

Georgia: Is the Glass Half Full or Half Empty?

Ambassador Ken Yalowitz, former U.S. Ambassador to Georgia

CSIS, July 19, 2001

Georgia was the poster child of success in economic and political reform in the former Soviet Union. I think that image clearly has been tarnished in recent years. There have been a lot of writings recently about Georgia in the United States and in Western Europe, which are extremely critical and almost lead one to believe that this is a failed state. They suggest that Georgia's prospects are very poor because of corruption, mismanagement, and all the other problems with which we are very familiar. Mainly, that the country is headed in the wrong direction and its leadership is inadequate to handle the task ahead. I think that is also an exaggeration and not an accurate description of the situation.

What I am going to try to do today is to drive it a little bit more up the middle, which is usually what the State Department is accused of doing, but I also strongly believe that this a situation in which you really have to take the two extremes and park them at the side, but also to be very hard headed, very frank and very clear on what is going on in Georgia today. What I would like to do is to lay out what I think are the two most difficult and important challenges facing Georgia today. And why I think that at the margin the glass is still half full rather than half empty, although it is a question we argue about and can continue to discuss for a long time. But as I said, I remain amongst those who believe that despite all the problems there still is hope for Georgia.

The first set of challenges revolves around Georgia's internal weaknesses, and there are many of them. These issues are what I really worked on and what really consumed my embassy and me for three years in Georgia. There is the problem of energy, which almost brought Georgia to its knees this past year. There are continuing problems of energy supply. Last winter, which we had hoped would be a lot better than previous winters, did not turn out that way for a variety of reasons. The energy supply in Georgia in the summertime when hydro supplies are adequate is very good but usually when you get into the month of September and beyond, all of a sudden electricity gets very scarce and if you are outside of Tbilisi, it becomes almost something you do not experience.

The scarcity of energy is clearly not only an economic and social problem but it is also a political problem of the highest magnitude. It is one that I think with some good planning can be dealt with in the months ahead. Nonetheless, it remains a very significant problem for the government of Georgia, one that has not been successfully dealt with to date. There are significant problems in terms of mismanagement, and it has not been possible to create a cohesive economic program and then implement that particular program. All too often ministers are fighting with each other. People who ought to be on the same wavelength and cooperating with each other end up fighting each other and there is clearly a lack of cohesion on the economic side.

This of course is a reflection of the fact that Georgia's growth rates in the mid 1990's were quite good and gave rise to these very high hopes about Georgian economic growth. Those growth rates have tended to plateau; they are still positive but clearly not what they once were. Job creation is not where it should be. Investment clearly is not where it should be. There has been some success on the investment side but nothing in terms of what one would like to see. So, as I say, on the economic side there are significant problems and it is all encapsulated in the fiscal crisis that the country is enduring.

There is really one primary reason for the fiscal crisis and that is low collection of taxes and customs revenues, which of course is intimately linked with the pervasive corruption problem. Because of corruption, it has not been possible to collect taxes and customs, and therefore salaries and pensions do not get paid. Energy is not paid for and there are a lot of people who are angry because they are not getting their salaries and their pensions.

Last year there was a significant problem with drought. It did not get a lot of publicity but had a very significant impact. And I am pleased to say that we and others in the international community, including the UN organizations, stepped in and really helped out to prevent this significant drought turning into a very, very serious political problem. Nonetheless, the impact on the GDP is clear, and it has had a ripple effect throughout the economy; agriculture is not where it should be.

I mentioned in passing the problems with revenue collection. Georgia, even though they reached an agreement with the IMF on a new program less than a year ago, have already not been able to sustain that program because the budgetary intakes have not matched outlays. So Georgia right now is not receiving any new IMF funding and therefore there is no World Bank lending coming in and all this has a negative impact on the situation as well.

I would add on a couple of other things. The situation with law and order is clearly not what it should be. You probably have read about attacks on certain religious minorities—the Jehovah's witnesses and certain Baptist groups. This is a very worrisome and troublesome development in a country which by and large has a tradition of toleration, but we are seeing that there is a good deal of difficulty accepting and understanding these religious groups that have come in more recently.

