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Russia and Georgia

The Ways Out of the Crisis

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(Editors)

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Russia and Georgia: The Ways out of the Crisis

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Vladimer Papava

Post-Soviet Economic Relations between Georgia and Russia: Reality and Development Potential

Georgia-Russia economic relations became controversial already after the disintegration of the USSR. They are even more difficult at present.

After the five-day Georgia-Russia war in August 2008¹ and the recognition, by Moscow, of Abkhazia and South Ossetia independence, Georgia-Russia relations deteriorated a lot: Diplomatic relations have been terminated and top officials in both states refrain from holding a dialogue. This has, of course, influenced Georgia – Russia economic relations.

The purpose of this article is to investigate the nature of the main problems in the economic relations of these two countries and define, wherever possible, the ways of their improvement.

History in Brief

In the former USSR, economic relations between Russia and Georgia were built as a constituent part of the Soviet State, i.e. within the framework of integrated national economy. From the perspective of the Soviet Union's administrative division, Georgia,

¹ *The Guns of August 2008: Russia's War in Georgia*", in Svante E. Cornell, and S. Frederick Starr, eds. Armonk: M.E. Sharpe, 2009.

like many other relatively small Soviet republics, was perceived as a part of the Transcaucasian economic region, rather than an independent entity.² After the collapse of the USSR and the centralized economy, followed by breaking up of established production relationships between individual economic subjects, the enterprises in the post-Soviet space had to find a market to sell one's own products. This turned out to be quite a difficult task given international competition, low quality of products and/or high production costs.³

One of the first mistakes made by the Georgian authorities at the beginning of the 90s, was imposing economic blockade against Russia. Georgians blocked the Samtredia railway junction, as a result of which the existing production relationships between Georgia and Russia (and not only Russia) broke up earlier than in other post-Soviet republics.⁴ Thus, the first economic losses in Georgia-Russia relations were caused by the Georgian government.

The Commonwealth of Independent States was formed immediately after the collapse of the Soviet Union. All the former Soviet republics joined the CIS except for the Baltic states.⁵ According to a number of experts, the CIS has been experiencing certain difficulties with integration almost since the moment of its existence.⁶ One

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- 2 *Закавказский экономический район. Экономико-географический очерк.* под ред. А.А. Адамеску, и Е.Д. Силаева. Москва, «Наука», 1973.
 - 3 Vladimir Papava. "Necroeconomics – the Theory of Post-Communist Transformation of an Economy." *International Journal of Social Economics*, 2002, Vol. 29, No. 9/10: Vladimir Papava. *Necroeconomics: The Political Economy of Post-Communist Capitalism*. New York, iUniverse, 2005.
 - 4 В. Папава, и Т. Беридзе. "Проблемы реформирования грузинской экономики". *Российский экономический журнал*, 1994, № 3.
 - 5 Georgia joined the CIS later, at the end of 1993. This happened after the Georgian military forces, fighting for territorial integrity, had to leave Abkhazia, which resulted in a wave of thousands of internally displaced people. Hoping to regulate relationship with Russia, the government of Georgia took a decision to join the CIS to make Moscow benevolent. It has to be noted that Russia supported, from the very beginning, separatist movements not only in Georgia, but also in the other former Soviet republics. (See, *Crossroads and Conflict: Security and Foreign Policy in The Caucasus and Central Asia*, Gary K. Bertsch, Cassidy Craft, Scott A. Jones, and Michael Beck, eds. New York: Routledge, 2000; Dov Lynch. *Engaging Eurasia's Separatist States. Unresolved Conflicts and De Facto States*. Washington, D.C.: United States Institute of Peace Press, 2004).
 - 6 Р.С. Гринберг, Л.З. Зевин, и др. *10 лет Содружества независимых государств: иллюзии, разочарования, надежды.* Москва: ИМЭПИ РАН, 2001; Л.П. Козик, и П.А. Кохно. *СНГ: реалии и перспективы.* Москва: Издательский дом «Юридический мир ВК», 2001; В.А. Шульга (рук. авт. колл.). *Экономика СНГ: 10 лет реформирования и интеграционного развития.* Москва: Финстатинформ, 2001; Н.Н. Шумский. *Сотрудничество независимых государств: проблемы и перспективы развития.* Минск: «Технопринт», 2001; Николай Шумский. "Экономическая интеграция

of the main reasons is putting limitations on the integration processes by keeping it within CIS limits and making it similar to the industrial cooperation characteristic of the closed Soviet economic system.⁷ Russia's military aggression against Georgia⁸ and unilateral recognition of Abkhazia and South Ossetia independence by Moscow questions the advisability of the existence of this organization, which only formally declares the inviolability of its member states' borders.⁹ After the Russian aggression Georgia left the CIS¹⁰, which, in addition to other problems, made the organization's future even more questionable.¹¹

Already before the Georgia-Russia war in August 2008 that is in the year 2006 Russia punished Georgia for its western orientation by closing the Russian market for Georgian wines,¹² mineral waters¹³ and agricultural products, in general. This was explained by low quality of Georgian products. However, high quality products were

государств Содружества: возможности и перспективы". *Вопросы экономики*, 2003, № 6; Николай Шумский. "Общее экономическое пространство государств содружества: оптимальный формат". *Мировая экономика и международные отношения*, 2004, № 2.

