



RUSSIA AND GEORGIA: SEARCHING THE WAY OUT

PUBLIC POLICY PAPERS ELABORATED BY
GEORGIAN AND RUSSIAN EXPERTS

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THE EVOLUTION OF ECONOMIC RELATIONS BETWEEN GEORGIA AND RUSSIA IN THE POST-SOVIET PERIOD: PAST TRENDS AND PERSPECTIVES

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EXECUTIVE SUMMARY

After the collapse of the Soviet Union, economic relations between Georgia and Russia have developed in a contradictory manner and appear even more complicated at present. Despite the extremely strained political relations and the breaking off of diplomatic relations, economic activities between the two countries have never stopped. This paper explores the post-Soviet economic relations between Georgia and Russia using the inductive method of research and formulates some basic perspective directions for their improvement. More specifically, the following possible developments are discussed; specifically, the opening up of Russia's market to Georgian products, reaching an agreement between Georgia and Russia on the latter's WTO accession and overcoming the Kremlin's negative attitude toward transporting energy resources through Georgia to Europe. To solve the first problem, the Georgian exporters and business associations should take the initiative into their own hands. With regard to achieving Georgia's consent on Russia's entry into the WTO, the customs issues between the two countries in the Abkhazian and South Ossetian sections of the border need to be resolved with the direct participation of the international organisations, including the WCO. As for the last issue, in order to change Moscow's negative attitude to transporting energy resources through Georgia to Europe, there should be a shift from the paradigm of "alternative pipelines" to the paradigm of "complementary pipelines." In other words, a so-called "pipeline harmonisation" approach should be adopted which includes a partnership between the stakeholders extracting, transporting and consuming oil and gas. A solution to all these problems listed above would require the collective and active participation of all interested actors of the international community in the decision-making process.

INTRODUCTION

Twenty years after the collapse of the Soviet Union, the study of post-Soviet relations between the former Soviet republics attracts growing scientific interest. Not surprisingly, the emphasis is usually placed upon Russia, as the heir to the USSR, and its relations with the other former Soviet republics.

Prior to the August 2008 war between Russia and Georgia,⁵⁴ the study of the relations between the two countries remained more spontaneous than systematic which had an extremely negative impact upon these relations. Unfortunately, even less well explored are the post-Soviet economic interactions.⁵⁵

⁵⁴ For example, Svante E. Cornell and S. Frederick Starr, Editors, *The Guns of August 2008: Russia's War in Georgia*, Armonk: M.E. Sharpe, 2009.

⁵⁵ As a rare exception, we can refer to the following article: Э. М. Иванов, "Экономические отношения России и Грузии" in *Грузия: проблемы и перспективы развития*, Том 1. Под ред. Е. М. Кожокина, Москва: Российский институт стратегических исследований, 2001.

After the war, a number of meetings between Russian and Georgian researchers and experts have been organised in order to conduct general research following the initiative of the involved international organisations leading to the first joint Russian-Georgian publications.⁵⁶

Unfortunately, the post-Soviet relations between Georgia and Russia in general can be simply described as ‘bad’ and, as the reality has shown, they have gotten even worse. Nevertheless, despite the extremely strained political relations and the breaking off of diplomatic relations, economic activities between the two countries have never been interrupted.

The *purpose* of this study is to identify the starting points of interaction from which the prospects for developing healthy economic relations between Russia and Georgia could be drawn up.

The *objectives* of this study are twofold: first, to examine the major developments in Georgian-Russian economic relations and second, to assess the current state of those relations and to identify the most urgent issues necessary to be resolved in the foreseeable future.

The *significance* and *urgency* of the topic are defined by the fact that in the actual absence of formal bilateral relations between Georgia and Russia economic activities amongst the individual actors in both countries are developing outside the interstate regulations. An example of this is that Georgia “exports” labour forces to Russia and Russia “exports” direct investments to Georgia. In addition, according to the popular opinion, these countries as energy transit states are considered to be competitors.

This situation, where official state-to-state relations are absent and economic interactions are formed in an arbitrary manner, in fact, remains largely unexplored within the context of the Russian-Georgian confrontation. This, in turn, determines the practical value of this research as recommendations for the development of Georgian-Russian economic relations can contribute to finding new entry points for resuming bilateral relations and reducing the international tensions.

The paper mostly utilises qualitative analysis. More specifically, the inductive method is applied to generalise facts about the post-Soviet economic relations between Georgia and Russia which have taken form for over twenty years. It should be noted that the main limitations include the lack of adequate data, such as official statistics on the real economic situation, especially in areas like labour migration, foreign direct investment (FDI), etc. These limitations in each case are specified separately in the document.

PROBLEM DESCRIPTION

In accordance with the article’s key objective, the post-Soviet Georgian-Russian economic relations are divided into three phases; namely: pre-revolutionary (i.e., from regaining independence until the November 2003 “Rose Revolution”), pre-war (i.e., from the “Rose Revolution” to the August 2008 Russian-Georgian war) and post-war (i.e., after the Russo-Georgian war of August 2008).

The Pre-Revolutionary Period

During the Soviet times, Georgian-Russian economic relations were perceived as interregional within the complex system of a command economy of a single country. The production relationships between individual economic actors in the Soviet republics were determined through the central economic planning (*GosPlan*) developed by the central authority. In terms of the Soviet Union’s economic division of the Soviet republics (*Soviet economic regionalisation*), Georgia, like

⁵⁶ For example, George Khutsishvili and Tina Gogueliani, Editors, Russia and Georgia: *The Ways Out of the Crisis*, Tbilisi: ICCN, 2010.

many other relatively small Soviet republics of the Caucasus (Azerbaijan and Armenia), was included in the Trans-Caucasus economic region.⁵⁷

The collapse of the Soviet Union and the subsequent fall of the planned economy naturally led to a gradual breakup of the established production relations between the enterprises in the post-Soviet space. This trend was accelerated in Georgia. Particularly, right after the fall of the Soviet Union, the first post-Soviet government of Georgia imposed an economic blockade against Russia which blocked the Samtredia railway junction. Consequently, these actions facilitated a speedier breakdown of the existing economic ties between Georgia and Russia (and not only Russia) than in other post-Soviet republics. Furthermore, these erroneous actions of the Georgian leadership brought about significant economic losses, primarily to Georgia, and marked the first economic damage in the Georgian-Russian economic relations.⁵⁸ It is important to emphasise that Russia remained the number one trade partner for Georgia even after this event.

