

# Georgia's revolution and the future of its democracy

**A guided tour of literature on Georgia**

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## Introduction

ESI has been researching Georgia extensively for over 2 years now. In addition to hundreds of interviews and meetings we have had with policy makers in and on Georgia, we have also collected and studied thousands of pages of material on Georgia. Some of the material was hard to find, some was easy, some was useful and some not at all. Needless to say, it took us a long time to sort through all of it and pick out the pieces which explained the country to us. So we figured that if we find a way to share our research, we could save other researchers interested in Georgia a lot of desktop-research time. This here is an attempt to the first comprehensive guided reading-list on Georgia. This is not an exhaustive list, nor is it complete. However, it is a good start for anyone interested in getting to know Georgia.

## A failing state

One of the very best accounts of Georgia from the end of the Soviet Union to the Rose Revolution is a book by Peter Nasmyth: *Georgia – in the Mountains of Poetry*. The book describes the early descent into anarchy under Georgia's first elected president, Zviad Gamsakhurdia:

“Then came more worrying signs of clinical paranoia when he started referring to the Kremlin as ‘satan’ and ‘anti-Georgian tendencies’ massing in society around him – a fact expanded in his book *The Spiritual Mission of Georgia* (1991) which claimed outright the Holy Grail resided at Gelati Cathedral ... with a zeal the Bolsheviks would have envied the new government set about taking over, transforming or abolishing every institution, organisation or structure of the Communists era. The chaos had begun ...”

Nasmyth connects the developments he observes with Georgia's rich mythology, from Prometheus, chained to the mountains here by a jealous Zeus for the crime of giving mankind fire, to the local Caucasian legend of Amirani:

“another god-like man chained to this mountain. Amirani's sin had been to challenge the almighty (and here wise) Zeus or great spirit to a test of strength. But unlike Prometheus, Amirani's lack of psychological insight had been the cause of his imprisonment ... Could this pre-Bronze age myth of a stubborn superhuman still supply links with the modern character?”

Born in a dark forest, Amirani had the “capacity to outdrink and outeat three ordinary men.” He slew three-headed monsters and was extremely impatient. This impatience was his ruin, as it was for Gamsakhurdia:

“After Amirani had rid the world of nearly all its dragons, monsters and wild animals, he finally threw down the gauntlet to God himself. God warned him of its futility, that it constituted a punishable offence, but Amirani struck doggedly to this quest for omnipotence.” God, so Peter Nasmyth, tried to persuade the warrior-hero that he must stop attempting the impossible. (p. 47)

God, so Peter Nasmyth, tried to persuade the warrior-hero that he must stop attempting the impossible. Since he refused to do this:

“he found himself chained to the rock of futile conquest, power and rage, for all eternity.” (p. 47)

Then there is Thomas Goltz's *Georgia Diary: A Chronicle of War And Political Chaos in the Post-Soviet Caucasus* (2006), accurately described by its publisher as a fast-paced, first-person account "filled with fascinating details about the ongoing struggles of this little-known region of the former Soviet Union." The book takes the reader from 1992 through the Rose Revolution, the resignation of Eduard Shevardnadze to the presidency of Mikheil Saakashvili. To get a taste of Goltz's style, read his description of Tbilisi in 1994:

"No, there was nothing quite like Tbilisi that late winter/early spring of 1994. A few lucky folks like Lawrence Sheets {of Reuters} had fireplaces in their apartments, but most homes depended on gas and there was none, or too little to talk about. Or electricity, aside from little spurts of juice after midnight, when televisions and radios would suddenly blare, waking up their owners – which was good, because the sudden surge in power also announced that city water would soon be gushing out of bathroom and kitchen spigots, and it was not uncommon to forget when a faucet was on or off. Yes, Georgia had hit rock bottom. It was beyond grim – and far worse than the exaggerated (and well-advertised) 'winter from hell' in Armenia the year before." (p. 199)

Barbara Christophe wrote a very interesting book (in German) on Georgia's failed state in Western Georgia – *Metamorphosen des Leviathan in einer post-sozialistischen Gesellschaft* – but some of her findings are also available online in English under the title *From Hybrid Regime to Hybrid Capitalism*. Christophe looks, among many other things, at the actual outcomes of Georgian privatisation in the 1990s. As one result of voucher privatisation, she notes, there were "500,000 individuals, i.e. more than 10 percent of the population, performing at least nominally the role of shareholders":

"If one keeps in mind that in 2001 only 10 enterprises out of 1,773 Joint Stock Companies paid dividends to shareholders, one can easily comprehend that shareholders did not face any reasonable incentives to press for the observance of legal norms."

By the second half of the 1990s, she writes, many companies simply collapsed.

Other reforms did not fare better. A short article about Saakashvili in *The New York Times* in June 1998 gives a sense of the hope in the late 1990s, associated with young reformers in the governing party: "[Tbilisi Journal: The 'Man of the Year,' Just 29 and Via Manhattan – Biography](#)":

"Only 26, he had attended schools in Kiev, Strasbourg and Florence, held a degree from Columbia Law School and was winning a reputation for diligence and legal talent. After nightfall he was likely to be found either at the Metropolitan Opera or cheering for the Knicks at Madison Square Garden. Now he is a superstar of Georgian politics, hugely admired and widely viewed as having unlimited potential. Mr. Saakashvili is among the most prominent of several dozen bright and energetic young people who are playing important roles in building a new post-Communist order here."

Saakashvili's attempts at judicial reform is the focus of another *New York Times* article from April 1999: "[Georgia, Judging That Most Judges Shouldn't, Readies Replacements](#)"

"In one of the most sweeping attacks on corruption in the former Soviet Union, most of Georgia's judges are to be forcibly retired next month and replaced by new ones chosen by competitive examination."

In the end, however, this reform failed, as did so many others. On Georgia as a (problematic) model of judicial reform, see also a World Bank report (2000): "[Legal and Judicial Reform in](#)

Central Europe and Former Soviet Union.”

On the weakness of Council of Europe conditionality to end torture in Georgia, see EurasiaNet article from 2000: “Torture Persists Despite Council of Europe Efforts”:

“The Council of Europe was aware of torture practices in Georgia when it welcomed the nation into its ranks last April. It admitted Georgia on condition of compliance with several safeguards to "ensure strict observance of the human rights of detainees, and continue to improve conditions of detention in prisons and pre-trial detention centers." The failure of these measures to have an adequate short-term impact on the problem reflects both the complex nature of torture and the Council’s over-reliance on political goodwill to combat atrocities.”

To understand the growing sense of desperation in October 2000, read *The New York Times* article “High Hopes Are Ebbing” by Douglas Frantz:

“Rustavi was once a model of the Soviet economy, a new city built in 1948 for 160,000 residents whose lives centered on the bustling factories. Today, Rustavi is a model for the stubborn poverty gripping a vast region rich in oil, gas and strategic importance but short of the hope that even five years ago buoyed forecasts of a better tomorrow.”

On outmigration due to poverty: “Hardship abroad or hunger at home – a study of irregular migration from Georgia” published in 2001 by International Organization for Migration.

On corruption, Christoph Stefes has written one of the most comprehensive books to date, comparing corruption in Georgia with Armenia and Azerbaijan: *Understanding Post-Soviet Transitions. Corruption, Collusion and Clientelism*, New York: Palgrave Macmillan (2006).

Stefes also wrote a good article in the *Caucasus Review of International Affairs (CRIA)*: “Governance, the State, and Systemic Corruption: Armenia and Georgia in Comparison” (Vol.2, 2008). EurasiaNet has a number of very good articles on corruption in Georgia: “Georgia’s anticorruption campaign enters crucial phase” (2001); “Entrenched Corruption Begins at Georgia’s Borders” (2001); “Georgia: Clock is ticking as higher education eaten away by corruption” (2002).

Georgia as a failed state is captured in the gripping documentary “Power Trip” by Paul Devlin. The filmmakers provide this synopsis:

“In an environment of pervasive corruption, assassination, and street rioting, the story of chaotic post-Soviet transition is told through culture clash, electricity disconnections and blackouts. AES Corp., the massive American "global power company," has purchased the privatized electricity distribution company in Tbilisi, capital of the former Soviet Republic of Georgia. AES manager Piers Lewis must now train the formerly communist populace that, in this new world, customers pay for their electricity. The Georgians meanwhile, from pensioners to the Energy Minister, devise ever more clever ways to get it free. Amidst hot tempers and high drama, Lewis balances his love for the Georgian people with the hardships his company creates for them, as they struggle to build a nation from the rubble of Soviet collapse”.

On the failure to overcome Georgia's electricity crisis in year 2000, please see New York Times article: “Tbilisi Journal; Where It's Dark and Cold Outside, and Inside, Too”:

“This was not supposed to be yet another bitter winter in the gracious and fraying capital of this lovely and distressed country. An American energy company, the AES Corporation, bought the city's electric system last year and promised that Tbilisi's 1.2 million residents

would no longer spend most of their winter days in darkness and their nights shivering without heat.

But overcoming the obstacles, from a broken-down power generating system and vast corruption to the effects of a summer drought and Russian meddling, proved too difficult. The electric system -- tweaked, massaged, seemingly held together with baling wire -- meets little more than half the demand. So people persevere through another winter with five or six hours of electricity a day, even less than in previous years. Essential services like hospitals, government offices and the subway have steady supplies; everyone else must improvise."

The World Bank has produced numerous studies on the electricity sector failures in Georgia and the rest of the Eastern Europe: World Bank Technical Paper No. 423 "Non-Payment in the Electricity Sector in Eastern Europe and the Former Soviet Union" (1999); World Bank Working Paper No. 21 "Revisiting Reform in the Energy Sector: Lessons from Georgia" (2003); World Bank Working Paper No. 40 "Power's Promise: Electricity Reforms in Eastern Europe and Central Asia" (2004); World Bank "People and Power: Electricity Sector Reform and the Poor in Europe and Central Asia" (2007). There is also a short discussion of this in the World Bank's "Georgia: Poverty Assessment" (2009).

The World Bank provides different accounts of state failure and economic collapse before the Rose Revolution:

"Georgia: A blueprint for reforms" (1993): pages 2-11 give an account of what caused the complete collapse of Georgia's economy, unseen in any of the other post Soviet Union countries. The rest of the paper deals with proposed reforms.

On the collapse of agriculture and agro-processing see World Bank: "Georgia: Reform in the Food and Agriculture Sector" (1996).

On trade and economic development from 1991-2002, see World Bank: "Georgia: An Integrated Trade Development Strategy" (2003).

On the healthcare crisis in Georgia there is a good section in the UNDP "Georgia: National Human Development Report" (2000).

Regarding healthcare, please see this study from 2002 by European Observatory on Health Care Systems (2002), "Health Care Systems in Transition: Georgia."

For information on the political and economic changes taking place in Georgia from 1992 to 1997, a good resource are the Georgian Chronicle monthly bulletins available from the website of the Caucasus Institute for Peace, Democracy and Development, one of Georgia's most respected think tanks.

Wendell Steavenson's Stories I Stole (2002) is a literary, almost poetic account of Georgia's failing state before the Rose Revolution (she also wrote *The Weight of the Mustard Seed* on Iraq). Steavenson spent two years in Georgia, at a time when Shevardnadze's bad governance was testing people's patience to the limit. Read the chapter on Shuki (Electricity) for a fascinating description of the crippling electricity problems of Georgia before 2004. The conclusion of her book is both philosophical and pessimistic:

"This is my last paragraph but I can form no conclusions: the Caucasus, Georgia, would make a fool out of anyone with the temerity of prediction. I can say thought that things do not

always get better and that sometimes they get worse and most often they just stay the same. It is depressing and true and universal: there is nothing to be done about it. The best we can do is to respect our family, love our friends, open a bottle of wine, drink it, and then open another one.” (p. 249)

## **Vory v Zakone**

A very visible element of the Georgian failed state in the 1990s was the existence of the Thieves in Law. Giorgi Glonti (Professor of Law in Technical University Tbilisi) with Virginia Davis Nordin (lawyer and professor in University of Lexington in Kentucky) published a paper on “Thieves of the Law and the Rule of Law in Georgia” (2006) in *Caucasus Review of International Affairs (CRIA)*. According to Nordin and Glonti, the name ‘Thieves in Law’ comes from a word-by-word translation of the term *vory v zakone*, which in fact could be interpreted better in English as ‘acknowledged’ or ‘established thieves’. Meaning, these figures are known by the authorities and in the society as thieves, but have become untouchable because of their connections to the state structures. Since these thieves provided for stability in society (prisons, remote parts of the Soviet Union, etc.), they often were let be by authorities. For more on the paper, see the abstract:

“The first section of the paper cites some of the contradictory descriptions of the Thieves of the Law in the USSR and Georgia with a brief look at the functions of customary commercial law in emerging societies and concludes that the story of the Thieves of the Law is vital to understand the nature of Georgian society and the possibilities of establishing the Rule of Law in that Country. The next section illustrates the importance of and the continuing impact of the Thieves Law in national and international economic activities. A final conclusion stresses that defining law, crime and society is complex and that a knowledge of the particular stories of each is a necessary first step.”

Studying the role of the ‘Thieves in Law’ in Georgia seems to explain much of what happened in security terms in the last 20 years, and especially in the last three years. In a way, Saakashvili’s brutal and unapologetic clampdown on prisons was his response to what he saw as years of government’s submission to informal groups within society which controlled aspects of security (economic and physical) and challenged the state’s monopoly on violence.

Gavin Slade (Oxford University) and Giorgi Glonti (Professor of Law in Technical University Tbilisi) are the two names which appear most often when searching on the ‘thieves in law’ and their influence in Georgia. Glonti has published a few books on the topic, which are all in Georgian.