This is not a problem that is unique to Georgia. There have been similar problems, not to the extent perhaps of other countries of the former Soviet Union, but it is a significant problem and one that I am concerned with in terms of eventual impact on the Hill.

There have also been a series of physical beatings of foreigners, not just Americans, although we had the lion's share. These began in September of last year. The method of attack was very similar in almost every case. Clearly these were people with martial arts training that would jump somebody coming out of a restaurant and then heading off onto one of the side streets in downtown Tbilisi where it was not well lit. The person would usually get jumped from behind, hit on the head, rendered unconscious and then robbed. And there were at least thirty or forty of these incidents over several months. This, along

with certain instances of hostage taking recently, clearly has also had a dampening effect on investment and interest in doing business in Georgia. But it has also brought into broader context the shortcomings in terms of respect for law and order.

The ability to apply the law in Georgia is another subject that we talked about in great length. The problem of corruption is something that weaves in and out of everything. Now this is a subject that I personally spent a lot of time talking to government officials from the very top on down. I think that those of you who know Georgia understand that corruption is not simply a matter of four or five corrupt officials at the top. There was plenty of that. But it is a system that is all too pervasive. It is in the universities in terms of getting in or getting your degree. You see it with the traffic police who are out on the streets, not to enforce traffic laws but basically to collect rent as cars pass by. It is a very, very difficult problem I found to try to deal with.

We did have success working with the President and the government on the formation of an Anti-Corruption Commission, which issued a very good study about corruption in Georgia. Then there was a follow on body, which is examining how to implement that report. There have been some decrees that have been issued which if implemented would actually do some very good things like pulling traffic police posts off the highways and allowing commerce to proceed in a normal way.

But so far that has been very slow in coming, and a lot of this is reflected in the public opinion polls. You have probably seen reports on these recently. The public opinion polls—there have been several of them recently—all show that the government is probably at the lowest point in recent memory in terms of its standing. The President's standing also has gone lower. In a poll that I saw recently he came in third. And there is a sense as you go around the countryside that things are just not going right. A lot of anger is directed at the center, a lot of anger that corruption was not being dealt with, and energy supplies were not being delivered. And a sense that things were probably not going the way people had expected.

All of these internal weaknesses contributed to the second important factor, which I think is affecting Georgia today. But it impacts in a very symbiotic way: these internal weaknesses are making Georgia much more vulnerable to the pressures that they are under now from external forces. By that I mean principally from Russia.

The Russian pressures are due to a variety of reasons. Some of it seems personal. Shevardnadze is still viewed in certain circles in distaste. He was the one involved in the demise of the Soviet Union and Germany's reunification. And I think there are some who simply will not forgive and forget that. There is a personal element that I do not dismiss.

But more to the point, Georgia of almost all of the countries of the former Soviet Union, has been most outspoken and most direct in its discussions about a desire to join NATO at some point. Georgia has joined the Council of Europe. It is a member of the World Trade Organization. It has been very strong in terms of the east-west energy corridor and specifically the construction of the Baku-Tbilisi-Ceyhan oil pipeline and the Shah Deniz

gas pipeline, both of which will connect energy resources largely in Azerbaijan, but hopefully on the oil side in Kazakhstan, through Georgia and onto Turkey and the West. This of course has raised a lot of concern and a lot of opposition on the Russian side particularly on the gas pipeline. There was a NATO Partnership for Peace exercise called Cooperative Partner in Georgia just about a month or so ago. And again the nature of the commentary that engendered within Russia indicates there is simply a lot of concern in terms of the foreign policy direction that the Georgians basically have laid out.

But I think the third element is one that we kept our eyes on very closely and that is the second war in Chechnya. The defining moment was in the fall of 1999 when Yeltsin called Shevardnadze and asked for his permission to use the Russian military bases in Georgia as a launch point for attacks into Chechnya, or to bring back Russian border guards onto the Georgian side of the border, simply to try to involve Georgia in the Chechen war. The Georgians refused. It was quite interesting because at that time I can remember a couple of very well placed Georgian officials telling me, "we have now turned the Russians down for the first time in two hundred years and they will never forget this." And they were right.

