

Vladimer Papava

Post-war Georgia: Current Developments and Challenges Ahead

The Rose Revolution of November 2003 was an outcome of the Georgian people's striving for the development of democratic society and improvement of human rights record. With the passage of two years after the "Rose Revolution", quite natural euphoria that had followed it both inside and outside the country has gradually diminished and been replaced by the state of "sobering down" which leads to a rather realistic evaluation of the results of post-revolution changes¹.

The post-revolution political regime in Georgia from the very outset was a kind of mixture of democratic and authoritarian elements². Georgia's experience teaches that a pro-Western and an anti-Russian orientation is by no means a firm and adequate guarantee of democracy³.

¹ V. PAPAVAL, *The Political Economy of Georgia's Rose Revolution*, in «Orbis», a Journal of World Affairs, 50, 4, 2006, <http://www.fpri.org/orbis/5004/papava.georgiaroserevolution.pdf>.

² G. NODIA, *The Dynamics and Sustainability of the Rose Revolution*, in M. EMERSON (ed.), *Democratisation in the European Neighbourhood*, Centre for European Policy Studies, Brussels 2005, http://www.quebec.ca/observer/fichiers/57785_1267.pdf.

³ V. PAPAVAL, *Georgia's Hollow Revolution. Does Georgia's Pro-Western and Anti-Russian Policy Amount to Democracy?*, in «The

While to many of politicians in the West the crushing of the peaceful demonstrations in the Georgian capital, Tbilisi, in November 2007, appeared to be totally unexpected and, consequently, shocking, for the analysts these events were more or less predictable⁴.

After the five-day Russian-Georgian war in August 2008, and in consideration of the global financial crisis, Georgia has come to face some new economic challenges⁵.

The Splendour and Misery of post-Revolution Georgia

The beginning of all that was that Georgia's government inherited from the Shevardnadze administration numerous unsolved problems from which one should distinguish the following ones: energy crisis, and budgetary crisis (in the meaning that because of inability and unwillingness of

Harvard International Review», February 27, 2008, <http://www.harvardir.org/articles/1682/1/>.

⁴ L. MITCHELL, *What was the Rose Revolution For? Understanding the Georgian Revolution*, in «The Harvard International Review», February 27, 2008, <http://www.harvardir.org/articles/1684/>.

⁵ V. PAPAVAL, *Post-War Georgia's Economic Challenges*, in «Central Asia-Caucasus Analyst», 10, 23, November 26, 2008, <http://www.cacianalyst.org/?q=node/4991>.

N. 127 - APRIL 2009

Abstract

The post-revolution political regime in Georgia from the very outset was a kind of mixture of democratic and authoritarian elements.

After the Russian aggression and under the global financial crises Georgia is in a more complicated situation.

For better understanding the main difficulties and challenges of Georgia it would be useful to analyze all key tendencies and developments that took place in Georgia after the Rose Revolution, and after Russian-Georgian war.

A timely and adequate response to the challenges will pave the way for Georgia to overcome the present hardships.

Vladimer Papava is Senior Fellow at the Georgian Foundation for Strategic and International Studies; Principal Research Fellow at the Paata Gugushvili Institute of Economic and Senior Associate Fellow of the Joint Transatlantic Research and Policy Center, the Central Asia-Caucasus Institute (Johns Hopkins University-SAIS). He was a Minister of Economy of the Republic of Georgia (1994-2000), and a Member of the Parliament (2004-2008), Tbilisi, Republic of Georgia.

public officers to collect taxes the government accumulated huge arrears of pensions and salaries in the public sector). Most of such problems were conditioned first of all by a high degree of corruption.

From the moment of his coming to power Mr. Mikheil Saakashvili set a goal to concentrate powers in president's hands. The lack of any more or less critical remarks with respect to the presidential power reinforcing developments on the West's part stimulated further growth of authoritarian tendencies in the public governance⁶. It is hoped that the West will no longer willing simply blindly trust Georgia's president and parliament⁷.