In December 2005, Georgia passed a law on organized crime and racketeering which introduced criminal responsibility for membership in the “thieves’ world” and provided for confiscation of illegally gained property. To learn more, see *Civil.ge* articles “Parliament Endorses Draft Law to Crack Down on Organized Crime” and “Legislation to Crack Down on Organized Crime Goes into Force.” For excerpts from the Criminal Code dealing with organized crime, see [this document](#) provided by the Georgian Ministry of Internal Affairs.

For a more detailed overview of Georgian legislation on organized crime and thieves-in-law, see the [summary](#) provided by MIA.

See also:

- Gavin Slade (2007), "The Threat of the Thief: Who has Normative Influence in Georgian Society?" *Global Crime*, Vol. 8, No 2, May 2007
- Gavin Slade (2007), "Review Article: Georgia and Thieves-in-Law" *Global Crime*, Vol. 8 Nr 3 August 2004
- Lada Roslycky (2009), "Organized Transnational Crime in the Black Sea Region: A Geopolitical Dilemma?" *Trends Organized Crime*, Vol. 12, pp 21-29
- Alexander Kukhianidze (2007), "Strengthening Cooperation in the Struggle against Terrorism and Organized Crime" TRACC
- Whit Mason (2005) "Reporter at Large: Trouble in Tbilisi" University of South Wales, Faculty of Law
- Anastasiya Kornya, "Twenty Years in Prison for Participating in a Thieves' Skhodka" (in Russian), *Vedomosti*, 16 October 2009,
- Serguei Cheloukhine, "The roots of Russian organized crime: from old-fashioned professionals to the organized criminal groups of today," *Crime Law Soc Change* (2008) no. 50, p. 371.
- Alexander Kupatadze, "Criminal Networks in Georgia and Kyrgyzstan and Young Male Sportsmen" in M. Demet Ulusoy (ed.), *Political Violence, Organized Crimes, Terrorism and Youth*, vol. 46, *NATO Science for Peace and Security Series; Sub series: Human and Societal Dynamics* (IOS Press, 2008), p. 176.
- Roy Godson et al, "Building Societal Support for the Rule of Law in Georgia," *Trends in Organized Crime*, vol. 8, no. 2, Winter 2004, pp. 11-12.
- Giorgi Glonti and G. Lobzhanidze, *Organized Crime in Georgia (Thieves in Law)*, a monograph, in Russian (Georgian version also available). Tbilisi, 2004, p. 36.
- Roy Godson et al, "Building Societal Support for the Rule of Law in Georgia," *Trends in Organized Crime*, vol. 8, no. 2, Winter 2004, p. 12.
- Jan Koehler, "The School of the Streets: Organising Diversity and Training Polytaxis in a (Post-)Soviet Periphery", In: *Anthropology of East Europe Review, Special Issue: Reassessing Peripheries in Post-Communist Studies* (17) 2, p. 5 (PDF).
- Vadim Volkov, "Violent Entrepreneurship in Post-Communist Russia," *Europe-Asia Studies*, vol. 51, no. 5, 1999, p. 744.

## Promises of the Rose Revolution

For reliable and insightful journalistic accounts of the Rose Revolution there are a large number of excellent articles on [EurasiaNet.org](http://EurasiaNet.org). Of these we recommend: [Georgia: President Shevardnadze Resigns](#) (2003); [Tbilisi Revels After Shevardnadze's Resignation](#) (2003); [Provisional Authorities in Georgia Grapple with Centrifugal Political Forces](#) (2003).

The [OpenDemocracy](#) website also has a number of good articles on the Rose Revolution and its aftermath. For more on Georgia, please see the [OpenDemocracy Caucasus Debate](#).

Lincoln Mitchell lived in Georgia prior to the Rose Revolution, working for the US-based National Democratic Institute (NDI) in Tbilisi. His years of experience resulted in a book published in 2008. *Uncertain Democracy* is essential reading for anyone interested in the story of the Rose Revolution. Mitchell – currently a leading Georgia expert at Columbia University in New York – debunks some common myths, pointing out, for instance, that far from having been a "US project", the Rose Revolution was a home grown phenomenon.



“Until the summer and fall of 2003, there was no consensus on the American and European side that Saakashvili was the best choice to lead Georgia,” he points out. Of the Revolution itself, he writes:

“The demonstrations began on November 5 and continued until Shevardnadze resigned on November 23. These two weeks have become the founding myth of the Rose Revolution ... the popular understanding of the Rose Revolution is that it looked something like Ukraine’s Orange Revolution, with hundreds of thousands of people coming to the streets in support of a unified opposition. This is to a great extent the narrative the Georgian government has encouraged. Saakashvili, for example, wrote in a 2004 opinion piece in the *International Herald Tribune* that ‘hundreds of thousands of Georgian citizens ... took to the streets,’ and referred to ‘three weeks of massive demonstrations’. The Tbilisi demonstrations in November 2003 were in fact significantly smaller than this.” (p. 63)

At the same time, Mitchell is critical of the Bush administration for assuming, after 2003, that Georgia had become a consolidated democracy overnight, a view challenged by the declaration of a state of emergency in late 2007.

“The events of November 2007 were a wake-up call for many policy makers and observers, but given all the problems of Georgian democracy between 2004 and 2007, it is puzzling why anybody was still asleep.” (p. 129)

And he warns:

“If democracy in Georgia fails, Georgia will return to being a semi-democratic, semi failed post-Soviet state about which nobody in the US or Europe will care a great deal, albeit one through which several energy pipelines pass ... Georgia’s ongoing strategic value to the US is dependent on the growth and consolidation of Georgian democracy.” (p. 136)

For a shorter analysis, see Mitchell’s “Georgia’s Rose Revolution” (2004), originally published in *Current History – Russia and Eurasia*, Vol. 103.

Early articles on the revolution also include Charles H. Fairbanks, Jr.’s “Georgia’s Rose Revolution”, *Journal of Democracy*, Vol. 15 (2) 2004. Fairbanks worked with the International Republican Institute (IRI) in Georgia to monitor the 2003 elections. He captures the mood of the time, when most outsiders expected Georgia to have made a decisive turn towards democracy. Fairbanks also looks at the role of the US before and during the fraudulent 2003 elections:

“The United States was in the throes of its most consistent and serious attempt ever in any ex-Soviet republic to secure free and fair balloting and ensure the effectuality of the people’s verdict. The U.S. Agency for International Development spent US\$1.5 million to computerize Georgia’s messy voter rolls. The U.S. and European governments also gave OSCE money to deploy an unprecedented number of foreign election observers.

At the same time, the U.S.-based National Democratic Institute gave a Georgian NGO known as Fair Elections enough money to field thousands of domestic monitors and conduct a parallel vote tabulation – one of the most effective tools for establishing *prima facie* evidence of large-scale election fraud. Other Georgian and foreign NGOs also monitored the elections and conducted exit polls.”

And then there is Georgetown University Caucasus expert Charles King, author of the excellent *The Ghost of Freedom – A History of the Caucasus*. In “A Rose among Thorns – Georgia Makes Good”, an article published in a 2004 issue of *Foreign Affairs*, King writes:

“Saakashvili has a chance to change Shevardnadze’s dismal legacy. But that will require statesmanship in the purest sense of the word, including articulating a clear case for why residents of Abkhazia, South Ossetia and any other part of the country should think of their future as lying within a state controlled by Tbilisi.”

An article on Georgia in 2005 by Neal Ascherson “Tbilisi, Georgia: the Rose Revolution's rocky road” raises some of the early criticisms to Saakashvili’s style of governing:

“... there is this growing nervousness, this spreading mistrust. It's hard to source it precisely. But two things have contributed heavily. One was Misha's disastrous grab at the secessionist South Ossetia region a year ago [summer 2004], which ended in failure and some dozen deaths. This dissipated all the “machismo” capital he had won by defying Russian threats and repossessing Adzharia three months earlier. The other was the death in February [2005] of the prime minister, Zurab Zhvania, found dead with a friend in a Tbilisi apartment. Zhvania, an older man with more government experience, was felt to be the essential realist who kept the mercurial Misha's feet on the ground, and there is anxiety about how Saakashvili will handle crises without him.

Grafting a capitalist infrastructure into a desperately poor and corrupt country, whose very unity is fragile, was always going to be slow. Things are starting to change, but as they do, the gap between glittering cities and dark villages – places where parents dream that their children might one day learn to tell the time and count coinage – grows wider.”

Giorgi Kandelaki was one of the leading activists in the Kmara youth movement that participated in the Rose Revolution and is currently represented in the Georgian parliament. In 2006 Kandelaki wrote “Georgia’s Rose Revolution, A Participant’s Perspective”, an article published by the *United States Institute of Peace*.

Finally, to get a sense of the vision set out by Mikheil Saakashvili in early 2004, it is best to read some of his early speeches. In a speech delivered at The John Hopkins University on 4 February 2004, Saakashvili presented Georgia as a model for the region:

“As Georgia succeeds in strengthening its governance, in establishing a model of good governance we have the ability to bring positive change to an entire region. Not through exporting revolution because revolutions don’t work that way. But rather, by providing an example of democracy and stability. Prosperity and respect for human dignity are quite possible in this region of the world, in that interconnected space linking Europe with the Middle East. When Georgia succeeds, the region succeeds.”

President Saakashvili’s annual address to the Parliament in February 2005 proudly looks back at a year of achievements and at the many challenges that remained:

“We have to improve power supply by next winter, which at present is the biggest failure of our government. Tbilisi and Batumi are supplied with electricity 24 hours a day, but in the rest of Georgia there are problems almost everywhere. This is where investments have to be made and this is what we need the money for. In health care, we urgently need money to build new hospitals, because we are losing our medicine, which is effectively on the verge of ruin. In education, we are building new schools. ... As regards defense capabilities, the country should no longer be a pushover. All of this costs money and this money is not going to come easily. Georgia has no oil, Georgia's main asset is its people and this asset should start working, people should start working in enterprises and these enterprises should have real owners. This is what privatization is about.”

All of Saakashvili's speeches since February 2004 are available in English on the president's website: [www.president.gov.ge](http://www.president.gov.ge).

### **State-building and Democracy**

President Bush's visit to Tbilisi in 2005 is one of those landmarks that Georgians speak of to this day. Bush's Tbilisi speech can be read here: "[Text: Bush's Speech in Georgia](#)," *BBC*, 10 May 2005.

In "[Georgians Embrace Bush, but Expectations Vary for the Presidential Visit to Tbilisi](#)," a *EurasiaNet* piece published 9 May 2005, Molly Corso captured the sentiment in the streets of Tbilisi – and in Moscow – ahead of Bush's visit.

“Russian media outlets have treated Bush's visit as a slap in the face to Moscow, and some Georgian politicians agree. Timur Grigalishvili, a spokesman for Georgia's governing National Movement Party, said Bush's trip to Georgia will show Russian President Vladimir Putin that Moscow can no longer treat its southern neighbor like an extension of its own territory. ‘With this visit, the president of the United States is announcing that Georgia is a partner of America and a friend of the United States,’ Grigalishvili said. ‘That has huge meaning.’”

One of the best analyses of Georgian politics is Jonathan Wheatley's 2005 must-read book, *[Georgia from National Awakening to Rose Revolution: Delayed Transition in the Former Soviet Union](#)*. Unfortunately, it is quite expensive; for excerpts, please go to [Google Books](#). Wheatley's book provides a very good description of the politics of post-Soviet Georgia under Shevardnadze:

“... pluralism in Georgia had little to do with democracy. The pluralism of Shevardnadze's administration was, first and foremost, a pluralism of often incompatible private interests. As such it was an elite phenomenon that had no relationship with ordinary citizens. ... Moreover, given that tolerance of graft and corruption was used as a mechanism for control, the incumbents feared that were they to lose elections they would not only lose their power but also their liberty.” (p. 134)

Wheatley offers a good analysis of the different pressures that finally produced the revolution in 2003. He also argues that despite many changes brought by Saakashvili's presidency, the new president has still not broken with the illiberal tendencies of his predecessors.

“The crucial question is whether the Rose Revolution, despite replacing Shevardnadze as an individual, can really change the ‘system Shevardnadze’ that proved so destructive to the Georgian state. Unfortunately it is still too soon to tell whether the old rules of the game will still determine the behavior of the new leadership.”

Wheatley concludes:

“Of course the development of democracy takes time and depends to a large extent on society's own capacity to define its own interests and to act in their own defence – a capacity which, as we have observed, remained weak in Georgia. On whether progress is being made in this direction, the jury is still out.”

Although his book is indispensable for anyone interested in the details of Georgia's road to the Rose Revolution, there are also other interesting articles by Jonathan Wheatley available

online. These include studies on the Armenian minority-inhabited region of Javakheti, “Impeding the Regional Integration of the Javakheti Region of Georgia” (2004); on elections in Georgia: “Democratic Governance in the Former Soviet Union: the Case of Georgia” (2004); on minority issues in Georgia: “The status of minority languages in Georgia and the relevance of models from other European States” (2006). For more, refer to the website of the European Center of Minority Issues (ECMI).

It is useful to see events in Georgia in the context of other “electoral revolutions” which took place between 1996 and 2004. There is now a rich and interesting literature on these velvet or “color” revolutions.

A good collection of articles, “Reclaiming democracy: Civil Society and electoral change in Central and Eastern Europe”, edited by Pavol Demes and Joerg Forbrig, is available online. This includes an article by Giorgi Kandelaki and Giorgi Meladze on the role of the Kmara youth movement in the Rose Revolution. Some of the most interesting articles written after events in Georgia include Michael McFaul’s “Transitions from Post-communism”, *Journal of Democracy*, July 2005:

“Another remarkable thing about these democratic breakthroughs is how few analysts predicted them. To many it seemed a miracle that Serbian democratic forces could overcome a decade of disunity in order first to beat Milosevic in a presidential election on 24 September 2000, and then to galvanize hundreds of thousands of citizens to demand that the actual election result be honored when it became clear that Milosevic was trying to falsify it. Similarly dramatic events unfolded in Georgia after Shevardnadze tried to steal the November 2003 parliamentary elections, leading to his resignation as president and a landslide victory for opposition leader Mikheil Saakashvili in a hastily scheduled January 2004 balloting.”

