

THE NATO EFFECT

ON THE ECONOMIC TRENDS
OF ITS NEW MEMBER COUNTRIES
AND POTENTIAL PROJECTION
ON GEORGIAN CONTEXT





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ABOUT THE PROJECT

This is the second research paper prepared under the series of publications Economic NATO. The research paper was prepared within the project: Increasing Awareness and Supporting Public Education on the Economic Benefits of the Euro-Atlantic Integration of Georgia, funded through Democracy Commission Small Grants Program, U.S. Embassy in Georgia.

The project aims at (1) providing the policymakers with reliable analysis and forecast concerning the economic impact of NATO membership on Georgia; (2) enriching the quality of discussions in the public sphere with reliable economic analysis concerning Georgia's Euro Atlantic integration; (3) raising awareness about the economic benefits of Euro Atlantic integration among key domestic actors – policy-makers, the civil society and the media.

INTRODUCTION

The emerging European democracies are confronted with the complex problems of the statecraft in the dynamically changing geopolitical landscape. The volatility of these environments, stress the importance of promoting sustainable economic development and national security, being the major challenges to be addressed in order to minimize existing and potential externalities.

Economic performance of a nation strongly depends on its ability to provide long-term security and stability, through the formation of strategically important narratives and frameworks that can simultaneously set the conditions necessary for a prosperous interaction among the economic agents and enhance the integration of a particular nation in the wider regional and international supply chains.

While economic performance and prosperity of a nation are not the primary concern of the collective security of NATO, it is a direct function of security, due to its ability to deliver political and economic stability in a member country. It can be argued that economic development is the central aspect of a nation's foreign policy, as without substantial economic means a state cannot exert any direct or indirect action to influence activities on the global level. Consequently, economic development is directly associated with the nation's ability to uphold international military presence in counterbalance of tackling global military challenges.

The Process of approximation and eventual NATO membership, besides the security guarantees, complements to the improved institutional frameworks of the economy, the rule of law, efficient governance systems, corporate security, decreasing uncertainty and potential externalities in the environment providing stability, decreasing political risks, stimulating foreign direct investments and trade. Consequently, the process of liberalization and marketization of the country's economy will translate into alleviation of social pressures, higher prosperity and wealth accumulation, thus making society safer and less susceptible to shocks inflated by various types of external and internal challenges.

Under such economic, political and legal framework a state can increase its potential to shift from a local and isolated economy to a much open economy, yielding competitive and comparative advantages through the efficient allocation of resources, efficient production, improved quality of life – becoming more liberal and secure. This environment can act as the fundament for greater optimism in terms of providing right tools that contribute in the process of fostering greater innovation and entrepreneurship in an economy.

Therefore, it ought to be a very close relationship between the advancement of military security and sustainable economic development, based on security economic cooperation and economic cooperation.

The issue of NATO enlargement is not only based on the notion of military importance. Economic cooperation is explicitly mentioned in the Washington Treaty Article 2:

“the Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well-being. **“They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them.”**”

While NATO membership attempts to collectively guarantee the security of its member states and partners, there is also an evident economic effect of collaboration between and all of the NATO allies. Furthermore, significant positive economic effects can be experienced in the countries that made a political decision regarding the NATO membership and engaged in the process of implementing comprehensive reform agenda for reaching political, economic and military interoperability with the allies.

There are additional dimensions of NATO integration than the purely military and even political. The obvious demonstration of this can be comprehended in the various titles of NATO committees, working groups, agencies, etc.: Economic Committee, Committee for European Airspace Coordination, Science Committee, Committee on the Challenges of Modern Society, Senior Emergency Planning Committee, Committee on Information & Cultural Relations etc. There is NATO Security Investment Program for key infrastructure, conjointly with the special programs to support less developed member states to achieve required level of readiness.

The above mentioned are the major positive repercussions of NATO membership on the associated country’s economy in terms of FDI and safe and secure business climate.

However, there are other areas that stand to benefit from NATO membership, because they also relate to the economic health and stability of the country, creation and build up of the institutional frameworks for the successful statecraft. This process starts in the early stage of declared NATO membership and evolves as the process of approximation gaining more robust framework until the eventual membership and continues afterwards.

CASE FOR GEORGIA

It is a well-known fact, that without security it is impossible to achieve a stable and sustainable economic development and liberalization of the markets, aside from irreversible democratic transformation, particularly for the developing countries like Georgia, who have emerged from the soviet totalitarianism, and are in the process of building democracies in spite of existing strong external pressures of hybrid nature, occurred particularly by the volatile characteristic of the geopolitical location.

Under such environmental pressures, where there is growing risk of Russian aggression, violent extremism from middle east, cyber terrorism, and the problem of energy scarcity, it is essential for nations such as Georgia to utilize the maximum extent of potential benefits from the EU Association, by free economic trade and visa-free access, and with the providence of basic security framework achievable through the NATO membership.

That is why it is the major strategic priority for Georgia to pursue Euro-Atlantic integration - EU and NATO membership. The main focus of the paper is to indicate what is the so-called “NATO effect” on different segments of the country and how it could be translated to the issues that are topping “the most important national problems”?

According to the recent NDI polls (CRRC Georgia, 2016),¹ the most important national issues in Georgia are jobs, poverty, territorial integrity, pensions, rising prices/inflation, affordable healthcare, wages, human rights and education. Furthermore, the poll revealed a growing dissatisfaction of Georgian citizens with the current affairs of the country, where their major concern lies within the economic challenges that per household faces. 42% of the respondents revealed that their household is worse off than it was before 2012 elections, and the majority of 81 % blame the current government actions for these problems.

1 Public Attitudes in Georgia. Results of a March 2016 Survey. NDI.

In spite of 2.8% growth which is relatively modest if compared with the standards of developing nations, 2015 was a challenging year for the region and particularly for the Georgian economy, mainly affected by the current challenges in internal and regional economic affairs of neighboring nations, specifically the Ukraine-Russia war. The depreciation of Georgian lari (GEL) by 40% (National Bank of Georgia, 2014)² that occurred from November 2014 to 2015 created a huge shock for both borrowers in business and consumer sector, highlighting the challenges faced by the Georgian government resulted by external factors.

According to the NDI polls, NATO membership itself is priority number 14 with only 6% of respondents voting. While NATO membership has 69% public support, there is no strong link in public understanding and public perception of the direct or indirect (but solid) correlation between the membership and all above mentioned top national issues. Therefore, it is rational to accept that, under such circumstance and changing rhetoric of Russian policies with the neighboring countries, there is an increased risk of a potential resurrection of Russian expansionism strategies in Georgia, especially since Tbilisi declared its goal to lessen the tensions by normalizing economic, cultural and humanitarian aid with Moscow.

The results of changing Georgian policies towards Russia can already be witnessed in regards of the increased dependency of Georgian business sector on the politicized Russian market and the occurrence of growing number of pro-Russian political parties, as well as the revival of Russian sentiments in the lives of everyday Georgian citizens.