The strengthening of presidential powers in Georgia had some positive implications in terms of establishing a financial order in the country, accomplishing some significant increases in tax revenues and, as a consequence, overcoming the above-mentioned budgetary crisis.

Among some other accomplishments of the post-revolution government one should emphasize the qualitative improvement of the criminological situation in the country. The strengthening of presidential powers enabled the government to start an effective fight against corruption. In this context, one must mention the abolition of traffic police that had existed since the Soviet times, as well as the

creation of a western-style patrol police in a very short period of time.

The combat of corruption in the energy sector resulted in the overcoming of energy crisis: as of the winter of 2006-2007 whole Georgia has been enjoying about a 100% supply of electricity.

Among the post-revolution government's accomplishments one should emphasize the introduction of national examinations for admission to universities which replaced the old corrupt system of separate admission exams in individual universities which had existed since the Soviet times.

A fourfold growth of the national budget revenues was achieved as a result of such anti-corruption measures as arresting and releasing of former government officials and their relatives for a "price of liberty". Officially, this was proclaimed as paying back to the State money and properties that had been stolen from it⁸. Such type of revenues can not be raised on a regular basis. At best, they can be collected for one more time and with a much less effect. The government, specifically for this purpose, established extra-budgetary "law-enforcement development accounts", where those suspected of corrupt practices were compelled to transfer payments to buy their liberty.

The launch of a large-scale privatization program should also be regarded as one of the key accomplishments of the post-revolution government.

Deregulation, such as reducing the number of licenses and permits, has limited the legal grounds for government's interference with businesses. Cutting tax rates significantly eased the tax burden for businesses. Reducing the import-tax base for agricultural produce and construction materials as well as the annulment of the import taxes for other goods have made Georgia much more competitive.

The new Labour Code was revolutionary. By limiting the rights of employees, it has substantially broadened those of employers. Although this may encourage businesses to develop, it also leaves employees unprotected.

After the publication of the World Bank's rating list in 2006 entitled "Doing Business" according to which Georgia had made an impressive jump from the 112th to the 37th place amongst the world's nations, the Georgian Government announced that its next year's objective would be to push the country forward and to ensure that Georgia would be found amongst the 20 best nations of the world in the World Bank's next year's rating list and, in fact, it did assume the 18th place in 2007, and 15th place in 2008⁹.

Among negative consequences of the strengthened presidential power one should distinguish an intensified feeling of impunity among the government officers which, in the first place, has

⁶ I. ARESHIDZE, *Democracy and Autocracy in Eurasia: Georgia in Transition*, Michigan State University Press 2007, pp. 197-295.

⁷ A. APPLEBAUM, *Getting Past Mythmaking in Georgia*, in «Washington Post», November 20, 2008, <http://www.washingtonpost.com/wp-dyn/content/article/2008/11/19/AR2008111903533.html>.

⁸ M. McDONALD, *Democracy Flourishes a Year After Georgia's Rose Revolution*, in «Knight Ridder Washington Bureau», March 8, 2005, http://www.accessmylibrary.com/comsite5/bin/pdinventory.pl?pdlanding=1&referid=2930&purchase_type=ITM&item_id=0286-8469621&word=Democracy+Flourishes+Year.

⁹ *Doing Business. Economy Rankings*, The World Bank Group, 2009, <http://www.doingbusiness.org/EconomyRankings/>.

been manifested in a gross disrespect for the rule of law. Humorously, the significantly weakened parliament is often called the “Government’s Notary”. As to judiciary, it has become an appendix to the General Prosecutor’s Office and the whole executive branch¹⁰.

The government’s control of media and, most of all, of TV channels has become overwhelming¹¹.