Since that time there has been almost an unceasing Russian public relations attack against Georgia alleging that the Georgian border has become sort of the rear guard for the Chechens. There were some undocumented allegations that there were Georgian airplanes flying over Chechnya and that there were munitions trains going over the Caucasus mountains from Georgia. But nonetheless the point was being made very strongly by the Russians that they were mightily displeased with the Georgian behavior. And as you know, there were a couple of instances of the Russians bombing on the Georgian side. More recently, this type of public pressure has certainly not eased up and a lot of it is focused on the Pankisi Gorge from where the Russians alleged 2,500 fighters were operating. I do not think anybody has a real good fix on how many fighters are in the Pankisi Gorge. The numbers that you hear in Georgia are something on the order of 300.

While the situation in the Pankisi is very serious, my feeling is that it is more of an internal Georgian problem. It is more of a threat to law and order and peace within Georgia, rather than in terms of a key to ending the Chechen War. But nonetheless the Russian pressure on Georgia with regards to the Pankisi Gorge has really been unceasing. I think you can see though how these two factors I have been talking about can interrelate because the Russian pressure has been rather extensive. Gas supplies were turned off on at least two occasions this past winter ostensibly for commercial reasons. I happen to think somewhat otherwise. But nonetheless, as I said, the Georgian inability to get their energy situation under control and this dependence on Russia for now on gas obviously lays them wide open to that type of pressure.

In addition, the Russians introduced a very one sided and unequal visa regime with Georgia, which gave some regions special treatment. The EU and we criticized this strongly.

There were other examples as well. During my three years there unfortunately we did not see any progress on the Abkhazia dispute. That situation has not progressed as I had hoped it would. The UN secretary general's representative is working on a paper on the delimitation of constitutional responsibilities between the Abkhaz and the Georgians. This is not to dictate to the two parties but it is simply to get a discussion paper out there to get them talking about how to delineate constitutional responsibilities within a single Georgia. We have had over a year now of discussions on this paper within the Friends Group and we have not yet fully come to conclusions on a paper to give to the two parties.

Again, it is an example of how the Western friends have all been in agreement on how to proceed on this, but on the Russian side there was difficulty in agreeing basically on one article of this paper. This is an example of how the overall Abkhazia situation has not moved forward.

Another area that has proven very complex is on the security side. You probably all remember in November of 1999 at the OSCE summit a very significant agreement was signed between Georgia and Russia on getting rid of the excess conventional military equipment under the CFR and removal and the four Russian bases in Georgia. The equipment removal was accomplished on time and done very well, and I give great credit on that to the Russians. But the second part of the package on the negotiations on the closure of the four Russian military bases has proven to be more complex than we had originally hoped. The Vaziani base near Tbilisi has been turned over to the Georgians, and this is a very significant achievement. The Gudauta base, which was to have been turned over by July of this year, has not yet been turned over. The discussions are going on. The issue there is that Russians want more security guarantees for the Abkhaz from the Georgians before they pull out and also request that some portion of that base be turned into an R&R facility for the Russian peace keeping force in Abkhazia. With regards to the two other Russian bases—the one in Abkhazia and the one in the largely Armenian area in southern Georgia—Georgians are basically offering three years for the Russians to stay on and the Russians would like to stay on for fifteen years. That issue also remains to be bridged.

As I said, the second set of complex issues the Georgians are dealing with right now is Russia and all of these manifestations that I described. The sum total is a country, a state, and a government with many challenges. It is a very complex and very difficult situation. Some of you may know Alex Rondeli, who is a wonderful individual from both the Ministry of Foreign Affairs and the academic world in Georgia. I sat through many of his presentations about Georgia and 99% of them would be about why Georgia has so many difficulties. But he would always conclude by saying "I am an optimist about the future." And let me tell you why despite all of the above-mentioned problems I tend to agree.

I still think that there is more than 50-50 chance that this country is going to survive and make its way. I think many of you know that I was ambassador in another of the former Soviet countries and Georgia is very distinct from that country in that there is a strong sense of nation. There is a sense of a people based on language, religion, culture, and art.