In the beginning, Georgia (as well as other former Soviet republics) remained within the “rouble zone” and still used the Russian rouble as the official national currency. After the final break-up of the Soviet monetary system (the Soviet rouble was substituted by the Russian rouble only in the summer of 1993),⁵⁹ the rouble bank-notes were not supplied to the former-Soviet republics. Throughout the end of 1992 and the beginning of 1993, there were severe cash shortages in Georgia. The Central Bank of Russia did not ship any bank-notes to Georgia during the first quarter of 1993 which was Russia’s response to the transfer of payments, unsecured with appropriate means (so-called “air” transfers), by some of the former Soviet republics’ central banks (including Georgia’s) to Russia. In this crisis, the National Bank of Georgia chose to issue a rouble supplement—the Georgian coupon—as Georgia’s temporary currency.⁶⁰

Almost immediately after the collapse of the Soviet Union, the Commonwealth of Independent States (CIS), consisting of all former Soviet republics (except the Baltic states), was established. Georgia joined the CIS later—in December 1993—when the Georgian armed forces had to leave Abkhazia after a struggle for the territorial integrity and which was followed by a wave of thousands of displaced people. The Georgian Government decided to join the CIS in hopes of normalising relations with Russia and achieving certain “favours” from Moscow—from the outset supporting the separatist movement—not only in Georgia but also in other former Soviet republics.⁶¹

Despite the fact that many significant agreements contributing to the establishment of economic links between its member states have been achieved within the CIS framework, the Commonwealth faced difficulties from the outset in integrating the former-Soviet Republics.⁶² One of the main

⁵⁷ For example, *Закавказский экономический район, Экономико-географический очерк*. Под ред. А. А. Адамеску и Е. Д. Силаева, Москва, «Наука» 1973.

⁵⁸ В. Папава и Т. Беридзе, “Проблемы реформирования грузинской экономики,” *Российский экономический журнал*, № 3, 1994.

⁵⁹ Roman Gotsiridze, “National Currency of Georgia – Lari,” In *Central Eurasia: National Currencies*, Eldar M. Ismailov, Ed., Stockholm: CA&CC Press, 2008, pp. 163-166.

⁶⁰ *Ibid.*, p. 166.

⁶¹ Gary K. Bertsch, Cassidy Craft, Scott A. Jones, and Michael Beck, eds., *Crossroads and Conflict: Security and Foreign Policy in the Caucasus and Central Asia*, New York: Routledge, 2000; Dov Lynch, *Engaging Eurasia’s Separatist States, Unresolved Conflicts and De Facto States*, Washington, DC: United States Institute of Peace Press, 2004.

⁶² 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.

reasons includes the desire to recreate market-based integration schemes inherent in the production co-operation which are characteristic to the relatively closed economic system of the USSR.⁶³

Throughout the mid-1990s, both countries were engaged with their own problems related to the transition into a market economy. The interstate economic relations were mostly attuned to the economic incentives of the individual economic entities of these countries.

Russia's financial and currency crisis of 1998 had an extremely negative impact upon Georgia's entire economy, primarily destabilising its exchange rate.⁶⁴ As a result, Russia lost its primacy in Georgia's foreign trade to Turkey (although for a short while). Russia kept its premier position in Georgia's economy until 2006; that is, before Russia closed its market to Georgian wine and mineral water as well as to all other agricultural products of Georgian origin.

In the Russian-Georgian relations of the pre-revolutionary period, special attention should be given to the forced ratification of the so-called "zero option" treaties by the Georgian Parliament whereby Georgia forfeited any claim to a share of the assets of the former USSR in return for the restructuring of its debt to Russia. By its final renunciation of any rights to Soviet property, the Georgian Government heeded the scheme proposed by the International Monetary Fund in accordance with the Paris Club.⁶⁵ According to the initial text of the treaty, however, this deal would not extend to banking accounts in the Vneshekonombank of the former USSR and to the Diamond Fund (in the official document signed in 1993 the corresponding record was missing). The Georgian side noticed the discrepancy *post-factum*, only after signing it. Despite numerous protests by the Georgian authorities, the Russian side did not allow any changes to the signed text and requested ratification of this agreement in the form in which it was signed when Georgia needed a restructuring of external debt to Russia. With no alternative to restructuring the external debt, Georgia had to ratify the altered "zero option" treaties to the detriment of its national interest.

In the framework of Georgian-Russian relations, transportation of Azerbaijan's hydrocarbon resources through Georgia has always been an important issue. In particular, Russia considered (and, unfortunately, still believes) that the implementation of the project allegedly posed a threat to its national security and was against its own interests.⁶⁶ As a result, Russia has never been interested in the development of a transport corridor through Georgia and, in particular, in the construction of pipelines passing through the Georgian territory. On the contrary, Russia hampers the fulfilment of these projects and initiatives with all possible means.⁶⁷

The Pre-War Period

The idea of creating a "liberal empire,"⁶⁸ which would mean restoration of the economic impact throughout the Post-Soviet space through Russia's economic expansion,⁶⁹ was gaining popularity in

⁶³ Martha Brill Olcott, Anders Åslund and Sherman W. Garnett, *Getting it Wrong: Regional Cooperation and the Commonwealth of Independent States*, Washington, DC: Carnegie Endowment for International Peace, 1999.

⁶⁴ Merab Kakulia, "Before and After the Introduction of the Lari: Georgian National Currency in Retrospect" in Eldar M. Ismailov, Ed., *Central Eurasia: National Currencies*, Stockholm: CA&CC Press, 2008, pp. 183-184.

⁶⁵ Нодар Броладзе, "Нулевой вариант:" за и против," *Независимая газета*, 17 января 2001, на сайте http://www.ng.ru/cis/2001-01-17/5_variant.html#.

⁶⁶ Alexander Rondeli, "Pipelines and Security Dynamics in the Caucasus," *Insight Turkey*, Vol. 4, No 1, 2002.

⁶⁷ *Ibid.*

⁶⁸ Анатолий Чубайс, "Миссия России в XXI веке," *Независимая газета*, 1 октября 2003, на сайте http://www.ng.ru/printed/ideas/2003-10-01/1_mission.html

It should be pointed out that Chubais' idea of the "Liberal Empire" was particularly popular in 1998-2005 (Thomas W. Simons, Jr., *Eurasia's New Frontiers: Young States, Old Societies, Open Futures*, Ithaca: Cornell University Press, 2008, pp. 70 -81). In general, the idea of recreating the Empire has always (even after the collapse of the Soviet Union) remained extremely relevant in Russia (Karen Dawisha, "Imperialism, Dependence and Interdependence in the Eurasian Space" in Aeed Dawisha and Karen Dawisha, Eds., *The Making of Foreign Policy in Russia and The New States of Eurasia*, Armonk, ME Sharpe, 1995.)