One has to emphasize the ways of transformation of corruption in post-revolution Georgia. The extra-budgetary accounts, which used to accumulate incomes from accused persons’ paying the “price of liberty,” was already described above. Because such accounts were outside the budgetary area, it is natural that there was no transparency in terms of spending too. However, the problem became even more serious as the government started replenishing those accounts by means of so-called “voluntary contributions” of businesses¹². Later, in the

spring of 2006, under the IMF’s pressure the “extra-budgetary” accounts were abolished.

The post-revolution government’s disrespect for the Constitution and laws became evident in the process of the privatization of public property when by means of bypassing the law, or much rather in its complete defiance, some new owners started to “emerge” from nowhere.

The process of “de-privatization” launched after the Rose Revolution is another reason for being worried. De-privatization in the post-revolution Georgia’s context means that certain objects that had been privatized before the revolution were forcibly taken back by the government which then offered them for privatization. In the process got involved the law-enforcement organs (the General Prosecutor’s Office and the Ministry of the Interior) which pressured the owners to “voluntarily” give up their property for the government’s benefit.

That the property rights were grossly infringed the government seemed not to be concerned with at all¹³.

Against the background of successful fight with mass corruption, there still remains unsolved the problem of elite corruption involving high-level government officers who, on the one hand, in defiance of public procurement regulations, with total impunity, have been using budgetary resources for their own benefits, and, on the other hand, have been exploiting their official status to protect their favorite companies under their umbrella.

Into the context of the above-described negative consequences of the post-revolution government’s activities do fit quite well multiple violations of human rights (including murders of young people by policemen for which – as broadly believed by the public – not all responsible persons received fair punishment)¹⁴.

Whither Russia?

In post-Revolution Georgia, its integration into Russia’s economic domain, has become prominent¹⁵.

In 2003, Anatoliy Chubais, the President of the Management

¹⁰ Z. ANJAPARIDZE, *Critics Press for Improved Judicial Independence in Georgia*, in «Eurasia Daily Monitor», The Jamestown Foundation, 3, 81, April 26, 2006, http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Bsword%5D=8fd5893941d69d0be3f378576261ae3e&tx_ttnews%5Bany_of_the_words%5D=Anjaparidze%2C%20Zaal&tx_ttnews%5Bpointer%5D=1&tx_ttnews%5Btt_news%5D=31620&tx_ttnews%5BbackPid%5D=7&cHash=7cb96dfc73.

¹¹ *Putinization of Georgia: Georgian Media after the Rose Revolution Media in Georgia 2003-2007*, Human Rights Information and Documentation Center, Tbilisi 2008, <http://www.humanrights.ge/admin/editor/uploads/files/Georgian%20Media%20after%20the%20Rose%20revolution.pdf>.

¹² Z. ANJAPARIDZE, *Georgian Government Questioned about*

Secret Funds, in «Eurasia Daily Monitor», The Jamestown Foundation, 3, 71, April 12, 2006, http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Bsword%5D=8fd5893941d69d0be3f378576261ae3e&tx_ttnews%5Bany_of_the_words%5D=Anjaparidze%2C%20Zaal&tx_ttnews%5Bpointer%5D=1&tx_ttnews%5Btt_news%5D=31572&tx_ttnews%5BbackPid%5D=7&cHash=864959a53b.

¹³ *The Big Eviction. Violations of Property Rights in Georgia*, Human Rights Information and Documentation Center, Tbilisi 2008, <http://www.humanrights.ge/admin/editor/uploads/files/Big%20Eviction.pdf>.

¹⁴ *One Step Forward, Two Steps Back. Human Rights in Georgia After the “Rose Revolution”*, Human Rights Information and Documentation Center, Tbilisi 2004, <http://www.humanrights.ge/files/REPORT.pdf>; *Georgia: A Flickering Beacon of Democracy. Human Rights in Georgia in 2007*, Human Rights Information and Documentation Center, Tbilisi 2007, <http://www.humanrights.ge/admin/editor/uploads/pdf/Annual%20Report%20HRIDC%202008.pdf>.