- 7 Bruno Coppieters. "The Failure of Regionalism in Eurasia and the Western Ascendancy over Russia's Near Abroad". in Bruno Coppieters, Alexei Zverev, and Dmitri Trenin, eds., *Commonwealth and Independence in Post-Soviet Eurasia*. London: FRANK CASS PUBLISHERS, 1998, pp. 194-197; Martha Brill Olcott, Anders Åslund, and Sherman W. Garnett. *Getting it Wrong: Regional Cooperation and the Commonwealth of Independent States*. Washington, D.C.: Carnegie Endowment for International Peace, 1999.
- 8 Павел Фельгенгауэр. "Это была не спонтанная, а спланированная война". *Новая газета*, 2008, 13 августа, на сайте <http://www.novayagazeta.ru/data/2008/59/04.html>.
- 9 Roy Allison. "Russia Resurgent? Moscow's Campaign to 'Coerce Georgia to Peace'". *International Affairs*, 2008, Vol. 84, No. 6, p. 1161.
- 10 "Грузия выходит из СНГ – заявил Саакашвили". *Civil.Ge*, 2008, 12 августа, на сайте <http://www.civil.ge/rus/article.php?id=17276&search=СНГ>; "Парламент Грузии поддержал выход страны из СНГ". *Civil.Ge*, 2008, 14 августа, на сайте <http://www.civil.ge/rus/article.php?id=17327&search=СНГ>.
- 11 Джоанна Лиллис. "Кыргызстан: Отсутствие результатов вновь ставит под сомнение будущее СНГ". *Eurasianet – На русском языке*, 2008, 14 Октября, на сайте <http://russian.eurasianet.org/departments/insight/articles/eav101408ru.shtml>; Stephen Blank. "Russia Pressures CIS Members to Approve its Policies". *CACI Analyst*, 2008, October 01, available at <http://www.cacianalyst.org/?q=node/4949>.
- 12 Zaal Anjaparidze. "Russia Continues to Press Georgian Wine Industry". *Eurasia Daily Monitor, The Jamestown Foundation*, 2006, April 20, available at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=31602; Mamuka Tsereteli. "Banned in Russia: The Politics of Georgian Wine". *Central Asia-Caucasus Institute Analyst*, 2006, April 19, available at <http://www.cacianalyst.org/?q=node/3904>.
- 13 Robert Parsons. "Russia/Georgia: Russia Impounds Georgian Mineral Water". *Radio Free Europe / Radio Liberty*, 2006, April 19, available at <http://www.rferl.org/featuresarticle/2006/04/e3ee1b53-6b14-4553-a05d-4aa389364dd0.html>.

not allowed to enter the Russian market, either. This served as a serious stimulus to start searching for other new markets.¹⁴ Although Moscow made a purely political decision to use economic measures to punish Georgia, this does not justify the insulting comments made by some of the high ranking Georgian officials.¹⁵ By doing so they insulted their own people, in the first place.

At present, an opinion prevails that just like official diplomatic relations; economic relations have been also cut between the two countries. This is not true, since Georgia ‘exports’ its labor force to Russia and Russia is one of the biggest ‘importers’ of investments into Georgia.

Despite quite limited external trade transactions, trading relations have not been cut between the two countries. According to the official statistics, the share of Georgian exports into Russia within the total volume of Georgian exports dropped from 17,8% in 2005 (i.e. one year before Russia banned imports of food products from Georgia) to 2,0% in 2008,¹⁶ and constituted 2.5% for ten months in 2009.¹⁷ The same trend is observed in the reduction of the share of Russian imports into Georgia: In 2005, import from Russia into Georgia made up 15.4%, in 2008; this showing decreased to 6.7%,¹⁸ and constituted 6,4% for ten months in 2009.¹⁹

Many citizens of Georgia as well as ethnic Georgians, who have managed to receive Russian citizenship and are now residing in Russia,²⁰ send some part of their

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- 14 Джон Македон. “Российское экономическое давление приводит Грузию к мысли о выходе из СНГ”. *Eurasianet – Русский*, 2006, 10 мая, на сайте <http://russian.eurasianet.org/departments/business/articles/eav051006ru.shtml>.
 - 15 “Ираклий Окруашвили: На российском рынке можно продать «фекальные массы»”. *Российское информационное агентство – URA.Ru*, 2006, 28 апреля, на сайте <http://ura.ru/content/world/28-04-2006/news/4491.html>; “Грузия без Саакашвили, но с Окруашвили”. *Газета.Ru*, 2007, 28 августа, на сайте http://www.gazeta.ru/politics/2007/08/28_kz_2100389.shtml.
 - 16 “Georgian Exports by Countries, 1995-2008. External Economic relations”. *Department of Statistics Under Ministry of Economic Development of Georgia*, available at http://www.statistics.ge/_files/english/bop/2008/Export_country.xls.
 - 17 “Georgian Exports by Countries, 2009. External Economic relations”. *Department of Statistics Under Ministry of Economic Development of Georgia*, available at http://www.statistics.ge/_files/english/bop/2009/Export_country.xls.
 - 18 “Georgian Imports by Countries, 1995-2008. External Economic relations”. *Department of Statistics Under Ministry of Economic Development of Georgia*, available at http://www.statistics.ge/_files/english/bop/2008/Import_country.xls.
 - 19 “Georgian Imports by Countries, 1995-2008. External Economic relations”. *Department of Statistics Under Ministry of Economic Development of Georgia*, available at http://www.statistics.ge/_files/english/bop/2008/Import_country.xls.
 - 20 “Georgian Imports by Countries, 2009. External Economic relations”. *Department of*

earnings to the relatives living in Georgia. Introduction by Russia of visa regime with Georgia, the 2006 persecution of the ethnic Georgians (including Russia's citizens) living in Russia,²¹ and a parallel development of the banking system, increased the use of bank channels for money remittances, which replaced the previously existing Soviet practice – delivering money to relatives via acquaintances returning to the home country.²²

This practice was not influenced even by Georgia-Russia war of August 2008. In particular, a total of 403 mln USD was transferred to Georgia in 2005, i.e. one year before Russia's persecution of the Georgians. Out of this amount, over 240 mln USD was transferred from Russia, which made up 59,6% of the total of all the money remittances. Already in 2008, this figure increased 2.5 times as compared to the year 2005 and made up 1002 mln USD. Remittances from Russia increased 2,6 times and made up almost 634 mln USD or 63,3% of the total transfers.²³ Due to the global financial crisis, remittances to Georgia in the first ten months of 2009 constituted 84% of the remittances in the first ten months of 2008. Remittances from Russia were even smaller and constituted only 72.4%,²⁴ which can be mainly explained by the severity of the economic crisis in Russia.

