

**“Kakha Bendukidze: Georgia Has Nothing to Lose” ([«Грузии нечего терять»](#))
By Alexander Bekker, *Vedomosti* no. 93 (1133), 2 June 2004.**

Everyone who knows Kakha Bendukidze considers him to be someone who stands out from the crowd, although he is also eccentric at times. But no one expected that he would be offered – and accept – the position of Minister of Economy in Georgia. Bendukidze told *Vedomosti* why as a well-known Russian businessman he left to rebuild his historical and geographic native land, and how he views the future of the Georgian economy.

Vedomosti: Who proposed the position to you?

KB: Last week in Tbilisi there was an international economic forum. And President Mikheil Saakashvili invited me for a conversation. He asked what I think about Georgia’s economic policy and what needs to be done for its prosperity. We talked for some 40 minutes, and then he offered me to meet also with Prime Minister Zurab Zhvania. With him, we spoke for four hours. At first we were thinking how I could potentially coordinate the work of international experts invited to implement economic reforms. But at the end of the conversation, Zhvania said: why coordinate? Maybe it would be better if you head the Ministry of the Economy?

Vedomosti: You didn’t have the reputation of an adventure-seeker to agree to such offers right away...

KB: It wasn’t right away. I spoke once again with Saakashvili and Zhvania. In addition, in Russia my enterprises were in some sensitive business related to the defense industry and nuclear issues. That is why I considered it necessary for Saakashvili to call Vladimir Putin. Yesterday [31 May] he did it. From Saakashvili, I found out that Vladimir Vladimirovich [Putin] completely supported the decision about my appointment.

Vedomosti: Did you discuss the conditions and duration of work? Have you received a *carte blanche* for reforms?

KB: *Carte blanche* is not a dictatorship. To implement reforms, one needs laws, that is, the approval of the parliament. And as for the duration of my work, I would like to become the last minister of economy in Georgia. The ministry of economy is needed during the process of the implementation of economic reforms, formation of a good court system, of the parliament, development of the constitutional model. As a result of these changes, an effective economy is born. And it is understandable that as reforms are translated into reality, the need for a ministry of economy should disappear.

Vedomosti: How well are you familiar with the condition of the Georgian economy?

KB: I am not very familiar with the details. But there was once a philosopher who said that the knowledge of fundamental principles easily compensates for the lack of knowledge of concrete facts.

Vedomosti: When will the position of Economy Minister exhaust itself?

KB: This depends on the political will not only of the president, but also the people and the parliament. I think that in the most radical variant, this can be achieved within one year.

Vedomosti: Which reforms should be implemented first?

KB: Positive economic reforms have the same direction – deregulation, privatization, liberalization, which are synonymous with better public administration and with a better government in general.

Vedomosti: These are the basic principles of liberal reforms. What specifically are you planning to do in Georgia?

KB: The question is not what has to be done first, but what *can* be done. Today Georgia is a country that wants to become attractive to investment. Not only to foreign investment, to all kinds of investment. There is no such concept as “investment climate.” There is a concept “business climate.” For Georgia to prosper, it needs to become a country where it is very comfortable to do business. To make doing business comfortable, it is necessary to minimize all risk factors. To put it simply, it is necessary that courts would be better than in other countries, that state funds would be spent more transparently than elsewhere, that roads would be better and taxes lower, that people would work more productively.

Vedomosti: It’s unrealistic to achieve this within one year.

KB: The English court system, which today may be the best in the world, took hundreds of years to reach this point. And it is clear that Georgian judiciary won’t become perfect all of a sudden. But there are things we can do. Consider the example of the currency regime. That is something I worked on in Russia. I believe that any limitation on the free movement of currency is a risk that is perceived very acutely by new investors. An investor doesn’t have an experience working in the currency environment, and he is worried about switching from one currency to another. I think this risk should be diminished. We need to completely liberalize the monetary system in this respect.

