

## GEORGIA AT TWENTY-FIVE: IN A DIFFICULT SPOT

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With most of its neighbors sliding toward authoritarianism, Georgia stands out. It has made steady progress toward a sustainable, democratic political system. Competitive elections are now the norm, and basic freedoms—of expression, assembly, and association—are respected.<sup>1</sup> Over the past twenty-five years, Georgia has reformed its state institutions, made them more accountable to its citizens, and fostered an efficient, business-friendly environment. At the same time, Georgia continues to face major ongoing challenges, in terms of consolidating its democratic progress and cultivating inclusive economic growth. It must also manage its uneasy security relationship with Moscow and work with a West that is distracted by internal divisions and increasingly focused on security threats from the Middle East—a region not far from Georgia’s borders.

To date, Tbilisi has favored policies of closer economic and security coordination with the United States, NATO, and the EU. However, given the lagging progress in deepening ties with the West, Tbilisi needs to carefully manage its relations with Moscow, improving them where possible while shoring up its own resilience to a wide array of hybrid tactics and other emerging threats. Tbilisi also should expand its roster of potential partners, especially on the economic front. Admittedly, Georgia’s future depends on both its own policy choices and conditions in its neighborhood, but a multipronged approach could help the country better respond to a changing geopolitical environment around the greater Caucasus and expand Tbilisi’s range of policy options and prospects for success.

### A ROCKY START

Few former Soviet states have pursued a Western model of governance as resolutely as Georgia. However, the start of that process was nearly fatal for the young independent

republic. Late Soviet-era Georgia fostered one of the most active civil society and independence movements of the glasnost period, but strong nationalist tendencies led to frictions with Georgia’s ethnic minorities and a breakdown in relations with Russia. The xenophobic rhetoric of Georgia’s first democratically elected president, Zviad Gamsakhudia, contributed to growing tensions between ethnic Georgians and other ethnic groups, which led to conflict in South Ossetia in 1991 and laid the groundwork for the war in Abkhazia that started in 1992. By the early 1990s, Georgia was no longer one of the Soviet Union’s most prosperous and successful republics, but rather a new country with collapsing state authority, incessant civil conflict, and two Russian-supported, armed separatist movements.

Gamsakhurdia’s authoritarian tendencies plunged the country deeper into civil strife. In January 1992, a group of warlords invited former Soviet foreign minister Eduard Shevardnadze, who had previously been the Georgian

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Communist Party boss, to replace him. Gamsakhurdia and his allies carried on their fight against the new government until late December 1993, when he was found dead with a gunshot wound to the head.<sup>2</sup> During the civil war, the country's industrial base and infrastructure were devastated, and large swathes of territory were controlled by criminal paramilitary groups.

Shevardnadze lacked an electoral mandate for the first three years of his tenure, but he helped bring stability back to the country. He sidelined most of the warlords—including those who had brought him to power—and was elected president in his own right in 1995. However, Shevardnadze struggled to get the machinery of the state running again; the economy was lifeless, corruption pervasive, and large numbers of internally displaced people from the two separatist wars posed a heavy burden for state coffers.<sup>3</sup> With his popularity dwindling in the face of Georgia's mounting problems, he was nonetheless reelected in 2000, but the vote was marred by accusations of irregularities.<sup>4</sup>

Nevertheless, on Shevardnadze's watch, Georgia cultivated many features of a democratic society and deepened relations with external partners in its neighborhood and the West. The country enjoyed a mostly free press, a vibrant parliament, and active civil society—even as the country was increasingly dominated by the president's Citizens' Union political party. Shevardnadze turned Georgia toward the West, pushing it to join the World Trade Organization, the Council of Europe, and NATO's Partnership for Peace program.<sup>5</sup> He strengthened ties with Azerbaijan, its hydrocarbon-rich neighbor to the east, and Turkey, its outlet to Europe and the Middle East, by offering Georgia as a transit country for Caspian Sea oil and gas.<sup>6</sup> The Baku-Tbilisi-Ceyhan (BTC) oil pipeline now transports Azerbaijani and some Central Asian oil through Georgia into Turkey and beyond, bypassing both Russia and Iran.<sup>7</sup> The South Caucasus pipeline does the same for gas, which has created a strong trilateral economic bond between Ankara, Baku, and Tbilisi.

But Shevardnadze's westward push, combined with his personal legacy as the Gorbachev-era foreign minister whom Russian hardliners blamed for surrendering the Soviet system to the West, created tensions with Moscow. Starting in the 1990s, Russia began supporting separatist groups in Abkhazia and South Ossetia, applying an array of hard-edged political,

economic, and military pressure tactics (including repeated attempts to assassinate Shevardnadze) to undermine Georgia.<sup>8</sup>

## SAAKASHVILI'S REFORMS

Shevardnadze's Citizens' Union developed into a patronage network that rewarded post-Soviet elites and bureaucrats who backed him, fueling widespread corruption. At the same time, Shevardnadze's party included a group of young reformers who were increasingly frustrated by the slow pace of reform and their inability to accelerate it. One of the leaders of this group was a young American-educated lawyer, Mikheil Saakashvili. Saakashvili and several colleagues parted company with Shevardnadze over the corruption issue and formed an opposition movement ahead of the 2003 parliamentary elections. Shevardnadze's government once again tried to manipulate the vote, but in light of the infighting and street protests of the Rose Revolution that followed, Shevardnadze ultimately resigned in November 2003.<sup>9</sup> New presidential elections were held in January 2004, and Saakashvili was elected.<sup>10</sup>

