

## GEORGIA'S CHOICES

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**MODERATOR:**

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**SPEAKER:**

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**DISCUSSANT:**

**William Courtney,**

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[00:12:48]

JAMES F. COLLINS: Ladies and gentlemen, for those who aren't yet in the room, could you find a seat. There are a few up front. Please don't hesitate; I know it's always the idea to sit in the back row, but –

Well, I am honored today to – I've been asked to chair this session about a new paper that Carnegie has just issued. And our topic is Georgia. And Georgia seems to attract a large interest in this town. And I'm very pleased to see this kind of a turnout for this event, really, for two reasons: one, I think Georgia for all of us is a country and a people that have, in many ways, captured the imagination of America. America has a developing and a really rapidly developed relationship with the government and the people of Georgia.

And I'm pleased that we have today Tom de Waal, who is our own senior associate who focuses his research and work on the Caucasus, and has just published the book that you have in hand. Tom has written extensively on the Caucasus; his most recent book, indeed, is, I think, required reading for almost anyone who thinks he knows about the Caucasus, or who wants to know about the Caucasus because it is one of the best introductions to the topic, and the subject of an interesting part of the world that has become very important to the United States over the last couple of decades.

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He is also well-known as the author of a book on the Karabakh conflict called “Black Garden: Armenia and Azerbaijan through Peace and War” that was published in 2003.

Tom will be giving a presentation on his book. I'll say a word or two in a moment about my own thoughts as he begins.

We're also very honored to have Bill Courtney with us. Bill is a former colleague in the State Department. He was our first ambassador to Kazakhstan, and then he was ambassador to Georgia. And after that, he became sort of “multilateral man,” I think, for a time where he worked on the Istanbul summit for the OSCE and on a variety of other multilateral issues at State Department before retiring in 2003. And so we are pleased that he has agreed to be our commentator on Tom's report.

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I would only say a word or two about the context for this report. First, we are at the moment in time where we're beginning the two-decade anniversary of the dissolution of the Soviet Union, the end of the communist system in Eurasia, the emergence of a wholly new group of states which were old cultures but all new governments.

I was privileged to be around at the moment that this happened, and I worked with people like Bill Courtney and others as America began the process of developing a relationship with people who before had only been some – (unintelligible) – province of a larger state, the Soviet Union. And one of the great challenges of the 1990s, it seems – it seemed to me – was the development of initial relationships with 15 new governments, including the Russian government.

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What we have, though, after two decades is a reality that new states have been established; they now have their own governments; they have their constitutions; they have taken a variety of paths over the last two decades in development. And none has been more, I think, interesting, inspiring in many ways, and more a matter of interest to the American people than the way Georgia has developed over these two decades.

The book that you – booklet that Tom has produced is now an attempt to look at what Georgia has as some of its decisions at this time, two decades into its independent history. As Tom and I were talking, he said that he thought it was important also to note what this book isn't about. It's not about geopolitics; it's not about the conflicts; it's not about Russia. This is a book about decisions that Georgians themselves have to make going forward to shape their society, and it's a bit about what outsiders – what role outsiders can play in that process.

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But fundamentally, it focuses on the question of, what do Georgians have to decide for themselves? And I think that's a very useful perspective, and one that I hope you will find important as Tom describes it.

So Tom, I'm not going to say more. I would like to turn the floor over to you.

THOMAS DE WAAL: Thank you very much, Jim. And thank you very much, Bill, for being here today. One of the bad choices we made was not to provide enough khachapuri. I apologize to those of you who didn't get a slice, but this was supposed to be an initial Georgian theme today.

But this report has been several months in the making, and I'd like to thank all my Carnegie colleagues, but two in particular – one Jane Kitaevich from Tbilisi who's been our junior fellow, who is actually – (chuckles) – stuck coming back from New York; she may make it before the end of the event too – did all the research – no, did a lot of the research on the report. And also Ilonka Oszvald who – I think it's a tremendous product, and I think is a real tribute to Carnegie's publications department, the way it's turned out.

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As Jim said, this report is about Georgia. I deliberately didn't want to talk about what are very real issues for Georgia in its foreign policy and in its geopolitical-orientation conflicts. So I hope we can steer away from those subjects in the discussion today.

I don't even particularly talk about even the electoral system debates about the constitution; I'm trying to take a kind of longer-term view – Georgia's longer-term development model. And six months ago, I thought I was – basically, this was a kind of rather – a virgin theme, but actually since then, there have been some reports covering the same territory. So I'm in quite good company: International Crisis Group; Neil MacFarlane has written a report; Transparency International has written on this. But I think – hopefully, I've given a new perspective here.

Georgia is entering a period of transition in 2012, 2013, such that finally, almost 10 years after the Rose Revolution, it's getting into a post-revolutionary phase. And it's time to make choices, therefore, about its longer-term future.

I think – one of the problems I identify is that the governing elite in Georgia, still rather having come to power as the result of a peaceful revolution, is still thinking rather in revolutionary mode, and not having – particularly having a debate on the longer-term future of the country.

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And Georgia has many different choices, which is to its credit. Nothing in its history predetermines what choice it will make because it's a country of many influences. But I suppose my central argument, that is it's time to take the option of greater integration with the EU, which of course does not in the moment involve the membership perspective more seriously – and correspondingly, I think it's time for the EU to step up a bit and make a better case to Georgia about what it has to offer.

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But as I say, Georgia does have choices. That's not something which can be said of some of its neighbors. I think places like Russia and Azerbaijan definitely seem to be set on more of the same. The fact that Georgia does have choices is a positive development. But as one diplomat in Tbilisi said to me, at the moment, it does look a bit as though they're taking what he called the "Yogi Berra" strategy, which is, if you see a fork in the road, take it – (laughter).

So it's all about state building. And just a reminder how far we've come, this is Georgia in, I think, at about 1992. This is the Mkhedrioni militia. Georgia entered – it gained independence in 1991, in possibly the worst situation of all the post-Soviet republics: in a state of complete chaos. It really was a failed state under its first president, Zviad Gamsakhurdia – more like Somalia than like Soviet Georgia.

It was to the credit of Eduard Shevardnadze that he came back and he basically pulled it out of that failed-state status. He tamed the warlords; Georgia became, you know, a normal place to live. At least people weren't afraid of being shot on the street. He made a proto-state.

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But definitely, Georgia from that weak state made a step forward in 2004. This is the inauguration of Mikheil Saakashvili, and an occasion full of symbolism – the day before his inauguration, he went to the tomb of David the Builder, the 12<sup>th</sup>-century king in western Georgia, transmitting the message, I am building a new Georgia. And you can see all the medieval symbolism, including in the new flag of Georgia, in that picture.

And indeed, in the first few years, Georgia really was – of Saakashvili, Georgia really was a remarkable success story. It really did start – become a functioning state. The budget increased eightfold; there were some dramatic steps against corruption, which have endured to this day – sacking the whole traffic police, for example, eliminating corruption in the traffic police at a stroke.

Some very dramatic improvements – I could also mention customs, taking down trade barriers; really, a very dramatic state-building project in the first few years. However, it was done in a rather improvised manner with little institution building by a small group of individuals.

Since 2004, Georgia has had five prime ministers, six finance ministers, six foreign ministers, seven defense ministers, which I think shows you how the government has been rather a revolving door of different personalities.

And then, of course, we came to the near-death experience of 2008 war with Russia, and an experience that President Saakashvili, with some luck and much skill, has endured and is still in power, and is indeed the most – still the most popular politician in Georgia. But I think he also benefited, it has to be said, from a slice of international luck. This is September 2008 the \$4 billion aid package to Georgia, which came after the war, was approved just weeks before the financial crash and the collapse of Lehman Brothers, which I think – I doubt international donors

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would have been quite so generous even a month later. And that has helped sustain Georgia, stabilize Georgia since the August 2008 war.

