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In Search of Ways for Russian-Georgian Normalization

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COMPARATIVE ANALYSIS OF THE MODELS OF ECONOMIC DEVELOPMENT OF GEORGIA AND RUSSIA

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Summary

This paper investigates the peculiarities of the models of economic development of Georgia and Russia. Taking into account the catch-up effect, the paper shows adjusted economic growth indicators of these countries during the post-Soviet period. Due to the presence of necroeconomy in both countries, the so-called “post-Soviet post-industrialism” is analyzed. The large scale of Russia’s economy has aggravated the issue of necroeconomy more in Russia than in Georgia which manifested in the global financial and economic crisis. It has been shown that both in Georgia and Russia, essentially identical consumer models of development of poor countries have established. In order to transfer to an innovative model of economic development, it is essential to stimulate the interest of the private sector of the economy and, towards this end, the exchange of relevant experience would prove mutually beneficial.

Introduction

The problem of the selection of the model that would ensure sustainable economic development is one of the most relevant issues both for economic theory as well as for economic policy. Unfortunately, it should be noted that the generally accepted model of economic development, based on innovation economics, was gradually supplanted by a model of financial economics,¹ which eventually led to a global financial crisis, escalating into an economic crisis. As a consequence, the modern world, especially due to the financial and economic crisis, continues the search for a new model of economic development.

Not surprisingly, this problem is no less of a concern of the post-Soviet countries for which the focus on an economic model that would ensure sustainable development has been – and remains – one of the most critical in the process of transitioning to a market economy.

In researching the problem of economic relations between Georgia and Russia in the post-Soviet era,² as well as the evolution of these relations,³ especially against the background of the recent Russian-Georgian conflict,⁴ the comparative analysis of existing models of economic development acquires considerable importance.

The *purpose* of the paper is to study the peculiarities of the economic development of Georgia and Russia in the post-Soviet period and compare the prevailing models of economic development in order to identify priority tasks, the resolution of which should facilitate the transition to a new model of sustainable economic development.

Prior to proceeding to the analysis of the models of economic development of Georgia and Russia, it is advisable to consider the dynamics of economic growth in these countries in the post-Soviet

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- 1 A. E. Gorodetsky, “Antikrizisnoe regulirivanie i modeli postkrizisnogo razvitija Rossii [Crisis Management and Post-Crisis Development Model in Russia],” *Ekonomika Ukrainy [The Economy of Ukraine]*, 2013, No. 5, p. 67 (in Russian).
 - 2 E.g., V. Papava, “Post-Soviet Economic Relations between Georgia and Russia: Reality and Development Potential,” in *Russia and Georgia: The Ways Out of the Crisis*, G. Khutsishvili, T. Gogueliani, eds., Tbilisi, ICCN, 2010.
 - 3 V. Papava, “The Evolution of Economic Relations between Georgia and Russia in the Post-Soviet Period: Past Trends and Perspectives,” in *Russia and Georgia: Searching the Way Out*, Tbilisi, GFSIS, 2011, www.gfsis.org/media/download/library/articles/RUSSIA_AND_GEORGIA_SEARCHING_THE_WAY_OUT_English_Publication.pdf.
 - 4 V. Papava, “The Economic Component of the Russian-Georgian Conflict,” *The Caucasus & Globalization*, 2012, Vol. 6, Issue 1.

period which will allow, at least in general terms, for characterizing their economic development in the post-Soviet era.

On the Quantitative Characteristics of Post-Soviet Economic Growth

It is well known that the comparison of the rates of economic growth across countries and regions constitutes one of the problems of measuring economic growth. The essence of the problem is that because of diminishing returns of capital, *ceteris paribus*, in countries with relatively low levels of economic development it is easier to achieve higher growth rates than in countries with more developed economies. In economics, this phenomenon is named the “catch-up effect”⁵ or convergence. Only the leveling of the catch-up effect in economic growth indicators will make it possible to compare the latter, regardless of the levels of development of various countries.

Based on the hypothesis of the proportional overlapping of the catch-up effect, we have developed a method of calculating the rates of economic growth, taking into account the catch-up effect.⁶ This hypothesis is based on the assumption that if the level of economic development of a country is n times higher than the level of economic development of a second country, then achieving the same economic growth rates in the first country will be n times more difficult than in the second. At the same time, gross domestic product (GDP) per capita is utilized as the indicator of economic growth.

