



## Goeconomic Fragmentation: Challenges and Opportunities of Multilateralism in Small and Medium-Sized Business Development

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### Article Info

**ISSN (Online):** 2582-7138

**Impact Factor (RSIF):** 7.98

**Volume:** 06

**Issue:** 05

**September - October 2025**

**Received:** 27-07-2025

**Accepted:** 29-08-2025

**Published:** 17-09-2025

**Page No:** 380-389

### Abstract

The article assesses the positive and negative sides of globalization, discusses the consequences of goeconomic fragmentation caused by the deglobalization process.

It is substantiated that at the current stage, goeconomic fragmentation and the breakdown of world order pose serious challenges to small and medium-sized businesses. Multilateralism is considered as an opportunity for cooperation or a formal alliance between many countries to achieve a common goal and overcome the obstacles caused by goeconomic fragmentation.

Bibliographic research assesses the obstacles to goeconomic fragmentation and summarizes the findings of researchers on the possibilities of multilateralism.

A quantitative study was conducted using multivariate, alternative and scale-based questions. The study identified the consequences of the negative and positive impact of goeconomic fragmentation on small and medium-sized businesses.

The article identifies the main limitations of the research, provides conclusions on the main obstacles to goeconomic fragmentation, and develops recommendations on the possibilities of multilateralism.

**DOI:** <https://doi.org/10.54660/IJMRGE.2025.6.5.380-389>

**Keywords:** Goeconomic Fragmentation, Obstacles, Opportunities, Multilateralism, Small and Medium-Sized Businesses.

### 1. Introduction

Globalization has covered all areas of public life: economic, political, social, cultural. This process has played a positive role in deepening integration ties between countries, expanding trade and economic relations, forming a free market, increasing economic growth and the well-being of the population. However, in modern reality, the negative sides of the globalization process are also considered: weakening of national and state identity, worsening of the situation in some countries, limiting the development of cultural values of nations, etc.

The globalization process has clearly slowed down since the financial crisis (Antràs, 2021; Baldwin *et al.*, 2023) <sup>[1, 2]</sup>, countries faced many challenges. Due to their highly integrated economic and financial systems, they have become significantly dependent on each other, and the issue of reducing risky strategic and economic dependence on other countries has become a priority. After decades of increasing global economic integration, the need for deglobalization has become apparent. Deglobalization, in turn, leads to goeconomic fragmentation - the concentration of economic activity in new blocks that are interconnected geographically (regionalization), institutionally or through similar regulations.

Geo-economic fragmentation makes the environment fragile and limits the opportunities for business growth and formalization. At the same time, it becomes more difficult for firms to access critical resources, further putting business operations at risk (Calise, 2023) <sup>[6]</sup>.

The ongoing geo-economic fragmentation undoubtedly creates uncertainty for business. Accordingly, it is important for business to constantly assess its role in the well-being of the global community and be ready to cooperate to solve global challenges. Naturally, this is not an easy task, given that most businesses have to operate in short-term periods and under high-risk conditions (Jerbi, 2024) <sup>[20]</sup>.

Small and medium-sized businesses are an essential and integral part of a market economic system. For instance, this type of business accounts for more than 99% of businesses in the European Union and holds leading positions in the economies of all 27 countries - producing 60% of the total product (Katsinis *et al.*, 2024; OCED, 2023) <sup>[21]</sup>. In developing countries and countries with economies in transition, the share of small and medium-sized businesses is more than 90%, however, their contribution to gross domestic product is relatively modest (Ministry of Economy and Sustainable Development of Georgia, 2020) <sup>[30]</sup>. It is noteworthy that 97% of companies in Georgia are small and medium-sized, accounting for 57% of total output (National Statistical Office of Georgia, 2024). In times of geo-economic fragmentation, in conditions of uncertainty in social and economic development, it is precisely small and medium-sized businesses that play a decisive role in the stability of the economic development of countries (ICSB, 2024).

The current disruption of the global order poses serious challenges for small and medium-sized businesses. Countries struggle in a climate of turbulence, heightened nationalism, geopolitical tensions, and geoeconomic fragmentation (Banfi *et al.*, 2024) <sup>[3]</sup>. Against this background, the actions of states in the international arena are motivated by personal interests. Accordingly, the implementation of protectionist policies by governments is increasing and negotiations on trade issues are becoming more difficult.

In order to ensure both trade and institutional development and general welfare, common rules of conduct are established under multilateralism. Multilateralism is seen as cooperation or formal alliances between many countries to achieve a common goal.

