



REGULATING TRANS-INGUR/ ECONOMIC RELATIONS

VIEWS FROM TWO BANKS

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Introduction

Natalia Mirimanova, Oskari Pentikainen

This publication contains a collection of articles produced by Abkhaz and Georgian experts on the subject of the political and economic dividends – or losses – that could be brought about by a regulation of economic relations across the Georgian-Abkhaz conflict divide¹.

The publication is an outcome of an action research process that began in 2009 and evolved more generally from International Alert's Economy and Conflict work in the South Caucasus. This work aims to engage a variety of economic actors and other economic factors that impact on the peacebuilding process. In particular, it builds on research on the prospects for the free movement of people, goods and money across the conflict and non-conflict borders in the South Caucasus. The latter research was carried out by the Caucasus Business and Development Network (CBDN) in the aftermath of August 2008. A variety of businesspeople who operate in the small and medium-sized enterprise (SME) segment of the private sector were surveyed. This research confirmed that there are business incentives for facilitating cross-Ingur/i economic activities.² However, it equally confirmed the existence of a highly complex series of economic incentives and political constraints that not only varied on both sides of the conflict divide, but also varied by industry.

The aim of this publication is to stimulate discussion on the potential political and economic impact of transparent and predictable cross-Ingur/i economic relations. While it does not at this point put forward any concrete models or proposals for regulating cross-Ingur/i economic relations, it attempts to lay the groundwork for further specialised research and policy recommendations. Just as this initiative was grounded in local expertise and experience, future regulatory models should be devised, tested and implemented by the parties to the conflict themselves. For the purpose of convenience, the word “regulation” is used interchangeably with “legalisation”. In this context, it means joint or parallel normative frameworks that facilitate transparent and predictable economic interactions cross-Ingur/i. Legalisation of economic relations can be understood to represent regulation through a mutually accepted legal framework.

Early on during this process, it became clear that even among expert circles, there was little clarity about the current state of affairs and existing normative frameworks in force across the Ingur/i. Facts and information gave way to commonly held assumptions and myths. As a result, International Alert commissioned legal experts from both sides to map and analyse the legal and normative context in force³. This analysis showed that existing normative frameworks not only inhibit – but in practice prevent – economic activity across the Ingur/i. This was followed by a study on the possible political and economic implications of regulating cross-Ingur/i economic relations. While the existing legal frameworks offer little possibility for facilitating cross-Ingur/i economic relations, the research suggests there is scope for more creative approaches that could lead to a mutually acceptable regulatory framework.

It is important to note that the research on the possible regulation of cross-Ingur/i trade was decoupled from the discussion on status, territorial solutions or broader issues of (non-)recognition and politico-legal relations between the authorities in Georgia and Abkhazia. For the purpose of this publication, regulated cross-Ingur/i economic relations should be understood as facilitated cooperation between private actors – be they individuals or companies – and not between the entities themselves. Having said that, the regulation of economic activities across the Ingur/i can be regarded as a confidence-building measure and as an important part of a conflict transformation strategy.

1 Geographic denominations are a contentious issue in the Georgian-Abkhaz context. Throughout this publication, the preferred spelling of the individual authors of each article has been retained. Furthermore, for the purpose of convenience, please note that “the Georgian-Abkhaz conflict divide” and “cross-Ingur/i” are used interchangeably.

2 Unpublished CBDN focus group research with Georgian and Abkhaz entrepreneurs on the prospects free movement of people, goods and money, carried out in September 2008.

3 This can be found in the online version of the publication at www.international-alert.org.

Since the ceasefire agreement that ended the 1992–1993 war, the two sides have ascribed mutually incompatible political and economic definitions to the conflict divide. In the absence of a political solution to the conflict, the basic approaches to the conflict divide have not changed. For Tbilisi, the conflict divide continues to be nothing more than an internal administrative boundary, while for the Abkhaz side, it is considered to be an international border. At the same time, goods, capital and labour have continued to flow uninterrupted in both directions across the Ingur/i river. As a consequence, the flow of goods across the Ingur/i river has been regarded by the Abkhaz authorities as international trade. The Georgian authorities, on the other hand, generally regard these flows as either domestic transactions or contraband, depending on the origin of goods and direction of the flow. The latter designation refers to the Georgian authorities' inability to determine whether goods have been produced in Abkhazia or brought through the border crossing at Psou, which Georgia considers as its state border with Russia but which it does not control.

While the situation has largely remained the same, approaches by both sides towards cross-Ingur/i transactions have by no means remained static. Over the years, both sides have continued to enact unilateral changes resulting in sometimes more permissive, sometimes more restrictive regimes affecting cross-divide interactions. Some changes have been the result of political developments or changes to conflict dynamics⁴; others, according to anecdotal evidence, have resulted from changes to informal practices that emanated from different motives at different times (e.g. the economy, domestic and regional politics, etc.) as well as the interests of 'gatekeepers'. These changes have usually been ad hoc in nature and have either had little effect on conflict transformation or have had an outright detrimental effect. Also, incongruence between formal policies, on the one hand, and day-to-day practices on the other – along with a lack of political will to address the issue – have further muddied the waters. What is clear, with few exceptions, is that the situation has forced economic interactions into the sphere of the 'shadow economy'⁵.

Past proposals that emanated from the conflict parties or from external actors have rarely been purely economic in nature or been discussed separately from politics, or have not been discussed at all in the two societies⁶. Moreover, many political proposals have been part of a 'package' or have constituted 'grand proposals' and were not able to be disaggregated into incremental or constituent steps.

As mentioned, cross-Ingur/i economic interactions currently do take place. However, in the absence of mutually accepted or functioning regulatory frameworks, transactions become unpredictable, opaque and a risky business for many. Abkhaz businesspeople could see certain economic benefits as a result in the opening of the border for economic transactions, but regard options implying concessions on independence unacceptable. Businesspeople from the Georgian side – and especially those based in adjacent regions – are supportive of facilitating trade⁷. They hope that increased economic transactions would encourage the Abkhaz to eventually gravitate politically back towards Georgia.

The micro-economy of cross-Ingur/i trade is defined by small traders, the overwhelming majority of whom are ethnic Georgians or Mingrelians from the Gal/i district of Abkhazia. They engage in the risky cross-Ingur/i trade on a daily basis, because for many it is fundamental to their economic survival.

As seen from a macro-economic point of view, regulated and uninterrupted cross-Ingur/i economic relations could be beneficial for certain segments of the economy on both sides, and for the region as a whole.

4 One example is the closure from the Abkhaz side in the aftermath of the 2006 Kodori events.

5 See 'Corruption and Conflict in the South Caucasus', available at www.international-alert.org.

6 See for example: Republican Party of Georgia proposal for territorial division of Abkhazia (1997), 'Boden plan' (2001), 'Key to the Future' by the Abkhaz authorities (2006), Georgian Government's peace-plan or roadmap for conflict resolution (2006), Saakashvili's Abkhazia initiative (2008), 'Peacebuilding and Business: Fostering commercial contact between Georgians and Abkhaz' by David L. Phillips (2010), and others.

7 According to an unpublished CBDN study and focus groups on the prospects for the free movement of goods, people and money held with Abkhaz and Georgian entrepreneurs in September 2008.

Report overview

The first paper, by Irakli Khintba, looks at the political meaning of regulating economic relations from the Abkhaz side. Khintba looks at key changes and dynamics since 2008 and the factors influencing the political context of regulating economic relations, including the dynamics of the official and civil society dialogue processes. He critically analyses the missed opportunities for establishing economic relations as a way to advance political negotiations. In conclusion, among other things, Khintba argues that a closed Ingur/i may not be in the best political interests of Abkhazia. Furthermore, regulated trans-Ingur/i relations would not only serve to build confidence between the Gal/i population and the rest of Abkhazia, but would also help to integrate the Abkhaz economy into regional economic processes.

The second paper, by Beslan Baratelia, reviews the economic significance of trans-Ingur/i relations against the backdrop of Abkhazia's overall economic development and Russia's assistance since 2008. It also explores the reasons behind the development gap between eastern and western Abkhazia. Baratelia argues that while estimates of cross-Ingur/i trade are not of significance to the Abkhaz economy and are dwarfed by Russian economic assistance, legalised relations would nevertheless help to diversify the Abkhaz economy, lower corruption and also improve confidence between the sides.

The third paper, by Valeri Basaria, tackles the question of why the Ingur/i hydropower station remains the only example of formal Georgian-Abkhaz economic cooperation to date. Basaria puts forward the argument that while both sides are very interested in – and reliant on the uninterrupted functioning of the station – it is more a case that cooperation is borne out of necessity, whereby neither side can afford to 'put its foot down'. Therefore, it is not a model that can be replicated.

The fourth paper, also by Valeri Basaria, provides a view from Gal/i. Basaria contends that Gal/i should be a key variable in the discussions on trans-Ingur/i economic relations. After years of living in a conflict zone, the population has developed distinct coping mechanisms to carry on cross-Ingur/i economic activities. It is not a straightforward matter. While some see legalising relations as a prelude to creating a predictable and transparent environment, others fear it would rock the delicate equilibrium and result in loss of income.

In the fifth paper, Valeri Basaria provides a critique of the of the Georgian State Strategy on Occupied Territories and, in particular, its economic aspects.

The sixth paper, by Emzar Jgerenaia, offers a study on the macro-economic potential of cross-Ingur/i relations from the Georgian point of view. The paper singles out power, transport, agriculture, tourism and trade as the sectors that could benefit the most from cross-Ingur/i relations.

In the final paper, Irakli Sakandelidze outlines the views by past and present Georgian policymakers on issues concerning cross-Ingur/i economic relations. This includes past economic proposals and peace plans as well as their regional implications, Cyprus's Greenline regulations and the Free Trade Agreement with the European Union. The author highlights points of convergence and divergence between the different political factions.

This process is part of International Alert's Economy and Conflict work on engaging business communities and economic actors in peacebuilding in the South Caucasus. Since 2003, the initiative has been producing analysis of the nexus between economy and conflict in the South Caucasus⁸ and engaging business communities in cross-border and cross-divide economic initiatives, thus modelling bilateral, multilateral and regional economic cooperation as a peacebuilding strategy in the South Caucasus⁹.

8 For example, see 'From War Economies to Peace Economies' and 'Corruption and Conflict in the South Caucasus', available at www.international-alert.org.

9 See www.caucasusbusiness.net

Political context of and rationale for legalising trans-Ingur economic relations – view from Abkhazia

Irakli Khintba

The Georgian-Abkhaz conflict undoubtedly belongs to the category of intractable conflicts. This is determined not only by the difficult intertwining geopolitical interests in the South Caucasus, but firstly by the ethno-political nature of the conflict. Conflicts based on the struggle of values ('identity' conflicts) are usually characterised by the irreconcilability of the parties' positions, by the readiness for a rigorous standoff and by internal mobilisation. They are difficult to manage and to resolve. That is why the lack of significant progress on the way to the Georgian-Abkhaz conflict resolution, as observed from 1993, is hardly surprising.