And finally, Valerie Bunce and Sharon L. Wolchik, “Youth and Electoral Revolutions in Slovakia, Serbia, and Georgia”, *SAIS Review*, summer-fall 2006:

“In most of the successful cases, in which authoritarian leaders have been removed from office as the result of electoral revolutions, the model has built on the long-term development and organizational capabilities of civil society ... youthful activists brought fresh approaches, new techniques, and a great deal of energy to the campaigns to unseat unpopular and often corrupt authoritarian regimes.”

Another interesting article is Paul Manning’s “Rose-Colored Glasses? Color Revolutions and Cartoon Chaos in Post Socialist Georgia (2007)”, in *Cultural Anthropology*. Manning sees the turning point leading to the Rose Revolution in late 2001:

“In November 2001, Georgian students held large meetings protesting a raid by government forces on the offices of a popular television channel, Rustavi 2, which ended in defeat for the government as the channel broadcast the raid live over the air. Two movements emerged from these protests: the ‘National Movement’ of the politicians Mikheil Saakashvili (now president of Georgia) and the student movement later to be called Kmara! (Enough).”

His article also discusses the impact that the cartoon series *Dardubala*, shown from 2000 on Sunday nights on Rustavi 2, had on undermining Shevardandze’s image:

“Each week, this motley representation of Georgia in miniature confronts real, possible or purely fantastic problems faced by Georgia, ranging from popular insurrections, economic deficits, and Russian spies to alien invasions, Godzilla-like monsters, genies in bottles, and time machines .... The central joke of each episode is that, in effect, Eduard is always trying to

solve a post-socialist problem that is, in one sense of another, his own legacy from the socialist period.”

In one episode, which sees Georgia being invaded by aliens, Eduard Shevardnadze proposes to infect the aliens with a secret “corruption virus” that he had developed in the 1960s:

“Then the alien shows that he has become fully Georgianized, that is, corrupt, by announcing a general willingness to accept money .... In the final scene, Shevardnadze, against a backdrop of a destroyed Tbilisi, proclaims to the people of Georgia that he has always believed in the positive value of corruption. He proclaims, ‘Corruption will save Georgia.’”

The inventor of the Dardubala series, Shalva Ramishvili, became a critic of the government after the Rose Revolution, and in a new cartoon series showed Saakashvili, among other things, as an oriental sultan. He was arrested in 2005 on corruption charges and sentenced to four years in prison for extortion.

The *New York Times* article “Georgia’s Future Looks Like More of the Past” captured a turning point in the international perception of Georgia in 2007. The article notes:

“When he was elected president of Georgia after a bloodless revolution in 2003, he was deemed a savior for the post-Soviet landscape, as if he had been conjured by a committee of Washington think tanks and European human rights groups. Yet this week, with Georgia under a state of emergency after his government quashed a large demonstration and violently shut an opposition television station, Mr. Saakashvili seemed, even in the eyes of some steadfast supporters, to be ruling with the willfulness of the very autocrats that he once so disdained.”

Miriam Lansky and Giorgi Areshidze describe a similar change in perception following the war in August 2008 in “Georgia’s Year of Turmoil”, *Journal of Democracy*, Vol. 19/4, October 2008

“Saakashvili sees himself as a founding father and great reformer in the vein of authoritarian state builders such as Mustafa Kemal Ataturk. He has portrayed himself as a pivotal figure in Georgian history, comparable to David the Builder, the twelfth century king who is celebrated for uniting Georgian territories and driving out foreign invaders while improving the administration of the state ... the many constitutional amendments since 2004, however, have vested the preponderance of power in the executive alone. Thus the laudable achievements of Saakashvili’s state-building program have come at the high price of a super-presidential political system. The government acts unilaterally according to the principle that ‘the ends justify the means’.”

Finally, in “Democratic Transition in Georgia: Post Rose Revolution Internal Pressures” (*Caucasian Review of International Affairs (CRIA)*, Vol.3 (2) 2009) Jesse David Tatum concludes:

“While Saakashvili has made admirable progress overall, he still retains a surfeit of power detrimental to Georgian democracy.”

## **No country for old men**

On Georgia's perpetual revolution, see Till Bruckner's essay Decision Making and Georgia's Perpetual Revolution: the case of IDP Housing (2009):

“Observers tend to enthuse about Georgia's leadership or damn it, but such black-and-white views do little to explain what is really going on in the country. Examining the government's recent efforts to provide housing to those internally displaced by the August 2008 conflict with Russia sheds light not only on the housing program itself, but on contemporary Georgian politics in general. In particular, four traits characteristic of the ruling United National Movement's revolutionary governance are brought into focus: informal decision-making, fluid roles, heroic action, and vanguard politics.”

Regarding police reform, there are a number of sources.

The reform of the previously highly corrupt road police has been recognized as one of the most popular measures taken by the Georgian government. In her 2005 article, Caucasus correspondent Lili di Puppò describes the reform as a “visible success”:

The purge in the corrupt police, where 15,000 officers were fired, was another drastic step of the government and has been so far the most visible success in the government's new policy. Car-drivers are no longer stopped and asked to pay bribes by policemen at improvised road check points and the disappearance of the corrupt traffic police is said to be the factor behind the surge in the number of Armenian tourists this summer.

The bigger question posed by di Puppò, however, is whether Georgia would be able to go beyond dramatic radical measures and commit to long-term institutional development:

“The biggest challenge for the Georgian state, as stated at different occasions by Georgian officials, is to eliminate the dependence on individuals and move towards a more predictable system based on institutions.”

Alexander Kupatadze, Giorgi Siradze, and Giorgi Mitagvaria, “Policing and police reform in Georgia”, in *Organized Crime and Corruption in Georgia*, eds. Louise Shelley, Erik R. Scott and Anthony Latta (Routledge, 2007). In this chapter, the authors describe Georgia's legacy of being an over-policed society prior to the reforms:

“When the Soviet Union collapsed, Georgia had a population of 5,400,800, with 25,000 employees in the Ministry of Internal Affairs (MIA) and 900 in the KGB (Committee on State Security), a ratio of one law enforcement official per 208 citizens. Georgia, therefore, remained a heavily policed society. Despite reforms in other parts of government, the Ministry of Interior maintained a dysfunctional structure with 28 departments, two branches in autonomous republics, and nine regional units. Additional unnecessary departments were created before the revolution, and personnel in the ministry more than doubled to 56,000 at a time that the population decreased by nearly one million. At the time of the Rose Revolution, the police-citizen ratio was 1:78” (pp. 93-94).

In its report “Reform of Law Enforcement Bodies in Georgia: The Ministry of Internal Affairs” (Dec. 19, 2005), Transparency International Georgia also describes the rigid, unreformed interior ministry left over from the Soviet times:

“Prior to the new government's coming to power in 2003, the Georgian Ministry of Internal Affairs had seen very little change and effectively remained a Soviet-style police structure with a significant degree of militarization. The former authorities had failed to demonstrate the

political will to transform the ministry in accordance with the needs of a democratic state. Rampant corruption had resulted in extremely low public confidence in the police structures.”

In June 2004, the Ministry of Internal Affairs presented its strategic vision of reform at the Donors’ Conference for Georgia in Brussels. The vision had been elaborated based on the materials of the Democratic Policing conference funded by the EU. These include the May 2004 statement from the European Commission, which stresses the importance of a purely civilian character for the reformed MIA:

“a very clear message was sent to the Ministry of the Interior by the EU and ISAB experts present that any capacity to undertake independent military operations must be removed from the Ministry of Internal Affairs or disbanded. This includes the removal of military doctrines, structures, terminology and ranks and is essential in achieving policing standards.” (p. 15).

The key objectives for the structural reforms in the Ministry of Internal Affairs were summarized in the MIA’s document entitled Strategic Vision and Development Priorities in 2004-2006.

- Reorganization of the ministry into the body responsible for the internal policy of the country , with duties including the execution and coordination of police activities;
- Professionalization of the police force to make it completely non-political, including the bolstering of public confidence in the police by increasing its effectiveness in fighting crime, ensuring civilian security, and combating the system’s existing corruption;
- Creation of appropriate work conditions, suitable remuneration, and job stability for the employees of the Ministry system and protection against the hiring of unqualified persons;
- Gradual execution of the reform process, ensuring that the necessary material, technical and human resources are determined and their sources are defined before components of the reform are implemented.” (p. 6).

To access all *Democratic Policing* conference materials and for an overview of the European Commission activities with the Ministry of Internal Affairs, go to the website of the Delegation of the European Union to Georgia. Here you will find a brief historic background, key events and key documents of relevance to cooperation between the European Commission and the Ministry of Internal Affairs. A selection of those documents can be found here:

Report on the current situation with the recommendations for the reform;

1. GE - MOI Reform - Strategic Vision & Priorities 2004–2006;
2. GE - MOI Reform - Strategic Vision & Priorities 2004–2006;
3. GE - MOI Reform - Strategic Vision & Priorities 2004–2006;
4. GE - PA - MOI Reform - Outline of Structural Reform of MOIA – 28.

An assessment of the situation in the Ministry of Internal Affairs was provided in January 2005 by two EU-funded experts, Zoran Krunic and George Siradze (“The Ministry of Internal Affairs of Georgia - Report on the Current Situation with the Recommendations for the Reform”). The experts identified a number of aspects where improvement was needed. In particular, they noted the absence of a clear, well-thought out reform strategy and the excessive influence of the Minister on the reform process:

At the moment it seems that the reform which is going on without a real plan/strategy and depends too much on the Minister of IA. It seems that reform could go in different direction (better or worst) and with different speed (slower or faster) if there would be another Minister

of IA. This kind of reform should be done according to plan/strategy which is adopted/approved by higher authority (President, Parliament). Also, it seems that reform of IA is not well coordinated with the overall reform in Georgia. The reform is elaborated on the high level without taking into consideration the views of the Georgian police officers (and practical consequences), but on the other hand it involves some people who have no or not enough knowledge on policing. Police officers who actually provide police services are not fully informed of changes. Also, it seems that the reform is too much attached to American advices and often non-critically transfers US law-enforcement system and practice to Georgian conditions (p. 56).

For another assessment of the reforms, see the chapter written by Jozsef Boda and Kornely Kakachia, entitled “The Current Status of Police Reform in Georgia”, in DCAF (Geneva Centre for the Democratic Control of Armed Forces). Philipp H. Fluri & Eden Cole, eds. *From Revolution to Reform: Georgia's Struggle with Democratic Institution Building and Security Sector Reform*. LaVac, 2005.

On ESI's request, in February 2010 the Ministry of Internal Affairs provided its own detailed overview of the key reforms implemented. (See also Annex 1 containing statistical data, Annex 2 with an overview of the legislation on organized crime, and Annex 3 with excerpts on organized crime from the Criminal Code).

For an official view of the police reform, see also a recent (March 2010) interview (also available in English) given by Georgian Interior Minister Vano Merabishvili (in office since December 2004) to *Kommersant – Vlast*. Merabishvili describes his ministry as a service agency designed to make people's lives easier: “the police is not just a state institution, it's a service which helps people solve their problems.” He is also an advocate of radical changes: “When you are changing from the Soviet way of life to a Western one, you cannot stop at half-measures. You need non-ordinary methods.” He does not deny the importance of the personal factor in driving the reform.

On Georgian defense reform see Geoffrey Wright (2009). In his article “Defense Reform and the Caucasus: Challenges of Institutional Reform during Unresolved Conflict,” *Mediterranean Quarterly* 20, no. 3, he argues that while the Western concept of defense reform aims at establishing civilian control over military forces and building capacity for regional cooperation and peacekeeping operations, the key priorities for Georgia were quite different:

“Since the Rose Revolution, the administration of Mikheil Saakashvili has embarked on an ambitious defense reform program to professionalize the Georgian armed forces, adopt NATO defense doctrine and management processes, and create a NATO-interoperable force capable of participating in peacekeeping operations worldwide. Beyond this agenda, however, domestic imperatives led Georgian leaders to see defense reform as a means to build a military that could potentially reintegrate the regions of South Ossetia and Abkhazia by force.”

A source for material on corruption in Georgia is the Terrorism, Transnational Crime and Corruption Center (TraCCC), Caucasus Office. In reviewing their publications, you can find papers on everything from Corruption in the Pharmaceutical Industry (2006) to Corruption in the Ongoing Process of Privatization in Georgia (2006) to Corruption in Illegal Construction in Urban Territories (2006).

See also: International Crisis Group (ICG), Georgia: Sliding towards Authoritarianism? Europe Report N°189 (2007).



## John Galt in the Caucasus

The ideology that guided Georgia's economic policy since the Rose Revolution has been based on a very US-style libertarianism, different from liberal ideologies one finds in Europe. As we set out to find out more about libertarianism, we came across an interesting figure in the US libertarian debates: Ayn Rand. To learn more about Ayn Rand's philosophy, watch her 1959 interview with CBS's Mike Wallace. The interview, posted on YouTube, is divided into [Part 1](#), [Part 2](#) and [Part 3](#).

*Atlas Shrugged* (1957) sets out Rand's ideology in 1,200 pages of prose. John Galt, the book's protagonist, captures Rand's philosophy in a speech praising selfishness as the basis of true ethics and explaining why justice requires small government:

"The only proper functions of a government are: the police, to protect you from criminals; the army, to protect you from foreign invaders; and the courts, to protect your property and contracts from breach or fraud by others, to settle disputes by rational rules, according to objective law." (p. 1062)

[A survey conducted in the US in 1991](#) ranked *Atlas Shrugged* as the second most influential book in print, right after the Bible. With over 12 million copies sold to date, sales increased further in 2008 and 2009, owing in no small part to the onset of the financial crisis.