It is clear that even under multilateralism, the world faces a number of complex and interconnected challenges, such as climate change, sustainable development issues, global health threats, human rights protection, ending confrontations, including armed conflicts, and others. Given the scale of these problems, their resolution is often impossible within the framework of a single country; only through multilateral cooperation between countries will it be possible to overcome the challenges on the agenda. It is also clear that overcoming the challenges requires the involvement of all actors with international interests, and the participation of representatives of the business sector is especially important in this process.

At the current stage, identifying the contradictions characteristic of geoeconomic fragmentation, studying the impact of fragmentation on the real economy, and determining the needs of multilateralism have become the need of the hour. Small and medium-sized businesses are particularly vulnerable to these problems. Research into the above-mentioned problems will, on the one hand, reveal the contradictions of geo-economic fragmentation, determine the consequences of its direct and indirect impact on small and medium-sized businesses, and, on the other hand, determine the future of multilateralism for business development.

## Research objective

The goal of the study is to identify the contradictions of geoeconomic fragmentation, determine its impact on small and medium-sized businesses, and develop recommendations on the possibilities of multilateralism.

## Research Methodology

The research used various approaches and methods. A bibliographical study was conducted. The search for scientific articles was carried out using the Scopus, Web of Science, Science Direct, Google Scholar and ResearchGate databases.

The work uses the websites of national and international organizations relevant to the research problem, data from the ministries of economic profile of Georgia, and the National Statistics Service.

The study firms were selected using statistical business register databases and a quantitative survey was conducted using a structured questionnaire posted on Google Doc. The representative number of respondents was determined using the methodology developed by Cochran. In accordance with the objectives of the analysis, the sample size was adjusted according to the impact of the population size (John Wiley & Sons, 1977. Copyright William G. Cochran, 1963) <sup>[40]</sup>.

The data obtained through quantitative research were processed using MS EXCEL and SPSS software packages. The research used comparison, analysis, expert, matrix and other methods.

## 2. Literature Review

Against the backdrop of geo-economic fragmentation, the formation of a new world economic order and socio-political difficulties, business needs to cope with challenges and determine forms of cooperation through multilateralism. Scientists are studying these problems from different perspectives.

Researchers are looking for an answer to the question: why is supporting small and medium-sized businesses important for the stability of global trade and an inclusive economy (Fraser, 2023) <sup>[11]</sup>?

In the modern, not so simple world, economists and representatives of other social sciences are interested in finding out to what extent the process of globalization can be completed (Papava, 2022) <sup>[35]</sup> and what impact deglobalization will have on geoeconomic fragmentation. Today, the world order is determined by many coalitions with new rules and renewed connections, and it can be said that the modern world economy is already fragmented and confrontational, the world has moved into an era of fragmentation (Jerbi, 2024) <sup>[20]</sup>.

Scientists argue that the transition to a new world order will take about two decades, however, the change in coalitions will lead to a reconfiguration of the world system, increase the intensity of conflicts (Grinin & Korotayev, 2022) <sup>[14]</sup> and deepen geoeconomic fragmentation.

Crises, especially confrontation, threaten the livelihoods of societies "today" and the stability of countries "tomorrow" (International Trade Centre, 2023) <sup>[18]</sup>. The impact of geoeconomic fragmentation on food security is particularly negative (Kharashvili, 2025; Kharashvili & Aduashvili, 2024) <sup>[22, 23]</sup>.

When navigating confrontational situations, business leaders must constantly strive for positive change, namely, business

must provide society with critical products and services, as well as jobs. At the same time, business should engage in corporate philanthropy (Shou *et al.*, 2024) <sup>[36]</sup>. In this way, business will help maintain the livelihoods of millions of people (Friends of Multilateralism Group, 2023) <sup>[12]</sup>.

Business leaders should share ideas, build international connections, and encourage trade and investment through global collaboration (Krueger, 2006) <sup>[26]</sup>.

In the process of forming a new world order, the institutional capacity of the country is reduced, private and public services are limited, and the ability to manage social, economic, political, security or environmental risks is reduced. Accordingly, the country becomes fragile. In a fragile environment where state capacity is weak, the private sector comes under international attention as an opportunity for stabilization and peacebuilding (Hoffmann & Lange, 2016) <sup>[16]</sup>.

Even if businesses show resilience in the face of geo-economic fragmentation, they will have to make a choice: whether to take advantage of the uncertain geopolitical environment and reap the benefits or to prioritize corporate social responsibility. Business activities aimed at personal gain from a country's difficult situation can destabilize the economic system and have a destructive effect on post-conflict recovery (Moritz, 2024; Baumol, 1990; Subedi, 2013) <sup>[31, 4, 37]</sup>.