Or another example. I am dreaming of doing two things in the Georgian tax system: abolish import tariffs and the value-added tax (VAT). It’s a very complicated task because today the VAT forms the basis of budget revenues. But if you don’t have import tariffs and the VAT, then you don’t need to regulate external trade at all. If you have a zero tariff, and you don’t have to pay the VAT when you bring the goods into the country and have it refunded when you exit the country, then you don’t need customs either. It means lower risks for business, and for the government it means a reduction of the state apparatus, of the customs service, and a narrower field for corruption.

Vedomosti: With this kind of proposals, you will be fired after a week.

KB: Why?

Vedomosti: Because in a poor country such initiatives will cause a shock. A poor country tries to keep the capital inside, and you are trying to pass laws to liberalize its movement.

KB: And why should the movement be limited? For what purpose?

Vedomosti: To make it work inside the country. Do you recall the scandal in Russia which was provoked by the liberalization of the Law on Currency Regulation and Control?

KB: This is because Russia is a rich country and possesses a source of revenue that allows it not to think about tomorrow. Georgia is too poor to reject the maximum liberal currency or any other policy. If Georgia implements a standard medium-liberal policy, as it happened in the Czech Republic, Hungary and partly in Russia, it will grow well at 4% annually, maybe even faster in the beginning due to the effect of hidden capacity. However, this means that the existing gap between Hungary and Georgia – and these are countries of approximately the same size – will remain forever.

To catch up with someone, you have to do something better. Only business can do something better. Only business can create the material basis for existence. In order for business in Georgia to work more effectively than in Hungary, it has to be freed from its entanglements. And I think this is exactly the recipe for a poor country. There is simply no other recipe for a poor country.

In rich countries other options are possible. It is much more complicated to reform some system in England or Germany – because they are already working. “If it ain’t broke, don’t fix it.” One can think about reforming the English health care system. English people themselves think that their system is not the best. But it works and fulfills the needs of relatively demanding Europeans. But the Georgian health care system, for example, doesn’t work at all. So the question about its reform is not about improving something that’s already good, but about making something work where there was nothing. This also applies to some areas in life in Russia.

Vedomosti: So you mean to say that there is no medium-liberal way for Georgia?

KB: No, of course it’s an option, and it’s better than nothing. We are realists. But this would bring a 3.5-4.5 percent annual growth rate at the most.

Vedomosti: And what growth rates would you like to achieve in Georgia?

KB: Given Georgia’s small size and large potential, it has to be a double-digit figure. In addition, we have a so-called transit economy, it’s based on transit to a large extent.

Vedomosti: And how long is it possible to sustain such growth rates?

KB: Let's say if Russia pursues the goal of doubling the GDP within 10 years, then Georgia, which wants not to fall behind Russia but maybe even catch up with it, has to pursue more ambitious goals.

Vedomosti: For example, to double the GDP within five years?

KB: I think it's impossible. But tripling the GDP within 10 years is more realistic. There are historical precedents – such as Taiwan, Japan...

By the way, I am not saying that everything I will manage to do everything I want to do there. I am a person from the real sector of a very real country. I fully understand how business really works, be it criminal business or maximally transparent business. That's why I have no illusions that everyone will rush to implement everything. Moreover, one needs to formulate the situation correctly. Let's take privatization. It's clear that we should implement privatization for money, open, and with equal access of all companies – Russian, Georgian, Brazilian, British. But it's very important to make a political decision about the things that cannot be privatized – if, of course, such things exist at all.

And we should say: let's much such a table of assets that cannot be private property in the next five years, or ten years, or ever. Let's make this table and discuss it. Let it be the object of a certain consensus and not just something that one person came up with, write down and forced others to comply with it. Let's make this public and conduct privatization in this way.

I have thought a lot about this, also with respect to Russia. It's just that in Russia the system is slow to change, because there's something to lose there. In Georgia, there's nothing to lose.

I am very glad that when we discussed this issue, both the President and the Prime Minister [of Georgia] gave correct answers, I think. What can never be private property? At first I was told: gas pipelines. I told them, Wait, the things that can never be private property are courts. And as for this [pipelines], it's a political question, they can belong to the state or be private.

Vedomosti: Perhaps it's a question not of politics but of the economic strategy.

