



# PROSPECTS FOR THE REGULATION OF TRANS-INGUR/I ECONOMIC RELATIONS: STAKEHOLDER ANALYSIS

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# Prospects for the regulation of trans-Ingur/i economic relations: stakeholder analysis

## Executive summary

This publication is an analysis of views among business communities, particularly small- and medium-size enterprises (SMEs), on the issue of regulating trans-Ingur/i economic relations. It assesses the inter-linkages between the regulation of trans-Ingur/i economic relations, Georgian-Abkhaz conflict transformation and the invigoration of the political peace process.

This report is a continuation of an Abkhaz-Georgian research process which began in 2009 and evolved more generally from International Alert's Economy and Conflict work in the South Caucasus. This work seeks to deepen understanding on the economic dimensions of peacebuilding, as well as to engage economic actors in peacebuilding in the South Caucasus. International Alert first deliberated the issue of regulatory frameworks and their relation to conflict transformation in the Georgian-Abkhaz context in 2004<sup>1</sup>; today the topic remains equally relevant.

The aim of this report is two-fold: firstly, to provide empirical evidence and analysis of views within the private sector on regulating trans-Ingur/i economic relations and hence stimulating discussion on the issue; secondly, to put forward recommendations on how regulation could be conducted in order to benefit the broader conflict transformation agenda.

The empirical study on perceptions of the significance of the existing trans-Ingur/i economy by SMEs on both sides of the conflict – i.e. the alleged stakeholders of the trans-Ingur/i micro-economy – were carried out and assessed alongside a survey of public officials and politicians – i.e. those who define the political and legal context for transactions.

The study demonstrated that the regions on the Georgian side of Ingur/i, in Samegrelo, most notably Zugdidi, are heavily dependent on Abkhaz customers crossing for wholesale shopping, while the dependence on the trans-Ingur/i economy steadily weakens westwards into Abkhazia and eastwards into Georgia. In fact, except for Samegrelo, trans-Ingur/i relations were not relevant to SMEs in other Georgian regions included in the study. Counter to the common belief that it is ethnic Georgians from Gal/i who solely profit from the porous boundary it was revealed that, these days, as the stakes have risen due to tighter controls, it is increasingly ethnic Abkhaz who use their privileges of family and other connections to enter this sphere. The current trend is that Gal/i Georgians are doing risk-benefit calculations and preferring to stop crossing for commerce and to purchase goods in Gal/i instead. However the share of the trans-Ingur/i economy is still greatest in Gal/i, relative to economic connections with Sukhum/i and Russia. The economic significance of trans-Ingur/i trade west of Gal/i is not negligible, but clearly not a cornerstone of the economy there. Both private sectors are vitally interested in opening the transit routes to and from Russia and the rest of the region. One main conclusion of the study is that no immediate and irreversible impetus in the political peace process is likely to be derived from the mere establishment of regulated trade or other economic relations across the divide. The success of a regulatory framework as a mechanism to facilitate political talks and to search for political solutions is contingent upon several variables, and the relationship is more complex than a simple correlation. This is not only because the political peace process has been stalled for years, but also because of the profound complexity of the approaches to the cross-conflict economy on both sides. This complexity cannot and should not be reduced to a simple economic cost-benefit analysis, as that would likely produce a distorted picture.

The “emotional economy” is just as important as the profit-seeking imperative of business. Emotional economies on opposite sides affect the private sector's assessment of the profitability of a regulated trans-Ingur/i economy in different ways. Abkhaz entrepreneurs tend not to be

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1 See P. Champain, D. Klein & N. Mirimanova (eds) (2004). *From War Economies to Peace Economies*. International Alert: London.

active supporters of the idea of regulating economic relations in the absence of a final political accord, which they often see as Georgia's recognition of Abkhazia's independence. Georgian entrepreneurs, on the other hand, tend to support any opening which would allow for interaction between the two peoples, which, in their view, would lead to the re-integration of economic and human spaces, and also probably political reintegration.

However, when the discussion gets to the level of practicalities, a more nuanced picture appears where business interests, social needs and professional development aspects emerge, providing ground for a detailed discussion on the prospects of the design and introduction of a regulatory framework in the absence of a political accord. While the link between a regulatory framework and a political accord seems elusive at best, the analysis suggests that a jointly developed framework would, *inter alia*, benefit human and political rapprochement.

The following recommendations were drawn from the findings:

1. A regulatory framework for trans-Ingur/i economic relations should be developed, based on a multi-dimensional analysis which takes into account the economic, political, security and psychological aspects of the context.
2. Given the complex nature of the issue, a regulatory framework should be designed and introduced in a conflict-sensitive manner, introducing regulations incrementally and piloting them on a small scale or initially within a single sector. Contingency scenarios and troubleshooting measures should be an integral part of the design.
3. The design process and end product for the regulation of economic relations between the Abkhaz and Georgian private sectors should be owned by Abkhaz and Georgian stakeholders. Third parties can play a convening role on terms acceptable for both sides.
4. Consultations should be held with the authorities, experts and businesses on both sides to advise on the establishment of a representative working group to design a regulatory model, and to gauge their willingness to support the initiative.
5. The regulatory framework should take account of both local and regional economic perspectives. Local refers to SME-level transactions, while regional entails regional cooperation, transit, transport, energy and other initiatives.
6. The design process should explore the devolution of authority for the management of regulations, for example to local authorities or non-governmental organisations (NGOs) such as the Chambers of Commerce. The mandate of the selected regulatory body might need to be adjusted, if necessary, for this new task.
7. A further study should be conducted on the regional significance of regulated trans-Ingur/i economic relations, including studies on transit routes, areas for cooperation, trade volumes, and on economic frameworks involving the rest of the South Caucasus, Russia and Turkey. The participation of the Abkhaz private sector in regional projects would contribute to its de-isolation and be beneficial for Abkhaz society. Opened transit via Abkhazia would also benefit some sectors of Georgian production and trade. A cost-benefit analysis needs to be carried out on the potential advantages that the Georgian economy may receive from the involvement of Abkhazia in transport or energy projects.
8. Dialogue, professional development and cross-learning opportunities should be created for the Georgian and Abkhaz business communities, along with others in the region. This would help to identify areas for cooperation and foster professional solidarity between different professional groups. The Abkhaz private sector should also be included and benefit from business development programmes provided by the international community.

# 1. Introduction

Studies on the interplay between economy and conflict predominantly focus on a “war economy” aspect. A “war economy” is usually defined by the arms trade, drug and human trafficking, and smuggling which sustain war and allow a small group to make extreme profits. However, a “war economy” is not the only economic dimension of protracted violent conflicts. The shadow and “coping economies”<sup>2</sup> accompany those conflicts cutting across historical trade and transit routes, interrupting supply-and-demand chains, or restraining economic development so severely that affected populations are extremely impoverished. The difference between a shadow and a “coping” economy is the scale of profits made and the scale of involvement of the formal authorities through corruption; however, both are informal economies and persist where a formal economy cannot bridge conflict parties, or when authorised economic activities are inaccessible for the general population due to an “entrance fee”, which in turn may be informal.

Comprehensive stakeholder assessment of war economies is required in order to develop policy mechanisms which would cut off the financial support base for war activities through their elimination, re-orientation, transformation or the creation of alternatives for those who profit or merely survive through engagement in the “war economy”<sup>3</sup>. Likewise, comprehensive stakeholder analysis of the shadow and coping economies is necessary to understand whether, and under what conditions, economic ties which endured throughout a protracted conflict and were not a part of the war economy may turn into “peace economy” and eventually form a new foundation for peacebuilding<sup>4</sup>.

The Georgian-Abkhaz conflict does not fit into Paul Collier’s “greed versus grievance” theory. It was “justice-seeking” or ethno-political grievances and not “loot-seeking”<sup>5</sup> which stirred violence. This does not mean, however, that there were no looters and profiteers on both sides during the 1992-1993 war. Moreover, these were side effects rather than causes of armed violence. The existing trans-Ingur/i<sup>6</sup> economic relations which involve entrepreneurs from the Georgian and Abkhaz sides of the conflict cannot be defined as a “war economy”, but rather as a shadow or coping economy; these are an essential part of the lasting conflict, a result rather than a cause.

The present study was designed as a “conflict economy” analysis to be applied to those particular types of conflicts referred to as state-formation conflicts<sup>7</sup>. The peculiarity of this particular conflict and other unresolved state-formation conflicts is the asymmetry in the international legal status of the conflict parties, which has direct implications for the prospects of legal economic relations between private sectors across the divide. Even the Madrid Convention on Trans-

2 N. Mirimanova (2006). ‘Between pragmatism and idealism: businesses coping with conflict in the South Caucasus’, in J. Banfield and C. Günduz (eds) (2006). *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*. International Alert: London; J. Goodhand (2003). *From war economy to peace economy?* LSE: London. Available at [http://eprints.lse.ac.uk/28364/1/Goodhand\\_LSERO\\_version.pdf](http://eprints.lse.ac.uk/28364/1/Goodhand_LSERO_version.pdf)

3 K. Ballentine and H. Nitzschke (2005). ‘The Political Economy of Civil War and Conflict Transformation’, in M. Fischer and B. Schmelzle (eds) (2005). *Transforming War Economies: Dilemmas and Strategies*. Berghof Research center for Constructive Conflict Management, pp.11-34. Available at [http://www.berghof-handbook.net/documents/publications/dialogue3\\_warecon\\_complete.pdf](http://www.berghof-handbook.net/documents/publications/dialogue3_warecon_complete.pdf)

4 K. Studdard (2004). *War economies in a regional context: overcoming the challenges of transformation*. International Peace Academy Policy Report: New York.

5 P. Collier and N. Sambanis (eds) (2002). *Conflict Resolution: Understanding Civil Wars*. Special issue, 46: 1.

6 The Ingur/i river is a geographic divide between the territories controlled by Tbilisi and Sukhum/i. Although the divide does not neatly follow the riverbed, for convenience we are referring to trans-Ingur/i economic relations to signify the relations between private sectors on the opposite sides of the conflict. Boundary, (conflict) divide and divide-line are used inter-changeably, again solely for the purpose of convenience.

7 P. Wallensteen (2002). *Understanding conflict resolution: War, peace and the global security*. Thousand Oaks: London, SAGE Publications: New Delhi.

frontier Co-operation between Territorial Communities or Authorities (1980) which facilitates direct economic relations between below-the-state entities, such as districts or municipalities, which Georgia endorsed in 2006 and, for example<sup>8</sup>, enacts in its economic relations with Armenia, cannot be applied in the Georgia-Abkhazia case because the Abkhaz authorities at all levels are regarded in Georgia and internationally<sup>9</sup> as *de facto* authorities operating outside of Georgian legislation. Therefore, avenues for regulated economic relations should be sought within the framework of the private sector. Examples of Cyprus and China-Taiwan demonstrate that political impasse can be overcome through a regulatory framework to invigorate economic relations between the private sectors of the opposing sides (Cyprus), or business interests may be the vanguard of political rapprochement (China-Taiwan)<sup>10</sup>. However, peacemakers should not be blind to the priority of economic incentives in any engagement with business. Profitability of conflict transformation arrangements, where the private sector is conceived to be a key player, is a condition for the sustainability and effective contribution of these arrangements to political peacemaking. It is a necessary but not sufficient requirement for any private sector-led peace strategies. Risks involved in the private sector's reaching out to the opposite side of the divide are greater than the obvious financial risks pertinent to any volatile environment. Reputational risks are no less tangible as far as consumers' and investors' favourable attitudes are concerned. Benevolence of a side's own political authorities may also be an important consideration.

In the present study, economic activities across the conflict divide involving actors from the rival parties were assessed *vis-à-vis* their influence upon the conflict dynamic and vice versa, and human, political and security conflict dimensions were mapped onto the cross-conflict micro- and macro-economy. Economic analysis of these relations may produce a distorted diagnosis if the "emotional economy"<sup>11</sup> of business interactions is not factored in, because trade or other economic transactions, as well as other contacts across the conflict divide, acquire meanings that transcend mere economic cost-benefit calculations. The study was designed in line with the thesis that challenges the assumption that 'all actors are engaged in war because of a rational economic calculation'<sup>12</sup>. This assumption 'ignores both the political economy and emotional economy of the conflict'<sup>13</sup>. The downside of this assumption is not only that it paves the way for deficient analysis, but also 'tends to encourage a belief that the "illicit" economy can and should somehow be ring-fenced and treated in isolation from the "licit" economy'<sup>14</sup>, effectively blocking the search for a conflict transformation resource of this kind of economy. Our approach to the analysis of the cross-Ingur/i economy was not normative but analytical. The interplay between economic drivers and political constructs, and between individual experiences of the interaction with the "other" and collective identity consciousness, was central to this research.

This study is a continuation of the previous mapping of expert opinions on the political and economic losses and dividends in the case that a hypothetical regulatory framework were enacted at the Georgia-Abkhazia economic interface.<sup>15</sup>

8 D. Narmania and S. Grigoryan (2010). *Cross-Border Co-operation between Georgia and the Republic of Armenia (Existing Problems and Challenges)*. CARE.

9 With the exception of the Russian Federation, Venezuela, Nicaragua, Vanuatu and Nauru, which officially recognised Abkhazia as a sovereign state.