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But this year, I think we're beginning to see some definite problems in the economy. The economy, economic model that served Georgia quite well up until 2008 is no longer functioning so well. Many of you will have seen the ads in *The Economist* or the *FT* about Georgia being the world's number-one reformer. I think the timing, I'm afraid, is very wrong for those ads. A few years ago, they may have had some – might have had some justification; now they're very misleading.

Let me show you the FDI figures for Georgia. And you see this dramatic improvement after the Rose Revolution in 2003; 2005, it already tops a billion dollars; two thousand and – sorry, 2006, 2007, tops \$2 billion. Up until the August war, again, very healthy figures. And now, since then, we've seen a dramatic decline in foreign direct investment. This is important because Georgia's economic model very much relies on economic – external economic stimulus on FDI, on privatization, on foreign assistance. Imports in Georgia outweigh exports by 4 to 1.

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And we're now seeing some of the problems which have been there, but which are now more stark in 2011 – in 2011, particularly, a failure to create jobs. The World Bank back in 2009 said that the reforms meant that job destruction surpassed job creation in Georgia.

We're seeing businesses complain of harassment by the tax police. Georgia could be one of the few places in the world when you talk to businessmen, they say, we would actually welcome higher taxes if it let the tax police off our back. Because there's this practice of what some people call parallel tax collection, the tax police shaking down businesses, charging them fines often for quite small offenses. And in the report I mention one wine business which was actually targeted just before the harvest began last year.

We've seen also the case which I also write about in the report of the Israeli businessman Rony Fuchs, who was awarded \$100 million with his partner in an arbitration award for a contract dating back to the 1990s, seems to have offered a bribe to Georgian officials but in any case was arrested when he arrived in Tbilisi last year, and is now serving a jail sentence. Possibly on the letter of the law – quite probably on the letter of the law, Fuchs was guilty, but certainly the fact that the Georgians invited and then arrested someone they owed \$100 million to has sent out, I think, the wrong signal to international business – (laughter).

So I think this underlines that there's still a long way to go with Georgia even though a foundation has definitely been built. This is the GDP – just to give you a sense of where we are, this is the GDP per capita in Georgia. It's risen, but it's still, for example, behind Armenia and Ukraine, let alone Azerbaijan which obviously has oil wealth – ahead of only Moldova when we're looking at its neighbors.

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And this year, we've seen inflation up. It's now about 14 percent. Food inflation is particularly bad; it's about 30 percent – again, I think a symptom of the fact that most of Georgia imports most of its food.

Now, if we look at – this is a table; I don't know how well most of you can see it. It's in the book as well – about Georgians being asked in April 2010, July 2010 and March 2011 what were the most important issues for them.

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And I think it's striking that in the top – of the top seven issues, six are actually economic. And we can see that the issue of territorial integrity is falling. Jobs is, by far, the most important issue to Georgia, Georgians; rising prices now named by 39 percent of people. So we can see that really – and poverty also rising as an issue. I think we can see that economic problems really are the number-one issue for Georgians, something we should really bear in mind as we – most of us look at Georgia through the prism of international affairs, geopolitics and so on.

Poverty – now, I think this really cannot be underlined enough, that Georgia – many people have done well the last few years, but poverty remains really a very serious problem. In another poll in November 2010, 25 percent of respondents said they didn't have enough money for food; 42 percent said they had enough money for food, but not clothes. So I think this is the context against which some successes are being made. But poverty remains deeply entrenched.

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Poverty is also very localized in Georgia, and particularly in the east and northeast of the country, around half the population is in poverty by the World Bank's indicators. I think we hear a lot about Batumi, and the success of building Batumi down on the Black Sea coast in the southwest. But up in the northeast, Georgia is particularly badly hit by poverty.

And this brings me to the problem of agriculture. And I think this is the great – really, the great failure of the Saakashvili administration, that agricultural production has actually gone down; cultivated land has declined by about half since the Rose Revolution. Wheat production has dropped by more than half. Agriculture – and more than half of Georgians live on the land, and yet agriculture only constitutes 9 percent of GDP, and last year it was only 1 percent of the budget. In fact, twice as much money was actually spent on prisons as was spent on agriculture in 2010.

I traveled to Kakheti in this report, Georgia's famous wine-growing region in the east on the right of the map. Obviously, Kakheti's problems are, to a large degree, caused by Russia, by the wine embargo of 2006. And they have – what they have done is they've actually massively decreased the quantity of wine produced, and improved the quality, and been finding new markets. But Russia did constitute about 90 percent of that market. And so this is a big issue for Georgia going forward, particularly with the WTO issue with Russia.

It can – Georgia – regain that market. Georgian officials are saying, we don't need that market anymore. My visit to Kakheti was just that Kakhetians really do need that market because this would be a major supply of jobs.

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So lot of problems. Does the governing elite have the capacity to fix this? Well, yes and no, I would say. I think one of my chapters in this report is entitled "A One-Party State?" And we can see that since 2006 – this is one of many democracy indices you can find around the world, but this is the EIU one. Georgia has pretty much flatlined or declined on some democracy indices. Georgia has definitely modernized in the last few years, but not necessarily democratized.

Of course, one-party state is not the same as an authoritarian state. There are a lot of one-party states around the world. You could say that Washington, D.C., is a one-party state – (chuckles) – or Britain, as well, up until the last election. But I'm talking about checks and balances throughout society, not just within the parliament and the executive. I think Turkey is another interesting example of a place which has just – perhaps in yesterday's election,

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avoided becoming a full one-party state with the AKP winning a simple majority but not enough to fix the constitution in Turkey.

I'm talking about regional government, which is completely dominated by the United National Movement – (background noise) – I'm talking about – (chuckles) – the judicial system; I'm talking about the media. And I think the media is very important. All the three main TV channels in Georgia basically support the government. TV advertising is controlled by one company, which has 95 percent of the market. That meant that in last year's local elections, the United National Movement spent 90 percent of the money on TV advertising as opposed to other parties.

In fact, in the mayoral election, the governing party spent 100 times more than Irakli Alasania, the leading opposition candidate. And there's also the issue of how that feeds through into the economy.

There's the issue of hidden monopolies in the Georgian economy, an issue which isn't – for obvious reasons, isn't written about very much. But Georgian journalists have begun to write about this and it was in the magazine *Liberali*: the idea that some sectors of the economy, whether it be the lottery; whether it be minibuses; certain types of foods; medicines; gasoline – that there are signs that the prices are higher than they should be because of hidden monopolies.

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And another success story which we should also be watching: This is the traffic police – the famous reformed traffic police. I think, in the case of law and order, the government has cured one problem and created another. They've definitely cracked down on corruption and criminality, but I think we're seeing signs of overreach yet and a very strong police force and a criminal justice system which does not really – which only favors the prosecution.

Last year – let me give you another statistic – there were 7,296 criminal cases in Tbilisi courts and only 21 people got acquitted. And if you do go to jail, the prisons are now full. Georgia now has – prison population has quadrupled to about 2300 people and now has the fifth-highest per capita prison population in the world. Number one, of course, is the United States; number two is Russia. Georgia is at number five. What am I saying here? I'm saying that certainly, this crackdown on criminality has been quite effective. But the famous Latin phrase, *quis custodiet ipsos custodes* – who guards the guards themselves? And I think this issue is now raising itself in Georgia.

Let me move on to – this is the – what we call the triangle. Levan Berdzenishvili adopted it as well. This is obviously very schematic, but when we're talking about Georgia's choices, I do see different Georgia pointing different directions. One corner, which I called old Georgia, is all about traditional values, family values, old ways of doing things. And, of course, I deeply – I do deeply respect Georgian culture – I want that to be understood – and the Georgian orthodox church. But I do not think this provides an economic or business model for Georgia. And when the patriarch says that he's worried about young people going abroad because he's – because of the dangers of globalization, I don't think that's very helpful advice to the younger generation.

