



GEORGIA'S CHOICES: CHARTING A FUTURE IN UNCERTAIN TIMES

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Transcript by Way With Words

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JAN TECHAU: Thanks for being here. The Brussels audience for me is such a heroic audience because this is the summertime, this is once more a lunch meeting and still people are showing up quite numerous and I'm glad about this. Maybe it has to do with the fact that the weather isn't all that brilliant so the temptation to actually stay out in the park and have lunch there is slightly smaller than it sometimes is here in town.

Welcome to Carnegie Europe, welcome to a lunch discussion on Georgia and thanks to our guests here for having joined us.

It's good to have this discussion at this moment in time because the region and the country and also the European Union in relation to the region are facing an important point in time.

There is a new European Neighbourhood Policy, as all of you know, which is not only about the South, which we tend to forget in these days, but also about the East.

There are elections coming up in Georgia, transition periods everywhere; Georgia is still grappling with the results of the 2008 war, to a certain extent.

Of course there are also elections in Russia coming up, the big decisive player in the region to many extents, so there's lots of volatility that's going on at this very moment, so it's timely to talk about the region and to talk about the very specific Georgian post-Soviet experiment that is about to embark into a new direction.

Basically, it's crunch time and good for us that we have not guests and not experts because these things are not said anymore these days; we have resources here today, two very important and interesting resources, one coming from the Carnegie family, Tom de Waal.

He's been travelling quite a lot over the last few weeks and he's just off the Eurostar and after this will hop on again, on the Eurostar, to go back to London, so it's a great privilege and a great pleasure to have you here.

He is the Senior Associate on the Russia-Eurasia Program based in Washington, has been working on the South Caucasus and the Black Sea region for quite some time as an analyst, as a journalist, as an award-winning author, and he has brought with him today his latest publication, Georgia's Choice, which he will introduce to us and give us the bottom line of where we stand in the region.

We have another resource here with us, which of course is Jacquie Hill, an old friend of Carnegie Europe. She's with the Open Society Institute; she is a Senior Policy Analyst there for External Relations and we've been working on projects together for the last couple of years.

It's great to have you here; she's going to comment on Tom's introductory remarks. Jacquie has a steady flow of content coming off her desk on the region, not only on Georgia but basically on the region as a whole, also Central Asia, so we have two very interesting experts.

Not only do we have that, we also have lunch for you afterwards. There will be sandwiches being served after the event. Let's delve into it right away. Tom, you wanted to do a couple of introductory remarks about Georgia's Choices, then it's Jacquie's comments and then it's open to you.

Thanks for being here. Thomas, yes.

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THOMAS DE WAAL: Thank you very much, Jan, very glad to be here. This is the last leg of presenting this report, Georgia's Choices, which I did in Washington, in Tbilisi and in London, but it's particularly relevant to do it in Brussels because I think the EU-Georgia relationship is really crucial and this is really where my report ends, and this is obviously what I'd like to discuss most here today.

This is a report – I have written a lot about conflicts in the past – but this is a report which deliberately talks not about Russia and about conflicts, but I'm interested to have a debate about where Georgia is going domestically and its political and economic evolution.

What we're seeing in the next couple of years is a very important period of transition for Georgia, which defines its future I think for many years.

2012, 2013, I think we have the first Parliamentary elections and then Presidential elections, simultaneously with the adoption of a new constitution which will transfer powers from the President to a new powerful Prime Ministerial job.

We're also seeing, as it were, the renewal of the Rose Revolution generation. How they handle this transition I think will be crucial for Georgia and this is all happening in a time of much greater economic uncertainty for Georgia than it's had for many years.

We're seeing in an attitude survey that I quote in the report, page 16 if you want to have a look at it, that of the top seven issues for ordinary Georgians, six of them are now economic. Territorial integrity has slipped into third place after rising prices and relations with Russia is now way down in tenth place as the most important issue for ordinary Georgians.

I think we really need to keep an eye on the economy, which has had many successes but is in fact far more precarious than it looks.

It's my contention that this is a time for Georgia to make a choice about a longer term development model. This governing party has ruled very much by improvisation and you can't accuse them of being short of ideas. The problem is that they have too many ideas and that simultaneously they seem to be facing in different directions and come up with many new initiatives.

There's a lack of a strategy and this could be dangerous for Georgia and it could also, I think, be an opportunity missed in the sense that I think there is a good relationship to be forged with the EU, which is currently not happening.

For that to happen, I think obviously both sides need to do something, but primarily Georgia needs to make a clearer strategic choice in European direction.

Currently, ambassadors speaking to me not on the record, but I think you can guess – a diplomat who I think you can guess his nationality – quoted the American baseball star, Yogi Berra, who is famous for his anecdotal phrases, and Yogi Berra once said when you come to a fork in the road take it, and that was his description of where Georgia is heading at the moment.

Georgia's had a tumultuous 20 years. It was really 20 years ago as the Soviet Union ended, it was pretty much a failed state.

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It was the Somalia of the Soviet Union under the Gamsakhurdia regime that we then saw a slow state building project under Eduard Shevardnadze which he slowly disarmed the militias which were running Georgia.

He created I think one of the more democratic societies in the post-Soviet space, with a very good press and parliament, but also an economically weak state which had big problems with corruption and criminality.

Michel Sarcos really then took this to the next level after 2004 with a strong state building project and we really have to give him a lot of credit for particularly the reforms of the first years in which really a state capacity was built in Georgia properly.

In particular, for the very successful onslaught against corruption and criminality, I think you could say that everyday corruption in bureaucracy have been eliminated in Georgia in a way that they haven't in other post-Soviet states.

If you want to get a driving licence, if you want to get your child into university, you can do those things nowadays without paying a bribe, which is a considerable achievement. Ordinary public services work pretty well.

People complain about the prices but they don't complain about the efficiency of those services.

However, this has been a government which has governed in very much a revolutionary style. It's very little institution building; it's still a small group which is in charge of Georgia.

Since 2004 this government has had five Prime Ministers, six Foreign Ministers, seven Defence Ministers and seven Finance Ministers. There's not been much institution building and that has led to a dynamic style of government which has scored some big successes.