It should be noted that, even after Georgia signed free trade agreement with the European union in terms of EU association agreement, CIS countries are still dominating Georgian exports - 30% of total exports are directed to these countries (Geostat, 2016).³ The occurrence can be explained by the trade barriers faced by Georgian producers in terms of standards imposed in EU market,

2 National Bank Of Georgia 2016. www.Nbg.gov.ge

3 External Trade Tendencies. The National Statistics Office of Georgia. www.geostat.ge

so it is no question why CIS countries are still a priority for Georgian tradition-bound producers. In search of economic performance, officials in Tbilisi have been desperately trying to normalize relations with Moscow. As a result, since 2013, Moscow has removed the embargo on Georgian products, furthering the exports in Russian market which have quadrupled, by increasing from 2% in 2012 to 10% in 2015.⁴ Such over dependency of Georgian commercial sector on Russian politicized and volatile market can leave Tbilisi vulnerable to potential shocks, especially as Moscow has advanced its hybrid warfare rhetoric in the region.

NDI polls released in 2015, have revealed that the majority - 61% of Georgians support Euro-Atlantic integration, however, an alarming number of 31% are still in favor of seeking alternatives such as the Eurasian Union.⁵ Yet, the larger part of respondents in both sides, have indicated that economic benefits are their main motivation.

This research aims to provide arguments and reinforce these links through comparisons to the already NATO member countries who got significant improvements in those indicators that are important to Georgian public too.

“NATO EFFECT”

NATO membership provides basic security framework acting as a source of financial stability, provides efficiency in public spending, stimulates growth, as well as encourages domestic and foreign investments.

Countries under the main focus of this research paper are the following:

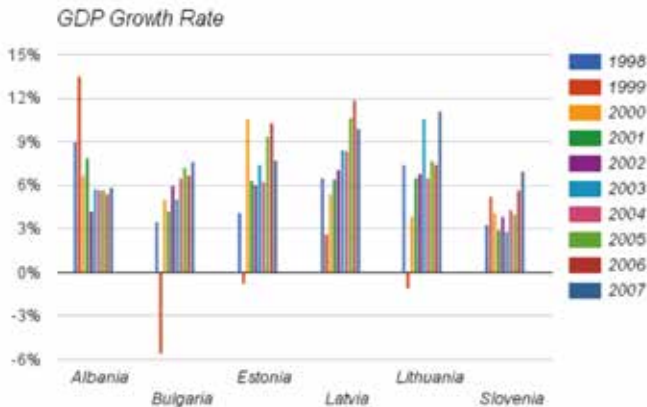
4 Kapanadze, S. Georgia's Vulnerability to Russian Pressure Points. European Council on Foreign Relations. 2014.

5 NDI Polls, 2015. www.ndi.org

Country	Population (M)	GDP € (bln)	EU member status	Member of Schengen area	NATO member status
Albania	2.9	13.1	Candidate status	Yes	Yes
Bulgaria	7.1	44.1	1 January 2007	No	Yes
Estonia	1.3	20.4	1 May 2004	Yes	Yes
Latvia	2.0	24.4	1 May 2004	Yes	Yes
Lithuania	2.9	37.1	1 May 2004	Yes	Yes
Slovenia	2.1	38.5	1 May 2004	Yes	Yes

As the following chart reveals, after joining NATO in 2004, economic activity in Estonia and Latvia, both post-Soviet states, increased significantly. By 2005, GDP growth rate in Estonia jumped from 6.5% to 9.5%, and in Latvia from 8.7% to 10.6%.

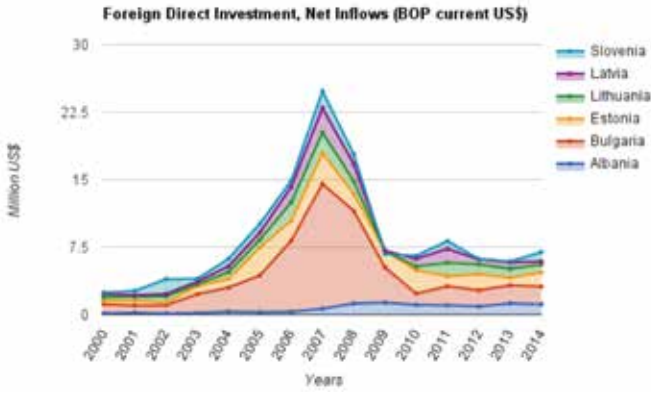
Figure 1: GDP growth rates annual %



Source: World Bank

In addition to stabilizing domestic economy, NATO membership promotes foreign investments. Witness the case of Estonia, where, after joining NATO, foreign investment more than tripled from \$965.8 million to \$3.1 billion. Similarly, such trends started going upwards in Albania, Bulgaria, Latvia, and Lithuania as well. All experienced a marked increase in the foreign investments that, despite being severely hit by the economic crisis, kept in higher levels if compared to the beginning of the millennium. Slovenia, though, has had a more erratic path, but still it's important to highlight that it has also seen an increase in foreign investments prior to the economic crisis as well as a relatively high level of foreign investments in 2014 if compared to previous years. Such trend can be seen as a product of political stability and military security that NATO membership accommodates, which acts as a guarantee for minimization of economic and political uncertainty for foreign investors and increases their potential success of entering those markets.

Figure 2: Foreign direct investment, Net inflows (BOP current US\$)

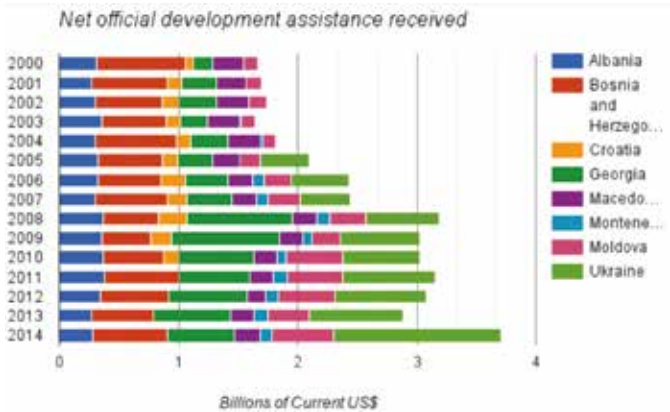


Source: World Bank

Whilst, foreign direct investment can be thought of as one of the major contributors for stimulating economic development, the importance of foreign development assistance provided particularly for aspirant nations should not be underestimated. Development assistance has been long recognized as a tool for lifting a nation out of poverty and

ensuring its long-term economic prosperity, by making investments in sectors ranging from education to military. Since 2000, the effect of Euro-Atlantic engagement in a partner or aspirant nations can be clearly recognized.

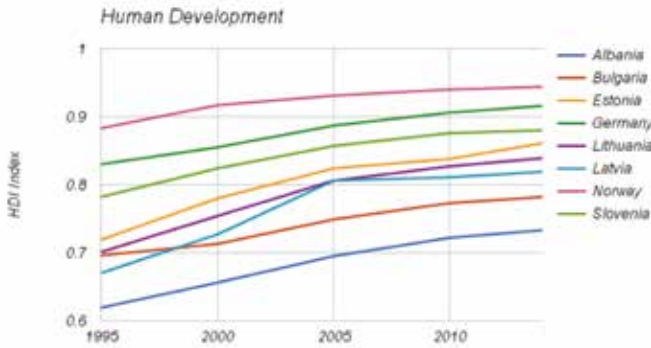
Figure 3: Net official development assistance received in Billion US\$



Source: World Bank

The effects of the above-mentioned factors can be the most evident when analyzing the advancement of level in Human Development index (HDI) which expresses the developments in life expectancy, education, and income per capita. Since the breakup of Soviet Union, Eastern European countries struggled to engage in the improvement of human development levels, which can be observed in terms of comparison with less affected nations such as Germany and Norway. Conforming to the UNDP reports, as part of 2004-2007 expansion strategies taking place in EU and NATO, countries which joined later experienced considerably lower levels of development than the established members such as Germany (0.83) and Norway (0.88). However, the reports display a steady rise in development since 1995, as the contributions were made in the Euro-Atlantic integration process conjointly with the benefits provided upon the membership.