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The second corner is what I call “Singapore,” quote, unquote. The president has been – has talked a lot about, we're building a Singapore in the Caucasus. And the game – Georgia's most famous libertarian thinker, one of the champions of the early reforms, Kakha Bendukidze, has also praised Singapore. Kakha Bendukidze is famous for saying, we will sell everything except for our conscience. And I think that model – obviously, I'm being a bit simplistic here, but that model, I think, has delivered good things and bad things to Georgia.

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But this is the famous – Georgia doing well in the famous World Bank “ease of doing business” survey, where it comes in at number 12. But I think this chart also shows you the World Economic Forum’s Global Competitiveness Index, which I think is a much more comprehensive look at all sorts of aspects of business and economic life. And here, Georgia is actually 93<sup>rd</sup> place. Actually, I think it’s a more accurate description. And the World Economic Forum cites things like issues with property rights and the judiciary, taxation and so on as being problems.

So finally, we get to the third – my third corner, which is Europe. And this is one of the sights of Georgia since 2004, is the blue flag with the gold stars hanging outside government buildings in Georgia. President Saakashvili commanded it to be hung up. Now, of course, this is the flag of the European Union. Georgia is not a member of the European Union. But it’s also the flag of the Council of Europe, since 1955, so Georgia is a member of the Council of Europe. So some sleight of hand here, whereby Georgians see a flag, which is the flag of Council of Europe, and many of them think that we are actually in the European Union.

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This, I think, explains, again, some confusion that we’re finding – you find in polls about Georgia and Europe. One-fifth of Georgians say that Georgia is already in the European Union, which isn’t the case. One-third say it’s ready to join in five years. I think this reflects a rather unrealistic, shall we say, expectation about Georgian – about their European destiny. President Saakashvili gives a lot of speeches, some of which I cited in this report, about Europe. But he talks in rather civilizational language. He did this next door at Brookings a couple of months ago: He talks about, for example, how Queen – ancient Queen Medea was the founder of medicine, which is, you know, all Europe needs. It’s kind of charming and it’s about Europe as a civilization, but it’s not really about Europe and the European Union as a political and economic model.

So this gets me back, in conclusion, to the triangle and to, I think, what, realistically speaking, has to be Georgia’s long-term model, which is the European model. It involves a lot of painful regulation reform. It has to be a long-term model because it’s a very long-term transition. Membership is not on offer. What is on offer from the European Union is the idea of a deep and comprehensive free trade area with the EU, by which, if you regulate, if you build up institutions, then you have a long-term perspective of access to the EU’s single market. I think this is an attractive offer. It will be difficult for Georgia to achieve, but I think it will enable Georgia to build an export capacity, to build institutions and to get more democratic accountability – all things that Georgia needs.

Two groups are rather skeptical about this. One is obviously the old Georgia in the other side – one of the corners of the triangle, which, I think, sees this as a kind of Trojan horse, undermining its business interest and ideological interest. And the other is also the continually influential libertarian group, who are very skeptical about the EU. One of them, Levan Ramishvili, said that joining the EU is a bit like buying a ticket on the Titanic. But, of course, the EU is not just Greece and Portugal. The EU is also Germany; the EU is Estonia and Finland. The EU also – it’s possible to be dynamic within the EU. And to Georgians’ credit, the Estonian model has been talked about. But I think Georgia, unfortunately, is a long way behind Estonia.

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So just in conclusion, about outsiders, well, I think absent the domestic checks and balances that aren’t there at the moment, I do believe it’s up to international actors to keep Georgia on the right track, and that obviously includes the U.S. as well as the EU. And I end with the thought about conditional love, which is a phrase from the outgoing EU ambassador to Georgia, Per Eklund. He said, we love you, but that love is conditional. You have to deliver.

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And I certainly have a great love for Georgia myself. But I think when it comes not to the culture, which one can love unconditionally, but to the government, that has to be the right attitude: conditional love; conditionality. Georgia does have choices, but it needs to be helped in the right direction because there are some dangerous tendencies out there as well. Thank you. (Applause.)

MR. COLLINS: Thank you, Tom. I'm going to ask Bill Courtney if he would provide his perspective on the remarks Tom has given, and then we will open this up to the audience. Bill?

WILLIAM COURTNEY: Jim, thank you; Tom, thank you for inviting me – wow, I don't have a copy yet, actually; I have a draft copy – thanks for inviting me; I appreciate it.

Tom has written an outstanding analysis of fundamental economic and foreign policy choices facing Georgia. I agree with his penetrating insights in every respect, except one: that, for Georgia, economic harmonization with the European Union is the best long-term development model on offer. My comments will address the issues: first, Georgia's economic recovery since the August 2008 war and the 2008-2009 international economic crisis; two, Georgia's geostrategic circumstances and U.S. and European strategic interests; and third, a long-term development model for Georgia.

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Georgia's economic recovery: With external help, Georgia's economy has recovered significantly since the dual crises of war and international economic meltdown, but it still has major weaknesses. IMF and World Bank reports issued in March offer good insights. According to the World Bank, economic activity is picking up, although the recovery remains fragile. In 2009, GDP declined by 3.8 percent, but in 2010 grew by 6.3 percent. The fiscal deficit dropped in 2010 to 6.6 percent and may decline further this year. You've read about the fiscal deficits of other countries in Europe.

According to the IMF, lower depreciation and growing reserves have helped Georgia move to a more sustainable international posture, although meeting external payment burdens remains an issue. Higher inflation is due mostly to a sharp rise in food prices, occasioned by the increase in international commodity prices, and not caused by macroeconomic mismanagement. Georgia benefits from low tax rates, broad tax bases and efficiency in tax collection.

The microeconomic situation has also improved, but persistent problems remain. The World Bank says Georgia is making strong progress on structural reform. According to Transparency International, its global corruption barometer for 2010, fewer Georgian respondents reported paying bribes for a public service than, on average, do those in European Union countries. Georgia moved up in Transparency International's Corruption Perceptions Index from 124 in 2003 to 68 in 2010, one notch below Italy and 10 places above Greece.

On the other hand, the World Bank says unemployment is around 17 percent and one in four Georgians is poor. The special challenge is taking care of the 30,000 postwar internally displaced persons. The IMF says foreign direct investment has stagnated, as Tom pointed out, at a level well below the pre-crisis period, and is unlikely to rebound quickly. Additionally, there is a shift in sectors benefitting from foreign direct investment. Before the crises, export industries were the main recipients of foreign direct investment. After the crises, it is real estate.

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Structural weaknesses, according to a thoughtful economist and former finance minister who happens to be here with us today, David Onoprishvili, may be Georgia's main problem. He has pointed to weak anti-monopoly laws and policy, insufficiently strong property rights, nontransparent privatization and favored economic arrangements for those close to power as among the obstacles to better economic performance.

Tom correctly highlights the crisis in agriculture. As David Onoprishvili – Dr. Onoprishvili has pointed out, there is a remarkable statistic: 55 percent of Georgia's labor force is devoted to agriculture, and yet it produces only 9 percent of GDP. By way of comparison, in Portugal, only 10 percent of the labor force is in agriculture; in Estonia, 11 percent. Reform of agriculture is an urgent priority. Closer ties with the European Union in this area will not be of much help – Georgia itself must resolve the problem. Much more ought to be done to enhance agricultural productivity and supporting infrastructure. Increased investment in other sectors of the economy could draw away large amounts of poorly productive rural labor.