The following table (see p.63) presents the World Bank’s economic growth⁷ data and the level of economic development of Georgia and Russia over the period of 1992-2012.

According to the economic growth indicators for Georgia and Russia over the 20-year period of post-Soviet development, in most cases, the situation in Georgia was more favorable (i.e., the growth rate was higher and the rate of recession – lower) than in Russia. In particular, economic growth in Russia exceeded that in Georgia only in seven (1992, 1993, 1999, 2000, 2001, 2004 and 2008) of the 20 years. At the same time, levels of GDP per capita in Russia throughout the entire 20-year period are significantly higher than in Georgia (the lowest figure for Russia exceeded the analogous figure for Georgia by 2.13 times in 1999 and the highest figure – by 5.33 times in 1993).

Consequently, owing to the catch-up effect, achieving better indicators for economic growth in Georgia was easier than in Russia.

The table above provides data for hypothetical economic growth rates in Georgia calculated on the basis of the proportional overlapping of the catch-up effect. Comparing these figures with the figures of actual economic growth rates in Russia, we find that during the review of the 20-year post-Soviet period, in most cases, the situation in Georgia was worse (i.e., the growth rate was lower) than in Russia. In particular, the hypothetical economic growth rates for Georgia are better than the actual economic growth rates in Russia during the early years (1992-1998) after the collapse of the USSR and in 2009. Following these periods, economic growth rates in Russia significantly outperform the hypothetical economic growth rates in Georgia;⁸ in 2009, during the economic and financial crisis, the economic downturn in Georgia at both actual and hypothetical levels was less than that in Russia.

5 N. G. Mankiw, *Principles of Economics*, Mason, Thomson South-Western, 2004, pp. 546-547.

6 V. Papava, “Economic Growth in the Central Caucaso-Asian Countries Adjusted for the Catch-Up Effect” *Central Asia and the Caucasus*, 2012, Vol. 15, Issue 4; V. Papava, “Problema efekta bystrogo starta i prostranstvennoe sravnenie pokazatelei ekonomicheskogo rosta [The Problem of the Catch-Up Effect and Spatial Comparison of Economic Growth (The Case of the Eastern Partnership Countries)],” *Ekonomika Ukrainy [The Economy of Ukraine]*, 2013, No. 1 (in Russian).

7 As is known, in practice, in order to measure economic growth, the rate of increase of real GDP growth is usually employed.

8 On the retrospective analysis of economic growth in Russia see A. Aganbegyan, “O meste ekonomiki Rossii v mire (po dannym o mezhdunarodnom sravnenii valovogo vnutrennego produkta) [On the Place of Russia’s Economy in the World (As per the New Data on the International Comparison of GDP)],” *Voprosy ekonomiki [Issues of Economics]*, 2011, No. 5 (in Russian).

Economic Growth Rates and Levels of Economic Development of Georgia and Russia in the Years 1992-2012

Years	Economic growth rates *		GDP (in US dollars) per capita **		The ratio of the actual economic growth indicators in Georgia to those in Russia	The coefficient of the proportional overlap of the catch-up effect (the ratio of GDP per capita in Russia to that in Georgia)	Hypothetical economic growth rates in Georgia	Ratio of hypothetical economic growth rates in Georgia to the actual economic growth rates in Russia
	Georgia	Russia	Georgia	Russia				
1992	-44,9	-14,5	757	3095	3,10	4,09	-10,98	0,76
1993	-29,3	-8,7	550	2929	3,37	5,33	-5,50	0,63
1994	-10,4	-12,6	517	2663	0,83	5,15	-2,02	0,16
1995	2,6	-4,1	569	2670	-0,63	4,69	0,55	-0,14
1996	11,2	-3,6	670	2651	-3,11	3,96	2,83	-0,79
1997	10,5	1,4	775	2749	7,50	3,55	2,96	2,11
1998	3,1	-5,3	805	1844	-0,58	2,29	1,35	-0,26
1999	2,9	6,4	629	1339	0,45	2,13	1,36	0,21
2000	1,8	10	692	1775	0,18	2,57	0,70	0,07
2001	4,8	5,1	734	2101	0,94	2,86	1,68	0,33
2002	5,5	4,7	779	2375	1,17	3,05	1,80	0,38
2003	11,1	7,3	922	2976	1,52	3,23	3,44	0,47
2004	5,9	7,2	1187	4109	0,82	3,46	1,70	0,24
2005	9,6	6,4	1470	5337	1,50	3,63	2,64	0,41
2006	9,4	8,2	1765	6947	1,15	3,94	2,39	0,29
2007	12,3	8,5	2318	9146	1,45	3,95	3,12	0,37
2008	2,3	5,2	2920	11700	0,44	4,01	0,57	0,11
2009	-3,8	-7,8	2441	8616	0,49	3,53	-1,08	0,14
2010	6,3	4,5	2614	10710	1,40	4,10	1,54	0,34
2011	7	4,3	3220	13284	1,63	4,13	1,70	0,39
2012	6	3,4	3508	14037	1,76	4,00	1,50	0,44