Figure 4: Human development index



Source: UNDP report

For comparison purposes both cases are applicable because today Georgia has EU integration tools (Association Agreement, Free trade Agreement, potentially visa-free travel) that none of the above-mentioned countries had prior to joining NATO, as well as NATO integration process, that is much complex than in 2004. Subsequently, the Russian invasion of Ukraine, has led to changing focus of the NATO summit, which shifted significantly, as both NATO and EU are advancing their policies in order to counter the aggression and focus on the allies - by protecting and strengthening the collective defense.⁶ Now than ever before, the “Western World” understands the risks that the Russian aggressive policies can have on the democratic ideologies and have the largest reinforcements of collective defense since the cold war. NATO secretary general Jens Stoltenberg noted that “the adaptation that is taking place now is a very big and fundamental adaptation of the NATO defense posture”.⁷ Additionally, to counter the Russian expansionist plans, NATO has also been increasing its engagement with aspirant nations, towards strengthening their ties by providing strategic narratives to aid the integration process in the alliance. These

6 The challenges facing NATO - Remarks by NATO Deputy Secretary General Alexander Vershbow at the NATO Parliamentary Assembly. London. 2016. www.nato.int

7 U.S. DEPARTMENT OF DEFENSE. NATO Responding to Russia's Actions Against Ukraine. 2016. www.defense.gov

latest established policies can have huge strategic implications for candidate nations, both in terms of delivering political stability and military security.

The case of NATO's changing strategy towards candidate nations particularly Georgia can be realized amid the decisions that NATO leaders took in the Bucharest Summit in 2008 - "Georgia will become a member of NATO, provided that it meets all the necessary requirements".⁸ Yet, the relation has only taken a substantial step onward after the recent Wales Summit, where Georgia was granted a NATO-Georgia package, consisting of a variety of measurements that are aimed to stimulate the integration process and level the Georgian security and defense standards with the NATO. Due to the consistency in the ambitious reforms undertaken by Georgian government and the effective use of NATO-Georgia commission and the annual national program since 2008 summit, as well as the Georgian military contribution in the NATO's resolute support mission in Afghanistan, Mr. Stoltenberg called the country "an example in the region and beyond", making it clear that the alliance is willing to push the package to another level.⁹

Under the extensive NATO-Georgia Package, secretary general Stoltenberg, together with Georgian officials have introduced a new NATO-Georgian Joint Training and Evaluation Center (JTEC) in Krtsanisi Military facility. JTEC is the most evident NATO presence in Georgia, which is devised to aid Tbilisi in the process of reforming, modernizing and strengthening its defense and security standards by holding training and certification process for allied and aspirant military divisions, specifically committed to the NATO Fast Response Force.¹⁰

At the NATO Warsaw Summit in 2016 allies reconfirmed that "Georgia's relationship with the Alliance contains all the practical tools to prepare for eventual membership".

8 Vershbow, A. NATO and Georgia – Coming Closer. 2016. www.nato.int

9 NATO Secretary General praises Georgia's contributions to Euro-Atlantic security, inaugurates new Training Centre. 2016. <http://www.nato.int>

10 NATO meeting of North Atlantic Council. Warsaw Summit Communiqué. 2016. <http://www.nato.int>

Such narratives deliver and enhance the interoperability of Georgian forces, contributing to the advancement of regional stability especially for smaller developing nations similar to Georgia, being located in a very dense geopolitical area of Black Sea and the Caucasus region who can be vulnerable to constant external threats from the Russian hybrid warfare policies.

Therefore, potential “NATO effect” or more in general “Euro-Atlantic integration effect” could be more tangible in Georgian case if the process continued without deviations and concluded successfully.

Additionally, regional economic integration with other NATO member countries in the Black Sea region similar to the Baltic-Nordic Cooperation could be considered as an important factor having direct advantage for both Georgian economy and its citizens and the member states of the Euro-Atlantic family.

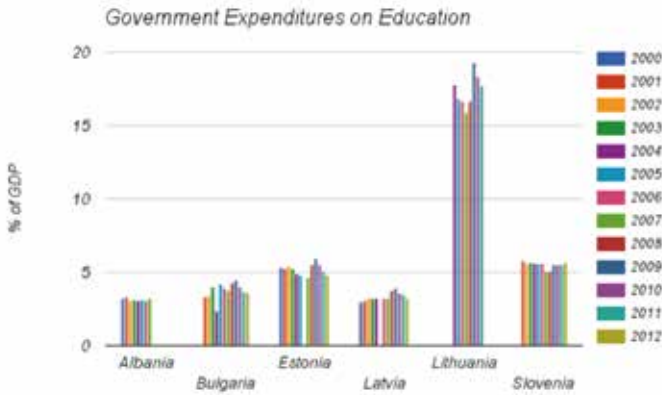
In democratic countries with developed open and free market economies, there is a direct correlation between the share of the investment (private or public) in education, research and development and job creation, investment increase, which eventually transforms in an increase in employment and quality of life.

In this research, we attempt to find out “NATO effect” on those parameters and project it on Georgian context.

EDUCATION

The paths of Euro-Atlantic integration has stressed the importance of developing highly educated and skilled labor force to fuel a strong, sustained and balanced growth for entering states, therefore new NATO member countries, while having basic collective security guarantees were able to increase expenditure on education:

Figure 5: Government Expenditures on Education as % of GDP

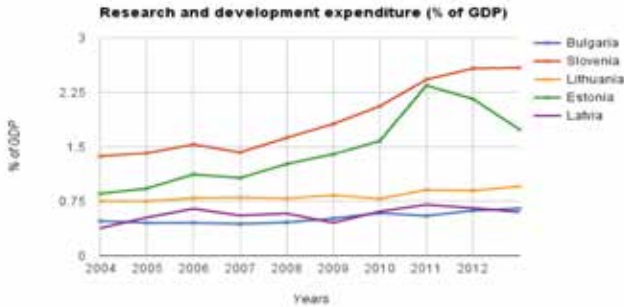


Source: World Bank

After first several years of increased investment in education relatively cheap and highly skilled labor force was generated in new NATO member countries in Europe and therefore increased the potential for further investment in research and development and new technologies. In the direction of increasing potential optimal level of R&D investments, government’s main focus should lie within the adjustment of its current policies, by bringing the entrepreneurial incentives in line with the social rate of return (Griffith, 2000).¹¹ These changes are particularly important for developing nations, as they can provide collaborative initiatives for private and public sectors in the development of business environments that can sustain long-term innovative capabilities, applicable in the local social context and thus create competencies for building technologies adjusted to the local economic requirements. Here, developing nations are in particular focus due to their tendency of underdeveloped institutional frameworks, with weak intellectual property rights policy and inadequate physical infrastructure acting as a source of a challenge thus slowing down the innovation process and advancement of a healthy competitive economy.