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Georgia's strategic circumstances: America and Europe have substantial strategic and economic interests in Georgia and countries to the east, including Caspian energy producers. Europe and America strongly support Georgia's independence and democratic and economic development. They attach considerable weight to Georgia's being a reliable and competitive route for the shipment of energy and other cargo, including inbound freight for U.S. and NATO forces in Afghanistan and commerce that enables Central Asian and South Caucasus countries to have unimpeded sea access to world markets.

The third strategic interest is that Georgia should become stronger, while doing more to improve its ties with Russia. Georgia's political and economic strength and mature leadership are vital to enhancing deterrence against any further Russian aggression. Georgia's strategic interests have been harmed by international perceptions of its performance in the August 2008 war. Inept decision-making caused many of the international community to blame Georgia as well as Russia for aggression which Moscow had long and carefully prepared. The Kremlin views Abkhazia in particular as a strategic prize. It is building a naval base there. Russia is unlikely to cede control in Abkhazia unless and until Russia becomes a genuine democracy and takes a wholly new approach to reconciliation with neighbors.

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Now let's turn to long-term development. Fortunately, central authority in Georgia did not collapse after the August 2008 war. The Saakashvili team appears to retain much popular support, despite a number of peaceful demonstrations by the fractured opposition. Georgia confronts three major obstacles to its development: One, as Tom points out, is, at present, Saakashvili has no serious opposition and Georgia risks becoming a one-party state. A second is the low level of GDP per capita and inadequate investment. A third obstacle is Russia's military presence in and aggressive political posture toward Georgia. These considerations affect what kind of development model makes sense. For example, because of the Russian threat, economic growth and democratic politics are even more important so that Georgia can bolster its security.

The model Georgia chooses probably should contain elements of all three of Tom's options. From the first model, old Georgia: History and civilization undergird national identity and self-confidence. Tom correctly notes in his report, however, the dangers of excessive nationalism. They peaked during the disastrous presidency of Zviad Gamsakhurdia in 1990 and '91. But even in recent years, Georgia's leaders have run too many risks by stoking nationalist emotions and taunting the Kremlin. It is useful to bear in mind that Georgia has many minorities. Also, greater prudence in dealing with Moscow will be viewed favorably by Europe and America.

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The second model, independent pursuit of a liberal, competitive economy along with democracy and limited government, will do the most, in my view, to improve standards of living in Georgia and broaden national political consensus. Georgia's leaders and people seem to recognize this and have supported thoroughgoing reforms, although many more are needed. Georgia's security and human circumstances especially require a more robust economy and democracy. This will also help sustain crucial U.S. and European backing for Georgia's security.

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The third model, join closer to Europe, is also important, but its benefit will be limited. As Tom puts it, Georgia has, quote, "no prospect of EU membership," end quote. Various half-measures to edge Georgia closer to the EU will, frankly, not make that much difference in GDP or GDP per capita. For example, Georgia's already low tariffs will limit the benefit of a deep and comprehensive free trade agreement with the EU. Of course, the EU and NATO offer a vision with which Georgians naturally want to affiliate. Europe and America should continue to encourage institutional reforms that will bring Georgia closer to NATO and EU standards. Raising undue membership expectations, however, benefits no one.

In conclusion, Georgia must succeed primarily on its own, with help from Europe and America. At this point in its history, Georgia is of Europe but cannot count on its institutions to solve any of the country's main challenges. Some less strategic countries – Moldova, for example – will obtain sufficient succor from closer affiliation with Europe. In contrast, Georgia's geostrategic value and America's capacity to exert influence and project power mean that international support for Georgia will remain a U.S. and European joint strategic enterprise. Thank you. (Applause.)

MR. COLLINS: Well, thank you, Bill. And thank you both for setting up what I think is a very interesting framework to discuss questions with the audience.

So I would like at this point to turn it over to the audience for comments or questions. But before I do it, I would make one request. If you have not registered with us in the past or are not on our mailing list, it would be most appreciated if you will leave a business card or your email so that we can continue to keep you informed about programs of this kind.

So with that, let me turn the – turn questions to the floor, or observations. Let's not hesitate. Mr. Merry.

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Q: Sorry. Thank you. Wayne Merry, the American Foreign Policy Council. Bill referred very briefly to the fact that there are many minorities in Georgia. Tom, you didn't refer to them at all. I wonder if you would address the issue of minority rights, because one hears from representatives of those minorities that the Georgian government policy is one of tolerance but not of rights, and that tolerance is perceived as being a response to American and European pressure and oversight, and therefore not necessarily permanent. I note it was 20 years ago next month that an American president used the famous phrase "suicidal nationalism" in a speech in Kiev, and the press was briefed that that phrase specifically referred to one place, Georgia.

So my question is, 20 years on, how would you assess national attitudes in Georgia toward minorities; not just those in the two breakaway territories, but minorities in general?

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MR. DE WAAL: Thank you, Wayne. Obviously, this is slightly outside the main scope of my report, but I'm happy to answer the question.

Obviously, you know, it's night and day compared to the Gamsakhurdia period. You know, minorities live without fear in Georgia. We're basically talking about two minorities in particular, Armenians and Azeris. And, you know, they don't have to fear for their lives.

Are they well-integrated into society? Semi, I would say. And there have been some improvements and some setbacks. I think they're underrepresented in parliament and in the executive, particularly the Azeri community. Georgian language skills are quite poor, which obviously shuts them out from opportunities. And I think many Georgians do regard them as second-class citizens. So it's definitely a work in progress.

[00:58:07]

And one other thing I think is worth mentioning is the plight of the Meskhetian Turks, who, when Georgia joined the Council of Europe in 1999, Georgia pledged to allow the return of the Meskhetian Turks, who were deported from Georgia in 1943. That was one of those conditions. Most of them are still not being allowed to return. So I think that's an issue we should look at.

MR. COLLINS: Andrei?

Q: If I may have a few observations. One would be an economic one. Certainly there are many issues that could be commented in the report as well as in the presentation, but just I would mention one. This comparison for agriculture, 1 percent for budget expenditures and 9 percent for GDP, I think this is, maybe unintentionally, the great demonstration of success of Georgian case, because it would be rather strange to expect that the budget would spend same or even more resources on some areas that is supposed to produce value added, not to consume value added. And from this respect, it is obvious that the government should spend on prisons, not on agriculture. Usually prisons do not produce value added, certainly if it is – (inaudible). And just it's agriculture that produces value added, not consuming it.

[00:59:40]

The other, since you're talking about the choices, just you mentioned three choices, and actually the question would be whether Georgia and Georgian population is interested in the choices. Certainly everybody's interested in choices, but looking in the results of the elections over last few years, both – well, actually both presidential, parliamentary and local election, so it looks like that there is a pretty consistent behavior of substantial portion of the Georgian population about their choices in some kind of long term.

But since you have probably – from your remarks, you do not share views of Patriarch Ilia completely, and since also you said the European Union choice is also not within few – in a reasonable, some kind of few years, and since especially Bill has mentioned and reminded us that on a number of indicators, Georgia is ahead of average for European Union, what does it mean that just Georgia should move closer to the European Union? Does it mean that Georgia, at least in this indicator, should move down, not up?

And if this is so, so does it mean that your choice for Georgia is libertarian example of Singapore? Should we understand your suggestion as this?

MR. DE WAAL: OK. Thank you for raising those issues.

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I'm not an economist, but just as someone who sees Georgia and sees the Georgian countryside, also goes into just – I think you see the problem if you enter a Georgian supermarket. This was once a rich agricultural country. Georgian supermarkets are full of imported food products. I think something has gone badly wrong here, in which a former rich agricultural country is not using that potential. Eighty percent of Georgian food is imported. You're buying Turkish tomatoes in Georgian supermarkets, or Belarusian milk. The capacity is out there and it hasn't been utilized. And, you know, investments in agricultural sector would allow – would create jobs. It would feed Georgians. They would create an export capacity. That's, I think, something that needs to happen in the Georgian countryside. And also, you know, rural poverty is definitely Georgia's biggest problem.