KB: I think, rather politics. Because economic strategy says that selling for money is the best choice. The rest is a mass of nuances that you cannot account for. If you had perfect information, you could think how to sell something not for money but for something else. But since you don't have perfect information, money becomes the best imperfect decision, and selling at a high price is the best imperfect decision. Both the president and the prime minister are resolved to sell the Batumi port this year. I think Russian companies have big opportunities. This port transits over 10 million tons of oil, and I think it's a big slice. And given that the country's leadership is striving to make Georgia a transit point, I think this is a very good, fast-growing business.

Vedomosti: Which spheres of the Georgian economy would be the most interesting for Russian business?

KB: The transport infrastructure – gas and oil pipelines. It's also the electricity sector – especially for big players, in particular for RAO UES [Russian state-controlled electricity monopoly].

It's also tourism facilities which need tens of billions of dollars in investment. For example, game preserves should also be private. I know many people in Russia who like to hunt – why shouldn't they be able to privately own a game preserve?

Vedomosti: Could conflicts arise between Russia and Georgia in the transport sphere because of their competition for Caspian oil? Georgia is trying to implement the Baku-Tbilisi-Ceyhan project, to have the pipeline built through its territory, and Russia would like to transport Caspian oil through its own pipelines and through the Novorossiysk port.

KB: The Caspian has so much oil that it needs to be transported through the BTC pipeline, and through Makhachkala to Novorossiysk, and via the Volga-Baltic Canal. If decide to you export all Caspian oil through the Bosphorus, it won't be able to handle all the tanker traffic. Secondly, I think that if "Transneft" and Russian oil companies will participate in the capital of some Georgian transport systems, it will be beneficial to everyone. Experience shows that no country in the world has derived prosperity from its neighbours' misery.

Vedomosti: A few days ago at the business forum in Tbilisi, you said that it doesn't make sense to invest in the Georgian economy...

KB: I didn't say this. I said it didn't make sense to make investment decisions based on a single trip. People came, looked at things, some liked it, some didn't understand it, some understood and became interested. The latter ones have to come another 20 times, explore the situation, and everything will be done in the end. But the approach of "came, bought, left" – it doesn't happen this way.

Vedomosti: Do you have any proposals for the Abkhaz and South Ossetian economies?

KB: I believe that the basis for the prosperity of these parts of Georgia, and of the main part of Georgia, is in their reunification. The Abkhaz problem disadvantages the economic development of entire Georgia. At first this problem has to be compensated for by other advantages. And that's why I speak about an ultra-liberal policy agenda.

And for these two regions, you need political investment – not with the goal of gaining cash profit on the invested capital but to ensure the unity of the nation. This could be done in the form of several large infrastructural projects. I am actually an opponent of government financing of infrastructural projects or any other projects. But these projects would have a political nature and not an economic one, their goal would be to increase

the integration of different parts of Georgia. I am talking about the construction, modernization or reconstruction of several roads.

Vedomosti: To Tskhinval and to Sukhumi?

KB: The Military Georgian Highway as well. With Abkhazia, we need to work on the railway. It doesn't contradict liberal economic ideas.

Vedomosti: You have accepted the offer also because you feel like you've reached your limit in Russia or because you're simply interested in the new task?

KB: I spent more time in Russia than in Georgia. I was 20 years old when I came to Russia. And now I am 48. I would like things to be going well everywhere. But I feel it particularly strongly with respect to Russia and to Georgia. I don't think I've done everything I could do in Russia. It's a different matter that at some moment I realized that I personally am not interested in doing business my whole life. I have completed a certain part of my life. Already last year I was planning that this May I would retire from my position [as General Director of OMZ], end my everyday involvement in business administration. (...)

Vedomosti: If you hadn't been offered the ministerial position, what would you be doing in Russia?

KB: I would spend another half a year putting things in order. I wasn't decided, there were different options to consider. I was thinking I might stayed in business, but rather as an investor than a manager.

Vedomosti: Will you live in Tbilisi at your mom's place?

KB: She has an old house, it doesn't have autonomous systems. That's why I will stay in a hotel for now, and my sister is in the developer business, she builds houses and maybe I will order to build a house for myself from her. Or I will buy an apartment.