¹¹ Griffith, R. (2000). How Important Is Business R&D For Economic Growth And Should The Government Subsidise It. The Institute For Fiscal Studies, (Briefing Note No. 12), pp.1-7.

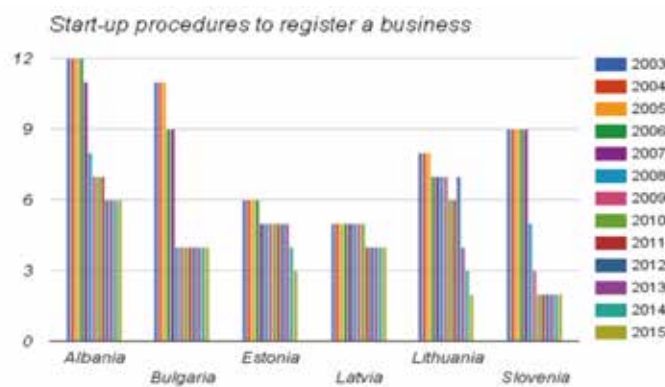
Figure 6: Research and Development Expenditure as % of GDP



Source: World Bank

“The European commission’s objective is to reduce the burden of administrative procedures and encourage more people to become entrepreneurs, create new jobs, and improve Europe’s economic performance”.¹² The graph below shows how the trend in the legislative framework has been developing since 2003, where a steady decrease in start-up procedures from a maximum of 12 procedures to 6 is clearly noticeable.

Figure 7: Number of start-up procedures to register a business



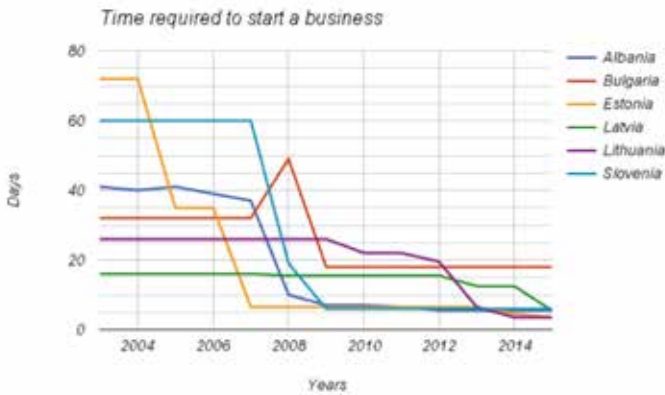
Source: World Bank

¹² Europa.eu. Start-up procedures - Growth - European Commission. 2016. ec.europa.eu

On the contrary, there has also been a visible decrease in the time required to set up a new business. According to the EU regulations, member countries are encouraged to meet the EU standard for setting up time of 3 days.¹³

Since 2004, the later recruited states have engaged in the development of liberalized legal requirements with fewer procedures to undertake to set up a business entity.

Figure 8: Time required to start a business



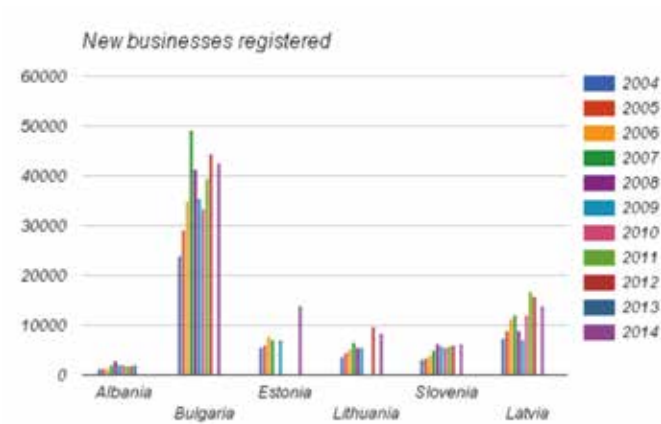
Source: World Bank

As the result, an ability to invest in education and research and development, as well as the ease of setting up a new enterprise, there has been a rise in the number of registered business as well as their diversity contributing to the overall economic prosperity of the Euro-Atlantic community. General increase in the productivity of citizens and business activity can lead to a development of a healthier competitive economy, that can sustain itself and engage in more global challenges.

¹³ Europa.eu. EU - Starting a business - Your Europe - Business. 2016. europa.eu

Therefore, it is crucial for developing nations to increase spending in education, as it can be argued to be directly correlated with a reduction in unemployment levels, decrease in social costs, and increase in overall income of citizens dispersing capital through the economy.

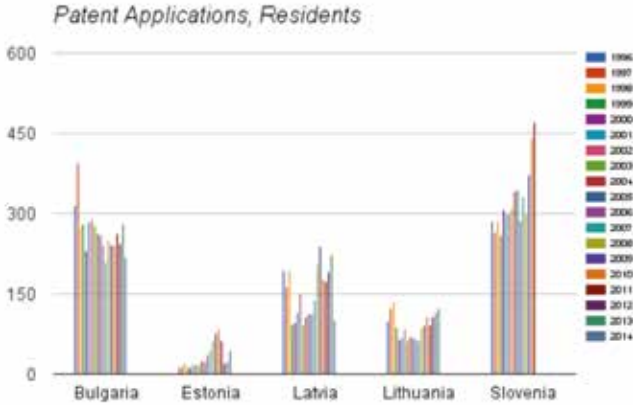
Figure 9: Number of new businesses registered



Source: World Bank

Figure 10 expresses a rise that has been experienced since 2000 year, in regards to the patent application made in the respective countries. Latvia and Bulgaria have experienced the most patent applications from the observed nations, ranging from roughly 200-300 until 2011 where Latvia’s business applications have skyrocketed to the number of 470.

Figure 10: Number of patent applications by residents

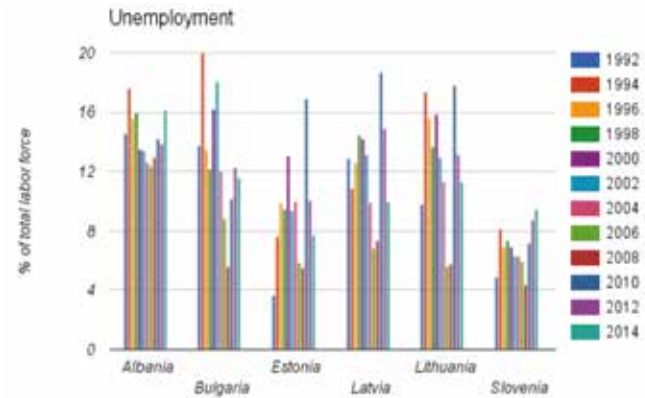


Source: World Bank

Therefore, it can be assumed that the above-mentioned adjustments in the economic dynamics, show how integration in the Euro-Atlantic community, specifically the NATO can lead to the significant decrease in unemployment rates, and increase in economic activity and entrepreneurship in observed nation's, providing grounds for a transition process of becoming a developed economy.