As for Russia's investments into Georgian economy, the statistical information is so incomplete (not only on Russian investments, by the way) that it does not allow making conclusions about the actual situation. This is primarily caused by the fact that many companies working on direct investments are registered in offshore zones, due to which it is impossible to trace back the origin of their money. Despite this, the problem with Russian investments in the post-Soviet space (and not only there) is related to the concept of 'Liberal Empire' which has been implemented since 2002.

Statistics Under Ministry of Economic Development of Georgia, available at http://www.statistics.ge/_files/english/bop/2009/Import_country.xls.

- 21 For Russia labor migration is one of the most topical issues. (See С.В. Антуфьев. "Реалии трудовой иммиграции в современной России". *Право и безопасность*, 2005, № 3 (16), Август, на сайте http://dpr.ru/pravo/pravo_16_18.htm; Ж.А. Зайончковская. "Миграции между Россией и странами СНГ и Балтии: итоги последнего десятилетия". *Аналитический вестник Совета Федерации ФС РФ*, 2003, № 10 (203), на сайте <http://www.budgetrf.ru/Publications/Magazines/VestnikSF/2003/vestniksf203-10/vestniksf203-10310.htm>).
- 22 Владимир Папава. "Нелиберальная «либеральная империя» России". *Project Syndicate*, 2007, 28 февраля, на сайте <http://www.project-syndicate.org/commentary/papava2/Russian>.
- 23 "Workers' Remittances by Major Partner Countries". *Money transfers by Countries, National Bank Of Georgia*, available at http://www.nbg.gov.ge/uploads/moneytransfers/money_transfers_by_countrieseng.xls.
- 24 Ibid

The Concept of 'Liberal Empire' and Georgia

Restoration of the empire even in a modernized form is always on Russian politicians' mind,²⁵ which has found its reflection in the concept of 'Liberal Empire.'²⁶ This concept implies that through economic expansion²⁷ Russia can restore its influence in the entire post-Soviet space.²⁸ It has to be noted that Chubais' concept of 'Liberal

25 It has to be noted that the restoration of empire has always been a topical issue for Russia (even immediately after the dissolution of the USSR) (Karen Dawisha. "Imperialism, Dependence, and Interdependence in the Eurasian Space". In Adeed Dawisha, and Karen Dawisha, eds., *The Making of Foreign Policy in Russia and The New States of Eurasia*. Armonk, M. E. Sharpe, 1995). This was primarily manifested in the preservation of the institute of Soviet citizenship in former Soviet republics (Nodari A. Simonia. "Priorities of Russia's Foreign Policy and the Way It Works". In Adeed Dawisha, and Karen Dawisha, eds., *The Making of Foreign Policy in Russia and The New States of Eurasia*. Armonk, M. E. Sharpe, 1995, p. 22).

26 Анатолий Чубайс. "Миссия России в XXI веке". *Независимая газета*, 2003, 1 октября. http://www.ng.ru/printed/ideas/2003-10-01/1_mission.html.

It should be mentioned that the idea of 'Liberal Empire' did not originate from Russia (Юрий Крупнов. "Почему либеральная империя в России не получится?". *Вестник аналитики*, 2005, № 2 (20)). It was first put forward in the second half of the XIX century in Great Britain (H.C.G. Matthew. *The Liberal Imperialists. The Ideas and Politics of a Post-Gladstonian Élite*. Oxford: Oxford University Press, 1973) and was further elaborated at the end of the XX century (David Reiff. "A New Age of Liberal Imperialism?". *World Policy Journal*, 1999, Vol. XVI, No. 2). It is getting more and more Americanized (Theo Farrell. "Strategic Culture and American Empire". *The SAIS Review of International Affairs*, 2005, Vol. XXV, No. 2). It seems we have to agree with the opinion that the accelerated formulation of the Russian version of the 'Liberal Empire' was triggered by US military actions in Afghanistan and Iraq (Igor Torbakov. "Russian Policymakers Air Notion of "Liberal Empire" in Caucasus, Central Asia". *Eurasia Insight. Eurasianet*, 2003, October 27, available at <http://www.eurasianet.org/departments/insight/articles/eav102703.shtml>), as a possibility of the formation of the American 'democratic empire.' (Stanley Kurtz. "Democratic Imperialism". *Policy Review*, 2003, Issue 118, April/May). It has to be emphasized that different versions of the modern American empire are widely criticized at present (Alice H. Amsden. *Escape from Empire: The Developing World's Journey Through Heaven and Hell*. Cambridge: The MIT Press, 2007).

27 According to its architects' plan, 'Liberal Empire' has to be formed through the ownership of the main economic objects (through the acquisition and development of assets) located on the territories of the former Soviet republics, rather than the occupation, by force, of these republics (Keith Crane, D. J. Peterson, and Olga Olikier. "Russian Investment in the Commonwealth of Independent States". *Eurasian Geography and Economics*, 2005, Vol. 46, No. 6).

28 Henry Kissinger. *Does America Need a Foreign Policy? Toward a Diplomacy for the Twenty-First Century*. London: The Free Press, 2002, p. 76.

Empire' was especially popular in 1998-2005.²⁹

Russia started implementing its plan for the involvement of the Caucasus into the forming 'Liberal Empire' together with Armenia – its strategic partner in the region. The Russian-Armenian agreement 'Property in exchange for debt' was signed at the end of 2002.³⁰ Under this agreement Russia received from Armenia enterprises the value of which (93 mln USD) turned out to be enough to fully repay Armenia's debts to Russia. At present, Armenia's economy is fully absorbed by the Russian "Liberal Empire."³¹

Russia's liberal-imperial plans in the Caucasus could be well illustrated by the following fact: Armenians transferred to the Russian monopolist 'Russian railways' (100% state owned) the management rights for the Armenian railways. These rights have been transferred for 30 years and can be extended for another 20 years after the initial 20 year operation period. This has been implemented through setting up a 100% daughter company 'South Caucasus Railways.'³² The name of the latter reveals Russia's intention to own not only Armenian, but also Azeri and Georgian railways.

