalization is a complex phenomenon whose nature and consequences demand thorough study. It is a multidimensional process encompassing economic, political, social, and technological integration at the global level. As one of the most significant forces shaping the modern world, globalization exerts a profound influence on national economic development. Its effects are particularly evident in small and transitional economies, such as Georgia. In Georgia's case, globalization has generated both new opportunities and considerable challenges. This paper therefore examines the impact of globalization on the Georgian economy, focusing on trade, foreign direct investment, tourism, and technological advancement.

Key words: *Globalization, foreign direct investment, trade, national economy, foreign trade*

JEL Classification: *F15, F21, F43, L83*

I. INTRODUCTION

The integration of technological progress creates new opportunities for economic growth and international cooperation. For Georgia, as a small and open economy, globalization offers the chance to join the global economic network, broaden trade partnerships, and attract foreign investment. Yet globalization is not confined to opportunities alone; it also brings serious challenges, including economic dependence on global markets, limited competitiveness of domestic production, labor migration, and heightened vulnerability to external shocks. Consequently, it is essential for Georgia not only to harness the benefits of globalization but also to mitigate its adverse effects in order to secure sustainable economic development.

The relevance of this topic is underscored by the growing intensity of global economic transformations, which exert a significant influence on the structural development and sustainability of national economies. For Georgia, as a small open economy, comprehensive research into the multifaceted effects of globalization is particularly important. Such analysis is crucial for shaping effective economic strategies and enhancing national competitiveness.

The primary aim of this work is to evaluate the impact of globalization on Georgia's economic development and to identify both its positive and negative effects. The study seeks to determine the extent of Georgia's integration into the global economy. A key objective is to analyze the dynamics of foreign trade and assess its influence on economic growth. Equally important is examining the role of foreign direct investment in shaping the country's economy. The paper also explores the implications of globalization for the labor market, with particular attention to employment and migration trends.

The theoretical and methodological foundation of this study rests on both classical and contemporary research conducted by Georgian and foreign scholars, who have examined the economic dimensions of globalization in depth. Special emphasis is placed on works addressing theories of international trade, economic integration, and development. In addition, the analysis draws on reports and analytical publications prepared by international organizations, ensuring the reliability and relevance of the data. The integration of these sources provides a robust theoretical and methodological framework, enabling a comprehensive and objective examination of the issue.

II. THEORETICAL AND CONCEPTUAL FOUNDATIONS OF GLOBALIZATION

Globalization is often described as the expansion of the space of events relative to the circle. *"In relation to the world economy, it manifests itself as the growing involvement of firms and individuals in international trade and investment"* (Zubiashvili, 2026). It has permeated nearly all aspects of human life, making it a complex phenomenon that requires in-depth study.

In the scientific literature, four major theories of globalization are distinguished: world system theory, world culture theory, world governance theory, and global capitalism theory. Each emphasizes different dimensions of globalization and thus carries both strengths and limitations.

- **World system theory** prioritizes the economic dimension but underestimates political and cultural factors.
- **World culture theory** highlights cultural aspects of globalization.
- **World governance theory** focuses on political and legal structures, while downplaying economic influences.
- **Global capitalism theory** is one-sided, concentrating primarily on capitalism.

The concept of globalization began to spread widely in economic literature during the 1980s. Scholars identify four waves of global economic integration:

- **First wave (1870–1914):** Triggered by the Industrial Revolution, marked by improved transport and reduced trade barriers under liberal economic doctrines.
- **Second wave (1920–1930):** A period of slowed integration, as nations pursued self-sufficiency and isolation.
- **Third wave (1945–1980):** Integration revived through the reduction of trade barriers and transport costs, supported by the General Agreement and multilateral regulations.
- **Fourth wave (1980s–present):** Advances in transport and communication technologies further lowered costs of communication and shipping.

The study of globalization elicits mixed attitudes among scholars. Some deny its objectivity, arguing that it is not unequivocally positive. Perspectives diverge: certain theories regard globalization as a driver of development, while others view it as a source of inequality and numerous socio-economic challenges (Zubiashvili, 2026).

III. INTEGRATION OF THE GEORGIAN ECONOMY INTO THE GLOBAL ECONOMIC SPACE

Since gaining independence, Georgia has actively participated in global economic processes. National economic policy has prioritized expanding foreign trade, attracting investment, and strengthening cooperation with international economic organizations. Through the establishment of trade relations with regional markets in Europe and Asia, and by concluding various trade agreements, Georgia has enhanced its export and import capacity, positively influencing key macroeconomic indicators.