Russia even prior to the November 2003 “Rose Revolution” of Georgia. More specifically, the architects of this idea intended to create the “Liberal Empire,” not by violent armed occupation of the former Soviet republics but by gaining possession of the property of the main economic targets (through the purchase and development of assets) located on their territories.⁷⁰

The first country in the Caucasus to be involved in the formation of Russia’s “Liberal Empire” was Armenia. The most critical example of this proves to be the implementation of the Russian strategy of “debt-for-equity” swaps. Upon the basis of the mutual agreement called “Possessions in Exchange for Debt,” brokered between Armenia and Russia at the end of 2002, Armenia handed over to Russia the shares of enterprises totalling USD93.7 million to repay its debt.⁷¹ Later, the Armenian economy almost completely has become part of Russia’s “Liberal Empire.”⁷²

The location of Georgia and Azerbaijan between Russia and Armenia is a geographical barrier for combining the Russian and Armenian economies into a single economic space. Achieving this unification looks more realistic through the Georgian “route” than the Azerbaijani one because of the Armenian-Azerbaijani conflict. Moreover, in case of Georgia’s successful involvement in Russia’s “Liberal Empire,” it will be easier to gain full control over Azerbaijan’s economy as well given that all major transportation and communication arteries, including the major pipelines, pass through Georgia.

The involvement of Georgia in the “Liberal Empire” began in 2003 when RAO-UES of Russia purchased stocks and other assets from the American company AES (American Electrochemical Society) – Silk Road, including Tbilisi’s electricity network, and gained control over 75 percent of the country’s electricity grid.⁷³

After the “Rose Revolution,” a complete lack of transparency⁷⁴ allowed Russian companies and their subsidiaries registered in third countries to snap up most of the new offerings put up for sale by the Georgian Government. Typical was the Russian holding company *Promyslennyye investory* (Industrial Investors) which managed to purchase a major gold mine followed by half of a plant producing gold alloys.⁷⁵

One of Russia’s most active players in Georgia’s economy includes Gazprom, the state-controlled gas monopoly. Gazprom’s aim is to control not only the gas industry in Georgia but also the only

⁶⁹ Henry Kissinger, *Does America Need a Foreign Policy? Toward a Diplomacy for the Twenty-First Century*, London: The Free Press, 2002, p. 76.

⁷⁰ Keith Crane, D. J. Peterson and Olga Olikier, “Russian Investment in the Commonwealth of Independent States,” *Eurasian Geography and Economics*, Vol. 46, No. 6, 2005.

⁷¹ Анна Зейберт, “Баланс интересов Армении и России нуждается в переоценке,” *Деловой Экспресс, Express.AM*, № 4, 9-15 февраля 2006, на сайте http://www.express.am/4_06/geopolitics.html; Haroutiun Khachatrian, “Russian Moves in Caucasus Energy and Power Sectors Could Have Geopolitical Impact,” *Eurasia Insight, Eurasianet*, 25 September 2003, available at <http://www.eurasianet.org/departments/business/articles/eav092503.shtml>

⁷² Gaidz Minassian, “Armenia, a Russian Outpost in the Caucasus?,” *Russie.Nei.Visions*, No.27, 15 February 2008, available at http://www.ifri.org/files/Russie/ifri_RNV_minassian_Armenie_Russie_ANG_fevr2008.pdf.

⁷³ Tea Gularidze, “Georgian Authorities, UES Chief Pledge for Co-operation,” *Civil Georgia*, 7 August 2003, available at <http://www.civil.ge/eng/article.php?id=4724>.

⁷⁴ Nino Gujaraidze, Merab Barbakadze, Kety Gujaraidze, Rusudan Mchedlishvili and Kakhaber Kakhaber, *Aggressive State Property Privatization Policy on “Georgian-Style Privatisation,”* Tbilisi: Green Alternative, OSI, 2007, available at <http://www.greenalt.org/webmill/data/file/publications/Privatizeba-Eng4.pdf>; Nino Gujaraidze, *Aggressive State Property Privatisation Policy on “Georgian-Style Privatisation”- 2,* Tbilisi: Green Alternative, OSI, 2010, available at [http://www.greenalt.org/webmill/data/file/publications/privatization_report_GA_2010\(1\).pdf](http://www.greenalt.org/webmill/data/file/publications/privatization_report_GA_2010(1).pdf).

⁷⁵ “Активы Маднеули перешли к российской группе Промышленные инвесторы,” *Альфа-Металл*, 7 ноября 2005, на сайте http://www.alfametal.ru/?id=news_details&news_id=10505

pipeline that feeds Russian gas to both Georgia and Armenia. Without the United States' intervention in 2005,⁷⁶ Gazprom most likely would have purchased this core asset.⁷⁷

In 2005, Russia's state-owned enterprise, Vneshtorgbank, also purchased a controlling stake in the privatised United Georgian Bank, the third largest in Georgia.⁷⁸ In fact, Vneshtorgbank renationalised the United Georgian Bank although the new owner ended up being the Russian Government. Interestingly, Vneshtorgbank of Russia also previously acquired a controlling stake in Armenia's Armsberbank in 2004.⁷⁹

These examples suggest that Russia's efforts in Georgia serve the main purpose of entrapping Georgia within the "Liberal Empire." This began even before the "Rose Revolution" and has substantially augmented afterwards,⁸⁰ partly with the Georgian leadership's open backing.⁸¹ The steps of the Georgian authorities (and not only them) could be explained by the fact that high-ranking management positions in large Russian companies are in many cases held by former national security agency employees who, like the Russian Government, are willing to spend additional funds for political purposes.⁸²

In light of Russia's actual tactics to forge a "Liberal Empire" in the Caucasus (notably in Armenia and Georgia), the notion that Georgia is entirely lost to Russia⁸³ and that both Armenia and Georgia have minimal economic significance for Russia seems unreasonable.⁸⁴

A ban on key Georgian exports, such as wine⁸⁵ and mineral water⁸⁶ as well as all agricultural products, was imposed by Russia in 2006 with Moscow allegedly citing health concerns and the low-quality of products. The Kremlin's punishment for Georgia's pro-Western orientation, on the one hand, negatively affected the county's economy⁸⁷ whilst, on the other, incentivised Georgian exporters to gradually find other markets for Georgian goods.⁸⁸ These steps were followed by

⁷⁶ "Грузия согласна продать магистральный газопровод Газпрому," *Лента.Ру*, 28 декабря 2005, на сайте <http://www.lenta.ru/news/2005/12/28/gas1/>.

⁷⁷ Jeremy D. Gordon, "Russia's Foreign Policy Ace," *Paterson Review*, Vol. 8, 2007, pp. 85-86, available at http://www.diplomatonline.com/pdf_files/npsia/Paterson%20Review%20Vol%208%202007_BYPRESS2b.pdf.