One expression of renewed interest in *Atlas Shrugged* is the publication of two recent books examining both the origins and the impact of Rand's ideas. In a 2009 book called *Ayn Rand and the World She Made*, Anne C. Heller ascribes Rand's hostility to liberal social programs to her years growing up in Bolshevik Russia. Jennifer Burns, in *Goddess of the Market – Ayn Rand and the American Right*, concludes that the quasi-religious energy pulsating through Rand's work helped her attract a strong following in the US:

"Rand intended her books to be a sort of scripture, and for all the emphasis on reason it is the emotional and psychological sides of her novels that make them timeless. Reports of Ayn Rand's death are greatly exaggerated. For many years to come she is likely to remain what she has always been, a fertile touchstone of the American imagination." (p. 286)

To watch Burns discuss Ayn Rand on the Daily Show with Jon Stewart, please see: [www.jenniferburns.org](http://www.jenniferburns.org). On Ayn Rand's influence on wealthy Indians, please see "[Howard Roark in New Delhi](#)". Heller's and Burns' books were also the subject of a November 2009 discussion at the libertarian Cato Institute in Washington, featured [here](#).

In 2009 the *Wall Street Journal* published an article by Stephen Moore entitled "['Atlas Shrugged': from Fiction to Fact in 52 Years](#)." Moore praises the key libertarian insight of *Atlas Shrugged*:

"Politicians invariably respond to crises -- that in most cases they themselves created -- by spawning new government programs, laws and regulations. These, in turn, generate more havoc and poverty, which inspires the politicians to create more programs . . . and the downward spiral repeats itself until the productive sectors of the economy collapse under the collective weight of taxes and other burdens imposed in the name of fairness, equality and do-goodism."

And he suggests:

“If only *Atlas* were required reading for every member of Congress and political appointee in the Obama administration. I'm confident that we'd get out of the current financial mess a lot faster.”

There are many American conservatives today who make comparisons between the events described in *Atlas Shrugged* and supposed dangers facing the US. Contemporary supporters of Rand's ideas, promoting her books to mass audiences, include libertarian Glenn Beck, who regularly recommends Ayn Rand on his popular show on Fox News:

“Americans are flocking to buy and read *Atlas Shrugged* because there are uncanny similarities between the plot line of the book and the events of our day, says Yaron Brook, executive director of the Ayn Rand Center for Individual Rights. Americans are rightfully concerned about the economic crisis in government's increasing intervention and attempts to control the economy. No. Ayn Rand understood and identified the deeper causes of the crisis we're facing, and she offered in *Atlas Shrugged* the principled and practical solution consistent with American values.”

Another fervent Rand fan is Rush Limbaugh, who commented on Barack Obama's election in December 2008 by describing the US as having arrived in the world of *Atlas Shrugged*:

“People who have proved that they can produce tens of millions of cars are going to be led, managed, and directed by people who have never manufactured a single car in their entire lives. People that have produced all of the energy our nation needs to survive and to grow are now going to be led by people who have never found an ounce of oil, drilled for an ounce of oil, refined a single ounce of oil. In fact, I think they're going to be led by people who have no idea where money comes from.”

Of course, Ayn Rand is just one of many intellectual heroes of libertarianism, be it in the US or in Georgia. You will find more information on libertarian ideas and thinkers that are influential in Georgia today on the ESI website.

## **A Russian libertarian**

The man who shaped Georgia's economic policies since 2004 is Kakha Bendukidze. To get to know him better please see a transcript of an interesting conversation with Kakha Bendukidze is available from Russian blogger Vladimir Fedorin, known by his LiveJournal username *empedocl*. It is divided into three parts ([part 1](#), [part 2](#) and [part 3](#)). The blogger met with Bendukidze in March 2009 in Tbilisi and engaged in a lengthy conversation covering a wide range of topics including the global financial crisis, pension reform in Latin America, ideas for a safety net in Georgia, and differences between Russia and Georgia concerning democracy. Bendukidze explained his understanding of libertarianism in simple terms: “The point of libertarianism is to say: the government's attempt to do something good is very harmful.”

Among the influences mentioned by Bendukidze in different interviews (including with ESI), the “Austrian school of economics” stands out. One of its leading representatives was Ludwig von Mises (who died in 1973), one of the founders of laissez-faire economics. His central argument was that

“the only viable economic policy for the human race was a policy of unrestricted laissez-faire, of free markets and the unhampered exercise of the right of private property, with government strictly limited to the defense of person and property.”

Murray Rothbard had studied and worked with Mises. His ideal was also the “stateless economy”. Any state was for him “a gang of thieves” and the very notion of a “public sector” an intellectual fallacy:

“it necessarily lives parasitically upon the private economy ... the consumers are deliberately thwarted, and the resources of the economy diverted from them to those activities desired by parasitic bureaucracy and politicians.”

When Rothbard died in 1995, *The New York Times* referred to him as a founder of “right-wing anarchism.” An excellent source on the work and influence of Ludwig von Mises is the website of the Ludwig von Mises Institute in the US, [www.mises.org](http://www.mises.org). It includes classic libertarian texts, including Human Action by Mises and Murray Rothbard’s Fallacy of the 'Public Sector' (1961). There are also the letters to Ayn Rand by Mises and Rothbard, congratulating Rand on the success of *Atlas Shrugged*.

Additionally, there are the two Russian thinkers whom Bendukize mentions in a *Financial Times* interview in 2007 as having influenced him: Vitaliy Naishul and Andrey Illarionov.

Vitaliy Naishul’s book *Another Life* is available online in Russian: “Другая жизнь” (1985). In the preface to the book, Naishul addresses the reader, saying,

“In this book ... you will take a look at the Soviet economy and understand why you earn so little money for your work and why it is so difficult to buy necessary goods in stores. You will also learn how the planning agencies work and will be surprised to find out that there is actually little they still plan.”

Naishul uses real-life examples and comparisons to explain why the standard of living in the Soviet Union is inferior to that in Western countries. He advocates radical economic reform, including privatization, which he sees as necessary to allow the Soviet economy to catch up with the West. The author also introduces the reader to key concepts of mainstream economic theory, such as the “invisible hand” and “perfect competition”. There is also an interesting public lecture by Naishul in Russian, in which he talks about the history of economic reforms and privatization: “Where Did the Reformers Come From?” (2004).

To find out more about the views of Andrei Illarionov please see the CATO Institute’s website. There one also finds his praise of the US economist Milton Friedman, highlighting the tragedy of Russia in the 20<sup>th</sup> century:

“At the end of the 19th century when Milton Friedman’s parents moved from the provincial Hungary to Brooklyn, Russia’s population (based on the territory of the modern-day Russian Federation) was only 3 percent lower than that of the U.S. population – exact figures are 66 to 69 million people, respectively .... In 2006, when Friedman died, the population in Russia was half that of the United States – 142 million people in Russia versus 298 million people in the United States. The yawning gap is even more pronounced in economic indicators. In 1894, Russia’s GDP was 39 percent of that of the United States ... in 2006, Russia’s GDP had dropped to only 13 percent of American gross domestic product.

“Freedom is a wonderful thing whether it is economic, political, or intellectual. When individuals are allowed to freely compete under limited government and the rule of law, they create great wealth and improve human welfare. This prosperity does not depend so much on natural resources or nuclear weapons; it depends on economic and personal freedom to develop one’s skills and to engage in voluntary exchange .... The most fundamental problem of present-day Russia is not the lack of investment, the so-called natural resource (oil) curse,

the existence of fools, the absence of roads, or even the “robbery” going on in Russia. The real problem is the lack of freedom.”

### **A biologist in Moscow**

In an extensive [interview](#) (also available in [English](#)) with *Kommersant-Dengi* from 1996, Bendukidze reflects on his professional transition from biologist to businessman and investor. He describes the early years of his companies, Bioprocess and investment fund NIPEK, as well as the story of the privatization of Uralmash, which would become the core of his future engineering holding OMZ.

One of the best books on the birth of Russian capitalism is David E. Hoffman’s *The Oligarchs – Wealth and Power in the new Russia*. It focuses on the careers of six of the men who rose to the pinnacle of Russian capitalism in the 1990s. Although the book does not discuss Bendukidze, many of the people and issues it raises directly touch upon his own rise to wealth and influence. Hoffman also captures the spirit of the early 1990s:

“...if they had Western models, these Russians were also unique. They inherited a country with a political and economic culture rooted in centuries of Russian obedience to authority, arbitrarily defined, from tsars to commissars. They inherited a society in which the simplest human instincts of individual initiative and entrepreneurship had been suppressed for seven decades ... Russia was also unique because of a critical choice made immediately after the Soviet Union collapsed. Yeltsin deployed a band of radical young reformers, including Chubais, who, believing they had little time, set out to wreck the old system at any cost.” (p. 6)

Hoffmann describes in detail the thinking that led Yegor Gaidar and other reformers who implemented the shock therapy in Russia in the early 1990s. The chief engineers of Yeltsin’s economic revolution:

“set out to accomplish nothing less than wreck the old system – smash the entire complex of planning, thinking and behavior inherited from Lenin, Stalin and their successors ... Another legacy of their past was their shared disdain for politics. In the 1980s, Gorbachev had unleashed freedom but lagged behind on economic change. They were determined to avoid Gorbachev’s quagmire of politics – endless plans that went nowhere ... instead they thought of themselves as technocrats, pure economists, who would find the right thing to do and smash through the old barriers to getting it done.” (p. 182)

The Gaidar team “often described themselves as kamikaze pilots, because they would certainly destroy themselves in trying to tear down so many entrenched interests.” And they were real revolutionaries in spirit:

“Gaidar and Chubais believed that gradualism was akin to death; it would strengthen the vested interests and doom any real chance at reform. Chubais said it was only an illusion that change could be done ‘gently, slowly and painlessly, so that everybody should be happy.’” (p. 183)

The belief in technocracy, smashing through resistance, disdain for gradualism: all of these ideas, which shaped the mindset of Russia’s reformers of the 1990s, were to reappear in Bendukidze’s policies in Georgia.

## How to become an Oligarch

How did a Georgian biologist in Moscow become an oligarch? In the 1990s Bendukidze set up a few companies, one of which – NIPEK – turned out to be a controversial story. There is an interesting *NYT* article which described the early stages of the creation of NIPEK, “Russians Take a Flier on Oil In Capitalism for the Masses,” published in January 1992:

“Nipek, a company with roots in the oilfields of western Siberia, is not making specific promises, although its salespeople talk vaguely about a 20 percent return on investment.

But what appeals to investors like Mrs. Revazova is Nipek's connection to oil. The word still has a promising ring to Russian ears, despite the difficulties of the industry here. Oil production has fallen steadily, and according to one estimate, by the end of 1993, production will have dropped by 20 percent compared with 1991. The reasons are to some extent connected with the overall decline of the economy, resulting in a reduction in capital investment, a shortage of equipment and confusion over which layer of government is responsible for the oilfields.”

In *Owning Russia: The struggle over factories, farms and power* (2006), Andrew Barnes talks about the establishment of NIPEK and its initial accumulation of wealth.

Russian privatisation is also discussed in Marshall Goldman's “The Piratisation of Russia – Russian Reform goes awry” (2003): as its title indicates, it offers a critical assessment of the impact of the privatisations of the 1990s.

Read the debate between Goldmann and the Swedish economist Anders Aslund on Russian privatisation. As Aslund put it:

“Since 1999, something remarkable has happened ... The economic recovery of the countries of the former Soviet Union has been spearheaded by large, private corporations that have revived old Soviet energy and metallurgical companies ... These corporations are big. The 10 largest private Russian companies have about 200,000 employees each. They were all bought by outsiders, either from the state for a song, or equally cheaply from former private owners, either incompetent state managers or haphazard state officials. The new core owners are few, and because of their concentrated ownership they can undertake badly needed, profound restructuring. As a consequence of the privatization of old Soviet smokestack industries, Russian oil extraction is skyrocketing, and modern metallurgical plants are working at nearly full capacity in both Russia and Ukraine.”

The key to capitalism, so Aslund, is to respect property rights, regardless of their origins:

“The U.S. robber barons were more similar to the Russian oligarchs than people realize. Half of them made their fortunes in the railways, and the secret of their success was their acquisition of land from the state for free. Does that not sound like loans for shares? The difference, however, was that the United States had no KGB. When President Theodore Roosevelt challenged John D. Rockefeller, he stopped at antitrust measures, using neither arbitrary punitive taxation (as advocated by Goldman) nor confiscation (seemingly being considered in the Kremlin). Many European properties derive from outright gifts from a monarch, many of them exempt from taxation until recently. Capitalism requires private property, and how it can be established is always a matter of politics. The secret of successful capitalism is to respect property rights regardless of how they originally emerged. The sooner that happens in Russia, the greater its economic growth will be.”

## **Big Business and Russian Politics**

Bendukidze is listed as one of the top 20 oligarchs in Russia in “Ownership concentration in Russian industry” by Sergei Guriev and Andrei Rachinsky (2004), published by the Centre for Economic and Financial Research (CEFIR) at the New Economic School (NES).

In an interview with *Kommersant* (dated 1995), entitled “Being Cool Won’t Help You Dodge the Bullet” («Крутизна на траекторию пули не влияет») (also available in English), Bendukidze spoke about the rise of criminality in Russia in the 1990s and the striking increase in the number of contract killings of businessmen, whose casualties included some of his colleagues in the lobby group *Round Table of Russian Business*. He advocated harsh measures, saying that one can only deal with the situation in Russia by “shoot[ing] all the bandits.” In his opinion, a “tough authoritarian regime” of the “Taiwanese-Chilean type” would be necessary for a transition to normal economic development and for curbing rampant criminality. Bendukidze also noted that it was impossible to do business legally in Russia without fear of being killed over some dispute.