There was a big inflow of foreign direct investment in 2007-2008 and this crackdown on corruption, but there have also been policies which have excluded large parts of the population, particularly the rural population. More than half of Georgians live on the land and there's still deep rural poverty in Georgia.

We also see persistently high unemployment, even the President admitting that unemployment in Tbilisi stands at 30%. Recently we've seen very high food inflation and we've seen one of the flaws of the Georgian economic model that imports outnumber exports by a factor of 4:1.

These problems are now coming to a head in part because there was a very successful international stabilisation project to stabilise the Georgian economy after the 2008 war.

That \$4 billion aid package is beginning to come to an end and we're beginning to see those problems emerging now, just as Georgia enters this period of transition, which I think is why it's important to focus on Georgia now and in particular because this government structure, basically Georgia is a one-party state at the moment with very few internal checks and balances.

Therefore that puts an extra burden on Georgia's foreign partners to be the external checks and balances to encourage them to act in a responsible way.

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As I mentioned, there are some problems of this concentration of power in one group who have done some good things but also some bad things.

For example, the last couple of years, the government has been losing some of its business friendly reputation, a lot of complaints about harassment by the tax police. Earlier this year there was a very notorious case in which an Israeli businessman, Ron Fuchs, was put in jail for accepting a bribe in what his lawyers say was a case of entrapment and a personal invitation by the Prime Minister.

We're also seeing what I called in the report extreme order, the fact that the successful tackling of crime and corruption has been a car almost without brakes, as it were, that they've successfully done that, but the result now is from a rather criminalised country you now have a country with an extremely powerful Interior Ministry which is now the most powerful state organ in the country.

You have a prison population which is now per capital the fifth highest in the world. It's increased from 6,000 to almost 24,000 in the last seven years, and overcrowding in jails, 142 people died in Georgian jails last year.

You have a criminal justice system in which it's almost impossible to be acquitted. There were more than 7,000 criminal cases in Tbilisi last year and only 21 acquittals, 0.04% acquittals. A lot of people got out on plea bargains and paid fines, but still this does suggest an extremely aggressive criminal justice system in which once you're targeted there's almost no way of getting out.

This has implications politically and we're also seeing at the moment this very controversial case with these photographers being arrested and being locked up and their statements being broadcast.

In this context, it's very difficult to know whether these people are going to get a fair trial, whether or not they're innocent or guilty.

One other commentator, Neil McFarland, in talking about Georgia talks about an accountability gap and a transparency gap, which I think are two important phrases. We're also seeing, although compared to its neighbours the Georgian economy functions well, there are also large parts of the economy we don't really know much about.

There are hidden monopolies there which we occasionally get a glimpse of when it comes to importing food, gasoline, pharmaceuticals and so on, which because of the way the system works, no one is scrutinising them.

Where is this going? Well, in my report I sketch out a triangle which is obviously a bit schematic. Those of you have got it, it's on page 27, Georgia looking in three directions.

Now, I should say the fact that I call this report Georgia's Choices is a compliment to Georgia. Georgia does have choices. If you look at Armenia or Azerbaijan or Russia, you see a country which basically has a system and really is it going in one direction.

Georgia is a more pluralist country. It has choices, it has options; this is a positive thing to be said about it. Having said that, there is considerable confusion about which direction the country is looking at and really, in some ways, it's looking in three directions at once.

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I call one corner of my triangle Old Georgia. This reflects the fact that there's still very strong – and this is something I hasten to say that I respect – this strong ancient culture in Georgia, strong respect for the family. The church is an extremely powerful and respected institution.

In cultural terms, that's something I think we respect and admire about Georgia, but when it gets translated into opaque economic and political practices, that's something to be worried about.

The second corner of my triangle I call Singapore Quote/Unquote. Why quote/unquote? Because it's not really how the way Singapore, the real Singapore, operates, but this is a shorthand which the ultra liberal group talk about and use to describe the ultra liberal, deregulated, investor-friendly economy where everyone is friendly, the borders are open.

There are few regulations; labour laws are extremely weighted towards the employer rather than employee and we're seeing in places like Batumi the fruits of those kinds of policies.

The third corner is the EU. It's all about regulation, rigorous standards, democratic accountability and pushing Georgia again in the third direction, which is towards DCFTA, towards a free trade agreement and towards closer EU approximation, regulation rather than deregulation and opening up to much greater transparency areas of the Georgian political system and economy.

Now, at the moment the government pays homage to all three of these choices and that sends confused messages to Georgia's foreign partners.

When they talk about Europe, I think it's interesting and important to note that there's a lot of talk about Europe amongst the Georgian elite but it's rather fuzzy. The President talks about European civilisation, about Georgia as an ancient Christian country. In his speeches he even talks a lot about how Queen Midia [Inaudible] was the mother of medicine, the ancient queen and so on.

There's much less about the modern Europe and the EU standards and this leads to some confusion. In a poll last year 20% of Georgians thought that Georgia was already a member of the EU and I think a third of Georgians thought that Georgia is ready to join the EU in five years. I think there's some unrealistic expectations and understanding about what the EU means for Georgia.

A further problem is the two other corners of this triangle act as a drag on EU approximation. The Libertarian group describe the EU as bureaucratic and socialist. Levan Ramishvili, one of their leading thinkers, has described joining the EU project as like buying a ticket on the Titanic.

This group is quite small but very influential; you see them on the media and many of those people are in posts in government.

That's one drag on the EU aspirations of Georgia.

The second is also on the old Georgia, from the Old Georgia corner, as it were. The patriarch has said that he's distrustful of Georgians studying abroad because they'd be tainted by foreign influences and of course there are people who own businesses who do not want to open them up to greater transparency. There's a lot of opaque ownership, a lot of offshore ownership of Georgian businesses.

I do believe that the EU way is the most positive model for Georgia but it certainly needs a lot of help to get there.

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I think the Estonians set a good example. When I did this presentation in Tbilisi the Estonian Ambassador was really the star of the show, telling the Georgians that we support you on many things on your foreign policy but if you want to join a club you can't rewrite the rules, which is a bit of a Georgian attitude to EU approximation and that they have to make a much stronger commitment to regulation and standards and play by the rules.