The cost of starting a business in fragile environments is twice as high as in middle-income countries and 15 times higher than in high-income countries (International Trade Centre, 2023) <sup>[18]</sup>. At such times, both foreign and local business representatives have to deal with high risks without risk insurance services. It is believed that the most fragile countries are those with economies based on small and medium-sized businesses (Brueck *et al.*, 2011) <sup>[5]</sup>.

Assessing geoeconomic fragmentation is particularly important in the context of small open economies. Small open economies are globally highly interconnected economies and are sensitive to international trade and investment, and a high level of integration into global supply chains is vital for such economies (Makhlouf, 2023) <sup>[28]</sup>.

A bibliographic study has shown that geoeconomic fragmentation affects the European economy differently depending on the country. This view is confirmed by studies conducted on the example of France, Italy, Slovenia and Spain. However, it was found that a 50% reduction in FCI imports from China and other countries with a similar geopolitical orientation would lead to significant losses in added value (Panon *et al.*, 2024) <sup>[34]</sup>.

In recent years, geoeconomic fragmentation has been defined as a significant geopolitical shift in the new international order and international relations (Aiyar *et al.*, 2023). Events such as Brexit, the trade dispute between the United States and China, restrictions on trade flows between countries, and ongoing conflicts have contributed to this trend. The Covid-19 pandemic has also accelerated geo-economic fragmentation, with agri-food trade flows experiencing particular changes (Kharaishvili & Lobzhanidze, 2022) <sup>[24]</sup>. Scientists have argued that geoeconomic fragmentation in different countries (e.g., Belgium, France, Italy, Slovenia, and Spain) can affect the economies of countries differently.

In general, it is assumed that imports of FCIs from China will decrease by 50% and countries with similar geopolitical orientation will experience significant losses in added value, while geoeconomic fragmentation will directly affect the financial performance of firms (D'Orazio *et al.*, 2024) <sup>[8]</sup>.

In the context of geoeconomic fragmentation in line with the transformation of the world order, it is necessary to assess all types of reforms, including state-owned enterprises, based on pillar analysis (Kharaishvili & Lobzhanidze, 2024) <sup>[25]</sup>.

The papers also explore the possibility that global geopolitical fragmentation will lead to regional geopolitical fragmentation and create difficult conditions for developing and fragile countries in the processes of economic integration. The scholars recommend that in such a case, the main emphasis should be placed on strong institutional support through the implementation of regional fragmentation policies (Marafa, 2024) <sup>[29]</sup>.

The global economy is becoming more fragmented amid rising geopolitical tensions. Researchers estimate that increased fragmentation could lead to significant economic losses and have a negative impact on small, open economies. In the short term, certain sectors, especially businesses, may be particularly vulnerable to fragmentation and lead to significant disruptions in production (Havsteen *et al.*, 2024) <sup>[15]</sup> i.e., Accordingly, the process of multilateralism has become a permanent necessity in the 21st century (Krueger, 2006) <sup>[26]</sup>.

In the conditions of geo-economic fragmentation, it becomes necessary to develop common rules of conduct in global markets. Common rules, both for trade and for institutional development and general well-being, are formed under the conditions of multilateralism. Multilateralism is considered as cooperation or a formal alliance between many countries to achieve a common goal. It is clear that even under the conditions of multilateralism, the world faces a number of complex and interconnected challenges, such as climate change, sustainable development issues, global health threats, protection of human rights, ending confrontations, including armed conflicts, and others. Given the scale of these problems, their solution is often impossible within the framework of one country; only through multilateral cooperation of countries will it be possible to overcome the challenges on the agenda. It is also clear that in order to overcome the challenges, it is necessary to involve all actors with international interests, and the participation of representatives of the business sector is especially important in this process. Studies show that the process of multilateralism has become a permanent necessity in the 21st century (Krueger, 2006) <sup>[26]</sup>. Ultimately, business needs certainty and stability to succeed, and multilateralism is a key component of this. For example, the WTO currently has 164 members, and the organization's expansion policy involves negotiating tariff reductions and other border measures, as well as cross-border issues such as regulations (International Monetary Fund, 2023) <sup>[17]</sup>. However, in today's ever-evolving world, sustainable and inclusive multilateralism is crucial to addressing common challenges, especially for small and medium-sized enterprises (United Nations Global Compact *et al.*, n.d.) <sup>[38]</sup>.