That is something that I think is a very important asset that can be counted on. What is weak in Georgia and what is still developing is the sense of statehood and allegiance to the state. In all of the interviews I gave as I was leaving, people would always ask me “what is the most important thing that you saw during your three years in Georgia” and my answer always was “three more years of Georgian independence and statehood.” These institutions are slowly beginning to take shape. They are going to be Georgian; there is a Georgian state that is beginning to emerge and it has had three more years to grow. It is still weak, it is evolving, but it is beginning to take hold.

I have also indicated that energy is a critical issue both short and long term and that is another area where I am more optimistic, particularly in about three or four more years, but also even over the short term. The reason I am optimistic over the longer term is that there is oil and gas in Georgia. There are American companies working in exploration in Georgia. Frontera is working in eastern Georgia, and Anadarko is working in the Black Sea coastal waters, and both prospects are promising.

At the same time I think that the Baku-Tbilisi-Ceyhan oil pipeline is going to be built and I am very encouraged by the progress on the Shah Deniz gas pipeline. The host government agreement has been initialed, and if I am not wrong, President Shevardnadze is soon going to Baku to formally sign it with President Aliyev. The gas pipeline to me is even more important than the oil pipeline, which is going to bring more revenues into Georgia. The gas pipeline, which could be built even earlier, holds the prospect of bringing gas supplies to Georgia over the relatively short term and once that happens, Georgia’s energy security situation is going to look a lot better. They will no longer be dependent on one source for gas, which has gotten them into a good deal of difficulty.

I think there is going to be a good deal of job creation and a number of companies that are going to come to Georgia and settle there--various types of services related to pipelines and supplies and other things of that nature. If managed well, I think this could be a very good shot in the arm for the Georgian economy.

The short term on energy, of course, is what worries me very much. That was why we agreed with the Georgian government to form an energy working group, which worked all through the spring months and has come up with a program on energy to help the Georgians get through the next winter or two until these pipelines are built. The energy program relies on market principles. It is designed to make the wholesale energy market work in a more transparent way. It is designed to encourage consumers of electricity, particularly some of the large industrial consumers, actually to pay their bills, which is one of the main reasons why there has not been money to pay for imports of gas. It also involves common sense things like more judiciously using the hydro supplies, which are very ample earlier in the summer, so that supplies would be available later into the year. Also, some of the proceeds from hydro energy that is exported to Turkey in the summer can be put away to buy gas in the winter. Just logical and common sense kind of things that can be done.

Another area is to bring in a supply of mazut, which would be available in case of another energy shut off, and that is something I think is being worked on. If AES, the American company that now owns the electricity distribution network for Tbilisi, and has the two major generating units in Gardabani can get a secure commercial contract to bring in gas next winter, it would be an enormous help. It is probably not always understood or recognized but when the Russians cut the gas off last year it was gas that was going to AES. The reason that we jumped into the fray is that AES, we believed, had a legitimate contract with the Russian company. There were no commercial grounds for this action and that was why we as a government got involved in speaking with the Russians about this.

To sum up, some can argue that this is a country going in the wrong direction with enormous problems, and as I said, some have come to that conclusion. The problems are very difficult but I do believe they can be dealt with. The problem of corruption: there are certain ministers that I would like to see go. I think everybody knows who those ministers are within the Georgian government. It may not be possible to get rid of them in one big swoop, but I think definitely there are certainly some high profile steps to be taken in anti-corruption to get rid of a few well placed individuals to give people a sense that the corruption problem can be dealt with. If the energy supply can be dealt with in the way I have described, if energy supplies can be more normal, more consistent and more reliable next winter, I think that will also have a very positive impact. What has to be done in Georgia to make things better is not rocket science.

The other point that I wanted to mention is that even though it is none of our business as American officials to tell the Georgians what form of government they should have, when asked about this proposal to form a prime ministerial position in Georgia, I always expressed my opinion that if that happens it could be a very positive step forward. I mentioned at the very outset the lack of cohesion in terms of economic policy, in terms of the government team. I think with the prime minister and a cohesive economic team they can attack the three very critical problems of corruption, energy, and the fiscal crisis. While I think that the Georgian situation is not going to turn around over night, I think it could look considerably better than it does right now. Much depends on the Georgian leadership to take these steps. We, and the international community, have provided an awful lot of technical assistance and advice to the Georgians. As I said, it is not rocket science; what needs to be done is obvious.