The recognition of Abkhazia's independence by the Russian Federation on 26th August 2008 and by a number of other states significantly transformed the military-political and geopolitical situation. The stationing of the Russian military contingents in Abkhazia and the establishment of diplomatic relations with Russia, according to some observers, guarantee comprehensive security for Abkhazia. That is why a proportion of Abkhaz society became convinced of the final resolution of the Georgian-Abkhaz conflict.

However, it is obvious that the conflict can only be considered resolved if the parties have no claims to each other (political, territorial, economic, legal claims). Georgia did not accept the loss of Abkhazia and has taken certain steps to undo the new situation in the South Caucasus – that is, at both the national level (the adoption of the Law 'on occupied territories') and the international level (initiating PACE resolutions, condemning Russia, calling on Russia to withdraw its official recognition of Abkhazia and South Ossetia, and making appeals to its partners). Therefore, it is reasonable to conclude that the conflict has not disappeared, but only transformed to a qualitatively different state.

The relevance of the Georgian-Abkhaz conflict yet again raises the issue of its management methods. It is rather difficult to talk about 'the final resolution' in conditions of intransigence and opposition of the parties' goals. The task to 'transform the conflict' – or, to be more precise, to transform the context (changes in the situation which are able to influence how the parties perceive the conflict) in which the conflict occurs – seems more realistic. According to the famous conflict resolution expert, Hugh Miall, 'transformation – is a process of transfiguration of relationships, interests, discourses' of the parties to the conflict. This is a 'progressive process, which requires the realisation of a number of small or large steps, and concrete measures, with an important role in the implementation of which played by absolutely various actors'¹⁰. As J.P. Lederach rightly noted, 'the long term goal of transformation consists in establishing the priority of the people and resources at the local level, both in words and deeds'¹¹.

Often, economic instruments are suggested to achieve this goal. The economic development of conflict societies creates positive changes in relation to the potential for conflict resolution (democratisation, mitigating the feeling of vulnerability, enhancing confidence in the future). This instrument would be more effective if there were to be joint economic projects by the conflicting parties. This would help to strengthen confidence, establish social connections and lower the possibility of a return to military violence.

10 H. Miall (2007). *Conflict Transformation: A Multi-Dimensional Task/Ethnic-political conflict: Ways of transformation*, *Berghof Handbook for Conflict Transformation*, Moscow: Nauka Publishers, p. 78.

11 J.P. Lederach (1995). *Preparing for Peace: Conflict Transformation across Cultures*, *Syracuse Studies on Peace and Conflict Resolution*, Syracuse University Press, p. 15.

In the history of the Georgian-Abkhaz conflict, any economic issues (including humanitarian) were invariably politicised¹². This was largely due to the fact that Georgia and its Western partners clearly declared, both verbally and in the documents, that the end goal of any action to regulate the conflict (including transforming the conflict through economic interaction) is the restoration of the territorial integrity of Georgia. That is why the Abkhaz people, feeling vulnerable, were highly cautious of any proposals for and openings with respect to economic interaction with Georgia (which did not preclude business ties between some representatives of the Abkhaz and Georgian economic elites, as well as the chaotic small trans-border trade). Moreover, although historically there were agreements that provided for forms of and possibilities for joint economic activity between the Georgian and Abkhaz sides – notably, the Geneva agreements of 1997¹³, the Protocol of the Athens meeting of the Georgian and the Abkhaz sides on confidence-building measures (1998)¹⁴, the Istanbul statement of the Georgian and the Abkhaz sides on confidence-building measures (1999)¹⁵, and the Sochi agreements of 2003¹⁶ – the periodic escalation of the conflict and set political framework hindered their implementation. The only example of real economic interaction between the Abkhaz and the Georgian sides was the joint operation of the Ingur hydropower station¹⁷.

In March 2008, the President of Georgia, Mikheil Saakashvili, put forward an initiative to regulate the Georgian-Abkhaz conflict. This initiative contained a proposal to open, together with the ‘de facto Abkhaz authorities’, a free economic zone in Ochamchire and Gal¹⁸ (this idea to open a free economic zone, encompassing symmetrical areas on both sides of the Ingur river, was originally suggested in 2004 by the Georgian civil society¹⁹). Almost immediately, the Abkhaz side rejected the idea, because President Saakashvili did not conceal his intentions to change the economic orientation of Abkhazia from pro-Russian to pro-Georgian, and thus to prepare the conditions for the reunification of Abkhazia and Georgia. That is why a rather liberal document such as ‘The proposal of the Abkhaz side on the comprehensive settlement of the Georgian-Abkhaz conflict “Key to the future”’ ties any economic cooperation and joint projects with the necessity to acknowledge Abkhazia’s independence and engage it in a wider system of interaction within the framework of the European Neighbourhood Policy. This explains why many opportunities to establish legal economic cooperation encountered obstacles, caused by the nature of the Georgian-Abkhaz conflict, as well as the rigidity of the parties and their unwillingness to compromise.

12 The launch of a UN economic needs assessment mission to Abkhazia in February 1998 only created a temporary illusion of a breakthrough in negotiations. Georgia was against taking measures, based on the results of that mission. This resulted in yet another dead end. It became clear that the international community makes economic and even humanitarian assistance to Abkhazia conditional on the progress of a political settlement within the framework of the Georgian state.

13 According to the agreement reached, the sides, under the aegis of the UN, were to set up a Coordination Council and working groups; one of these working groups was to be tasked with economic and social issues, including joint economic projects.

14 Paragraph 7: ‘Having noted the importance of the commenced dialogue about the development of the trade and economic relations between them, to aid the establishment of direct working contracts in the area of power, trade, agriculture, construction, etc.’

15 Part (c) Paragraph 3: ‘To convene, within a week, Working group 3. It will deal with the issue of engagement with the Permanent working group at the Joint bilateral coordination commission on practical matters. This permanent working group will aid the fostering of economic relations between the business entities, develop concrete proposals, and propose them for discussion by the Coordination commission. It will also be tasked with the projects, which serve the interests of the Georgian and the Abkhaz sides, including those which ensure the work of the Inguri hydropower station and the Inguri dam without stoppages.’ Paragraph 5: ‘To develop cooperation at the local level. Participants of the Istanbul meeting will continue contacts for the purpose of studying the possibilities of concrete cooperation in the various areas, especially in the economic area.’

16 ‘The presidents expressed conviction that the implementation of the economic projects will aid the fostering of trust between the Georgian and the Abkhaz sides, stabilisation of the situation, and the resumption of talks on the comprehensive settlement of the conflict’ – Final statement from the meetings between the then President of the Russian Federation, Vladimir Putin, and the then President of Georgia, Eduard Shevardnadze, on 6th–7th March 2003.

17 In particular, ‘The minutes/protocol of the meeting on the rehabilitation of the power facilities of the Ingur hydropower station’, in which the equal status of the Abkhaz and the Georgian sides in the operation of the Ingur hydropower station is clearly stated.

18 See ‘Saakashvili offers to Abkhazia ‘broad federalism’ – Abkhazia does not want it’. Available in Russian at <http://www.newsru.com/world/28mar2008/predlozhit.html>.

19 N. Mirimanova (2006). ‘Between pragmatism and idealism: businesses coping with conflict in the South Caucasus’, in International Alert (2006) *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*. London, UK: International Alert. Available at http://www.international-alert.org/sites/default/files/publications/28_section_2_South_Caucasus.pdf.

In Abkhazia's internal socio-political discourse, the subject of economic relations with Georgia often acquired a controversial overtone, which was further manipulated. Most often, the accusations of forming economic ties with Georgia were generated by the political forces, who tried to undermine the reputation of their political opponents and gain dividends in the struggle for power. The widespread criticism of the railway route project through the territory of Abkhazia, voiced by those in political opposition against Abkhazia's President, Sergei Bagapsh, led to the abandonment of the plans. It was not only the conservative traditionalists, but also more pragmatic forces (the 'ERA' party) who raised the issue of the investment security of Abkhazia in the run-up to the presidential elections of 2009. They accused the authorities of lacking due diligence regarding investment sources, which has as a result prevented them from being able to rule out the 'Georgian origin' of some investments. In this regard, it is worth mentioning the example of the controversy surrounding the sale of the 'Abkhazia' hotel in the centre of Sukhum in December 2007 to the Russian company 'Konti', which the Abkhaz opposition suspected of belonging to an ethnic Georgian businessman.

The official recognition of Abkhazia and considerable enhancement of its security, according to the observers, ought to have mitigated the feelings of vulnerability that had developed in Abkhaz society. In this event, it would have been logical to suggest that a change in the perception of prospective relations with Georgia might occur, including in economic relations. However, the political development after Abkhazia's recognition turned out to be far less clear-cut.

We shall attempt to single out the key aspects of the 'post-August' condition of the Georgian-Abkhaz conflict. To that end, we shall consider the changes that occurred at several levels, as outlined by the following points.

- 1. At the level of the parties to the conflict:** Officially, the conflict is perceived by a considerable proportion of the international community as a conflict which outgrew the scope of the Georgian-Abkhaz confrontation. Currently, the Georgian side characterises the conflict as the resistance to 'the Russian occupation and annexation' of Abkhazia. Indeed, Sukhum is not viewed as a side in the conflict. This is confirmed, firstly, by the unwillingness of Georgia to acknowledge the official status of the Abkhaz delegation at the Geneva discussions; and secondly, by the refusal to sign with Sukhum the non-use of force treaty, which in Georgia's opinion must be concluded with Russia as a side in the conflict.
- 2. At the level of external engagement:** A marked decrease in the level of internationalisation of external presence occurred in the zone of the Georgian-Abkhaz conflict. The cessation of the United Nations Observer Mission in Georgia (UNOMIG) mandate in July 2009 affected the decrease of activity by international non-governmental organisations (NGOs) in the region. The Abkhaz side categorically refuses to admit EU military observers to its territory, justifying it, first of all, by the provisions of the Medvedev-Sarkozy plan dated 12th September 2008 and, secondly, by the biased attitude of the EU to the issue of Abkhaz sovereignty. The unwillingness of Brussels to adopt a neutral stance in relation to the status of Abkhazia is also evident, unlike the stance taken within the European Union Rule of Law Mission (EULEX) framework in Kosovo.
- 3. At the level of Russian-Abkhaz relations:** The isolation of Abkhazia determines the exclusive orientation of political and economic activity in the Russian direction. After recognising Abkhazia and ensuring its security, Russia gained formal legal grounds for strengthening its presence there. To date, over 20 agreements have been concluded with the Russian Federation, encompassing practically all areas of public life. On 18th February 2010, the Agreement on 'the unified military base' and the Agreement on the opening of air links between Russia and Abkhazia were signed. Considering that the Russian Federation represents Abkhazia's interests in third countries, and plays the part of the main sponsor of Abkhazia's recognition, the successes of Abkhazia on the international arena are dependent on the international behaviour and image of Russia.