¹⁵ V. PAPAVALI, *The Essence of Economic Reforms in Post-Revolution Georgia: What about the European Choice?*, in «Georgian International Journal of Science and Technology», 1, 1, 2008, pp. 1-9.

Board of RAO EES (Unified Energy Systems) Russia and prominent Russian statesman and political figure, wrote that Russia should establish a "Liberal Empire" in the post-Soviet world¹⁶. By calling it "liberal", it was in the sense that the new empire should be based on economics rather than coercion wherein Russian companies (public and private) should take over the ownership of strategic companies in the former Soviet republics which, in the long run, must lead to the re-establishment of Moscow's political influence over those countries.

The first step towards snaring Georgia in the Liberal Empire's net was the summer 2003 takeover of the shares of the US-based company AES Silk Road by RAO EES.

The Georgian government fully supported the entry of the Russian capital into the Georgian economy during the large-scale privatisation of government-owned enterprises after the Rose Revolution. The best example was the sale of Georgian gold and copper mining and processing companies to Stanton Equities, a subsidiary of the Russian holding group, Industrial Investors. Encouraged by the government's affinity for Russian capital, the owners of the United Georgian Bank (privatised in 1995) sold it to Russia's Vneshtorgbank of which 99-percent is owned by the Russian Government. This sale was the nationalisation of the United Georgian Bank by the Russian Government.

¹⁶ A. CHUBAIS, *Missia Rossii v XXI veke (Russia's Mission in the 21st Century)*, in «Nezavisimaya gazeta», October 1, 2003, http://www.ng.ru/printed/ideas/2003-10-01/1_mission.html.

The most strange is, that after the Russian-Georgian war in August 2008, President Saakashvili is still welcome Russian business activity in Georgia¹⁷. Regrettably, it is evident that Georgia is being culled into Russia's Liberal Empire¹⁸.

Supersaturated 2008

In November 2007, to rescue his own image as well as that of Georgia, President Saakashvili resigned and called for an extraordinary presidential election for 5 January 2008. On 21 May 2008, a parliamentary election was carried out. During both campaigns, it was apparent that Mr Saakashvili and his party were using administrative resources for their own interests. The elections were competitive, considering the circumstances, and polling was mostly uneventful. In the final accounting, Mr Saakashvili received slightly more than the fifty percent required to avert a runoff whilst the "National Movement" now controls 80 percent of the seats in the Parliament. International observers gave qualified approval to the campaign environment and elections conduct but they also have mentioned serious reservations about using administrative resources and

¹⁷ H. BEDWELL, *Georgia's Saakashvili Won't Impede Russian Business*, in «Bloomberg», March 13, 2009, http://www.bloomberg.com/apps/news?pid=20601095&sid=a4lxHDlqg19M&refer=east_euro.

¹⁸ V. PAPAVALA - F. STARR, *Russia's Economic Imperialism*, in «Project Syndicate», January 2006, <http://www.project-syndicate.org/commentary/papava1>.

the transparency and fairness of the ballot counting¹⁹.

It can be inferred that during the Presidential and Parliamentary elections, the Government implemented several large-sized projects whose economic viability is doubtful to a greater extent²⁰.

In August Russia started the military aggression against Georgia²¹. Generally speaking, the Georgian economy stood the test of the five-day Russian-Georgian war in August 2008 even though it has to deal with a number of considerable difficulties in the aftermath of the conflict²².

¹⁹ Georgia. *Extraordinary Presidential Election, 5 January 2008*. PSCE/ODIHR Election Observation Mission Final Report, March 4 2008, OSCE, Warsaw 2008, http://www.osce.org/documents/odihr/2008/03/29982_en.pdf; *Statement of Parliamentary Findings and Conclusions. International Election Observation Mission. Georgia - Parliament Elections, May 21 2008*, OSCE, Tbilisi 2008, http://www.osce.org/documents/odihr/2008/05/31268_en.pdf.