Multilateral agreements through the United Nations and its related bodies provide access to larger markets by reducing trade barriers, harmonizing regulations, and standardizing practices. In the new world order, multilateralism will promote fair competition and cross-border trade (United Nations Global Compact *et al.*, n.d.)<sup>[38]</sup>. According to Lavalle, multilateralism is not an ideological aspiration, it is a pragmatic method for solving the problems of economic and secure coexistence between interdependent countries (Lavalle, 2020)<sup>[27]</sup>.

Thus, the scientific articles analyze the relevant theoretical and empirical foundations of the research. The evolving nature of geoeconomics and its impact on international trade and investment flows are assessed. The review shows that economic security, geopolitical competition, and strategic trade policies play a crucial role in shaping national economic strategies. In addition, the literature review confirms how various global economic events and regional integration trends affect small and open economies like Georgia. The studies partially reveal that despite the positive role of globalization in connecting countries, it also raises external vulnerability challenges that require a strong policy response. The review emphasizes the importance of aligning national economic policies with global trends, taking into account local socio-economic dynamics.

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### 3. Results

A quantitative study was conducted to identify the contradictions inherent in geoeconomic fragmentation, to determine the impact of fragmentation on small and medium-sized businesses, and to identify the needs for multilateralism.

For the quantitative study, first of all, the sample size was determined using the method of statistical analysis, namely, the number of respondents was selected using the methodology developed by Cochran (John Wiley & Sons, 1977. Copyright William G. Cochran, 1963)<sup>[40]</sup>:

$$n_0 = \frac{Z^2 P(1-P)}{e^2}$$

Where:

- $n_0$  — sample size;
- $Z$  — confidence level;
- $P$  — sampling variance;
- $e$  — margin of error.

The significance of the variation was determined from the evaluation section question: Have geopolitical tensions or international conflicts and geoeconomic fragmentation affected business? The sample size, assuming a 95% probability and a 5% sampling error, was 356 respondents:

$$n_0 = \frac{(1,96)^2 * 0,636 * 0,364}{(0,05)^2} = 355,7$$

The results obtained were processed using statistical analysis methods. The summarized data were used for conclusions and recommendations. The sample size was adjusted according to the influence of the population size. Taking into account the above, the sample size amounted to 355.5 respondents.

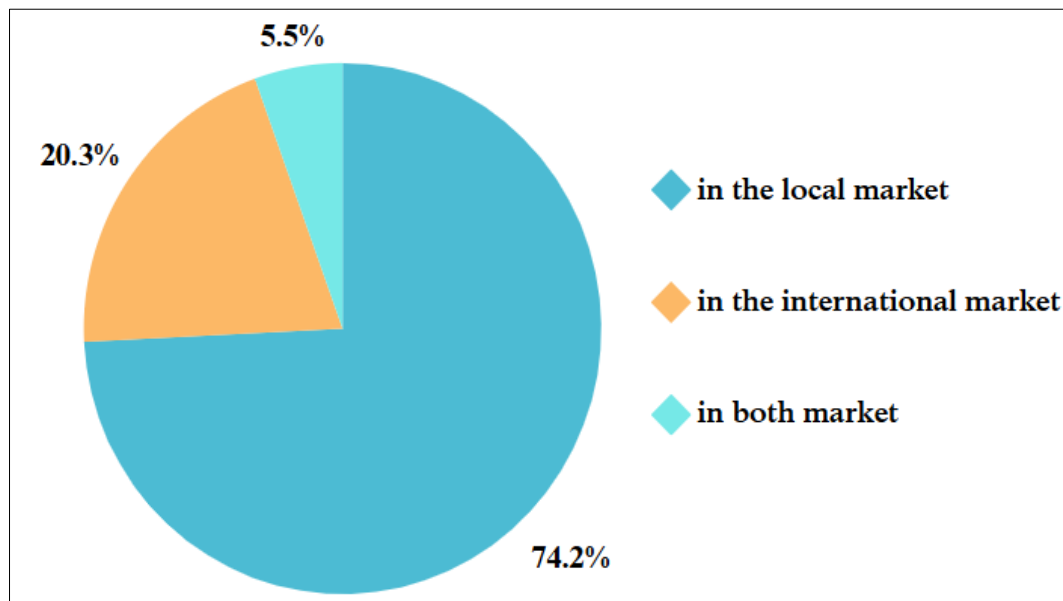
$$n = \frac{n_0}{1 + \frac{n_0 - 1}{N}}$$