A description of Russia’s wild capitalism can also be found in Paul Klebnikov’s *Godfather of the Kremlin – the Decline of Russia in the Age of Gangster Capitalism* (2000). He notes about Russia’s early capitalism that:

“Russia’s new businesses were pushed into the world of organised crime by the corruption of the government apparatus, which meant that commercial success was overwhelmingly dependent on political connections. Businessmen were hampered by a crushing tax code – which impelled enterprises to conduct business off the books – and the absence of an effective legal system ...” (p. 30)

As for privatisation:

“By the end of 1993, when Russians actually were able to use their vouchers, inflation and devaluation of the ruble had destroyed 95 percent of the voucher’s face value, and Russia’s industrial and natural-resource wealth was valued at a mere \$5 billion.” (p. 130)

Bendukidze achieved success in Russia and became known for his commitment to liberal economic policy, which he promoted in various political and economic forums. To get an idea of how Bendukidze was viewed in Russia around the time he left for Georgia, Vitaliy Tretyakov’s June 2004 article in *Rossiiskaya Gazeta*, published under the title “Bendukidze’s Mission – “Миссия Бендукидзе”” is particularly useful.

## **Vladimir Putin’s authoritarian liberalism**

An excellent introduction is Lilia Shevtsova’s *Putin’s Russia* (excerpts are available on the website of the Carnegie Endowment).

Edward Lucas, a correspondent for *The Economist*, describes the origins of what he calls “The New Cold War” in Russia under Putin (2008). Lucas argues that Putin’s Russia poses once again a direct menace, not only to its own citizens but also to outsiders. He challenges the idea that Russia is “steadily becoming a normal country.” He argues that due to Putin’s decisions Russia “now stands little chance of avoiding long-term decline.”

Lucas' core explanation can be summed up in one sentence: "When oil was at 10 USD a barrel, Russia was pitifully weak. At 75 USD, it swaggers like a superpower." This is embedded in a rich argument, however. In the 1990s Russia was ridiculed as the sick man of Europe, Lucas notes: "by the time of the 1998 financial crisis, the multi-party system and the market economy, along with Yeltsin's personal reputation, were deeply discredited" (p. 44). Like Shevtsova, Lucas points to the initial reformist attitude of Putin in 2001:

"Putin came out strongly for economic reform, saying that he wanted Russia to reach Portuguese standards of prosperity in a decade. His government pushed through a 13 percent flat tax in 2001; as in other countries where this was tried, the results were impressive. His ministers talked of setting up a 'one-stop shop' for registering small businesses, replacing the baffling and expensive trek between different state institutions ..." (p. 48)

The contrast to the pre-1999 period explains the popularity of the new regime:

"after the calamitous financial crash of August 1998, when Russia defaulted on a large chunk of its debts and devalued the rouble, the sense of failure surrounding the Yeltsin clique and its tycoon-friendly rule was absolute." (p. 9)

By 2008, as Lucas writes,

"More than ever before Russians can plan their lives: they can save, educate themselves, travel and bring up their children as they like; they can buy anything they can afford; own property at home or abroad; worship (mostly) as they wish; read almost anything they like ... never in Russian history have so many Russians lived so well and so freely. That is a proud boast, and one that even those who dislike Russia's current path most honestly acknowledge ... Private cars used to be a luxury in the Soviet Union. In 1993 there were fifty-nine per thousand people. That figure has risen fivefold. Around 15 percent of all Russians have been abroad at least once - something unimaginable in Soviet times." (p. 54)

Another useful read is Andrew Meier's *Black Earth: Russia after the Fall* (2004). Meier relates a striking moment in the presidency of Boris Yeltsin, the effort to define an official new national ideology:

"Only days after winning his second term, Yeltsin summoned campaign aides to the Kremlin. The time, he said, had come to find a new national idea. In the twentieth century alone, he told those assembled, Russia had gone from monarchy to totalitarianism to perestroika, before embarking on the democratic path. 'Each epoch had its own ideology,' he thundered, 'Now we don't have one - and this is bad.' ... Historians, political scientists, and pollsters were enlisted. They were to rack their brains, search the "Civilised World" for historical models, and not return empty handed."

One option then considered, and rejected, came from Georgi Satarov: to emulate West Germany and combine economic growth with "the idea of national penitence". But, as Meier wryly notes, the notion of "making contrition the corner stone of the new ideology for the new Russia did not grab many on the presidential panel." (p. 338)

The book paints a gripping, detailed portrait of Russia in the 1990s and during the early Putin period.

"During his brief tenure as FSB chief Putin had hung a portrait of Peter the Great in his Lubyanka office. In his first months as prime minister, his aides liked to assure foreign reporters that Peter, the tsar who opened Russia to the West, was Putin's model. Yet Peter had also begun his career with an onslaught against the heathens in the south, conquering the port

of Azov in 1696 from the Ottoman Turks, gaining access, after a failed attempt the previous year, to the Black Sea." (p. 93)

*Putin's Labyrinth: Spies, Murders and the Dark Heart of the New Russia* (2009) is a critical account of Putin's rule and the elimination of Putin's perceived enemies. The book is written by journalist Steve LeVine, the author of *The oil and the glory*.

On debates in Russia about cooperation with the EU and NATO, please see the collection of Chatham House Papers compiled by Roy Allison, Margot Light and Stephen White in *Putin's Russia and the Enlarged Europe* (2006).

See also: Amy Knight, "Forever Putin" (February 2010) in the *New York Review of Books*. This is a review of Mikhail Kasyanov's book *Without Putin* ("Bez Putina"). Kasyanov was former Russian prime minister and current opposition politician.

## Leaving Russia

According to Russian analysts, Bendukidze left Russia in 2004 because of resurgent authoritarianism in the country. In "What Does Russia Think," a collection of essays by influential Russian intellectuals published by the European Council on Foreign Relations in September 2009, Olga Kryshchanovskaya provides her account of Russia's resurgent authoritarianism:

"After the Yukos case, the business community was forced either to accept the new reality in Russia or to leave the country. It was now in effect forbidden for business people, or for that matter any other significant social group, to directly intervene in politics. The Kremlin even believed, for example, that those who, like Khodorkovsky, who worked for charity, did so simply to improve their image and could therefore constitute a potential danger at the next election. The function of the grand bourgeoisie was to remain silent and only to sponsor projects initiated by the Kremlin." (pp. 27-28)

On the changing power balance between the Russian state and the oligarchs during Putin's presidency, see the 2003 essay by Marshall Goldman "Render Unto Caesar: Putin and the Oligarchs":

"In 1991, a small group of Russians emerged from the collapse of the Soviet Union to claim ownership of some of the world's most valuable oil, natural gas, and metal deposits. This resulted in one of the greatest transfers of wealth ever seen. By 1997, five of these individuals, who in the 1980s had only negligible net worth, were listed by Forbes as among the world's richest billionaires."

Articles by Lilia Shevtsova on how Russia has changed can be found on the website of the Moscow Carnegie Center. Also useful is her book *Russia – Lost in Transition* from 2007. She describes Russia's liberal technocrats as "the liberal adornment of an illiberal, undemocratic regime":

"The liberal technocrats in Russia deserve consideration. These are free marketeers who consent to work in a less-than-democratic, or even blatantly undemocratic, system under the direct patronage of the leader. They are to be found in many countries, from Saudi Arabia to China, and from Singapore to Argentina. In most cases, they serve a useful purpose, obstructing both the expansion of the bureaucracy and populist policies ... their role is constructive, however, only if there are other political forces with a developed liberal



democratic sensibility to mitigate the technocrats social insensitivity and excessive managerial zeal ... Technocrats without redeeming democratic support operate equally well in the interests of authoritarianism or oligarchy.” (p. 113)

She also notes, in a comment relevant for Georgia, that in Russia, “liberalism will have no prospects if those who claim to be its adherents once more try to argue that democracy is a hindrance ... neglecting democracy, as the 1990s showed, causes liberalism to degenerate.”

Bendukidze gave a number of interviews in Russia in his new capacity as first Economy and then Reform Minister in Georgia. Soon after his ministerial appointment in June 2004, he spoke with Russian business daily *Vedomosti* (“Georgia Has Nothing to Lose” – «Грузии нечего терять») (also available in [English](#)) outlining his initiatives and views on Georgia. In this interview he argues that for Georgia, a very poor country, the only way forward is radical economic liberalization. He also set out his goal of tripling Georgia’s GDP within 10 years.

### “Nothing to lose”

In one of the most recent interviews (“[There Is Only One Way – Building a Free Economy](#)” «Каха Бендукидзе: Путь один - строить свободную экономику») (also available in [English](#)), given to *Radio Free Europe/ Ekho Kavkaza* in December 2009, Bendukidze spoke about his general approach to liberal reforms and the Georgian experience. He emphasized the need to reduce the state apparatus in order to achieve greater efficiency and to stimulate the private sector:

“We had a clear understanding of the following fact: every extra bureaucrat who sits in the state apparatus is a real obstacle to economic development and prevents the creation of five jobs in the private sector. As long as you have a large state apparatus, you will have a small private sector. This was clearly understood, and that is why we were not afraid or embarrassed to radically cut their numbers. This is a very painful process because the people who are dismissed are not happy about and most of them join the opposition to the government that has dismissed them.”

### “A guiding light to other states”

In his detailed history *The Making of the Georgian Nation* (second edition) Ronald Grigor Suny notes that after achieving independence in 1991 “Georgians became the victims of their own excessive rhetoric and ill-considered political choices” (p. 334). He quotes Elizabeth Fuller who described the philosophy of Gamsakhurdia (the first elected leader of Georgia, toppled by a coup in January 1992) as follows:

“Central to Gamsakhurdia’s entire political career is his messianism – his mystic belief that he was divinely appointed by God to lead the Georgian people, and by extension, that Georgia has a divine mission to be a moral example to the rest of the world.”

The notion that Georgia should be an example to the rest of the world, albeit shorn of its mystical and religious overtones, is also very present in the rhetoric of Georgia’s libertarian leaders and their friends in international organisations. It is present in many speeches made by Mikheil Saakashvili.

One of the most outspoken advocates of this vision of Georgia as a global model is Lado Gurgendize, Georgia's libertarian prime minister from late 2007 to late 2008.

In "[Georgia Can Be a Guiding Light to Other States](#)", an op-ed published in *The Telegraph* in October 2008 Gurgendize uses his own life-story to make the case that in Georgia everything is possible:

"In autumn 2004 I departed London, uprooting my young family and leaving a comfortable City job, to rebuild a chronically under-managed, former state-owned bank in Georgia with a market value of £14 million and a sizeable hole in its balance sheet ... Within three years, and with a talented team of veterans from Western banks, Bank of Georgia was a London Stock Exchange-listed financial institution with a market value of £460 million."

And he continues:

"Preserving Georgia's democracy and territorial integrity is increasingly seen as 'not about just Georgia any more', but about the inviolability of sovereign borders and the supremacy of the rule of international law over the rule of force. I would argue that there is another, often-overlooked dimension. The World Bank ranks Georgia as the 15th freest economy in the world, with the level of economic liberty exceeding our Central and Eastern European peers and most EU countries (the United Kingdom is ranked 6th). The world has a vested interest in promoting Georgia's success on its chosen path."

For a very detailed discussion of Georgia's reforms, listen to Lado Gurgendize's April 2009 [presentation](#) (75 min) at the Milken Institute in Los Angeles, California. Gurgendize focuses on the successes of Georgia's radically liberal policies and points out, "It's not enough to be like other countries. We have to be better. Unabashedly, unequivocally better."

Gurgendize sees Georgia's future as part of a wider story of "extending the march of freedom to the eastern shores of the Black Sea." Similarly, Richard Kahn, a senior fellow at the Cato Institute in Washington DC, [credits both Bendukidze and Gurgendize with Georgia's transformation into a model of economic governance](#):

"Much of the inspiration and drive for the radical free market reform of the Georgian economy comes from a mountain of a man named Kakha Bendukidze, whom I first had the pleasure of meeting some years ago in Russia ... Commenting on the international financial crisis, he correctly observed that as long as governments continue to rely on central banks and extensive regulation of the financial industry rather than free banking, "periodic financial crises will continue to plague mankind."

"The prime minister, Lado Gurgendize, was both educated and spent considerable time in the United Kingdom and clearly was influenced by Mrs. Thatcher. I asked him if he was concerned that the pressures to grow the size of government because of the invasion would undermine Georgia's reforms (note: history shows governments almost always grow in relative size versus the private economy in the time of crisis, such as wars or financial instability, even if governments create the crisis). The prime minister replied that the Georgians have not retreated from their reforms, including shrinking the size of government, and they fully understand any retrenchment would be very damaging."

Kahn concludes:

"There is a message here for the political leaders of America and Europe, but I expect most of them still will not get it."

Many of these articles, praising what Gurgenedze called “compassionate libertarianism” (see his March 2008 power-point presentation on the topic) appeared at a time which also saw the publication of many critical articles on Georgia’s democratic maturity.

In September 2008 Lincoln Mitchell wrote in *The New York Times* that since the Rose Revolution

“media freedom was reduced, an independent judiciary did not evolve, the government party sought to weaken opposition parties, and a one-party system (its fourth in less than 20 years) was solidified.” (“Viewing Georgia, Without the Rose-Colored Glasses,” *NYT*, 25 Sep)

*Newsweek* wrote in September 2008 that “if anything, the country is becoming less democratic.” (Michael Freedman, “The West Hails Georgia As a Democracy. But Is It One?” *Newsweek International*, Sept. 2008.)