4. **At the level of public attitudes:** The lowering of any interest towards Georgia in Abkhaz society is continuing, as society is convinced that ‘there will be no more problems with Georgia’. This is especially noticeable among the new Abkhaz generation. Today, it is difficult to explain to the young generation the importance of communicating with the Georgian representatives, as 20 years have elapsed since the end of the war and a whole new social stratum has formed which has no common fate with the Georgians. In these circumstances, the problem of the Gal district of Abkhazia is regarded through new lens.

The Georgian-Abkhaz border along the Ingur river attracts the close attention of a multitude of interested players. Over the years, the government of Abkhazia has not worked out a clear strategy towards the Gal district involving measures for the effective integration of the district’s residents into Abkhaz society. In addition to some lack of foresight on the authorities’ part, the lack of success in this respect can be explained by the conviction of both the authorities and the opposition that the solution to the ‘Gal issue’, or the attempts to move in that direction, would not bring them any tangible internal political benefits. It is no secret that Abkhaz society is not that interested in the fate of the residents of the Gal district and occasionally treats them with distrust or even hostility.

Sukhum’s lack of interest in the Gal residents and in the problems of the district is noted by many Gal district residents, who would not mind forging closer ties with the Abkhaz. However, the obstacles to forging such links are of both a political and legal nature. Currently, the indeterminate legal status of the Gal district residents is obvious. For the most part, they possess Georgian citizenship and are assigned the status of internally displaced persons (IDPs), receiving the relevant benefit payments from the Georgian government. These legal features do not allow the residents of the Gal district to act as actors in legal relationships in Abkhazia. To do that, they need to acquire Abkhaz citizenship, which, as experience shows, is turning into a somewhat politicised and bureaucratically cumbersome process. According to the most recent data, only 3,200 Abkhaz passports were issued in the Gal district²⁰.

From 2006, the border regime along the Ingur river was tightened considerably, and from August 2008 the border was shut, despite the absence of any relevant regulatory act to this end. However, the residents of the district can cross the border illegally by paying bribes (usually between 200 and 500 roubles per person). Moreover, economic transactions through the border have not ceased. At the time of writing, goods of Georgian origin were being sold in Sukhum’s markets.

The moral and physical inconveniences caused by the existing situation at the border are so difficult that regular residents of the Gal district believe that it would have been better to have a legal regime established for border crossings. This would allow them to cross the border on an official basis, even if this means as foreign citizens, that is, as Georgian citizens (with the help of visas). The main priority for the residents is that they are not subjected to humiliation and needless extortions. However, it is obvious that the Georgian side would oppose such a move, viewing the crossing of the ‘administrative border’ by Georgian citizens with the help of visas (which is de facto recognition of Abkhazia’s independence) as a crime.

The following points shall attempt to identify the factors affecting how favourable or unfavourable the political context of the trans-border economic interaction is.

1. **Actions by Georgia after 26th August 2008, as perceived by the Abkhaz side:** On 23rd October 2008, the Law on ‘occupied Georgian territories’ entered into force. This law constituted Tbilisi’s reaction to the recognition of Abkhazia’s and South Ossetia’s independence and to the stationing of the Russian military contingents there. The law underlines yet again the failures of the Georgian-Abkhaz negotiations – that is, the placing of economic and humanitarian issues into the political framework. Proclaiming the territories of Abkhazia and South Ossetia

20 Author’s note: the total population of the Gal/i district is commonly estimated at between 40,000–60,000 persons.

as ‘occupied’, this law forbids any economic activity there, if it is not legalised through the Georgian legal system. This norm can also influence the activity of the international NGOs, which have already been warned by the Georgian Ministry of Reintegration. Moreover, even though Article 6, paragraph 2 of the law has a proviso that in exceptional circumstances economic activity can be allowed (including to aid the peaceful resolution of the conflict), the fact that the Georgian government may grant its consent to such an activity to ‘protect the national interests of Georgia’ cannot engender a positive relationship with the Abkhaz side. In addition, by forbidding entry to Abkhaz territory, apart from the Zugdidi district (Article 4, paragraph 1), this law de facto calls for Abkhazia’s isolation. It abruptly lowers the possibilities of economic – and hence political – modernisation and makes progress on transforming the context of the Georgian-Abkhaz relationship incredibly difficult.

It seems that, having realised the negative consequences of this law and being amenable to the criticism of the Venice Commission, the Georgian leadership came up with new approaches – principally aimed at the ‘de-isolation of Abkhazia’. I am referring to the ‘State Strategy on the Occupied Territories: Engagement through Cooperation’, adopted at the session of the Cabinet of Ministers of Georgia on 27th January 2009. This document contains perfectly sound ideas: the de-isolation of the Abkhaz population, their engagement in economic cooperation projects, the opening up of educational opportunities, commitment to the peaceful resolution of differences. However, a closer look at this document reveals that de-isolation is to be implemented by bypassing the official government bodies in Abkhazia, in practice therefore removing the population of the Abkhaz republic from the constitutional sphere of Abkhazia. The section on economic development directly states that this is needed to strengthen the integration ties between the ‘parts of the separated society’ to ensure the reinstatement of Georgian territorial integrity. This incidentally confirms the Abkhaz fears that the strengthening of economic ties between the populations of the Gal district and Zugdidi would lead to greater orientation towards Georgia and the breaking away of the Gal district from Abkhazia. In addition, the statement contained in the Strategy that the conflict is first and foremost international in nature sharply diminishes any chances of its successful implementation. The transfer of the conflict from the Georgian-Abkhaz sphere onto the Georgian-Russian plain thwarts any efforts for transformation, since it is the Abkhaz and the Georgian societies along with the respective elites who must seek ways out of the situation, building up mutual confidence.

2. **The strengthening and legalisation of the Russian presence:** The signing on 17th September 2008 of the ‘Agreement on friendship, cooperation and mutual assistance between the Republic of Abkhazia and the Russian Federation’ established a framework for adopting and putting into effect the multitude of agreements on various directions of the Abkhaz-Russian cooperation. The most significant accords in this context are the ‘Agreement on joint efforts to guard borders of the Republic of Abkhazia’ and the ‘Agreement on common customs space’, which is currently being prepared.

On the one hand, the presence of Russian border guards at the border along the Ingur river can serve as a limiting factor for inter-communal economic interaction due to certain mistrust of them by local residents and owing to the direct interference of Russia in local processes. According to some subjective evaluations, an increase in movements through the formally closed border has recently been observed. In the course of our interviews, some Gal district residents hinted that this is due to people’s desire, based on rumours, ‘to manage to do it before the Russians close the border completely’. However, there is also the opposite point of view – that the presence of the Russians leads to strengthening of the rule of law in the Gal district. Therefore, there is hope that the regime at the border would be normalised and that safer conditions for economic activity would ensue. Russia, most likely, would not hinder the trade, as it poses no threat to its economic interests in Abkhazia.

3. **Internal political trends:** After the recognition of Abkhazia's independence, there was a feeling that the issue of Georgia in internal political discourse would lose its former significance. Indeed, during the presidential elections of 2009, no candidates were accused of maintaining a pro-Georgian position or secret engagement by some 'Tbilisi structures'. However, preceding the elections, the events of August 2009 strongly aggravated the 'Georgian question' in light of the painful issue of citizenship. The parliament in Abkhazia passed, simultaneously in three readings, the amendments to the Law 'on citizenship of the Republic of Abkhazia', which were perceived by the opposition as automatically bestowing Abkhaz citizenship on the entire population of the Gal district. The changes were vigorously contested by the opposition patriotic circles, which once again put the subject of 'betraying national interests' firmly on the agenda. It was argued that the residents of the Gal district form a 'fifth column', a 'potentially dangerous element', and that they 'until today kill our people'. In these conditions, the government of Abkhazia found it very difficult to make concessions regarding the issue of the Gal district. The reaction of a usually reserved Abkhaz President, Sergei Bagapsh, to the Yakobashvili strategy was very telling: 'We won't even touch this subject. In response to this programme, we shall tighten the border along the Ingur river and we shall not allow the creation of a "fifth column" in the Gal district...' ²¹. A recent quote from President Bagapsh (19th February 2010) was very much along the same lines, insisting that Abkhazia will talk to Georgia only after the latter recognises the independence of Abkhazia.

At the same time, nevertheless, there are grounds to suggest that the opinion of the Abkhaz authorities could mellow if the political gain of the trans-border cooperation was convincingly substantiated.

4. **International factors:** There is evidence that the realisation of the need to de-isolate Abkhazia is growing in the West. In this regard, the continuation of the Geneva talks on security and stability in the South Caucasus, the possible consideration of the EU proposals within the framework of the 'Eastern partnership policy' and the signing of the 'non-use of force treaty' are becoming increasingly pertinent. The latter treaty, which envisages international guarantees for its implementation, could provide a legal basis for strengthening the international presence in the zone of the Georgian-Abkhaz conflict, as well as offering a framework for establishing safe economic cooperation through the conflict borders.

Political significance of legalising cross-Ingur economic activities

The political gain or loss of one action or another is the degree to which it corresponds to the national interests of the state. Often, it is possible to view not the interest of the state as the central institution of the political system representing the whole of society, but the interests of the various groups which have access to the decision-making process. These interests can be divided into long-term and short-term ones. Unfortunately, within the Georgian-Abkhaz conflict there is a tendency to underestimate the long-term interests, with little or no thought given to future situations. The political reaction is given on an ad hoc basis.

From the Abkhaz side's point of view, the possible political implications of the issue under consideration can be expressed as follows:

1. It is obvious that the restoration of trust is the most realistic way to resolve the conflict, which incidentally does not imply a predetermined political or status outcome. The restoration of trust can be viewed by the Abkhaz side, for instance, as a process occurring between two separate states and as something needed irrespective of the type of final political solution.

21 'The authorities in Abkhazia will not even read the Georgian "strategy"', *Rosbalt*, 2nd February 2010. Available in Russian at <http://www.rosbalt.ru/2010/02/02/709304.html>.

2. The situation with the closed border is not in the political interests of Abkhazia. It can produce an impression of real Russian occupation, considering that the guarding of the border is being carried out by the Russian Federation Federal Security Border Guard Troops.
3. The legalisation of the trans-border economic interaction would give a positive signal to the residents of the Gal district. The closed border and official prohibition of trade cannot stop the processes of trans-border interaction, but they have consequences in terms of moral, physical and financial costs. That is why the intention of the Abkhaz government to legalise these relationships must be perceived by the residents of the Gal district as a testament to Sukhum's concern for them. It could help to legitimise the Abkhaz authorities among the Gal population and increase its chances of integration into the common Abkhaz space.
4. The institutionalisation of entrepreneurial and trade links would provide economic benefits in the form of customs taxes and duties for Abkhazia's budget. In addition, the intensification of relationships could help the economic rehabilitation of underdeveloped areas in eastern Abkhazia.
5. The opening of Abkhazia from the side of the border along the Ingur river would facilitate better engagement of the country in the economic processes within a wider South Caucasus context, possibly within the framework of the Organization of the Black Sea Economic Cooperation (BSEC).