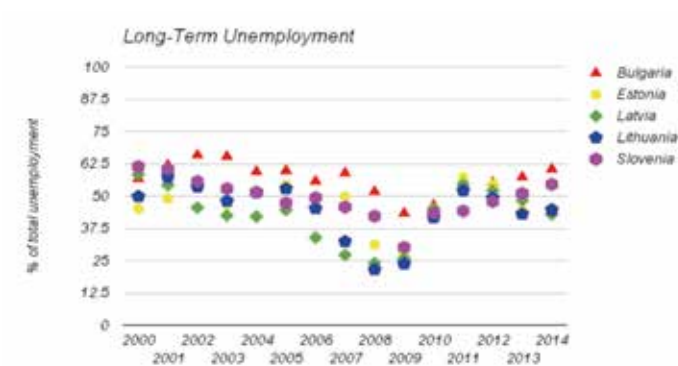
JOBS

Figure 11: Unemployment



Source: World Bank

Figure 12: Long-term unemployment



Source: World Bank

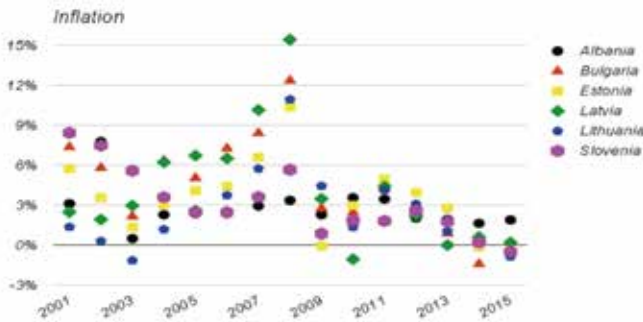
Immediate analysis of the above-mentioned charts shows that there is a significant decrease experienced in long-term unemployment in the period of 2004-2008, mainly

caused by the advancements made in the given state's policies towards the path of Euro-Atlantic integration, increasing their commitment particularly in terms of progressing their economic welfare. These developments are mainly the consequence of the formation of a more intellectual workforce and increased overall demand for labor accounted for the increase in the number of enterprises registered in these countries. However, the trend of decreasing unemployment is evident until the global economic crisis in 2008, which hit the respected countries in 2009 and it took two years for them to recover.

Due to the increase in globalization of the economy, accompanied by the introduction of new NATO member countries (big or small) there is an increased potential of leaving member states vulnerable and dependent on Global or regional trends in different degrees, but the fact that the above-mentioned countries were already able to increase investment in education, research, development, and technology – therefore diversification of the economy – increases their resilience to the external or internal shocks and their sustainability.

It can be argued that the formation of a healthy and competitive economy can be a major source for generating long-term sustainable (permanent) improvement of overall quality of life of the citizens and equal income distribution. Furthermore, low unemployment can be a major indicator of marketization of an economy, as low unemployment rates in a country can result in higher spending power of the citizens thus enabling them to afford high-quality products and more importantly food and healthcare.

Figure 13: Inflation

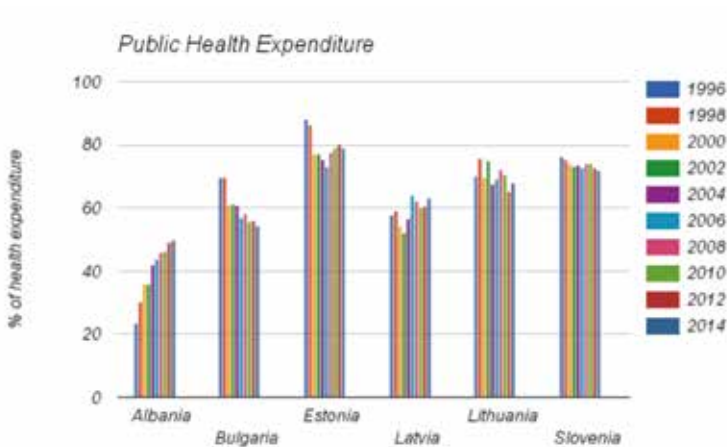


Source: World Bank

When it comes to inflation, a very important takeaway is that it has generally been under control for more than a decade - average inflation was 3.43% during the time series presented in the above chart. The only critical moment was the economic crisis of 2008/2009 where all countries analyzed here experienced a rise in their inflation rates.

HEALTHCARE

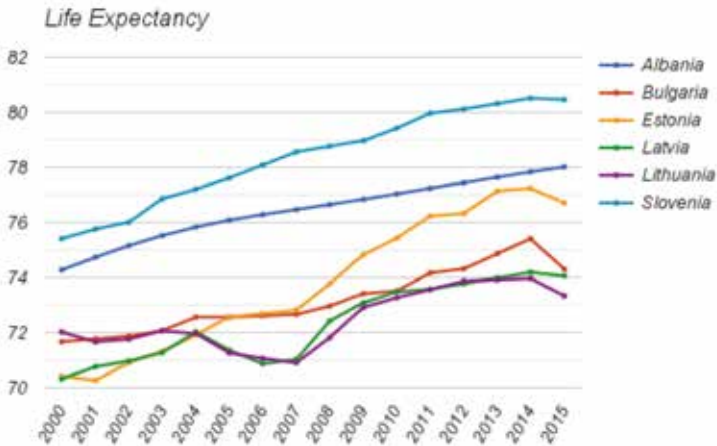
Figure 14: Public health expenditure as % of total health expenditure



Source: World Bank

After analyzing the above given public health expenditure diagram, it is evident that the respective countries except Albania, show that public health care is the priority for investment, and the results of such commitment can be reflected on the following indicators.

Figure 15: Life expectancy

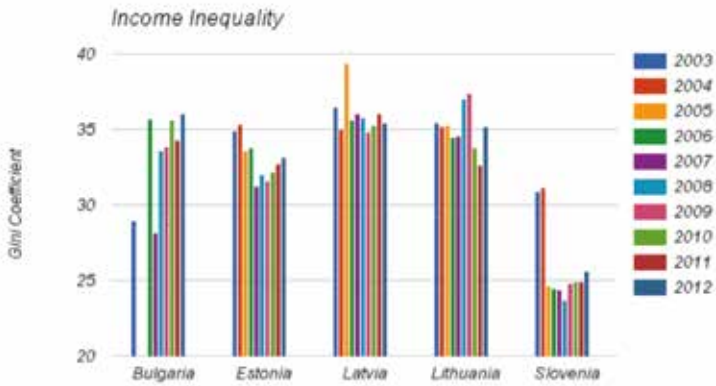


Source: World Bank

Due to the fact that both, an increase in the quality of education and a decrease in the unemployment level provide narratives for higher wages, the above-mentioned trends can contribute to the formation of fundament for higher life expectancy as citizens can afford superior healthcare. It can be argued that there is a strong correlation between the general income of citizens and the accessibility of a high-quality healthcare. Even though, the improvement effect of the life expectancy is not immediate one, but increased investment in the healthcare system, human capacity building and optimal resource administration, in the long run, could generate much healthier population with higher life expectancy, greater role in country's economic activity whilst having a lower social burden for the state.