There's obviously a lot – and we can talk about this – that Brussels should do. I think Brussels, this town, is obviously distracted by many things, by the Eurozone crisis, by the Arab Spring, by its own internal restructuring.

I think the Eastern neighbourhood is arguably actually more important to the EU than the Southern neighbourhood. This is a neighbourhood where many people have European aspirations and it's important to reach out to those people, it's important to make the European case.

If I have a major criticism of the EU after having done this report, it's that it has a very poor communications policy. There's no one out there giving the European vision to Georgia, not only Georgia, to actually the whole Eastern partnership, saying, okay, you have to do painful things, regulatory reform and so on, but there is a European vision out there; it's not necessarily about membership or only in distant future, it's about approximation, but there are many benefits to be accrued from getting closer to EU and this is what we give you.

Unfortunately, that message is not being got across to Georgians and this feeds the Euro skeptical camp in Georgia.

I think this is obviously worrying, as Georgia heads into this transition. It could lead to isolationist tendencies, so I think there's a lot more that this town could be doing to help nudge Georgia in the right direction, even if obviously the first actions need come from Georgia itself. Thank you.

JAN TECHAU: Tom, thank you very much for giving us a domestic rundown and for the three options. Jacquie, it's now yours. Give us some further input and then we'll open this up.

JACQUELINE HALE: Thank you very much, Jan, and it's always a tricky task to be a discussant when you agree largely with the analysis and I might actually find myself playing a little bit of the devil's advocate here, particularly with regard to your prescription about the recommendation about the EU being the way forward for Georgia.

First of all, I just want to make three points about where I think that Tom's analysis is particularly strong and then move into a couple of areas where I find an issue or perhaps the issues are a bit more problematic.

Firstly is the analysis of the role of the state. I think this is a real strength of Tom's piece because he really brings out the extent to which there is tension between the Libertarian ideology and rhetoric of the government and the stronger state that this government has managed to build, and very much to its credit over the last few years.

Certainly, what we're seeing a lot and what I hear a lot from the ground is a sense that the state plays a role increasingly in the hiring and firing and fining, and I think this is something that comes out quite a lot in Tom's report, the extent to which for a country which boasts of its ratings in the ease of doing business index, there's a lot of problems arising during tax inspections for small and medium sized enterprises.

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You give the example, Tom, of the wine producers in Kakheti who received a USD425,000 tax fine which would effectively bankrupt them.

THOMAS DE WAAL: Just before the harvest.

JACQUELINE HALE: Just before the harvest, so it sheds a different light on this notion that we have certainly, as outside observers, that it's all easy to do business in Georgia.

It's not just about tax, and here I would add, and picking up on your point about the increasing importance of the Ministry of the Interior as a strong state organ, the trend we've seen recently of Ministry of Interior officials being present in schools, patrolling school corridors, what does that mean for teachers?

Here you enter a whole realm of labour rights issues, which I know that the ILO has been quite vocal about recently and in fact I believe a complaint has been submitted to the EU around the GSP Plus that currently is awarded to Georgia.

The second point I'd just like to bring out where I think the analysis again is spot-on is in this tension between the United National Movement, the governing party, and its control, the suffocating control of the media space and the political space, which literally leaves no room, no breathing space really, for the opposition, and the somewhat, I have to say it, shambolic representations made by the opposition which really see them being outfoxed, outwitted by the government at every turn.

We think of November 2007 when the opposition had a golden opportunity to mobilise people around a social welfare agenda at a time when the government was really getting some pushback around issues like rural unemployment and pensions and welfare distribution.

Yet they failed to do so and I guess a question back to Tom would be, why is that, why is the political opposition in Georgia unable to make ideological gain in a context where the governing elite certainly has a very particular ideological framework, which I think sets them apart from a lot of other governments in the former Soviet states where really pragmatism tends to rule.

This also brings up the question, and it comes through in your paper, this tension between monopoly and competition in both the politics and the economy. You've already mentioned the hidden monopolies and we see that potentially working also in the media sphere, despite recent rulings in April last year, so recent legal changes which will make the media more transparent. Still the ownership of the media remains very much obscured.

Property rights and ownership questions across the board are issues that I think the analytical community, we have pay more attention to these, whether it's tourist sites in Imereti [Inaudible] or IDPs, as in January of this year, being evicted from their homes in Central Tbilisi.

There's a clear sense that there's powers within Georgia that have and powers that have not the rights when it comes to property and ownership.

This leads me to the third point when I say that Tom really does look at the whole sphere of issues relating to Georgia that are often missed, and that's his focus on socioeconomic analysis and poverty in Georgia.

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This is really an area that analysts, whether they're fans of Saakashvili and the United National Movement, or ardent critics, they alike tend to have missed this analysis of Georgia and focusing more on institutional issues and issues relating to separation of power.

I was struck and we were just talking before, Tom and I, to learn in this report that Armenia actually has a higher GDP than Georgia, although my sense of the morale in Armenia, just by comparison, is that the mood is much more sombre.

Certainly the rhetoric of this government around economic growth has somewhat convinced the international community that Georgia is on the up, but when it comes down to jobs, job creation and the increasing food prices, the NDI poll just cited really shows a disconnect between the concerns of ordinary people and the concerns of the Tbilisi elite, be they in government or in the NGO community.

The rural poverty question, as you say in your report, is the biggest problem and it remains to be seen in 2012/13 when the money of the donors runs out, fortuitously around the same time projected as the elections, what will come to pass. Although a curious aspect of your report was the finding that maybe even so, Saakashvili will win through, so again this question of the opposition.

Now, briefly on divergences, on areas where I would just challenge you to think further. On the question of conflicts, I understand the rationale of leaving conflicts to one side, particularly when talking about a country whose government uses the conflicts question to keep the country on the agenda, on the international community's agenda, often to the detriment of achieving a deeper analysis of the domestic reform deficits.

I wonder if precisely the psychology of this perpetual conflict explains to a certain extent the governance methodology of the this government which you describe as revolutionary, but is it not this kind of crisis, a sense of being in a psychology of conflict which drives this government into its hyperactivity, into being this ideas factory, constantly reinventing new promises, new goals and also explaining this occasional outbreaks of spy mania which we saw recently with the photojournalists.