### **Rebranding a country**

One of the key think tanks which staffed the Ministry of Reforms in Georgia in 2004 was the New Economic School of Georgia (NESG). For more on NESG see [www.nesg.net](http://www.nesg.net).

On the Liberty Institute – a think tank with a role before and after the Rose Revolution - see “Pro-West leaders in Georgia push Shevardnadze out” by Hugh Pope (2003) in the Wall Street Journal. This article describes the Liberty Institute and the role it played in the Rose Revolution.

For a list of all privatization sales since 2004 (listed by the Government of Georgia) please see [www.privatization.ge](http://www.privatization.ge). Please note that this list does not include all transactions which took place.

Molly Corso, a freelance journalist writing for EurasiaNet published the article “Privatization in Georgia: Solving the ‘sensitive’ issues” (2005) in which she discusses the privatization process in Georgia and challenges and debates surrounding it.

The following is a reading list on licensing reforms in Georgia: Celebrating Reforms 2007 is a collection of reform case studies from around the world. Compiled by World Bank’s Doing Business project, Georgia features two times: with licensing reform and land privatization.

In 2008, World Bank’s Doing Business project conducted a study of licensing reform in various countries around the world, entitled Dealing with Licenses, Georgia is featured as an example of an extremely successful reform in the construction sector.

Also in 2008, International Finance Corporation (IFC) in Georgia did a study of Georgia’s license reform. To access the study go to IFC Georgia Website or click Georgia after 3 years of Licensing Reform.

Georgia’s new Labour Code has been translated into English and can be found in the websites of World Bank’s Doing Business project, the International Labor Organization (ILO) and other organizations: Labor Code of Georgia.

Between 2006 and 2010, Georgia rose 89 places – from 100<sup>th</sup> to 11<sup>th</sup> – in the Ease of Doing Business Index (EDBI). In 2010, according to this Index, there are only four European

countries which are easier than Georgia to do business in: UK, Denmark, Norway and Ireland. Countries like Germany, France, the Netherlands and even Estonia – the first country in Europe to introduce a ‘flat tax’ policy – are behind Georgia in this index.

Look out for Sam Schueth’s forthcoming “Assembling International Competitiveness: Georgia, USAID, and the Doing Business Project” in the *Journal of Economic Geography* (Clark University). Schueth, from the University of Minnesota, lived and worked in Georgia and closely observed the reform process which led to the leap in the EDBI. Schueth was based in USAID’s Georgia office. His paper notes “how EDBI rankings can be exploited to obfuscate problematic business conditions overlooked by its measurement methodology.”

A detailed report by USAID on EDBI, both on the process and the successes of the project can be found here. See: USAID (2009) “Georgia, Opened for Business: Georgia Business Climate Reform 2009”.

A speech by Simeon Djankov, the creator of World Bank’s *Doing Business* (current Deputy PM in Bulgaria) can be found here, from an event organized by the Cato Institute on “How Nations Prosper: Economic Freedom and Doing Business around the World” (2008).

### **And the winner is ... Georgia?**

Click here for “And the winner is Georgia” campaign.

The Cato Institute together with the New Economic School of Georgia organized a libertarian event in Tbilisi in 2006. Co-organizers included the Atlas Economic Research Foundation, the Heritage Foundation, the Friedrich Naumann Foundation and others. For more see Freedom, Commerce, and Peace: A Regional Agenda.

To get a sense of Georgia’s economic improvements, please see a set of IMF reports on developments since 2004, at the IMF’s Georgia website.

IMF: “Georgia: Fifth Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria” (2010). Pages 27 onwards include macroeconomic indicators.

IMF: “Georgia: First Review Under the Stand-By Arrangement-Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Georgia” (2009):

“Real GDP growth, which had been impressive and broad based until June 2008, is projected to become negative in the second half of 2008, following a sharp decline in private demand driven by lower inflows and the shock to confidence. Growth in 2008 is projected at 3½ percent.” (p. 8)

IMF: “Georgia: Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria - Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Georgia” (2007):

“Fiscal performance saw a spectacular improvement, with tax revenues increasing from 14.5 percent of GDP in 2003 to almost 22 percent in 2006, despite a reduction in rates and the elimination of a number of taxes. Combined with privatization proceeds (which averaged 4.2

percent of GDP in 2005–06), this allowed the authorities to clear arrears, increase pensions, and upgrade defense capacity and economic infrastructure, while reducing public debt from close to 50 percent of GDP in 2003 to 22 percent in 2006.” (p. 4)

IMF: “Georgia: Poverty Reduction Strategy Paper Progress Report” (2005)

IMF: “Georgia: Ex Post Assessment of Georgia's Performance Under Fund-Supported Programs--Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Georgia” (2004):

“Although Georgia undertook significant privatization during the 1990s (virtually all small firms and over 1,000 medium and large ones were privatized) the program overlooked privatization of many large enterprises with the exception of the Tbilisi electricity distribution company...some progress was registered in 2003 with the privatization of Azoti and Zestafoni Ferro plants and the introduction of private management in key electricity sector entities, as mentioned above.” (p. 8)

This paper was published by the IMF in November 2003, just days before the Saakashvili's team ousted Shevardnadze from power: “Georgia: 2003 Article IV Consultation--Staff Report; Staff Statement; and Public Information Notice on the Executive Board Discussion” (2003)

“The authorities need to redouble their efforts to tackle pervasive corruption and tax evasion. This will be key for generating the resources necessary to discharge core government obligations and fostering a business climate conducive to higher private investment” (p. 5)

For selected IMF papers from the pre-Rose Revolution period, please see:

- IMF: “Georgia - Recent Economic Developments and Selected Issues” (1998)
- IMF: “Georgia: Recent Economic Developments and Selected Issues” (2001)
- IMF: “Georgia: Recent Economic Developments and Selected Issues” (2000)
- IMF: “Georgia: Poverty Reduction Strategy Paper” (2003)

On industry in Georgia see World Bank: “Georgia: A blueprint for reforms” (1993):

“Prior to World War II, the industrial sector in Georgia was small, and concentrated in food processing, mining, light industries (particularly textiles), and woodworking. The major thrust of subsequent industrialization under the auspices of the Soviet central government focused primarily on rapid development of military production, and thereafter on electro-machinery building, and heavy industry.”

### **The shock of 2008 and Bendukidze's legacy**

The most recent book on the war by Ronald Asmus, *A little War that shook the world – Georgia, Russia and the Future of the West* (2010) argues that one of the causes of the war was Russian fear of Georgian success:

“Russia deeply opposed and resented Georgia's effort to escape its historic sphere of influence and anchor itself to the West. It feared the impact that Georgia's pro-Western democratic experiment could, if successful, have in the Southern Caucasus and potentially across the border in the Northern Caucasus within Russia itself.” (p. 8)

On Georgia's post-war plans, Asmus writes:

“... Tbilisi must set aside any hope of regaining the lost provinces for the foreseeable future. It must settle on a long-term non-recognition policy coordinated with the international community that can endure for years if not decades ...instead, Tbilisi must focus its energies on regaining the passion for reform and democracy at home that made it so attractive originally. Georgian leaders must take the part of the country they currently control and again turn it into a democratic and reform tiger, the current economic and financial downturn notwithstanding.” (p. 231)

For Asmus, the real reason behind the war was the wish by Moscow to kill any chance of NATO expansion to the Caucasus. While he admits that the Georgian leadership made mistakes it was this wider geopolitical struggle over spheres of influence that led to the fighting in August 2008.

Following the war, the European Union also grappled with trying to understand the causes of the war. It appointed Ambassador Heidi Tagliavini Head of the Independent International Fact-Finding Mission on the Conflict in Georgia (IIFFMCG – CEIIG). CEIIG was mandated with investigating the instigators of the 2008 Georgia-Russia war.

The report from this investigation was published in September 2009 in two volumes: Volume I and Volume II. The report looked back to the period of the break-up of the Soviet Union in 1991 to find traces to explain the 2008 war. It noted that while Georgia was at fault for initiating the fighting that led to the 2008 war, Russia had been engaging in provocations for years and had responded disproportionately.

A good overview of different aspects of the fighting is a book edited by Svante E. Cornell and S. Frederick Starr, The Guns of August 2008: Russia's War in Georgia, (2009).

In one essay, Thomas Goltz sums up the background story of “the downward trajectory of Georgia from its status as one of the most pleasant and prosperous places in the entire USSR, to becoming, within a decade, the very paradigm of a failed state” (p. 16). Thornike Goradze looks at the deterioration of Russian-Georgian relations under Shevardnadze.

The book contains an article by Andrei Illarionov, a vocal critic of the Kremlin, in which he argues that Russia had long been preparing for the war with Georgia:

"Russian authorities had been making preparations for war over the span of nearly one decade ... by supplying South Ossetia with heavy military equipment in February 2003, including twelve t-55 tanks, the Russian government deliberately chose a military solution to the conflict with Georgia." (p. 50)

Illarionov describes the first official meeting of Putin and Saakashvili:

"On February 11, 2004, the first meeting between Putin and the newly elected Saakashvili took place in Moscow. The Russian president made two requests of his Georgian colleague: first, to refrain from demanding the withdrawal of Russian military bases in Georgia; and second "to take care of (i.e. to keep in place) Georgia's Minister of State Security, Valery Khaburdzania. Back in Tbilisi, five days later, Saakashvili announced radical reforms of the ministry of State security." (p. 55)

Illarionov also draws attention to Russian deliveries of weapons to South Ossetia and Abkhazia: “by the beginning of 2008, the two breakaway regions had received at no cost more than twice the military equipment possessed by Georgia.” (p. 60)

Niklas Nilsson’s essay describes how “by 2006 the significant and for all practical purposes exaggerated hopes that Georgia would turn into a consolidated democracy in a few years started to fade, both domestically and internationally” (p. 95). He also argues that Georgia’s national security strategy is “closely tied to Western support for Georgian interests. This support is in turn linked to Georgia’s ability to continue delivering on reform and democratisation”; which entails “delivering on the promises of democratisation” (p. 103). Overall, *The Guns of August 2008* is another must-read book on Georgia.

Cornell wrote another piece with Johanna Popjanevski and Niklas Nilsson which summarizes the arguments of “Guns of August”: “Russia’s War in Georgia: Causes and Implications for Georgia and the World” (2008), Institute for Security and Development Policy.

Jörg Himmelreich, in “Missing from the Georgia Report,” *New York Times*, 2 October 2009, argues that the Tagliavini report left out of its analysis the “decisive role that the United States played before, during and after the conflict.”

The Human Rights Watch report, “Up in Flames, Humanitarian Law Violations and Civilian Victims, in the Conflict over South Ossetia”, January 23, 2009 also looks back at the events in August.

A number of contributors in open democracy also wrote about the war and its aftermath. These include Donald Rayfield (2007), Russia vs. Georgia: a war of perceptions”; Ghia Nodia (2008), “The war for Georgia: Russia, the west, the future”; George Hewitt (2008), “Abkhazia and South Ossetia: heart of conflict, key to solution”, 19 August 2008; Robert Parsons (2008), “Georgia after war: the political landscape”; Ivan Sukhov (2008), “Russia: how the new ‘cold war’ plays at home”; Ivan Krastev (2008), “Russia and the Georgia war: the great-power trap”; Tanya Lokshina (2008) “A month after the war”; Ghia Nodia (2008), “Russian war and Georgian democracy”, Ivan Krastev (2009), “The guns of August: non-event with consequences”; Zygmunt Dzieciolowski (2009) “Tbilisi: Twenty Hours Before the War”; Alexei Levinson (2009), “Russian public opinion and the Georgia war.”

For a realist perspective on Russia under Putin, see Michael Stuermer’s *Putin and the Rise of Russia* (2008). Stuermer is a German historian and conservative commentator who has a regular column in the daily *Die Welt*. Describing the Russia-Georgia war of August 2008, Stuermer writes in the post-script to this book:

“Russia has drawn a red line to be respected not only by a small neighbour, but also by the Europeans and by the imperial power from beyond the sea ... The paramount objective is to keep NATO and the US at a distance ... Politics is seen as a zero sum game and it is not for the faint hearted ... But it is not too early to pose the question as to who are the winners and who are the losers. On the losing side the Georgian president figures prominently. He failed to settle the problem of those breakaway ... He has also compromised, probably for a long time to come, the chances of Georgia becoming an associate member of the two foremost Western clubs, EU and Nato ... The [EU] is among the losers ... In strategic crisis management, Europe is essentially unable to translate economic clout into political negotiating power.” (p.224,225)

Georgian political scientist Ghia Nodia also provides his take on Russia's foreign policy in the April 2009 article in the *Journal of Democracy* under the title "The Wounds of Lost Empire." Nodia writes:

"The feeling of resentment, rather than some rational calculation of national self-interest of a type familiar to Westerners, is the major explanatory factor behind many of the steps that Russia has been taking in the international arena."... "Striking at Georgia certainly brought psychological satisfaction ...."

"If Russia has become more autocratic, Russians appear to like it that way. Why? ... the 1990s were not merely a time when individuals lost their pensions: they were a time when the nation lost its superpower status. ... The situation of Russia's democratic Westernizers contrasted starkly with that of their counterparts in neighboring countries, who were able to combine veneration of Western models with nationalist assertions of sovereignty."

"In the appeal to values, Russia sees only hypocrisy and a secret anti-Russian agenda. Russia lacks the strength and daring to challenge the contemporary international order in its entirety. But Russia is ready to challenge that order as much as it can get away with it ..."

Former Estonian Prime Minister Mart Laar addressed the August 2008 war in his article in *The New York Times*, "Stop That Bear." saying that it was emblematic of Russia's intent to make Eastern Europe "subservient" to its own interests. Laar argued that there was "no return to the status quo" between Russia and the West:

"Until Russian tanks rolled across the Caucasus it was common in parts of Europe to put tensions with Moscow down to a series of unfortunate misunderstandings. Warnings from new European Union member states on Russia's growing aggressiveness were not heeded. Prospects for an improvement in relations were talked up with reassuring phrases about 'common values,' 'enhanced dialogue' and 'strategic partnership', as if the only thing missing was a bit of diplomatic effort on our part.