* GDP growth (annual %), *The World Bank*, 2013, online at <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>

** GDP per capita (current US\$), *The World Bank*, 2013, online at <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

In summary, it can be concluded that overall, the economy in Georgia grew faster during the period of 1992-1998 than the economy of Russia and beginning in 1999 (with the exception of recessionary 2009), Russian economic growth has been significantly superior to the economic growth in Georgia.

In order to understand the reasons behind these indicators of economic growth, it is necessary to understand the qualitative characteristics of the economy of the post-Soviet period.

On the Features of “Post-Soviet Industrialism”

Unlike the conventional content (which has already become classic) of the concept of “post-industrial society,”⁹ the deindustrialization of post-communist countries, with some irony, could qualify

9 E.g., D. Bell, *The Coming of Post-Industrial Society: A Venture in Social Forecasting*, New York, Basic Books, 1976; V. L. Inozemtsev, ed., *Novaija postindustrial'naija volna na Zapade [New Wave of Post-Industrial West: An Anthology]*, Moskva, «Academia,» 1999 (in Russian); F. Block, *Postindustrial Possibilities: A Critique of Economic Discourse*, Berkeley, University of California Press, 1990.

as «ugly post-industrialism» and, rather, as «post-Soviet, post-industrialism.»¹⁰ The fact is that in these economies, the decrease in the share of industry was not due to the growth of high-quality innovative services but, rather, an immediate decline in industrial production, in some cases, in the absence of any significant development services of the aforementioned nature.

As is known, following the collapse of the Soviet Union, the large-scale deindustrialization of the Russian (and the entire post-Soviet) economy took place, resulting in many sectors and industrial enterprises (which had laid the foundation for the Soviet economy) being lost.¹¹

The reason for this was the phenomenon of «necroeconomy» which combines so-called dead enterprises (because of the inability to produce competitive goods) and is the result of the negation of competition in a command economy.¹² Naturally, necroeconomy in itself does not exist in a healthy market economy system since the operation of non-competitive enterprises leads to the impossibility to sell their products, resulting in the insolvency of these enterprises, which ultimately leads to their bankruptcy.

Due to the fact that necroeconomy was conceived in the bowels of the command economy and the post-Soviet experience of transition to a market economy has shown that the process of this transition could not rid the economy of the dead enterprises, the established societal system can be described as post-communist capitalism.¹³

As recorded in the first years after the collapse of the USSR, the economic downturn both in Georgia and Russia (see table) was largely determined by the necroeconomy. In particular, potentially dead enterprises, while continuing to operate in the non-existent mode of command economy, led to their warehouses being loaded with non-competitive goods; the impossibility, in principle, of their sale resulted in the accumulation of nonpayment of wages, bad debts to the national budget, social funds, the energy sector and other enterprises. This gave rise to a tangled web of mutual debts of enterprises.¹⁴

The absence in the post-communist (and not only) countries of effective bankruptcy legislation,¹⁵ as well as a lack of the political will of the respective governments to adopt and engage a capable of functioning bankruptcy law, led to the preservation of the dead enterprises.

Due to social instability from the very beginning of the transition to a market economy, there was a danger of mass bankruptcy of Russia as a result of which Russian bankruptcy legislation was practically inapplicable.¹⁶ In turn, state aid to enterprises of the necroeconomy allowed them to continue

10 The new phenomenon of “post-socialist post-industrialism” is described in the article by A. E. Gorodetsky, “Antikrizisnoe regulirivanie i modeli postkrizisnogo razvitija Rossii [Crisis Management and Post-Crisis Development Model in Russia],” No. 5, p. 68.