⁷⁸ "Внешторгбанк (ВТБ) России приобретает контрольный пакет акций коммерческого 'Объединенного грузинского банка,'" *Финам.Ру*, 18 января 2005, на сайте <http://www.finam.ru/investments/newsma000010201D/default.asp?fl=1>.

⁷⁹ "Внешторгбанк приобрел контрольный пакет акций Армсбербанка," *Ведомости*, 24 марта 2004, на сайте <http://www.vedomosti.ru/newline/news/2004/03/24/16606>.

⁸⁰ Vladimer Papava and Frederick Starr, "Russia's Economic Imperialism," *Project Syndicate*, 17 January 2006, available at <http://www.project-syndicate.org/commentary/papava1>; Vladimer Papava, "The Political Economy of Georgia's Rose Revolution," *Orbis, A Journal of World Affairs*, Vol. 50, No. 4, 2006, pp. 663-665.

⁸¹ 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, Issue 1, p. 3.

⁸² Sir Basil Markesinis, *The American and Russian Economies in Moments of Crisis: A Geopolitical Study in Parallel*, ICBSS Policy Brief No. 19, 6 November 2009, pp. 23-24, 27, available at http://icbss.org/images/papers/pb_19_markesinis.pdf.

⁸³ Sergey Lounev, "Central Asia and the Southern Caucasus: Geopolitical Value for Russia," *Central Asia and the Caucasus*, No. 3 (39), 2006, p. 24.

⁸⁴ *Ibid.*

⁸⁵ Zaal Anjaparidze, "Russia Continues to Press Georgian Wine Industry," *Eurasia Daily Monitor, The Jamestown Foundation*, 20 April 2006, 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*, 19 April 2006, available at <http://www.cacianalyst.org/?q=node/3904>.

⁸⁶ Robert Parsons, "Russia/Georgia: Russia Impounds Georgian Mineral Water," *Radio Free Europe / Radio Liberty*, 19 April 2006, available at <http://www.rferl.org/featuresarticle/2006/04/e3ee1b53-6b14-4553-a05d-4aa389364dd0.html>.

⁸⁷ Eric Livny, Mack Ott and Karine Torosyan, "Impact of Russian Sanctions on the Georgian Economy" in Lorenz King, Giorgi Khubua, Eds., *Georgia in Transition*, Frankfurt am Main: Peter Lang, 2009.

⁸⁸ John Mackedon, "Russian Economic Pressure Has Georgia Thinking about Life outside the CIS," *Eurasianet*, 8 May 2006, available at <http://www.eurasianet.org/departments/business/articles/eav050906.shtml>.

Russia halting all postal, airline, automobile, sea and railway transport between Russia and Georgia.⁸⁹

Furthermore, when Russia introduced a wine blockade against Georgia and imposed bans on Georgian agricultural commodities,⁹⁰ it adopted a fundamentally different approach toward Abkhazian wine.⁹¹ At the same time, products of Georgian origin were banned in Abkhazia as well.⁹²

Currently, Russia's accession to the World Trade Organisation (WTO) is high on the agenda.⁹³ Georgia, as a WTO member from the very beginning, agreed to drop its objections against Russia's WTO entry if the latter would provide access for Georgian customs officers to border crossing checkpoints in breakaway Abkhazia and South Ossetia.⁹⁴ The Georgian demand that Georgian customs officers supervise checkpoints in Abkhazia and South Ossetia stems from Tbilisi's official position that the regions are part of its sovereign territory and goods crossing the borders between the two neighbouring countries should be based upon national customs legislation. However, as the recent developments show, the governments of Abkhazia and South Ossetia, openly supported by Moscow, are categorically against the Georgian position, thus significantly limiting the possibilities for its fulfilment.

Tensions in the sphere of transportation of energy resources remained in the standoff between Russia and Georgia even after the "Rose Revolution." Russia has not abandoned its efforts to hinder the implementation of the pipeline projects utilising all possible means.⁹⁵ Moreover, Russian experts believe that Moscow is waging an "energy war" against several former Soviet republics, including Georgia and Azerbaijan.⁹⁶

The Post-War Period

The Russian-Georgian confrontation reached its climax during the August 2008 war after which formal diplomatic relations between the two countries were halted. The war itself—and follow-on recognition of the independence of South Ossetia and then Abkhazia by the Russian Federation—questioned the further existence of the CIS which only formally recognised the inviolability of the

⁸⁹ "Россия объявила блокаду Грузии," *Лента.Ру*, 2 октября 2006, на сайте <http://lenta.ru/news/2006/10/02/blockade/>.

⁹⁰ Евгений Арсютин, "Оранжевое предупреждение. Россия запретила ввоз грузинских фруктов," *Российская газета*, 21 декабря 2005, на сайте <http://www.rg.ru/2005/12/21/mandariny.html>.

⁹¹ Анатолий Гордиенко, "Винно-политический обгон. Букет Абхазии вернется на российский рынок раньше Хванчкары," *Независимая газета*, 17 октября 2007, на сайте http://www.ng.ru/cis/2007-10-17/6_obgon.html; "Абхазия возобновит экспорт вина в Россию," *Алкогольный портал*, 8 октября 2007, на сайте <http://tatalc.ru/tatalc2/?pg=3&bl=1&md=2&iddoc=11139>.

⁹² "Вслед за Россией грузинские вина и минеральные воды запретила Абхазия," *News.Ru*, 15 мая 2006, на сайте <http://www.newsru.com/finance/15may2006/abhasia.html>.

⁹³ Katinka Barysch, Robert Cottrell, Franco Frattini, Paul Hare, Pascal Lamy, Maxim Medvedkov, Yevgeny Yasin, *Russia and the WTO*, London: Centre for European Reform (CER), 2002, available at http://www.cer.org.uk/pdf/p394_russia_wto.pdf.

⁹⁴ Tea Gularidze, "Tbilisi Firm on Russia's WTO Entry Terms," *Civil.Ge*, 1 June 2007, available at <http://www.civil.ge/eng/article.php?id=15204>; "Foreign Minister on NATO, Russia's WTO Membership Terms," *Civil.Ge*, 25 February 2008, available at <http://www.civil.ge/eng/article.php?id=17185>.

⁹⁵ Steve LeVin, *The Oil and the Glory: The Pursuit of Empire and Fortune on the Caspian Sea*, New York: Random House, 2007; Mamuka Tsereteli, "Beyond Georgia: Russia's Strategic Interests in Eurasia," *Central Asia-Caucasus Institute Analyst*, 11 June 2008, available at <http://www.cacianalyst.org/?q=node/4879>.

