CRITERIA OF ECONOMIC SOVEREIGNTY AND ASSESSMENT METHODOLOGY

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Introduction. In the literature the methodology for assessing economic sovereignty has not been sufficiently studied. In assessing the criteria of economic sovereignty, the identification of the factors influencing it are of primary importance, as in case of the dominance of internal and external factors the impact may be drastically different. One of the internal factors that has a disastrous impact on the economic sovereignty is the system of leverages of influence by supranational corporations with their significant scales in the national economy, the ability to extort favourable conditions in favourable situations. External influences include foreign investments, the inflow of private remittances from abroad, and the membership in supranational structures. To assess the internal threats to economic sovereignty precisely in extorting favourable conditions, companies can be differentiated as large, international and global corporations, mostly the last two, which take the advantage of global transactions to impact countries with different leverages to make concessions, which in their turn are equal to economic sovereignty. The following article presents a system of coefficients identifying this phenomenon and a calculation model based on it.

Methodology. From the standpoint of the assessing the criteria of economic sovereignty and its level, it is of utmost importance to clarify the genesis of the factors influencing it. Whether the internal or external factors are discussed, the criteria of Diagram 1 shows the set of factors of internal and external impacts on the economic sovereignty of the state. The internal group of factors that negatively affect the economic sovereignty includes the system of leverages of influence over the state by local, foreign and transnational corporations, which have a significant weight in the national economy, i.e. the ability to extort favourable conditions from the state. Among the internal factors influencing economic sovereignty, the political realities of the state are essential, from the internal political and institutional structure to the relations between the branches of power, and most importantly, the level of democracy. The economic situation of the state, first of all, the main macroeconomic indicators, which make the resilience of the economy more or less vulnerable, as a result, economic sovereignty as well, is very significant in the internal influence factor group. economic sovereignty and the methodlogies for assessing its level may differ.

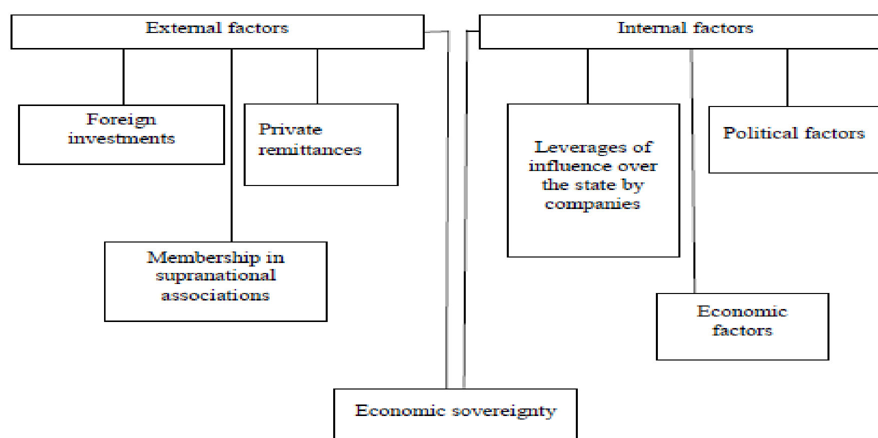

Diagram 1. Factors affecting economic sovereignty

Among the external factors affecting economic sovereignty are the leverages of influence on the state by various countries and international organizations. In diagram 1, they include the foreign investments. The foreign debt ratio in relation to GDP can be considered as a derivative criterion for assessing economic sovereignty. In the Republic of Armenia, the law defines the allowable index of state debt / GDP ratio. According to the RA Law on Public Debt, as of December 31 of each year, the government debt and the Gross Domestic Product ratio threshold of the Republic of Armenia is 60% [Law on Public Debt, 2017]. This limitation, however, is largely a measure of debt service capacity; it is not considered in the context of the impact of the debt burden on the economic sovereignty of the state.

Scientific novelty. We suggest that external threats to economic sovereignty include private transfers from abroad, a phenomenon typical of many transitional economies, including the Republic of Armenia. One of the factors of external influence is the membership of the state in supranational unions, in the case of Armenia, the membership in the Eurasian Economic Union. Along with many economic advantages, the following format of integration limits the economic sovereignty of Armenia to some extent, such as in customs policy, trade with third countries and many other areas. Thus, when the influence of the local economy increases due to globalization, the autonomy of the state to formulate and implement policies, economic sovereignty, decreases. In other words, the more globalization "touches" a particular country, the more difficult it is to maintain economic sovereignty.