Now, on the main point where I just want to challenge Tom a little on his thinking is with regard to the EU as the panacea or the direction which will offer Georgia the most, and here I'm playing a little devil's advocate against myself. It seems to be that perhaps the Georgian Government has a point beyond ideology. Perhaps the EU could be a bureaucrat trap if you look at the situation in Ukraine and the sense of which the DCFTA negotiations have stuck and in which Ukraine seems to have somewhat lost its spectre [Inaudible], lost its momentum towards the EU.

Also, if you make a legitimate calculation about the asymmetry of the size and strength of the two markets involved, does it really make sense for Georgia, given that as you say in the report, 80% of food in Georgia is currently imported? Despite its high economic dependence on agriculture, which is making subsistence, would a DCFTA help that?

Finally on conditionality, you advocate conditional love, quoting the former EU Ambassador, Per Eklund, and I would certainly – I'm one of conditionality's champions in theory – but then again I wonder does the EU really have the incentive. Is it all really about communication or is it a question of Georgia being treated meanly because it's key.

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Just to give you a sense of comparison, the way the EU behaves towards Georgia, rewards Georgia's keenness, is very different from which the way the EU behaves towards Azerbaijan where it's very much not a tough love approach but rather a *laissez faire*, arm's length pragmatism.

I'm going to conclude there and just one final question to Tom. In your introduction you cite Estonia as a positive example, but there is a gap. I suppose my €64,000 question would be, could you expand on this. What would be needed to make Georgia into Estonia? Thank you.

JAN TECHAU: Thank you very much, Jacquie. Tom, you got showered with questions from your commentator. Before we shower you with even more questions, I think you get a chance to reply to those first, and let me just weasel in a second one which struck me when you were talking earlier.

You said that there's this hyperactive government which has all kinds of ideas, probably too many of them, but then I found another thing that you said in one of the Q&As, which you can find on our website, which you gave I think in June, where you said that there's a growing apathy in the populous in the body politic, if you will.

There is this hyperactive government and a non-active population. Where's the disconnect coming from? What does this tell us about civil society that we usually obsess about and the vibrancy of any kind of political debate which could then also have a debate on the three options that you gave?

THOMAS DE WAAL: Thank you, I'll try to answer very briefly; we've got a very large group here and we can have a proper discussion. Your question, Jan, links to Jacquie's question about why is the political opposition so weak and I think this is the way that political culture is operating in Georgia.

We have this very dynamic, hyperactive government, which fills the media space, is always one or two steps ahead of everyone else, comes up with the ideas they announce like a rabbit out of the hat. We've got a new policy which no one knew about, for example, suddenly we're going to move the Parliament to Kutaisi, no one knew about this; suddenly the whole Parliament is being uprooted and moved to the second city.

Suddenly we do have an agricultural strategy which they suddenly unveiled. It's dynamic but it's not inclusive. I think this is the problem and I think this is not just a problem for the ruling party. I think the opposition is also not good at reaching out to society, which is why you are seeing this apathy, you're seeing it particularly in Tbilisi which is the big urban centre; people are just not politically engaged because they don't know really which way to turn.

A lot of people in Tbilisi don't think that there's anyone sticking up for them and I think this is obviously an unhealthy situation.

There's obviously a structural problem as well in the sense that if you look at last year's mayoral elections, for example, in Tbilisi, the governing party candidate, Gigi Ugulava, outspent the opposition candidate, Irakli Alasania, by a factor of 100:1 and also dominated the media coverage.

I think in most Western coverages an opposition candidate who is outspent by 100:1 would also have very few chances of success.

I think, Jacquie, you make a fair point about the psychology of the government being crisis driven and I would say that on the conflicts the approach was to try and shake the status quo, which was the Georgian

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Government's half of the responsibility for 2008, to unsettle the status quo which ended up with a crisis, obviously with joint responsibility with Russia.

Now I think post war we are into a much longer term problem. No one expects these conflicts to be resolved in five or even ten years and it is a problem which, barring a few crises, is being managed. There's the EU MN on the ground, the US is quite a good interlocutor on crisis management, so no one is expecting Russian tanks to be rolling down the road to Tbilisi.

I think it is legitimate to say that the conflicts are being managed. They are unsatisfactory obviously but they're a longer term problem and it is I think fair to focus on the shorter term domestic issues.

When it comes to the EU, could it be a bureaucratic trap? I think this is obviously a key question and obviously the EU has to be flexible on smaller issues, even if as it presents a larger vision for a country like Georgia.

Take a look at Turkey, which is obviously not going to be a member of the EU any time soon, if ever, but has gone through a process of European approximation with the Customs Union and so on, and the EU is now its biggest market.

We've seen transformation, for example, of Anatolia producing all these TV sets and glass and products, producing stuff and exporting stuff, and I think raising standards in the economy, producing things that people want to buy, should be an aspiration to Georgia, rather than having this import driven economy.

When it comes to agriculture, that's a matter of finding niche products which have to find their place in the market; that's not easy, but that certainly is taking charge of your own destiny by raising standards, rather than what you have at the moment, which is walking into a Georgian grocery shop and buying Turkish tomatoes, which is I think a crazy situation and in which scrap metal is still one of the three top exports of Georgia 20 years after independence, scrap metal being a shorthand for old Soviet factories dismantled.

I think Georgia should have more ambitions than that and no, it's not going to be Estonia anytime soon, but these reforms have laid a good foundation in terms of state operation, the ability to do business in Georgia. If the government can take a step back and stop interfering and get some more regulated standards-based economy, then I think things can begin to happen.

JAN TECHAU: All right, thank you very much. Now it's up to you. I see a couple of arms up. I think I'll collect probably the first four here. This gentleman was first, then I've seen arms here. I think we take four and then a round of answers from both of you and then into a second round please.

ALEXANDER FERBING: My name is Alexander Ferbing, [Inaudible], Europe and former European Parliament official. I have some points for the panel. The first one is you mentioned it's time and we have to find a way for Georgia to reinvent itself. I wonder how does it fit in the European future. Georgia was never close to Europe before so isn't inventing itself into a sense of famous Georgians like Stalin or [Inaudible] also, or do they have to head for Europe, as we say, as the best of the three possibilities? So reinvent, a bit like to work a bit on this... and how also to tell it to the Georgians.