Russia's second move to restore its empire in the Caucasus implies the integration of Armenia and Russia into single economic space. Since Georgia's geographic location impedes the accomplishment of this objective, Russia had to deal with Georgia in the first place. It should be emphasized that in case the 'Liberal Empire' plan is successfully implemented in Georgia, it will be easier to involve Azerbaijan, as all of its main transport and communication arteries (including the most important pipelines) run through Georgia.

The first attempt to involve Georgia into the 'Liberal Empire' was made in 2003, when Chubais' RAO EES bought stocks and other assets of the American company 'AES³³- Silk Road' – the owner of Tbilisi electricity distribution network, as a result

29 Thomas W. Simons, Jr. *Eurasia's New Frontiers: Young States, Old Societies, Open Futures*. Ithaca: Cornell University Press, 2008, pp. 70-81.

30 Анна Зейберт. "Баланс интересов Армении и России нуждается в переоценке". *Деловой Экспресс, Express.AM*, 2006, № 4, 9 - 15 февраля. http://www.express.am/4_06/geopolitics.html; Haroutiun Khachatryan. "Russian Moves in Caucasus Energy and Power Sectors could have Geopolitical Impact". *Eurasia Insight. Eurasianet*, 2003, September 25, available at <http://www.eurasianet.org/departments/business/articles/eav092503.shtml>.

31 Гаидз Минасян. "Армения, российский форпост на Кавказе?". *Russie.Nei. Visions*, 2008, No. 27, февраль, сс. 9-10, на сайте http://www.ifri.org/files/Russie/ifri_RNV_minassian_Armenie_Russie_RUS_fevr2008.pdf.

32 "Армянские железные дороги перешли под контроль России". BBC Russian, 2008, 4 июня, на сайте http://news.bbc.co.uk/hi/russian/russia/newsid_7435000/7435033.stm; "Южно-Кавказская железная дорога приступила к работе". Информационный портал РЖД-Партнер, 2008, 3 июня. <http://www.rzd-partner.ru/news/2008/06/03/325229.html>.

33 American Electrochemical Society

of which RAO EES managed to control 75% of the country's electricity network.³⁴

After the Rose Revolution the privatization price of many state owned companies was much higher than the price paid for the assets during Shevardnadze's period, but due to the lack of transparency, Russian companies and their daughter companies, registered in third countries, managed to buy most new offers. The Russian holding company 'Industrial investors' is one of them. It managed to get the main gold mine and then half of the factory producing gold alloy.³⁵

The main instrument for Russia's foreign policy is Gazprom – the gas monopoly controlled by the state. Gazprom aimed at controlling not only Georgia's gas industry, but also the only gas pipeline which carries Russian gas to Georgia and Armenia. If the US had not interfered in the negotiations between Georgia and Gazprom on the sale of the pipeline to the latter,³⁶ the pipeline would be in Gazprom's hands.³⁷

Gazprom is not the only judicial person implementing the Russian policy in the Caucasus. In 2004, Russia's state owned Vneshtorgbank bought controlling stake in the Armenian Armsberbank.³⁸ Next year, the Vneshtorgbank bought controlling stake in the privatized United Georgian Bank, the third biggest bank in Georgia.³⁹ Actually, the Vneshtorgbank nationalized the United Georgian Bank, but in this case its new owner became the Russian state.

As we see, this type of Russia's activity in Georgia that started even before the Rose Revolution significantly intensified after the revolution,⁴⁰ which was favored

34 Tea Гуларидзе. “Чубайса в Тбилиси встретили акциями протеста”. *Civil Georgia*, 2003, 7 августа. <http://www.civil.ge/rus/article.php?id=3014&search=Tea%20Гуларидзе>.

35 “Активы Маднеули перешли к российской группе Промышленные инвесторы”. *Альфа-Металл*, 2005, 7 ноября. http://www.alfametal.ru/?id=news_details&news_id=10505.

36 Jeremy D. Gordon. “Russia's Foreign Policy Ace”. *Paterson Review*, 2007, Vol. 8, pp. 85-86, , available at http://www.diplomatonline.com/pdf_files/npsia/Paterson%20Review%20Vol%208%202007_BYPRESS2b.pdf.

37 Дмитрий Коптюбенко. “«Газпрому» договорился с Грузией”. *РосБизнесКонсалтинг*, 2005, 29 декабря. <http://www.rbcdaily.ru/archive/2005/12/29/213127>; “Грузия согласна продать магистральный газопровод «Газпрому»”. *Лента.Ру*, 2005, 28 декабря. <http://www.lenta.ru/news/2005/12/28/gas1/>.

38 “«Внешторгбанк» приобрел контрольный пакет акций «Армсбербанка»”. *Ведомости*, 2004, 24 марта. <http://www.vedomosti.ru/newslines/news/2004/03/24/16606>.

39 “Внешторгбанк (ВТБ) России приобретает контрольный пакет акций коммерческого «Объединенного грузинского банка»”. *Финам.Ру*, 2005, 18 января. <http://www.finam.ru/investments/newsma000010201D/default.asp?ff=1>.

40 Владимир Папава, и Фредерик Старр. “Экономический империализм России”. *Project Syndicate*, 2006, 17 января. <http://www.project-syndicate.org/commentary/papava1/Russian/>; Vladimer Papava. “The Political Economy of Georgia's Rose Revolution”. *Orbis. A Journal of World Affairs*, 2006, Vol. 50, No. 4, pp. 663-665.

by the Georgian Government.⁴¹

Having said this, the idea that Georgia was considered to be totally lost for Russia does not seem to be correct.⁴² Neither does it seem to be true that Georgia and Armenia are not economically very attractive for Russia,⁴³ since through involving these countries into the ‘Liberal Empire’ it becomes possible to involve also Azerbaijan, which is rich in carbohydrate resources.