Literature Review. The allocation of the "political" and "economic" components of sovereignty has been conveyed by many authors. "Political sovereignty" can be considered the right of the state to develop and implement the main directions of domestic and foreign policy. Economic policy is a component of state policy; therefore, it is lo-

gical to consider economic sovereignty (in a formal sense) as a private manifestation of political sovereignty. Meanwhile, in practical terms the economic sovereignty goes beyond political sovereignty, as it includes the need for economic self-sufficiency of the state. [Boldirev, 2021, 19-20]. The notion of "sovereignty of governments" is also distinguished. It is especially relevant because of the growing role of transnational capital, and ends up with the ability of governments to disobey the conditions dictated by that capital. In this regard, the mechanisms of economic sovereignty are vitalized, which can ensure an effective legal balance in the system of government for all subjects of economic relations. In the modern world, sovereignty cannot be considered as a entire universal mechanism control over all economic decisions. The issue is the decision-making process, which must be under the control of governments to ensure an effective level of economic sovereignty [Dogadaylo, Chepunov, Nosov, Shmaliy, 2017, 230-238].

The issue of ensuring an effective level of economic sovereignty is complex in the sense that factors conducive to economic development, if exposed to undesirable limits, can act as threats to sovereignty, such as foreign investments. In this sphere the possibility of intervening is one of the plausible manifestations of the realization of the economic sovereignty of the states. Foreign capital in the form of direct or portfolio investments is sometimes a threat to the state's economy. As the international experience shows that foreign investors, using their flexibility, are able to quickly consolidate their financial capabilities in this or that sector of the economy for maximum profit, as well as quickly withdraw their capital from the country without taking into account its state interests. The state determines its domestic investment policy by virtue of the sovereign equality of states, determining the rules of current national legislation and the availability of foreign investment in its own territory. The state, by the power of sovereign equality, in special cases, also has the right, to expropriate foreign property in accordance with its own interests, in accordance with the Constitution and International Law. [Chobanyan, 2019, 77-78]. On the other hand, the right of the state to intervene in this sphere should not become an instrument of unjustified restriction of economic freedom. Governments may be faced with the dilemma of maintaining the desired level of economic sovereignty and restricting economic freedom; in that sense, it is possible to pursue a complementary policy rather than one that excludes them. For the sake of economic sovereignty, governments must not increase their influence over economic life. As Milton Friedman writes, government is a tool for people to achieve common goals, thus it should be used sparingly. *"Government is necessary to preserve our freedom; it is an instrument through which we can exercise our freedom; yet by concentrating power in political hands, it is also a threat to freedom."* [Friedman 2021, 16].

Economic sovereignty is a multi-component, multi-layered concept, its various aspects are presented by different authors. Stephen D. Krasner, for example, views sovereignty in three main dimensions [Krasner, 2009, 30-31]:

1. International legal sovereignty
2. Westphalian,
3. Internal sovereignty.

According to him, neither logically nor empirically are these three aspects of sovereignty intertwined. States can have one aspect of sovereignty without having any others. John H. Jackson proposes a relative approach to sovereignty in the context of proper distribution of government decision-making rights [O'Hagan, 2013 12]. When decision-making takes place at a higher level than the national state, it contributes to the creation of sovereign goods, then, according to him, in that case there is no violation of sovereignty. S. Biden defines economic sovereignty as a set of the following components: the right to join international unions, equality in international economic relations, respect for other countries economic interests, the right to participate in the solution of international economic problems. [Starinskyi, Zavalna, 2021, 4]

Analysis. In order to assess the possibility of companies extorting favourable terms from the state, it is possible to differentiate between large, international and global companies, because mainly the last two enjoy the benefits of global transactions. Depending on the concentration of global or international companies in the very country and the geographical location of the assets of those companies, the country may be more or less affected by globalization. The influence of leverage or the leverage influence of global companies over states is a function that expresses:

1. The impact of the company on local economy - the "footprint" of the company;
2. The distribution of the company production assets outside its country of origin - the "globality" of the company.