10 N. Mirimanova (2011). *Peacebuilding through economic cooperation: a case for the OSCE involvement, Discussion Paper for the Chairmanship Workshop on Economic and Environmental Activities of the OSCE as Confidence Building Measures*. OSCE: Vienna. Available at <http://www.osce.org/eea/78174>

11 C. Nordstrom (2000). 'Shadows and Sovereigns', *Theory, Culture and Society* 17, no. 4, pp.35-54.

12 J. Goodhand (2003). *From war economy to peace economy?* LSE: London. Available at [http://eprints.lse.ac.uk/28364/1/Goodhand\\_LSERO\\_version.pdf](http://eprints.lse.ac.uk/28364/1/Goodhand_LSERO_version.pdf)

13 Ibid.

14 Ibid.

15 International Alert (2011). *Regulating Trans-Ingur/i Economic Relations: Views from two banks*. London

## 2. Research agenda

The present stakeholder analysis is a variation on the public opinion poll on a matter rarely addressed as a subject for empirical research. In addition, the respondent category is also exceptional: the private sector does not often attract attention in a protracted-conflict context unless it is a profit-driven conflict. Public opinion polls on the opposing sides of the conflict are in fact a valuable peacebuilding tool. Firstly, they provide data to better inform official peace talks; secondly, if regularly conducted, they encourage further and continuing consultations with various constituencies in order to distinguish heterogeneous aspirations, fears and interests within each conflict side, to trace their changes, and to not mistake aspirations, fears and interests of a particular group or groups as “public” ones<sup>16</sup>.

Representatives of the private sector, more specifically SMEs, were polled regarding their views on the economic aspects of the status quo and prospects of the introduction of a regulatory framework to facilitate business relations across the conflict divide. This category of respondents has the necessary expertise, personal experience, societal position and stake to competently discuss this matter. Politicians and public officials were interviewed as both stakeholders and gatekeepers, i.e. those who define the context in which the private sector operates.

The study consisted of three conceptual blocks: firstly, the current state of affairs with regard to the economic significance of and public attitudes towards trans-Ingur/i business in its present form was assessed; secondly, reflections on the prospects and specific formats of hypothetical regulation of the currently illicit<sup>17</sup> trans-Ingur/i business between Georgian and Abkhaz entrepreneurs were gathered; thirdly, stakeholder ideas on how the facilitation of bilateral commerce through the introduction of a regulatory framework could foster conflict transformation were solicited.

Research design and methodology were finalised in a workshop which brought together both Abkhaz and Georgian researchers. The study was carried out as a series of focus groups and individual interviews. Focus groups were conducted with SMEs operating in the agriculture, retail, trade, construction, tourism and transport sectors. Individual interviews were carried out with authority figures and politicians. Qualitative methods were selected first and foremost because of the exploratory nature of the study, which meant that the assumptions underlying its research design were general and not restrictive. The study was aimed towards the generation of propositions regarding economic drivers for conflict transformation.

Focus groups were conducted in July-August 2011 in a number of districts on both sides of the Georgian-Abkhaz divide. On the Abkhaz side, focus groups were conducted in Gal/i, Ochamchira/e (Eastern Abkhazia), Sukhum/i, Gudauta and Gagra (Western Abkhazia); on the Georgian side focus groups were conducted in Khurcha, Zugdidi (Samegrelo), Pakhulani (Samegrelo/Zemo Svaneti), Mestia (Svaneti) and Batumi (Ajara). Different districts were selected to test the hypothesis that distance from the Abkhaz-Georgian interface would impact perceptions on the economic significance of trans-Ingur/i economic relations and public attitudes towards those involved in them. Two focus groups were conducted in Gal/i, Ochamchira/e, Sukhum/i,

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16 C. J. Irwin (2004). 'Using Public Opinion Polls to Support Peace Processes: Practical Lessons from Northern Ireland, Macedonia, Cyprus, Israel and Palestine', in A. Guelke (ed) (2004). *Democracy and Ethnic Conflict: Advancing Peace in Deeply Divided Societies*. Palgrave MacMillan: Basingstoke and New York.

17 Economic relations between Abkhaz and Georgian business which imply that goods or people cross the divide between them are formally illegal on both sides, or function on an ambiguous, normative basis. They clash with the Georgian "Law on Occupied Territories" and with the border crossing ban on the Abkhaz side, with the exemption of those granted special crossing permits and humanitarian organisation vehicles and cargo to which the Abkhaz authorities refer.

Gudauta, Gagra, Zugdidi, Mestia and Batumi. One focus group was conducted in Khurcha and Pakhulani due to the small size of the villages. Six to twelve respondents participated in the focus groups. One additional interview with a retailer from Tkuarchal/Tkvarcheli was conducted. A focus group was not organised in Tbilisi as trans-Ingur/i economic relations were said to be irrelevant for SMEs. Top management of two large companies in Tbilisi were interviewed.



This map is a modified version of the original taken from the Nations Online Project ([www.nationsonline.org](http://www.nationsonline.org)). Geographic denominations and boundaries are a contentious issue in the Georgian-Abkhaz context. Therefore, this map is used solely for reference purposes and does not signify any political or other views on the conflict.

The following authorities in Abkhazia were interviewed: the Presidential Administration, the Customs Committee, the Ministry of Foreign Affairs, the Ministry of Taxation, the Finance Ministry, and the Cabinet of Ministers. In Georgia, interviews used as reference in the current study were conducted for the previous stage of the research process in August 2010. Politicians and officials who have dealt with the conflict at different times were surveyed. A brief analysis of political discourse in Georgia at the beginning of this study demonstrated that the attitudes and policies with regard to economic (non-)engagement with Abkhaz business had not changed significantly since the summer of 2010. The circle of political figures and officials who follow this matter is also not expanding. Having taken into consideration these factors, no new interviews were conducted; however, the mid-2010 interviews were used as a reference.

## 3. Economic significance of trans-Ingur/i economic relations across the regions

### 3.1 Abkhazia

Businesspeople from SMEs from all regions of Abkhazia admitted that, regardless of the official ban on crossing the Ingur/i boundary for people and goods (with the exception of Gal/i district residents who have been granted a crossing permit), movement of goods in commercial quantities and people with no crossing authorisation existed<sup>18</sup>. Trade or any other economic transactions across Ingur/i is prohibited by the Abkhaz authorities<sup>19</sup>, but agricultural produce and other goods which enter Abkhazia from the east can be found in markets throughout Abkhazia.

Goods move predominantly from Georgia to Abkhazia. Hazelnuts, (in rare cases) cigarettes, and some food products from Russia are the main items that move from Abkhazia to Georgia. Movement from Georgia to Abkhazia by far exceeds the latter in its volume and is also a regular flow, unlike the seasonal hazelnut trade.

*Economic significance* of trans-Ingur/i economic links was assessed on the basis of subjective accounts of the respondents. The hypothesis that economic significance of trans-Ingur/i trade would decrease with the increase of distance from the divide-line was supported. Entrepreneurs in the Gal/i and Ochamchira/e districts were very well informed of the economic links with Georgian producers and traders, and many of the respondents stated that they themselves were engaged in the trade in goods which originated in Georgia or entered Abkhazia via Georgia.

Gal/i discourse on trans-Ingur/i economic relations stands apart and is unique because it is populated predominantly by Georgian (Mingrelian) returnees who experience life in Abkhazia in a drastically different way to other population groups, most notably ethnic Abkhaz.

Residents of Gal/i claim that trans-Ingur/i economic relations are a survival matter for them.

Counter to the widespread assumption that all Gal/i entrepreneurs regard trans-Ingur/i trade as the principal opportunity to generate income, the emerging trend among them is to free themselves from the necessity to engage in this risky business.

*The border does not affect my business anymore. I started buying raw produce on-site: flour, cheese, potatoes, etc. Of course, there is a big difference in the prices of cheese and potatoes, but my business and my age do not make it worth the effort, risks and costs of buying from other side. That's why I started buying here. I buy smaller amounts, but it is safer*

(GAL/I, MARKET CAKE STAND, FEMALE)

*The Gal/i population is gradually stopping going to the other side for food products. The costs are high and are not worth the effort. But it is already affecting relationships – people are becoming estranged*

(GAL/I, GUEST HOUSE, FEMALE)

Trans-Ingur/i trade is an important business in Ochamchira/e, albeit to a lesser extent. Ochamchira/e

<sup>18</sup> Gal/i district residents have crossing permits, unlike residents of other districts, and are allowed to bring goods for personal use, not for commercial purposes, across the border.

<sup>19</sup> Legal research experts were unable to locate any decree of the former President of Abkhazia which imposed a ban on the cross-Ingur/i movement of goods and people.

businesspeople developed the trend of reducing the need to engage in unauthorised Ingur/i crossing for commerce even earlier than Gal/i. As a result, current ties of the district's entrepreneurs with the opposite side are no longer prominent at all and they prefer to purchase food and manufactured goods which arrived from Georgia in Gal/i. It is important to stress that entrepreneurs from Ochamchira/e stopped crossing the divide unauthorised to do commerce because of the difficulties and obstacles along the way, not because of political considerations or societal pressure.

*Food products are indeed cheaper in Georgia. But personally, I would never go there. Five Roubles' profit is not worth the suffering and the amount of money we need to dispense along the way. I would rather go to wholesale traders in Sukhum and buy everything there*

(OCHAMCHIRA/E, FOOD STORE 1, FEMALE)

*It [the border] does not affect us much. There was a time when I used to buy goods from there, and then I stopped. There is no big difference. Here we have our own prices for goods, why should we undergo such difficulties?*

(OCHAMCHIRA/E, FOOD STORE 2, FEMALE)

Profitability of trade in goods and agricultural products from Georgia is apparently high, despite the amount of informal payments traders have to dispense along the way:

*Because of the risks of being caught, they leave together in 3-4 cars from Zugdidi. If they run across representatives of Abkhaz structures, each car pays a certain amount of money, and if they come across the Russians, then they are taken to the Abkhaz State Security Service where they cannot even mention they are bringing in goods in accordance with the agreements with various structures or that they have paid; and therefore, they start paying fines in order to save their goods and themselves*

(GALI, TRADE IN BUILDING MATERIALS, FEMALE)

The crossing raises prices twofold, yet it is still more profitable than importing goods from Russia.

*It's unrealistic to buy clothes from Russia for us, because of the high transportation costs and the prices. If something costs 20 lari in Lilo<sup>20</sup>, 40 lari in Zugdidi, it costs 80 lari in our place. In Krasnodar – there is an additional cost of 10-15 lari, plus travel expenses. Besides, it's cheaper to stay in Zugdidi hotels*

(TKUARCHAL/TKVARCHELI, CLOTHES RETAILER, FEMALE)

For small business, risks have become too burdensome and some Gal/i Georgians revised the commercial attractiveness of reselling products brought from Georgia and focused on business opportunities which did not require crossing the boundary. Nevertheless, trans-Ingur/i trade has not diminished in volume. Contrary to the popular belief on the Abkhaz side that it is by and large ethnic Georgians from Gal/i who cross the Ingur/i at the designated and non-designated places for trade, the composition of those travelling to Georgia for commercial reasons has changed since the August 2008 war. Gal/i Georgians say that their commercial crossing has grown more complicated as the control of the boundary had tightened with the arrival of Russian border guards. This did not reduce the number of crossings in any significant way, but the risks, i.e. the bribes for Abkhaz officials and self-appointed “controllers”, have gone up<sup>21</sup>. Gal/i Georgians who used to be at the forefront of trade are being replaced by ethnic Abkhaz, not only from the

<sup>20</sup> Wholesale market in Tbilisi.

<sup>21</sup> According to crossers on both sides, Russian border guards on the whole do not negotiate but follow procedures, whereas with the Abkhaz authorities one can often negotiate and come to an informal agreement. A common scenario if one is caught crossing the divide-line at a non-designated place is as follows: if the violator falls into the Russians' hands, he or she is escorted to the Gal/i district administration, the cargo confiscated and the violator may end up appearing on TV report. Abkhaz officials are reportedly more flexible; bribes and references to a patron or relative in a high position may serve as a *laissez-passer*.

regions adjacent to Ingur/i, but also Sukhum/i and western Abkhazia. Risks are presumably lower for them at the moment as they are in a more privileged situation through family ties or ties with the establishment and security agencies. Gal/i Georgians prefer to reduce risks by purchasing from Abkhaz wholesalers. The structure of trans-Ingur/i trade has been changing from a situation where many small-scale traders cross the divide ad hoc by foot to where there are fewer traders but at a larger scale and where there is a developed “crossing infrastructure” in the form of mini-vans, warning systems and companions.

However, in Ochamchira/e there were entrepreneurs for whose business trans-Ingur/i economy was irrelevant. Interestingly, for those in Ochamchira/e who were in favour of keeping the divide permeable, the main reason was not economic benefit but the possibility of seeing their relatives on the other side.

*Since the war, I've always been afraid, not so much that Georgia may attack again, but more that it will close the border and we may not see our relatives again*

(OCHAMCHIRA/E, TOURISM, FEMALE)

Ochamchira/e and Gal/i are poor and economically depressed districts. Tourists do not go there, the internal market is small, and consumers are not solvent, which pushes businesspeople towards a low-profit, yet sustainable business of food shops.