Economic context and significance of legalising trans-Ingur economic relations

Beslan Baratelia

The initiation of the process of international recognition of Abkhazia as an independent state has seriously changed the context of its external economic relations and of its economy as a whole. The processes of economic development of the post-Soviet Abkhazia gained momentum only from 1999 and were connected, first and foremost, with the relaxation of the Russian-Abkhaz border crossing regime along the Psou river. From that year on, the macro-economic statistics of Abkhazia began to bear witness to the positive processes underway in the Abkhaz economy, as reflected by the enhanced living standards of the population and the growth of income.

The partial liberalisation of economic relations between Abkhazia and Russia gave an impetus to the dynamic development of Abkhazia's external turnover, which increased 14 times during the ten-year period between 1999 and 2009 – that is, from US\$20 million to US\$280 million. In addition, the export of tourist services became a substantial source of revenue for Abkhazia. According to the preliminary data, in 2009 the revenue generated from tourism in Abkhazia reached over US\$150 million.

The active development of the economic ties between Abkhazia and Russia had an overall positive effect on the Abkhaz economy. From 1999 to 2009, the gross domestic output in Abkhazia grew from US\$36 million to US\$465 million. Indirectly, its economic growth is confirmed by the increase in official average monthly earnings. During the same period, the official average monthly earnings increased from US\$8.7 a month to US\$203.4 a month, even though wages still remain extremely low. In 2006, the wages of public sector employees rose by 50% compared with the previous year, further increasing by 30% in 2007 and 2008 and by 40% from 1st January 2009.

In reality, it is not possible to judge real living standards using the official indicator of average monthly earnings of the population, because the share of the black economy is high as a result of tax evasion. This is why the real income of the population is noticeably higher than officially declared.

Another indicator of the increase in gross domestic product GDP is the rise in national budget revenue. From 1999 to 2009, the budget revenue grew from US\$4.5 million to US\$130 million per annum.

The year-on-year employment growth is another sign of positive changes in the economy. From 1999 to 2009, the number of officially registered employed people grew more than two-fold: that is, from 17,900 to 36,200 people.

Therefore, despite the lack of macro-economic indices in the market economy categories (System of National Accounts), the analysis of existing statistical information indicates the growth of the economy, accompanied by an increase in living standards in Abkhazia. However, despite the resurgence in the Abkhaz economy in recent years, the economy is still weak.

The relaxation of the Russian-Abkhaz border crossing regime against the background of the policy of international isolation of Abkhazia, pursued by Georgia, has led to changes in the geographic direction of Abkhazia's external economic relations. Russia is gaining a greater share in the structure of Abkhazia's external trade turnover. At the same time, in relation to trade in services, Russia has become virtually the only economic partner of Abkhazia. According to official statistics, 96% of tourists in Abkhazia are from Russia.

Against this background, and due to the impasse in the Georgian-Abkhaz conflict settlement process, economic relations between Abkhazia and Georgia could not develop actively. Surveys carried out before 2006 did indicate some small growth in this respect. For example, before the summer of 2006 (the events in Kodori gorge), some experts estimated that the turnover between Abkhazia and Georgia was US\$10–15 million a year, even if for known reasons the trade was of an unofficial nature. Agricultural produce (hazelnuts, citrus fruit, potatoes, vegetables and fruit), manufacturing goods (furniture, leather goods, clothes, footwear, medicines, cars) and petrol accounted for the largest share of the turnover. Moreover, while the ethnic Georgian residents in the Gal district were predominantly the participants of the trans-border trade in the initial years, by 2005–2006 there were isolated cases of ethnic Abkhazians travelling from Abkhazia to Georgia for business purposes, including from western Abkhazia.

However, the events in the Kodori gorge in the summer of 2006 had a deeply negative impact on the development of trade and economic ties between Abkhazia and Georgia. As a result of the escalation in the conflict, the border was closed, which made it more difficult to cross it unofficially. Experts estimate that the already small turnover between Abkhazia and Georgia during that period decreased more than ten-fold. The current volume of trade between Abkhazia and Georgia is incomparably lower than the volume of trade in 2005–2006.

The war of August 2008 and the subsequent recognition of Abkhazia by Russia served as a powerful impetus for the further economic development of Abkhazia and its predominant orientation towards the Russian market. In these circumstances, Georgia's share of Abkhazia's external trade turnover began to decrease. Currently, according to the experts, it constitutes no more than 5% of Abkhazia's turnover.

The unresolved Georgian-Abkhaz conflict began to widen the gap between the levels of socio-economic development in the districts of East and West Abkhazia.

Due to the actively developing tourism industry in Abkhazia, the Gagra district and Abkhazia's capital, Sukhum – where the largest organisations and enterprises are operating – began to develop most rapidly. Conversely, the eastern districts of Abkhazia, bordering Georgia, began to lag behind the rest of Abkhazia in terms of their socio-economic development. These were the districts that had experienced the greatest instability due to the possibility of an escalation in the Georgian-Abkhaz conflict and which were therefore unattractive for investment.

A number of key factors hindering the rehabilitation of the districts neighbouring Georgia can be identified, as follows.

- Firstly, these were the territories that suffered the most during the armed conflict of 1992–1993 – most notably, the towns of Ochamchire and Tkuarchal, as well as the villages of the Ochamchire district. Their infrastructure was destroyed, as were many industrial facilities, and many private houses and flats were burnt. The population of these districts decreased noticeably. Many residents were forced to move to Central and Western Abkhazia.
- Secondly, their greater distance from the Russian border, compared with other districts, affected the possibilities for economic development, since during all those years Russia was almost the sole market for the produce of its population and small businesses (not counting the residents of the Gal district, who traded with partners from Georgia).
- Thirdly, many industrial facilities in Eastern Abkhazia remain destroyed and, unlike the other areas of Abkhazia, have not been put back into operation. For example, the residents of the town of Tkuarchal were working in servicing the extraction of coal and in the USSR military plants. The disintegration of the USSR and the armed conflict led to the stoppage of the such enterprises, which virtually paralysed the economic development of the town.
- Fourthly, the proximity to the Georgian border played a negative role. Throughout the 15 years of post-Soviet development of Abkhazia, there was constantly the risk of the resumption of

armed conflict with Georgia. As a result, the Eastern districts of Abkhazia were less attractive for investors, particularly for foreign investors. Out of all the foreign investment attracted to the Abkhaz economy, less than 3% was located in the depressed districts.

- Fifthly, until today, there is no state programme to rehabilitate the depressed districts of Abkhazia. In today's Abkhazia, these districts did not acquire the status of depressed areas. Consequently, the national law does not contain any mechanisms directed at eliminating the gap between the levels of economic development of Eastern Abkhazia and the rest of the districts. In particular, there are no tax breaks for entrepreneurs starting a business in the depressed areas. As a result, Eastern Abkhazia – where one third of the Abkhaz population resides – accounts for only 16% of all industrial output, 12% of all officially registered employed persons, 6% of turnover, 4% of investments in construction and 2% of service provision.

The 'dead end' position of Eastern Abkhazia means that it has been side-lined into the periphery of Abkhazia's economic development. The resolution of the Georgian-Abkhaz conflict would serve as a major basis for its economic development. However, the absence of guarantees of the non-resumption of force on the part of Georgia has meant that even insignificant illegal trade relations with Georgia are viewed in Abkhazia as a sign of Georgia's economic influence and, therefore, as a national security threat to Abkhazia. In these circumstances, any breakthrough in the development of trade and economic relations between Abkhazia and Georgia is unlikely in the short term.

The signing in 2008 of the so-called 'big' treaty between Abkhazia and Russia 'on friendship, cooperation and mutual assistance' made the prospect of economic relations between Abkhazia and Georgia even more obscure. Abkhazia's political recognition as well as the emergence of the Russian border guards and military bases on its territory largely resolved the issue of its military security. At the same time, Russia's abandoning of the sanctions regime in relation to Abkhazia, the opening of the Russian market for Abkhaz exporters and the Russian leadership's 'call' to the Russian business community to invest more actively in Abkhazia shifted the orientation of Abkhaz entrepreneurs almost fully towards Russia. Today, Russia's market is on a par with the world market for Abkhazia.

Moreover, with the signing of the 'big treaty' with Russia, Abkhazia began to benefit from annual Russian financial and economic assistance. This assistance was in the region of US\$70 million in 2008, US\$100 million in 2009 and is estimated to have reached US\$160 million in 2010 (excluding the annual US\$30 million that is transferred to Abkhazia from the Pension Fund).

In February 2010, Abkhazia and Russia signed over 20 agreements on cooperation between the various departments of both countries. The agreement on air traffic deserves special mention, since it has allowed for the possibility of opening Sukhum airport and establishing airline connections between Abkhazia and several Russian cities.

Since the only civil airport is located in Eastern Abkhazia, this development is set to have a positive economic influence on Eastern Abkhazia overall. According to experts, Sukhum airport could receive up to 10 aircraft a day. This will enhance the number of tourists to Abkhazia, along with the development of tourism in Eastern Abkhazia and the revival of its infrastructure. Overall, it could mean that Eastern Abkhazia's attractiveness to investors would increase, especially to foreign investors.

The presence of the Russian military will play some role in stimulating economic activity in Eastern Abkhazia. For example, for small towns such as Gal and Ochamchire that have a population of around 4,000–5,000 people, the presence of several thousand Russian military is an important factor for reviving trade and business. This is particularly evident during the summertime, when the relatives and friends of Russian military personnel come to these small towns to visit them. Another factor that may positively affect the economic development of Eastern Abkhazia is the

investment in highways – namely, Sukhum-Tkuarchal (the road is being reconstructed using finances from the state budget) and Sukhum-Gal (work is to be completed by 2012 with the help of Russian financial assistance). Modernised roads will lead to the development of transport links between Central and Eastern Abkhazia, resulting in a reduction of passenger and cargo carriages' cost and the greater economic integration of Eastern Abkhazia. As a result of this, a reduction in the gap in living standards between the different regions of Abkhazia is expected.

Already, the arrival of a significant number of Russian military has led to an increase in house prices as well as rental costs in the Gal district. For example, since the arrival of Russian military in Primorskoe village in the Gal district, the price of apartments has increased by an average of 8–10 times, which means a rise in revenue for the local population.

It could be said that Abkhazia is today on the brink of forming a new strategy of external economic activity, with Russia playing a dominant role. Turkey will play a noticeably smaller part. The development of economic relations with other countries, especially with those which do not recognise Abkhazia's independence, is likely to be hampered mainly by political factors.

Abkhazia also faces the unresolved issue of determining the significance – in terms of gains and losses – of economic cooperation with Georgia. Despite Georgia's refusal to recognise Abkhazia, the absence of a non-use of force treaty and any agreements on trade and economic cooperation, the experts point to the existence of de facto trans-border trade. The perception of this illegal cooperation by Abkhaz society is far from unambiguous.