Georgia's strategically important transport and logistics connections have positioned the country as a regional hub. Globalization has intensified international competition, which serves as a critical driver of development for individual economies. Georgia's path toward economic integration began in the 1990s, following the restoration of independence. The collapse of the Soviet Union prompted a transition from a centrally planned economy to a market-oriented system, marked by reforms such as price liberalization, privatization, and the opening of foreign trade.

Key milestones in Georgia's integration include:

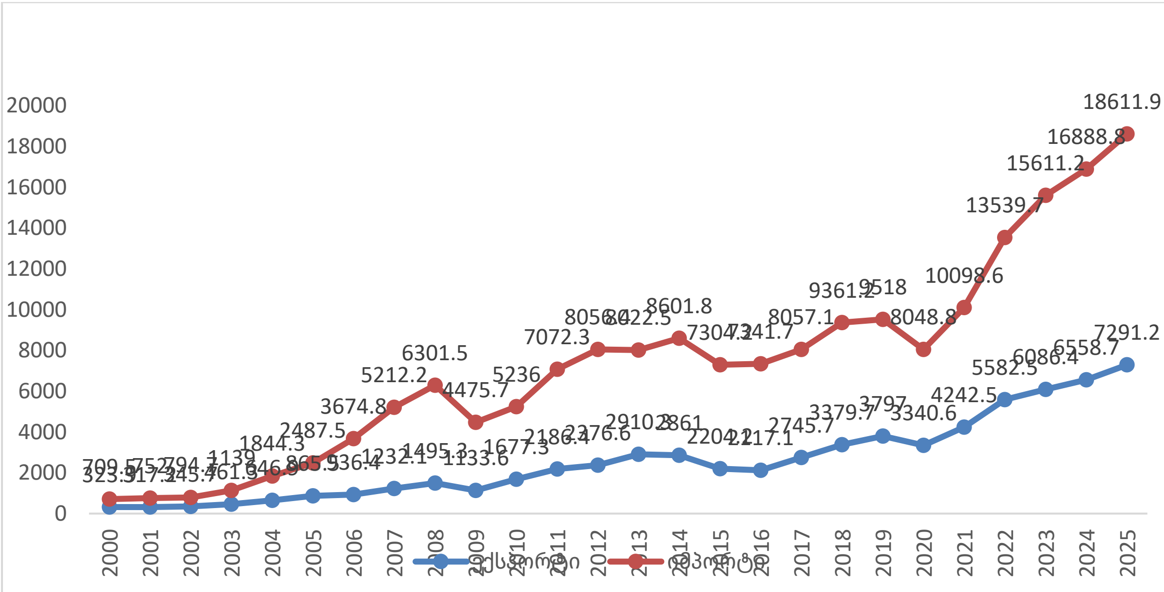
- **1995:** Benefiting from the European Union's Generalized System of Preferences (GSP)**.**
- **2000:** Membership in the World Trade Organization (WTO)**,** ensuring compliance with international trade rules and expanding trade relations.
- **2014:** Signing of the Association Agreement with the European Union**,** including the Deep and Comprehensive Free Trade Area (DCFTA), which boosted export opportunities and strengthened ties with the European economic system.

At present, Georgia is characterized by active global integration, participating in multiple free trade agreements, attracting foreign investment, and experiencing significant growth in tourism.

Impact of Globalization on Key Sectors of the Georgian Economy. Globalization facilitates the integration of countries into the global economic system, enabling Georgia to better utilize its resources and improve macroeconomic performance. Its impact is particularly evident in trade relations, where international trade expands consumer choice and contributes to national welfare.

Chart-1

Export and import dynamics in Georgia, 2000-2025 (million USD)



Source: The chart was compiled by the author using data from the National Statistical Service of Georgia. Dataset: *Foreign Trade in Goods* – National Statistical Service of Georgia, *sagareo-vachroba_1995–2026.xlsx*.

The data indicate that both exports and imports have grown substantially over time: in the past 25 years, exports increased by 2,151**.7%**, while imports rose by 2,523.25**%**. Imports have consistently exceeded exports, resulting in a persistent negative trade balance. Addressing this imbalance requires strengthening exports through expanded production, support for export-oriented enterprises, and increased investment.