Since the core business in the coastal resort regions, such as Gagra, is tourism, respondents' attention to the influence of the closed Ingur/i boundary was marginal.

*The closed border with Georgia does not affect the tourism business. Tourists<sup>22</sup> usually know that there is an agreement between Russia and Abkhazia on border protection. Many people visit. Feedback on services is not very good, but it's much better on safety than it was before*

(GAGRA, ENTREPRENEUR, MALE)

Respondents in Gagra and Gudauta knew about trans-Ingur/i economic links, but the supply of goods from Georgia did not seem to be visible in those regions.

*If there is informal business with Georgia, then it is the delivery of construction materials. The border is officially closed today. Any entries of goods are considered smuggling. That's all there is to it. Today, there is no such product that Georgia can provide which Russia cannot*

(GAGRA, ENTREPRENEUR, MALE)

The difference in prices between products from Georgia and from Russia in Gagra and Gudauta is not as significant as in eastern Abkhazia, due to the high transportation costs: the distance from Ingur/i to Gagra or Gudauta is about 200km, whereas Gal/i and Ochamchira/e are only 7km away. Therefore, this trade route is not of principal importance for businesspeople or consumers in western Abkhazia.

Some believed agricultural products not of Russian or local origin came from Gal/i and others were aware of the diversity of goods crossing from Georgia.

*For instance, they say the first tomatoes and cucumbers of the season are brought from Gagra, but we know that they are either from Zugdidi or Kutaisi*

(GAGRA, ENTREPRENEUR, FEMALE)

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22 Predominantly Russian tourists who travel across the border at Psou.

*I heard a couple of times that plates, chandeliers, crystal, paintings, tables and sideboards are from Georgia. I saw the quality of the products and I liked it. They are not expensive and they are beautiful*

(GUDAUTA, ENTREPRENEUR, FEMALE)

Assessment of the economic significance of trans-Ingur/i economic relations in Sukhum/i business circles depended on the type of business and personal experience with either crossing to the other side or ordering goods from there. Those involved in trade admitted they had a supply of goods from across Ingur/i and assessed this trade route as profitable, regardless of bribes to be paid along the way.

*I bring goods from Zugdidi. It's more profitable rather than going to Adler. But I have to pay a lot of bribes on the border to bring the goods in*

(SUKHUM/I, GROCERY SHOP, FEMALE)

*Everyone knows about the state of affairs. It seems that it is convenient for everybody. I also bring goods from Georgia*

(SUKHUM/I, WOMEN CLOTHES STORE, FEMALE)

*I need a lot of greens for my restaurant. Almost all the herbs that are sold in the market are brought from Georgia. Herbs are brought in vans. And this, of course, is not a small business*

(SUKHUM/I, RESTAURANT OWNER, MALE)

Others with service-orientated businesses do not need trans-Ingur/i links.

*Frankly, I doubt the opening of the border would change anything for me. People would not cross the border to wash their cars. All I need I do not purchase in Georgia, and the conditions are fair for me*

(SUKHUM/I, CAR WASH, MALE)

Sukhum/i is the main trade hub in Abkhazia. Goods from all destinations accumulate in Sukhum/i and are further dispatched to the regions, including those adjacent to Georgia.

While acknowledging the existence of trans-Ingur/i economic relations, respondents did not however assess them as particularly important and regarded them as yet another avenue for foreign economic activities which did not have any significant share in the city's economy. With regard to agricultural produce, products of Georgian origin were reported to be attractive because of their advantageous prices and, even more importantly, because of their quality; however, trade in Georgian agricultural products was not labelled as being of principal importance. There was a diversity of assessments of the significance of trans-Ingur/i economic relations: some emphasised the economic expediency of these sorts of relations, while others categorically rejected this because, according to them, analogous goods could be legally imported from Russia across the border along the Psou river. It is worth noting that pragmatic (non-political) considerations regarding trans-Ingur/i economic links were not entirely in favour of their existence. Since the majority of Sukhum/i entrepreneurs import goods from Russia and Turkey, non-expansion of the alternative trans-Ingur/i import route is perceived as good news, since this way their competitors are squeezed out of the market.

Trans-Ingur/i relations for many in western Abkhazia are an "abstraction" in both economic and human terms; therefore, people may simply not be interested in discussing ways to facilitate these relations in the sphere of business. Business in Gagra is orientated towards tourism and construction as these sectors are profitable. SMEs from other sectors barely keep afloat, despite local needs which require a variety of businesses, not only seasonal tourism.

Two factors could be identified which define the perceived significance of trade and other economic relations with the Georgian side: fewer entrepreneurs from western Abkhazia are engaged in economic relations with their Georgian counterparts, while in eastern Abkhazia more people are engaged in trans-Ingur/i economic activities; public attitudes towards those engaged in trade with the other side differs in western and eastern Abkhazia – in western Abkhazia general public disapproval of these links makes these people keep a low profile, whereas trans-Ingur/i trade is less of a taboo in the communities of the eastern Gal/i and Oчамchira/e districts.

### 3.2 Georgia

Regions adjacent to the conflict divide on the Georgian side are not only affected by trans-Ingur/i trade, but appear to be seriously dependent on this flow of goods.

Abkhaz purchasing food products in bulk quantities is of great influence on the Zugdidi market. This influence is not straightforwardly positive for local residents: on the one hand, this consumer demand leads to rising prices and, on the other hand, trade volume also increases. Zugdidi entrepreneurs state that any complications or interruptions related to crossing negatively affect business in the region in general.

*They buy poultry, pigs, everything. When they come, the prices go up. If Abkhaz stop coming, there won't be any trade*

(ZUGDIDI, DISH SELLER)

*There were cases when there were clashes and roads were closed. It immediately affected trade*

(ZUGDIDI, TEXTILE SELLER)

Respondents recalled that since Soviet times, and even up to 2007, agricultural products as a whole entered Zugdidi from Abkhazia (Gal/i). Today there is movement in the opposite direction.

*Zugdidi market used to fill its stocks with products from Gali and Tsalenjikha. It continued until 2007. Nowadays, everything is carried to that side. I often go to Gali and Sukhumi and see our products: apples from Gori, Marneuli potatoes, cucumbers, tomatoes, fruits...*

(PAKHULANI, ENTERPRENEUR 1)

*As for cheese, it gets more expensive in the market day by day. I was curious and asked for the reason. They said that people from Gali arrived in the morning and bought 300kg of cheese, and this happened not only today. Almost every day, people from Gali buy 200-300kg of cheese from Zugdidi market. It used to be the other way around before*

(PAKHULANI, ENTERPRENEUR 2)

Residents in Samegrelo adjacent to Ingur/i proposed their diagnosis of why risky trans-Ingur/i business was so important for those on the other side, especially in Gal/i.

*What is it based on? Abkhazian agriculture is destroyed altogether. It's not a secret that Gali was a storehouse of agricultural products for Abkhazia...But today, 70-75 percent of the Gali population is above 50 years old. There is no one to work*

(KHURCHA, ENTREPRENEUR)<sup>23</sup>

Entrepreneurs from Samegrelo expressed their concern that ethnic Georgians in Abkhazia were discriminated against in Abkhazia, where rent-seeking is widespread, particularly with regard to the providing a *laissez-passer* for trans-Ingur/i trade.

<sup>23</sup> In all focus groups some participants did not reveal the nature of their business while in Khurcha and Pakhulani this was the case with everyone.

*In order to promote business in Abkhazia, one needs to have either an Abkhaz uncle or be a relative of some kingpin, [...] or somebody in the government needs to owe you. Otherwise, you cannot have your business*

(KHURCHA, ENTREPRENEUR)

*The border is closed according to the law; but if you count how many cars cross in one hour, it becomes clear that for some people it is open, i.e. that “some people” have patrons. Ordinary people do not have them, that’s the case*

(KHURCHA, ENTREPRENEUR)

Zugdidi region not only sends goods and agricultural produce westward, but also benefits from – significantly smaller in scale but vitally – supplying cigarettes, flour, preserved meat, baby food, and cleaning products from Russia which are considered of better quality than equivalents in the Georgian market.

Russian military personnel stationed along the boundary are named by Georgian entrepreneurs in the villages along the divide and in Zugdidi as the main obstacle to the movement of goods and people from one side to the other. This is acutely felt by those who move back and forth between the separated parts of their families and for daily survival.

*Before it was controlled, but within limits. Smuggling was always hard, but it was no problem previously to carry sugar, flour and things like that for family consumption*

(PAKHULANI, ENTREPRENEUR)

Trust in business, which makes commerce possible in the absence of contracts and insurance, has begun to erode.

*There is a fear factor among traders now: if someone buys something on credit, he may not return at all to pay it back*

(ZUGDIDI, FRUIT AND VEGETABLE SELLER)

The influence of trans-Ingur/i trade on the local economy is vivid only in Samegrelo, while for other regions it is not a relevant topic. Respondents from other regions of Georgia believe that at present it is only residents of the Zugdidi district who have business relations with Abkhazia. For those further away, this business is of no interest. Additionally, it is an unfamiliar region perceived as insecure.

*But these are local people, who live close, in Samegrelo. No one from Ajara will sell anything across the Inguri*

(BATUMI, FAMILY HOTEL, MALE)

Residents of Svaneti did not express interest in supplying their agricultural products (Svaneti potatoes are highly valued in the Sukhum/i market), as, *vis-à-vis* the steep growth in tourist numbers, local food producers may be facing a situation where there are no leftovers to be exported elsewhere.

*The hotel and tourism sectors use so many food products that nothing is left for export. [...] When there is not enough, we bring food products from Zugdidi*

(MESTIA, OWNER OF A PRIVATE HOTEL)

Businesspeople (from SMEs) in Tbilisi were not interested in this topic at all since they considered the option of their dealing with Abkhaz businesses as a utopian idea at the current time.

## 4. Current public attitudes towards trans-Ingur/i economic relations

### 4.1 Abkhazia

Public attitudes towards trans-Ingur/i economic relations and towards those individuals engaged in it are not uniform across Abkhazia. The hypothesis that the further from the divide with Georgia the stronger the disapproval of trans-Ingur/i economic links was proved. No disapproval of trans-Ingur/i economic ties was detected in Gal/i itself, but there is clearly growing disapproval and an increasing number of those who condemn business relations with Georgians. Nevertheless, qualitative methods revealed a variety of judgments and the rational and emotional base of those judgments given by respondents from *all* regions west of Gal/i.

Many Gal/i residents, for whom trans-Ingur/i economic and human relations are a daily reality and a way of life, furthermore, have authorisation to cross at a designated checkpoint, which, along with their ethnic identity, form a peculiar category. Public attitudes towards trans-Ingur/i economic ties among Gal/i respondents should be analysed separately from other Abkhaz regions.

It is important to stress that due to the recent curtailment of access to commercial crossing and the fact that only a few enjoy the privilege, others may get jealous, which has led to an erosion of in-group social capital which once had been the basis for survival in Gal/i.

A raised “entrance fee” to stay in the trans-Ingur/i trade business has affected the Gal/i social fabric and has exposed inequalities in income.

*Some are allowed to trade without limits, but if I do, I will be caught. That's why I am saying that not everyone is equal before the law. There are those who have already promoted their business and have so much money that they can pay more bribes, bring in more, and therefore, have bigger profit*

(GAL/I, CONSTRUCTION MATERIALS SHOP, FEMALE)

The further from the Ingur/i, more politicised discourse on trans-Ingur/i economic links and more complex “emotional economy” discourse exists.

*Many of us have relatives there. They all go to visit each other and can easily communicate. But if you mean the war, it's been quite some time now; therefore, everything is becoming calm*

(OCHAMCHIRA/E, CLOTHING SHOP, FEMALE)

*I personally know many people who do not like it. Just visit the elderly in our village and listen to what they say. They will easily call those involved in this business traitors*

(OCHAMCHIRA/E, ELECTRONICS RETAILER, MALE)

*Trade in goods is not just a trade. A good from Georgia is the relationship between two states, two nations. It's not bad that our citizens earn money, rather the fact is that Georgians are our enemies. It is the border and it is closed. We must seal the border tightly. Then based on whether they recognise us or not, maintain neighbourly relations*

(GUDAUTA, ENTREPRENEUR, MALE)

*We should not make any concessions to their citizens. We need to address issues of Gal/i people and that is a separate matter. Everything else is smuggling; money goes to the country which is our enemy*

(GAGRA, ENTREPRENEUR, MALE)

It was indicative that in Sukhum/i both pragmatic and political views were presented. The city is a hub for trade and business – people from all regions strive to settle there – hence the diversity of opinions.

*I have a grocery store in the market. There is nothing to hide; everyone knows that fruit is brought from Georgia. We have very few fruits of our own. They are expensive in Russia. That's why we bring from Georgia*

(SUKHUM/I, FOOD STORE OWNER, FEMALE)

For many, understanding the potential profits one could make if Ingur/i were open does not outweigh the moral aspect of resuming business-as-usual relationships with Georgians.

*I lost my brother in the war. If I would go there and bring goods, etc., then what did my brother die for? This would be a betrayal of his memory. It's impossible for me*

(SUKHUM/I, CONSTRUCTION MATERIALS STORE, MALE)

Individuals engaged in trans-Ingur/i economic relations are not persecuted or ostracised; however, in an ideal scenario, people would mostly prefer not to be seen as trading with the “enemy” and to minimise the economic necessity for Abkhaz businesses to deal with the Georgian side.