For the sake of Europe, we must now dispose of these illusions. This was not an 'accidental war', as some prefer to see it. It was the culmination of a deliberate strategy by Russia to undermine the sovereignty and independence of its neighbors and to begin to restore its former sphere of influence by force. It is wishful thinking to imagine that Russia's ambitions are limited to South Ossetia or even Georgia."

For an example of how the Russian expert community viewed the August 2008 war, see the article entitled "Regional Conflicts Reloaded" (November 2008) by Sergei Markedonov, a leading expert on the Caucasus. The article provides a detailed analysis of the developments in South Ossetia from the late 1980's to present times, as well as of the implications of the August 2008 events for Russia and the CIS.

Dmitri Trenin, a renowned Russian expert affiliated with the Carnegie Endowment for International Peace, addressed Russia's role in the Caucasus in his 2009 article "Russia and the Caucasus: Reversing the Tide." He argued that the conflict between Russia and Georgia underscored the greater rivalry between Russia and the United States, and that Russia was not going to tolerate what it saw as "crossing the red line":

"Provoked, Moscow decided to deliver a full-scale armed response. Its message—for Washington as much as for Tbilisi—was: red lines are real, and they mark the border between peace and war. Russian forces did not merely engage another country's military. They fought against a quasi-ally of the United States, which had equipped, trained, and advised the Georgian military."



In Trenin's opinion, Russia was trying to teach Georgia a "lesson" on respecting the spheres of influence:

"Russia will not even consider a serious dialogue with Georgia while Saakashvili is in power. When and if there is a different leadership, Moscow will explore whether the new people in power in Tbilisi have learned the lesson of the August war. To the Russian 'teachers', the lesson cannot be clearer: mind your geography. One cannot live next to a big country, such as Russia, and openly flout its interests. In plain language, this means: forget about NATO membership, institutionalize your nonaligned status, and forbid any stationing of foreign forces in your territory. EU accession, on the other hand, is your business: Russia will not stand in your way, but this will take a very long time."

The geopolitical events of August 2008 put in question the ability of the Georgian government to deliver on its promises of economic revival in the country whose recent growth was fuelled by the inflow of FDI. In the article "Georgia's challenge now is to protect its faltering economic revival", ESI analysts Gerald Knaus and Besa Shahini write:

"Recent economic policy has been to promote Georgia as a centre of trade, to invest in the tourism infrastructure and to pursue specialisation opportunities in banking and finance. Georgia's young prime minister, Lado Gurgенidze, came to politics from the banking sector less than a year ago and has been articulate about this strategy. Warning that in order to address the huge trade deficit Georgia urgently needed to increase its exports – which amount to less than a third of the country's GDP – he listed those sectors that have the potential to do so: financial institutions, transport, tourism, hydro-electricity and food processing. All of these sectors require FDI and Gurgенidze said he hoped to attract \$10-20bn in the coming five years, adding that he expected to achieve this 'if we maintain stability'. Here then is the Georgian dilemma following Russia's recent aggression: Can this strategy still work?"

Knaus and Shahini argue that Georgia needs to shift the emphasis from military build-up to strategic engagement with its neighbors:

"To focus on banking and trade, to promote an image as a gateway to the Caucasus region and to promote social spending over defence all suggest a 21st century development strategy. This is hard to reconcile with Georgia's preoccupation to recover lost territory through a military build-up, however legitimate this aspiration has seemed to successive Georgian governments. To 'turn Georgia into the Dubai or Singapore of this region' as President Saakashvili has put it requires stable relations with his country's main neighbours."

### **Bendukidze and Russian economic imperialism**

In October 2006, after the Russian economic embargo on Georgia, Bendukidze gave an interview to the Russian political online portal *Polit.ru* about the prospects for Georgian-Russian relations. For full article in Russian please see: "There Won't Be an Exchange of Political Views on Comfortable Life" («Обмена политических взглядов на комфортную жизнь не будет»), also available in English.

Anatoly Chubais' concept of "Liberal Empire" as a new strategy for Russia is elaborated in his January 2003 article in *Nezavisimaya Gazeta*, entitled "Russia's Mission in the 21<sup>st</sup> Century." Chubais writes:

"I am deeply convinced that, in the visible historical perspective, Russia's ideology should become liberal imperialism, and Russia's mission – the creation of a liberal empire."

He lists three key elements of “liberal imperialism”:

1. Promoting Russian culture and the culture of other peoples in Russia; defending Russian and Russian-speaking citizens in neighbouring countries;
2. Economy and business. The Russian state can and must facilitate the expansion of Russian business in neighbouring countries both in the area of trade and in the purchase and development of assets.
3. Freedom and democracy. The Russian state is interested in supporting, developing, and if necessary defending, fundamental democratic institution, rights and freedoms of citizens in neighbouring countries.

On Anatoly Chubais’ ideas of a Russian “Liberal Empire” see Igor Torbakov, “Russian Policymakers air notion of ‘liberal empire’ in Caucasus, Central Asia,” 27 October 2003. Torbakov notes how the concept was inspired by debates on a new American Empire taking place in Washington in the wake of the invasion of Iraq:

“Russian policy makers are relying on the precedents established by the US military campaigns in Afghanistan and Iraq to justify Moscow’s own push to forge a "liberal empire" in the Caucasus and Central Asia. Recent Russian activity in Georgia and Kyrgyzstan underscores Russia’s new imperial tactics ... An example of this debate is a recent article by political scientist Stanley Kurtz published in the journal Policy Review. ‘Today, Afghanistan may be the germ of a new American imperium,’ wrote Kurtz, who added that the US-led ouster of Iraqi dictator Saddam Hussein brought the imperial question into greater focus. The current debate on an American empire largely centers on the question of whether postmodern imperialism is capable of being democratic in nature. Symptomatically, Kurtz’s article is titled ‘Democratic Imperialism’. Russian leaders have quickly seized on the notion of a liberal empire to refashion their own foreign policy agenda. To a great extent, since the collapse of the Soviet empire in 1991, a policy priority for Moscow has been retaining influence in the Caucasus and Central Asia.”

Torbakov point out that “the leading spokesman for Russia’s liberal imperial ambitions has been Anatoly Chubais”:

“In late September, Chubais, who remains one of Russia’s most influential politicians, delivered a broad policy speech, and later penned an article, arguing that Russia’s top 21st century goal should be to develop "liberal capitalism" and build up a "liberal empire." "It’s high time to call a spade a spade," wrote Chubais in a commentary published in the Nezavisimaya Gazeta daily. Economically and culturally, Russia is a "natural and unique leader" of the Commonwealth of Independent States (CIS).”

Vladimer Papava and Frederick Starr co-authored an article on “Russia’s Economic Imperialism” in 2006. There they write:

“In Georgia, as in Ukraine, Russian President Vladimir Putin seeks to implement the doctrine of a ‘liberal empire’ put forward in October 2003 by Anatoli Chubais, the chairman of United Energy System (RAO UES), Russia’s energy monopoly. According to Chubais, Russia will never find a place in either NATO or the European Union, so it must create an alternative to both, a new empire of its own. It can do this by using its huge and rich public-private monopolies to take over the key industries and economic institutions of former Soviet republics, thereby laying the groundwork for political domination. The resulting empire will be liberal, according to Chubais’s definition, because it can be built with money rather than tanks.”

Then they demonstrate how this applies to Georgia:

“Then came Georgia’s “Rose Revolution.” Many state-owned firms were privatized for ten times the sums yielded in asset sales under the previous government of Edvard Shevardnadze. But an utter lack of transparency allowed Russian companies, and their subsidiaries registered in third countries, to snap up most of the new offerings. Typical was the Russian holding company Promyslennye investory (Industrial Investors), which managed to get a major gold mine and then half of a plant producing gold alloys.

Russia’s main foreign policy instrument in Georgia is Gazprom, the state-controlled gas monopoly. Gazprom’s aim is to control not only the gas industry in Georgia, but also the only pipeline that feeds Russian gas to both Georgia and Armenia. Had the US not intervened in 2005 with \$49.5 million to rehabilitate the pipeline, it would have ended up in Gazprom’s hands.”

Other articles by Papava include: “The Political Economy of Georgia’s Rose Revolution,” *East European Democratization*, Fall 2006; and “On the Essence of Economic Reforms in Georgia, or How European is the European Choice of Post-Revolution Georgia?”

Background on the different privatization deals discussed here can be found in this document: Transparency International, “Georgia’s State Energy Policy in the Natural Gas Sector” February 2008.

### **Is Georgia catching up?**

Bendukidze’s interview with Russian *Forbes* in November 2007 (I Am Useful – «Я приношу пользу») (also available in English) focuses mainly on his activities in the government and the results of his reform initiatives in Georgia. He refutes the interviewer’s suggestion that Georgia is an agrarian country, saying that “agriculture accounts for 15 percent of Georgia’s GDP and this share is diminishing every year,” and expressed his expectation that Georgia will become a “service-based economy.”

There is little doubt that there have been many improvements since the Rose Revolution. One of the most noticeable and surprising successes concerned the provision of electricity. As the World Bank notes in “Georgia: Poverty Assessment” (2009):

“Electricity and gas services have improved significantly ... reforms have sought to address electricity sector debt, improve payment collections, strengthen the monitoring and reporting of electricity services, and diversify supply sources in the gas sector. The government has completed the privatization of assets in power generation and distribution.

The reforms in the electricity and gas sectors have surpassed what was originally envisioned in the program, which aimed at reaching a collection rate of 65 percent and gradually improving service and reducing blackouts. Today nearly all paying customers have electricity service 24 hours a day, 7 days a week, collection rates are above 90 percent, and blackouts are infrequent. Prudent investments over the last several years and significant improvement in the management of electricity units were central to the turnaround of the sector. In addition, the government implemented large tariff increases in 2006, which was a critical step on the road to a financially sustainable energy sector, while well-targeted electricity and gas supplies helped protect the most vulnerable.” (p. 24)

In fact, even as critical an observer of the Rose Revolutionaries as Salome Zourabishvili, foreign minister from 2000 to 2005, admits in her book *La tragédie Géorgienne* (“The Georgian Tragedy”) that:

“Concerning electricity progress is also undeniable. During the first two years under Saakashvili, the problem of lack of electricity, which was always there during the government of Shevardnadze, was first tackled in the capital and then, although with some delay, in the provincial towns and villages.”

On basic facts on the Georgian economy and budgets, please see the [Ministry of Finance website](#).

On a broad overview of all reforms and what they have achieved, see UNDP: [“Georgia 2008 National Human Development Report: The reforms and Beyond”](#) (2008).

There are critics in Georgia who question the economic impact of the post-2004 reforms. See Vladimer Papava’s [The Political Economy of Georgia’s Rose Revolution](#) (2005):

“Another matter of particular concern is the process of ‘deprivatization’ of privatized state property, which may drag the country back to its status at the initial stage of its transition to a market economy. Furthermore, the government’s new wave of privatization will probably make necessary sometime in the future another round of deprivatization. These initiatives only create the appearance of providing for ‘social justice’. Their real purpose is redistributing property for the benefit of the new elite.”

Also by Papava: [Poverty Reduction Through Private Sector Development in Georgia: Policy, Practice and Perspectives](#) (2009):

“During the Presidential and Parliamentary elections in early 2008, the Government’s electoral slogan was ‘An Integrated Georgia Without Poverty!’ This catch-phrase was later ‘fleshed out’ by a so-called programme with the same title which was approved by the Parliament of Georgia in late January 2008, when it gave a vote of confidence to a newly appointed government. This document may be labelled as a ‘programme’ in name only: it consists of some catch-phrases set forth on a few pages. In this already ‘fragile’ document, the problem of poverty is mentioned not more than once within the words: ‘In the next five years, poverty will be reduced significantly.’ ... As one can see—and however regrettable it may sound—the Georgian Government did not have any sort of realistic poverty reduction programme in the period following the elections. Moreover, it has not even fully realised what the meaning of poverty is and how it may be addressed.”

Also see [“the Georgian Economy under Saakashvili”](#) by Irakli Rukhadze and Mark Hauf (2009):

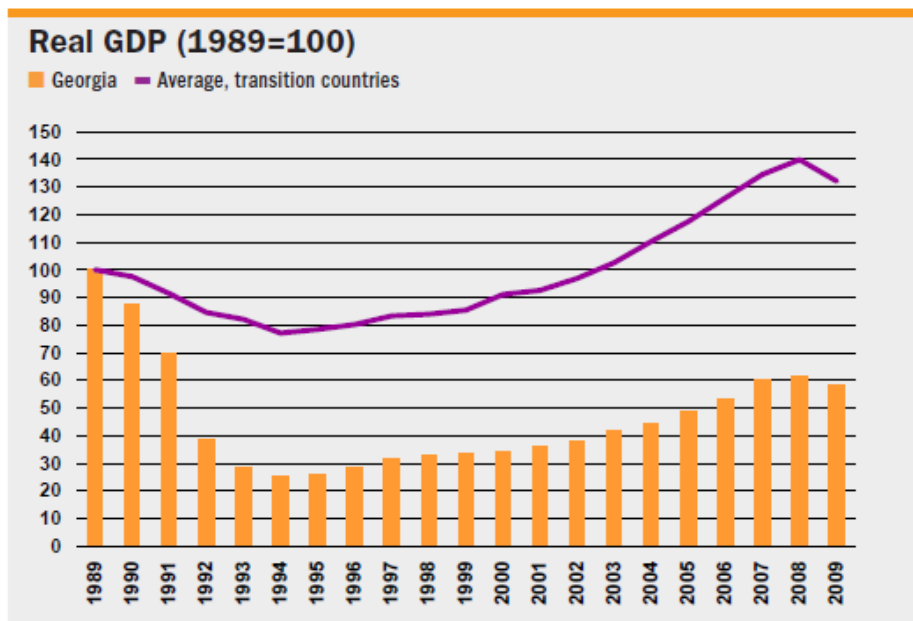
“As the real economy grew, the underground shadow economy was being legalized. Although this was certainly a positive result, it also created an artificial appearance of explosive growth in the overall economy. The government reported that during 2004-2006 the economy grew by annualized 10 percent, although it is not clear how much of this was real economic growth and how much just the result of reporting on previously underground economic activity. Over the same period of time, the State budget grew by 45 percent.