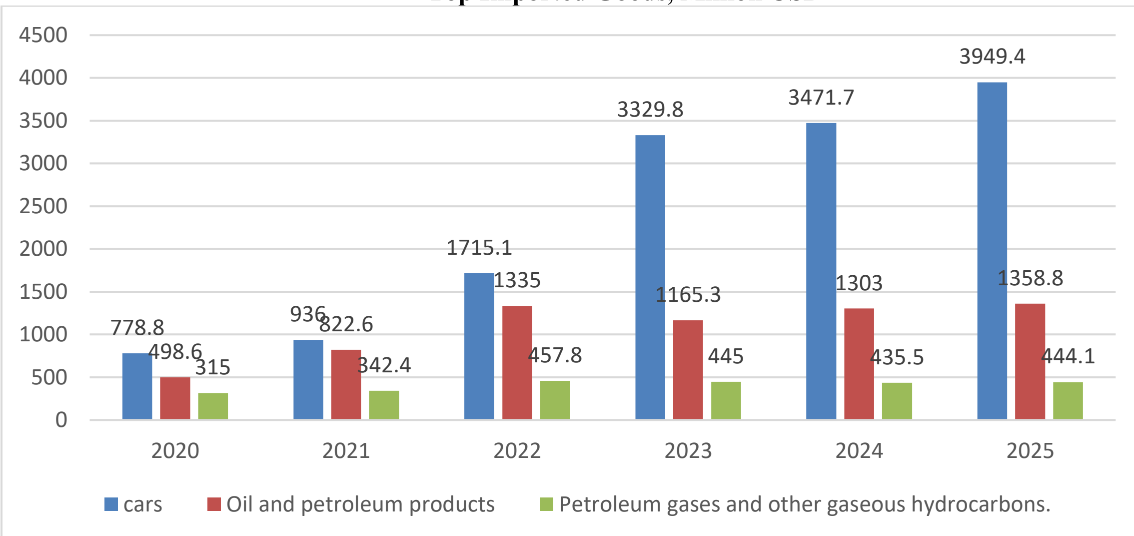
Notably, in 2008–2009 and 2020, both exports and imports declined due to the global financial crisis and the COVID-19 pandemic. These downturns highlight the interconnectedness of economies under globalization, where *“the degree of influence of different economies on each other has increased so much that each country has become a direct or indirect participant in the processes taking place in other countries”* (Aslamazishvili, 2021).

The recent growth in exports underscores Georgia’s deepening integration into global markets. Foreign trade, in the context of globalization, generates both opportunities—such as market expansion and investment attraction—and challenges. While reducing trade barriers facilitates imports, excessive reliance on imported goods can become a significant obstacle to sustainable economic development in Georgia.

The composition of imports and exports is particularly noteworthy. Chart-2 and Chart-3 present data on Georgia’s largest import and export goods.

Chart-2

Top Imported Goods, Million USD

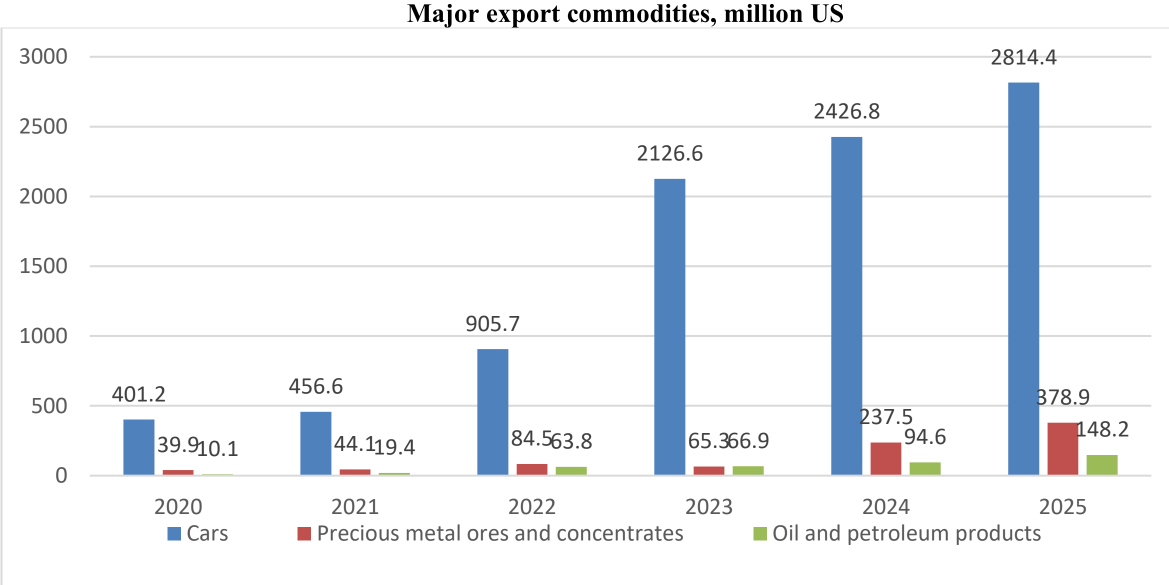


Source: The chart was compiled by the author using data from the National Statistics Service of Georgia. Dataset: *Import Statistics* — National Statistics Service of Georgia.