²⁰ I. LASHKHI - N. EVGENIDZE - D. NARMANIA - M. GABEDAVA, *The "50-Day Program" of the Government of Georgia: Analysis and Conclusions*, Open Society Georgia Foundation Policy Paper, 15, 2008.

²¹ O. ANTONENKO, *A War with No Winners*, in «Survival», 50, 4, 2008, pp. 23-36; S.E. CORNELL, *War in Georgia, Jitters All Around*, in «Current History», 107, 711, October 2008, pp. 307-314, <http://www.silkroadstudies.org/new/docs/publications/2007/0810CH.pdf>; S.F. JONES, *Clash in the Caucasus: Georgia, Russia, and the Fate of South Ossetia*, in «Origins: Current Events in Historical Perspective», 2, 2, 2008, <http://ehistory.osu.edu/osu/origins/article.cfm?articleid=20>.

²² M. KAKULIA, *Mitigating Post-War Economic Threats in Georgia*, in «Georgian Economic Trends»,

At the conference held in Brussels under the aegis of the World Bank in October 2008, it was decided to allocate USD 4.55 billion in financial aid for post-war Georgia of which USD 2 billion is a grant and the remainder a loan. Georgia will receive these funds during 2008-2010 and a major part of it will be spent for the liquidation of economic damage caused to Georgia by the Russian military aggression. The process of spending must be as transparent as possible.

Problem that has appeared in the aftermath of war is that the inflow of foreign direct investments in Georgia has dropped significantly. The primary reason behind that is that investors have been trying to make their investments in relatively safe countries under the conditions of the present global financial crisis, rather than ones like Georgia which was seriously affected by the recent Russian aggression. The global financial crisis drove Georgians living abroad to reduce their financial aid to their relatives living in Georgia. Add to this the country's huge foreign trade balance where imports exceed exports by four times and you will see that it came as no surprise that the stability of the national currency, the lari exchange rate was shattered.

The proposed transition to the free trade regime with the EU can be a very important factor for encouraging the continued flow of foreign investments into Georgia. The transition to the free trade regime with the EU, as was decided by the Extraordinary European Council

October 2008, [http://www.geplac.org/newfiles/GeorgianEconomicTrends/2008/October%202008%20\(eng\).pdf](http://www.geplac.org/newfiles/GeorgianEconomicTrends/2008/October%202008%20(eng).pdf).

which met in Brussels on 1 September 2008²³, as being dependent upon Georgia's meeting those conditions which Brussels has requested to be observed within the format of the EU Neighbourhood Policy. These include the adoption of a new labour code which would secure the same rights for the employees as are protected in the EU itself and the enactment of a European-style anti-monopoly and consumer rights protecting legislation.

Although the Georgian government has generally welcomed the EU's initiative regarding the free trade regime, the EU's conditions which are considered by this organisation as a must in order that the free trade regime become a reality regrettably have hitherto been disregarded by the Georgian Government. The Memorandum of Economic and Financial Policies for 2008-2009 with the IMF²⁴ make any impression that in the observable future the Georgian Government plans to amend the Labour Code and to adopt a new European-standard antimonopoly and consumer rights protecting legislation.

Up to now, the government has just made illusions that it was striving to get closer to the EU.

²³ *Extraordinary European Council, Brussels, 1 September, 2008, 12594/08, Presidency Conclusions, Council of the European Union, Brussels 2008, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/102545.pdf.*

²⁴ *Georgia: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, September 9, 2008, The International Monetary Fund, Washington 2008, <http://www.imf.org/External/NP/LOI/2008/geo/090908.pdf>.*

Hot Spring of 2009

In addition to the Georgian Government's mistakes, the country's people have been greatly disappointed with the Georgian President's falling into Russia's trap in August 2008 when he renewed hostilities in South Ossetia and eventually brought about Georgia's defeat in the war with Russia.

In late August 2008, Moscow recognised the independence of Abkhazia and South Ossetia even though Nicaragua is the only country in the world which has supported this step. Remarkably, Russia has deployed and further strengthened its military bases in both of the occupied regions.