The leverage of that influence can be presented as an interaction of two factors: the globality of the company and the "footprint" of the company on the local economy. Quantitatively, this can be expressed as a product of the company's globality and footprint, which will show its contribution to the domestic economy in terms of percentage, mere global assets ("non-domestic" minus "domestic") in relation to its total assets.Chart 1 shows this calculation for the two Finnish companies. The globalization of the company "UPM-Kymmene" -43, is multiplied by .065 footprint index, which provides an impact factor of -2.80. For Nokia, the .156 "globalization" index is multiplied by the " footprint" index .044, providing an impact factor of 0.69. In this case, it is to be expected that Nokia has greater leverage than UPM-Kymmene [Mitchel, 2000, 131-132]. The calculation method presented in Chart 1 with the example of two companies allows to assess the potential of organizations with a significant share in the national economy to

influence the government. Companies that not only have a relatively large weight in the national economy, but are also global in nature, have greater leverage over government. These high indicators of "globalization" enable the companies to use the threat of exit from the national economy to a greater extent, thus reducing the economic sovereignty of the state. The approach presented in Chart 1 can be considered effective not only for assessing the leverage of companies, but also for weighing the total impact of organizations with a significant role in the national economy by the same method. The problem is that if the economy of the above-mentioned country has a large number of companies with production capacity in different countries of the world, then economic sovereignty may be seriously threatened. The cumulative effect of companies extorting such concessions may ultimately lead to a cumulative weakening of economic sovereignty. This methodology solves the problem of "touchdown" globalization on the local economy. The most difficult task is how to measure the impact of globalization over the state, when the independent variable, i.e. globalization, is supranational, while the dependent variable, i.e. the economic sovereignty of the state, is national.

Chart 1. Comparison of the impact of the two Finnish corporations over the state

	Globalization *	Footprint **	Leverage ***
«UPM-ymmene»	.285-.715 = -. 430	.065	-430x.065 = -2.80:
«Nokia»	578-.422 = .156	.044	.156x.044 = 0.69:

* (Non-local assets) - (local assets) / (gross assets)

** (Local assets) / (GDP)

*** (Globality) x (Footprint)

The concept of leverage measures the interaction of globalization and local economy. The leverages of influence of individual companies can be aggregated, expressing the total impact of the "touchdown" of globalization on the state. That is, the degree to which highly mobile agents of globalization dominate the local economy taken separately. Although each of these agents is independent of the others, the sum of their individual actions has a cumulative effect. In the countries heavily involved in the process of globalization, the "national champions" of the countries have turned from international to global companies. In these conditions, the "local" global companies of the state are independent of their native country, but the native country depends on that company's contribution to the national economy. Consequently, these global companies can have leverage over countries. They may demand tax or control concessions. As a result, economic sovereignty in that country may weaken.

The leverage ratio of a global company shows the ability of a "domestic" global company to influence the economic policy of a country through a credible threat of exit from the economy of a particular country over a period of time. It is a function of two components: 1. footprint - the impact of the company on the domestic economy, and 2. globality - the degree of distribution of the company's production operations. The coef-

ficient is interactive: the company's footprint is multiplied by its globality factor, expressing the degree of leverage. Consequently, a company with a higher footprint and globality has the largest leverage, while a company with a lower level has a lower leverage. Higher leverage scores indicate higher levels of globalization, higher degrees of leverage. The individual unit of each company is added to the units of other "domestic" global companies, for each country to get the total leverage unit for a certain country for a certain period of time. The footprint index is obtained by dividing the total value of a company's physical assets in the country of origin by the country's current Gross Domestic Product (GDP). The footprint index fluctuates in the range of 0-1. The points close to the 1st indicate a bigger footprint. For example, the figure of .05 shows that the company's operations in domestic economy are equal to 5% of GDP. The index of globality is obtained by subtracting the value of physical assets of the company from the value of assets outside the country. The resulting number is then divided by the value of the company's total physical assets. The index of globality fluctuates in the range -1 - +1. A company meets the minimum threshold of being considered a global enterprise if its global unit is a positive number, i.e. if most of the company's physical assets are located outside its home country. In case of negative value, the company is mainly international, i.e. most of its physical assets are located in the country of origin. For example, a company with 60% of its assets located abroad and 40% in its home country will have 20 units of globality (60 minus 40). And vice versa, the company, whose 40% of physical assets are located abroad, and 60% in the home country, will have a globality index of -.20. The sign in front of the indicator, positive or negative, indicates whether the company is global (in case of positive) or international (in case of negative).