*One earns however one can. But we cannot ignore that there was a war between us and we don't want our business to be dependent on that other side. But if a person can earn this way and feed his family, what can I say...*

(GUDAUTA, ENTREPRENEUR, FEMALE 1)

*I think it is not a crime. One survives however one can. I am not going to treat those people disrespectfully or blame them. They can trade, because these are [economically] difficult times for all*

(GUDAUTA, ENTREPRENEUR, FEMALE 2)

*Everyone I know fought [in the 1992-93 war]. People would simply not understand me*

(SUKHUM/I, DENTIST CLINIC, MALE)

However, people do discriminate between the engagement of individuals in illegal crossing out of necessity and the corrupt practices among public officials and security structures, who use this situation for their own benefit.

*It's quite another story when officials issue illegal permits for crossing. I condemn them. I would not blame an ordinary person who tries to survive and feed his family. Those who serve the state can be blamed to a greater extent*

(GUDAUTA, ENTREPRENEUR, FEMALE 3)

In sum, the economic significance of trans-Ingur/i economic relations in their current form, and public attitudes towards those involved, varies across regions and is influenced by personal and family experiences regarding the 1992-1993 war and its consequences, and by the nature of the business in question. Except for Gal/i residents, all other entrepreneurs raised concerns that trans-Ingur/i illicit movement of goods and people might breach Abkhazia's security. However, the moral pressure of the unhealed past has done irreparable damage to Georgian-Abkhaz

relationships in the eyes of the ethnic Abkhaz surveyed. The acceptance of trans-Ingur/i economic links in a “business-as-usual” fashion is a seemingly insurmountable obstacle for them.

Nevertheless, it is worth noting that the relatively new phenomenon of Abkhaz travelling to Georgia for medical treatment is overwhelmingly met with empathy among fellow Abkhaz. People are very complimentary about Georgian medical professionals and about the warm reception and assistance they receive in Georgia. However few have illusions regarding the Georgian state’s strategy to attract Abkhaz by means of providing them with privileged medical care at a discount rate or even free of charge. This duality in the perception of Georgians often surfaces in the Abkhaz accounts: they draw a line between ordinary people and the political élite, especially the state leadership.

## 4.2 Georgia

Public attitudes towards Georgians involved in trans-Ingur/i economic relations are predominantly positive or neutral. According to the surveyed entrepreneurs, the interruption of economic and human relations with the Abkhaz people is considered an injustice on the Georgian side of the divide, while economic interaction with Abkhaz is considered natural. There was only one negative comment:

*I heard that this is considered a “mauvais tone” to trade with Abkhaz, people try to hide this fact. I heard this from the family of those who perished in the war*

(ZUGDIDI, TOURIST AGENCY)

Negative attitudes used to be fostered through mass media, but this is no longer the case.

*The TV used to say: we trade with Abkhaz and they get rich, then they will buy guns and shoot us*

(PHAKHULANI, ENTREPRENEUR, MALE)

All observed that, at present, there was a reverse trend in Georgian politics which translated into public attitudes towards dealing with Abkhaz: no obstacles should be created to inhibit communication and crossing to the Georgian side<sup>24</sup>.

Abkhaz entrepreneurs crossing for business are said to be welcome.

*No one gets in their way, and there never was a single incident of their causing any problem here*

(ZUGDIDI, CHINA RETAILER)

Residents in the regions adjacent to Ingur/i have in fact never accepted the division which cut across families.

While trans-Ingur/i economic relations and movement are the focal point of existence in Zugdidi and villages along the divide, very few outside Samegrelo knew that Georgians were trading or otherwise economically interacting with Abkhaz.

<sup>24</sup> Facilitation of Abkhaz-Georgian relations at the level of doing joint business and opening access to Georgian markets for Abkhaz was on the agenda of some civil society organisations in Georgia. They had been continuously and successfully lobbying the government since the endorsement of the *Law of Georgia on Occupied Territories*. Since 2008 the Business and Economy Centre (BEC) has been holding internal dialogue sessions to channel grassroots interest into the facilitation of economic relations with Abkhaz entrepreneurs at the decision-making level.

Interviews held with representatives of large Georgian businesses who care equally about profits and reputation revealed that, depending on the type of business, both transit routes through Abkhazia to Russia and beyond, and opening branches of their industry in Abkhazia may be of interest. However these interests are purely academic, since no one can envisage any business relations across Ingur/i in the current circumstances. Both companies interviewed had experience of piloting licit business across the conflict divide, but in all cases the projects had failed due to the extreme volatility of the context, irrespective of clear local demand.

## 5. Arguments for and against the regulation of trans-Ingur/i economic relations

Arguments in favour or against regulated economic relations across the divide could be grouped into the following categories:

1. *Economic arguments* (comprising cost-benefit analyses, impact on the local and regional economy, and investment climate)
2. *Political arguments* (referring to the prospect of advancing a side's political goals in the conflict)
3. *Security arguments* (concerning impact on collective security)
4. *Psychological arguments* (linked to individual and collective feelings about the possibility of restoring human and commercial links with the other side).

### 5.1 Abkhaz view

#### 5.1.1 Economic arguments

##### *Economic pros*

Gal/i entrepreneurs suggested that if one were to introduce twice as high customs duty as at the border at Psou, trans-Ingur/i business would still be profitable.

Residents of districts in close proximity to the Ingur/i checkpoint, except for Gal/i, stated that the rigorously observed ban on trans-Ingur/i economic transactions did not impact on their business. However, they believed the possibility of the *legalisation* of trade would bring economic benefits.

*Many people will go there for goods. It's cheaper there. Goods are of better quality. It's closer. Of course it is more profitable*

(OCHAMCHIRA/E, ENTREPRENEUR, FEMALE)

Businesspeople from distant districts see the clear economic benefits that regulation, i.e. reduction of risks, would entail, but regard these prospects as purely hypothetical.

*If I fantasise, I could just bring goods from Iran through Georgia. It would be cheaper. And the goods here in Sukhum would be cheaper for the buyers*

(SUKHUM/I, CONSTRUCTION MATERIALS SHOP, MALE)

*The same can be said about cars. In general, it seems that it's profitable to bring any goods from there [Georgia]. All the industries connected to it would flourish. We could avoid high Russian custom duties and bring in products from other countries*

(SUKHUM/I, CAR RETAILER, MALE)

*Cement brought to Abkhazia through Georgia is a lot cheaper*

(GAGRA, ENTREPRENEUR)

Another common argument in favour of the introduction of transparent procedures and rules for trans-Ingur/i economic transactions is that duties would be paid directly to the central Abkhaz budget and that border regimes would be uniform, reinforcing Abkhazia's maturity as an economic entity.

*I think we cannot completely close it [the border]. We need to regulate it so there are some profits going to the state. Those who come in across the Russian border pay taxes, while those who go to Georgia violate the law by crossing this border. This is not equal status, is it?*

(GUDAUTA, ENTREPRENEUR, MALE)

Some think that becoming a proper transit country would be beneficial.

*For the South Caucasus we are a transit country. Let the goods travel from Russia to Georgia. Transit fees will stay in Abkhazia. When our documentation will be recognised, it will be easier for us and for Georgians too*

(GAGRA, ENTREPRENEUR)

The increased competition that a regulated, permeable border would inevitably stimulate, due to greater supply of products and services scares some, but encourages others.

*This is even better. Some years ago, there were only 1-2 shops in Galli. Today we have them everywhere. Everyone has their own clients*

(GALI, SMALL BAKERY AT THE MARKET, FEMALE)

*We will need to struggle and adjust prices*

(GALI, CONSTRUCTION MATERIALS SHOP, FEMALE)

### *Economic cons*

The Abkhaz economy at present is benefiting from generous Russian financial assistance, but this situation may backfire in the long run. Abkhazia's budget is heavily subsidised by Russia, which basically translates into financing the public sector<sup>25</sup>. Niches for big business in Abkhazia appear to be permanently occupied, in most cases by Russian-Abkhaz joint ventures<sup>26</sup>. Given that loan provision for SMEs is underdeveloped, that it is virtually impossible to procure start-up money from banks, and that there are no governmental SME assistance programmes, the Abkhaz domestic private sector faces severe difficulties.

*We want to develop the brand "Gagra"... All construction materials are imported from Russia; customs fees and all taxes increase the price by several times. Builders themselves are not citizens of Abkhazia. We need to attract and educate our own people. In order to have beautiful buildings, we should build with our own hands*

(GAGRA, ENTREPRENEUR, MALE)

There is no strategy to stimulate the emergence of a proper market economy and foster internal production with the available Russian funds. Some regard the present time as a unique opportunity to do so.

*There is good financial support from Russia and we need to make use of it. We need to try to develop*

(GUDAUTA, ENTREPRENEUR, FEMALE)

25 B. Baratelia (2011). 'Economic context and significance of legalizing trans-Ingur economic relations', in International Alert (2011). *Regulating trans-Ingur/i economic relations*. London.

26 The theme of the existing gap between privileged businesses (most notably in the construction and tourism industries) and ordinary entrepreneurs (in the sense of access to financial assistance) was recurring in respondents' analysis of the present-day state of business development in Abkhazia.

However, the idea of such a strategy seems to drag. Inefficient use of available funds is one of the obstacles as to why this opportunity has not been seized: firstly, due to the non-transparency of the allocation and distribution of incoming funds; secondly, due to the lack of economic policy in Abkhazia itself except for the allocation of Russian funds<sup>27</sup>; thirdly, due to the virtual non-existence of accessible loans for the development of business.

*It is impossible to get a loan from the bank, they ask for a deposit, which an ordinary person cannot provide*

(TKUARCHAL/TKVARCHELI, RETAILER, FEMALE)

Abkhazia can only legally export its produce to Russia, but there is currently little that could be sold on the Russian market.

*It's unrealistic to do something of our own against Russia. These are serious competitors*

(GUDAUTA, ENTREPRENEUR, MALE)

It was reported that Turkish investors also sought to maximise their revenues and get a *carte blanche* to exploit resources and hire locals for minimal pay, compared to better-paid Turkish labour invited from Turkey.

*Turks rent Karman zone [for coal mining]; their people work there [on the same site] and earn more than our people*

(TKUARCHAL/TKVARCHELI, RETAILER, FEMALE)

In this situation of restricted internal investment and seemingly insurmountable obstacles to run one's own business, if the border were to open for trade, for example, an influx of cheap, quality Georgian products may become an easy alternative to doing business and undermine local motivation for longer-term investments and production even further.

*Local producers, those who try to produce something, the same farmers, will suffer. All is set in Georgia, they receive support from the West, and people bring the same tomatoes at a lower price. Local people will be unable to compete. Why produce something when you can bring it in cheaper? At the same time, the one who wants to produce or manufacture something himself will be at a loss, because people will not buy from him, they do not have that much money*

(GUDAUTA, ENTREPRENEUR, FEMALE)

*Maybe if we didn't bring goods here, our villagers would start growing something themselves. In this case, we would see some internal development*

(OCHAMCHIRAE, ENTREPRENEUR, MALE)

Some think that Abkhazia cannot afford to facilitate trade by opening as many trade routes as possible before its own economy reaches a certain level of development and diversification, otherwise Abkhazia would be doomed to become a solely transit territory or a depot for low-quality food and goods to be offloaded.

<sup>27</sup> 'Счетная палата вновь выявила многомиллионные нарушения в освоении финпомощи Абхазией [The Audit Chamber once again detected violations in the assimilation of financial assistance to Abkhazia], *rosbalt.ru*, 16th December 2011. Available at <http://www.rosbalt.ru/main/2011/12/16/925312.html>. According to the Russian State Audit Chamber, Abkhazia could assimilate only 46 percent of the funds allotted by Russia in 2010-2011. Of ninety projects planned for the year, only five were completed, twenty-seven did not commence and fifty-eight were not finished on time.

*There is a risk in opening all borders and becoming an international marketplace. This will benefit speculators, those who want to work off goods. If there is no market in Georgia, it will be sold off in Abkhazia*

(GUDAUTA, ENTREPRENEUR, FEMALE)

### 5.1.2 Political arguments

#### *Political pros*

Political arguments in favour of the regulation of trans-Ingur/i economic relations were connected to prospects to solidify the case for international recognition. Some regard the possibility of enabling Georgians to cross into Abkhazia as a way to advance the independence cause.

*When there will be a less tense situation with Georgia and it cools down its aggressive attitude and starts dialogue, then we ... will issue visas for them. This will be a real income. They don't come to live here, or to put forward slogans. Maybe it will work out – and they will tell people there that it's another state*

(GAGRA, ENTREPRENEUR, MALE)

There was an opinion that the introduction of clear and enforceable rules at the border would advance the Abkhaz authorities' political capital internally, as this would be a step to adjust to the constituency's needs and to reinforce law and order.

*I think the most important thing is to normalise border regulation, even if our governments do not come to an agreement [on the main issue], so that people who have relatives on the other side and who need to travel can do that. We need regulation*

(SUKHUMI, GADGET STORE, FEMALE)

Others supported the idea of regulating the crossing on the grounds that Abkhazia and Georgia were geographically destined to be connected, and that it would be better to work more with interaction in mind, instead of sustaining tension. An additional argument in favour of this regulation was that this would ensure tighter control at the border and hence better security.