On the one hand, the existing 'suitcase' trade carried out mainly by ethnic Georgians from the Gal district is perceived as a deliberate policy by Georgia to engage Abkhazia economically and to expand the Georgian sphere of influence to Abkhazia. It is for this reason that, at one point, the NGO sector in Abkhazia refused to participate in the many attractive projects financed by the international bodies and organisations through Georgia, considering Abkhazia to be a part of the latter.

On the other hand, Russia's recognition of Abkhazia and ensuring its safety from external military aggression, coupled with the massive economic assistance, have neutralised the threat of military aggression on the part of Georgia. As a result, this has helped to ease tensions in Abkhaz society in relation to trans-border trade with Georgia. This fact could ultimately aid the legalisation of economic relations with Georgia, creating a similar scenario to the situation up until 2006, when there was a customs agency on the border with Georgia and taxes and payments were collected. It seems that, being protected by Russia from external military threats, Abkhazia might adopt a more liberal stance in relation to the prospect of partial legalisation of trans-border trade with Georgia. However, in the short term, it is envisaged that business will more likely occur between physical and not legal persons. The partial legalisation of trans-border trade with Georgia has a number of potential advantages, as follows.

- Firstly, it would allow Abkhazia to implement a policy of partial diversification of its external economic activity, whereby it imports some goods at lower prices compared with imports from other markets, thus enabling it to export part of its produce at higher prices.
- Secondly, the legalisation of its existing de facto trade would help to increase the revenue generated for Abkhazia's state budget from customs payments and collections at the customs point at the Georgian border.
- Thirdly, such a strategy would help to strengthen the legal field in the Gal district, bordering Georgia, ensuring greater security for people crossing the border and, according to the experts, reducing the scope of the existing corruption. Overall, it would help to make the situation at the border more transparent.
- Fourthly, the partial liberalisation of trans-border trade would increase the legitimacy of the official Abkhaz authorities among the residents of the Gal district. This would enhance

Abkhazia's image in the eyes of the international community and, most importantly, would help to strengthen trust between the sides and reduce the propensity for conflict in the region.

Nevertheless, it is necessary to realise that, at the current stage of Abkhazia's economic development, very few objective preconditions exist for developing external trade ties with Georgia. Today more than ever, the Abkhaz economy is oriented towards Russia. In these circumstances, the prospects for the partial legalisation of external trade relations with Georgia would depend exclusively on the political will of both the Abkhaz and the Georgian leaderships.

The Inguri hydropower station: why this model of trans-Inguri economic cooperation remains the only one

Valeri Basaria

The ‘unique’ aspect of the Inguri hydropower station in the context of Georgian-Abkhaz and Georgian-Russian relations overall is not only its economic relations, but also its geography. The dam and the hydro-technical structures of the station are located in the village of Djvari in the Tsalendjikhi district, while the power part (including the control panel) is located in the village of Saberio in the Gali district. In the 1970s, when the Inguri hydropower station was designed and built, nobody envisaged that 30 years after commissioning the station, it would become ‘an apple of discord’ between the Georgians and the Abkhaz. To say that the Inguri hydropower station is an example and model of cooperation between the two hostile sides is, unfortunately, a superficial evaluation of the reality and a case of wishful thinking.

In reality, neither of the sides is able to make fundamental decisions independently about the change of status, forms of operation or alienation of this highly complex facility. Therefore, each side declares that the station is its exclusive property. However, they have to come to terms with the de facto situation and with how the operation of this facility has taken shape during recent years.

Approximately 40% of the power produced by the Inguri hydropower station during the post-war years went to Abkhazia, and the rest to Georgia. This power covered between 35% and 45% of Georgia’s general power requirement. On the Abkhaz side, the Inguri hydropower station not only covered its power needs fully, but transferred a significant part to the energy systems of Russia’s Krasnodar region, acting as the main source of revenue for the Abkhaz budget. Today, the Inguri hydropower station is still a significant source of revenue for the Abkhaz budget alongside Russian assistance and investments. However, the population of the Gali district pays only nominal amounts for the power consumed. In Gali, for example, each family pays 100 roubles or US\$3.5 a month for its power in the absence of any metering. In Zugdidi, on the other hand, there is strict control over payments for electricity consumed, with each family paying up to 40 Georgian lari (GEL) or approximately US\$27 a month. However, unlike the situation in the Gali district, the power supply in Zugdidi is regular. The tariff for electricity in Georgia is, on average, 15 Tetri (US\$0.08) per kilowatt per hour²².

The station personnel in Saberio consist of approximately 450 highly qualified specialists, mainly Georgian citizens, with considerable experience in managing this facility. The management of the station is located in the town of Zugdidi and has its representative office in Tbilisi. The wages and all social contributions are paid by the Georgian side in accordance with Georgian legislation. The Georgian side ensures full financing, rehabilitation works, engagement of foreign experts, repairs, etc., mainly by using loans. Therefore, no new or exceptional rules for this situation have been established.

The handling of the station’s security issues deserves a special mention. Considering its location high up in the mountains and the huge amount of water contained in the dam, the consequences

22 Russia: in Moscow, the average cost is 3.0 roubles (US\$0.1) per kilowatt per hour; in Irkutsk, it is 0.62–0.7 roubles (US\$0.02) per kilowatt per hour. In Latvia, the average cost starts at 0.06 Lats (US\$0.11) per kilowatt per hour. In Estonia, the average cost is 1.44 Kronas (US\$0.12) per kilowatt per hour.

of an emergency could be disastrous for the whole region. This is acknowledged by those living on both sides of the Inguri river and, thus far, both sides have been doing their best to ensure all safety procedures are maintained. Not far from the dam, in the village of Potskho-Etseri in the Tsalendzhikhi district, there is a special branch of the Georgian police that is tasked with guarding this extremely important facility. During the events of August 2008, it was announced that the Russian military unit of peacekeepers was being urgently deployed to protect the hydro-technical structures of the plant from any possible provocation. However, they left this territory shortly afterwards, confident that no one would use the station as an ecological weapon.

The most interesting events regarding the station occurred immediately after the end of the August war. In November 2008, the management of the Azeri corporation 'Azerenergy' suddenly announced its readiness to acquire the Inguri hydropower station, even though the Georgian side did not announce its readiness or intention to sell. What followed afterwards came as a total surprise to all the experts. On 28th December 2008, the Ministry of Energy of Georgia secretly signed a memorandum on joint operation of the Inguri hydropower station with the Russian company 'Inter RAO ES'. According to that document, the management of the station was to be carried out by the Joint Management Board, set up according to the principles of parity²³. The Russian side undertook the following commitments:

- to purchase the non-contracted power produced by the station in the summer. This would cost approximately GEL25 million (US\$15 million) per annum;
- to carry out the transit of the power from Russia to Turkey through Georgia, for which the Russian side would pay a further GEL15–20 million (US\$9-12 million);
- to pay the Georgian side for the power supplied to Abkhazia at a cost of GEL15 million²⁴;
- to start repairs on the four drop stations, located in the Gali district.

The Georgian authorities outlined the benefits of signing such a document for Georgia as follows²⁵:

- financial attractiveness;
- ensuring conditions for the safe operation of the station;
- creating conditions for the security of Georgia's entire power system;
- offering possibilities to 'plug' Georgia's energy system into the Turkish energy system, and further down the line, into the common EU energy system.

The reaction of the Abkhaz authorities was very telling. Initially, they approved the conclusion of this document. However, some time afterwards, they announced that they would not allow any bargaining around the hydropower station behind their back, all the more so because, according to them, 'Inter RAO ES' was already trying to lay its hands on the many facilities in Abkhazia. It is worth noting that this Russian company has for a long time held a 75% share of 'TELASI' (the energy distribution network of the city of Tbilisi), a 100% share of the 9th and 10th power blocks of the Gardabani thermal power station, and the right to operate the 'Khrami 1' and 'Khrami 2' hydropower stations in Georgia proper. It should also be noted that Inter RAO ES expressed its readiness in the memorandum to use its above assets as a performance guarantee in relation to the Inguri hydropower station²⁶. Meanwhile, a huge scandal erupted in Tbilisi in relation to the secrecy surrounding the text of the memorandum, with the authorities being accused of military and economic capitulation vis-à-vis Russia, of breaching the Law on Occupied Territories, and of losing the opportunity to engage in direct bilateral contact with the Abkhaz. The *Rezonansy* newspaper (editor-in-chief Lasha Tugushi) and the Georgian Young Lawyers Association even brought a case against the Ministry of Energy, demanding that it make the text

23 See news article in Russian at <http://bizzone.info/2009/egy/1231793053.php>.

24 Before this, the Abkhaz side was getting the power for free. Source: <http://www.openutilities.ru/cnews.asp?rbr1=7&rbr2=75&cmp=88032&int=0&nws=24660>.

25 See news article in Russian at <http://day.az/news/georgia/144176.html>.

26 See news article in Russian at <http://bizzone.info/2009/egy/1236852225.php>.

of the memorandum public. The court declined and agreed with the respondent who claimed that the text of the memorandum was commercially classified information. As far as the breach of the abovementioned law is concerned, it clearly states that there are no prohibitions on economic activity in the territories outside of Georgian control, provided that appropriate permission has been given for it by the very same Georgian authorities. Nobody doubts that this permission exists, even if no one has ever seen it.

It is noteworthy that, within three months of signing the memorandum, the comprehensive agreements on all legal, financial, technical and other aspects ought to have been duly prepared and executed. The reality is that over a year and a half had elapsed since the signing of the memorandum, but still no documents had been signed. Moreover, in the summer of 2010, the Deputy Minister of Energy of Georgia stated that the negotiations regarding this issue with Inter RAO ES were on hold due to the lack of initiative on Russia's part²⁷. It is also thought that the suspension of negotiations with Inter RAO ES could have been connected with the provision by the European Bank for Reconstruction and Development (EBRD) and the European Neighbourhood Programme regarding the financing of the rehabilitation of the 1st and 5th hydropower units of the Inguri hydropower station, to be carried out by the German company Voith Hydro²⁸. However, many attribute the freezing of the memorandum to the irreconcilable positions of the Abkhaz leadership, which insists that it should be one of the signatories of such a document, and the Georgian leadership, which considers this unacceptable. Despite the turmoil and intrigue surrounding the Inguri hydropower station, it continues to operate, providing essential power to both Abkhaz and Georgian homes.

Significance of the Inguri hydropower station cooperation

Both sides have a critical interest in maintaining the uninterrupted work of the station. At the same time, each side is constantly trying to demonstrate or declare its undivided right to possess the hydropower station as a whole. A few years ago, for example, the Abkhaz side categorically demanded that the station employees from Georgia should cross the Georgian-Abkhaz border exclusively through the central highway (Rukhi - Chuburkhindzhi). This naturally created additional problems for those employees of the station who lived in the Tsalendzhikhi district and who had been crossing the border all those years at the Muzhava and Pakhulani crossings. Now, they were being forced to travel a longer distance from home to work of between three and four times greater.