The Rose Revolution was triggered by protests against election manipulation, but made possible by economic discontent, frustration with high levels of corruption, and the tolerant atmosphere of the Shevardnadze era. Saakashvili and the United National Movement (UNM) accelerated his predecessor's westward trajectory, receiving plaudits in Europe and the United States for a series of bold political, economic, and social reforms. Then U.S. president George W. Bush rewarded Saakashvili with a visit to Georgia in 2005, publicly declaring the country a "beacon of democracy."<sup>11</sup> Georgia became a symbol of success for the Bush administration's Freedom Agenda. Generous U.S. political support and assistance to Georgia unnerved Moscow.<sup>12</sup> While the West celebrated Saakashvili's democratic reforms, it largely overlooked his nationalist rhetoric and penchant for risk taking, which exacerbated tensions with Georgia's breakaway territories and Russia.<sup>13</sup>

Saakashvili's reforms were necessary and successful, although the benefits were felt unevenly by different segments of the population. He reined in the Shevardnadze-era oligarchs, arresting some and getting many to pay back part of their illicit gains. His government simplified the tax code by introducing a flat tax.<sup>14</sup> He took on corruption, eliminating

it from the police, the customs administration, the tax service, the education system, and the health sector. Everyday graft—a problem that plagues citizens across Eurasia—is negligible today, although Saakashvili never really took on high-level political corruption. In some cases, his policies exacerbated it to the UNM’s advantage.<sup>15</sup>

These economic initiatives led to a dramatic increase in national revenue, which enabled Saakashvili’s government to start rebuilding the state, spending money on infrastructure, and improving the state’s ability to provide services. However, the benefits of these reforms were distributed highly unequally across Georgian society. Sectors like real estate and banking saw massive boosts from foreign direct investment, but that created few jobs and did little to alleviate rural poverty.<sup>16</sup> Despite becoming one of the world’s “freest economies,” according to a Heritage Foundation index, high levels of unemployment and underemployment have continued to this day.<sup>17</sup>

Nonetheless, in his decade-long tenure in office, Saakashvili oversaw reforms that transformed a broken state into the region’s most efficient one, creating an impressive e-government system, opening the country to foreign investment, simplifying business registration practices, and streamlining the country’s bureaucracy.<sup>18</sup> Between 2003 and 2010, Georgia jumped from number 127 to 68 in Transparency International’s Corruption Index.<sup>19</sup> Its ranking has continued to improve in the post-Saakashvili era.<sup>20</sup>

## THE 2008 RUSSO-GEORGIAN WAR

Saakashvili sought to expand security ties with NATO and the United States to hedge against Russian aggression and promote Tbilisi’s Euro-Atlantic integration. He committed Georgian troops to the U.S.-led coalition forces in Afghanistan and Iraq, eventually making Georgia the largest non-NATO contributor to military operations in Afghanistan.<sup>21</sup> Georgia’s goal was not simply to provide assistance, but to gain combat experience, improve its armed forces’ capabilities, and get a U.S. commitment to reciprocate, if needed. Security cooperation between Georgia and NATO member states—the United States in particular—flourished.<sup>22</sup> This, in turn, exacerbated concerns in Moscow that on Saakashvili’s watch Georgia was moving quickly toward NATO membership.

Saakashvili’s adoption of a staunchly pro-Western course and his risk-taking behavior would come at a high price for Georgia in its relations with Russia. At the 2008 Bucharest Summit, Russian President Vladimir Putin declared that a clumsy Bush-led effort to confer NATO membership on Georgia and Ukraine would constitute a “direct threat” to Russia’s security.<sup>23</sup> He played on the concerns of the leaders of France, Germany, and several other European states that Georgian membership would not improve the security of the alliance. Because of these disagreements, NATO leaders deferred making a clear decision at the Bucharest Summit, refusing to definitively close the door on Georgian membership while not giving a realistic timeline of when it might happen.<sup>24</sup> NATO membership remains beyond Georgia’s reach, putting Tbilisi in the precarious position of being close to the alliance without enjoying the reassurance that membership will someday become a reality. This compromise solution within NATO has not alleviated Russian displeasure about the alliance’s relationship with Tbilisi.<sup>25</sup>

Because Saakashvili was prone to rash, erratic decisionmaking and public statements, his nationalist bent exacerbated tensions with Georgia’s breakaway regions and their backer in Moscow. Throughout 2008, Russia staged a series of provocations to increase pressure on Saakashvili and to unnerve Western leaders who already questioned the value of NATO membership for Tbilisi. Moscow’s actions included issuing Russian passports to residents of South Ossetia, holding a large-scale Russian military training exercise in the North Caucasus Military District near the Georgian border, and covertly sending Russian mercenaries and volunteers into the breakaway territories in summer 2008. Tensions were heightened by a series of jet and drone incursions across the ceasefire lines, as well as a series of bombings on both the Abkhaz and Georgian sides of the administrative boundary line—the de facto border.

With Georgian patience exhausted, Saakashvili in August 2008 launched an attack on Tskhinvali, the capital of South Ossetia, and Georgian forces briefly occupied most of the breakaway region.<sup>26</sup> Russia responded by marching troops into South Ossetia, invading deep into Georgia and capturing the city of Gori—which Russian forces held for nine days.<sup>27</sup> This was the most violent outbreak of conflict in Georgia since the 1990s, leading to a new wave of internally

displaced people and Russian recognition of South Ossetia and Abkhazia as independent states.

The war transformed the conflict from one between Tbilisi and Russian-backed breakaway territories into a direct interstate dispute between Russia and Georgia. Since the 2008 war, Russian influence and control over these regions has increased dramatically.<sup>28</sup> In the intervening years, South Ossetia has been effectively annexed by Russia in all but name.<sup>29</sup> In March 2017, Putin approved a decree that incorporates some South Ossetian troops directly into the Russian military, while the region's economy increasingly is being integrated with that of Russia's North Ossetia.<sup>30</sup> Russian security services reportedly have a heavy presence in the territory. Abkhazia, which is larger and more economically self-sufficient, has slightly more independence, although it too depends on Moscow for its livelihood and security.