*Had we not lived next to them, it would be possible to cut it off. But we cannot do that, can we? Whether we want it or not, whether it is politics or not, once the state of war is gone, people start living differently. We need to give it a legal form, so it does not become a chaotic movement to our side*

(GUDAUTA, ENTREPRENEUR, FEMALE)

The ideas of facilitating and regulating trans-Ingur/i economic relations were favourably assessed by an official interviewed at the Foreign Affairs Ministry as a means to diversify Abkhazia's economy.

#### *Political cons*

It was deemed that opening a border prior to the affirmation of the status of Abkhazia as an independent state would reinforce the belief that Abkhazia was a part of Georgia. An important concern which would not favour facilitation of the free movement of people is that this would re-validate the absence of a proper border between Georgia and Abkhazia in the eyes of the international community.

*The international community still does not recognise us. They consider us part of Georgia. This may look like being in Georgia and not having to cross any borders a person may arrive in Abkhazia. It turns out that there is not any border, but just the movement inside the territory of Georgia. As such, we provide an impetus for further non-recognition. I am definitely not for this*

(GUDAUTA, ENTREPRENEUR, MALE)

*There is not even a discussion on the recognition of Abkhazia by Georgia; therefore, opening the border is out of the question. If any statesperson has these thoughts in mind he is the enemy*

(GAGRA, ENTREPRENEUR, MALE)

The common line with regard to the conditions for legalising economic relations with Georgians is that abandoning the official Georgian rhetoric, which criminalises Abkhaz aspirations towards independence and the restoration of official relationships on this new basis, should lead to the legalisation of economic relations with Georgia. It was mentioned that Abkhazia should put forward its recognition as an independent state as a condition for legalisation and not the other way round. Many Abkhaz respondents did not believe that they should succumb to Georgia's proposal to establish rules for economic relations under the current conditions.

*Georgia does not recognise us and considers us separatists, revolutionaries, criminals – I mean officials in Georgia. If we do not have any other relations, I believe we must not have any trade relations either*

(OCHAMCHIRAE, ENTREPRENEUR, MALE)

*If they recognize Abkhazia, then we can legalise economic relations. [Georgians] may seek to contact us and say let's legalise it. They will come up with some framework, but if they don't recognise us, what's the point?*

(GUDAUTA, ENTREPRENEUR, MALE)

It is worth noting that not only those who have never or not had contact with Georgians since the end of the 1992-1993 war categorically reject any possibility of easing up crossing of the boundary for commerce. Those who have been crossing to the other side would nevertheless opt for the status quo as opposed to the facilitation of crossing. The same person who proposed that no moves forward should be made prior to the recognition of Abkhazia by Georgia accepts the existence of the current commercial crossing regime.

*Let then everything be the way it is. Whoever wants, can cross. I... personally crossed the border. I did not have any problem. They met me there, and I crossed here the same way. And everyone who's here can go wherever they want. There is not any problem*

(GUDAUTA, ENTREPRENEUR, MALE)

Regulation of trans-Ingur/i economic activities is seen by some as a new trap set by Georgia in order to assimilate Abkhaz.

*Well, they could not kill us, and now they want to buy us. This is what I think. Let them recognise us first, and then build any relations*

(OCHAMCHIRAE, ELECTRONICS RETAILER, MALE)

### 5.1.3 Security arguments

#### *Security pros*

A regulatory framework may enhance security by means of enhanced control of crossing goods and people.

*In my opinion this movement, where people put their money into someone's pocket and cross the border with God knows what, is a big threat for the government. If there would be a custom point, the level of security would be higher*

(GUDAUTA, ENTREPRENEUR, FEMALE)

Border guards are currently the main source of insecurity for those crossing for commerce and would be required to comply with any regulations.

*It will be better for all if they open. Of course there is a question of security, but it can be solved. The border is open now as well, but they don't treat people accordingly*

(OCHAMCHIRAE, FOOD STORE, FEMALE)

There are entrepreneurs who believe that security arrangements could work, but opponents seem to have more elaborate arguments against the softening of the border.

### **Security cons**

The most extreme position was to forget about relations with Georgia and Georgians for good. Proponents of this position were convinced that any mass contact between Georgians and Abkhaz would inevitably lead to violence.

*I personally do not care what's going on there. I do not want our country to have any relations with them. If there will be any official economic relations, then there will be a flow of people and we will have some clashes again*

(GUDAUTA, ENTREPRENEUR, MALE)

Security is an important consideration in discussions on the prospects for regulated economic activities across Ingur/i. It is only Gal/i residents (ethnic Georgians) who do not consider the crossable boundary as a security threat. In all other districts there were respondents who regarded any degree of loosening the crossing regime as a security threat.

*They [Georgians] do not want to leave us alone. That's why, on the one hand, I want the border to be open so that everything is according to the law and people cross it easily, but, on the other hand, I am afraid that they are going to take an advantage of it and will come here with guns*

(OCHAMCHIRAE, FOOD STORE, FEMALE)

Movement of people was of particular security concern for the Abkhaz entrepreneurs surveyed. However the possibility of people crossing from the Georgian side of the divide was not excluded. It was noted that, as Abkhazia marketed itself as a tourist destination, a sealed border was an impediment to diversifying tourist flows and hence the tourist business.

From the Georgian side, movement of people was viewed by some as a way to market Abkhazia as a resort and they agreed that citizens of third countries may cross from Georgia, but not Georgians.

*If for foreigners, then please, do it. I would want them to come and see Abkhazia if they are interested. It does not make a difference which side they enter from. I want everyone in the world to see what kind of place we live in, and if they can enter from there, let it be. Welcome. As for the Georgians, I don't know yet, I cannot say whether I want them to come or not*

(GUDAUTA, CLOTHES RETAILER, FEMALE)

There were some who were not against the possibility of letting Georgians enter Abkhazia.

*I believe that an ordinary person cannot react to some strange things that politicians do. People should not suffer. If an ordinary Georgian citizen wants to come and do some sightseeing in Abkhazia, I think it should be possible. We just need to check him. If everything is alright, then why not, let them come*

(GUDAUTA, ENTREPRENEUR, FEMALE)

#### 5.1.4 Psychological arguments

##### *Psychological pros*

Although mistrust and animosity towards Georgians seem to be widespread in Abkhaz society, especially in western Abkhazia, which suffered most during the 1992-1993 war, some argued that close family ties should not be cut off and that human relations should endure.

*I went through the war, but I do not consider them enemies.*

(GAGRA, ENTREPRENEUR, MALE)

*I lost many close people in the war. But life goes on. It is necessary to establish some kind of neighbourly relations with them*

(SUKHUMI, MINI-HOTEL, FEMALE)

Opening the border would allow those who have never been to the other side to diversify travel itineraries and open themselves up to the unknown:

*For instance, I want to go there not for the treatment, but as a tourist and see how they live. I want to walk through historical places. Generally, I do not see anything wrong with this*

(GUDAUTA, CLOTHES RETAILER, FEMALE)

Some think that Georgian youth may be granted the opportunity to visit.

*Youth in Georgia treat us well. We have many Georgian friends. And you know, we meet and no one remembers war. They want to come here, but do not have any opportunities*

(GUDAUTA, ENTREPRENEUR, MALE)

Some Abkhaz acknowledge the hospitality and the existence of deep ties between the two peoples, but the acceptance of the crossing to the other side as a norm remains problematic.

*We always receive a warm welcome there. Our enemies are certain personalities in the government. People there provide medical treatment, want to talk to us and develop business relations. We grew up together. Of course, I do not support us going there and them coming here, but there is understanding of this movement in society in general*

(GAGRA, ENTREPRENEUR, MALE)

##### *Psychological cons*

An “emotional economy” in the eyes of many Abkhaz is an economy where Georgians do not operate and where Georgian money is not involved. Economic benefits alone cannot outweigh the memories of the 1992-1993 war.

*If everyone starts travelling to Georgia, then what did we fight for and what did our youth die for? Why did we need the war if we can live together? But as the events of 1992-93 showed, we cannot co-exist together. But if someone went there for a medical treatment – it's ok*

(GUDAUTA, ENTREPRENEUR, FEMALE)

*In recent years, Georgia has changed its attitude towards Abkhazia. Today, their policy is directed towards returning Abkhaz, not Abkhazia. That's why they have programmes to bring people together. It's true that we have mixed marriages, many similar traditions and culture, but I think that while Georgia does not recognize Abkhazia officially and publicly apologise, we should not open the border*

(GUDAUTA, ENTREPRENEUR, FEMALE)

Deep mistrust of Georgians and the suspicion that they may either use business relations as a form of disguised re-integration or resort to another war once the border opens are shared across the regions west of Gal/i. The idea that any profit making which involves interaction with Georgians could evoke a feeling of treason and “selling out”.

*Our boys were dying, and we are selling their memory for a bag of potatoes*

(SUKHUM/I, FOOD STORE, FEMALE)

## 5.2 Georgian view

### 5.2.1 Economic arguments

#### *Economic pros*

Among potential positive impacts of regulation of trans-Ingur/i business relations, respondents primarily listed the expansion of the market.

*No matter where you are, border expansion also means [...] market development and a growing space for businesses*

(BATUMI, OWNER OF A RETAIL COMPANY FOR CONSTRUCTION MATERIALS)

This opinion was shared by a large dairy and meat company interested in expanding into new, nearby markets as their products are perishable foods.

Regulation of transit would allow Georgian retailers to increase quantities of goods carried across Ingur/i.

*I bring 2000 Dutch roses from Sochi in one trip. If the trade were to be legalised, I could bring 3000-5000, or even more. Better for me*

(ZUGDIDI, FLOWER TRADER, FEMALE)

Likewise, quantities of goods from Russia for which there is a demand in Georgia would also increase.

*We are mainly interested in products such as semolina, kissel, potato starch, soap, dishwashing liquid, bleach and baby food. The quality is better and we therefore need to open the road – this economy is more profitable*

(ZUGDIDI, OWNER OF A FOOD SHOP)

Another important consequence of regulated trans-Ingur/i relations would be a substantial increase in the volume of trade and the transformation of Zugdidi into a centre of wholesale trade.

*It will be better for us – more sales and economic benefits, and it's beneficial for them as well. The administration of the Lilo market promises that products will directly come here from Lilo once we open a trade centre*

(KHURCHA, ENTREPRENEUR)

Georgian respondents would not only welcome the emergence of new business opportunities on their side of the divide, but also care about development on the Abkhaz side. There is a commercial component to this, for example, full or partial processing of hazelnuts in Abkhazia, as opposed to the current transfer of raw material to Georgia for processing and further return to Abkhazia, may lower the cost of the final product and create jobs on the Abkhaz side.

*They bring hazelnuts, clean them here and take peeled kernels back. If we build factories for processing agricultural products, we can employ many people*

(ZUGDIDI, ENTREPRENEUR, MALE)

In the flower business some suggested that previously famous flower gardens around Sukhum/i could now supply flowers of superior quality to the Georgian market than those from the Netherlands. Flower sector cooperation could be restored for mutual benefit.

*Women bring flowers from the Netherlands through Sochi. During the communists' time, they planted gardens there, and brought the same or even higher quality flowers directly from Sukhumi. At that time this business was well developed because of the mutual cooperation*

(ZUGDIDI, FRUIT AND VEGETABLE RETAILER, FEMALE)

Entrepreneurs on the Georgian side already have a clear professional interest in cooperating with Abkhaz partners. Similar climate and landscape on both sides provide an excellent opportunity for the exchange of agricultural technologies and plant grafts.

*One company, which works in Abkhazia, is trying to develop the agricultural sector, [...] they work hectares of the land and asked us to supply seedlings. There is already an interaction with us [...] and they think differently. This is beneficial for them as well, and we'll be together*

(KHURCHA, ENTREPRENEUR)

Georgian entrepreneurs assumed that the possibility to run businesses in Georgia, where they are legally protected and insured, may be attractive to Abkhaz entrepreneurs, especially as a strategy to lower risks which are currently very high in Abkhazia.

*Abkhazia has higher motivation today, [...] because there it is possible to earn money on this side [...] in a legal way and no one is going to interfere. In comparison to 4-5 years ago, today many people cross to this side and want to make a business with this side*

(KHURCHA, ENTREPRENEUR)

Should a regulatory framework be in place the risks would be even lower.

*If the border would be open and crossings [across borders] would become legal, the risks would be reduced*

(KHURCHA, ENTREPRENEUR)

The second argument in favour of regulated crossing of commercial goods was the emerging possibility of transit to Russia.

*Today, for instance, construction materials are shipped to Ukraine. They are exported to Russia as well. Small businesses cannot even dream about this model of transportation. They cannot afford it. But there is no direct land transportation. At present, land transportation is very expensive, because the goods arrive through Baku. If there would be a transit route through Abkhazia, small businesses could easily send their goods*  
(BATUMI, LOGISTICS COMPANY, MALE)

*Opening the border will promote the sale of agricultural products to Russia from here. After all, Russia is closer through Abkhazia*  
(BATUMI, FAMILY HOTEL, MALE)

*Abkhazia is going to be a corridor to Russia for us*  
(BATUMI, LOGISTICS COMPANY, MALE)

The agricultural sector in some areas in western Georgia is currently in a desperate situation precisely because of the impossibility to export to Russia.