The second thing is the priority issues for ordinary Georgians. You said that the economy comes now first and Russia is further down. Where would you put human rights in this space?

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The third one, the role of Georgian Diaspora, you know how powerful the Armenian Diaspora is – it's sometimes more powerful than the Government of Armenia – how does the Georgian Diaspora in Russia, but also in other countries, influence or can influence the way the country is run?

JAN TECHAU: Can we leave it at three so that others have a chance please to ask questions as well?

ALEXANDER FERBING: Okay, just for the Estonian, I think that it's not completely out of comparison because both countries, Estonia and Georgia, were former Soviet Union and they were both in the regional group, so Estonia came out of this group as number one, so I wonder how Georgia can play also an important role in this group of the three Caucasians.

JAN TECHAU: Thank you very much, this gentleman over here.

DAVID SOLOMONA: My name is David Solomona [Inaudible]. I'm from the Embassy of Georgia so I think it would be interesting for you to make some comments. First of all, thank you for organising such a debate and thank you for giving me the opportunity to say a few words.

Of course, Georgia is a pluralist society and I fully agree with you and in a pluralistic society it's normal to have [unclear words]. It's life. You find things, it's a little bit dramatised because we had a referendum and the European choice, it's already the key for Georgia public.

We want to be fully integrated in the European Union, in NATO, and we hope this will be the case. The problem is we're knocking on the door and hosts are predicting they're not in the house, but we'll be keeping ourselves to this past [Inaudible].

I have a lot of current findings, maybe I will go into an outcome [Inaudible] from the end. First, about the photographers, they were not photographers, they were public servants and they were not really independent. One was in President Saakashvili's administration, second in the Foreign Office and we had already declassified this case. It would be a transparent, open hearing and yesterday there was a confession from them by the presence of their advocates. It's really strong evidence that the case of Spierness [Inaudible] and we'll see still what will be the latest court decision.

As regards to the businessman, I'm wondering what would happen here in Brussels or anywhere else if a businessman would offer the bribe to the official, and we have videotaped evidence there. Of course you are asking the government to release them. It's not, in a democratic society, the court is the biggest chance to make decision and it's what's happening.

About the corruption, to do with corruption Georgia is the champion. It was felt the most corrupted country ten years ago and we are better placed than other EU countries, and this is not my assessment. If you go to the transparent information, you will see the data.

Are we happy that we have a lot of prisoners? Not. We have started to do a lot of prevention because the whole police was corrupt, the customs officers corrupt, tax officers corrupt and we had to make the strict reforms to prevent this kind of phenomenon. I would say you were saying that the Ministry of Interior is strong. It's not strong, it's a successful ministry.

If you see the latest poll in Georgia by the trust of public, the Ministry of the Interior is first [Inaudible], it's the second [Inaudible] charge. It's a dramatic change if you see in 2001 nobody trusted the police at all.

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As regards to the fact that you mentioned that we have policemen in this court, it's not to do with the Labour Court or GSP [Inaudible] plus.

In school we had a cry. Sometimes we had the killing of a child and abuses of child rights, so we have, it's in Georgia called mandated persons, which are civilians, which are not police, they are trained by the Ministry of Education. Right now we see the crime in the schools is zero. This we had to do, otherwise we would have the same Soviet past situation, unfortunately.

About DCFTA, it was quite news for me when you mentioned that there is a monopoly or we adopted the law, which is in full compliance with European [Inaudible]. What is the situation with the DCFTA? Sometimes people are going with the [Inaudible] date.

Georgia right now is implementing, even so we did not start it, we did not open the case, but we are implementing the European [Inaudible]. This is only one country which started already implementing a committee to try to do so. Right now we're debating whether this implementation index is 800% or 100%. This is debatable, arguable, yes, but I think you have to encourage not Georgia but another house here in Brussels to open and to give the reference a good incentive. I hope the next findings will do so.

JAN TECHAU: All right, can we leave it at this because I'm very thankful for the official kind of [Inaudible].

DAVID SOLOMONA: One more.

JAN TECHAU: I would like to take two more questions and then maybe we can engage in...

DAVID SOLOMONA: Just a last question. You mentioned about the 2007, we have a double [Inaudible], right, but you fail to assess why we had foreign, which was Russian aggression. After the Russian aggression the economy went down to -4 and the economists are recording, well, last year we had +4 and this year we're expecting to have +6, and next year two digits to record the same situation as we had before.

Government adopted, about free economy: the President is always saying that we're a European country. You mentioned Singapore, Hong Kong...

JAN TECHAU: Now, we're making it too wide. I'm taking two more questions here now, this lady up here and then this gentleman and then we're getting into a second round.

NIA BASCHKATOV: My name is Nia Baschkatov [Inaudible], I am from the University of Lieges and I thank you for the report that I found very original and that's why we published a review in our publication inside Russia and Eurasia.

I have two questions. One, you talk about the economic precariousness and the lack of ambition in the economy. Which one do you feel has been playing in the fact that for years Georgia, already under Shevardnadze was receiving huge aid from the West not to be let down, and I think it's a crutch to encourage this lack of ambition that you were criticising and what also lesson it's giving to EU since EU is ready again to give some aid.

The second question is, do you have some inside information about the eventual support or lack of support from the West about this new role that Saakashvili gave to himself to be the kind of rolling pool

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of all Caucasians when he says we are all Caucasian people. Of course it's obvious that it's a way to show to Russia you annoy us, but I can annoy you too because you are weak in those Caucuses.

It seems also to be a danger for the regional stability, so that's why I would like to know, since you have really inside information, if you've got something of that, because I'm trying especially to have inside information of it.

LEON KUPP: Leon Kupp [Inaudible] from the European Azerbaijan Society. Three quick questions, if I may, the first for Jacquie. You describe there a disparity in the relationship from the characterisation of the relationship between the EU and Georgia and Azerbaijan, one being *laissez faire*, arm's length pragmatism. Can you tell me whether you think that is seen through the prism of energy security and how the EU characterises its relationship with Georgia?