The growing Russian military presence in the breakaway territories leaves Georgia in a perennial state of insecurity, especially in South Ossetia, where Russian and local forces are constantly probing along now highly militarized boundary lines that civilians can no longer pass through, as they could before the 2008 war.<sup>31</sup> The administrative boundary line with Abkhazia remains quiet and open for crossing, however. This situation has given Moscow a destabilizing foothold in the country, although it has also strengthened the resolve of successive governments in Tbilisi to integrate with the West and reject Russian-led integration projects.

## **SAAKASHVILI'S DOWNFALL AND THE GEORGIAN DREAM**

Many expected that Saakashvili's miscalculations in 2008 and loss in the war would lead to his political demise, but he lasted in office for another five years. His government was buoyed by a post-war sense of patriotism, anger at Moscow, and robust assistance from the international community. The United States, for example, provided Georgia with \$1 billion in post-war assistance.<sup>32</sup> However, Saakashvili often personally overshadowed the political and economic reforms he pursued. He presented himself as key to Georgia's reforms and Western aspirations, without allowing proper institutions to develop, and he confined decisionmaking to a close-knit group of trusted officials and advisers. Saakashvili's loyalists enjoyed the perks of their close association with the

president—proof that his anticorruption drive stopped short of taking on powerful elites.<sup>33</sup>

Saakashvili created a much more efficient government than his predecessor, but Saakashvili's Georgia was not necessarily more democratic. He changed the Georgian constitution to strip the political system of checks and balances, and over time he grew steadily more authoritarian. The country became dominated by his UNM party. During his tenure, Georgia experienced a gradual curtailing of media freedoms, efforts by the government to manipulate broadcast media, a politicizing of the judiciary, and several crackdowns on civil society protests.<sup>34</sup> All of these moves kept Georgia in the "partly-free" category of Freedom House's Freedom of the World Index, tarnishing the Saakashvili administration's image.<sup>35</sup>

Given the high levels of corruption and preponderance of criminal groups in the country, Saakashvili's government had little tolerance for crime. The Georgian security services and judicial system were given broad powers and launched a war on crime—from economic corruption to petty street crime.<sup>36</sup> The Georgian president empowered long-serving then justice minister Zurab Adeishvili and then interior minister Vano Merabishvili to take a hardline approach to crime that led to a 300 percent spike in the country's prison population during Saakashvili's tenure.<sup>37</sup> In 2010, Georgia had the fourth-largest incarcerated population per capita in the world, although the government did not invest adequately in expanding and modernizing the country's correctional facilities.

Despite these illiberal traits, the West maintained its support for Saakashvili as a pro-Western reformer, which likely reinforced some of his worst tendencies. Western faith in him was tested in 2010 when, limited to two consecutive terms, he pushed through a constitutional referendum to transition Georgia from a presidential republic to a parliamentary one, creating a powerful post of prime minister.<sup>38</sup> Many believed Saakashvili wanted the change to maintain his hold on power by becoming the prime minister after the end of his presidency.

Saakashvili's fortunes were dramatically reversed on the eve of the critical 2012 parliamentary elections, when evidence of gross misconduct, abuse, and rape in prisons by Georgian police and security officials came to light.<sup>39</sup> These accounts put a very unflattering spotlight on the highly

punitive justice system Saakashvili had constructed. Large demonstrations upended the Georgian political system and contributed to a UNM defeat by the opposition Georgian Dream coalition, which was led and funded by oligarch and fierce Saakashvili critic, Bidzina Ivanishvili. The Georgian Dream promised to hold the Saakashvili government accountable for its misdeeds and to try to normalize ties with Russia. It mobilized large parts of the population, especially in rural Georgia, who had felt marginalized under Saakashvili and saw few of the benefits of the UNM's lopsided economic policies. The Georgian Dream garnered 54.9 percent of the vote to the UNM's 40.4 percent.<sup>40</sup>

This election launched an awkward year of political cohabitation. Saakashvili, who remained president until 2013, had to govern jointly with his bitter political enemy—the Georgian Dream government headed by then prime minister Ivanishvili. However, Ivanishvili stepped down from office after the October 2013 presidential election, won soundly by Georgian Dream candidate Giorgi Margvelashvili with 62 percent of the vote.<sup>41</sup> Margvelashvili assumed a presidency that was much less powerful than before, while Ivanishvili has continued to wield considerable influence from behind the scenes, raising questions about the political system's checks and balances. Yet, despite their obvious flaws, Saakashvili and his UNM allies deserve credit for helping build a political system that the opposition used to push him from office peacefully through electoral means.