*In the mountainous areas the market in potatoes, cucumbers, tomatoes and tangerines is already dead, because there is no way to sell these products. The most solid market was Russia*  
(BATUMI, DEVELOPER)

The third positive factor in favour of regulation was tourism development, which implies linking the two resort industries for mutual benefit.

*People from bigger countries, such as Russia or Ukraine, do not want to come to Georgia because we do not have good relations with the Abkhaz. In case of a settlement of relations with the Abkhaz and “open door” policies, even though the issue will not be solved politically, it will not be a problem anymore for instance for those who currently prefer Abkhazia. We provide better services than the Abkhaz, so they will come to our side as well*  
(BATUMI, FURNITURE IMPORT COMPANY, MALE)

Increased competition may be a blessing for the tourist sector in Batumi, not a threat.

*The prices will be more regulated with open borders. We have high prices everywhere today. It's cheaper to go to Antalya for holidays*  
(BATUMI, DEVELOPER, MALE)

Georgians anticipated growth in the number of Abkhaz and Georgians visiting the other side.

*I think Abkhaz will be happy to come to Svaneti as tourists, and there are many people here who would like to go to Abkhazia as well*  
(MESTIA, PRIVATE HOTEL, FEMALE)

*I haven't been there before and I would like to go*  
(BATUMI, DEVELOPER, MALE)

Abkhazia and Ajara may complement each other as tourist destinations and cooperation in the sphere of tourism is a promising strategy<sup>28</sup>.

*People who have been to Abkhazia before, mainly middle-aged and older, will most likely go there again. However, the profits are to be made from the younger generation, because they spend more, for instance, in clubs*

(BATUMI, TOURIST AGENCY 1, MALE)

*It will be the younger generation mainly who will come here*

(BATUMI, TOURIST AGENCY 2, MALE)

*Today, it [opening of the border] will not affect me, because there is a category of people who like mountains, which is in Abkhazia, and not in Ajara. If it would be the sea, then it may have affected me*

(BATUMI, TOURIST AGENCY 1, MALE)

Tourism in the mountainous Svaneti region may also flourish once tourists get a chance to cross from the Abkhaz side.

*We will have more tourists coming to see the beauty of Svaneti*

(MESTIA, GUESTHOUSE, FEMALE)

Apart from some general enthusiasm, very few specific propositions regarding the economic benefits of the hypothetical trans-Ingur/i regulatory framework were proposed. Samegrelo entrepreneurs had the most concrete ideas on how their region might profit from the regulated crossing for commercial purposes. In other regions entrepreneurs had only very vague ideas on how they could benefit. All respondents were convinced that economic interaction would be good for all, but could offer no detailed evidence.

SMEs in Svaneti and Batumi appeared to be focused on their own business development, since competition is tough, and tended not to dwell on business schemes which sounded abstract and beyond their scope of resources and immediate interest. Even in Zugdidi, where business is immediately connected with Abkhaz retailer demand, few proposals were derived regarding the influence of regulated access to the two markets beyond general positive sentiment about human interaction.

### *Economic cons*

The danger of “diluting” of traditional Georgian brands, such as wine, due to the new “fast track” route to new markets to sell raw materials, was one of very few concerns with regard to the potential opening of the Abkhaz market to Georgian producers and entrepreneurs.

*They take tons of grapes from this side, and they make Abkhaz wine from Kakheti grapes*

(KHURCHA, ENTREPRENEUR)

Concerns over competition in the tourist business between Ajara and Abkhazia were raised. Abkhazia has an unbeatable combination of landscape and climate, while Batumi is considered a rainy spot.

*It [opening the border] will affect Ajara as well. Things may get difficult in Batumi*

(BATUMI, FAMILY HOTEL, FEMALE)

*Everyone will go to Abkhazia*

(BATUMI, FAMILY HOTEL, MALE)

<sup>28</sup> The concept of cluster tourism in the context of Georgian-Abkhaz conflict was proposed by Emzar Jgerenaya in International Alert (2011). *Regulation of trans-Ingur/i economic activities: view from two banks*. London, pp.30-33.

## 5.2.2 Political arguments

### *Political pros*

Non-fixation on political conditions for the legalisation of economic relations with the Abkhaz was characteristic of Georgian SME discourse. The popular idea was that the restoration of human and economic communication was the process on which both sides should now concentrate, while political aspects were not discussed in any detail, and even the re-integration of Abkhaz and Abkhazia into Georgia was either implicit or a non-issue. In Batumi, for instance, and even in Svaneti, Abkhazia is at the very periphery of the attention of business communities, especially with regard to its economy. Regulations which would facilitate exchange and access to each other's markets were unanimously regarded by Georgian and Abkhaz entrepreneurs as politically beneficial, as political dividends were invariably envisaged as rapprochement.

The stationing of the Russian military contingent along the boundary was the obstacle to the cross-divide trade and movement in the eyes of Georgian entrepreneurs. Furthermore, the very problem with the Abkhaz was framed as artificial and imposed by Russia, as if Abkhaz and Georgians were not actors in and of themselves. This is a popular version of the mental constructs of the evolution of the conflict that was only further consolidated and disseminated after the 2008 war. Those who encounter Abkhaz crossing for commerce or medical treatment cited the gratitude and generally positive feedback they received from the Abkhaz, who appreciated a warm welcome or managed to generate profit through interaction with Georgians. Furthermore, they tended to derive a sense of Abkhaz collective aspirations from private stories.

*Abkhaz want to live with us and they want it very much, but it is mainly people from the middle class*

(KHURCHA, ENTREPRENEUR)

Georgians interviewed rarely regarded the settlement of the conflict with the Abkhaz as a precondition for improving relations with Russia, which would in turn open up currently unavailable potentially lucrative business opportunities.

*Had we not had problems with Abkhaz there would not have been problems with Russians either. And Russians would be coming here. This tourism would open up many development avenues*

(ZUGDIDI, FURNITURE AND GIFTS SHOP, MALE)

### *Political cons*

Political figures and state officials were the only people among those surveyed in Georgia who regarded the introduction of procedures to facilitate economic exchange with Abkhaz businesses as not only naïve, but potentially harmful. This was because two major predicaments would be left unaddressed: the question of justice with regard to the evicted Georgian population and the question of removing Russian military personnel from territory which Georgian considers its sovereign territory. These two issues were stressed as needing proper consideration as a fundamental requirement for conflict resolution, so any progress would not have a false start.

However some civil society actors and oppositional politicians criticised the *State Strategy on Occupied Territories: Engagement through Cooperation*, the *Action Plan for Engagement* and the *Modalities for Conducting Activities in the Occupied Territories of Georgia*<sup>29</sup> which frame and designate procedures for economic interaction with the Abkhaz private sector. Critics of

29 Government of Georgia (2010). *State Strategy on Occupied Territories: Engagement through Cooperation*. Tbilisi. Available at <http://www.smr.gov.ge/docs/doc204.pdf>; Government of Georgia (2010). *Action Plan for Engagement*. Tbilisi. Available at <http://www.smr.gov.ge/docs/doc214.pdf>; Government of Georgia (2010). *Modalities for Engagement of Organizations Conducting Activities in the Occupied Territories of Georgia*. Tbilisi. Available at <http://www.smr.gov.ge/docs/doc219.pdf>

the governmental approach advocate a more nuanced approach to economic engagement with the Abkhaz private sector and even with the Abkhaz authorities. Regional transport or energy projects, *inter alia*, are proposed as enabling frameworks. They believe creative ways could be found which would not compromise Georgia's cause with regard to its territorial integrity and the reinstatement of the human rights of Georgians evicted *en masse* from Abkhazia, including the right to return and property rights. The challenge would be how to retain dialogue with their Abkhaz counterparts on substantive matters in a situation where no steps in recent years have been taken by the Abkhaz side to establish dialogue.

Politicians and officials who support the state policy towards the conflict insist that it would be very difficult to discern true Abkhaz interests, since Abkhazia's security and economy are fully controlled by Russia. De-occupation would be the primary political task, according to them. Meanwhile, no legal norms should be eased for individuals and companies operating in Abkhazia: they should either comply with Georgian law or face a court charge, which was the case with the Russian mobile operator Megafon<sup>30</sup>. The theoretical option of a third country company registering in Georgia and opening a branch in Abkhazia would have been legal in the eyes of the Georgian authorities.

Large businesses would never contemplate launching any projects in Abkhazia simply because this would violate the *Law of Georgia on Occupied Territories*<sup>31</sup>. Prospects for legal cross-conflict economic cooperation even through a third-country private enterprise are unclear in the Law. Its vagueness may pave the way for arbitrariness in procedures for granting legal operational status to private companies<sup>32</sup>.

The law was never enforced<sup>33</sup>, but is a sword of Damocles, which no one in Georgia would want to see put in motion. It is worth noting that by selling goods to Abkhaz in Zugdidi, on territory under Tbilisi control, Georgian entrepreneurs would not violate Georgian law. However, an ambiguous situation has been created. The *Law of Georgia on Occupied Territories* exists and business projects which go beyond this sort of trade and imply investment in an enterprise on territory defined by the Georgian law as "occupied" are technically illegal. However, the *State Strategy on Occupied Territories: Engagement through Cooperation*<sup>34</sup> and *Action Plan for Engagement*<sup>35</sup> encourage infrastructure development and cooperation beyond Tbilisi-controlled territories. In these circumstances Georgian entrepreneurs would prefer to look for markets and partners elsewhere. For most entrepreneurs in Georgia such adventurous moves, no matter how profitable in theory, are not worth the risk. Any proactive involvement with the Abkhaz private sector, be it through the offer of advantageous loan interest rates at Georgian banks or through a discount, was regarded as politically motivated.

### 5.2.3 Security arguments

#### Security pros

Some in Samegrelo advocated the opening of special economic zones in the regions adjacent to Ingur/i as a step towards the facilitation of trade relations. As an added value they saw an improvement of the security situation for the Abkhaz.

30 The Georgian government filed a lawsuit against the Russian mobile operator Megafon in 2008, accusing it of illegally operating in Abkhazia.

31 Government of Georgia (2008). *The Law of Georgia on Occupied Territories*. Tbilisi. Available at <http://www.smr.gov.ge/docs/doc216.pdf>

32 European Commission on democracy through law (Venice Commission) (2009). *OPINION ON THE LAW ON OCCUPIED TERRITORIES OF GEORGIA, Opinion No. 516/2009*. Strasbourg. Available at <http://www.venice.coe.int/docs/2009/CDL-AD%282009%29015-e.pdf>

33 The famous case of the detention of a Turkish ship captain was built on the accusation of illegally crossing the border and smuggling, not on the Law of Georgia on Occupied Territories. See Georgia Gives Long Jail Term To Turkish Captain, *Rferl.org*, September 1st 2009. Available at [http://www.rferl.org/content/Georgia\\_Jails\\_Turk\\_24\\_Years\\_For\\_Shipping\\_Fuel\\_To\\_Rebels/1812293.html](http://www.rferl.org/content/Georgia_Jails_Turk_24_Years_For_Shipping_Fuel_To_Rebels/1812293.html)

34 Government of Georgia (2010). *State Strategy on Occupied Territories: Engagement through Cooperation*. Tbilisi. Available at <http://www.smr.gov.ge/docs/doc204.pdf>

35 Government of Georgia (2010). *Action Plan for Engagement*. Tbilisi. Available at <http://www.smr.gov.ge/docs/doc214.pdf>;

*For them [Abkhaz] this will be excellent. In this case our army will have to leave this territory, and an Abkhaz could come freely and shop here at Zugdidi prices*

(KHURCHA, ENTREPRENEUR)

### **Security cons**

Georgian entrepreneurs expressed their interest in cooperation with their Abkhaz counterparts in the tourist sector, but the issue of security in this business, which should provide firm guarantees for their clients, was a hindrance.

*I personally have a great interest in visiting Sukhumi and Sochi, but I am afraid that they would not welcome me as a guest because of the tense conflict situation. If a foreigner goes there, they would clearly welcome this person. The only problematic category for them is Georgian citizens. I would love to propose tours to my clients, but first of all I would not be able to find a tourist agency to partner with and secondly who would give me guarantees that my client will arrive there safely, check in to a hotel and safely return?*

(ZUGDIDI, FURNITURE AND GIFTS SHOP, MALE)

Security considerations remained a serious hindrance according to those who contemplated tourism and other cooperation with Abkhaz beyond cross-divide trade. Theoretical propositions about the value of cross-divide cooperation clashed with the reality of the still largely insurmountable obstacles for such cooperation.

## **5.2.4 Psychological arguments**

### **Psychological pros**

For the Georgians, the opening up of legal opportunities to cross the divide would be psychologically rewarding. First and foremost they regarded this opportunity as a way to combat Russian influence on the Abkhaz, which they believed fuelled their animosity towards Georgians.

Russia is viewed as the main obstacle to restoring relationships between Georgians and Abkhaz. Georgian respondents insisted that Russia propagated hatred towards Georgians.