$$n = 356 : (1 + 355 : 235 572) = 356 : (1 + 0,0015) = 355,5$$

The study was conducted in February-March 2025. 365 respondents were interviewed using the Google Form online questionnaire. Respondents from 15 countries (Georgia, Italy, Argentina, Turkey, Poland, USA, Germany, France, Ukraine, Malta, Taiwan, Greece, Azerbaijan, Russia, Australia, Armenia) participated in the survey. A descriptive analysis was conducted based on the survey results. It is noteworthy that the type of questions asked was structured. Respondents were offered multiple-choice, alternative and scale-based questions (nominal and dimensional scales were used); the questionnaire included the following sections: identifying, competency-based, practical and evaluative (global and firm level). In addition, respondents were offered clarifying open-ended discussion questions.

The survey results by identifying section showed that 52.9% of respondents were female and 47.1% were male. By age group, more than half (51.0%) were between 18 and 39 years old, 19.7% were over 50 years old, 15.9% were between 40 and 49 years old, and 13.4% were between 30 and 35 years old. The percentages of respondents by education were distributed as follows: 55.6% had higher education, 29.6% had secondary education, and 14.8% had vocational education.

In the competency section, questions were asked to assess work experience in terms of business category (micro, small and medium). 34% of respondents had up to 1 year of work experience, 28.5% had 1 to 5 years of experience, 20% had up to 10 years, and 17.5% had 5 to 10 years of work experience. As for the distribution of respondents by business category, the following picture was observed: almost half (48.8%) belonged to the small business category, 27.1% were representatives of medium-sized businesses, and 24.1% were representatives of micro businesses. In addition, it is worth noting that the absolute majority of respondents (74.2%) operated in the local market, 20.3% exported products to both the local and international markets, and only 5.5% were oriented towards the international market (see Figure 1).

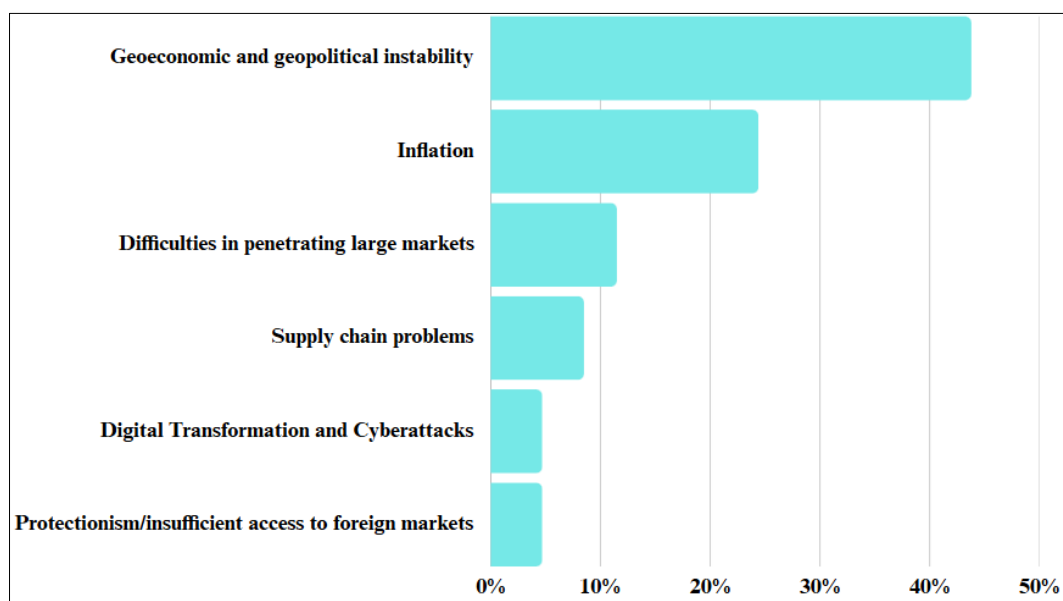


Source: Created by authors using Canva based on questionnaire results

**Fig 1:** Micro, small and medium-sized business operations in local and international markets, %

The assessment section analyzed the challenges posed by geoeconomic fragmentation, both at the global and firm levels. Figure 2 shows that, according to respondents, the main challenges in this regard at the global level in 2025 will

be: geoeconomic and geopolitical instability (43.8%), inflation (24.4%), penetration of large markets (11.5%), supply chain problems (8.5%), protectionism and insufficient access to foreign markets (4.7%), etc.