These data indicate that passenger cars dominate imports and are expanding rapidly, driven by strong demand and limited domestic production. The moderate growth of oil and petroleum products reflects ongoing energy needs. Petroleum gases have maintained a stable volume, and their large share is explained by the limited capacity of the local energy infrastructure.

Chart-3

Major export commodities, million US



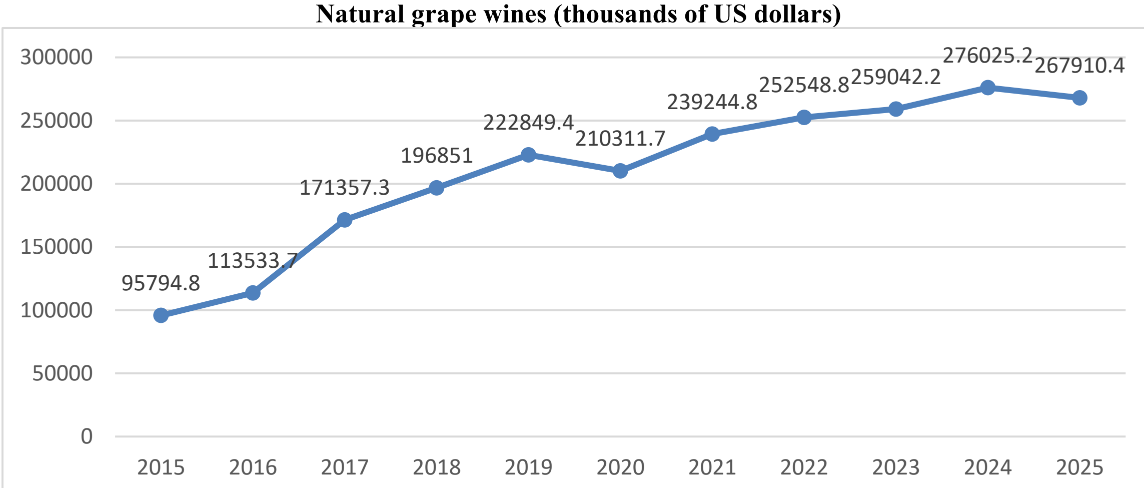
Source: The chart was compiled by the author based on data from the National Statistics Service of Georgia. Export - National Statistics Service of Georgia.

Passenger cars remain Georgia's leading export, with growth largely driven by re-exports and strong international demand. This expansion partially offsets imports, though the balance is still unfavorable. Exports of precious metals are rising rapidly, supported by the opening of new markets and their inherently high value. By contrast, oil and oil products account for only a modest share of exports and remain highly dependent on fluctuations in global prices. Despite overall export growth, imports continue to exceed exports – particularly in the automotive sector – underscoring the need for a more robust export-oriented policy.

An important question is whether globalization has influenced wine exports and to what extent this sector has been affected. Data in Figure 4 show that wine exports have generally increased between 2015 and 2025. From 2015 to 2019, exports rose sharply (from 95,794.8 to 222,849.4), reflecting rapid expansion. In 2020, exports declined to 210,311.7, a drop linked to the pandemic. Growth resumed in 2021–2024, culminating in a peak of 276,025.2 in 2024. In 2025, exports dipped slightly to 267,910.4, though the level remained high. Overall, the trend is upward, with only temporary setbacks in 2020 and 2025. This trajectory indicates that the Georgian wine sector is strengthening over the long term and sustaining a high level of exports.

Chart-4

Natural grape wines (thousands of US dollars)



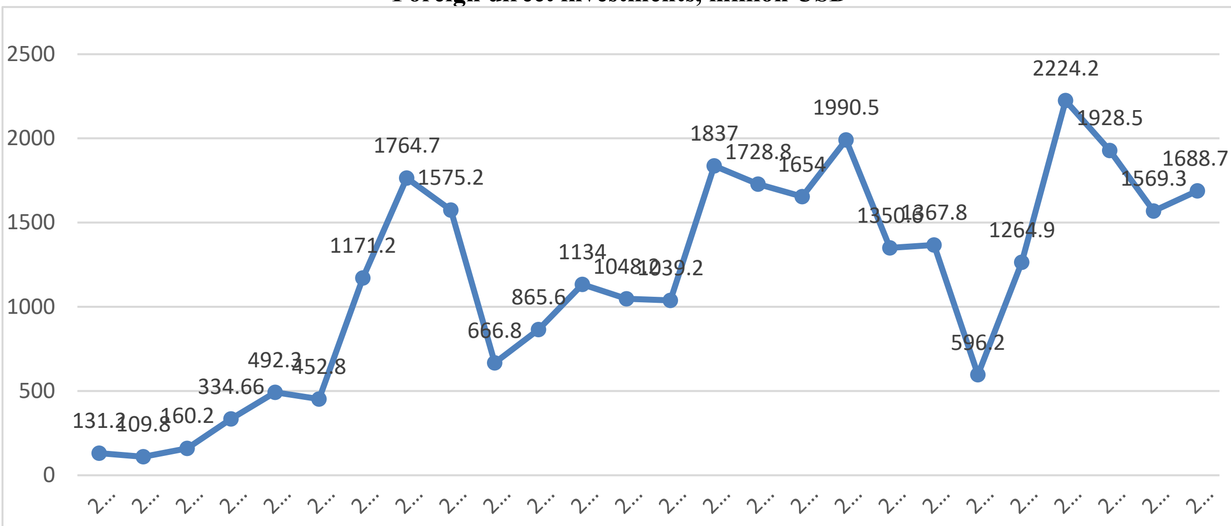
Source: The chart was compiled by the author based on data from the National Statistics Service.
Export - National Statistics Service of Georgia eqsporti-sasaqonlo-poziciebis-mixedvit-2015-2026-(4-nishna).xlsx