I mean, belatedly, President Saakashvili is now pledging – earlier this year he suddenly said that agriculture was one of Georgia's new priorities, for the first time, and has pledged 150 million lari, I believe, to agriculture. But that was after the budget was approved, so it's not clear where that money's coming from.

Another funny thing, when you mentioned elections, is that you drive through Georgian countryside, and everywhere there's the number "5" painted on walls. The number "5" was the United National Movement's number on the ballot in the last parliamentary elections. And basically, all over Georgia you see the number "5." And that helps explain why high turnout was achieved in rural areas and people pretty much voted for the government, whereas in Tbilisi, people voted for the opposition in the last elections. This, to me, suggests that the government's support is still sustained by rather old-fashioned practices of getting out the vote in rural areas amongst minorities, whereas the more educated part of the population is more skeptical.

[01:03:35]

And your last question gives me a chance to respond to Bill – I think this is obviously going to be the crux of our argument – about the EU. Clearly, Georgia doesn't have an immediate perspective, but I think the point is to work towards one, whether it be in 15 or – immediate membership perspective, that you work towards one, whether it be 15, 20, 25 years' time, and to start now. And the DCFTA – the deep and comprehensive free trade area – the feasibility study said that Georgia would indeed stand to have plus-6-percent growth as a result of the DCFTA because it would start – Georgia's current three main exports are throw-away metals; re-exported cars, cars not made in Georgia; and scrap metal. This is not a country which is producing stuff that people want to buy.

Compare that to Turkey, next door, which signed a customs union with the EU back in '96, and it's now, I think – I was reading the Economist last week – the world's second-largest exporter, producer of sheet glass, Europe's third-largest producer of TV sets, a huge clothing industry in Turkey. I think that's the model that Georgia should be looking, which is not in the EU but moving closer to the EU, trying to get into EU markets by raising standards and getting a more regulated and more standardized economy.

[01:05:00]

MR. COURTNEY: If I could just drift into economics for a second. In "The Wealth of Nations," Adam Smith cites the principle of comparative advantage, using textiles in Great Britain – England – and wine from Portugal. Probably wine – I'm sorry, Portugal is a reasonable analogue for Georgia in some respects. Georgia should have a productive agriculture sector. And of course, the ban on imports of wine into Russia has played havoc with that.

But in the context of model two, the government that has a limited role, economics teaches us that there are a couple of appropriate roles for government, one of which is providing information. In the United States we did that through a farm extension service to provide information – subsidized information to farmers around the

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country. And the second is to provide goods that are public in nature, the kinds of goods in which the private sector cannot accrue all the economic rent from the investment. So developing roads, for example, for transportation of agriculture products to market is an example of an appropriate public investment for limited government. Those are the kinds of things that Georgia needs to do more than providing budget for the agricultural sector.

And then thirdly, there needs to be – there need to be laws which allow land to be bought and sold freely, land to be collateralized for credit, and if that can take place, typically small, inefficient plots of land tend to grow into larger plots, and agriculture becomes more efficient. That chain is not working, and that’s primarily a private-sector chain rather than a role for government. So government’s role in Georgia really should be much more to facilitate the agricultural sector rather than to subsidize it.

MR. COLLINS: OK. Toby.

[01:07:08]

Q: Toby Gati, Akin, Gump. I wanted to ask a question about another vector in foreign policy. In recent years there’s been a huge increase in Georgia’s relationship with Iran. And I think there’s even now visa-free travel between the two, more business, more investment. This is, first of all, very much against the direction of the EU and the U.S., but could you just talk about what the reasons for this are? Is it energy? And should we regard this as an important development or one of concern?

MR. DE WAAL: Yeah, this is one of many things I don’t really talk about in this report. But just briefly, I mean, yeah, it did obviously raise a lot of eyebrows, a visa-free regime with Iran established earlier this year. I see this as primarily about getting Iranian business and tourism into Georgia, particularly into Batumi, which the government has poured a lot of money into as a kind of new tourism and casino center. And that, to me, seems to be the primary reason. But certainly it does raise questions about – particularly for the U.S. – about – if you’re allowing visa-free travel for Iranians to Georgia, what are they going to be doing with it, particularly when things like casinos are involved? That probably does, you know, turn on some red lights.

MR. COLLINS: Yes. Wait for the microphone.

Q: Thank you. Nino Japaridze, D.Phil candidate, University of Oxford. A question about media. You mentioned in your report that nationwide broadcast channels, three of them, in Georgia are under heavy control of the Georgian government. Do you have an opportunity to actually give evidence that that is the case? Because many representatives of the leading party in Georgia – there are many quotes you could find that deny that that’s the case. And yet, knowing that, Georgia’s population primarily uses broadcast TV as the main source of information, if indeed that platform is for presence of pluralistic dialogue, debate about which corner of the triangle Georgian nation chooses to take, how can you ensure discussion of these vitally important issues in the absence of pluralistic media environment?

[01:09:30]

And what can be applied in terms of conditional law and support that United States or European allies can give to Georgia to provide this essential public sphere that I agree is missing in Georgia, so that Georgia does not become a one-party ruling kind of state, but rather a developed, consolidated democracy?

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MR. DE WAAL: Thank you. I think this is a very important question. I suspect you probably could give a better answer to it than I could. But I think this is absolutely vitally important. Clearly, we should start off by saying the Georgian media is freer than Armenia or Azerbaijan or Russia. Having said that, Georgian media, I think, probably was freer under Shevardnadze than it is now. And we have those three main channels, particularly the two most watched channels, Rustavi 2 and Imedi, which are very watched, which are very supportive of the government.

Can I prove it? No. And I also – you know, I do not watch these channels, and my Georgian is extremely rudimentary. But judging by the reports of others, these channels are very supportive of the government, and a lot of money is flowing into these channels. So I think it's a lot about the financial structure and ownership of these channels.

[01:10:53]

Now, we know that Rustavi 2 was, for example, until recently owned by two companies registered, I believe, in the Virgin Islands. There was complete lack of transparency about that, but to its credit, the parliament is now passing a bill to try and outlaw offshore ownership of TV channels. But I think we should be looking at ownership structures so that they're completely transparent. We should be looking at advertising, because something like 80 percent of advertising flows into those two TV channels, all from – pretty much all from one company. And that's obviously extremely important at election time if all the political advertising is going to be 80 or 90 percent in favor of the ruling party. So I think we should be looking at that and I think generally looking at election monitoring starting well before the elections, so that, you know, the elections will probably be free in Georgia, but will they be fair, because – particularly because of the way the TV has covered.

MR. COLLINS: Jessica.

Q: Jessica Mathews, Carnegie Endowment. I wonder whether there is really a difference between you two on the question of the EU long term, because I think about Turkey, and it seems pretty clear now in Turkey that the value of EU membership has already been achieved in the huge reforms across the economy, across governance, even social policy, and that having achieved all those, the economic benefit from those has taken Turkey to the point where they feel like saying to the EU, we don't need you anymore.

[01:12:38]

And so I wonder whether that same model is applicable to Georgia and is what, Tom, you're thinking of. And also I wonder whether you can relate a question – explain what is the message Saakashvili wants to send by flying the EU flag. What's he trying to tell people?

MR. DE WAAL: Saakashvili – and, you know, I try to not say this in a pejorative sense – is brilliant at PR. And I mean I think that has benefited Georgia. It's a small, poor country which is being put on the map because – partly because of that PR. And flying the EU flag was a brilliant bit of PR. The trouble is, you know, you've got to move beyond that. You've got to start delivering as well as giving a seductive message.