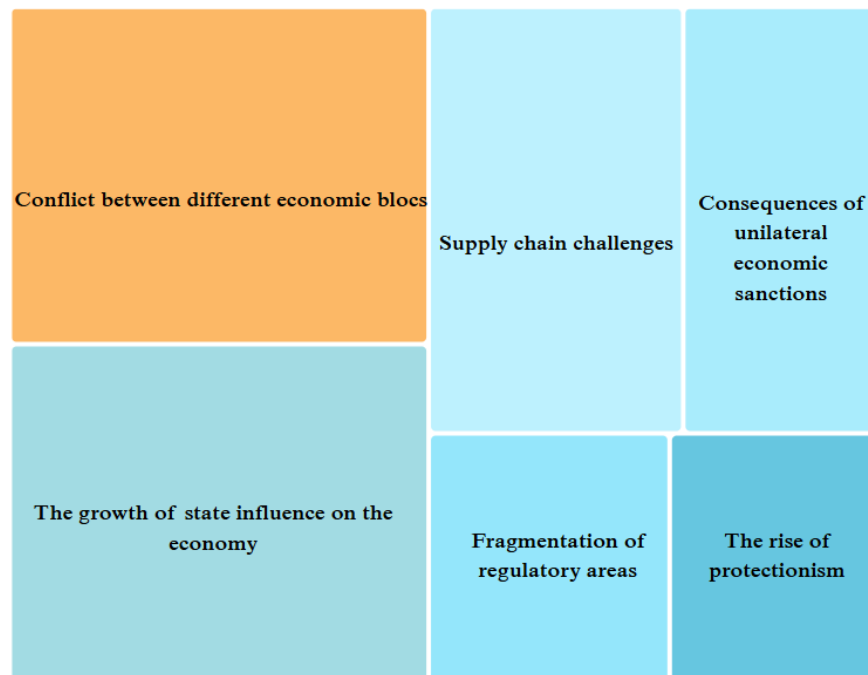


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**Fig 2:** Key challenges for the global economy in 2025, %

The main challenge for small and medium-sized businesses in the context of geo-economic fragmentation was also identified as global trade problems. In this regard, the following threats were named most often: supply chain challenges and the increase in the influence of the state on the economy (23.3%). For 18.4% of respondents, the threat to

global trade is the opposition between different economic blocs, for 14.2%, the consequences of unilateral economic sanctions are considered such a threat. Fragmentation of regulatory spheres, growth of protectionism, etc. were also named as threats.

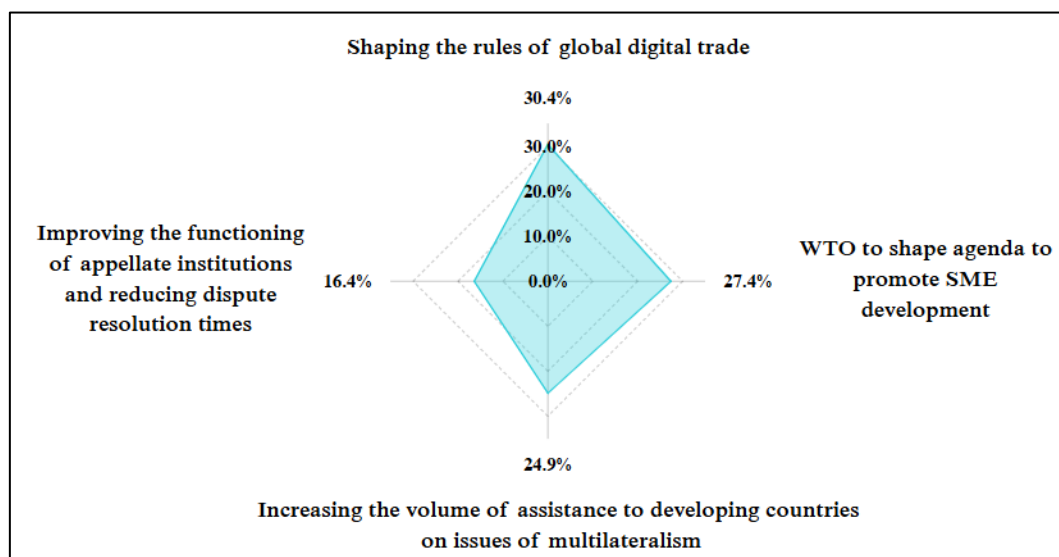


Source: Created by authors using Canva based on questionnaire results

**Fig 3:** Threats to global trade in conditions of geoeconomic fragmentation, %

Bibliographic research and surveys confirmed that geoeconomic fragmentation is a major challenge for small and medium-sized businesses at the current stage, especially in the process of forming new economic ties. Accordingly, one of the goals of the study was to assess the views of representatives of this type of business on this issue and identify priority areas of the multilateralism process. The study showed that representatives of the business sector in Georgia have less information on multilateralism issues,

however, they named the following as priority areas of this process: the need to form global digital trade rules (30.4%); the need to form an agenda for the development of small and medium-sized businesses by the WTO (27.4%); increasing the volume of assistance to developing countries on multilateralism issues (24.9%); improving the functioning of appellate institutions and reducing the terms of dispute resolution (16.4%).