11 E.g., A. E. Gorodetsky, “Antikrizisnoe regulirivanie i modeli postkrizisnogo razvitija Rossii [Crisis Management and Post-Crisis Development Model in Russia],” No. 4, p. 72.

12 V. Papava, “Nekroekonomika – fenomen poskommunisticheskogo perekhodnogo perioda [Necroeconomics – A Phenomenon of the Post-Communist Transition Period],” *Obshchestvo i ekonomika [Society and Economics]*, 2001, No. 5 (in Russian); V. Papava, “Necroeconomics – The Theory of Post-Communist Transformation of an Economy,” *International Journal of Social Economics*, 2002, Vol. 29, No. 9-10; V. Papava, *Necroeconomics: The Political Economy of Post-Communist Capitalism*, New York, iUniverse, 2005.

13 V. Papava, T. Beridze, *Ocherki politicheskoi ekonomii postkommunisticheskogo kapitalizma (Opyt Gruzii) [Essays on the Political Economy of Post-Communist Capitalism (The Experience of Georgia)]*, Moskva, “Delo i Servis,” 2005 (in Russian).

14 E.g., A. Åslund, *Rossija: Rozhdenie rynochnoi ekonomiki [Russia: The Birth of a Market Economy]*, Moskva, Republic, 1996, pp. 256-264 (in Russian); A. Åslund, *Building Capitalism: The Transformation of the Former Soviet Bloc*, Cambridge, Cambridge University Press, 2002, pp. 244-248, 328-330, 333-337.

15 E.g., S. Claessens, S. Djankov, A. Mody, eds., *Resolution of Financial Distress: An International Perspective on the Design of Bankruptcy Laws*, Washington, D.C., World Bank, 2001.

16 B. Sokolin, *Krizisnaja ekonomika Rossii: Rubezh tysiachalennii [Crisis Economics in Russia: Millennial Frontier]*, Sankt Peterburg, Liki Rossii, 1997, p. 168.

their operation.¹⁷

Although in Georgia, in the absence of effective bankruptcy laws, there have also been attempts by the government to maintain the necroeconomy but the liberalization of foreign trade policy,¹⁸ coupled with the scarcity of public resources, led to an actual shutdown of many dead enterprises.¹⁹

It should be noted that the difference in approaches to government support of necroeconomic enterprises in Georgia and Russia mostly stemmed from the fact that the Georgian state, unlike Russia, possessed significantly limited financial resources, including for the purpose of maintaining these dead enterprises.

However, in times of the absence of crises in large countries (such as Russia), the problem of necroeconomy is less acute than in relatively small countries (such as Georgia), since necro-enterprises, due to the large scale of their economy, with government support, have the opportunity to compete amongst themselves²⁰ which creates the illusion of the absence of necroeconomy. In small countries, the problem is more acute since for many necro-enterprises there are simply no other analogues within the country.²¹

Because of the relatively smaller-scale necroeconomy in 2009; i.e., in the midst of the global financial and economic crisis, the downturn in the economy of Georgia, compared with the decline in Russia (see table), was much more moderate. This is not surprising since it is in the conditions of financial and economic crisis that necroeconomy makes itself felt via a significant decline in industrial production caused by a moral depreciation of plant of necroeconomic firms concentrated in industry.²²

It must be emphasized that in the context of the global financial and economic crisis, measures taken by the governments of Georgia and in Russia²³ did not substantially differ from those that were commonly used in post-communist countries,²⁴ as well as throughout the world,²⁵ and are based on

17 B. Lindsey, *Against the Dead Hand: The Uncertain Struggle for Global Capitalism*, New York, John Wiley & Sons, 2002, pp. 126, 153; A. Shleifer, D. Treisman, *Without a Map: Political Tactics and Economic Reform in Russia*, Cambridge, MIT Press, 2000, pp. 106-107.

18 E.g., V. Papava, T. Beridze, "Industrial Policy and Trade Regime in Georgia," *Eurasian Studies*, 1996/1997 Vol. 3, No. 4.

19 V. Papava, M. Tokmazishvili, "Necroeconomic Foundations and the Development of Business in Post-Revolution Georgia," *The Caucasus & Globalization*, 2007, Vol. 1 (4).