I would say a difference with Turkey, Turkey is bigger, Turkey is stronger. So I would argue that an additional reason why Georgia needs the EU is it needs an anchor, it needs, in a strategic sense to be – so to tether yourself to the EU involves surrendering some kind of sovereignty. But in return, you're hitching yourself to a much larger institution, which that fulfills political responsibility for you as well, because of the economic integration. Turkey, you're quite right, doesn't need that. Turkey is 70 million people. Turkey has now moved beyond that. Georgia is

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4 million people. I think that's – and in a much more – well, Turkey's also in a difficult neighborhood, but even more difficult neighborhood, and I think that's a key difference.

Another Toby over there. We got Toby Davis?

MR. COLLINS: Yeah. OK. (Inaudible.)

[01:14:24]

Q: Toby Davis, U.S. Department of State. Thank you very much for an excellent presentation and collection of information. You said today, and I think many Georgia experts have said, that Georgia needs further democratization to become strong. Could you explain why?

MR. DE WAAL: Well, I think we'll start reading out from democracy textbooks about, you know, the – what happens to a country which is dominated by one group over too long a period of time. You know, this is obviously the rationale for term limits in places like the U.S.

And I think we see some eccentric decisions made by this government which I think are a symptom of no longer being so attuned to what society is thinking, no longer being part of a national discussion as they were in the earlier years.

One good example is the decision to move the parliament to Kutaisi, move the parliament to the second city. I really don't see the rationale for doing this. It's expensive, at a time when budgets are strained. It removes the parliament from proximity to the government. It moves it from the – from Georgia's biggest city. And the suspicion is that the ruling – the government elite has sort of taken a dislike to Tbilisi because the people ask difficult questions there and if we move the parliament to a more depoliticized place then it will be more convenient. This seems to me a symptom of a governing elite which doesn't have sufficient checks and balances, and I think that could be – that problem is being multiplied on all sorts of levels throughout Georgia.

[01:16:16]

MR. COURTNEY: I think Tom is right. And I would add Nursultan Nazarbayev's decision to move the capital to Astana has some similarities in rationale.

MR. COLLINS: Yes, right here.

Q: Hi. I was wondering about all of the –

MR. COLLINS: Could you identify yourself?

Q: Oh, I'm Amanda Haase from American University, master's student. And I was wondering about all of the reforms, especially the corruption reforms that the government has undergone, and if you think that it's – that the government has seen these as good in and of themselves in joining the international community, or if it has sort of been a reaction to the stick of the potential for joining NATO and the EU – or the carrot, sorry – and if that carrot is removed and it's made very clear that they're never going to join NATO or the EU, if the government will be less willing to actually put through some of these reforms that they've been making over the past few years.

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MR. DE WAAL: No, I see them as genuine. I think when he was justice minister, Mikhail Saakashvili was – that was his big idea, was cracking down on corruption. And they did this very energetically when they came into office. And I think this really is the big achievement of Saakashvili's Georgia, that you don't have to pay a bribe, as Bill has identified. If you want a driving license, if you want to get your child into university, if you're stopped by the traffic police, you now have to fill out a form that no bribe's accepted. I think this is genuine, and I think this is really – is very positive and a foundation for Georgia.

[01:17:52]

But what everyone says is that the more you go up in society, the more you touch the interests of important people, whether they be members of parliament or even in the government, the less transparent it gets. And we really don't know who owns upper sections of the Georgian economy. I quote Mark Mullen of Transparency International on this, in the report saying, you know, the further up you get, the more you end up knocking on the door of a post office box in the Virgin Islands.

And so I think this – so I really do give credit to Georgia, and it's really, you know, left behind its neighbors in everyday corruption. But there are issues about the way the upper reaches of the economy are managed; which obviously has implications for the economy as a whole.

MR. COURTNEY: Let me comment on your point about incentives for reform, and this goes back to your Turkish point. Turkey has made dramatic political reforms and economic reforms in recent years. And it's done that in a circumstance in which it, you know, is not a member of the EU; and that prospect seems to be receding rather than coming closer. My sense is that Georgia is going to be in a very similar situation. Georgia is making the reforms it has made because it believes it's best for Georgia today and in the future. And hopefully, part of the benefit I believe Georgians expect is that this will make them more suitable candidates for the EU. But even in a circumstance in which the EU membership is so far away, Georgians still face choices that are, if you will, the option two, here, which are probably somewhat similar to Turkey's choices. They're going to have to go it alone in many respects. They'll have a lot of support, as Turkey did, from the U.S. and Europe – and of course, Turkey's in NATO – but they're going to have to go it alone, and in their own interests, going to have to make those reforms, as Turkey did.

[01:19:59]

MR. COLLINS: Molly? Yes.

Q: My name is Molly O'Neal. I served in the embassy with Bill Courtney as my ambassador, back in the middle of the '90s. And I would just say that I – at that time, under Shevardnadze, frankly, I think there was probably more genuine multipartyism than there is now, you know, in terms of actual competition of views among different organized political parties. And I think the parliament was not so monopolized then, either. So, you know, I know in your book you tried to leave out the questions of sort of geostrategic questions and so on, but it seems to me that the only explanation I can come up with as why Saakashvili maintains such a high level of popularity has got to be at least related to the notion of an external threat. And even, for example, the European flag – I think this may be a symbol of, you know, adhesion to, you know, Europe, and not to Russia – you know, sort of like a negative statement.

So I just wanted to comment on that, because it does seem to me that there are a lot of promising leaders, a lot of people who are very articulate. Frankly, many much bigger countries haven't got such impressive people across the whole political sort of elite. And many of them have become disgusted and have become quite vocal in not like

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Saakashvili. So my question is what is the nature of his support? Because we saw that the people are concerned about poverty, and certainly inequality, and certainly – and those things are not improving, or not very much. Or maybe they are. Enlighten me, if they are. So what is the nature of the popularity? And is there disloyal or unfair suppression of opposition forces, or are they just weak on their – on their own, poorly organized?

MR. DE WAAL: I think that's a very good question. And in a sense, of course, you could say that the Rose Revolution was possible because of that pluralistic culture in Georgia, so that when the government started failing, it collapsed because there were sufficient forces in society for it to peacefully take over; which wasn't – isn't possible in other countries. So you could say that one of Shevardnadze's greatest achievement was the fact that he enabled himself to be overthrown in that way.

[01:22:19]

I think what you're putting your finger on is something I think we should discuss more in a whole kind of Eurasian space outside the Baltic States. Is this the way that one governing elite can take control of the place, whether they be more or less democratic, and create this kind of idea that there's no alternative. And they dominate the discourse; they dominate TV – in Georgia's case, in a fairly benign way, although we did see a fairly brutal dispersal of demonstrators the last month on the streets of Tbilisi. But they create the idea that there's no alternative, and they're quite skilled at doing that. And that, obviously, worries me.

I go back to the statistic about Irakli Alasania and the mayoral campaign in Tbilisi being outspent one hundred-to-one by Gigi Ugulava. I don't think – you know, I don't think there is any candidate in the U.S., however charismatic, facing that kind of outspending, who would be able to perform any better than Alasania did. So I think it's – it is about individuals. I don't think there is a kind of Saakashvili out there to challenge to Saakashvili. But it's also about the kind of – the structure of lack of alternative which has been created.

MR. COLLINS: Rich.