Source: Created by authors using Canva based on questionnaire results

**Fig 4:** Priority directions of the multilateralism process

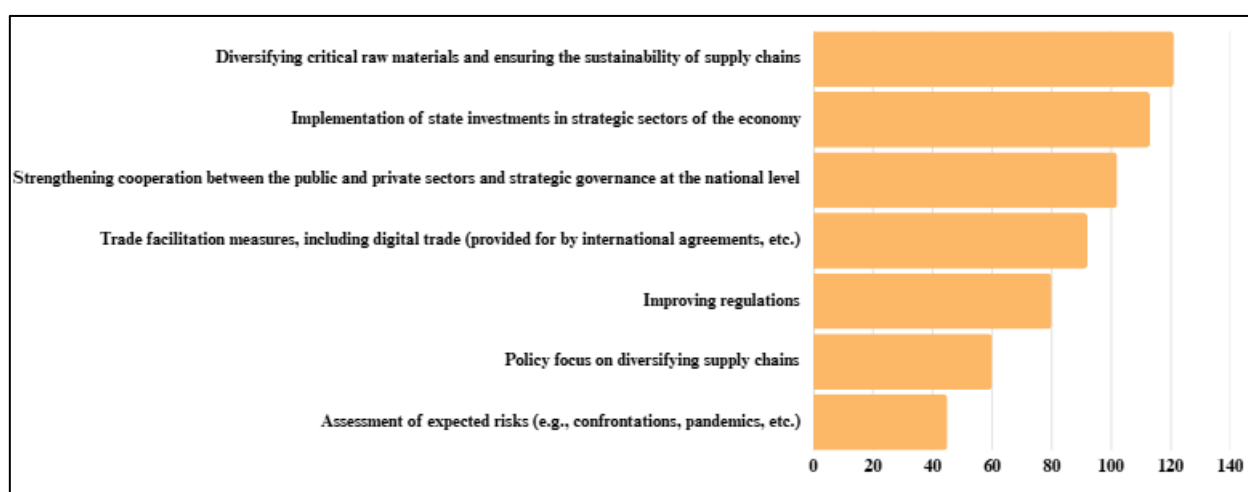
The questions in the evaluation section at the firm level revealed that for the majority of respondents (66.8%) cooperation with international organizations such as the WTO, IMF and other organizations are not considered to support their business. 33.4% state that they cooperate with these organizations, however, the forms of cooperation are weak.

The evaluation section questionnaire also revealed the impact of geopolitical tensions, international conflicts, and geoeconomic fragmentation on business. For the majority of respondents (63.6%), the above-mentioned events had an impact on their business, while 36.4% believed that geoeconomic fragmentation had no negative impact on business. Business representatives were asked to answer the

following open-ended question: How have global sanctions (e.g., sanctions against Russia, etc.) affected your business? The research found different responses across business sectors, with both positive and negative results. For example, in the context of positive impact, it was mentioned that the migration caused by sanctions in the construction sector increased demand in the housing market, and there were no noticeable negative changes in sales in businesses operating in the national market. The following negative impacts were identified: inventories and sales decreased, the volume of exports of local products to international markets was limited, prices for raw materials and materials increased, inflation caused by conflicts affected the growth of costs, the disruption of supply chains complicated the delivery of products to local and international markets, the number of local and international tourists decreased, due to the shortage of raw materials in Georgia, import dependence on products increased further, accordingly, geo-economic fragmentation had a negative impact on business, etc.

Foreign respondents offer interesting insights into Georgia's economic position in the global landscape. Their views emphasize the need for economic diversification, infrastructure development, and regional connectivity to strengthen Georgia's role as a transit hub. In addition, they emphasize the importance of institutional reforms, transparent governance, and stable regulatory frameworks to attract foreign investment. While some foreign respondents acknowledge Georgia's progress in trade liberalization and economic openness, issues related to geopolitical risks and economic dependencies remain a challenge. These views of foreigners reinforce the need for strategic economic planning, emphasizing both resilience and the ability to adapt in the face of global uncertainty.