The sharp rise in wine exports between 2015 and 2019 demonstrates Georgia's more active participation in global markets, marked by increased international trade and a broader scope of exports. This expansion reflects one of the key outcomes of globalization – the ability to deliver products to wider markets.

Globalization facilitates the freer movement of goods, services, capital, and labor across borders, thereby enhancing market efficiency and intensifying competition. Within this process, investment – particularly foreign direct investment (FDI) – plays a crucial role in driving economic integration and development.

Chart-5

Foreign direct investments, million USD



Source: The chart was compiled by the author based on data from the National Statistical Service of Georgia. Foreign Direct Investment - National Statistical Service of Georgia

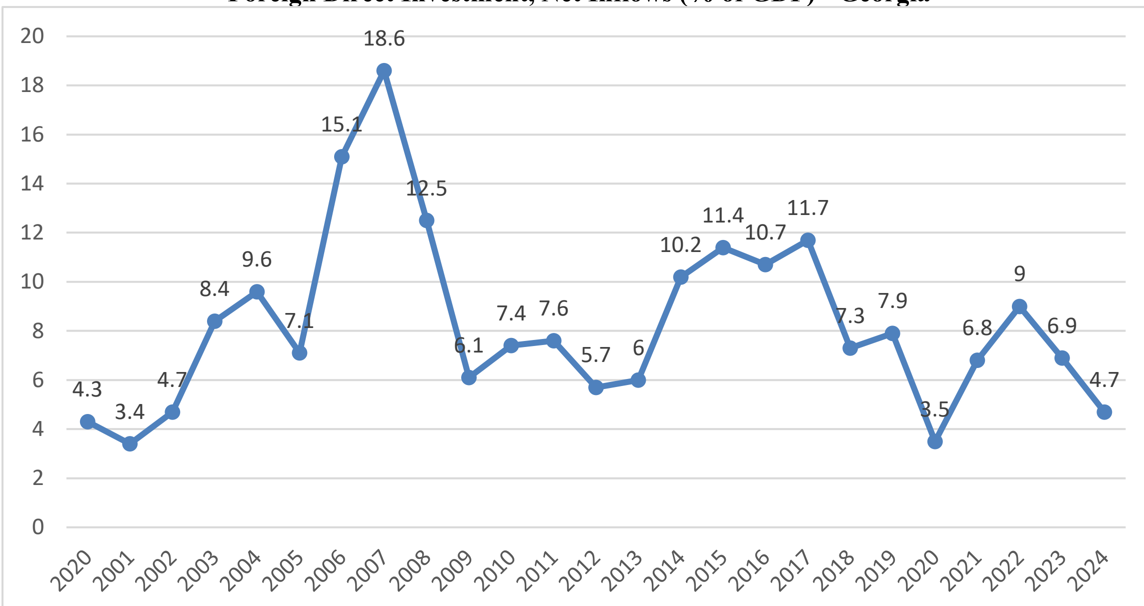
Compared to 2000, foreign direct investment (FDI) in Georgia increased by 1,188% by 2025, reaching its peak in 2022 before declining. Significant downturns were observed in 2008–2009, during the global financial crisis, and again in 2020, due to the COVID-19 pandemic. The sharp growth in 2021–2022 reflected the reopening of the economy, the restoration of investor confidence, and the implementation of previously postponed projects. The subsequent decline after 2022 was driven by the Russia–Ukraine war and heightened regional political risks.