20 E.g., M. Schaffer, B. Kuznetsov, "Productivity," in *Can Russia Compete?*, R. M. Desai, I. Goldberg, eds., Washington, D.C., Brookings Institution Press, 2008.

21 E.g., V. Papava, M. Tokmazishvili, "Necroeconomic Foundations and the Development of Business in Post-Revolution Georgia."

22 A. Illarionov, "Noijabr'skii spad promyshlennogo proizvodstva – Katastrofa, kotoraija usugubljaetsija leistvijami vlastei [The November Decline in Industrial Production – A Disaster Compounded by the Authorities' Actions]," *Institut ekonomicheskogo analiza [Institute of Economic Analysis]*, www.iea.ru/macroeconom.php?id=14 (in Russian); A. Illarionov, "Eto – katastrofa. Bespretsedentnyi promyshlennyi spad noijabrija [This is a Disaster. Unprecedented Industrial Decline in November]," *Institut ekonomicheskogo analiza [Institute of Economic Analysis]*, www.iea.ru/econom_rost.php?id=26 (in Russian).

23 V. Papava, *The Economic Development Complex in the Black Sea Area: The Impact of the Global Financial and Economic Crisis*, Xenophon Paper, No. 9, Athens, ICBS, 2010, pp. 45-48, 54-58, http://icbss.org/media/113_original.pdf.

24 E.g., V. Papava, "Problema zombirovanija poskommunisticheskoj nekroekonomiki [The Problem of Zombification of the Post-communist Necroeconomy]," *Vestnik Instituta Kennana v Rossii [The Kennan Institute Bulletin in Russia]*, 2009, Issue 15 (in Russian), www.kennan.ru/index.php/kennan/content/download/1348/7622/version/3/file/Vestnik_15.pdf; V. Papava, "Economy of the Post-Communist Capitalism under the Financial Crisis," *Studies in Economics and Finance*, 2010, Vol. 27, No. 2; V. Papava, "Post-Communist Capitalism and Financial Crisis or the Mixing of the Necroeconomics and the Zombie-Nomics," *Georgian International Journal of Science and Technology*, 2010, Vol. 2, Issue 1; V. Papava, "The Problem of Zombification of the Post-communist Necroeconomy," *Problems of Economic Transition*, 2010, Vol. 53, No. 4.

25 E.g., C. Harman, *Zombie Capitalism. Global Crisis and the Relevance of Marx*, Chicago, Haymarket Books, 2010; Y. Onaran, *Zombie Banks. How Broken Banks and Debtor Nations are Crippling the Global Economy*, Hoboken, John Wiley & Sons, 2012; J. Quiggin, *Zombie Economics. How Dead Ideas Still Walk Among Us*, Princeton, Princeton University Press, 2010.

the Japanese miserable experience of the zombie economy;²⁶ i.e., the preservation of non-competitive firms that have turned into such due to the crisis. The difference between these countries was only in the scale of state support to firms on the verge of bankruptcy.

On the Consumer Model of Economic Development of Poor Countries

In describing the current model of economic development of Georgia and Russia, it is necessary to emphasize that despite the fact that there are significant differences between them, these models are largely similar. Let us consider the models separately.

Georgia's Model. While referring to the pattern of economic development in Georgia, it must be highlighted that for over 20 years of independent statehood, the issue of choosing a path of development has always remained topical for Georgia.²⁷

The current model of economic development of modern Georgia, unfortunately, is based not so much on production growth but, rather, on **stimulating consumption**.

Stimulating consumption without proper development of real economy has led to the fact that in recent years, import has been three times greater than export.²⁸

The focus of the Georgian economy on consumption, rather than on production, is also evidenced by the fact that the total volume of private and public consumption equals approximately 90% of GDP.²⁹

With the relative backwardness of production, growth in consumption is ensured due to the inflow of funds from abroad: in the first years after the Rose Revolution, this was primarily carried out through foreign direct investment (FDI)³⁰ and remittances to Georgian citizens conducted by their relatives living abroad.³¹

As a rule, FDI was accumulated in real estate which generally created additional financial resources within the country. This financial resource, incoming mainly via the banking system, contributed to the growth of residential construction which, in the absence of proper government regulation, progressed into the well-known «financial pyramid» or «Ponzi scheme.»³²

After regaining independence, many residents of Georgia left the country for one reason or another. To date, about 20% of Georgia's population (more than one million people) reside abroad (of which two-thirds are located in Russia).³³ The size of remittances just through banking channels annually exceeds USD 1 billion.³⁴ These funds are usually used for the purchasing of essential goods.