Two, for Tom. You said that there is a very aggressive criminal justice system in Georgia. Can you tell me where Georgia would stack up in relation to its Southern Caucasian neighbours, Armenia and Azerbaijan? And yesterday the EPC event, a management [Inaudible] commission of Fuller [Inaudible] outlined that a third of ENP funding goes to the Eastern partnership countries whereas the other two-thirds goes to the Southern neighbourhood. Can you tell me why you think that is and whether there will be a redress of this balance going forward? Thanks.

JAN TECHAU: Thank you. Lots of material. Tom, you want to start and then Jacquie?

TOM DE WAAL: Yes, I think you'll have to forgive me if I don't answer every single question and there were some themes which I should address, which is one about reinventing itself.

I think it's about getting out of this revolutionary mode of rather tackling problems and in a rather aggressive way, which has indeed achieved some good results, but I think it's now seven or eight years after the Rose Revolution to enter into a more stable institutionalised practice.

Whatever route Georgia chooses, I would say the EU route, but if the government can make a coherent case to choose another route that's up to them.

This gets us into the whole question of the criminal justice system, that too many shortcuts and the rule of law are not being applied rigorously enough. Videotapes being broadcast on television, you mentioned these photographers, in other countries you would not see immediately a tape of their confession being broadcasted.

There should be a presumption of innocence, there should be due process; and whether or not these people are guilty or innocent, there are too many shortcuts and not enough due process being applied.

The police are indeed quite popular but they're also very powerful and where are the checks and balances on the police? I quote the famous Latin quote, *quis custodiet ipsos custodias*, who is guarding the guards themselves? These are the issues, I think, which need to be addressed.

You could argue this is almost the Georgian Government being victims of their own success in many ways, but this is all about the next phase, about getting a more institutionalised basis whereby if a government was to leave office abruptly there would still be the institutions and the checks and balances to ensure a smoothly running state. I don't see that unfortunately in Georgia.

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Another example, again, the Fuchs case. Certainly I think he might have been in another country on the same accusations, he might well have been found guilty. What was troubling about that case was that the Prime Minister personally invited Fuchs, who was awarded \$100 million by an arbitration court, and I've got the quotation here, invited him to Georgia for a meeting to effect an amicable solution of the matter.

It looked like a trap and maybe the Georgian Government had a case, but it certainly sent a rather bad signal to other foreign investors who wanted to deal with Georgia.

Is aid a crutch? I think that's an interesting question when you've had a country which has had so many problems with poverty, and I think aid package of 2008 has been very good for Georgia, the millennium challenge for the USA in building infrastructure has been good for Georgia but certainly the problem now is that Georgia is facing is how to wean yourself off a big aid package and get back to a normal functioning economy without large injections of foreign aid. That's a problem which Georgia is facing and which its donors need to help it with. Its donors need to help it with receiving less, as it were.

On your question about the Caucuses, I don't have many insights on that. It is the President Saakashvili, as I said, has lots of idea, the idea of a united Caucuses being one of them, but I'm not sure when you talk to other people in other bits of the Caucuses, it's not something you particularly discussed with them. So it's unclear whether that was just a nice idea which hasn't really been thought through.

Why don't I pass over to Jacquie?

JACQUELINE HALE: Yes, just briefly, I think there were two questions for me. Firstly, on the importance of human rights, certainly it's one of the important questions in the relationship between the EU and Georgia and rightly so. Even where there have been strides, where there have been institutions built, that's been very patchy and we can have strong state institutions but sometimes they're not the ones that count.

The judicial reform process, the package that was started and supported by the EU in the early 2000s, we haven't seen the completion of that. We still see a situation whereby the strong use of plea bargaining, the low rate of acquittal and persistent reports of torture I think are still issues in the criminal justice system that Georgia needs to pay attention to.

The recent issue with the demonstrations on May 26th I think really brought out the extent to which there's still room for improvement with regard to the guaranteeing of freedom of peaceful assembly.

Georgia has made strides on human rights and certainly the ability to speak out under pluralism, even in civil society, has somewhat improved and recovered in fact since 2003, 2004 when what we saw with the Rose Revolution was actually the sector emptying out because actually a lot of the NGOs went into government.

What I do find in terms of my partners in the region is that some of the strongest and most institutionalised NGOs in the former Soviet Union are in Georgia and they're doing excellent work in holding their government to account.

I think that part of the credit there should go to the government for allowing such NGOs to exist and flourish and we hope that the government can continue to do that and in fact play a much stronger role in supporting civil societies' ability to hold the government to account on budgetary issues, on transparency issues, on freedom of information issues, because this is an area where we're seeing increasingly national

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security rhetoric being used as a reason for denying information to NGOs that might be wanting to find out more about a particular project funded by IFIs, for example.

On energy security, I think, if I understood correctly, is energy security a factor in the relationship between the EU and Georgia or Azerbaijan?

LEON KUPP: Is that the differentiator between Georgia and Azerbaijan?

JACQUELINE HALE: I see it as such, the fact that the EU rolled out a memorandum of understanding separately on energy for Azerbaijan, which seems to govern the relationship much more than the action plan under the ENP. I think it's a differentiation factor.

JAN TECHAU: I have three more, this gentleman over there, then Purka [Inaudible] and then here in the front row.

NICHOLAS WEISS: Nicholas Weiss [Inaudible], currently an independent diplomat but previously with the International Crisis Group where I oversaw the document, the ICG's first reports on Georgia several years ago. My question to you both is on the political opposition.

Back in those days, and I'm talking 2004 to 2006, my perception was that that when the political opposition to President Saakashvili were discussed, it tended to be in the discourse of who had the best links, political and business and economic and patronage with Moscow, with the Kremlin.

You did mention this in your presentation but I'm interested to know whether it is still a factor in discourse and also whether there is actually any substance to it, because I was always a bit skeptical.

PURKA TEPILA: Thank you, Purka Tepila [Inaudible] from the EAS [Inaudible]. A question on the conflicts or basically popular attitude towards the conflicts.