Despite UNM accusations that Ivanishvili and the Georgian Dream are too close to Russia, the new Georgian Dream government has continued along its predecessor's path of westward integration and democratic consolidation, signing an Association Agreement with the EU in 2014 and becoming host to a NATO training center in 2015.<sup>42</sup> Both moves have enjoyed broad public support: as of April 2017, 72 percent of Georgians approved of the government's goal to join NATO, and 80 percent were in favor of EU membership.<sup>43</sup> Current Prime Minister Giorgi Kvirikashvili reiterated this pro-Western orientation in June 2016, stating that he does not “see any alternative for ensuring long-term stability for Georgia to joining this Euro-Atlantic family of countries . . . Nothing can derail us from this track.”<sup>44</sup>

The Georgian Dream achieved another unexpected success in the 2016 parliamentary election—its third

consecutive nationwide electoral victory over the UNM. This decisive win was somewhat surprising given the country's continuing economic problems, including an official 12 percent unemployment rate, and the Georgian Dream's low approval ratings throughout the campaign.<sup>45</sup> Yet the UNM had difficulty shaking free of its controversial past—a problem Saakashvili exacerbated when he declared that he would return to lead a post-election government.<sup>46</sup> The Georgian Dream swept the elections, winning a three-fourths supermajority in the 150-seat legislature.<sup>47</sup> This harsh repudiation of the UNM put to rest speculation about Saakashvili's reemergence as a political figure and led to a party split—with one faction turning its back on Saakashvili.<sup>48</sup> The UNM's implosion creates new risks for democracy in the country. Without a strong and effective opposition, Georgia once again risks being dominated by one-party rule—this time under the Georgian Dream banner.

## AN IMPERFECT DEMOCRACY

Despite the peaceful government transition, Georgia today faces many internal political challenges. Overcoming the controversies of the Saakashvili era is one of them. After stepping down from the presidency, Saakashvili moved abroad, first to the United States and subsequently to Ukraine after the 2014 revolution.<sup>49</sup> He is wanted by the Georgian government for crimes allegedly committed during his tenure. Saakashvili and his allies—both in Georgia and abroad—have accused the Georgian Dream of vindictiveness toward the former president and his party.<sup>50</sup>

Since Saakashvili's departure, Georgia has indeed struggled to come up with an appropriate response to the extrajudicial side of the Saakashvili era. The West and many Georgians generally accepted former minister Merabishvili's prosecution and incarceration, but other cases have been more controversial, including the jailing of former Tbilisi mayor Gigi Ugulava.

Another controversy arose from an attempt, apparently by Georgian Dream supporters, to take over the UNM-friendly television station, Rustavi 2, whose programming has been critical of the government.<sup>51</sup> The issue of Rustavi 2's ownership is complicated. The station has changed hands many times, including during the Saakashvili era, when the government reportedly pressured a previous owner

to relinquish control of the station in favor of one more responsive to the UNM agenda.<sup>52</sup> Rustavi 2 has been a harsh critic of the Georgian Dream government, which gives the current case clear political overtones.<sup>53</sup> However, the Georgian Supreme Court—with more than half of its judges appointed by the UNM—ruled unanimously in favor of the new and apparently pro-Georgian Dream owner.<sup>54</sup> The case was appealed to the European Court of Human Rights and its decision will have broad implications for Georgia's democracy.

These complex issues highlight the challenges facing Georgia in its efforts to secure its democratic future. Neither the UNM nor the Georgian Dream is above reproach in its handling of these controversies. However, it is a matter of public record that the Saakashvili government committed a number of violations that should be investigated and—if necessary—prosecuted.<sup>55</sup> Meanwhile, recently proposed constitutional amendments, advanced by the Georgian Dream, raise concerns that it is trying to take advantage of its big electoral win to reshape the Georgian political system to its advantage.<sup>56</sup> The proposal is striking unpopular; 84 percent of Georgians support the continued direct election of the president.<sup>57</sup> The Georgian Dream's reputation and Georgia's ability to escape the vicious cycle of politically motivated prosecutions depend on the government's commitment to ensuring maximum transparency and public accountability in these investigations and any sort of political reforms. In terms of the former, a national truth and reconciliation process might better provide that transparency and accountability.<sup>58</sup>

The Georgian Dream also needs to manage the growing role of the church in the Georgian state. The Georgian Orthodox Church is a key part of Georgian national identity and remains the country's most trusted institution—prompting successive Georgian governments to try to use the church to enhance their political legitimacy.<sup>59</sup> The state allocates money in the state budget for the church, which also receives subsidies and land transfers.<sup>60</sup> However, Georgia is not religiously monolithic and contains several minority religious groups—most prominently Muslims and Armenian Apostolics—that complain they are disadvantaged and have faced an unwelcoming environment at various times over the past twenty-five years. The Georgian and Armenian churches, for example, have had a long-standing post-Soviet

history of disputes over church property and ownership—a problem that the frequent transfer of real estate to the Georgian church exacerbates.<sup>61</sup>

And although the Georgian church supports the country's efforts to integrate with the West, it does not necessarily agree with European values and culture. In the 2011–2014 World Values Survey, Georgian society is seen to reflect traditional family-based and religious values, while the United States and most of Western Europe fall on the opposite end of the spectrum with values such as greater tolerance for diversity, alternate lifestyles, and gender equality and women's rights—issues on which the church has a checkered past.<sup>62</sup> In 2014, it advocated against EU-mandated reforms that required Georgia to eliminate discrimination against sexual minorities, creating problems with the EU and slowing down Georgia's efforts to secure visa-free status for travel within the EU.<sup>63</sup>

The church generally is at the forefront of defending what it deems traditional values against overly liberal European norms coming from Brussels. This highlights a cultural battle occurring inside Georgian society that was sparked by the country's push toward Europe. This religious conservatism raises the question about whether Russia, which has cloaked itself in Orthodox Christianity and presented itself as a promoter of traditional values, seeks to take advantage of this debate inside Georgia.<sup>64</sup>

## **ECONOMIC TROUBLES AND TBILISI'S DOMESTIC RESPONSE**

Georgia faces serious economic problems as well. Standards of living have stagnated. Falling prices for some of the country's exports have undercut household incomes and reduced spending power.<sup>65</sup> Georgia's currency, the lari, has undergone a 30 percent devaluation since December 2014.<sup>66</sup> According to the Asian Development Bank, 21 percent of the population reportedly lives below the poverty line.<sup>67</sup> The country ranked 70 in the 2016 United Nations Human Development Index—roughly equal to Iran (69) and Turkey (71), but below Russia (49), Belarus (52), and Kazakhstan (56).<sup>68</sup> Remittances made up about 12 percent of GDP in 2013 and 2014, originating primarily from Greece and Russia. These financial transfers have fallen steadily in recent years.<sup>69</sup>