Due to the above said, it is not at all surprising that the Russian side was not interested in developing a transport corridor through Georgia, or in constructing a pipeline, in particular. Moreover, it used (and still uses) any means to hinder the implementation of these projects.⁴⁴

From the Pipeline ‘Cold War’ to ‘Pipeline Harmonization’

It has to be noted from the outset that in the Russian policy implemented in the post-Soviet space there is a certain interrelatedness between ‘Energy Dependence’ and ‘Political Independence’, i.e. the growth of the former reduces the latter.⁴⁵ It is not at all accidental that along with building the ‘Liberal Empire’ it is very important for Russia to form an ‘Energy Empire’ and steadily move in the direction of this objective.⁴⁶ This is largely grounded on Putin’s myth about transforming Russia into an ‘Energy Superpower.’⁴⁷ As a result, the energy policy of Moscow favors the formation of ‘New Economic Imperialism,’ extending not only to the outer world, but also to

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- 41 Vladimer Papava. “The Essence of Economic Reforms in Post-Revolution Georgia: What about the European Choice?”. *Georgian International Journal of Science and Technology*, 2008, Vol. 1, Iss. 1, p. 3.
- 42 Сергей Лунев. “Центральная Азия и Южный Кавказ как геополитические регионы и их значение для России”. *Центральная Азия и Кавказ*, 2006, № 3 (45), с. 26.
- 43 Ibid
- 44 Steve LeVin. *The Oil and the Glory: The Pursuit of Empire and Fortune on the Caspian Sea*. New York: Random House 2007; Alexander Rondeli. “Pipelines and Security Dynamics in the Caucasus”. *Insight Turkey*, 2002, Vol. 4, No 1; Mamuka Tsereteli. “Beyond Georgia: Russia’s Strategic Interests in Eurasia”. *Central Asia-Caucasus Institute Analyst*, 2008, June 11, available at <http://www.cacianalyst.org/?q=node/4879>.
- 45 Keith C. Smith. *Russian Energy Politics in the Baltics, Poland, and Ukraine. A New Stealth Imperialism?* Washington, D.C.: The CSIS Press, 2004, pp. 5-8.
- 46 Fiona Hill. *Energy Empire: Oil, Gas and Russia’s Revival*. London: The Foreign Policy Centre, 2004, available at <http://fpc.org.uk/fsblob/307.pdf>.
- 47 Lilia Shevtsova. *Russia Lost in Transition: The Yeltsin and Putin Legacies*. Washington, D.C.: Carnegie Endowment for International Peace, 2007, pp. 133, 194.

Russia itself and its domestic economy.⁴⁸ In this context, the Russian energy strategy needs to be considered also in relation to Europe.⁴⁹

At present, Russia, driven by the so-called 'energy egoism,' which is a constituent part of its nationalist view of the world,⁵⁰ does its best to reach a dominant position in the Caspian basin.⁵¹

Implementation of the cooperation and partnership principles in the Caucasus might guarantee that their interests will be met. However, unfortunately, it is just Russia that finds it most difficult to understand and follow these principles.⁵² For example, even Russian experts admit that Iran and Armenia are Russia's strategic partners in opposing the creation of the Europe-Caucasus-Asia transportation corridor.⁵³ Both Russian and Iranian experts emphasize that Russia's and Iran's interests in the region overlap with each other.⁵⁴ This, especially, concerns Caspian energy resources (but not only).⁵⁵ Russian experts also admit that Russia is waging 'energy war' with some

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- 48 Marshall I. Goldman. "Moscow's New Economic Imperialism". *Current History*, 2008, Vol. 107, Iss. 711, October; Marshall I. Goldman. *Petrostate: Putin, Power, and the new Russia*. New York: Oxford University Press, 2008, pp. 172-176.
- 49 Janusz Bugajski. *Expanding Eurasia: Russia's European Ambitions*. Washington, D.C.: The CSIS Press, 2008.
- 50 Vladimir Milov. *Russia and the West. The Energy Factor*. Washington D.C.: CSIS, 2008, p. 18, available at http://www.csis.org/media/csis/pubs/080731_milov_russia&west_web.pdf.
- 51 Сергей Благов. "Россия: в поисках путей укрепления энергетических позиций в Каспийском бассейне". *Eurasia Insight. Eurasianet – На русском языке*, 2008, 8 октября. <http://russian.eurasianet.org/departments/insight/articles/eav100808ru.shtml>.
- 52 например, Vladimer Papava. "Strategic Economic Partnership in Caucasus". *Caucasica. The Journal of Caucasian Studies*, 1998, Vol. 2; Vladimer Papava, and Nino Gogatadze. "Prospects for Foreign Investments and Strategic Economic Partnership in the Caucasus". *Problems of Economic Transition*, 1998, Vol. 41, No. 5; Natalia V. Zubarevich, and Yuri E. Fedorov. "Russian-Southern Economic Interaction: Partners or Competitors?". In Rajan Menon, Yuri E. Fedorov, and Ghia Nodia, eds. *Russia, the Caucasus, and Central Asia: The 21st Century Security Environment*. Armonk: M.E. Sharpe, 1999.
- 53 В.С. Загашвили. "Нефть, транспортная политика, интересы России". В кн.: Р.М. Аваков, и А.Г. Лисов, ред., *Россия и Закавказье: реалии независимости и новое партнерство*. Москва: Финстатинформ, 2000, с. 188.
- 54 Svante E. Cornell. "Iran and the Caucasus: The Triumph of Pragmatism over Ideology". *Global Dialogue*, 2001, Vol. 2, No. 3, pp. 85-88; Robert O. Freedman. "Russia and Iran: A Tactical Alliance". *S AIS Review of International Affairs*, 1997, Vol. XVII, No. 2.
- 55 К.С. Гаджиев. *Геополитика Кавказа*. Москва: «Международные отношения», 2003, сс. 432, 434-439; Д.Б. Мальшева. "Турция и Иран: Закавказье – объект старого соперничества". В кн.: Р.М. Аваков, и А.Г. Лисов, ред., *Россия и Закавказье: реалии независимости и новое партнерство*. Москва: Финстатинформ, 2000; Abbas Maleki. "Does the Caspian Remain Important to all Actors?". *Amu Darya. The Iranian Journal of Central Asian Studies*, 2003/2004, Vol. 8, No. 16 & 17.