*As I know, aggressive relations between Abkhaz and Georgians started after the Russians entered the region [...]. This thinking is also among many Abkhaz now: despite the fact that we can develop a good personal relationship, subconsciously they consider you as an enemy and believe that you are taking something away from them [...]. It's different on our side. Despite the fact of what had happened in Abkhazia, I do not consider Abkhaz and Ossetians enemies. Many Georgians lost their sons, daughters, and the whole family, [...] but many of them [still] do not consider Abkhaz and Ossetians enemies. It's awful that such a big country [Russia] sets someone against a small country. This is the main problem. If there would not be this problem, relations would be much easier*

(BATUMI, FURNITURE IMPORT, MALE)

Georgian respondents were convinced that Abkhaz had an outdated image of Georgia and that any first-hand experience with doing business or mere sightseeing and mingling with Georgians would change their perceptions for the better. Not a single hostile stance regarding Abkhaz was made by any respondent. It seems that the belief that Abkhaz and Georgians could have coexisted peacefully indefinitely had not Russia intervened has been internalised in Georgia. People regarded the striving for the re-humanisation of relationships with Abkhaz as a legitimate and valid political goal of the government.

*While the whole system [of propaganda] – that Abkhaz are our brothers – works here, I think it is opposite on the other side – youth are taught that Georgians are invaders. The whole system works on this, and I think it is because [Abkhaz] law-enforcement agencies have their own interests*

(KHURCHA, ENTREPRENEUR)

Georgians expressed their resentment that Georgia had been consistently stigmatised in the Russian media as an enemy and a place where terrible things happened. They welcomed any personal contact with people from the other side, be it Abkhaz or Russians, as a means to break harmful stereotypes.

*Two days ago I was hosting a family from Moscow, and they [...] said that now they are convinced that the situation here has no relation with the picture they are presented with on TV. [...] It is better to see the reality for yourself than to listen to someone who is telling you that it's hell here*

(MESTIA, PRIVATE HOTEL, MALE)

### *Psychological cons*

No collective identity-related psychological obstacles to the re-establishment of business relations with Abkhaz were deduced from the focus groups. However, concerns over the potential harm of tough business realities onto fragile human relations *vis-à-vis* the conflict were highlighted. Some cautioned against entering each others markets in an ad hoc fashion with no sensitivity regarding the distortion of these markets. Lack of conflict sensitivity could amplify the negative effects of normal business competition.

*When one enters a market someone else has to yield – or you yield yourself or say to the other to leave for good. This is a recipe for a quarrel. In this case they [the Abkhaz] do not need newcomers in their market. That's why I think that business spheres are to be distributed among at least one generation in order to clearly formulate what belongs to whom*

(BATUMI, DEVELOPER, MALE)

Those Georgian entrepreneurs who did not have experience in economic relations with Abkhaz expressed their concern over unequal starting positions with regard to up-to-date information on the other side. Georgians admitted that their knowledge of economic realities in Abkhazia was very superficial.

*We are currently at a level of relationships with Abkhazia comparable to the USSR-USA level of relationships, because we don't even have a television connection. We do not know what is going on there... Perhaps all is better than we think?*

(BATUMI, DEVELOPER)

Abkhaz seemed to be much better informed about the situation in Georgia, including potential business niches to fill, which would leave Georgian businesspeople in an underprivileged position, should they enter the Abkhaz market.

*They [Abkhaz] will be setting themselves [their businesses] here in a more relaxed way, they have their informants here. They are aware of what is going on here. We, on the contrary, do not know where to go, how to get accustomed. That's why we cannot take chances should we wish to go there... They are in a better position*

(BATUMI, FAMILY HOTEL)

## 6. Regulation of trans-Ingur/i economic relations and conflict transformation

The impact of a hypothetical establishment of a regulatory framework, which would enable licit economic interaction between the private sectors on the opposite sides of the divide, as well as the involvement of businesses from the region on the prospects for conflict transformation, was assessed at three levels pertinent to the stalled Georgian-Abkhaz peace process:

- Restoration of human relations and reconciliation;
- Invigoration of the political peace process;
- Promulgation of a new platform for cross-conflict interaction.

### 6.1 Restoration of human relationships and reconciliation

Gal/i entrepreneurs were ambivalent with regard to the possibility of facilitated economic relations with their Georgian counterparts to foster Georgian-Abkhaz reconciliation.

*Abkhazia and Abkhaz do everything and will do everything for you, and work in any sectors with you, but when it comes to building relationships and reconciliation, they immediately end it. “Never” is their answer. They don’t want Georgians here. [They] bring in everything, but do not accept development of any relations; no way for reconciliation*

(GALI, CONSTRUCTION MATERIALS SHOP, FEMALE)

*This government will not return refugees and promote official relations*

(GALI, GUESTHOUSE, FEMALE)

This dire prognosis was countered by a few carefully optimistic accounts, which in fact sounded more like a wishing for a miracle.

*Why are you all so categorical? Maybe everything will go right in some sphere? As the saying goes, “no harm in trying”*

(GALI, GIFT SHOP, FEMALE)

Some were hopeful after the new Abkhaz president committed himself to open a second crossing point, which would substantially reduce the scale of extortion for those crossing at non-designated locations. In the rest of Abkhazia, the return of Georgians to Gal/i district was regarded as a right move, but Gal/i would be the watershed between those Georgians with whom reconciliation would be possible and those with whom reconciliation would barely be possible at all.

*Gal district – is understandable, it cannot be ignored. But any other relations are only after the recognition by Georgia. There was a bloody war. Unless Georgia recognizes its aggressive behaviour towards us, there will not be any economic cooperation*

(GAGRA, ENTREPRENEUR, MALE)

From this point of view, economic relations would not only not lead to reconciliation if the sequence of political moves was not observed, but just reinforce resentment in Abkhaz society towards Georgia.

Even those Abkhaz who regarded regulated economic relations with Georgian businesspeople as a normal and even desirable scenario did not discuss prospects for reconciliation without recognition.

*Everyone remembers Georgian statements. They want a different thing, and we will never make concessions to what they expect from us. Even economic relations will not contribute to this*

(GAGRA, ENTREPRENEUR, FEMALE)

In Georgia all respondents were convinced that the more economic contacts between Georgians and Abkhaz, the greater the chance that the two people would be on good terms with each other.

*There is a movement of people from both sides. If trade is regulated, both sides will get something out of it, - and it will warm hearts*

(PAKHULANI, ENTREPRENEUR)

Georgian respondents were convinced that economic cooperation would entail the necessity of visiting each other. This, in turn, would let people get first-hand impressions of life on the other side of Ingur/i. Georgians had little doubt that visiting Abkhaz would leave a positive impression.

*If someone comes here, sees everything and goes back with positive experiences and emotions, then interest will increase as well*

(MESTIA, GUESTHOUSE, MALE)

*Economic ties may promote human relationships; no matter how much special intelligence services work, one believes what one has seen with one's own eyes - that the situation is better on our side*

(KHURCHA, ENTREPRENEUR)

## 6.2 Invigoration of the political peace process

Gal/i entrepreneurs, all of them ethnic Georgians, were utterly sceptical about any possibility of the resumption of political relations, even if economic relations developed. Abkhaz themselves confirmed that, were security guaranteed and crossing for Georgian citizens restricted or banned, under these two conditions the resumption of legal imports from Georgia would be a possibility. This would be considered international trade in Abkhazia. However, no respondents considered the facilitation of economic relations as a substitute to re-opening negotiations over the status of Abkhazia.

*Neither we nor Georgians are ready for this. We consider them aggressors and they consider our land their own. When they recognise us officially, then we can discuss something*

(SUKHUMI, CAR RETAILER, MALE)

Abkhaz respondents expressed their fundamental disbelief in the honesty of Georgian motivations to build peace through enhanced economic contacts.

*I believe we need to think about why Georgians need it. Somehow I think it is more beneficial for them than for us. First, they will come under the pretext of bringing goods, and then they won't even want to go back. We have all been through this*

(SUKHUMI, CONSTRUCTION MATERIALS SHOP, MALE)

Contact between Abkhaz and Georgians does exist, albeit not on a mass scale. However, Abkhaz respondents set individual and political relationships clearly apart.

*Don't we know each other now? Aren't we meeting in Moscow, in St. Petersburg? It happens that we sit at the same table together and drink. But this is one thing, and the question of government and politics is another*

(SUKHUM/I, CAR RETAILER, MALE)

*It is a matter of principle for Abkhazia. When they stop considering Abkhazia their own land, then we can come to some agreement*

(OCHAMCHIRA/E, BEAUTY SALON, FEMALE)

Entrepreneurs in Abkhazia would strongly prefer that the hypothetical regulation of economic relations were guaranteed with some sort of political backing, even if this were not the final agreement.

*It is important that our government finds some areas of contact. If it is not resolved at the government level, then it will not work at all*

(SUKHUM/I, WOMEN CLOTHES RETAILER, FEMALE)

However, there were some who thought that Abkhazia could pursue its political goals of independence, security and development by means of enacting rules which would reinforce these goals, even if Georgia had not recognised Abkhazia's sovereignty.

*Illegal economic relations will not give us anything. Once legalised, we will at least record who comes and which goods enter. And while crossing the border, the person needs to know that he is going to pay for certain things. I think we need to legitimise economic relations*

(GUDAUTA, ENTREPRENEUR, FEMALE)

Georgian residents of Samegrelo were hopeful that economic relations would have a positive knock-on effect on politics. Others were sceptical about the link between individual economic relations and political progress.

*Interaction between private persons will remain a private interaction and I don't see any political link, because it is happening because of my and your trust, not on the basis of trust between the governments. Politics never gets regulated by economic means*

(ZUGDIDI, TOURIST AGENCY, MALE)

A firmer position among some entrepreneurs on the conditions for re-opening economic relations was that reunification would be the most sensible and efficient avenue for the economic rehabilitation of Abkhazia and a boost for investment, just like what happened in Ajara, where reaffirmation of Georgian rule paved the way for economic development.

*First of all, people should be ready. Then, after this territory will be ours again, we will establish banks, develop construction, build roads, develop small and big business, advertise. Investors will see that all is in order, there is rule of law, and Arabs, Turks and Georgians [investors] will go to Abkhazia. These are the first things to take care of and not to start something small by Inguri. This is not right. If this territory will be ours, it will be taken care of just like Ajara*

(BATUMI, FURNITURE PRODUCTION, MALE)

Those residing in Samegrelo and retaining tight family and economic ties with the Abkhaz side saw themselves as being naturally at the forefront of bringing positive experiences of economic cooperation into state policy towards the conflict, unlike Tbilisi-based policymakers.

*It is possible that those who live in Kakheti or Tbilisi are more hostile towards Abkhazia, while for those residing in the Samegrelo territory things have always been as follows: if there is animosity it will be erased and people will reunite. Economic interaction helps this at the individual level, but not at the political level*

(ZUGDIDI, FRUIT AND VEGETABLE RETAILER, MALE)

Overall, people on both sides were sceptical about the possibility that legalised economic activities across the conflict divide might invigorate the official peace process. Abkhaz categorically opposed the idea that hypothetical regulated economic relations with Georgian businesses might imply that their main issues could be set aside. Georgian entrepreneurs seemed to be more flexible with regard to the sequence of economic and political rapprochement. The closer to the divide, the greater the sense of urgency regarding the facilitation of economic relations and the stronger the belief that once Abkhaz would start to freely cross to the other side, their hostility towards Georgia would begin to evaporate. Those outside Samegrelo did not see this matter as a priority for their economic space and would prefer to let politics lead the way.

Since no specific drafts or economic cooperation proposal were ever on the table, let alone in the focus of public discussion, the position that the economy should not precede politics in the process of conflict resolution may have been adhered to by default.

### 6.3 Promulgation of a new platform for cross-conflict interaction

Different opinions were gathered as to whether a regulatory framework could ensure an autonomous and sustainable interaction platform in the absence of progress on fundamental conflict issues. One argument against the possibility of sustainable facilitated economic relations was that the two legal systems were incompatible. Therefore, the issue of a lack of a political conflict resolution framework would present itself sooner or later, which could derail the entire process.

*There is no way to regulate economic relations because Abkhazia does not recognise our laws, while we don't recognise theirs*

(BATUMI, TOURIST AGENCY, MALE)

People engaged in cross-boundary commerce had accumulated insights into how to sustain business. As experience shows, trans-Ingur/i economic and human links are amazingly resilient, which means that they respond to some very important human needs. A particular culture of boundary-lands has developed since the 1992-1993 war, in which inter-personal trust and criminal networks have been enmeshed, although this culture has been changing in recent years. Once President Saakashvili had uprooted criminal gangs on the Georgian side of the divide, the situation improved on the Abkhaz side and a new scenario of trust and mistrust was reached. This then changed after the 2008 war and after the subsequent appearance of Russian border guards along the boundary.

The main challenge to sustainability in their eyes was the unpredictability of extortion and other challenges in the absence of a regulatory framework. Some form of legalisation of trans-Ingur/i economic relations would promote fairer distribution of the dividends of currently illicit trade, so that communities could benefit as opposed to a few gatekeepers. For this reason they could envisage a sustainable economic platform which would have legal protection in the absence of a final solution or even an active peace process.