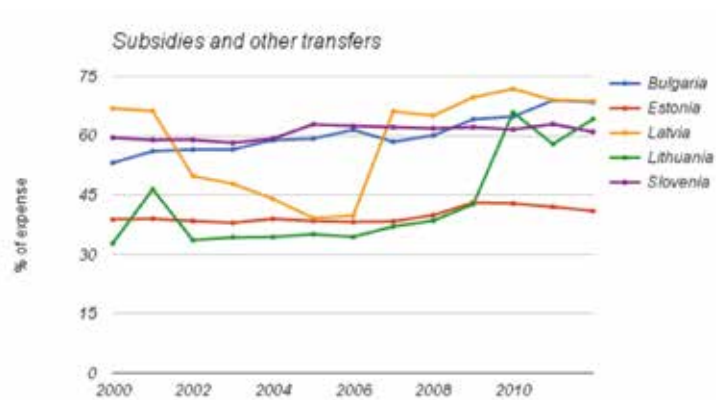
Above mentioned healthy economic trends would significantly improve equal income distribution in the country and would allow governments' more targeted and efficient expenditures.

Figure 16: Income Inequality measured by GINI Coefficient



Source: World Bank

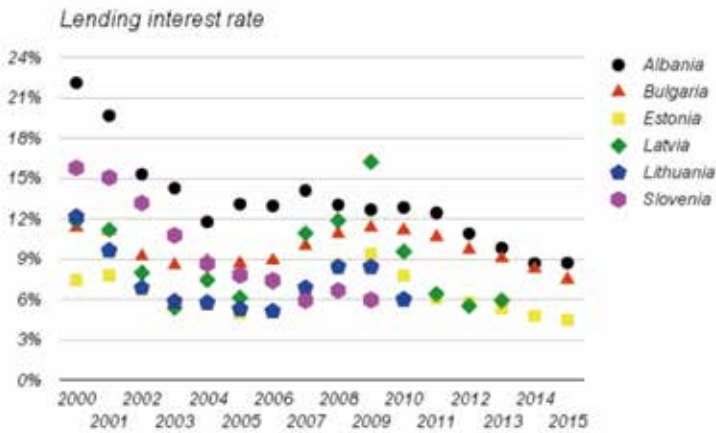
Figure 17: Subsidies and other transfers



Source: World Bank

The Combination of the healthy economic trends with overall security in the country under the collective security guarantees, significantly decreases risk factors, their probabilities and minimizes potential impact. This is well reflected in a sharp decrease in lending interest rates in countries considered.

Figure 18: Lending interest rate



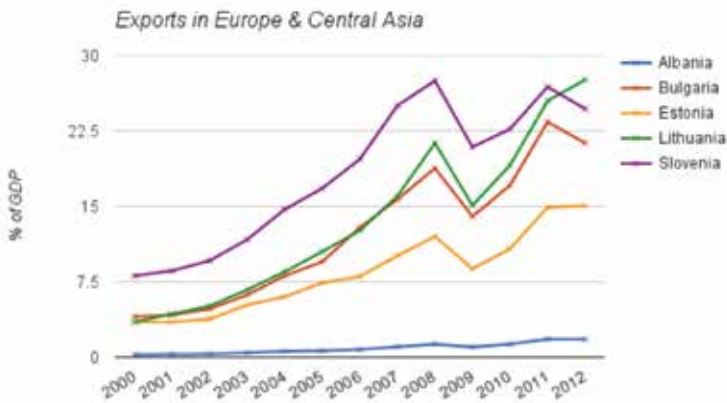
Source: World Bank

Lower interest rates would stimulate and increase economic activity, its diversification and its resilience towards external or internal shocks or challenges.

REGIONAL INTEGRATION

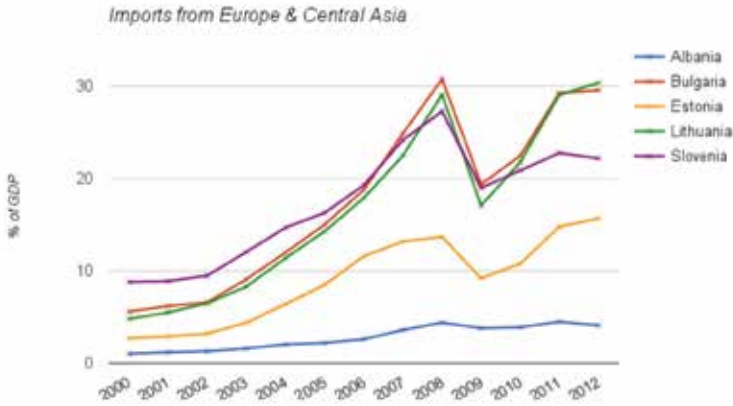
Collective security guarantees provide important foundation for more regional economic and political integration, diversification and resilience for the economy. Integration acts as a source of promoting economic prosperity, peace and security in a region through development of liberalized economic and political policies between participating states. The following diagrams, reveal how Euro-Atlantic integration has directed exports and imports in the analyzed nations, from the year 2000 to 2012. The indications clearly disclose that the amount of traded goods between the corresponding states with Europe & Central Asia has intensified since 2000, experiencing a slight downfall in 2008 due to the economic crisis but shortly getting back on its track reaching around 20% of GDP both in terms of exports and imports for Bulgaria, Lithuania and Slovenia.

Figure 19: Exports in Europe and Central Asia



Source: World Bank

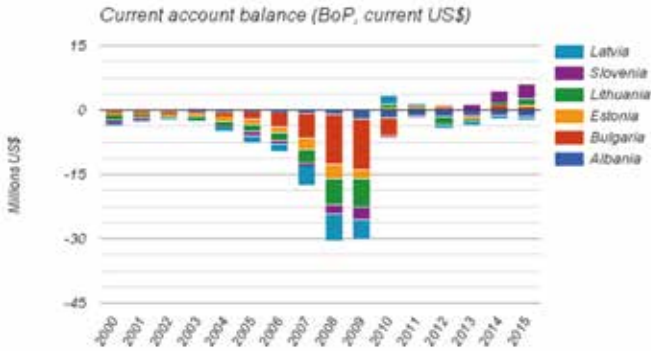
Figure 20: Imports from Europe and Central Asia



Source: World Bank

On the contrary, the following diagram, expresses the current account (BoP) in the respective nations, explicitly showing the balance of trade with other entities highlighting the state of the economy. Due to the fact that the number of exports indicate the demand for domestic products, whereas imports imply to the supply of goods needed to satisfy the local production requirements, it can be argued that BoP is strongly interlinked with the level of sustainability as well as the phase of development of an economy. After evaluating the following indicators, as well as the above mentioned exports/imports analysis, it can be argued that there is a strong rising trend in the deficit of the current account of the analyzed nations, indicating that the states were underdeveloped import based economies, which is a natural phenomenon for economies in the transition period, as their spending is high whilst savings are low. Nonetheless, since the 2008 economic crisis, the selected countries have experienced a sharp drop in the amount of imports in the economy enabling the economies to substitute those imports stimulating the economic recovery process, thus gradually restoring the equilibrium.