You mentioned that territorial integrity had dropped on the list of people's concerns and also in another part of your presentation you mentioned that there's maybe a new sense of security in that, or hinted at that, that people do not anymore expect tanks to roll up Rustaveli Avenue, so there is a certain change here.

Of course, you mentioned this, the first issue in the context of the economic problems and the economic sense, but it does beg the question do we see now that we are three years off from 2008, we see a situation which, as you said, is not going to move for quite some time. Would you say that there could be a precursor in that that this issue, the issue of Abkhazia, South Ossetia will be going steadily down on the agenda of the Georgian population, or would you say that this is a temporary drop? Thanks.

CHRISTIAN MESUR: I'm Christian Mesur [Inaudible] from NATO International Secretariat, so you will guess my question. Have the NATO perspectives of Georgia, which you can argue is part of the European path of Georgia, and here Georgia has made a clear choice and arguably is also following an example of other Central and Eastern European countries.

How do you see this pan out in the next, as you call it, interim period, until the 2013 elections and also possibly beyond, and how can NATO best serve the democratic development of Georgia? Thank you.

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BETSIANA MERASKA: Thank you very much. Betsiana Meraska [Inaudible], professor at the University of [Inaudible], Director of the [Inaudible] Centre of Excellence.

For the last recent years when I started more intensive to receive students from Georgia, and obviously I am interested in learning more and more about the education system in Georgia. If you have been analysing this or discussing it, I would be really interested to know your opinion about the changes, structural changes and how this influenced the quality of students that graduate, for example, the bachelor program and come to us to study in Masters studies, because we see the gap between students in Europe, students in Latvia, students that are coming from Georgia. They have a particular interest to study in Europe to, for example, learn more about the European Union.

If these students that graduated programs in Europe, when they are back to Georgia, hopefully they're coming back to Georgia more than they stay in Europe, but if they are invited and if they have chances to get jobs at institutions in Georgia so they can bring their knowledge to the country from Europe. Thank you.

THOMAS DE WAAL: Thank you. On the issue of the opposition and Russian backing, I think post 2008 Russian backing really is the kiss of death to the Georgian opposition and I think you saw Nino Burjanadze and Zurab Zhvania losing support because of meeting Putin.

Is Russia trying to influence and spend money in Georgia? Probably yes. Is it having any influence? I think the answer is no. I think when you look at polls, there's support for the idea of normalisation with Russia on day-to-day issues, but there's still huge suspicion about Russian intentions over Abkhazia, South Ossetia, which leads us to the question about Abkhazia, South Ossetia.

I think clearly there's still potential for crises connected perhaps with the North Caucasus, with the Sochi Olympics in 2014 which could be a flashpoint, unfortunately, particularly if the Russians want to try and open up Abkhazia for people to stay in during those Olympics.

North Caucasus is obviously troubling, but I do see this as a problem which can be managed and which for those Georgians who have had some direct relationship to the conflict, is not going to be a priority. I think in some ways the government wants it to be a greater priority than it is.

Clearly, the argument to be made is that greater prosperity, greater stability for Georgia, greater EU approximation, could stabilise Georgia in a way that the conflict zones of Abkhazia South Ossetia would first of all want to have more economic links with Georgia that would re-establish people to people contact, particularly from South Ossetia, which is very much part of the Georgian geographical space, and that in turn could lead to some kind of political context, but that's a much longer term prospect.

On NATO I have to be blunt. I think Georgia's NATO prospects are pretty much close to zero at the moment. I think being a consensus-based organisation, there's a core of NATO countries which are very sceptical about Georgia, particularly after 2008, and see it as a problem taking over a country which has two unresolved conflicts on its territory with Russia.

I think this is why the economic EU route has to be a priority. That isn't to say that there are plenty of things that NATO can be doing in Georgia short of membership and partnership and peace and so in terms of professionalising the army, but I don't see any prospect in the near future of Georgia getting on the map.

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On the educational system, it's not something I studied very closely. Georgians do say that each Education Minister has brought in a new policy. We've seen centralisation, decentralisation, recentralisation, and there's a hope that the policy will become a bit more consistent.

There's obviously a small group of Georgians who do study abroad, many of them in the US, some in Europe, who are a younger generation. They speak different languages, they're a positive younger generation, but it has to be said that it is a smaller group and I think standards for the whole country are still quite poor. That's really a reflection of poverty in Georgia and it's something which will take a long time to fix.

JACQUELINE HALE: Yes, just briefly on two of the questions. Firstly, on the issue of the political opposition, I completely agree with Tom that in the case of Nino Burjanadze it resulted in a loss of support with a negative factor.

I'd be tempted to just make a comment about the fact that these leaders even go to Moscow and what that says about the space within the Georgian political scene for the opposition. I'm thinking specifically of airtime on the media, advertising.

Yes, there's a lot of responsibility on the opposition side to organise better and to be more proactive with an agenda, but I think I would say that it's in the interests of the government, of the Georgian political elite, to create that space so that the opposition figures are not, even as a last resort, running after Moscow to try and see if that lever works.

The second point on conflicts, I think it's a very good question because it also gets to the heart of who we're talking about in terms of whose agenda. When you talk to the elite, both the government and nongovernmental actors in Tbilisi, actually you get two different analyses.

You get the government prioritising the conflict, but the nongovernmental actors in Tbilisi, the Liberal elite, actually are quite distant from it. But as soon as you land in Zugdidi or Akahori [Inaudible], the issue is very different. There it's very much at the top of the agenda.

I think we have to be clear about the different constituencies in Georgia and the fact that many of the people I talk to within the Liberal intelligentsia, in the nongovernmental sector, perhaps are moving on from the conflicts and are a bit distant from the conflict.

That said, we've got to remember that over 250,000 people in Georgia remain displaced and very much affected. These are often first wave refugees from the Abkhazia conflict 18 or 19 years ago. For them, the conflict is very real. What's interesting at the moment is that the government actually has not been listening so much to that constituency or rather recent policies pursued by the government – and I'm particularly thinking of the evictions in January of this year – actually played against that constituency.

Yes, it's not a very clear answer but I think the point is that we need to be looking not only at Tbilisi but also at the region.