⁹⁶ С. Б. Дружиловский, "К вопросу об альтернативной стратегии Российской Федерации в сфере энергетической политики," В кн.: *Средиземноморье – Черноморье – Каспий: между Большой Европой и Большим Ближним Востоком*. Под ред. Н. П. Шмелева, В. А. Гусейнова, А. А. Язьковой. Москва: Издательский дом "Граница," 2006, стр. 80.

territorial boundaries of its member states.⁹⁷ After the Russian aggression, Georgia, as expected, seceded from the CIS.⁹⁸

In the post-war period, there was an impression that all types of economic relations between Russia and Georgia had been terminated. This, of course, is not true, because Georgia continues to “export” its labour to Russia and Russia, in turn, remains amongst the leading investors in Georgia.

Trade between Russia and Georgia has declined markedly as tensions between the two nations have risen although by no means ended. During this period, Russia’s share of Georgia’s total exports dropped from 17.8 percent in 2005 (i.e., a year before Russia imposed bans on Georgian products) to 2.0 percent, and 2.2 percent in 2008 and 2010, respectively.⁹⁹ The same negative trend could be observed in imports to Georgia from Russia as well which fell from 15.4 percent in 2005 to 6.7 percent in 2008. Russia accounted for only 5.5 percent of all imports in 2010.¹⁰⁰ Although it is worth pointing out that Russia ranks fifth amongst Georgia’s top trade partners according to data on trade turnover (after Turkey, Azerbaijan, Ukraine and Germany, but at the same time, ahead of countries like the US, Bulgaria, China and others).¹⁰¹

Remittances are an important source of transfer income. Georgians who obtained Russian citizenship and live and work in Russia¹⁰² send part of their earnings to their relatives in Georgia. The introduction of a visa regime with Georgia as well as the persecution of ethnic Georgians (including Russian citizens) living in Russia in 2006¹⁰³ facilitated a further increase in the use of the bank channel. As the banking sector develops, remitting through formal channels is gradually given the preference over other informal alternatives which used to be extremely popular in the post-Soviet space (such as sending money back home through intermediaries returning to their homeland).¹⁰⁴ Even the Russian-Georgian war in August 2008 has not impacted the choice between informal and formal channels.

In particular, in 2005 (i.e., one year before the persecution of Georgians in Russia) remittances to Georgia totalled USD403 million with over USD240 million coming from Russia (59.6 percent of the total). In 2008, the transfers increased by 2.5 times reaching USD1,002 million. Remittances from Russia grew by 2.6 times and amounted to nearly USD634 million thus making up 63.3 percent of the total.¹⁰⁵ In 2009, due to the global financial crisis, money transfers to Georgia (USD842 million in total) accounted for 84 percent of the amount of remittances received in 2008. The Russian economy was hit extremely hard by the crisis which affected the amount of remittances sent to Georgia as well. In 2009, transfers from Russia totalled USD450 million – only 71 percent of the sum remitted a year before (the share of remittances from Russia to Georgia was

⁹⁷ Roy Allison, “Russia Resurgent? Moscow’s Campaign to ‘Coerce Georgia to Peace,’” *International Affairs*, Vol. 84, No. 6, 2008 p. 1,161.

⁹⁸ “Georgia to Quit CIS,” *Civil.Ge*, 12 August 2008, available at <http://www.civil.ge/eng/article.php?id=19064>; “Parliament Supports Quitting CIS,” *Civil.Ge*, 14 August 2008, available at <http://www.civil.ge/eng/article.php?id=19143>.

⁹⁹ “External Trade of Georgia by Countries,” *The National Statistics Office of Georgia*, available at http://www.geostat.ge/index.php?action=page&p_id=137&lang=eng.

¹⁰⁰ *Ibid.*

¹⁰¹ *Ibid.*

¹⁰² Employment-based immigration is one of the most pressing problems for Russia (See: С. В. Антуфьев, “Реалии трудовой иммиграции в современной России,” *Право и безопасность*, № 3 (16), август 2005, на сайте http://dpr.ru/pravo/pravo_16_18.htm).

¹⁰³ Vladimir Papava, “Russia’s Illiberal ‘Liberal Empire,’” *Project Syndicate*, 28 February 2007, available at <http://www.project-syndicate.org/commentary/papava2/English>.

¹⁰⁴ Merab Kakulia, “Labour Migrants’ Remittances to Georgia: Volume, Structure and Socio-Economic Effect,” *Georgian Economic Trends*, October 2007, p. 56.

¹⁰⁵ “Workers’ Remittances by Major Partner Countries,” *Money Transfers by Countries, National Bank of Georgia*, available at http://www.nbg.ge/uploads/moneytransfers/money_transfers_by_countrieseng.xls.

still over half of the entire sum – 53.5 percent).¹⁰⁶ In 2010, as compared to 2009, remittances to Georgia increased up to USD940 million as a whole. USD530 million was transferred just from Russia increasing its total share up to 56.4 percent.¹⁰⁷

The assessment of the Russian (and not only Russian) investments in the Georgian economy proves more complicated owing to the easily manipulated and flawed data which prevents making any definite conclusions about the real situation. Many firms engaged in direct investment are registered in an offshore zone so that it is virtually impossible to disclose the real owners of a business and to trace the cash flows. According to official statistics, Russia ranked third in FDI in Georgia in 2010 behind the Netherlands and the United States.¹⁰⁸

After Russia's unilateral recognition of the independence of Abkhazia and South Ossetia, Tbilisi's position on Russia's accession to the WTO became more discernable. In return for Georgia's official approval of Russia's WTO entry, Moscow will have to allow Georgian customs officers to supervise checkpoints in Abkhazia and South Ossetia; that is, along the internationally recognised border between Georgia and Russia.¹⁰⁹ The first official post-war meeting of the government delegations of Georgia and Russia was held in March 2011 in Bern (Switzerland) to discuss Russia's accession into the WTO. Most likely, meetings in the same format will continue throughout 2011.

The situation remains difficult around Georgia's role as a transport corridor for Azerbaijani energy resources. The Russian-Georgian war has further exacerbated this issue. More specifically, Russia bombed the pipelines running through Georgia during the August war despite the fact that they were located further away from South Ossetia and its protection which was the reason for going to war with Georgia.¹¹⁰ This has naturally raised the safety issues and questioned Georgia's reliability as a transit corridor.¹¹¹ Fortunately, confidence was quickly regained¹¹² although the fact that Moscow tried to establish its control over those pipelines¹¹³ and thereby completely monopolise transportation routes from the former Soviet space into the West through military actions has become an even greater incentive for both Americans and Europeans to search for alternative energy routes with more diligence.¹¹⁴

¹⁰⁶ *Ibid.*

¹⁰⁷ *Ibid.*

¹⁰⁸ "Прямые иностранные инвестиции в Грузию в 2010 г. сократились на 16%," *Civil.Ge*, 12 марта 2001, на сайте <http://www.civil.ge/rus/article.php?id=21772>.