Following the onset of the global financial and economic crisis, FDI inflows to Georgia fell sharply.

26 E.g., A. G. Ahearne, N. Shinada, "Zombie Firms and Economic Stagnation in Japan," *International Economics and Economic Policy*, 2005, Vol. 2, No. 4; T. Hoshi, "Economics of the Living Dead," *Japanese Economic Review*, 2006, Vol. 57, No. 1; T. Hoshi, A. K. Kashyap, "Solutions to Japan's Banking Problems: What Might Work and What Definitely will Fail," in *Reviving Japan's Economy: Problems and Prescriptions*, T. Ito, H. Patrick, D. E. Weinstein, eds., Cambridge, MIT Press, 2005; D. C. Smith, "Loans to Japanese Borrowers," *Japanese International Economics*, 2003, Vol. 17, No. 3.

27 E.g., T. Beridze, "The National Economic Model and Globalization (the Case of Georgia)," in *Georgia in Transition*, L. King, G. Khubua, eds., Frankfurt am Main, Peter Lang, 2009; K. Gogolashvili, "In Search of Georgia's Economic Model," *South Caucasus—20 Years of Independence*, Tbilisi, Friedrich-Ebert-Stiftung, 2011, <http://library.fes.de/pdf-files/bueros/georgien/08706.pdf>; I. Samson, "The Search for a Development Path: Challenges for Georgia," *Georgian Economic Trends*, 2006, No. 4, March.

28 External Trade, *National Statistics Office of Georgia*, 2013, geostat.ge/index.php?action=page&p_id=137&lang=eng.

29 E.g., I. Samson, "Medium-Term Prospects for the Georgian Economy," *Georgian Economic Trends*, 2008, February, p. 73.

30 E.g., M. Schmidt, "Foreign Direct Investment to Georgia: Can Active Investment Promotion Policies Make a Difference?," *Georgian Economic Trends*, 2007, January.

31 E.g., M. Kakulia, "Labour Migrants' Remittances to Georgia: Volume, Structure and Socio-Economic Effect," *Georgian Economic Trends*, 2007, October.

32 V. Papava, *The Economic Development Complex in the Black Sea Area: The Impact of the Global Financial and Economic Crisis*, p. 46.

33 I. Samson, "Medium-Term Prospects for the Georgian Economy," p. 74.

34 Data on remittances published on the website of the National Bank of Georgia: <http://nbg.gov.ge/index.php?m=306&lng=eng>.

This was also facilitated by the Russia-Georgia war in August 2008. At the same time, Georgia, as the aggrieved party in the war, was offered financial assistance in the amount of USD 5.8 billion³⁵ by the international community. This, for its part, ensured the possibility to preserve the consumerist nature of economic development of the country, not to mention the fact that the effects of the global financial and economic crisis were relatively tolerable for Georgia.

Orientation towards consumption with an underdeveloped real sector of the economy in Georgia led to the fact that 40% of the population found themselves below the poverty line.³⁶ According to estimates, 86% of the population experience serious social problems.³⁷

Thus, *the modern model of economic development of Georgia is the consumer model of the development of poor countries.*³⁸

Russia's Model. The issue of selecting a model of economic development has been and remains topical for Russia.³⁹

As is known, the economic success of post-Soviet Russia is mainly determined by the extraction and export of hydrocarbon resources.⁴⁰ The Russian economy was jokingly termed a «pipe economy.»⁴¹ Despite the fact that, especially in the pre-crisis period, the economic policy of the Russian government relied on the oil and gas industry, this sector of the Russian economy, as well as the whole real sector of economy, was in a state of conservation of deep technological backwardness.⁴²

In 2008 (when oil prices remained high and continued to rise), the government developed a concept of long-term socio-economic development of Russia until 2020 which was based on a more sustainable model of growth by stimulating innovation with the purpose of decoupling economic growth from the level of production of raw materials.⁴³ The implementation of this concept was primarily prevented by the onset of the global financial and economic crisis.