The rigged presidential and parliamentary elections, the lost war with Russia and other serious mistakes committed by the government has paved the way for another great wave of protests inside the country. President Saakashvili has been opposed by his closest allies and team members, such as Irakli Okruashvili, the former Defence Minister, Nino Burjanadze, the former Speaker of the Parliament, Zurab Noghaideli, the former Prime Minister, Irakli Alasania, the former Ambassador to the UN, and Erosi Kitsmarishvili, the former Ambassador to Russia with all but Kitsmarishvili having become leaders of their own new political parties. In concert with the other non-parliamentary opposition groups, they have demanded President Saakashvili's resignation and called for an extraordinary presidential election. With these demands, they have planned to organise non-stop rallies and manifestations which will start on 9 April 2009 (which is a day commemorating the restoration of Georgia's independence) and, according

to them, will only finish after the President's stepping down.

It is noteworthy that a demand to replace Saakashvili has also been repeatedly articulated by the Kremlin during the August-2008 war as well as since its end. In this context, nothing can be easier than to accuse the opposition of fulfilling the Kremlin's orders. The government has constantly claimed that the opposition has been driven by Russia's undercover agents. Moreover, in every step taken by the opposition, the government sees traces of the Northern Neighbour. Such a situation raises some doubts that by its constant demands to replace the President, the Kremlin actually aims to weaken the Georgian opposition and give Saakashvili another chance to stay in office.

The leaders of the opposition have made repeated promises that the protests will be exclusively peaceful. With the approach of 9 April, however, the government has intensified its "live" arrests of some opposition party members ostensibly for their illegal trade in firearms. These television shows have made many people believe that the government has deliberately deployed its undercover weapon dealers with the opposition groups to generate a terror of civil war amongst the Georgian public.

It looks like Georgia is facing another serious test in its recent history. The key question is whether or not the country will be able to overcome a political crisis by democratic means or if it will continue moving in the direction of authoritarianism. The spring of 2009 will be a time for measuring Georgia's success or failure as a democracy.

Conclusions

The post-revolutionary Government initially showed the political will to establish financial order and eradicate the bribery which allowed the country to overcome the budgetary and energy power crises. At the same time, the Government made numerous mistakes along its revolutionary road amongst which the repeated violations of property rights bear a repeated highlight.

An authoritative ruling does not allow the President Saakashvili and the ruling party to recognise and correct the mistakes made during the post-revolutionary period.

By no means of less if not greater importance for Georgia, however, is the post-war period. The challenge is that Georgia does not slide towards the Russian model of a so-called "controlled" or "sovereign" democracy under which the Russian leadership has attempted to hide its authoritarian rule. The West's role in this respect is indispensable.

La ricerca ISPI analizza le dinamiche politiche, strategiche ed economiche del sistema internazionale con il duplice obiettivo di informare e di orientare le scelte di policy.

I risultati della ricerca vengono divulgati attraverso pubblicazioni ed eventi, focalizzati su tematiche di particolare interesse per l'Italia e le sue relazioni internazionali e articolati in:

- ✓ Programma Africa
- ✓ Programma Caucaso e Asia Centrale
- ✓ Programma Europa
- ✓ Programma Mediterraneo e Medio Oriente
- ✓ Programma Russia e Vicini Orientali
- ✓ Programma Sicurezza e Studi Strategici
- ✓ Progetto Argentina
- ✓ Progetto Asia Meridionale
- ✓ Progetto Diritti Umani
- ✓ Progetto Disarmo
- ✓ Progetto Emergenze e Affari Umanitari
- ✓ Progetto Internazionalizzazione della Pubblica Amministrazione

ISPI
 Palazzo Clerici
 Via Clerici, 5
 I - 20121 Milano
www.ispionline.it

Per informazioni:
ispi.policybrief@ispionline.it
ispi.policybrief1@ispionline.it

© ISPI 2009