¹⁰⁹ Кристиан Лоу, "Грузия не откажется от своей позиции по поводу вступления России в ВТО," *ИноСМИ.ru*, 28 октября 2010, на сайте <http://www.inosmi.ru/caucasus/20101028/163900779.html>.

¹¹⁰ Alexander Jackson, "IA Forum Interview: Vladimir Papava," *International Affairs Forum*, 14 August 2008, available at <http://ia-forum.org/Content/ViewInternalDocument.cfm?ContentID=6377>.

¹¹¹ Stephen F. Jones, "Clash in the Caucasus: Georgia, Russia, and the Fate of South Ossetia," *Origins: Current Events in Historical Perspective*, Vol. 2, Issue 2, 2008, available at <http://ehistory.osu.edu/osu/origins/article.cfm?articleid=20>; Jad Mouawad, "Conflict Narrows Oil Options for West," *The New York Times*, 13 August 2008, available at <http://www.nytimes.com/2008/08/14/world/europe/14oil.html>; John Roberts, "Georgia Falls Victim to Pipeline Politics," *BBC News*, 12 August 2008, available at <http://news.bbc.co.uk/2/hi/business/7557049.stm>.

It should be noted that one of the goals of the Russian aggression included contributing to the existing doubts about the safety of the pipelines passing through Georgia (Pierre Hassner, "One Cold War Among Many?" *Survival*, Vol. 50, No. 4, 2008, p. 250).

¹¹² Vladimir Socor, "Business Confidence Returning to the South Caucasus Transport Corridor," *Eurasia Daily Monitor, The Jamestown Foundation*, Vol. 5, No. 186, 28 September 2008, available at http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=33978.

¹¹³ Ariel Cohen and Lajos F. Szaszi, "Russia's Drive for Global Economic Power: A Challenge for the Obama Administration," *The Heritage Foundation*, Backgrounder No. 2235, 30 January 2009, available at <http://www.heritage.org/research/RussiaandEurasia/bg2235.cfm>.

¹¹⁴ Ivan Krastev, "Russia and the Georgia War: The Great-Power Trap," *Open Democracy News Analysis*, 31 August 2008, available at <http://www.opendemocracy.net/article/russia-and-the-georgia-war-the-great-power-trap>.

WAYS TO SOLVE THE PROBLEMS

The analysis of the traversed path of the post-Soviet economic relations between Georgia and Russia leaves little room for optimism. On top of it, the frequent statements made by the leaders of both countries dwindle hopes that the situation can be improved for the better in the foreseeable future.¹¹⁵ For example, the Georgian President Mikheil Saakashvili's attempts to resume a dialogue with the leaders of Russia¹¹⁶ was met by a very negative response from his Russian counterpart.¹¹⁷

From the current perspective, *maintaining the status-quo seems to be the most realistic short-term option* which basically means continuing the same economic relations that have developed in recent years with Russia's major companies remaining amongst the key foreign investors in Georgia with Georgia remaining as one of the "suppliers" of the labour force to Russia. At the same time as the Russian market will remain closed to Georgian wine, mineral water and vegetables, Georgia will continue to block Russia's entry into the WTO. The standoff between Moscow and Tbilisi will also remain the same on the transport of energy resources.

An alternative to the status quo would be moving towards resolution of the existing problems in each of these areas. In particular, we are talking about *removing Russia's ban on products of Georgian origin, finding a consensus on Russia's WTO accession and changing approaches to the oil and gas transportation issue*. We will consider each of these areas separately.

Formally, Russia has not imposed a trade embargo on Georgia. The official explanation, voiced by Russia's Chief Sanitary Inspector, referred to the low quality of these food products.¹¹⁸ Accordingly, Russia's accession into the WTO will not oblige the Kremlin to lift its ban on Georgian products and it will be a mistake to link those two issues.

Considering Russia's Chief Sanitary Inspector's recent statements on their readiness to resume talks on lifting the ban,¹¹⁹ coupled with the extremely tense relations between the heads of the two countries mentioned earlier in the article, large Georgian exporters and their associations (such as, the Georgia Wine Association) should take the initiative to facilitate the reopening of the Russian market to Georgian products. It is in the best interest of the Georgian producers themselves to be directly involved in this process as they are the ones responsible for meeting the quality control requirements set by the Chief Sanitary Inspector of Russia. The active involvement of Georgian businesses in the process should either result in the eventual reopening of the Russian market or demonstrating to the international community Russia's prejudice against Georgia thus further damaging its international image. More specifically, this matter categorised by the Kremlin as "sanitary" will evidently become a purely "political issue." It is important to keep in mind that since 2006, Georgian wine products have been successfully exported to Europe¹²⁰ and the US¹²¹

¹¹⁵ "Saakashvili: Georgia will not Follow Russia's 'Bait,'" *Civil.Ge*, 22 January 2010, available at <http://www.civil.ge/eng/article.php?id=21913>; "Путин высмеивает грузинского лидера Саакашвили," *ИноСМИ.ru*, 20 ноября 2000, на сайте <http://www.inosmi.ru/caucasus/20091120/156575284.html>.

¹¹⁶ Ия Агулашвили, "Примет ли Медведев предложение Саакашвили?," *Резонанси*, 17 марта 2009, на сайте <http://www.apsny.ge/analytics/1237355387.php>.

¹¹⁷ "При Саакашвили Россия и Грузия не восстановят отношения – Медведев," *РИА Новости*, 24 июня 2010, на сайте <http://www.rian.ru/video/20100624/249738309.html>.

¹¹⁸ "Г. Онищенко: Грузия ничего не делает для улучшения качества вин," *Yarmarka.net*, 17 июля 2006 на сайте <http://www.yarmarka.net/news/news.asp?id=37794>.

¹¹⁹ "Онищенко предложил возобновить винные переговоры с Грузией," *Лента.Ру*, 11 августа 2006, на сайте <http://lenta.ru/news/2006/08/11/alko1/>; "Онищенко: Грузия хочет возобновить поставки вин в России," *kvkz.ru*, 31 июля 2007, на сайте http://kvkz.ru/2007/07/31/onishhenko_gruzija_khochet_vozobnovit_postavki_vin_v_rossiju.html; "Онищенко: у Грузии нет желания возобновлять поставки Боржоми в Россию," *Кавказский узел*, 5 января 2010, на сайте <http://www.kavkaz-uzel.ru/articles/163891/>.