Growth likewise has slowed: the state-reported real GDP growth rate in 2016 was 2.7 percent, sharply down from 12.3 percent in 2007—the peak of growth in the post-Soviet period.<sup>70</sup> Real GDP growth in 2017, however, is expected to rise to 3.5 percent, according to the Economist Intelligence Unit.<sup>71</sup> This suggests that Georgia is setting itself apart from neighboring countries mired in recession and stagnant growth. The 2017 inflation rate is estimated to be 4.2 percent, which is on par with Armenia yet lower than the rest of the South Caucasus, Central Asia, and Turkey.<sup>72</sup>

To address these challenges, the government introduced a four-point plan in 2016 aimed at economic reform and development.<sup>73</sup> The plan stresses improved governance, education reforms, tax benefits to attract investment, and large infrastructure projects. The push is part of a broader effort to make Georgia the *de facto* regional hub for business, financial services, trade, and transit while simultaneously bringing regulations closer to European norms. The Nagorno-Karabakh standoff and closed borders between Armenia and Azerbaijan in fact make Tbilisi the logical choice for international firms with regional headquarters. Georgia ranks 16 in the world in the World Bank's Ease of Doing Business Index, and 13—higher than the United States—in the Heritage Foundation's 2017 Economic Freedom Index.<sup>74</sup> While impressive, these high rankings obscure the country's high unemployment and underemployment problems, persistent socioeconomic inequality, and reliance on remittances.

Georgia's Deep and Comprehensive Free Trade Area (DCFTA), which entered into force with the EU in September 2014, has been long touted as a panacea for the country's economy. As the economic backbone of the EU Association Agreement, the standards-based DCFTA promised special access to the EU's single market in exchange for Georgian institutional reform. It will undoubtedly benefit Georgia in the long run by prompting economic modernization and increased competition, as Georgian companies will eventually have to comply with EU standards—whether or not they export.

But a major challenge that Georgia faces is that there will be a high price to pay in the next five to seven years as European regulations are implemented and benefits of the trade regime are still out of reach. Trade with the EU—Georgia's

biggest trading partner—declined almost 10 percent in value between June 2015 and June 2016 due to a drop in world market prices for key Georgian exports, highlighting the country's urgent need to diversify its economy.<sup>75</sup> EU exports account for about 32.6 percent of Georgia's total trade.<sup>76</sup> In February 2017, in a frustratingly long-awaited move, the EU finally approved visa-free travel for Georgian citizens within the Schengen zone, but only a minority of Georgians can afford to travel there and most do not feel the economic benefits of the Association Agreement.<sup>77</sup>

A 2015 USAID survey on Georgian perceptions toward taxes sheds light on the disconnect between expectations for the DCFTA and reality.<sup>78</sup> Only 6 percent of Georgian companies reported taking advantage of the trade regime. In the short and medium terms, the trade regime will impose high costs across regions and economic sectors, disproportionately affecting rural and less competitive regions and sectors, which have already been hard hit. Pushing through these reforms could make the Georgian Dream government vulnerable to backlash from an electorate growing increasingly skeptical about the benefits of European integration. Nonetheless, as the history of Eastern European states' accession to the EU has shown, aligning economic and legal systems to meet European norms generally leads to sustainable, long-term economic development, institutional reform, and job-creating foreign investment. EU membership is likely not in the cards anytime soon, but the DCFTA remains Georgia's most promising path to that integration process.

In sector-specific terms, while there have long been plans to increase agricultural exports to Europe to take advantage of the DCFTA, there needs to be greater consolidation and investment in the Georgian agricultural and food processing sectors before that can become feasible. Agriculture currently makes up an estimated 9.2 percent of Georgia's GDP, but employs over 50 percent of its workforce.<sup>79</sup> Commercial farming has not really taken hold in the country, which is dominated by family-run and small-scale farms. About 98 percent of Georgian farm workers are classified as self-employed, which suggests the agriculture sector still consists mainly of subsistence farming. This helps contribute to a large urban-rural wealth gap.<sup>80</sup> Success in meeting EU food quality standards would open many additional markets, but

Georgian agriculture will still face tough competition from Israel, Turkey, and other countries.<sup>81</sup> These producers have far more efficient distribution and export infrastructure, as well as better processing capabilities.

At present, Georgia's food exports go mainly to former Soviet countries and largely consist of three chief products: nuts, alcohol, and mineral water.<sup>82</sup> This dependence on just a few products and markets makes the sector highly insecure and reliant on fluctuations in supply and demand. Georgian wine is a promising export, although it remains a niche market. Its main consumers again are not in the West, but in China, Kazakhstan, Russia, and Ukraine.<sup>83</sup> Wine exports to China grew 98 percent in 2016, admittedly from a very low base, but this indicates that China could emerge as one of the biggest growth markets for Georgian alcohol.<sup>84</sup>