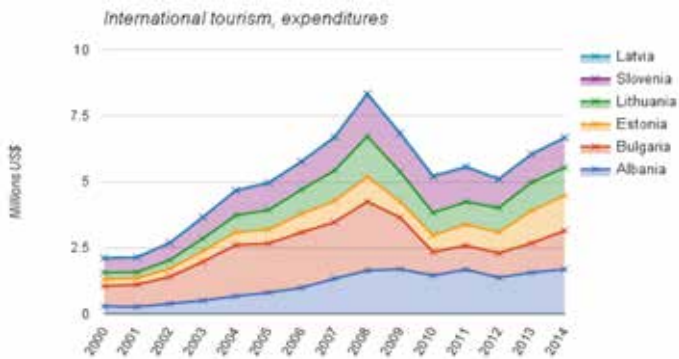
Figure 21: Current account balance (BoP, current US\$)



Source: World Bank

Furthermore, since 2000, there has also been a steady rise in the tourist expenditures in the analyzed countries, injecting additional capital which contributes to the overall advancement of the economy. Such trend can be a product of political stability and security accommodated by the NATO membership, as well as advancement in the economic welfare of the nations, specifically the development of new businesses and infrastructure.

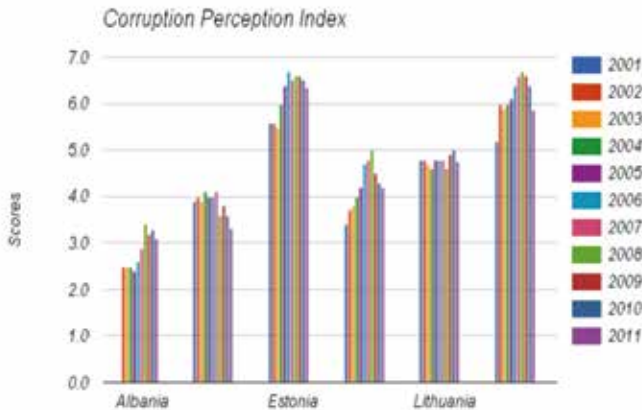
Figure 22: International tourism, expenditures



Source: World Bank

INSTITUTIONS

Figure 23: Corruption Perception Index



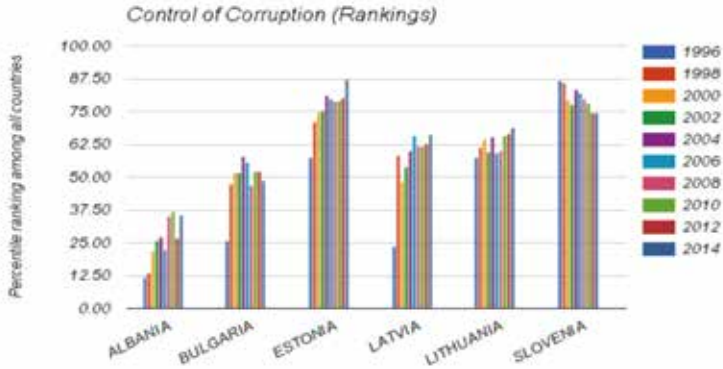
Source: Transparency International

It's also extremely important to zoom in the functioning of the institutions of those countries which have chosen to make this transition towards the Euro-Atlantic Integration. To that extent, it becomes imperative to take a look at the evolution of the Corruption Perception Index in those countries during a long time frame since this analysis has a potential of showing us the evolution of those countries' institutions from the perspective of combatting corruption. For the matter of the study, it was chosen to analyze the time series ranging from 2001 up to 2011. The years following 2011 were taken out of the analysis because there was a change in the methodology adopted by Transparency International.

With all that in mind and taking into account that the higher the Corruption Perception Index the lower the perceived corruption, one may draw from the graph that there is not a clear and enduring trend across the countries.

Nevertheless, it shall be remembered that measures have been taken by organisms within the Euro-Atlantic framework in order to increase transparency and accountability and combat corruption: NATO's Building Integrity Programme and Council of Europe Group of States Against Corruption.

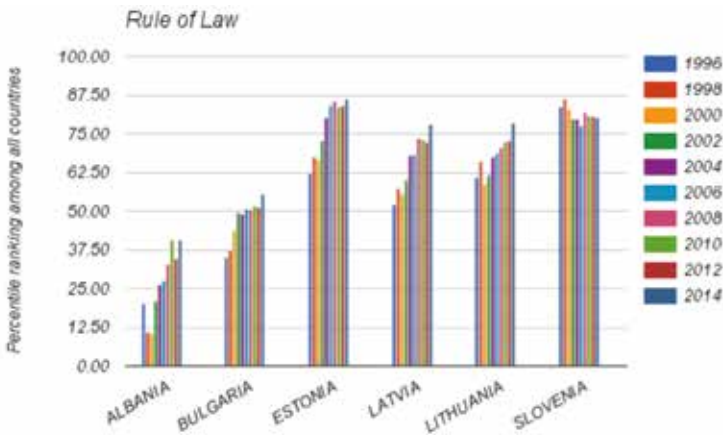
Figure 24: Control of Corruption Index



Source: World Bank

With exception of the Slovenian case, there seems to be a trend towards less corruption. Interestingly, not only have those countries become less corrupt in relation to themselves along the last years, but they have also become less corrupt in relation to the rest of the world as it's shown by the chart regarding the rankings of the Control of Corruption Index.

Figure 25: Rule of Law Index



Source: World Bank

Other indicators, which are facets of functioning for those countries' institutions just as the Corruption Perception Index and the Control of Corruption Index, show some progress in terms of the State's efficiency in comparison to the rest of the world. However, it's not widespread and enduring.

The Rule of Law Index, for instance, purpose of which is to measure to what extent people trust and abide to the laws, clearly shows how those countries made an enduring progress or at least maintained their high rankings.

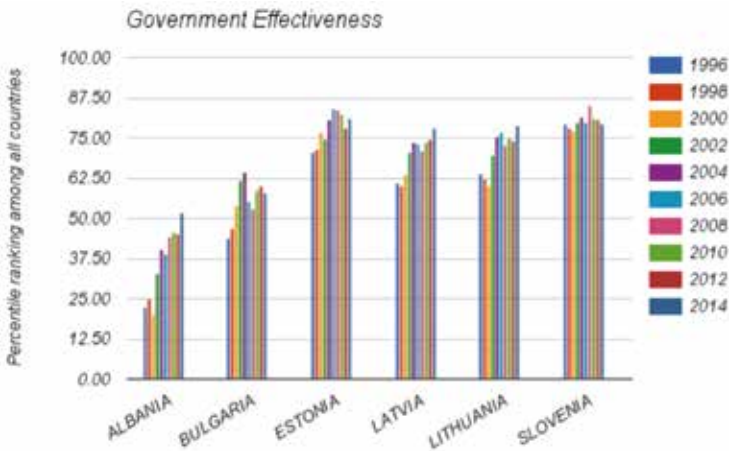
The same can be said when it comes to the ability of the State to design policies which foster the existence of a prosperous private sector as it's described by the Regulatory Quality Index presented in the graph below.