¹²⁰ Ketii Chkhikvadze, "Small-Biz: Planning to Export to the EU?," *The Financial*, 11 January 2010, available at http://www.finchannel.com/Main_News/Business/74435_Small-Biz%3A_Planning_to_Export_to_the_EU?/; Ketii

meaning that they have met the quality control requirements of those countries. Going against this background and re-imposing bans on Georgian products allegedly due to their low-quality will damage Moscow's image more than it did in 2006 when the Chief Sanitary Inspector of Russia banned Georgian wine for the first time.

At present, achieving Georgia's consent on Russia's WTO entry arises with particular acuteness in both countries and in international community. While insisting upon its demands,¹²² Tbilisi periodically expressed readiness to start negotiations with Moscow over Russia's WTO accession.¹²³ The first meeting, as noted above, was held in March 2011.¹²⁴ Russia's hopes to overcome Georgia's resistance stem from the fact that the US can actually pressure Georgia to drop its objections.¹²⁵ Although the US affirms its support of Russia's WTO bid, calling upon Georgia to find "a creative solution"¹²⁶ shows that Washington openly states that Russia-Georgia WTO-related talks are a bilateral issue into which it does not want to intervene.¹²⁷

Georgia's strategic partners, the United States and the European Union, are openly and strongly endorsing Russia's bid and pushing for it to happen before the end of the year. They have already concluded their talks with Russia by agreeing to its membership in this organisation in early 2011.¹²⁸

One can state unequivocally that apart from the issue of re-establishing the Georgian presence along the Georgian-Russian border in the areas of Abkhazia and South Ossetia, Georgia is equally interested in Russia's WTO accession and in forging trade relations with Russia within the WTO. It will qualitatively improve and make the relationship between Russia and Georgia more predictable. Taking into consideration that there are a number of "carrots and sticks" that both Washington and Brussels can use to entice Tbilisi—and it is not in Georgia's interest to strain its relations with any of them — agreeing upon a compromise looks inevitable.

There has been an interesting suggestion made by some Georgian opposition party leaders involving deployment of international monitors¹²⁹ (preferably EU¹³⁰) on the border with Russia in

Chkhikvadze, "Who in the EU Knows about Georgian Wine?," *The Financial*, 2 February 2011, available at http://www.finchannel.com/Main_News/Geo/81380_Who_in_the_EU_Knows_about_Georgian_Wine?/.

¹²¹ Dave DeSimone, "Wines from Republic of Georgia Blend Modern, Traditional Styles," *The Pittsburgh Tribune-Review*, 27 July 2010, available at http://www.pittsburghlive.com/x/pittsburghtrib/ae/s_692191.html; Elizabeth Downer, "Wine from Georgia? It's a Great Story," *Pittsburgh Post-Gazette*, 2 September 2010, available at <http://www.post-gazette.com/pg/10245/1084192-389.stm>.

¹²² Десмонд Батлер, "Премьер-министр Грузии обозначил позицию по вопросу вступления России в ВТО," *ИноСМИ.ру*, 7 октября 2010, на сайте <http://www.inosmi.ru/caucasus/20101007/163434813.html>; "Georgia Position on Russia WTO Membership 'Unchanged,'" *Civil Georgia*, 5 October 2010, available at <http://www.civil.ge/eng/article.php?id=22727>.

¹²³ "Власти Грузии готовы к переговорам с РФ по поводу вступления России в ВТО," *Независимая газета*, 12 сентября 2010, на сайте http://www.ng.ru/cis/2010-12-09/6_gruzia.html.

¹²⁴ "Georgia, Russia Resume WTO Talks," *Civil Georgia*, 10 March 2011, available at <http://www.civil.ge/eng/article.php?id=23223>.

¹²⁵ Anders Åslund, "Why Doesn't Russia Join the WTO?," *The Washington Quarterly*, Vol. 33, No.2, 2010, p. 11, available at http://www.twq.com/10april/docs/10apr_Aslund.pdf.

¹²⁶ "Calls for 'Creative Solution' in Georgia's Dispute over Russia WTO Entry," *Civil Georgia*, 20 October 2010, available at <http://www.civil.ge/eng/article.php?id=22770>.

¹²⁷ "White House Official on Georgia-Russia WTO Talks," *Civil Georgia*, 5 March 2011, available at <http://www.civil.ge/eng/article.php?id=23208>.

¹²⁸ Elizabeth Williamson, "Obama: Russia Belongs in WTO," *The Wall Street Journal*, 25 June 2010, available at <http://online.wsj.com/article/SB10001424052748704911704575327004122683016.html>; Juliane von Reppert-Bismarck and Alexei Anishchuk, "EU Agrees to Back Russia's WTO Entry," *Reuters*, 7 December 2010, available at <http://www.reuters.com/article/2010/12/07/us-eu-russia-wto-idUSTRE6B621R20101207>.

¹²⁹ "Irakli Alasania Suggests Two Preconditions for Gregorian Side to Pose before Russia's WTO Membership," *GHN*, 7 March 2011, available at <http://eng.ghn.ge/news-2848.html>.

¹³⁰ "Targamadze Welcomes Starting of Negotiations on WTO with Russian Federation," *GHN*, 7 March 2011, available at <http://eng.ghn.ge/news-2845.html>.

Abkhazia and South Ossetia in case Russia insists upon rejecting any Georgian presence along that border. This suggestion, modelled under the EU Border Assistance Mission to Moldova and Ukraine (EUBAM), could be an effective and mutually acceptable compromise solution providing transparency of border crossing points in the breakaway regions without assigning Georgian customs officials there. Furthermore, this EU presence should be complemented by the involvement of the World Customs Organisation (WCO). It should be noted that both countries are members of the WCO (Georgia since 1993 and Russia since 1992). The organisation, exclusively focused upon customs matters, aims at promoting international co-operation in this sphere and closely collaborates with Interpol, the United Nations Office for Drug Control and Crime Prevention and the United Nations Security Council's Counterterrorism Committee.

In the field of transportation of energy resources, a new approach for the diversification of the pipeline network should be adopted to substitute the exiting policy based upon the so-called "alternative pipeline" paradigm mentioned earlier in the article. As we all know, the hydrocarbon resources of the Caspian basin are considered as an alternative to the Russian hydrocarbon resources. The same holds true for the pipelines transporting Caspian energy resources to the West bypassing Russia. As well as any prospective pipelines, they are seen as "alternative routes" to those going through Russia. The use of terms like "alternative" somehow conveys the impression that an inherent confrontation between Russia and the rest of the world exists on energy issues.