Another source of growth may be Georgia's booming tourism sector.<sup>85</sup> Well over 6 million international visitors traveled to Georgia in 2016, the bulk of whom came from Armenia, Azerbaijan, Russia, Turkey, Ukraine, and, to a lesser extent, wealthy European countries.<sup>86</sup> There also has been an unexpected increase in visitors from China, India, Iran, and Persian Gulf countries, which at least partially reflects these states' interests in Georgia as a place to invest and Georgia's search for new economic and foreign policy partners.<sup>87</sup> Interest from Gulf countries has led to greater Arab investment in the Georgian real estate and hospitality sectors—in Tbilisi as well as in Georgia's Black Sea beach resorts—now seen as more stable than most tourist spots in the Middle East.<sup>88</sup> Air links between Georgia and major airline hubs in the Persian Gulf have proliferated in recent years, and Georgia has eliminated visa requirements for Bahrain, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates in an effort to lure visitors and investors.<sup>89</sup>

## **FOREVER STUCK BETWEEN RUSSIA AND THE WEST?**

An enduring theme of Georgia's post-Cold War geopolitical position has been a sometimes uncomfortable liminal space, in which Tbilisi is neither fully embraced by the West nor able to chart a course wholly apart from Moscow's influence. In previous eras, Georgian officials were able to argue that their country's strategic location between the Black Sea and the Middle East made it an obvious partner for Washington.

So far, the Trump administration has shown little interest in Georgia or the South Caucasus writ large. The incoming U.S. administration's early fixation on establishing a new *modus vivendi* with Moscow and decidedly mixed signals about NATO, as well as Moscow's desire for a sphere of influence, have understandably stirred concerns throughout the region. The EU has also proved to be a rather fickle partner, distracted by a surge in nationalist populism, Brexit, the refugee crisis, and the war in Syria. Taken together, these dynamics are overshadowing traditional arguments that Georgia can form a bulwark against Russian neo-imperial designs. Yet there are unanswered questions about the long-term impact of the war in Syria and the danger posed by jihadi fighters who appear to be transiting the Caucasus to and from the conflict zone—this may be a chance for Georgia to potentially partner with the West in dealing with these security threats.

Most Georgian leaders are aware that NATO membership or direct security guarantees from Western countries like the United States are off the table for the foreseeable future. To partially compensate for this state of affairs, the Pentagon has shifted the focus of its military assistance and training efforts with an eye toward helping the Georgians develop more credible capabilities focused on territorial defense. In 2016, Washington and Tbilisi signed a military cooperation agreement prior to the NATO summit in Warsaw.<sup>90</sup> Meanwhile, France has sold the Georgians an advanced air defense system, while Poland is providing significant training for Georgian special forces.<sup>91</sup> For the time being, U.S. military sales are limited to automatic weapons and ammunition.<sup>92</sup>

Ultimately, Georgia's biggest security concern remains Russia, which has used its full toolkit—military action, hybrid tactics, cyber operations, disinformation campaigns, economic blockades, backing of pro-Russian politicians and parties, and support for Georgian separatist entities—to pressure and intimidate Tbilisi.<sup>93</sup> The current Georgian government generally refrains from the stark anti-Russian sentiment that characterized the Saakashvili administration's approach. Georgia's policy toward Russia now is more pragmatic, recognizing Russia as a threat but seeking to diffuse that threat through greater dialogue and trade.<sup>94</sup>

While the push for Western integration continues, the economic benefits of better ties between Moscow and Tbilisi are compelling, although there is understandable wariness

in Georgia about introducing new sources of vulnerability. When Moscow lifted its trade embargo in 2013, Georgian exports to Russia quadrupled from approximately \$45 million in 2012 to \$190 million: 7 percent of Georgian exports now go to Russia.<sup>95</sup> In addition, Russia's North Caucasus is an important export market for Georgian electricity.<sup>96</sup> The resumption of direct airline connections between Russia and Georgia benefits the tourist sector, while Russian direct investment in Georgia has increased too, although some of it reportedly is channeled through third countries.

These developments, along with time, have slightly softened Georgian popular attitudes toward Russia since the 2008 war. Approximately 31 percent of Georgians supported joining the Russia-led Eurasian Economic Union (EAEU) according to a 2015 poll, although that did not translate into an equal percentage of votes for pro-Russian parties during the 2016 parliamentary election.<sup>97</sup> The one allegedly pro-Russian party that made it into the new parliament, the populist Alliance of Patriots, did not campaign directly on a pro-Russian platform.<sup>98</sup> This softening may be due to Russian influence operations, which have tried to shape Georgian public opinion, stoke anti-Western narratives, take advantage of the disconnect between Georgian and Western cultural values, and otherwise meddle in Georgia's domestic affairs.<sup>99</sup> However, positive sentiments toward Russia probably have existed in Georgia under the surface for some time, and the lack of tangible progress in or benefits from Tbilisi's efforts to integrate with Western political and economic structures has brought these sentiments into the open.

Full normalization of relations between Moscow and Tbilisi is contingent upon Russian recognition of Georgia's territorial integrity and sovereignty, a move unlikely to come anytime soon. Despite Tbilisi's frustration with the West, this reality may explain why 80 percent of Georgians still want the country to become a full EU member, while NATO is seen by the country's foreign policy establishment as the ultimate—and possibly only—guarantor of the country's security.<sup>100</sup>

### CHINA'S POTENTIAL AS A FOREIGN PARTNER

Given Russia's geographic proximity, its willingness to use covert and overt force against its neighbors, and the West's reticence about providing security guarantees to Tbilisi, the Georgian Dream's pragmatic approach to diffusing tensions

with Moscow has some merit. But this is only true if Tbilisi accompanies this approach with efforts to shore up its internal resilience, expand defense and deterrence capabilities, and hedge its bets by actively courting potential economic and security partners beyond the West—including China, Israel, Japan, and the Persian Gulf states.