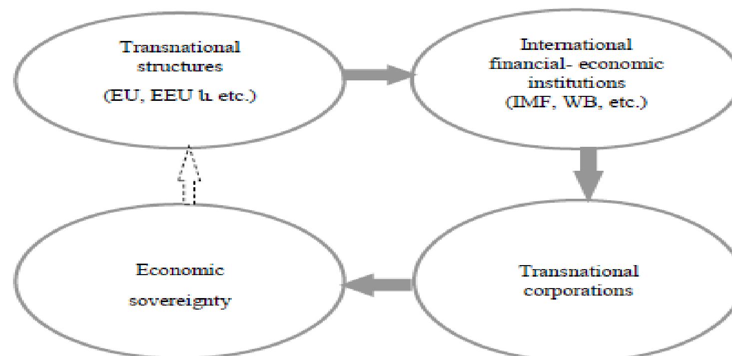

Diagram 2. The three-dimensional process of declining economic sovereignty

The decline of sovereignty during globalization is a three-dimensional process. First, it is the process of transferring decision-making power to supranational bodies, such as the European Union. Second, it is the vulnerability of states to the requirements of foreign institutions, such as the IMF, the WB, the WTO and other structures. Third, it is the process in which large supranational corporations can influence the political and

economic decisions of sovereign states. The three-step process of reducing economic sovereignty presented in Diagram 2 is a relative description, it is practically impossible to determine which of these stages affects economic sovereignty. The processes carried out at the mentioned three levels are organically connected and have a complex impact on economic sovereignty. Especially during the last two decades, global companies have increased their influence over governments, and consequently over the economic sovereignty of states. The problem is that transnational corporations gain such powerful economic power and political influence that, based on it, they are able to model the policies of sovereign states. The problem ends up with the control over resources: the world's 500 largest corporations control about 40 percent of the world's wealth. For instance, according to the international research company "Global Justice Now", the data in 2018, 157 out of 200 economic units of the world in terms of income were supranational corporations, not states. In 2018, 69 of the 100 richest economic units in the world are corporations, not governments. Revenues of the world's top 10 corporations, including Walmart, Toyota, Shell and several Chinese corporations in 2018 exceeded 3 trillion dollars. Transnational corporations account for 70% of world trade, with General Motors and Ford accounting for more than the GDP of sub-Saharan Africa [Coskun 2008, 1-15]. Over the past two years, the COVID-19 pandemic has affected the performance of transnational corporations. Nevertheless, they continue to have a major impact on the world economy. Revenues of 500 global companies in 2020 grew by 20 percent to $ 33.3 trillion, or more than 39 percent of world GDP. In 2016 that figure was $ 27.7 trillion, or 35 percent of world GDP. Due to the impact of the pandemic, in 2021 the revenues of 500 global companies fell by 5% to 31.7 trillion dollars, about 34% of world GDP. For comparison, let us mention that, for instance, the share of Russia in 2021 made 1.8% of the world GDP, and China - 17.8%. 500 global companies in 2021 had almost the same share in world GDP as the United States and China taken [Fortune Global 500, 2020, 2021].

Conclusions. It is impossible to accurately assess the level of decline of economic sovereignty without diagnosing the origin of the factors influencing it. Internal and external threats have a different mechanism of impact on economic sovereignty and consequences. Although the problem of economic sovereignty is generally conditioned by external factors, it is expressed as the country's dependence on this or that country and international organization, but it is also quite sharp in the context of the influence of internal factors. This refers to the domestic political realities, the nature of power, the level of democracy, as well as the possible leverages of influence of the states by the companies that have a great weight in the national economy. First of all, global companies with production assets located in the world have such opportunities, which create the so-called fast and inexpensive "exit opportunity", which in its turn becomes a lever of influence to extort desirable conditions from the states. The methodology for

assessing the level of economic sovereignty becomes quite difficult because globalization itself is a transnational concept with corresponding transnational indicators, while other criteria of economic sovereignty are national in nature. The problem arises of measuring the impact of globalization, the so-called "touchdown", which is made possible by the concept of assessing the level of globalization of companies.

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There is no common methodology for assessing economic sovereignty, there are no universal criteria. In the context of some existing approaches, it is important to determine the origin of factors influencing economic sovereignty, as internal and external threats affect economic sovereignty through completely different mechanisms. Among the internal factors influencing economic sovereignty, are of utmost importance the possible leverages of influence on the state by companies with a relatively large share in the national economy, which they use to extort more favourable conditions for business from the state. Globalization is a supranational phenomenon with supranational indicators, while economic sovereignty remains in the realm of national measurements. An attempt to solve this problem is the concept of calculating the impact of globalization "touchdown", which allows assessing the level of leverages of companies over governments through their “trace” in the national economy and their “globality”.