The Inguri hydropower station can be viewed as an example of cooperation out of necessity. Neither side, fortunately, can 'put its foot down' and shut down the station from the Abkhaz side or cut water to the turbines from the Georgian side. This would be impossible both technically and from the point of view of the process. However, at this stage, any attempts to formalise this cooperation, even if it is politically and economically beneficial for either side, would be counterproductive in the circumstances of ongoing confrontation between Tbilisi and Sukhumi, possibly leading to unpredictable complications of both an economic and political nature for the sides, especially if the finances of the Russian company or the Russian state are engaged. It seems that both sides of the conflict share this understanding.

It should be noted that the Georgian employees of the station are unanimous in saying that, for the whole duration of the post-war period, there were no conflicts between them and the few Abkhaz working at the station. Everyone has a clear understanding of their responsibility to

²⁷ See news article in Russian at <http://bizzone.info/energy/2010/1279324215.php>.

²⁸ See article in Russian at <http://bizzone.info/energy/2010/1279238467.php>. Somebody in Tbilisi immediately recalled similar events in relation to the gas pipeline, which connects Russia and Armenia, when the government of Georgia announced the start of negotiations with Gazprom about its sale. The US reacted quickly, offering the multi-million 'Millennium' programme initiative, which included financing of the gas pipeline's rehabilitation, the construction of roads in Eastern Georgia and support for innovative agrarian projects. From that moment, the sale of the gas pipeline to Gazprom was no longer on the agenda.

ensure the smooth running of the plant. This scenario can be viewed as an example of conscious coexistence. It is important to introduce such elements into other, maybe smaller and not so significant, economic projects, which should be supported both technically and financially, and not through annoying seminars, trainings and conferences. Such projects could be based on the principle of pooling the resources of both sides, encouraging the establishment of basic conditions for understanding and for the creation of close links between the societies.

The Gali district and Georgian-Abkhaz economic relations

Valeri Basaria

Regarding the issue of Georgian-Abkhaz economic cooperation, the Gali district and its residents have been and continue to remain an important, and possibly a decisive, element. During two decades of difficult living conditions, lawlessness and constant danger, the most active people in this enclave managed not only to survive, but also to improve their households, educate their children and start their own businesses. The uncertainty they endured was caused, on the one hand, by the mistrust of Sukhumi towards them ('fifth column' syndrome) and, on the other hand, by the same mistrust from Tbilisi ('they support the separatist regime'). For many years, the people of the Gali district have had to adapt to the frequent changes of their situation, to start anew and, if necessary, to 'blend into the background' of these new conditions.

Today's Gali district may not be perceived as a bridge between the Abkhaz and the Georgians, but at least it manages to fulfil the function of a transit territory between these two communities not only without any support, but in the face of difficult circumstances.

Paradoxically, before Turkey began to directly supply Abkhazia with produce, a process involving a degree of risk-taking on the part of Turkish ship owners, the supply of Turkish vegetables (mainly potatoes and onions) to Abkhazia's markets was for a long time carried out by 'suitcase traders' from Gali. These so-called 'suitcase traders' were mainly women from Gali who transported the produce from the Navtlugi wholesale market in Tbilisi. The proprietors of small and large businesses in Abkhazia are well aware of the price difference of the produce, brought from beyond Inguri and Psou, and they base their decisions regarding suppliers on economic considerations.

It is noteworthy that, despite the official and unofficial prohibition of goods from Georgia, including those of non-Georgian origin, they are still in demand not only in the depressed districts of Eastern Abkhazia, but also in the more prosperous Sukhumi and Gagra regions. Even the periodic raids by the many controlling authorities, the hefty fines and the seizure of goods of 'hostile origin' have failed to deter the activities of commercially-minded people from Gali or their counterparts in other districts of Abkhazia. Demand for products such as Georgian wine and mineral water even continues, which is something that some Abkhaz patriots strongly object to.

The most recent events – mainly the recognition of Abkhazia's independence and the introduction of the Russian border troops in the Gali district – directly affect the dynamics of trade operations and the range of goods for sale. In particular, there has been a decrease in the volume of movement of some types of construction materials²⁹ from Zugdidi through Gali and further on to other districts of Abkhazia. This is because Turkish suppliers have begun to work directly with wholesale agents from Abkhazia and, as a result, delivery of materials is done by sea or through the nearest Russian port. On the other hand, there has been an increase in the supply of fresh vegetables, herbs and fruit from Gali to the Abkhaz resorts, especially in the summer. However, it should be noted that not all of these products are of Gali origin, but are brought from Tskhaltubo, Marneuli or Gardabani.

The irony of the situation in the conflict zone economy is that it is considered more profitable to haul around sacks with 300 kilos of celery or parsley, transport them at the risk of confiscation or fines (the fine is 1,200 roubles (US\$40) per person as well as confiscation of goods) and violate

29 The finishing materials are of Turkish origin as a rule

state border rules – all so these goods can be sold at the markets instead of being grown in the immediate Gali vicinity.

It is difficult to objectively estimate the number of Gali district residents who are engaged in trans-Inguri trade. However, judging by the number of shops and stands selling goods from beyond Inguri, by the number of sellers at the Gali market, and by the drivers engaged in ferrying the sellers and their goods, the number of people directly and indirectly engaged in this process could amount to several thousands of persons. Given the bleak living conditions and massive unemployment, the chance to provide for families in some way makes this business initiative attractive.

In terms of the views of Gali residents regarding the legalisation of these economic relations, opinions appear to be mixed. Many people believe that, due to the establishment of the customs barriers along the Inguri, many goods from Georgia would not be as competitive and they fear losing the opportunity to earn an income. On the other hand, some are convinced that the regularisation of the border situation would allow trade without fear and all the issues connected with competitiveness to be resolved by the entrepreneurs themselves. The Georgian government's State Strategy on Occupied Territories and the Action Plan, envisaging the creation of free trade zones and the relevant infrastructure along the border, were met with scepticism. Such scepticism is attributed to the activity of the Russian military and the possibility of the creation of additional barriers when crossing the border.

The Russian military

The arrival of the Russian troops in the Gali district was at first perceived as 'a necessary evil' by the many people, who were weary of the lawlessness of the previous decade and a half and welcomed some guarantee of a quiet life. This attitude was also linked to a number of other factors including:

- a) the airlifted party of Russian doctors (organised by the 'Russian congress'), which provided free medical checks and even handed out some medicines at the Gali district hospital for several weeks;
- b) meetings of the Russian officials with teachers of the Gali district, where promises were made of various assistance to local teachers, help with books, teaching materials, and even invitations to Russian schools for skills enhancement;
- c) visits by the Russian military to the most remote villages of the Gali district, which had been robbed more often than others, and promises to protect them fully from thieves and marauders. In addition, it was stressed several times during these meetings that the presence of the military was only for the benefit of the residents of the Gali district and that the local people would allegedly find employment at the various facilities.

The situation began to change with time, however, when such amicable meetings stopped and the humanitarian actions were directed, for some reason, at the local population of exclusively Russian origin. The Georgians and the Russians in Gali had together weathered the hardest conditions of all during the difficult years, and the 'do-gooders' from Russia have been known to distribute food based on nationality. However, there were cases when the beneficiaries (the local Russians), despite their lamentable material situation, refused such 'gifts'. The situation deteriorated even further when it emerged that, during the construction of the roads, workers from Adygeia, Kabardino-Balkaria and even Tajikistan would be engaged, and that the chances of local employment were practically zero.

In addition, having assumed responsibility for guarding the whole perimeter of the Abkhaz-Georgian border, the Russian border guards pushed out the Abkhaz border guards, who had guarded the border previously and who had allowed the locals to cross the border for a certain fee

in the region of 300 to 500 roubles (US\$10–15). The Russian border guards have also reportedly tried to block all the crossings in the ‘Lower zone’. It is not hard to imagine the reaction of the residents of the Gali district, who have managed to establish their small business and who frequently have to cross the Inguri, yet who have virtually no chance of obtaining an official permit to cross so frequently by the security services of Abkhazia – these people now are being pursued by the Russian border guards.

Despite the many years of chaos, open mistrust and even some signs of contempt from both Sukhumi and Tbilisi, the local residents did not lose hope of reconciliation between the Georgians and the Abkhaz: clearly, they realised the impossibility of the full reinstatement of the former friendship in the aftermath of the tragedy, yet believed in the establishment of normal good neighbourly relations. However, the establishment of Russian military bases without any clear purpose, and clearly not for combating minor border violations, has destabilised the situation.

Travel across Inguri

Despite the difficult situation described above, six to eight minibuses full of people and goods are still travelling from Gali to Zugdidi and back through the ‘Lower zone’ and the village of Khurcha on a daily basis. The cost of the trip is 400 roubles (US\$13) per person and 200 roubles (US\$7) for luggage. Lately, trips have even been made from Gali to Tbilisi, although this is not a regular occurrence and only those with official permits from the Abkhaz security services to cross the border along the Chuburkhindzhi-Rukhi can use it. The people cross along the central highway, which is controlled by the various bodies from Sukhumi.

There is only one road at the Abkhaz-Russian border and just one remaining crossing, not counting the paths once used by the tourists and local shepherds. The Abkhaz-Georgian administrative border is criss-crossed by a multitude of roads between the neighbouring villages and former collective farms, including unregistered ones, not to mention the paths. Therefore, the topography explains the presence of one crossing at Psou and several at Inguri. The intentions and actions of the Russian border guards and of the Abkhaz authorities are more inclined towards limiting the number of crossings. The fewer the crossings, the easier it is for the Russians to control the streams of people and goods. According to recent data, by the end of the current year, Russian conscripts and professional military personnel will start to arrive at the Russian border guard facilities, which will give them an opportunity not only tighten their control over traffic across the Inguri, but also to cut off any uncontrolled traffic, if desired.

Analysis of the State Strategy on Occupied Territories: Engagement through Cooperation

Valeri Basaria

The attitude towards the State Strategy on Occupied Territories in Georgia is varied: on the one hand, it is welcomed and considered long overdue; on the other, it is rejected on the basis of the very essence of the document itself and a belief that the document was outdated before publication. However, as is often the case, the truth lies somewhere in the middle.

For a start, it is necessary to assess the form of the document. The policies of the authorities in relation to Abkhazia and South Ossetia are formulated as goals and they are mainly of a declaratory nature. This is the nature of any strategy. The specifics must be contained in the subsequent documents. It is interesting to note that the Georgian authorities view this document not as a plan for the re-integration or de-occupation of Abkhazia, but as a roadmap, aiding the rapprochement of the disengaged parts of society. They consider that the Strategy can only be implemented if two main principles are adhered to: the continuation of the policy of non-recognition; and engagement through cooperation. In addition, the lack of any mention in the Strategy of the three fundamental questions – security, status and forcibly displaced persons, and the substitution of the term ‘border’ with the more neutral word ‘boundary line’ – suggests not so much a change of approach by the Georgian leadership to the current situation, but rather its readiness to search for ways of reconciliation – if not with the Sukhumi authorities, then at least with the population of Abkhazia, without preliminary political stipulations.