Over the past decade, Georgia has especially benefited from greater investment from China, which has emerged as an increasingly important economic partner and potential counterweight to Russia, particularly in terms of positioning Georgia as a hub for investment and regional trade. Georgia is a member of the Chinese-led Asian Infrastructure Investment Bank, and in October 2015 the two countries co-hosted the Tbilisi Silk Road Forum, which drew around 800 attendees to discuss investment opportunities pertaining to Georgia's connectivity and logistics potential.<sup>101</sup> Bilateral trade has grown from approximately \$3.7 million in 1992 to \$823 million in 2014.<sup>102</sup> Bilateral free trade agreement (FTA) negotiations concluded in October 2016.<sup>103</sup> The Georgia-China FTA is anticipated to take effect in late 2017. Excluding the EU as a whole, Russia and China are the first and third largest markets for Georgian exports, accounting for 9.8 percent and 8.0 percent respectively.<sup>104</sup> China is now the country's third largest investor, after Turkey and Azerbaijan, with Chinese firms reportedly eyeing investment in a wide variety of sectors—such as agriculture, banking, telecommunications, mining, hospitality, light industry, construction, and infrastructure.<sup>105</sup>

Both Tbilisi and Beijing see Georgia as a potential terminus of the Belt and Road Initiative (BRI)—also known as One Belt, One Road—which is linking China by way of infrastructure with Europe and the Middle East through Eurasia. With port, rail, and road networks already or almost operational, connecting the BRI from Central Asia through the Caucasus could translate into a more cost-effective route than alternatives through Russia and Belarus.<sup>106</sup> Georgia's reputation for noncorrupt, efficient customs services makes it an attractive transit route, although the country needs to update its secondary road and rail infrastructure.

Georgia participates in other ventures to expand regional connectivity as well. It is part of the EU's Transport Corridor Europe-Caucasus-Asia (TRACECA), which promotes regional transportation links through the Caucasus and Central

Asia.<sup>107</sup> It is also a member of the Trans-Caspian International Transport Route (TCITR) that links ports, railway operators, and logistics companies from Azerbaijan, Kazakhstan, and Turkey to create a modern transportation corridor originating in China.<sup>108</sup> These transportation and logistics initiatives are also attracting greater investment from Kazakhstan.<sup>109</sup>

TRACECA and TCITR both complement the BRI, but so far, the initiatives have promised more than they have delivered—raising questions about whether the BRI will simply replicate that pattern. Furthermore, the success of all these projects is dependent on issues that are largely out of Tbilisi's hands. These factors include the stability of the region broadly, the stability of neighboring countries, the persistence of China's appetite for investments in broader regional infrastructure, supportive demand in European markets, and the ability to link these networks with transportation arteries headed in other directions—including Iran, the Persian Gulf, southwestern Europe, and the Black Sea.<sup>110</sup>

While Beijing and Tbilisi are more economic than security partners, Chinese investment in Georgia does provide certain unanticipated security benefits. In light of Moscow's increased economic and political dependence on Beijing, a greater Chinese presence in the country potentially raises the costs to Russia of engaging in large-scale military escalation. China has consistently reiterated support for Georgia's territorial integrity and has taken a dim view of Russia's recognition of Abkhazia and South Ossetia, its support for separatists in Ukraine, and its annexation of Crimea.

## GEORGIA AND ITS NEIGHBORS

More broadly, Tbilisi's relationships with countries in its immediate neighborhood will have a distinct bearing on how conducive the regional environment is to Georgia's prosperity and security.

For instance, Georgia sees Iran, one of the most important regional powers in the Greater Caucasus, as a potential partner to boost its economy and improve its security, although Tbilisi's close ties with the United States and aspirations for integration into the West complicate its relationship with Tehran. Iran's weak currency has made Iranian consumer goods popular in Georgia, and Iranian citizens invest in the banking, tourism, agricultural, and

light industrial sectors.<sup>111</sup> Georgian-Iranian trade is still quite modest, but growing Iranian financial influence has worried Washington, which has long complained that Georgia's welcoming economy can provide a mechanism for Iran to get around sanctions. The number of Iranian companies registered in Georgia indeed skyrocketed in recent years, increasing from less than 100 to almost 1,500 between 2010 and 2012.<sup>112</sup> Of the roughly 1,500 firms, 150 were allegedly front companies for the Islamic Revolutionary Guard Corps, according to a 2013 Wall Street Journal report. These revelations in turn increased Western pressure on Georgia to close sanctions loopholes.

However, both Georgians and Iranians are hopeful that the 2015 Joint Comprehensive Plan of Action (JCPOA) will eventually unlock bilateral trade and investment. Georgia's DCFTA with the EU makes it an even more attractive place to invest, as Iranian companies seek preferential access to the EU by investing in and opening production facilities in Georgia.<sup>113</sup> Iran is also a potential gas supplier for Georgia (via Armenia). Over time, it conceivably could provide a solution to Georgia's near-total dependence on Azerbaijani natural gas.<sup>114</sup>

Elsewhere in its neighborhood, Georgia has benefited substantially from being the primary transit state for Azerbaijani energy through gas and oil pipelines—both of which terminate in Turkey. This energy transportation infrastructure links these countries not just economically, but also in terms of their security needs. During the 2008 war, Russian missiles came close to hitting the BTC pipeline, and there are allegations that a 2008 explosion along the Turkish leg of the pipeline may have been caused by a Russian cyberattack.<sup>115</sup> Since then, the three countries—Azerbaijan, Georgia, and Turkey—have cooperated closely through military exercises, training, and information sharing to improve each state's ability to defend the pipelines. They will need to cooperate too in protecting the Baku-Tbilisi-Kars railroad, set to open in 2017.<sup>116</sup> This railway will enhance the logistics and shipping capacities of all three countries and constitute a key link of the Eurasian transportation networks that China and other regional states are keen to put in place.