[01:23:45]

Q: Rich Kauzlarich, former U.S. ambassador to Azerbaijan and to Bosnia. Tom, I liked the way you started out with this: you know, we're going to focus on what Georgia needs to do about its long-term future. But I didn't like the way you ended, which was that, you know, for the foreseeable future, the international factor is going to have to keep Georgia on the straight and narrow. I really think that there needs to be a parallel question that asks: What is the U.S. and European interest, not just in Georgia, but in the Caucasus? Because there is a certain inertia, I guess, of continuing to do what we've always done because we've done it because we did it 20 years ago when all this started. And I'm not sure that our interests are such that we are going to have an open-ended commitment to keeping Georgia or any of these other countries on the straight and narrow if their own systems and their own people aren't prepared to make the changes for their own reasons that are necessary for this to happen. You're not going to join the EU because the EU lays a lot of requirements on Georgia for reform. You're going to – you know, there have to be the domestic forces – a constituency, if you will, for change. And quite frankly, looking at Azerbaijan as much as the other two, I just don't see that constituency for change, because it requires at least to give up their privileged position not only of political power, but economic benefit.

MR. DE WAAL: Well, I think we get back to the idea that Georgia does have choices. So I agree, this is – you know, the central idea that Georgia does have choices. So I agree, this is – you know, the central idea is that Georgians have to make those choices. But I think it's about supporting the people who do have the more kind of progressive vision in that society, so you're not – clearly, the ultimate decision is up to them, but offering carrots to

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those who do want to make those positive choices. So it's not about making an open-ended commitment, which I think is unrealistic anyway. Clearly, there are strategic interests in the Caucasus. There are interests in, you know, stopping it sliding back into kind of the 1990s and conflict and state breakdown, in which case the international community will have to come back anyway, just to pick up the pieces as outsiders. So clearly, there are strategic interests there and energy interests there.

[01:16:20]

But I think it's about sort of help – nudging them and offering a perspective, certainly not in a colonial way. The EU has come up with a new slogan for its eastern partnership scheme, which is “more for more,” which I like. I mean, it basically means if you do more, we offer you more. But I mean, the corollary of that is less for less. So, yeah, obviously we're not in the business of third-party state building in Georgia. But, you know, Georgia has identified itself as a pro-Western country, so it would – I think it would be foolish to turn down the offer to be a positive influence there.

MR. COLLINS: Yeah. Go ahead.

Q: Thank you. My name is Gia Jandieri. I'm from Georgia, New Economic School, which is think tank in Georgia. So I have two comments and one question. First comment is about the U.N.-Georgian talks about the free trade agreement. It must be – it's very important to say that these are talks, already we are talking five years with the European Union, and there are no steps for – to start negotiations. I participated in – started recently myself with some European scholars together, and we found no trade or economic-based reasons for continuation of these talks and not to start negotiations immediately. Because as my colleague Andrei Illarionov was commenting here, Georgia is far ahead in many directions or reforms. And they know about this in the European Commission, that we are much better than Ukraine, for instance, in many directions or reforms. But what they say, directly and openly, that they need more Ukraine than Georgia. This is the – this is a key issue for them why to start negotiations and finalize them this year already with the Ukraine, and they stay to start at all these negotiations.

[01:28:34]

So what we found, that there are no trade or economic reasons for – not to start this year, but there are maybe political. We are not politicians; we are economists, and we did our job about the economic and trade issues. And we could not really understand what are the real political reasons for this. Some of the people are talking about that that there is a tradeoff with this, that if we agree with Russia's membership in the WTO, maybe it will be much easier for Georgia to have this free trade agreement with the European Union.

Another case with the European Union, it was mentioned here that it could be very beneficial to Georgia because it can increase the speed of growth. We have different opinion about this, if we implement all the regulations, what the European Union has, which made such a big mess in Greece and many other countries in European Union. So we expect that the economic growth will slow down but not increase. And another thing is about that we expect – and it already started in Georgia, that prices will rise up, not going down.

Another thing I was – I wanted to tell you, to comment, that there are very big obstacles for economic development and investments in Georgia which are not, I think, mentioned in this book. These are, first of all, the security issue, because in the situation when we have the same kind of business environment in Georgia and Bulgaria anyway, investments will go to Bulgaria because it is much more secure than Georgia. You know what are the reasons about this. And we have quite complicated neighborhood and et cetera, et cetera. So this is one.

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And the second is that, of course, Georgia is a very small nation with very poor population, so for most of the investors this is not a big, big challenge, a big place to come. And another thing is that there are big bullies, like China, India and other emerging markets, who are competing with each – with us.

These are, I think, major obstacle for investments to come in Georgia, but not – the things written in this book, unfortunately, I could not see the real problems for Georgia for the investments.

Another thing is, I wanted to ask you what are the fiscal problems you refer here.

[01:31:34]

MR. COLLINS: OK. I'd like to get to the question, please.

Q: Yes. Sorry to be so long, but I want to ask this question. What are the fiscal problems you are referring in this book? Because I understand there is a debt, public debt, but is not as high as any European nation has. Thank you.

MR. DE WAAL: OK. Thank you. This could be a long discussion, because you're obviously referring – you must be one of the authors of the CEPS report on Georgia and free trade, which negotiations didn't begin five years ago, they began at the end of 2008 on this Deep and Comprehensive Free Trade Area.

I mean, I've talked to both sides in this dispute. I mean, the Brussels view is really that Georgia did nothing for the first two years – only at the end of last year did they start taking this seriously – and that Brussels is still waiting for a kind of sign of commitment from Georgia to do something about this Deep and Comprehensive Free Trade Area. The suspicion, I suppose, of some in Brussels is that Georgia wants – that some Georgian officials want this to sort of tick the box, that they want to start negotiations and then do very little, but it looks like a nice green light to investors.

And obviously there are issues about – for example, the food standards agency was abolished in Georgia back in 2006 and has only just been reinvented. And as food standards is one of the key issues in negotiations with Brussels; that's quite an important thing to see whether Georgia, you know, does have effective food standard controls and food will not be poisoned.

Likewise, there's only just been founded a new anti-monopoly agency, but yet it doesn't even have legislation underpinning it.

[01:33:23]

So I'm quite sympathetic to the Brussels view that a lot needs to be done and that this is a long-term process. And obviously, there were disputes about what would happen to food prices, but as 80 percent of food is currently imported into Georgia, the presumption is that Georgia would start producing more of its own food and would have more control over its prices.

And as for the fiscal issue, you rightly point out that as a percentage of GDP, Georgia's debt is perhaps lower than other countries, but then you also point out that Georgia is an insecure region. And I would contend that a \$4 billion debt of a small, insecure country is more worrying than a larger debt for a country which is inside the European Union.

MR. COLLINS: Yeah. We'll bring a mic.

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Q: I am Tornike Zurabashvili. I'm from Tbilisi State University. I'm a visiting student at Georgetown University. I had a point on top of what Mr. Thomas said before on freedom of media. As a native Georgian speaker, I can assure you that Rustavi 2 and Imedi tend to be sometimes overly propagandistic, and I could go as far as labeling them as propaganda machines. But that happens sometimes.

[01:34:55]

And the second point which I wanted to make is, for the past few months, there has been political negotiations on electoral issues between various 17 parties of Georgia. Then in March, at the end of March, the negotiations were suspended because the political parties couldn't come up with a solution on the majoritarian representation to parliament. The opposition wanted to abolish the majoritarian representation, and the government is firm on the majoritarian because they get more votes.

Since then, since the negotiations were suspended in April, Georgia has the unbelievable increase in foreign visits and the statements made about Georgia. Even Clinton made a statement about Georgia and recommended Saakashvili, in person, to proceed with the democratic reforms. But what came out of it was nothing. So we didn't get a reaction from the Georgian government; they were ignorant to the foreign – that's at least how it seemed to me and to the people I talked to--they were ignorant to the foreign demands, or their recommendations, to proceed with the democratic reforms.

So in this light, how do you envision the European and the U.S. officials – do you think they have enough tools for insisting on the government of Saakashvili, or you know, forcing – say, forcing them to continue with the democratic reforms, or come up with the electoral negotiations, go on with the electoral negotiations?