For example, the so called "pipeline confrontation" perception has been associated with pipelines like Baku-Tbilisi-Supsa (BTS), Baku-Tbilisi-Ceyhan (BTC) and the South Caucasus Pipeline (SCP). In reality, these pipelines carry less than ten percent of the amount of oil that the Russian pipelines transport and less than two percent of the gas that Russia exports.¹³¹ Apparently, these figures call into question whether or not BTS, BTC and SCP can be considered as real "alternatives" to the Russian pipelines in terms of their total transportation capacity. Accordingly, we can come to the conclusion that BTS, BTC and SCP are complementary and by no means "alternative" energy routes to the Russian pipelines. In fact, in order to ensure uninterrupted and consistent supply of energy resources to their consumers, having separate (unconnected) pipeline systems prove extremely important in case of emergency (for example, planned system maintenance or technical issues).

In view of that, *it is necessary to shift from the "alternative pipelines" paradigm to a new one of "complementary pipelines" or even "pipeline harmonisation"* which would imply the establishment of partnership between the parties producing, transporting and consuming energy resources.¹³² The "pipeline harmonisation" model should be based upon achieving consensus and harmonised relations between all stakeholders.

The "pipeline harmonisation" paradigm should be applied to all existing and upcoming or planned pipeline projects such as "White Stream," "Nabucco," "Nord Stream" and "South Stream." All stakeholders should be able to co-operate rather than compete in the construction and operation of pipelines to achieve maximum consumer satisfaction to make the protection of consumer rights and

¹³¹ For more details, please see: Vladimer Papava, Sabit Bagirov, Leonid Grigoriev, Wojciech Paczyński, Marcel Salikhov and Micheil Tokmazishvili, *Energy Trade and Co-operation between the EU and CIS Countries*, CASE Network Reports, No. 83. Warsaw: CASE-Centre for Social and Economic Research, 2009, available at http://www.case.com.pl/upload/publikacja_plik/23703888_CNR_83_final.pdf.

¹³² Vladimer Papava and Michael Tokmazishvili, "Pipeline Harmonisation Instead of Alternative Pipelines: Why the Pipeline 'Cold War' Needs to End," *Azerbaijan in the World*, Electronic Publication of Azerbaijan Diplomatic Academy, Vol. I, No. 10, 15 June 2008, available at <http://www.ada.edu.az/biweekly/issues/150/20090327030535315.html>; Vladimer Papava and Michael Tokmazishvili, "Russian Energy Politics and the EU: How to Change the Paradigm," *Caucasian Review of International Affairs*, Vol. 4 (2), Spring, 2010, available at http://www.criaonline.org/Journal/11/Done_Russian_Energy_Politics_and_EU_How_to_Change_the_Paradigm_by_Vladimer_Papava_and_Michael_Tokmazishvili.pdf.

a smooth and uninterrupted supply of energy resources their key priority. Georgia (alone or in tandem with Azerbaijan¹³³) could take the initiative in facilitating this shift with an active EU and US assistance to persuade Moscow in the soundness and practicability of the “pipeline harmonisation” paradigm.

In conclusion, amongst the considered alternatives, it is the first one—maintaining the *status quo* in the economic relationship between Russia and Georgia—that looks the least advisable. In our opinion, the most preferable solutions in each of the problematic areas include:

- a) Promoting the large Georgian exporters and business associations to spearhead the efforts of Georgia to get back the Russian market for Georgian products.
- b) Involving international organisations (for instance EU), including WCO in the Georgian-Russian WTO talks to achieve Georgia’s consent on Russia’s WTO entry.
- c) Shifting from the perception of “alternative” energy routes to the “pipeline harmonisation” paradigm which is based upon the establishment of partnership between all stakeholders including those extracting, transporting and consuming energy resources.

These policy solutions can be carried out in parallel as they do not represent alternatives to each other. They counter the *status quo* and its impact on the economic relationship between Russia and Georgia for the near future.

RECOMMENDATIONS

Based upon the analysis of the post-Soviet economic relations between Georgia and Russia and their over two decades of history, the major unresolved problems hindering the further development of these relations have been identified. The recommendations set forth for their successful resolution include:

1. To return the Russian market for products of Georgian origin.
2. To find consensus on Russia’s WTO accession which would take into full consideration Georgia’s national interests.
3. To promote co-operation in oil and gas transportation to Europe.

Each of these recommendations should be carried out in parallel. The problems concerning the return of Georgian products to the Russian market should be overcome by the Georgian companies (and their associations) which have lost that market. The Georgian Government should play its part in promoting and not hindering their efforts.

In return for Georgia’s official approval of Russia’s WTO entry, Georgia should demand a more robust international presence from Russia (for example, involvement of EU monitors) including an active participation of the WCO in this process. This, first of all, would require the Georgian Government to ensure the willingness of the international organisations (most importantly the EU’s) to take part in the resolution of the customs issues on the Russia-Abkhazia and Russia-South Ossetia border. In this regard, the Government should start a negotiation process with the authorities at the EU and the WCO.

For the beginning and a resumption of more effective co-operation in the sphere of oil and gas transportation, the shift from the existing perception of “alternative pipelines” to the “pipeline harmonisation” paradigm is of great importance. This paradigm shift is possible only with the

¹³³ Vladimer Papava, “Formation and Development of the ‘Caucasian Tandem,’” *Azerbaijan Focus*, 2009, Vol. 1 (1).

active co-operation of all stakeholders and, above all, the EU and those of its member countries which are direct recipients (or prospective recipients) of oil and gas through Georgia. For this purpose, the Georgian Government should intensify its direct work with these countries as well as with the EU leadership to achieve the needed perception change. No less important is its active co-operation with Washington which has a significant impact on the formation and implementation of energy policy in Eurasia.

FINDINGS

Despite the difficulties and confrontations in Georgian-Russian relations, especially after the August 2008 war, the economic activities between the two countries have not been interrupted. In particular, trade relations (albeit at lower quality) have been sustained and, more importantly, the Russian capital flow and investments in the Georgian economy have continued. The Georgian labour force (as well as labour from other countries of the former Soviet Union) extensively used in the Russian economy continues to remit a significant portion of their income back to Georgia to their families.

Additionally, a number of pressing issues in the economic relations between Georgia and Russia have piled up. Resolution requires special attention. This includes returning Georgian wine and other products of Georgian origin back to the Russian market, finding a consensus to achieve Georgia's consent on Russia's WTO membership and starting effective co-operation in oil and gas transportation to Europe. If the resolution of the first problem should be initiated by Georgian exporters and their associations, the other two issues require an active participation and commitment from the Georgian leadership and the international community with vested interests in this part of the world. Resolving these issues in the format of international organisations, of which Georgia and Russia are both members, can play a significant role in achieving some positive results.