of the former Soviet republics, including Georgia and Azerbaijan.⁵⁶

Appropriateness of such an evaluation of the Russia's position on the transportation of Caspian energy resources via Georgia became evident during the Russian-Georgian war of August 2008, when the Russian aviation bombed, among other things, the pipelines running via the territory of Georgia.⁵⁷ These pipelines are located far from South Ossetia, the protection of which was claimed to be the reason of the war. This made questionable the security of the transport corridor through which the pipelines run on the Georgian territory.⁵⁸ In addition, this contributed to the increased danger of losing economic independence by Azerbaijan.⁵⁹ Luckily, it did not take too long to rebuild trust regarding the transportation of energy resources through Georgia.⁶⁰ The fact that Moscow did not manage to exercise control over these pipelines through military means,⁶¹ that is to fully monopolize the routes for the transportation of energy resources running from the former USSR in the direction of the West, even more

56 С.Б. Дружиловский. “К вопросу об альтернативной стратегии Российской Федерации в сфере энергетической политики”. В кн.: Н.П. Шмелев, В.А. Гусейнов, и А.А. Язькова, ред., *Средиземноморье – Черноморье – Каспий: между Большой Европой и Большим Ближним Востоком*. Москва: Издательский дом «Граница», 2006, с. 80.

57 Alexander Jackson. “IA Forum Interview: Vladimer Papava”. *International Affairs Forum*, 2008, August 14, available at <http://ia-forum.org/Content/ViewInternalDocument.cfm?ContentID=6377>.

58 Stephen F. Jones. “Clash in the Caucasus: Georgia, Russia, and the Fate of South Ossetia”. *Origins: Current Events in Historical Perspective*, 2008, Vol. 2, iss. 2, available at <http://ehistory.osu.edu/osu/origins/article.cfm?articleid=20>; Jad Mouawad. “Conflict Narrows Oil Options for West”. *The New York Times*, 2008, August 13, available at <http://www.nytimes.com/2008/08/14/world/europe/14oil.html>; John Roberts. “Georgia falls victim to pipeline politics”. *BBC News*, 2008, August 12, available at <http://news.bbc.co.uk/2/hi/business/7557049.stm>.

It should be noted that raising doubts about the security of the pipelines running through Georgia was one of the aims of the Russian aggression (Pierre Hassner. “One Cold War Among Many?”. *Survival*, 2008, Vol. 50, No. 4, p. 250).

59 Svante E. Cornell. “War in Georgia, Jitters All Around”. *Current History*, 2008, Vol. 107, Iss. 711, October, p. 312, available at <http://www.silkroadstudies.org/new/docs/publications/2007/0810CH.pdf>; Fariz Ismailzade. “The Georgian-Russian Conflict through the Eyes of Baku”. *Eurasia Daily Monitor*, 2008, Vol. 5, No. 154, August 11, available at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=33881.

60 Vladimir Socor. “Business Confidence Returning to the South Caucasus Transport Corridor”. *Eurasia Daily Monitor; The Jamestown Foundation*, 2008, Vol. 5, No. 186, September 28, available at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=33978.

61 Ariel Cohen, and Lajos F. Szaszdi. “Russia's Drive for Global Economic Power: A Challenge for the Obama Administration”. *The Heritage Foundation*, 2009, Backgrounder No. 2235, January 30, available at <http://www.heritage.org/research/RussiaandEurasia/bg2235.cfm>.

encouraged Americans and Europeans to take efforts and search for alternative ways of gas and oil transportation.⁶² At the same time, the strengthening of the security of the existing pipelines on the territories of Azerbaijan and Georgia is becoming a topical issue for Ankara, Brussels and Washington.⁶³ It is no less important that Kazakhstan, which has close ties with Russia, is also quite interested in the security of the transport corridor running through Azerbaijan in the direction of Georgia.⁶⁴ The Caucasian energy corridor is becoming one of the major issues for the US administration.⁶⁵ At the same time, many states interested in the diversification of the pipeline network are also making serious efforts.⁶⁶

All the above said shows the importance of new approaches to the diversification of the pipeline network, which has to be based, in the first place, on the replacement of the established paradigm of the so-called ‘alternative pipelines.’

Nowadays, the carbohydrate resources of the Caspian basin are regarded as alternatives to Russian carbohydrate resources and the pipelines transporting oil and gas (at present or in the future) from the Caspian basin to western markets bypassing Russia are considered to be ‘alternatives’ to the pipelines running through Russia’s territory. The term ‘alternative’ implies Russia’s confrontation with other countries. In other words, what we have is ‘pipeline confrontation’ or pipeline ‘cold war’ between Russia, on the one hand, and the West together with the transit states, on the other.

The examples of the Baku-Tbilisi-Supsa and Baku-Tbilisi-Ceyhan oil pipelines as well as of the South Caucasian gas pipeline illustrate the artificial character of such understanding of pipeline network development. In particular, the oil transported through these pipelines constitutes only 10% of Russian oil exports and the

62 Ivan Krastev. “Russia and the Georgia war: the great-power trap.” *Open Democracy News Analysis*, 2008, August 31, available at <http://www.opendemocracy.net/article/russia-and-the-georgia-war-the-great-power-trap>.

63 Jon E. Chicky. *The Russian-Georgian War: Political and Military Implications for U.S. Policy*. Policy Paper, February. Washington, D.C.: Central Asia-Caucasus Institute, Johns Hopkins University-SAIS, 2009, p. 12, available at <http://www.silkroadstudies.org/new/docs/Silkroadpapers/0902Chicky.pdf>.

64 Nargis Kassenova. “Kazakhstan and the South Caucasus corridor in the wake of the Georgia-Russia war”. *EUCAM, EU–Central Asia Monitoring Policy Brief*, No. 3, 2009, January 29, available at http://shop.ceps.eu/BookDetail.php?item_id=1786.

65 Svante E. Cornell. “Pipeline Power. The War in Georgia and the Future of the Caucasian Energy Corridor”. *Georgetown Journal of International Affairs*, 2009, vol. 10, no. 1, available at <http://www.isdp.eu/files/publications/scornell/GJIA-2009.pdf>.