Figure 26: Regulatory Quality Index



Source: World Bank

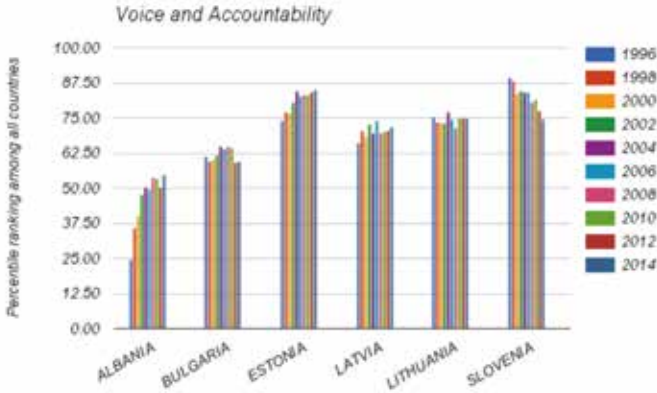
Figure 27: Government Effectiveness Index



Source: World Bank

Additionally, the positive scenario in terms of government effectiveness should be pointed out, which is defined for the matter of the study as the “perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies”. It’s interesting to notice that four out of the six countries in analysis in 2014 were within the top quarter percentile while the other two have been in an enduring process of improvement of their positions in the rankings.

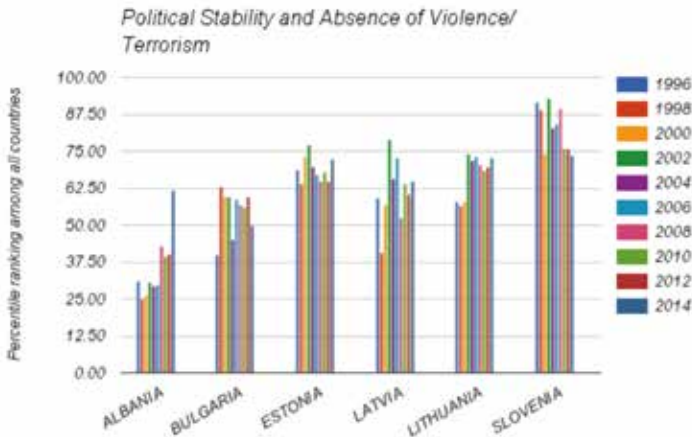
Figure 28: Voice and Accountability Index



Source: World Bank

In terms of the Voice and Accountability Index, which measures “the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media”, one can notice that the progress is not so widespread but still countries are either improving its rankings or already well positioned, with the exception of Bulgaria which is petrified in the middle of the rankings.

Figure 29: Political Stability and Absence of Violence/Terrorism Index



Source: World Bank

Eventually, the Political Stability and Absence of Violence/Terrorism Index, which measures “perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism”, doesn’t show any trend across the countries. Furthermore, Albania shows a steady improvement in its rankings’ positions, followed less intensely by Lithuania. Bulgaria and Latvia have been oscillating a lot while Estonia has been steadily in an upper middle position in terms of the rankings of Political Stability and Absence of Violence/Terrorism. Slovenia is again well-positioned in the rankings but at the same time shows a constant decrease of its indicator.

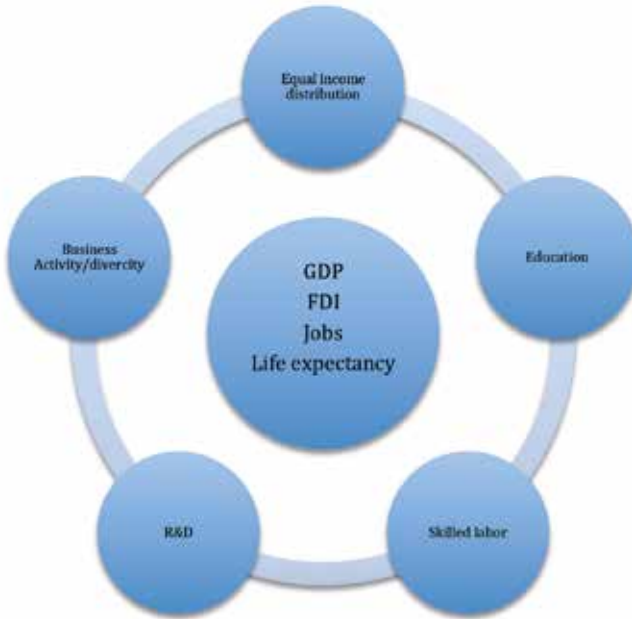
CONCLUSION

For the new members, NATO’s membership resulted in the formation of greater opportunities for long-term growth of the economy. The first and the foremost effect of the NATO and EU membership that was considered, was to enhance economy guaranteeing the security of the nation and promoting economic stability. The stability that NATO membership provided, was considerable enough for delivering grounds for attracting foreign direct investment.

Given the fact that a NATO membership would ensure that the country would remain politically strong and secure from external shocks, the integration of in NATO cemented its efforts to attain prosperity in the long run.

“NATO effect” potentially could be translated in the following few simple but effective cycle with tangible deliverables for the average citizens:

Figure 30: NATO effect deliverables



“NATO effect” generated short and long-term positive effects like:

GDP - immediately increased approximately 1.5 times;

FDI - increased approximately 3 times;

Unemployment - decreased approximately 3 times;

Life expectancy - has been increased by average by 5 years

Regional Integration - Exports and Imports have doubled since 2004, and deficit recovered to equilibrium

Georgia faces much greater and complex security challenges than those countries prior to the NATO membership, therefore potential “NATO effect” on economy through the elevation of those threats would be much greater.

Like Georgia, all of above mentioned countries had pursued parallel EU integration track - which had significant positive effect holistically on democratic statecraft, therefore on a strategic level NATO and EU approximation process should have a holistic strategy with close coordination of every aspect of it including strategic communication.

Next issue to be studied in more detail is the country-by-country difference of the “NATO effect” depending on good governance, economic reforms, judicial reforms, and defense and security sector reform, fighting corruption.

In general, we can predict that good governance and institutionalized democracy would have maximizing impact on the “NATO effect”, particularly when country fully utilizes the benefits of the approximation process by itself before joining the NATO.

POLICY RECOMMENDATIONS:

1. Strategy and whole-of-the-government approach - Strategic plan for the Euro-Atlantic integrations of the Government should be elaborated. Plan should include clearly defined strategic priorities and milestones. Plan should consist of strong cross-link between three major pillars: democracy, security and economic development. Well-streamlined and institutionalized mechanisms for whole-of-the government policy decision-making, implementation oversight and efficiency metrics should be created and strong legal framework established.

2. Management of strategic communication policy - Institutionalized involvement and strong support from the highest political level is the key for the successful holistic strategic communication policy, with clearly distributed duties and responsibilities among all stakeholders. This policy should include well-targeted and coordinated communication strategy with qualitative as well as quantitative indicators for measuring the success, as well as flexible institutionalized mechanisms for its adjustment.

3. Resources - to maximize “NATO effect” of the already ongoing integration process as well as practical benefits of actual membership and post-membership transformation, allocation of additional financial resources for the implementation of the above-mentioned policy is necessary.

4. Education and training - Besides the increased transparency, inclusiveness of various governmental and non-governmental stakeholders is also vital (civil society, media, private sector, academia). All the stakeholders should have well defined role and function in Euro-Atlantic countries, therefore policy of human capacity building across the spectrum of the stakeholders is necessary.

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