The opponents of the Strategy may disagree, highlighting that the inclusion of the term ‘occupied territories’ in the Strategy’s heading undermined any attempts at making the Strategy as sensitive and acceptable as possible to all the sides. It is no secret that a comprehensive and detailed discussion of this document by Georgian society never took place, yet the text of the Strategy was quickly submitted to the EU, the US, NATO and other international bodies, which acknowledged it as a necessary document.

It is important to note that the Strategy is, first and foremost, a government document. That is why it needs to be evaluated from the point of view of the dynamics of the Georgian authorities’ rhetoric during the conflict. On the other hand, the Strategy is not law.

For the first time, the official document of the Georgian authorities stated that it ‘rules out’ the use of military force as a means of resolving the Georgian-Abkhaz and Georgian-Ossetian conflicts. Instead, it highlights that the resolution of these conflicts can only be achieved through exclusively peaceful and diplomatic means, on condition of the de-isolation of Abkhaz society. One can only guess at what cost the official position in Tbilisi was transformed, given that during the entire period until August 2008, the official rhetoric was dominated by the exclusive intent to return ‘the breakaway territories’ to the Georgian state within a set period of time. Moreover, their actions left no doubt over their determination to realise these plans. At the same time, it should not be forgotten that in a certain part of society the revanchist mood is still alive. Against this background, it would be unfair to ignore the significance of such a change in approach to the most important issue for the country. All the more so since the ‘Law on occupied territories’ at one time introduced serious limits to what is allowed and what is not allowed in these territories, with those potentially in breach of the law facing tough sanctions up until this point.

The primary position of the West is official support for the territorial integrity of Georgia. Therefore, in my opinion, the pragmatism of Tbilisi can largely be explained not only by the

post-August realities, where there has been a significant worsening of the conflict situation due to changes in the configuration of the conflict itself after Russia's recognition of Abkhazia's and South Ossetia's independence; it can also be attributed to pressure from outside. These circumstances can possibly explain the extensive visits of EU officials of various ranks to Sukhumi. On the one hand, the officials have clearly been trying to convey to the Abkhaz leadership the new and positive 'messages' emanating from Tbilisi; on the other hand, the authoritative political publications circulating in the West are calling on the Georgian leadership to try in practice, and not only in words, to find a common language with the de facto authorities in Abkhazia. There is no other way to explain the position of a number of donors and international organisations – which until recently were vigorously opposed to financing any projects on the other side of the Inguri, referring to the 'administrative' impossibility of managing these projects – and who are now seeking potential partners in Abkhazia.

The goal of the Strategy was formulated with the creation of such conditions in mind, so that the section of society on the other side of the boundary (ethnic Georgians, Abkhaz and Russians) could fully enjoy the same rights and privileges available to the main part of Georgian society. This is of no small importance, considering that for the past 17 years the Georgian leadership, even if it considered those people living on the other side of the Inguri as citizens of Georgia, did virtually nothing to acknowledge this fact. On this occasion, the Georgian authorities have promised that the programmes aimed at enhancing the wellbeing of the population of Georgia would be directly available to those living in Abkhazia today. For example, the Abkhaz will be reimbursed for material losses suffered by them during the armed conflict, in exactly the same way as the Georgians were reimbursed for material losses suffered during the war of 1992–1994³⁰.

The achievement of these goals, according to the authorities, is possible by aiding economic relations between the disengaged parts of society³¹ – which includes encouraging the free movement of people across the boundary line – and by supporting joint projects built on shared interests³².

Even when the authorities in Sukhumi and Moscow categorically refuse to consider the text of the Strategy, reference is made only to the title's use of the term 'occupied territories'. The Abkhaz side did not even think it necessary to comment on the proposals from Tbilisi and to consider if there was a possibility that something useful could be derived from the Strategy – not only for the Georgian residents of the Gali district, but also for the Abkhaz. However, recently the Abkhaz authorities have evaluated the Strategy as an 'attempt to buy the residents of the Gali district and to use them to create a 'fifth column''. This is despite the fact that it is obvious that, in all those years after the conflict, the residents of the Gali district were of no special interest to the Georgian authorities, or to the authorities in Abkhazia for that matter. The Strategy itself does not, either explicitly or implicitly, single out the population of the Gali district among all the residents of Abkhazia.

The real objective of the Strategy can be debated for a long time. For example, it might be argued that the Strategy is not for internal consumption, definitely not for the perusal of the Abkhaz or the Ossetians, but merely aims to demonstrate its peaceful intentions to the West. For some this is indisputable, while others prefer to remain optimistic about the possibility of change. Some people refuse to believe that Tbilisi has finally acknowledged the complexity of this issue, which has resulted in the full alienation of a considerable proportion of Abkhaz society from Georgia and a lack of alternatives to economic levers for resolving the long-term problem of restoring trust

30 State Strategy, p. 8, paragraph 2: "Georgia affirms the inviolability of property rights in Abkhazia and the Tskhinvali region/South Ossetia and considers any infringement of these rights illegal. Based on this principle, the Government of Georgia reserves the right to employ national and international mechanisms to ensure the protection of the property rights of the populations residing in, as well as of those who have been expelled from, Abkhazia and the Tskhinvali Region/South Ossetia."

31 State Strategy, p. 2, paragraph 2: "Promoting economic interaction between communities across the dividing lines, improving socio-economic conditions of the populations on the both sides of the dividing lines, and including Abkhazia and the Tskhinvali region/South Ossetia in Georgia's international economic relations."

32 State Strategy, p. 2, paragraph 6: "Promoting freedom of movement – as well as people-to-people interaction and contacts across the dividing lines – through identifying areas of common interest and supporting joint inter-community projects and activities in all spheres of mutual interest."

between the Georgians and the Abkhaz. The following section offers an analysis of the economic measures proposed by the Strategy and the Action Plan.

Economic aspect of the Strategy and Action Plan

The text of the Action Plan, despite its vague wording, contains seven priority areas with regard to economic relations. These can be summarised as follows.

1. **Creating conditions to develop trade relations, including the creation of ‘financial conditions’ to stimulate trade:** One can only guess why these steps were not taken before the adoption of the Strategy, on the basis of multiple and unsuccessful attempts of the NGO sector to change the approach of the government and of the international organisations in this direction. Moreover, the government structures for a long time have been creating barriers and dragging their feet in this direction. Therefore, cautious optimism needs to be exercised in relation to these intentions.
2. **Development of agricultural business and the creation of special economic zones, including the ‘integrated socio-economic zone encompassing both Sides’:** The assistance to agricultural businesses (especially small projects) on the other side of the Inguri is an achievable objective, which does not require considerable financial investment and resources – that is, if one were to exclude the self-publicising element of such an initiative, which is the most irritating factor for Sukhumi. Considering that Abkhazia has declared tourism a priority area for development (as has Georgia incidentally) – it is not difficult to imagine that, in the absence of a developed agricultural sector and own production of relatively inexpensive high quality agricultural produce, streams of middle-income tourists should not be expected. Importing Turkish potatoes or fruit from Krasnodar is not the solution, especially since Abkhazia has all the necessary climatic conditions, land and human resources present for the development of the agricultural sector. It is unlikely that this issue has not been thought about in Sukhumi.

The idea to create a special (trade, economic, etc.) zone along the Inguri is not uninteresting. This idea, incidentally, has been lobbied for a number of years by experts and NGOs in Georgia. However, as a rule, any initiatives which do not come from the authorities but from society directly are unacceptable to the authorities. It is noteworthy that the idea of creating free (economic, industrial and trade) zones is as attractive to Georgia (even when such projects did not happen in Kutaisi, Tbilisi and Poti) as it is difficult to implement legally, economically and organisationally. This fact makes for critical reading of this proposal, which seems too idealistic given the unpredictable and inextricable reality around the Inguri. Fully-fledged economic operations within the zone (which is directed at the widespread engagement of business circles from the other side of Inguri), even with the interest of business circles in Sukhumi and Gagra, are more likely to meet with the resistance of the heavily armed Russian Federal Security Service units along the Georgian-Abkhaz boundary line, at the very least.

3. **Creating conditions for joint business activity, with a focus on the agricultural sector, including ‘agricultural packaging’:** Looking at this proposal, it seems that the need to focus on small projects was taken into consideration in the fullest sense. However, the experts in Tbilisi are viewing such projects only in relation to the agricultural sector. Moreover, they consider that it would be ideal if the activity of produce packaging was added. To be fair, if the types of goods transported from Zugdidi to Gali and then to the rest of Abkhazia were examined, it would show a high proportion of vegetables, fruit, herbs, cheese and other agricultural produce. Moreover, given the current drought and price increases for similar goods in the Krasnodar region, demand for these types of goods will naturally grow. However, the Gali district was and continues to be the transit place not only for food products, but also for consumer goods. At the same time, these trade operations are the result of basic pragmatism

and calculations. It would not be surprising if, with the change in prices for these goods, not only would the Sukhumi and Gagra entrepreneurs switch suppliers to those from Adler or to Turkish suppliers, but so too would the residents of the Gali district. These are the laws of the market.

It should also be noted that the rehabilitation and development of the extraction industry are not mentioned. This would have created employment for hundreds and thousands of residents of the Gali, Ochamchira and Tkvarcheli districts, which lack the charm and potential of the resorts and are categorised as ‘depressed areas’. The resources are few, but they are in demand – geothermal springs, brick clay, calcite, trim stone, inert materials, etc. The issue is the ‘Chinese wall’ of: a) the Law ‘on occupied territories’, which requires a permit from the Georgian government for licences (and this activity falls under the licensing requirement); b) the non-recognition by the Abkhaz side of any permits from Georgia; and c) the lack of finances among local entrepreneurs to start such businesses.

4. **Creating, with the participation of the state and donors, special funds to support joint business projects:** Business people seeking potential donors for even insignificant (volume and capital-wise) projects in Abkhazia have to face many hurdles – not least, the potential sanctions, along with the disapproval of the Georgian authorities, lawlessness on the other side of the Inguri and the ambiguous policy of Georgia in relation to Georgians in the Gali district. This puts the prospect of a fund for joint business cooperation in a positive light – as long as the initiative is not dominated by the authorities and is prudently managed.
5. **Creating the necessary legal mechanism to support business activity in Abkhazia and South Ossetia, including the regulation of customs issues, and matters of taxation and certification of the goods produced in these territories, as well as their promotion to the external markets:** Without exaggeration, this proposal is undoubtedly the most conflict-sensitive part of the Strategy’s economic element. It is here that the economic interest cross-cuts political considerations. Unfortunately, any concessions or a compromise by either side in relation to this issue are not expected for one simple reason: the country of origin of the goods cited in the waybills and by the body issuing the certificate are perceived totally differently in Sukhumi and Tbilisi, not to mention the customs functions and the taxation.
6. **Searching for ways to employ the population living on the other side of the boundary line:** This proposal can hardly be considered as a real method for restoring trust. For the purpose of objectivity, the following paradoxical circumstance should be noted – even today the residents from Western Georgia (from Abasha, Tkibuli, Zugdidi, Chkhorotsku and other districts) cross the Inguri in search of work and often find employment, mainly in the construction business. The critical problem of unemployment in Georgia itself and the issue of people migrating in search of employment became the object of attention for the many international organisations. Against this background, therefore, a more attractive proposal would be to introduce concrete measures to support small and medium-sized businesses, thus creating new workplaces and employment opportunities. At the same time, this would help to relieve the tensions in the Georgian labour market and present the Abkhaz population with a more attractive model for resolving this significant problem.
7. **Developing special criteria for the territories located along the boundary lines and implementing the relevant measures:** This intent is laudable. Unfortunately, however, numerous appeals to the Georgian authorities for the last 10 years to consider the issue of the special status of the Gali district residents (and now the Akhagori district, which is in a similar situation) and to develop special social and economic support programmes for them were always met with a lack of understanding and irritation. The most the authorities could do was to agree with the Abkhaz authorities on the financial and technical assistance to be granted to those employed in education and national health in the Gali district.