In 2023–2024, FDI fell by 18.6%, but in 2024–2025 it rose again by 7.6%, signaling a partial recovery of investor confidence. Overall, FDI in Georgia remains highly variable, strongly influenced by global and regional developments. The largest investors include Great Britain, Turkey, Malta, the United States, Azerbaijan, the Netherlands, Spain, Russia, Israel, and Germany (National Statistics Office of Georgia). This diversity of sources highlights Georgia's integration into the global economy and its ability to attract capital from multiple regions. It also reflects sustained international interest, which contributes to economic stability by reducing dependence on any single partner.

Another important indicator – the net inflow of FDI relative to GDP – is marked by considerable variability, as clearly illustrated in Chart 6.

Chart-6

Foreign Direct Investment, Net Inflows (% of GDP) - Georgia



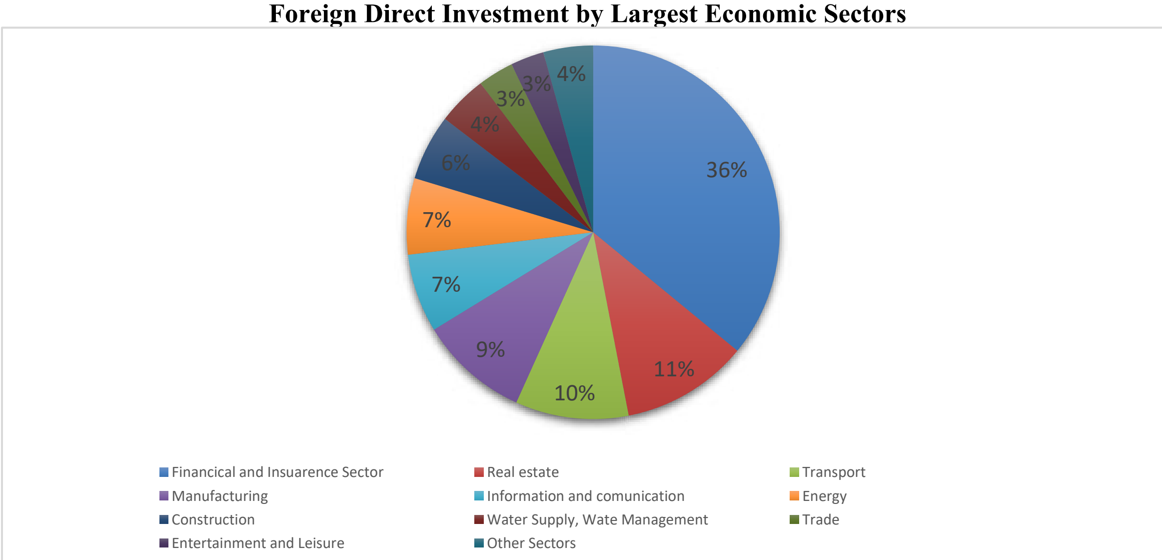
Source: The chart was compiled by the author based on World Bank data.
Foreign direct investment, net inflows (% of GDP) - Georgia | Data

Between 2003 and 2007, the share of foreign direct investment (FDI) in Georgia rose sharply, peaking at 18.6% in 2007. This surge reflected the liberalization of the economy, growing investor confidence, and the successful attraction of foreign capital. Subsequent downturns were triggered by the global financial crisis and later by the COVID-19 pandemic, but recovery has been gradual, with FDI once again showing signs of growth.

Although Georgia remains an attractive destination for investors, FDI inflows are highly sensitive to the global economic and political environment. Equally important is the question of sectoral distribution – which industries draw the greatest share of investment and how this shapes the country's long-term development trajectory.

Figure-1

Foreign Direct Investment by Largest Economic Sectors



Source: The chart was compiled by the author based on data from the National Statistical Service of Georgia.
Foreign Direct Investment - National Statistical Service of Georgia.