While economic and energy needs tie Georgian security to Azerbaijan and Turkey, the three countries see threats emanating from different places, which likely limits practical security cooperation. For Georgia, Russia is the main

potential aggressor, while Azerbaijan focuses its military policy on Armenia, and Turkey is consumed with the war in Syria and rising threats of terrorism at home. Georgia's strong push for Euro-Atlantic integration also runs counter to Turkey's recent track record, which complicates Ankara's relations with both Washington and Brussels despite its membership in NATO. Azerbaijan has seen its relationships with the United States and the EU deteriorate over the past decade, which could also be a complicating factor in its relations with Georgia.<sup>117</sup> Taking advantage of their disenchantment with the West, Moscow is courting both Ankara and Baku—a worrying sign for Tbilisi.

Georgia also is fearful that renewed conflict between Armenia and Azerbaijan over Nagorno-Karabakh would have devastating repercussions for the region's economy and energy security, and in turn could end up increasing Russia's role in the region. Georgia therefore tries to remain on friendly terms with Baku and Yerevan. This approach is important for Georgia domestically as well, as ethnic Armenians and Azerbaijanis inside Georgia constitute the country's two largest minority groups. Georgia's internal tranquility requires that both minority groups remain content inside Georgia and that relations between the two sides remain cordial if the Karabakh conflict heats up again.

For Armenia, which has closed borders with Azerbaijan and Turkey, Georgia serves as a key transit state for energy and consumer goods. Russian gas flows to Armenia via Georgia, while high volumes of Turkish goods pass through Georgia annually on the way to Armenia, an arrangement that clearly benefits Tbilisi.<sup>118</sup> Yet Armenia's alliance with Russia and particularly the presence of a Russian base in Armenia have vexed successive Georgian governments. Armenia must strike a similar balance with Georgia, given Yerevan's reliance on Georgia as a transit state for trade and gas. Armenia, a member of the EAEU, has managed to preserve its right to maintain a long-standing free trade agreement with Georgia, even as EAEU regulations ban the re-export of Georgian products to other EAEU states from Armenia without added tariffs.<sup>119</sup> There have been reports of exporters trying to skirt these regulations. Trade plays just a minor role in the relationship, however. About 7 percent of total Georgian exports go to Armenia—roughly the same amount that goes to Azerbaijan.<sup>120</sup> Tbilisi and Yerevan agreed

to open a cross-border, high-voltage transmission line that should become operational in 2018, creating further linkages between the two countries.<sup>121</sup>

## CONCLUSION

Despite various shortcomings, Georgia's record is truly impressive. It has become a model of democratic development and reform in a world that has seen democratic backsliding over the past few years. It has witnessed several relatively clean national elections and enjoys a free media and vocal civil society. It ranks 44 in Transparency International's 2016 Corruption Index, on par with Latvia and notably ahead of EU members such as Croatia, the Czech Republic, and Italy.<sup>122</sup> Tourists from across Eurasia now flock to Georgia, where they experience a nation relatively free of the crony politics and high levels of corruption in their home countries. While Georgia's lack of territorial integrity remains a painful reminder of its past and its disputes with neighbors, the conflicts have not stopped the country's reform trajectory, curbed its democratization, or blocked its integration into the West's economic and political structures.

Georgia's success in consolidating its economic and political gains is due in part to its size and largely homogenous population. Although minority groups can face discrimination and uneven access to economic and educational opportunities, Tbilisi has clearly learned from its mistakes in the 1990s and now manages interethnic issues more carefully. Georgia has progressed much further in promoting economic, political, and social reform than other nearby countries that have signed such agreements with the EU, such as Moldova and Ukraine. While EU membership is a distant prospect at best, Georgia will likely benefit from its Association Agreement and DCFTA sooner than these other countries will, assuming that Tbilisi stays on its current reform trajectory.

Yet Georgia's destiny is not its alone to write. With the outlook for Euro-Atlantic integration constrained, average Georgians are understandably vulnerable to reform fatigue and skeptical about the government's ambitious public rhetoric. In Georgia's immediate vicinity, Turkey—Tbilisi's neighbor to the west—is no longer the democratic model for the region that it once was. Rocked by terrorism at home and a public divided over the country's political future, Turkey

looks less stable than at any previous point in the post-Soviet era. Instability is also rising in the Middle East—a region where Russia is using military means to defend its interests and seeking to fill political vacuums left by indecisive U.S. and European policies. Meanwhile, rising tensions between Armenia and Azerbaijan pose a glaring risk to regional stability with potential repercussions for Georgian economic and energy security.

Farther abroad, growing Chinese economic interests in the Caucasus, along with the potential for greater Iranian engagement, add new elements to a security landscape that has been dominated by frozen conflicts and East-West tensions. The North Caucasus—which serves as a transit route for Russian-speaking extremists going to Turkey and the Middle East—remains volatile, and political violence is high in the region—parts of which have become self-governing entities beyond Moscow’s judicial reach. Russia’s ongoing occupation of Georgian territory and its undeclared war on Ukraine—Georgia’s neighbor across the Black Sea—have not only heightened tensions around that body of water, but also are constant reminders of the unpredictable nature of Russian foreign policy and Moscow’s willingness to intervene in its neighbors’ affairs.

Given its tremendous progress in political, economic, and military reform and modernization since the mid-1990s, Georgia and its democracy look robust. But the new geopolitical and geoeconomic challenges it now faces—and will face in the coming years—appear no less daunting than the old ones and will require deft leadership. To date, Georgia has implemented many sound policies and does not require the full policy reboot that many of its neighbors do—assuming Tbilisi stays on its current course.

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