JAN TECHAU: Okay, we'll do a final round. I have two gentlemen here in the middle.

PAUL IVANANA: My name is Paul Ivanana [Inaudible] from CEPS, the Centre for European Policy Studies, and I have a question for you. What do you think are the prospects and what would be a timeline for

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Georgia signing a DSFTA with the EU, given that the ideological divide between the two sides is quite evident during the negotiations that they have now on the association agreement?

STEPHEN CROSS: My name is Stephen Cross from the Unrepresented Nations and Peoples Organisation. I have a question about this, not crisis driven but crisis aspect of this psychological nexus of politics in the Georgian government.

Do you feel there'll be any short-term influences of the upcoming elections in Abkhazia on this crisis driven re-inventory approach of the Georgian Government and will this maybe have some influences in the short-term as opposed to long-term?

JAN TECHAU: Thank you and let me add another one, a final one. We've heard earlier a comment on two-thirds of the Neighbourhood Policy money going into the Southern Neighbourhood and only one-third of it going into the East.

My question to both of you would be: you've made a case for the high value that the EU can potentially have for Georgia, but what's the strategic value or the political value of Georgia for the EU, and maybe that can be elaborated.

There's a very final one, but that must be a very quick one.

UNIDENTIFIED MALE SPEAKER: Thank you, [Inaudible] from NATO. I just have one question on the regional aspect of Georgia and the context in which it is, the conditionality of its neighbourhood, Azerbaijan, Armenia. We've been talking very much about Georgian/Russian relationships but is there a regional reality or is there a regional cooperation, whatever?

JAN TECHAU: Thank you, a final round of answers before lunch.

THOMAS DE WAAL: Okay, I'll bear that in mind as I give my answers. On the DCFTA, when I was in Tbilisi a few weeks ago the mood was more positive than it had been earlier in the year. Negotiations might start by the end of the year if all goes well.

Of course, we're only talking about getting to the starting line, and then we have two plus years. The worry is that the government is more interested in starting the process than seeing it through. The sceptics in Tbilisi say they want it more as a political flag than as an economic reality, so we'll see. Certainly it will be positive if it starts.

To me, the interesting issue to watch is the one about whether this new Monopolies Commission, which has indeed finally been formed, whether it has teeth, whether it has the capacity to investigate some of these questions which people are constantly raising but they don't have the capacity to investigate about monopolies in the Georgian economy.

That for me will be a test issue. If it does start to investigate and achieve some results, then I will start to believe more and be more positive about the EU process, and that will be very good.

About the elections in Abkhazia, I don't think they're going to make any impact in Georgia. The Georgian official position now is that Abkhazia is occupied by Russia and therefore that almost absolves them of a need to look at domestic politics in Abkhazia, which isn't to say that I don't think they should, but I don't see it as being a factor in Georgian domestic political life.

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The question about is there a regional reality, this is something I've written about a lot, about how the South Caucasus is definitely a region but it's a dysfunctional region. It's a communications hug that doesn't work and certainly the capacity there is enormous for a regional economic communications reality to be invented.

However, while you've got the Georgia/Russia relationship so bad and while you've got the Nagorno-Karabakh conflict basically splitting the other two countries in the South Caucasus and dividing the map, unfortunately that reality is never really going to work properly.

I think Jan's question is possibly the most interesting of all – what's the strategic value of Georgia for you. Well, economically obviously Georgia means nothing to the EU. It really is a tiny, tiny economy.

I think Georgia's a small country which has made some good reforms. I hope that these worrying tendencies that we've been talking about won't carry on in that direction and that they can manage this transition.

If it does manage that transition, Georgia could become a good news story again, in which case it could become a positive example for the rest of the neighbourhood. There's obviously a strategic value in stabilising a country which has these conflicts and bad relationships with Russia, but Georgia could again be a positive model for its neighbours.

I think Ukraine is far bigger and more complex. Georgia, four or five million people, if the right kind of work in Georgia, the right kind of engagement, right kind of conditionality, right kind of tough love, there is a scenario out there in which Georgia does begin to work as an Eastern Neighbourhood success story and therefore its value is far greater than its size.

That's the potential good news story out there. Unfortunately, there are some bad scenarios out there as well.

JAN TECHAU: Thank you. Jacquie, can you finish it off?

JACQUELINE HALE: I'll be brief. On Georgia's regional dynamic, certainly we've seen a lot of rhetoric recently from the Georgian Government about the worsening situation or the increasing tensions over Nagorno-Karabakh, so this is clearly a country that is thinking regionally even if its main rhetoric with regards to the EU is obviously the bilateral bent.

When we see Georgia within this EU/Georgian relation framework, what we see is Georgia looking to somewhat distance itself from its South Caucasian neighbours in terms of its progress towards the EU and the rewards that it gets under this new more for more framework I'm sure the Georgian Government will be pushing there.

Just very quickly on the two-thirds/one-third funding issue, because Tom's very much answered the question on strategic significance of Georgia better than I could. The two-thirds/one-third funding question I've always felt to be a bit of a red herring, just because when you divide it up per capita on population, you discover that there's a lot more people living in the South than in the East of the EU.

What you're seeing is much less per capita spending at the end of the day in the South and then, if you like, the argument swings back on itself and we suddenly find ourselves defending again quite high

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figures for Ukraine, in particular, as per its population size, which for those of us who work on this region we really don't want to enter into that.

I think the question is more about how the funding is used and whether this budget support, this new aid modality really reaps rewards or has impact. Has the investment that the EU made in Georgia's public financial management processes paid off and, importantly, were civil society actors able to be engaged in that process and hold their government to account? Did the EU build that into its conditionality?

I think these are questions that we'll be asking in Brussels in the coming months as there are discussions more broadly about the EU's budget support instruments.

JAN TECHAU: Thank you, Jacquie, and thanks Tom for your insights on this. Thanks for squeezing it into your schedule to come here today. You said that the value of Georgia is higher than probably its size. Certainly the turnout today here is the case that Brusselites attached some importance, some significant importance, to this.

Please stay with us for lunch, join us for a light lunch that's being served over there. Eat it all and then enjoy the rest of the week and please come to Carnegie Europe. Thank you.