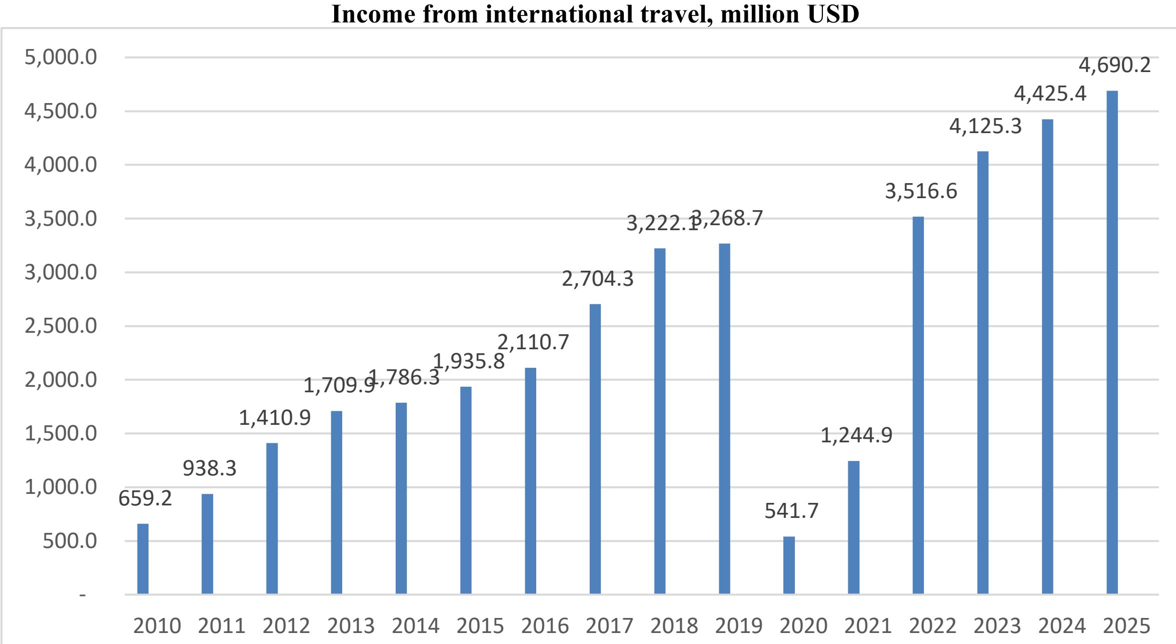
Figure 1 illustrates that the dominant sector for foreign direct investment (FDI) in Georgia is finance and insurance activities, driven by the establishment of large financial institutions supported by foreign capital. This underscores Georgia's attractiveness to the financial sector and reflects strong investor confidence. The real estate sector ranks second (11%), highlighting the dynamism of construction and property markets. Transport (9.8%) and manufacturing (9.5%) also hold significant shares, as these industries contribute directly to economic growth and employment.

Other sectors, including technology, account for only a small proportion of investment, pointing to limited diversification. The energy sector (6.6%), while relatively modest in scale, is strategically vital for economic stability. Expanding renewable energy and strengthening infrastructure are particularly important to reduce dependence on external resources. Overall, these patterns demonstrate that Georgia is actively engaged in the globalization process, attracting investment from diverse sources.

Globalization has likewise shaped the development of the tourism industry, now one of the fastest-growing sectors of the Georgian economy. Both the number of visits by non-resident travelers and revenues from international tourism have increased steadily year by year, reinforcing tourism's role as a key driver of growth.

Chart-7

Income from international travel, million USD



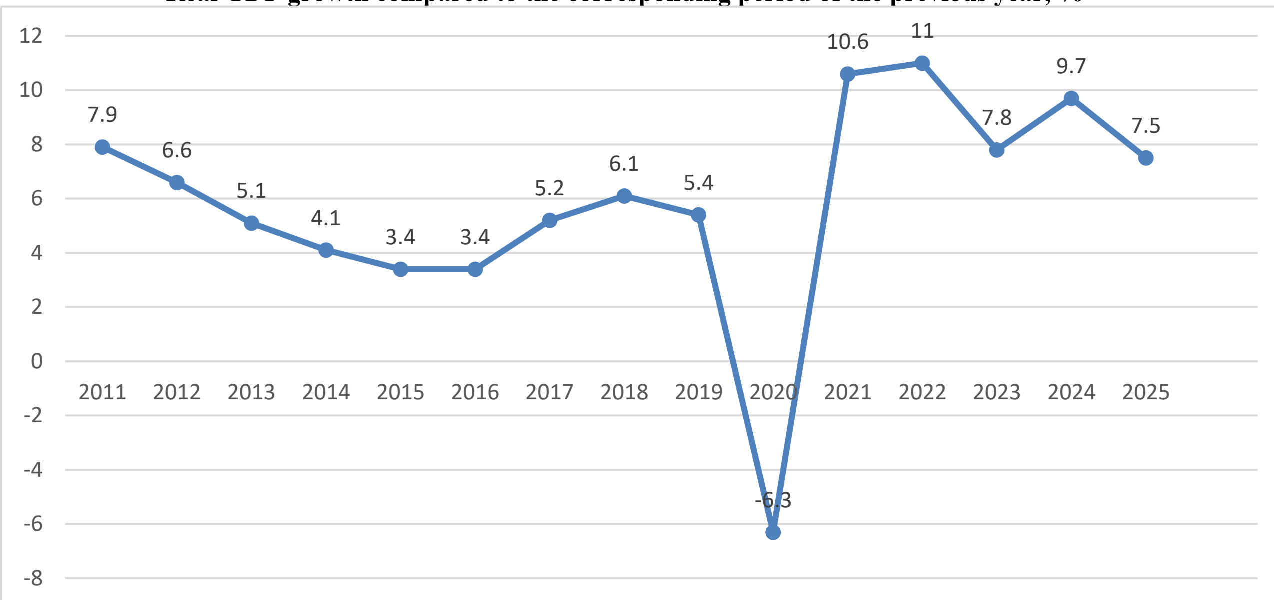
Source: The chart was compiled by the author based on data from the National Bank of Georgia.
Statistical data, travel-geo.xlsx