Some Georgians are content with the formalisation of the divide, as long as this would ensure free crossing in both directions.

*Let it become a proper border and let the two customs cooperate*

(ZUGDIDI, RETAILER, MALE)

As mentioned above, the ambiguous situation with the boundary has led to the erosion of social cohesion even among Gal/i Georgians and, counter to the widely shared belief in Abkhazia, forced them away from this risky terrain. Furthermore, Gal/i Georgians have started losing out to ethnic Abkhaz, who have installed themselves as trans-Ingur/i entrepreneurs, which, against the background of the obvious lack of political and human rights protection on behalf of the Abkhaz authorities, has led to a situation where this constituency could be lost for Abkhaz politicians in the long run. They have taken credit for the improvement of conditions in Gal/i, including Georgian-Abkhaz relationships through shuttle trade. Gal/i people also had new hopes that that President Alexander Ankvab would install law and order in their district.

Further away from Gal/i, Abkhaz entrepreneurs also opted for clear rules. Some insisted on the recognition of Abkhazia's statehood by Georgia, while some others would be content if there were an agreement between the leaders of the two sides on a regulatory framework.

*It is necessary that custom points are civilised, so there is not a humiliating, but a humane relation towards people*

(SUKHUM/I, FOOD SHOP, FEMALE)

*Yes, you have filled the declaration form correctly; please pay and you may go*

(SUKHUM/I, CAR REPAIR SHOP, MALE)

The hypothetical economic platform for interaction between the two private sectors may have a positive effect on security and improve social welfare. If economic relations were to endure, their social effect would grow and vice versa: the more visible the social impact the more sustainable the regulation regime.

*I support legalisation of the border if payments go to the state treasury, and some percentage to salaries. With these benefits, I am for legalisation*

(OCHAMCHIRAE, TOURIST AGENCY, FEMALE)

Some in Abkhazia considered the establishment of a transparent border-crossing regime for commerce with Georgia to be a counter-balance to the dominance of Russian capital, i.e. Russia-imposed rules. They admitted that the introduction of regulations needed to be approached as a step towards better development.

*It will be a step for further development, because it's impossible to live like this. This is not an occupation, but...*

(GAGRA, ENTREPRENEUR, FEMALE)

*The greatest difficulty for me is to transport goods from the Psou border. Paying duties and the paperwork is a challenge. Takes a lot of time and effort*

(SUKHUM/I, ENTREPRENEUR, FEMALE)

Abkhaz-Georgian crossing arrangements are less likely to be plagued with corruption because of mutual scrutiny, unlike at the Psou border.

*We pay a double price here, from Russian and from Abkhaz sides*

(GAGRA, ENTREPRENEUR, FEMALE)

In sum, on both sides there was a cluster of businesspeople who could envisage a sustainable and transparent, albeit provisional, platform for Georgian-Abkhaz economic interaction in the absence of political agreements set as conditions by the two sides to establish relationships. Clear and enforceable rules would buy time for human and political rapprochement, as opposed to the current segregation and hostility.

The exact design of the regulatory framework and a security package with which it should come were not discussed, however some features of a potential framework were defined.

## 7. Formats of redefined trans-Ingur/i economic relations

Derived from the stakeholder analysis the following components should be incorporated into the design of a regulatory framework:

### 1. SMEs should be given priority.

Opening the Abkhaz market to large external businesses, including Georgian firms entering Abkhazia, is rejected on economic grounds, but small-scale Abkhaz-Georgian business is not only to be supported, but actively encouraged.

*Big companies should stay away from here, from either country. Oligarchs will buy everything. Let's assume that three Georgian oligarchs come here and buy everything, and then we will become guests. But I think we need to develop SMEs. They have a good turnover, and the government of Abkhazia would have profits from eastern Abkhazia*

(GAGRA, ENTREPRENEUR, MALE)

The rationale behind backing small business between individuals may be one of acceptable risk. If something goes wrong between two individuals this is likely to remain a private story and not have any political resonance. However, there are other advantages in the facilitation of SME cooperation. Firstly, legalised SME cross-divide transactions would strip former gatekeepers of the opportunity to extort money; therefore, rent-seeking in this sector will diminish. This will reduce risks and allow SMEs to invest. Secondly, this may make the economic landscape of the boundary regions more attractive for investors and consumers, and increase their weight in the overall economy.

### 2. Joint production would have greater impact on confidence building compared to trade.

*It would help us a lot if we start a joint production business, unlike simple trade – joint farming, joint poultry breeding. We all have relatives there, together we could start a beekeeping business. I take my honey to Greece these days. Would it not be better if me and my Abkhaz cousin produce honey and export together? This will be cost-effective. The same concerns tea production and citrus fruits, because this type of production does not receive due attention here in Georgia. We, the locals, are forced to be retailers of Turkish and Azerbaijani tea, while on both sides we've got stock, experts and even equipment which could be recovered. This could be a good basis for cooperation*

(ZUGDIDI, BEEKEEPER, MALE)

*There are thousands of suggestions. If we would sit here with Georgians, we would already strike five-six deals*

(GAGRA, ENTREPRENEUR, MALE)

Development of joint production, which is in the best economic interest of the Gal/i, Ochamchire/a districts and Samegrelo, requires facilitation of the movement of goods and people. If free movement of people across the divide were facilitated, for example, for those who would be involved in joint production, other sectors besides trade would flourish. Service sectors in Georgia, such as hospitals, could become an optimal destination for Abkhaz to get medical treatment. The construction sector in Abkhazia could also benefit from the employment of highly skilled and relatively inexpensive Georgian labour.

### 3. Dividends are shared fairly within and across societies and communities, and the collection of duties and tax is transparent.

Given the asymmetry in economic development and in the business operation climate, this is a challenge which needs to be addressed at the design stage of the regulatory framework.

*We need to encourage Abkhaz to earn money through exchange with Georgians, so that both can feed their own families. And only then will the question of war become secondary, and all the bad things we remember from the history will disappear*

(PAKHULANI, ENTREPRENEUR)

*For example, Turkey these days has entered Ajara and does construction, opened stores and this what we, the locals, are not happy about, because we could do the same had we their resources and the “OK” from here [authorities]. If an Ajarian will go to Abkhazia the same situation may emerge: just like I am annoyed by the Turks, they will be annoyed by us, right? That is why this should be somehow regulated, agreed upon, so that we do something together*

(BATUMI, FAMILY HOTEL)

The weak production sector in Abkhazia also needs to be supported so that the Abkhaz private sector would have economically interesting products to offer, ranging from agriculture, to tourism, to art.

### 4. Tax and duties norms should be economically more advantageous than present-day extortion and ambiguities.

On the Georgian side, legal controversies should be eliminated so that the possibility of the arbitrary application of laws to entrepreneurs, who would engage in regulated economic interaction with the Abkhaz private sector, would be excluded. Abkhaz respondents see the benefit of regulated economic relations, in that legally collected taxes and duties should be allocated in a transparent manner. The precise mechanism of their allocation should be a matter for internal discussion on both sides.

## 8. Conclusions and recommendations

Georgian entrepreneurs appear to pursue the best investment-return schemes for their business and by and large do not tend to let national interest define their calculations.

Among the Abkhaz business community, the opposite trend has taken root, with business incentives not seeming to override national interest. Those in disadvantaged districts or with no personal connections were quite frank with regard to their being forced to care for their families by any means, including through trans-Ingur/i trade. It could be deduced that this would not be their choice, had they had other options. Interestingly, their interest in keeping the boundary crossable was due to their desire to have the possibility of seeing their family on the other side. However, this situation, where self-interest runs counter to national interest, was apparently an uncomfortable one.

Overall, the business mentality in Georgia is developing within a framework of economic liberalism, whereas in Abkhazia the framework of economic nationalism seems to prevail, especially in western Abkhazia. Economic nationalism refers to the situation where national identity substantially influences or even moulds the national economy. Both economic doctrines are enacted in the world, and may be in action alone, simultaneously or consecutively<sup>36</sup>. Both have their economic advantages and disadvantages. The problem with the dominance of an economic nationalism doctrine when a nation is challenged is that patriotic discourse may be utilised to the end of weakening one's peers in business, which makes it very difficult to gather political support for the introduction of "fair game" business rules.

If trans-Ingur/i economic relations remain shadowy and with no clear rules, entrepreneurs in Abkhazia will, by default, limit their economic activities with their Georgian counterparts to trade links, more precisely, only importing agricultural products from Georgian producers. Risky as it may be, trade in food and affordable consumer products is still the sector which generates income in a volatile environment. This would weaken incentives for Abkhaz producers to produce food locally to fill the internal market. Additionally, illicit economic exchange will keep prices high and profits small due to inflated collateral expenses. The fight against corruption in Abkhazia should eventually address the situation of the permeable divide-line. A recent proposal by the new Abkhaz president, Aleksandr Ankvab, to legalise trans-Ingur/i trade in the form of proper customs controls on the Abkhaz side of the divide fits into his overall strategy to combat corruption in Abkhazia<sup>37</sup>. This proposal is apparently very welcome to Gal/i district residents who have official permits to cross. However, as we have demonstrated, it is not exclusively Gal/i Georgians who engage in cross-conflict trade and other economic activities. Ethnic Abkhaz entrepreneurs from other districts are not eligible for a crossing permit at present. The question then remains as to whether the legalisation proposal would incorporate regulation of the movement of residents from Abkhazia to and from Georgia.

Opening a second crossing point by Khurcha village is an important step which would alleviate daily crossing business for Gal/i Georgians and their relatives from across the divide.

Contacts between the Georgian and Abkhaz private sectors should be encouraged and expanded.

36 E. Helleiner and A. Pickel (eds) (2005). *Economic Nationalism in a Globalizing World*. Cornell University Press, Ithaca: New York.

37 Александр Анкваб намерен установить на грузино-абхазской границе пункты таможенного контроля [Aleksandr Ankvab intends to install border customs controls on the Georgian-Abkhaz border], *Радио Голос России* [Voice of Russia Radio], 8th December 2011. Available at [http://rus.ruvr.ru/radio\\_broadcast/35533471/61830119.html](http://rus.ruvr.ru/radio_broadcast/35533471/61830119.html); Ankvab wants to return the customs at the Georgian-Abkhaz border, *Georgia Times*, 7th December 2011. Available at <http://www.georgiatimes.info/en/news/68673.html>

A regional framework would be a very suitable means to foster sectoral cooperation and professional exchange, as well as reduce the isolation of the Abkhaz private sector.

Models of special economic zones, proposed at different times by Georgian civil society and consequently government as a way to concentrate otherwise sporadic economic transactions and provide the necessary infrastructure for trade and other economic activities, may have been an interesting idea to explore had it not been unilaterally pushed through but rather developed jointly. However, it would be counterproductive to disregard a model of boundary regions with special status to facilitate economic exchange and not to design a trade hub, for example, with all the necessary security and infrastructure arrangements which would allow Abkhaz retailers to purchase goods from Georgians at Zugdidi prices.

*Was it bad what we had with Ossetians in Ergneti<sup>38</sup>? People got used to each other, got closer. This was very good*

(BATUMI, FAMILY HOTEL, MALE)

## Recommendations

1. A regulatory framework for trans-Ingur/i economic relations should be designed and implemented on the basis of a multidimensional analysis, taking into account the economic, political, security and psychological aspects of the context.
2. Given the complex nature of the issue, the approach to the design and introduction (piloting) of regulatory frameworks should be conflict sensitive and incremental. Contingency scenarios and troubleshooting measures should be an integral part of the design.
3. The design process and the end product for regulating economic relations between Abkhaz and Georgian private sectors should be owned by Abkhaz and Georgian stakeholders. Third parties should play a convener role on terms which are acceptable to both sides.
4. Consultations should be held with the authorities, experts and businesses on both sides with regard to their interest in the establishment of a working group which would design a regulatory model, and to a willingness to provide political backing for such an initiative.
5. Regulatory frameworks should be contemplated, taking local and regional economic levels into account. Local refers to SME-level transactions, while regional entails regional cooperation, transit, transport, energy and other projects.
6. The possibility of devolving central power to an appropriate level of local authority or non-governmental organisations should be explored with regard to the regulations. Chambers of Commerce are possible agents which could manage the regulation of economic relations. The mandate and responsibility of the selected regulatory body needs to be verified and adjusted if necessary for this new task.
7. A further study should be conducted on the regional significance of regulated trans-Ingur/i economic relations, including a transit and regional economic scheme involving the rest of the South Caucasus, Russia and Turkey. Participation of Abkhazia in macro-economic/regional projects would lead to the de-isolation of the Abkhaz private sector and be beneficial for Abkhaz society. Opened transit via Abkhazia would positively serve some sectors of Georgian production and trade. Cost-benefit analyses need to be carried out with regard to the potential advantages that the Georgian economy could receive from the involvement of Abkhazia in transport or energy projects.

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38 Ergneti is a village where a gigantic wholesale market operated up until 2004.

8. Professional dialogue, development and cross-learning opportunities should be created for Georgian and Abkhaz business communities, along with other private sectors in the region. This would help to identify possible areas for cooperation and foster professional solidarity between different professional groups. In addition, the Abkhaz private sector should be included and should benefit from the business development programmes implemented by the international community, which have the opportunity to operate at the below-state level with regard to development.





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