In the context of global economic fragmentation and the development of multilateral trade relations, respondents presented their views on the possibilities for improving government support for small and medium-sized businesses (see Figure 5).



Source: Created by authors using Canva based on questionnaire results

**Fig 5:** Government support measures for small and medium-sized businesses in the context of global economic fragmentation and the development of multilateral trade relations

32% of respondents believe that in the direction of global economic fragmentation and the development of multilateral trade relations, the government should, first of all, ensure the diversification of critical raw materials and the sustainability of supply chains, 31% consider the implementation of state investments in strategic sectors of the economy as such an opportunity, 27.9% believe that it is necessary to strengthen cooperation between the public and private sectors and implement strategic governance at the national level, 25.2% believe that it is necessary to develop trade facilitation measures provided for by international agreements, including digital trade, 21.9% consider it necessary to improve regulations. Among the measures to be improved, the need to end subsidies to large businesses, reduce interest-bearing loans, weaken state intervention in the economy, etc. Thus, geo-economic fragmentation poses many challenges for SMEs. Nevertheless, 71% of respondents positively assess the future prospects of SMEs in the context of geo-economic fragmentation, while 29% negatively.

#### 4. Conclusions and Recommendations

Georgia's economic development is increasingly influenced by geo-economic factors, which requires a comprehensive approach to policy formulation. The study highlights the

importance of strengthening economic security by promoting diversified trade partnerships, investments in critical infrastructure, and innovation-led growth. In addition, it is advisable to balance economic openness with protective mechanisms to mitigate external shocks. We can conclude that through proactive engagement with international economic institutions and regional cooperation, Georgia's economic resilience can be strengthened.

The recommendations include designing policies that support sector diversification, particularly in knowledge-based industries, sustainable energy, and the digital economy. In addition, policymakers should strengthen risk management strategies, including financial instruments that protect businesses from external typical and atypical economic shocks. Strengthening diplomatic and trade relations with key economic partners is also vital to ensuring sustainable economic growth.

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economic partners is also vital to ensuring sustainable economic growth.

By considering these aspects, future research may provide a more complete and dynamic framework for Georgia's geoeconomic position and long-term economic prospects.

## 5. Research Limitation

Although this study provides a multifaceted analysis of Georgia's geoeconomic position, it has certain limitations:

- **Reliance on existing data and expert opinions**  
As noted in the introduction, the study is based primarily on available statistical data, policy reports, and expert opinions. While these sources provide valuable, scholarly information, they may not fully capture recent economic developments, emerging trends, or informal economic activities that may have a significant impact on Georgia's geoeconomic positioning.
- **Macroeconomic focus**  
The research focuses primarily on macroeconomic trends such as trade policy, foreign investment, and economic security. Future research examining firm-level constraints and sector-specific barriers will help analyze the impact of geoeconomic fragmentation on firms.
- **Limited scope of longitudinal analysis**  
Due to the nature of the study, it does not include a long-term analysis of Georgia's geoeconomic transformation. A more extended time series approach could provide more information on structural economic changes, the long-term effects of policy decisions, and sustainable growth patterns.
- **Geopolitical uncertainty and external shocks**  
The global economic landscape is highly dynamic, with ongoing geopolitical tensions, trade disputes, and economic sanctions that could alter the trajectory of Georgia's economic policy. The study cannot fully predict and account for future external shocks, such as changes in regional alliances, global financial crises, or sudden disruptions in global supply chains.
- **Limitations of comparative analysis**  
While the study provides an in-depth analysis of Georgia's economic position, it does not broadly compare its performance with other economies facing similar geoeconomic challenges. A broader comparative analysis that includes countries with similar economic structures and regional constraints would have provided additional insights into best practices and alternative policy approaches around the study's main question.
- **Challenges in measuring informal economic activities**  
Georgia, like many developing and transition economies, has a significant informal sector that is not always accurately reflected in official economic indicators. The study does not fully capture the impact of informal economic activity on trade, employment, and investment, which can be crucial for a comprehensive economic assessment.
- **The evolving nature of trade agreements and economic policy**  
International trade agreements, investment policies and regulatory frameworks are constantly evolving. The study is based on the current state of policies and agreements, but any policy changes, such as changes to trade agreements, tariff structures or investment regulations, may affect the applicability of the findings

in practice.

Thus, geopolitical uncertainties and unforeseen global economic disruptions may alter the relevance of some findings over time. Future research, with longitudinal data analysis and broader stakeholder consultations, could develop more detailed and sustainable policy recommendations.

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