The data clearly highlight the impact of globalization on Georgia's tourism sector. The sustained growth between 2010 and 2019 reflects the influence of global integration, the simplification of international travel, and the expansion of open markets, all of which contributed to rising tourist flows and revenues. The sharp decline in 2020 underscores the risks of globalization, as the worldwide spread of COVID-19 severely restricted travel and directly disrupted tourism.

The rapid recovery observed in 2021–2025 demonstrates how the restoration of global connections can quickly stimulate economic activity. These developments, in turn, directly affect Georgia's most important macroeconomic indicator – gross domestic product (GDP) growth. GDP captures the dynamics of national economic activity and serves as a key measure for assessing overall economic development.

Chart-8

Real GDP growth compared to the corresponding period of the previous year, %



Source: The chart was compiled by the author based on data from the National Statistics Service of Georgia. Gross Domestic Product (GDP) - National Statistics Service of Georgia, 06_realuri-zrda.xlsx

Between 2011 and 2019, the Georgian economy experienced stable and moderate growth, reflecting the positive impact of integration into the global economy and sustained investment inflows. In 2020, however, a sharp contraction of –6.3% occurred, driven by the COVID-19 pandemic and the resulting decline in economic activity.

The subsequent period, 2021–2022, was marked by rapid recovery and robust growth, supported by the reopening of the economy and rising external demand. In 2023–2025, growth stabilized at a more moderate pace, yet the overall trajectory remained positive, underscoring Georgia's resilience and continued integration into global economic processes.

IV. CONCLUSIONS AND RECOMMENDATIONS

In the context of globalization, the development of the Georgian economy is shaped by both internal and external factors. The country possesses significant potential to strengthen its position within the global economic system. One of the most important directions is the growth and diversification of exports, supported by opportunities to expand into new markets. Equally vital is the attraction of foreign direct investment (FDI). Since the 1990s, Georgia has pursued an open economic policy that facilitated the inflow of foreign capital, particularly into the energy, infrastructure, and financial sectors. This process has generated new jobs, introduced modern technologies, and opened markets. However, a substantial share of profits has often left the country, while investments remained concentrated in a few sectors.

Challenges persist in terms of investment diversification, regional inequality, and the improvement of social outcomes. The quality and structure of investments remain critical issues, as Georgia must develop innovative sectors and attract capital that supports not only economic growth but also the well-being of its population. Statistical evidence confirms that globalization has affected nearly all sectors of the economy, while global shocks have revealed Georgia's dependence on external factors. Although prospects for economic development are positive, their realization depends heavily on effective state policy, institutional capacity, and the global economic environment.

Key Conclusions

- For Georgia, globalization represents an opportunity for economic development, reflected in the growth of GDP, tourism, foreign trade, and FDI inflows.
- Data analysis shows that globalization increases dependence on international markets, with global events exerting direct or indirect impacts on Georgia.

- Globalization has significantly boosted FDI, contributing to economic growth, job creation, technology transfer, and market opening.
- The positive impact is also evident in the tourism sector, where international integration has increased both visitor numbers and revenues.
- Increased competition under globalization often restricts the functioning of small and medium-sized enterprises (SMEs).
- Sectoral weaknesses remain:
  - Foreign trade and production - despite export growth, local production is limited. Industry and agriculture struggle to produce competitive, high-quality goods, resulting in a negative trade balance and dependence on imports.
  - Energy and transport – heavy reliance on imported oil, petroleum products, and automobiles undermines energy security. Local energy production is insufficient, while transport and logistics require infrastructure modernization to fully exploit Georgia's hub potential.

Recommendations

- Diversify FDI to ensure capital is distributed across multiple sectors, especially technology, manufacturing, and energy, thereby enhancing economic sustainability.
- Strengthen export-oriented policies by developing local production, encouraging innovation, and improving the competitiveness of Georgian products in international markets.
- Support SMEs to enable them to operate under competitive conditions and access global markets.
- Enhance economic security by developing effective strategies to mitigate the negative impact of global shocks.

V.ACKNOWLEDGEMENT

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