MR. DE WAAL: I think the short answer is no. I think no one – (chuckles) – will, but the Georgians themselves and the Georgian government will ultimately take this decision. If you consider that last time the United National Movement won 71 out of the 75 majoritarian seats in parliament, I think you will see why they have a vested self-interest in keeping that system because it's possible in those single constituencies for them to outspend, outperform and win those seats in a one-on-one fight. And that's obviously why the opposition wants to change that. So I think that it would be an important reform.

I think what people are worried about from my recent trips to Georgia is a scenario whereby the United National Movement gets, you know, 50 percent, maybe 60 percent of the vote, but gets 80 or 90 percent of the seats in parliament. And I think that would create a lot of resentment in society that the share of the vote is not being reflected in the share of the seats.

[01:37:50]

MR. COURTNEY: Let me comment just for a moment on conditionality. Our relations with Georgia involve a number of strategic interests, and let me just say a couple of them as seen through a domestic U.S. perspective: One is, that Caspian energy flow through Georgia to world markets on an unimpeded basis with reasonable cost, if you will, and that supplies for U.S. and NATO forces in Afghanistan be able to go through Georgia to the east. Those are both important strategic interests.

The second is the Russia dimension. One issue that makes (it) a little harder to be too tough on Georgia is that there are certain – in certain political circles in the United States, Georgia is seen as David against an evil Goliath. There's some members of Congress who will go to Georgia and, you know, firstly proclaim this. So it is not so easy

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to go say to the Georgian government, we're not going to give you a single dollar unless you open up the television networks.

And then, of course, a third interest is Georgia's development itself. And as Ambassador Kauzlarich pointed out, there can be fatigue if countries don't make reforms on their own.

So U.S. policy – and that includes how you apply conditionality to assistance – really has to take into account all those considerations.

MR. COLLINS: All right, I think we're coming to the end, but I'd like to give Tom a chance to –

MR. DE WAAL: To let Khatuna – have a word from the embassy.

MR. COLLINS: All right, all right, all right. One last question.

[01:39:36]

Q: (Off mic) – on? Hello. I'm Khatuna Okroshidze from the embassy of Georgia. While I wouldn't have a question, I just wanted to thank you to Tom and Mr. Collins and Ambassador Courtney for an interesting discussion, and to the audience, of course, and this interest to Georgia. I just wanted to comment on a few questions that were raised here.

Well, first of all, for the government of Georgia is – all the problems that were raised in the report and also during the discussion, they are also, of course, very important for the government of Georgia. And the government is very eager to try other ways to find solutions to them. Would it be the absence of a real opposition in the country, which is – while the presence of the real opposition is very important for development of the country.

And also, I would comment on the media ownership issue, and underline the decision of the parliament of Georgia a couple of month(s) ago when the parliament has issued a decree that every television has to declare its owners, and so they're obliged that the real owners are revealed, so to prevent having offshore companies own the Georgian television or media channels.

Also, on the transfer of the parliament of Georgia to Kutaisi, the main idea of this decision was mostly the – to try to decentralize the country and not to concentrate all of the politics in the capital of Georgia because we're giving also opportunity to other citizen to participate, also creation of jobs in these terms as well. So one of the decision in these terms was also the transfer of the constitutional court to Batumi, which took place couple of years ago.

[01:41:42]

So that would be my comments that I wanted to make. And thank you once again to the audience.

MR. COLLINS: Tom, I thought I would give you a chance to sum up or say anything you would like in response to what you've had from the audience. Then I'll have Bill the same.

MR. DE WAAL: I think – very little to add. I think one good thing, as Khatuna's intervention showed, is Georgia – at least you can have a good, lively debate, which can't be said about certain other post-Soviet countries.

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And you know, for all my criticisms, I do think these Georgian reforms do lay a good foundation. But I do think – I would again say that we are entering a period of transition – 2012, 2013 – when this generation has to renew itself. And it's really a moment of decision, and in which – do we see that the United National Movement and President Saakashvili become synonymous with Georgia, which I think becomes an unhealthy phenomenon? Or do we see a step up towards greater pluralism both in the economy and in the political system? I think that question is open.

One reason why I wanted to write this report now in 2011 was to get into that debate early and try and shape a kind of positive debate about that particular issue. Thank you.

MR. COLLINS: Bill?

[01:43:11]

MR. COURTNEY: (Off mic) – read the report; it really is good – sorry – read the report; it really is good. It's very deep.

And regarding Tom's latter point, you know, there are few places in the former Soviet Union where you don't have the sense that – I'm sorry, there are many places where you do have the sense that if younger people have a turn at power, a lot of change can take place.

We think of Saakashvili and the Young Turks, if I may say – (chuckles). There is being – young, still. Well, they were young. Saakashvili is of an age in which he went through elementary and secondary education in the Soviet system. There are younger generations that have even deeper, better, sounder Western insights and instincts – or at least, I don't say Western; let's say democratic and economically liberal – instincts than that generation.

It is not always a matter of age. Mr. Illarionov is a good example of how one can age gracefully, and yet be way ahead of economic thinking in most of the former Soviet Union. But nonetheless, age makes a difference. Alex Trypski (ph) wrote a commentary on RFE/RL a couple of months ago in which he pointed out that in contrast to the Orange Revolution in Ukraine where after Yushchenko came to power, virtually none of the younger people came to power in the ministries. It was the same old set of folks. That wasn't the case in Georgia, and we've seen now today, perhaps, that Georgia has sustained its democratic change maybe to a greater extent in Ukraine because in fact younger people came to power there. So there's a lot of vitality and youth.

[01:45:13]

MR. COLLINS: All right, well thank you both. I would only second the thought that this is a very timely, and it's an important and thought-provoking report.

We are now two decades from the collapse of the Soviet Union, and many of the people in this room don't even remember the Soviet Union, were not in school, or maybe some weren't even born. There are some of us fossils who are still around and remember another era. But I think the message of this book is a very important one, and that is that looking back won't get us very far, that the decisions that are now in front of a society like Georgia's are ones about the future. They are not about whether it was right or wrong at a given moment to make a given decision in the past.

And yet, in many ways, much of the discussion in Georgia and about Georgia outside Georgia has to do with the past, with what happened in some day or some era or some period. I think it's important to move beyond that, and I think it's important for two reasons. And I would simply share with you that I just spent two days at the

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European Union in Brussels. And I would say that I took away from my time there, and listening to people – and we weren't talking about Georgia; we were talking about Russia and EU-Russia relations.

What I took away from all of that was that the biggest problem for all of those outside the EU, or who are thinking about the EU as a factor, is simply maintaining the EU's interest. That the EU is very inward-looking these days; it's not looking outward. And the challenge for a country like Georgia, it seems to me, is to be relevant.

[01:47:06]

Now, you know, there have been things taken for granted in the past. And Bill, you've mentioned Afghanistan; Afghanistan may be a very transitory thing as a strategic interest for the United States. The same may be true for oil. It seems to me that the critical issue for a country like Georgia is to take a look ahead and not presume that the dynamics of the past are going to continue. And this means that Georgia itself, it seems to me – and I say this as someone who is a great friend and admirer of Georgia – has opportunity to make some decisions. And I think some are outlined in this pamphlet.

But they can squander them, frankly, if they focus on the past or what has been. The challenges are the ones ahead. And they are fundamentally those that Georgians will have to make decisions about for themselves. Geography will not change; you will live in the neighborhood you live in; you will have the same neighbors. And thinking about how you're going to have relations with those neighbors and those further-afield institutions going ahead is going to be the great challenge. And much of that will depend on how strong Georgia is internally, and its capacity to make its own decisions. So I think that's a moment where this is a very timely paper because it focuses on what is ahead.

So I thank you all for coming. And again, I remind you, please do leave us your business card or your email address if you are not on our mailing list. Thank you very much. (Applause.)

[01:48:46]

(END)