66 Paul Goble. “Nabucco After Budapest: Old Problems, New Challenges and a Changed Role for Azerbaijan”. *Azerbaijan in the World. The Electronic Publication of Azerbaijan Diplomatic Academy*, 2009, Vol. I, No. 3, February 1, available at <http://www.ada.edu.az/biweekly/issues/164/20090329011708234.html>.

gas transported through the South Caucasian pipeline – 2% of Russian gas exports.⁶⁷ Given the proportion between the amount of oil transported by these pipelines and the total volume of Russian exports, the named three pipelines can hardly play the role of ‘alternative’ pipelines in relation to Russia. In reality, the three pipelines together with those running through Russian territories supplement each other. It is important, indeed, to have independent pipeline systems to ensure continuous gas and oil supply to customers even in unforeseen situations (e.g. malfunctioning for some technical reasons).

Therefore, it is necessary to shift from the ‘alternative pipeline paradigm’ to the ‘mutually supplementary pipelines’ or ‘pipeline harmonization’ paradigm.⁶⁸ The latter is based on the partnership mechanisms interrelating those subjects who deal with gas and oil extraction, transportation and use. It is just consensus between all the parties that serves as a basis for ‘pipeline harmonization.’

It is very important to consider already discussed projects (*White stream, Nabucco, North stream, South stream*) within the ‘pipeline harmonization’ paradigm. For this purpose it is extremely important that all the interested parties take a decision to cooperate with each other so that the users are provided with an uninterrupted energy supply.

The Kremlin’s dualism or two different approaches applied to the same country

Russia applied to Georgia two approaches even before the Russia-Georgia war in August 2008. It would be enough to recall the following: The visa regime introduced by Russia for Georgian citizens did not apply to the Georgian citizens residing on the Abkhazian and South Ossetian territories. Later, Moscow initiated a free distribution of Russian passports to the residents of the named regions to strengthen Russia’s position, i.e. Russia could justify any military action by the protection of its own citizens.

67 See for more detail (Vladimer Papava, Sabit Bagirov, Leonid Grigoriev, Wojciech Paczynski, Marcel Salikhov, and Micheil Tokmazishvili. *Energy Trade and Cooperation Between the EU and CIS Countries*. CASE Network Reports, No. 83. Warsaw: CASE-Center for Social and Economic Research, 2009, available at http://www.case.com.pl/upload/publikacja_plik/23703888_CNR_83_final.pdf).

68 Vladimer Papava, and Michael Tokmazishvili. “Pipeline Harmonization Instead of Alternative Pipelines: Why the Pipeline “Cold War” Needs to End.” *Azerbaijan in the World. The Electronic Publication of Azerbaijan Diplomatic Academy*, 2008, Vol. I, No. 10, June 15, available at <http://www.ada.edu.az/biweekly/issues/150/20090327030535315.html>; Vladimer Papava. “Russian Energy Politics and the EU: How to Change the Paradigm.” *Caucasian Review of International Affairs*, 2010, Vol. 4 (2) – Spring available at http://www.cria-online.org/Journal/11/Done_Russian_Energy_Politics_and_EU_How_to_Change_the_Paradigm_by_Vladimer_Papava_and_Michael_Tokmazishvili.pdf.

The war in August 2008 fully fits into this scheme.

Having recognized the independence of both separatist regions, Moscow found itself in a paradoxical situation: It recognized the independence of two territorial entities the population of which was mainly represented by Russian citizens. Although the Kremlin likes to draw a comparison between Kosovo and Abkhazia-South Ossetia, we should keep in mind that before recognizing Kosovo's independence, neither the US nor any other country encouraged the residents to accept their citizenship.⁶⁹

Moscow's decision to ban Georgian agricultural products in Russia was not applied to Abkhazia⁷⁰, although that time the Kremlin was too far from recognizing its independence. Following Russia, Abkhazia also banned Georgian wines and mineral waters.⁷¹ At the same time, Moscow took a totally different decision regarding Abkhazian wines.⁷² All this was taking place long before the Russia-Georgia war in August 2008, not to mention the recognition of independence of the two Georgian regions.

At the same time, Moscow was not very much concerned about the fact that the conflict territories actually in the entire post-Soviet space, including the Caucasus, were developing not only into the stronghold of terrorism and a shelter for criminals in drug trafficking and drug trade business, but also into the zones for money laundering, kidnapping and human trafficking.⁷³ In parallel, Russia threatened Georgia with war because of the Pankisi George long before the beginning of actual military actions.⁷⁴

In other words, Moscow has been applying to Georgia two models of economic (and not only economic) relations for a long time, now. One of the models is meant for the separatist regions, the other – for the rest of Georgia.

69 Владимир Папава. “Россия: железная хватка Кремля”. *Eurasianet – На русском языке*, 2008, 7 ноября, на сайте <http://russian.eurasianet.org/departments/insight/articles/eav110708aru.shtml>.

70 Евгений Арсюхин. “Оранжевое предупреждение. Россия запретила ввоз грузинских фруктов”. Российская газета, 2005, 21 декабря, на сайте <http://www.rg.ru/2005/12/21/mandariny.html>.

71 “Вслед за Россией грузинские вина и минеральные воды запретила Абхазия”. *News.Ru*, 2006, 15 мая, на сайте <http://www.newsru.com/finance/15may2006/abhasia.html>.

72 Анатолий Гордиенко. “Винно-политический обгон. «Букет Абхазии» вернется на российский рынок раньше «Хванчкары»”. *Независимая газета*, 2007, 17 октября, на сайте http://www.ng.ru/cis/2007-10-17/6_obgon.html; “Абхазия возобновит экспорт вина в Россию”. *Алкогольный портал*, 2007, 8 октября, на сайте <http://tatalc.ru/tatalc2/?pg=3&bl=1&md=2&idoc=11139>.

73 Алла Язькова. “Южный Кавказ: уравнение со многими неизвестными”. *Вестник аналитики*, 2005, No. 2 (20), сс. 57-58.