Enormous sums, accumulated in the Russian stabilization fund during the pre-crisis years of 2000-2008, were purposefully used to prevent the collapse of the banking system and the stock market which, at the same time, helped to preserve the priority of the fuel and raw materials sector in the structure of the Russian economy, aggravating its technical and technological backwardness.⁴⁴

According to studies conducted by the Institute of Economy of the Russian Academy of Sciences, within the Russian GDP structure there was a steady trend of a negative correlation of the volume

35 V. Papava, "Post-War Georgia's Economic Challenges," *Central Asia-Caucasus Analyst*, 2008, Vol. 10, No. 23, November 26, www.cacianalyst.org/?q=node/4991.

36 E.g., I. Meskhia, "Living Standards and Poverty in Georgia," *Georgian Economic Trends*, 2008, May, p. 57.

37 E.g., D. Giorkhelidze, "Sotsial'noe polozhenie: Sushchestvuiushchie problemy [Social Status: Existing Problems]," *Kavkazskii aktsent [Caucasian Accent]*, 2010, No. 10, p. 40 (in Russian).

38 V. Papava, "Ekonomika Gruzii: V poiske modeli razvitiia [Georgia's Economy: In Search of a Model of Development]," *Mir peremen [A World of Change]*, 2013, No. 3, pp. 51-53 (in Russian); V. Papava, *The Main Challenges of 'Post-Rosy' Georgia's Economic Development*, Expert Opinion, No. 4, Tbilisi, GFSIS, 2013, www.gfsis.org/media/download/library/articles/Expert_Opinion_ENG_4.pdf.

39 E.g., A. Illarionov, "Modeli ekonomicheskogo razvitiia Rossii [The Model of Economic Development of Russia]," *Voprosy ekonomiki [Issues of Economics]*, 1996, No. 7 (in Russian); D. Sorokin, "O strategii razvitiia Rossii [On Russia's Development Strategy]," *Voprosy ekonomiki [Issues of Economics]*, 2010, No. 8 (in Russian); S. Dobryshevsky, S. Sinelnikov-Murylev, "Makroekonomicheskie predposylki realizatsii nvyi modeli rosta [Macroeconomic Preconditions of the Realization of a New Growth Model]," *Voprosy ekonomiki [Issues of Economics]*, 2012, No. 9 (in Russian); E. Yasin, N. Akindinova, L. Jakobson, A. Yakovlev, "Sostoitija li novaija model' ekonomicheskogo rosta v Rossii [Is the New Model of Economic Growth Feasible in Russia?]," *Voprosy ekonomiki [Issues of Economics]*, 2013, No. 5 (in Russian).

40 E.g., "Ekonomicheskii obzor OESR po Rosiiskoi Federatsii, 2009 god [OECD Economic Survey of the Russian Federation, 2009]," *Voprosy ekonomiki [Issues of Economics]*, 2009, No. 8, pp. 54-56 (in Russian).

41 E.g., A. E. Gorodetsky, "Antikrizisnoe regulirivanie i modeli postkrizisnogo razvitiia Rossii [Crisis Management and Post-Crisis Development Model in Russia]," No. 4, p. 69.

42 E. Gurchich, "Neftegazovaija renta v rossiisoi ekonomika [Oil and Gas Rents in the Russian Economy]," *Voprosy ekonomiki [Issues of Economics]*, 2011, No. 11 (in Russian).

43 "Ekonomicheskii obzor OESR po Rosiiskoi Federatsii, 2009 god [OECD Economic Survey of the Russian Federation, 2009]," p. 56.

44 A. E. Gorodetsky, "Antikrizisnoe regulirivanie i modeli postkrizisnogo razvitiia Rossii [Crisis Management and Post-Crisis Development Model in Russia]," No. 4, p. 70.

of savings and investments in fixed assets while the share of savings in Russia's GDP did not exceed 20% (which lags behind similar indicators, for instance, in Belarus, India, Kazakhstan, China, South Africa and Brazil).⁴⁵

The technological and structural backwardness of the Russian economy has formed a model of economic development that is categorized as the **consumerist model of development**.⁴⁶

It is also essential to emphasize that according to research conducted by the Institute of Sociology of the Russian Academy of Sciences, nearly every third resident of Russia is virtually poor; i.e., in actuality, 30% of Russia's population belongs to the disadvantaged group rather than the 9% that is recognized officially.⁴⁷ At that, it is significant to note that the Russian type of poverty is characterized by a concentration of poor population in rural areas which, as a rule, is attributable to Third World countries.⁴⁸

Summing up, it can be concluded that the modern *model of economic development in Russia is the consumer model of the development of poor countries*.