Much of the growth in the economy that Saakashvili government reported was achieved through quick one-time measures, such as State asset sales, government lay-offs and tightening of collection policies. Although productive in the short-run, such measures are not repeatable and offer little prospect for further economic growth. Saakashvili also resorted to

extorting so-called ‘contributions’ to the State budget from businesses and citizens with threats of prosecution for corruption, tax evasion or other charge used to persuade the recalcitrant. While such methods deliver short-run returns to the government coffer, by fundamentally alienating business people, they actually undermine Georgia’s long term economic well being.”

For information on Georgia’s economic development after the Rose Revolution, consult the Georgia section of the EBRD’s Transition Report 2009.

It shows the devastating fall in Georgia’s GDP in the early 1990’s which Georgia has yet to overcome:



EBRD underlines a number of improvements that have taken place since 2004. For instance, there was a doubling of domestic credit to the private sector (from 30 percent of the GDP in 2005 to 30 percent of the GDP in 2008).

However, the conflict with Russia has had its repercussions in Georgia as well: “Almost 80 per cent of Georgian firms in BEEPS IV report political instability as an obstacle to their day-to-day operations.” (2008/09 Business Environment and Enterprise Performance Survey)

EBRD also describes some of the most important FDI in recent years:

“During 2008 the RAK Investment Authority (an investment vehicle of Ras Al Khaimah of United Arab Emirates) acquired full ownership of the Poti Seaport. The investor also acquired over 3 million square metres of nearby land to construct a new sea port and to establish a FEZ, the first stage of which is expected to be completed by the end of 2009. In April 2009 Egypt’s Fresh Electric Company, together with a local company, created the Fresh Georgia company, which aims to establish a FEZ in Kutaisi. Fresh Georgia is expected to invest about US\$ 1.2 billion over the next two years and contract 12 manufacturing factories.”

## The problem of Europe

Bendukidze spoke about European opposition to Georgia's liberal labour reforms in a presentation at "Georgia's Transformation into a Modern Market Democracy" - a Policy Forum at the Cato Institute in Washington, DC, 13 May 2008.

"One of the most controversial reforms we underwent was labor reform. Why controversial? Maybe it is difficult to explain in the USA, as the USA does not have a labor code or someone dictating how can I be hired or fired and that is the difference to all other countries, especially Europe where the contractual agreements between employer and employee is practically not allowed.

Why was it controversial? Not because of the result of how it was done but because there is now huge pressure from EU trade unions to reverse the situation. ILO is pressing the EU to withdraw the GSP+ system (import duty preferences for Georgia, rewarded 2 years ago) and that if we want to maintain those preferences we should abolish our labor code. That means that sometimes not just the political processes within the country can change the regulations, but also some international organizations can be very active on changing institutional situation within the country."

A radio interview with Bendukidze broadcasted on Radio Ekho Moskvyy, 21 January 2007 (transcript [in Russian]) also discusses the EU:

"In 20 years the EU will be already a different organization. And it's even a question, whether it will remain an organization at all, whether it will exist at all in 20 years. No one knows what the EU will be like... So it's not clear how it's possible to want to join something if you have no idea what it will look like in the future."

Speech by Bendukidze on Dutch television "Riverside Conversation Talk Show" (Dutch broadcaster VRPO) aired on 3 April 2005. Video is in Dutch and English; Bendukidze's remarks are in English with Dutch subtitles, starting from 05:50; around 37:00 on Europe)

"I do not want Georgia to be part of the European sclerotic civilization. Many things in Europe, they would kill our growth, of course. There is too much regulation in Europe. Our government has declared that it wants to put a lot of energy into economic cooperation and the harmonization of regulations with Europe in the next ten years. I fear that ten years may become an eternity."

Bendukidze's frustration with Europe was shared by many in the government. This appeared to be a big change from 2004, when the EU decided to include the whole of South Caucasus in the European Neighbourhood Policy, the EU flag was flying everywhere and Georgia seemed determined to join the EU as a full member, not just as part of the ENP. However, as Barbara Lippert put it (2006):

"In the context of negotiating new and enhanced agreements the Eastern European and Southern Caucasus countries explicitly seek a membership perspective or at least its discussion as a medium or long-term option. This issue is highly contested and controversial among (and sometimes inside) the member states. At present, the cleavage runs mainly between old member states which are mostly opposed, or at least undecided, toward an accession perspective and new member states which tend to favour a membership perspective."

(Barbara Lippert, "The EU Neighbourhood Policy – Profile, Potential, Perspective", *Intereconomics*, July/August 2007, p. 183)

This discrepancy between what Georgians thought ENP could bring and what the EU expected Georgians to deliver was the cause of some frustration. In 2008 the European Parliament commissioned a Briefing Paper calling for a reassessment of EU assistance strategies in Georgia:

“In recent years, Georgia has made remarkable progress in strengthening governance structures and implementing reforms conducive to economic growth. However, Georgia’s progress in state-building has been achieved partly at the expense of democratic power-sharing. In light of growing concerns about Georgia’s democratic performance, a certain readjustment of EU assistance priorities is necessary.

The EU should rebalance its assistance between the objective of state capacity building and the objective of democracy-building, addressing problems such as insufficient separation of powers, undeveloped mechanisms of interest articulation and representation, and the weakness of the judiciary, the parliament, the party system, media, and the civil society.”

The August 2008 war posed many questions about Georgia’s foreign policy orientation vis-à-vis NATO and the EU. It also dealt a severe blow to Georgia’s hopes to become a NATO member in the short- or medium run. In April 2009, reflecting on the ramifications of the war, leading Georgia political expert Ghia Nodia authored a report “How Much Has the World Changed? Implications for Georgia’s Policies.” While Nodia does not believe that Georgia should radically overhaul its foreign policy, he does argue for some “readjustments.” In particular, he writes that Georgia should seek to engage more with the EU, which is becoming “an increasingly important player in the region.” Nodia also indicates that the government would be well-advised to abandon its emphasis on “short-term solutions” and instead concentrate on long-term institutional and democratic development, which are more consistent with the expectations of the EU:

“Since 2004, the Georgian government acted on the assumption that it was possible to solve the most burning issues of Georgia’s security – resolve the separatist conflicts, get membership of NATO – within several years ... fast progress and short-term solutions are obviously unrealistic.”

“Deepening democratic reforms and facilitating national consensus around the rules of the political game is the foremost – if extremely challenging – task of the Georgian government.”

Nodia’s sober look at Georgia’s prospects was fully warranted. In 2009, the EU initiated a shift toward a regional, rather than bilateral, approach to South Caucasus countries. An October 2009 RFE/RL article addressing this topic suggested that in the EU’s opinion, Georgia was no longer ahead of its counterparts in the region in the area of democratic development:

“In practice, this means the three countries [of the South Caucasus] find themselves in relatively similar starting positions as the EU prepares to launch talks with them in November on new association agreements. None can realistically hope for EU membership in the foreseeable future, but all three can qualify for free trade and visa-free travel arrangements with the EU in the long term ... Behind the scenes, EU officials make it clear that Georgia no longer enjoys front-runner status in the region. All three governments have serious problems with democratic standards, harbor prisoners of conscience, and harass free media in their countries.”

Bilateral cooperation between the European Union and Georgia advanced in 1996 when the two sides signed the Partnership and Cooperation Agreement (PCA), which entered into force

on 1<sup>st</sup> of July 1999. The European Neighbourhood Policy (ENP) entered into force in 2004. See the official website with all background documents.

- European Commission (2005) “Country Report – Georgia”
- European Commission (2006): Opinion poll “The EU’s relations with its neighbours”
- EU-Georgia ENP Action Plan (2006)
- European Commission (2006) “Communication on Strengthening the European Neighbourhood Policy”
- European Commission (2007) “Country Strategy Paper 2007 – 2013 – Georgia”
- European Commission (2007) “National Indicative Program of Georgia - 2007-2010”
- European Commission (2007): Opinion poll “The EU’s relations with its neighbours”
- European Commission (2007) “Progress report on implementation of the European Neighbourhood Policy”

An article by ECFR “Can the EU win the peace in Georgia?” (2008) warns:

“Like the wars in the Balkans, the Georgian conflict is a direct threat to a European project that seeks to replace old paradigms such as the balance of power, spheres of influence and military conquest with integration, negotiation and the rule of law. EU member states must respond with a strategy to protect and extend the liberal security order on the European continent. They need to look beyond the immediate crisis and rethink many of their favoured policies in the Eastern neighbourhood ... The new strategy we suggest is tailored around four points. It entails re-thinking the EU’s approach to Georgia; creating a shared understanding of both Russia’s motivation and the challenge it poses to European security; resisting a twisted use of the Kosovo precedent; and changing the dynamics of the European neighbourhood.”

In 2008, the EU embarked on a mission to enhance the relationship with its eastern neighbours. For more on this, please see: European Commission (2008) “Communication from the Commission to the European Parliament and the Council - Eastern Partnership.”

Also in 2008, as a part of Eastern Partnership, the European Commission hired CASE – Center for Social and Economic Research – to do a feasibility study on a free trade agreement between EU and Georgia. CASE concluded that the most suitable agreement for Georgia would be Deep and Comprehensive Free Trade Agreement (FTA). The CASE Brief (2008) “Free Trade Agreement Between The European Union and Georgia: How Feasible Is It?” summarized the policy recommendation:

“Based on the analysis of a range of deep integration scenarios, the greatest benefit to both Georgia and the EU would accrue with a Deep FTA+.

A Deep FTA+ would involve a significant approximation of law along the priorities of the ENP Action Plan for Georgia, in addition to supplementary flanking measures on competition, rule of law, governance and corruption and their effective implementation, which would mean re-branding Georgia as a safe and attractive investment location. At the same time, given the current progress of the implementation of the ENP Action Plan, serious questions remain as to both the willingness and the institutional capacity of Georgia to undertake further commitments in the regulatory area.

From a human resources perspective, Georgia’s governmental bodies are uneven in terms of the education, qualifications, and international experience of their European counterparts; however, this situation could be eased with future technical assistance and training.”



For the full report, see: CASE (2008), "Economic Feasibility, General Economic Impact and Implications of a Free Trade Agreement Between the European Union and Georgia". CASE concluded that "the services, agro-food, and energy sectors were identified as those that would draw the most advantages from a Deep FTA+."

In addition, IFC did a study on manufacturing competitiveness in Georgia and came to the conclusion and agriculture and agro-processing is the most competitive sector. For more information, see IFC 2010: "Georgia Sector Competitiveness Overview Identification of Most Promising Manufacturing Sectors and Priority Actions to Accelerate Investment and Growth: Preliminary Recommendations to Government of Georgia."

GEPLAC also produced an introductory paper on a Deep and Comprehensive FTA for Georgia.

The European Commission published progress reports in 2009, which can be found at "Progress Report Georgia 2009: Implementation of the European Neighbourhood Policy in 2008."

In addition, the European Commission has put together a list of Publicly Available Background Research on the ENP (2009)

See also:

- "European Neighbourhood Policy Two Years on: Time indeed for an 'ENP Plus'", Michael Emerson, Gergana Noutcheva, Nicu Popescu, CEPS Policy Brief 126, 21 March 2007, Brussels.
- "Europe's Unrecognised Neighbours: The EU in Abkhazia and South Ossetia", CEPS Working Document 260, 15 March 2007, Brussels.
- "Internationalizing the Georgia-Abkhazia Conflict Resolution Process: Why a Greater European Role is Needed", GMF Policy Brief; Ron Asmus, Svante E. Cornell, Antje Herrberg, and Nicu Popescu, June 2008.
- "The Limits of Enlargement-lite: European and Russian Power in the Troubled Neighbourhood", ECFR Policy Report, London, June 2009.
- "The EU's Eastern Partnership: Civil society expectations and new opportunities", Tamara Pataraia, CIPDD Policy Review, February 2010.

## Other Sources

The Caucasus Research Resource Centers (CRRC) is a network of research centers in the South Caucasus offering social scientists open access to their libraries and original databases of information compiled of household survey results. These surveys are conducted with a sample of 3,000 households in the region. Utilizing data from 2007 through 2009, Hans Gutbrod (Regional Director, CRRC) and Koba Turmanidze (Director, CRRC Georgia) published a piece on democracy in Georgia in “Spotlight on Georgia” (2009) by the Foreign Policy Centre in London. In their article, “Is Georgia a Democracy Now? Views of the Georgian Electorate,” Gutbrod and Turmanidze show that:

“National surveys show that the Georgian electorate has a fairly balanced view on this issue. While a majority do not think that Georgia is already a full democracy, there is surprisingly little cynicism and an overwhelming agreement that it is developing in this direction.” (p. 20)

For a reliable source for daily news please see: [civil.ge](http://civil.ge)

[Georgian Daily](#)

[Eurasia.net](#)

[Caucasus Analytical Digest](#)

[openDemocracy](#)

[Transnational Crime and Corruption Center, Georgia](#)

[Caucasian Review of International Affairs \(CRIA\)](#)

[Central Asia Caucasus Institute \(CACI\)](#)

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