74 Владимир Волков. “Россия угрожает Грузии войной”. *World Socialist Web Site*, 2002, 21 сентября, на сайте <http://www.wsws.org/ru/2002/sep2002/geor-s20.shtml>.

This tendency has been naturally maintained since Moscow recognized Abkhazia and South Ossetia independence. By the way, the part of the world that supported Moscow's initiative can be hardly called a progressive part of world civilization.⁷⁵ By recognizing the independence of Abkhazia and South Ossetia, Russia even more reinforced their economic (and not only economic) integration into Russia. Nowadays, these separatist regions, like other regions in Russia, openly receive financial aid from Russia's federal budget. For example, according to the information from the Ministry of Finance of the Russian Federation, the amount of financial aid to South Ossetia and Abkhazia in 2010-2011 will make up no less than 5,16 billion rubles.⁷⁶

Unofficially, Abkhazia and South Ossetia have the same legal status as the residents of Russian autonomies. As citizens of Abkhazia and South Ossetia they can take part in local elections; as the citizens of Russia they can elect the President of Russia and Parliament. To go abroad, the residents of Abkhazia and South Ossetia can use their Russian passports.

In addition to the above said, these regions are being militarized. This is an intense process which is implemented through setting up Russian military bases.⁷⁷

Here is a scenario that is quite likely to take place in the future: After making the right pause, the Kremlin will give an assignment to the puppet governments of Abkhazia and South Ossetia to hold a referendum on joining the Russian Federation. It is not difficult to predict referendum outcomes. We can also expect that Moscow will offer some artful justification of this kind of annexation. It might declare, for example, that since the international community (except for Russia and several less respectable countries) is still slow to recognize Abkhazia and South Ossetia, the only thing their population can do is to become a part of Russia. In other words, the Kremlin will try to put all the blame on the West, which, due to its reluctance to recognize the independence of Abkhazia and South Ossetia, will 'force' Russia to make these two territories into its members.⁷⁸

75 Following Russia, the independence of Abkhazia and South Ossetia was recognized by Nicaragua, Venezuela and Nauru

76 "Высказывания А.Г. Силуанова информационным агентствам по итогам подписания соглашений между Министерством финансов РФ и Министерствами финансов Республики Абхазия и Республики Южная Осетия". *Министерство финансов Российской Федерации*, 2009, 17 марта, на сайте <http://www.minfin.ru/ru/press/speech/index.php?id4=7186>.

77 "Выведа войска из буферных зон, Россия начала разворачивать военные базы в Абхазии и Южной Осетии". *News.Ru*, 2008, 10 октября, <http://www.newsru.com/world/10oct2008/base.html>; "Россия разворачивает военные базы в Абхазии и Южной Осетии". *Грани.Ру*, 2008, 10 октября <http://grani.ru/Politics/Russia/m.142556.html>; "РФ будет обустривать военные базы в Абхазии и ЮО и после 2009 года". *РИА Новости*, 2009, 9 января http://www.rian.ru/defense_safety/20090109/158796550.html

78 Владимир Папава. "Россия: железная хватка Кремля".

In the situation like this, the normalization of economic relations between Georgia and Russia (along with other issues, of course) does not seem to be easily achievable. The real solution of this problem is only possible in case the Kremlin stops applying dual approach to Georgia.

Conclusion

The analysis of the past economic relations between post-Soviet Russia and Georgia points to a number of problems. The fact that these problems have not been solved yet does not actually hinder the export of labor force from Georgia into Russia and the import of Russian capital into Georgia. In addition to this, these relations are not always identically perceived by Georgian and Russian communities: Russians are concerned about high number of labor migrants (coming not only from Georgia), whereas Georgians are scared of Russian investments perceived as a means to involve Georgia into the ‘Liberal Empire.’

Confrontation between Russia and the West regarding the provision of uninterrupted gas and oil supply (also bypassing Russia) has lasted for many years. As a result, Georgia, as a transit state, has many times found itself in a difficult situation. It’s time to radically change approach to the transportation of energy resources. In particular, it is necessary to shift from the ‘alternative pipeline’ paradigm, which is the basis of pipeline ‘cold war’ to a new paradigm – ‘pipeline harmonization’ paradigm, which implies cooperation in the development of a pipeline network. Such cooperation will involve not only producers and users of energy resources, but also all the transit countries.

The Georgia-Russia war in August 2008 and Russia’s recognition of Abkhazia and South Ossetia in the status of independent states largely deteriorated Georgia-Russia relations. Unfortunately, there is no doubt that among other things Moscow applied two models of the economic approach to Georgia. One of them was meant for Abkhazia and South Ossetia, the other—for the rest of Georgia. Such a dual approach was even more reinforced after Russia’s recognition of Abkhazia and South Ossetia. At the same time, less aggressive economic policy towards Georgia (we know that Russia’s economic aggression resulted in banning Georgian products, cancelling flights between the two countries, etc)⁷⁹, will not dramatically change their relationship without

79 Leaders of the two countries recently made announcements regarding the possibility of recommencing flights and opening the Upper Larsi checkpoint (See “Грузия готова открыть воздушное сообщение с Россией”. *Деловой Петербург*, 2009, 12 декабря, на сайте http://www.dp.ru/a/2009/12/10/Gruzija_gotova_otkrit_voz; “Грузия готова возобновить воздушное сообщение с Россией”. *Сибирское Агентство Новостей – Новосибирск*, 2009, 12 декабря, на сайте <http://nsk.sibnovosti.ru/articles/92894>).

restoring Georgia's territorial integrity (the territorial integrity required by Georgia is not an extraordinary, because for Russia the problem of the territorial integrity is doubtless). It would be also a mistake to wait until Russia changes its previous decision on the recognition of independence of the two regions (which would mark the beginning of their integration into Georgia) and not to make any efforts to more or less normalize relationship between the residents of Russia and Georgia, irrespective of their citizenship. Establishing basic interpersonal and economic relations is not something you can put on the shelf.