Conclusions and Recommendations

Economic growth in the post-Soviet period, both in Georgia and in Russia, was characterized by unevenness. By taking into account the catch-up effect, one can come to the conclusion that Georgia's economy grew faster than the economy of Russia during the period of 1992-1998 and since 1999 (except for the crisis of 2009), economic growth in Russia was significantly superior to the growth of Georgia's economy.

In the post-Soviet period, both in Georgia and in Russia, there emerged a specific phenomenon of "post-Soviet post-industrialism," the basis for which is necroeconomy; i.e., non-competitive enterprises preserved since the era of the command economy. Prior to the global financial and economic crisis, in Russia, as a country with a large-scale economy, the problem of necroeconomy was felt less acutely than in Georgia with its significantly smaller economy because due to the large scale of the economy, with government assistance, necro-enterprises have the opportunity to compete with each other creating the illusion of a lack of necroeconomy. At the same time, in small countries, this problem is more acute since for necro-enterprises there are simply no other analogues within the country. On the other hand, the larger-scale presence of necro-enterprises in the Russian economy led to a more significant economic slowdown in the crisis year of 2009 than in Georgia.

To date, both in Georgia and in Russia, there is a so-called "cartoon version of the consumerist society"⁴⁹ as both countries have developed a consumer model of economic development of poor countries.

To create objective conditions for sustainable economic development, both countries need to rid themselves of necroeconomy since the more a country lags behind advanced technological achievements, there is little chance that increased competition within the country will accelerate the latter's economic development through ensuring high economic growth rates.⁵⁰

In turn, in order to dispose of dead enterprises (a problem that is much more acute for Russia than

45 *Ibid.*, p. 75.

46 *Ibid.*

47 *Bednost' i neravenstvo v sovremennoi Rossii: 10 let spustija. Analiticheskii doklad [Poverty and Inequality in Modern Russia: 10 Years Later. Analytical Report]*, Moskva, Istitut Sotsiologii RAN [Institute of Sociology of the Russian Academy of Sciences], 2013, p. 159, www.isras.ru/files/File/Doklad/Analit_doc_Bednost/full.pdf (in Russian).

48 E. V. Balatsky, "Bednost' i neravenstvo v Rossii [Poverty and Inequality in Russia]," *Kapital strany [Capital of the Country]*, 2010, 17 December, www.kapital-rus.ru/index.php/articles/article/180796 (in Russian).

49 A. E. Gorodetsky, "Antikrizisnoe regulirivanie i modeli postkrizisnogo razvitija Rossii [Crisis Management and Post-Crisis Development Model in Russia]," No. 4, p. 75.

50 O. Golichenko, "Modeli razvitija, osnovnogo na difuzii tekhnologii [Models of Development Based on Technology Diffusion]," *Voprosy Ekonomiki [Issues of Economics]*, 2012, No. 4, p. 121 (in Russian).

Georgia), it is essential to make use of bankruptcy legislation.

In order to transfer from the consumer model of economic development of a poor country to an innovative model, it is vital to pique the interest of the entrepreneurs themselves since solely government efforts in this regard will render very limited results which, at best, will be used by foreign partners and competitors.⁵¹

Thus, economic policies must be constructed to encourage (including by means of tax incentives) a private sector-oriented innovative type of economic growth.⁵² And towards this end, the exchange of experience between Georgia and Russia can be substantively rewarding.

51 D. Sorokin, "O strategii razvitija Rossii [On Russia's Development Strategy]," p. 32.

52 In this context, it is especially attractive for Georgia to obtain a free trade regime with the EU and the U.S. The fact is that without the technological renovation of the Georgian economy, production of competitive goods, for which there is demand in the EU and the U.S., will be impossible (V. Papava, "Ekonomika Gruzii: V poiske modeli razvitija [Georgia's Economy: in Search of a Model of Development]," pp. 53-56; V. Papava, *The Main Challenges of 'Post-Rosy' Georgia's Economic Development*, pp. 7-9).