The simultaneous implementation of all these proposals for economic cooperation is unlikely and impossible – and may even be undesirable. Nonetheless, some of the abovementioned proposals are relevant even today, and all that is required to implement them is the will of the Georgian authorities and minimum efforts. Elements such as certification and the creation of free zones, which fully depend on the level and quality of the political relationship between Sukhumi and Tbilisi, are good forms of cooperation, but only in the distant future.

The potential of trans-Inguri economic ties

Emzar Jgerenaia

The tourism and power sectors are important industries in Abkhazia, which is also an important transport corridor. Thus, when speaking about the ruined economic system and the damage caused, the economic ties of both sides of the Inguri need to be examined. Special attention should be given to the following sectors, which lack the required development because there are no trans-Inguri economic ties:

- Power
- Transport
- Agriculture
- Tourism
- Trade

Power

Cooperation in the area of power exists through Russia. The Inguri hydropower station and the Vardnili power station are operated jointly. In light of this, joint construction of the Tkvarcheli thermal power station – which is based in the coal-mining field and which would have been connected with the larger power network – would have been beneficial and had the potential to generate large revenue for both sides and for investors.

The principle of cooperation in the power sector could provide the foundations for economic cooperation overall, as it could be said that the joint operation of the Inguri hydropower station has been a successful project.

High voltage power lines

The construction of a new power line from Russia to northern Turkey through Georgia could be an interesting project. To realise this initiative, several hundred million US dollars of investment could be attracted, which would bring an extra US\$30–40 million in revenue to the budget each year. Currently, there is the 500 megawatts Trans-Caucasus transmitter, which ensures the transmission of power. However, the construction of a new line from Russia through Abkhazia would have been a profitable project for both sides of the Inguri.

Transport

Railways

Cargo from Armenia and Georgia could be partially shipped by rail through Abkhazia. However, the railway line has only one track in the area of Sukhumi, Gagra and Sochi. It is also located on the edge of a slope towards the sea and there is a danger of landslides. In addition, this section has a number of small tunnels. Therefore, the speed of cargo trains there cannot exceed 5–7 kilometres per hour. For this reason, the main commercial cargo was taken not through Abkhazia, but through Azerbaijan. Currently, cargo from Russia to Armenia and back is transported through the port of Poti in Georgia. The overall tonnage of the cargo from Armenia to Russia is 14.5 million tonnes per annum. The cargo consists of oil, construction materials and mining products. In the event that this transport route was restored, a part of the cargo could be transported through Abkhazia. The length of the railway line from Adler to the station of Tagiloni in the Gali district is approximately 150 kilometres. If, in the best case scenario, one third of the cargo were

to be transported through this route, it could bring Abkhazia revenue of some US\$15 million a year, calculated on the basis of the tariffs valid in Georgia. The Georgian side would not derive any additional profit from it, as currently this cargo is transported through Poti and Georgia draws revenue from the port, service provision and the terminal.

A new situation needs to be taken into consideration – that is, the Kars-Akhalkalaki railway line, which would transport cargo from Central Asia to Europe through Georgia. In two years' time, the construction of the railway tunnel in Istanbul should be completed. This route would connect the broad-gauge and narrow-gauge lines in Akhalkalaki. This trans-Eurasian line would need to transport at least 50 million tonnes of cargo a year to become profitable. The route could become profitable for transporting cargo from Russia, Ukraine and China if the railway line in Abkhazia were to be connected to it. At the same time, the railway route Sukhumi-Tbilisi could transport cargo to Turkey and Southern Europe.

This plan could bring tens of millions of lari in revenue to Georgia. The cargo transport volume to Russia through Kars would increase, while the traffic through Novorossiysk would decrease. The connection of Abkhazia to this transport infrastructure would bring not only substantial revenue, but would also create new employment in railways and in the supporting infrastructure. The operation of wide transport channels for Euro-Caucasian heavy cargo would allow for an increase in turnover between Asia and Europe, which would reduce the prices and transport time by about 30%. The main cargo would go to Europe and China. It would become unprofitable to transport cargo through the Baltic³³.

Motor transport

Motor transport has significant prospects, as it could unite the cargo traffic of Eastern Azerbaijan, Nakhichevan, Armenia, Iran and Turkey which goes to Russia and Kazakhstan. This would bring considerable revenue to the Georgian and Abkhaz sides, provided that good highways are in place. This could attract major investments. If the Russian embargo on Georgian goods was lifted, motor transport could shorten the route for the agricultural and other goods coming from Georgia to the Russian market. This would reduce transport costs by 30% compared with the cost of transporting Georgian agricultural and other produce to Russia through Azerbaijan³⁴. If the embargo by Russia was lifted, then the export potential of Georgia could be considerably enhanced. This would aid the creation of employment and improve business relations with the Abkhaz farmers and entrepreneurs, including the Georgians from the Gali district.

Agriculture

During the USSR era, the leading agricultural industries in Abkhazia were cattle farming and poultry farming. If the Ochamchira poultry farm was to be rehabilitated, it could become a serious player in the Georgian market, similar to the commercial pig farms. This could become a subject of general interest, bringing 200,000 extra kilos of chicken meat and pork to the market each year.

Cattle breeding – especially buffalo breeding in the swampy areas along the Black Sea shores, starting from Pichera and Gudava – was at one point the most profitable business. Its reinstatement could provide employment opportunities for a considerable proportion of the local population. In addition, the production of essential oils, used in perfumery, has been carried out in these regions and in Kingdi. The production of essential oils and wood oil was one of the most rapidly developing industries in agriculture. These two activities have considerable export potential and

³³ Currently, the cargo from Asia to Europe is transported by rail to Finland and then shipped by sea.

³⁴ Agricultural products from Georgia, especially herbs, come to the Russian market via Azerbaijan. The transport costs constitute one third of the price.

are in demand abroad. This business could be particularly profitable for medium-term investments.

The tea business is a separate issue worthy of consideration. It could be developed in the districts of Gali, Ochamchira and Gulripshi. Before the disintegration of the USSR, Abkhazia had 10,000 hectares of tea plantations. However, the majority of them perished during the years of conflict and economic decline. Four billion US dollars of investment into the tea plantations of Georgia, including Abkhazia, were lost. It would be virtually impossible to regenerate the tea industry in full. In addition, it should be noted that the tea industry of Georgia as a whole, and of Abkhazia in particular, suffered from significant falsification of figures in the USSR era which has distorted its real potential. Georgia could never have produced 100,000 tonnes of tea a year, as it was reported. To do that, it would have needed 50,000–60,000 hectares of tea plantations and to harvest two crops a year, which would have been impossible.

After the crisis, the tea industry in Georgia began to be regenerated, and currently several companies are successfully exporting their tea to Europe. This was aided by the world market situation – namely, the growing prices for tea of the leading producers and the increased demand for low tannin tea, which is produced in Georgia.

In the existing circumstances, the restoration of the tea plantations is possible in the area of Gali on 3,000 hectares, and in Ochamchira and Gulripshi on 1,500 hectares. With the correct cooperation and investments, Abkhazia could produce 5,000 tonnes of high quality tea each year. The tea, produced together with the Georgian companies, could retail at US\$2.2 per kilo, which could generate revenue amounting to hundreds of thousands of US dollars. In addition, up to 10,000 people could be employed in the restoration of the tea industry. Since there are no tea factories left in Abkhazia³⁵, it would be possible to export the tea through the new tea factory ‘Geoplant’ in Zugdidi, which has benefited from German investment and where at least 100 people could be employed.

Kiwi fruit holds a special place in Abkhazia’s agriculture sector, particularly in the regions of Gagra, Gudauri, Gulripshi and Ochamchiri-Gali. In these districts, the average annual temperature for 260 days is 10 degrees Celsius and the earth is grey-red, which are the ideal conditions for kiwi growing. The cultivation of kiwi fruit in the entire Samegrelo region is a success, much like that in Adjara. With joint financing, this area would provide a wonderful resource for both sides, a resource which has unfortunately not been utilised thus far.

Tourism

There is serious potential for tourism on both sides of the Inguri. However, due to the many different hindering factors, Abkhazia lacks any interesting tourist infrastructure and this sector requires overall development and investment.

On the other side of the Inguri, there is experience of tourism development in Svaneti, Anaklia and Ganmukhuri, not to mention Batumi and Adjara on the whole. The restoration of broken communication links would give the Abkhaz side the opportunity to enhance its tourist potential. For example, in July, the tourists could be brought from Abkhazia to Svaneti to ski. This is a unique opportunity, since during that period there is no snow in the ski resorts of Krasnaya Polyana³⁶. The combination of the tourist streams of Abkhazia, Svaneti and Anaklia on the second side of the Inguri would automatically create interesting routes. This would at least double the planned tourist streams and, in turn, would double profits. Efforts could be combined in this area to create a serious commercial project, taking into account the experience gained on our side of the Inguri.

³⁵ There were 28 tea factories in the Gagra district alone during the Soviet era.

³⁶ Author’s note: a Ski resort near Sochi.

Trade

The trans-Inguri turnover is dominated by food products and medicines, day-to-day consumer products and clothes. From the Georgian side, agricultural produce is brought across the Inguri. The size of this turnover is currently small, not exceeding several hundred thousand lari per annum. A turnover 10 times bigger would correspond to the real demand on both sides of the Inguri. Under requisite conditions, it would be possible to create a trade regime for the neighbouring regions and free movement of the Abkhaz population. Despite the existing barrier, the provision of goods and everyday consumer products to Abkhazia is done from Samegrelo. The establishment of economic relations between the Abkhaz and the Georgians would be inevitable, if the dialogue on the organisation and regulation of trans-Inguri commercial activity were to start. This represents the most challenging issue, as there are a number of problems within the conflict zone as follows:

- the presence of the Russian troops and the narrowing of the corridor for crossing to one checkpoint at the Inguri;
- the limitations imposed by the Georgian Law ‘on occupied territories’;
- the EU and World Trade Organization (WTO) requirement of full control over this territory as a condition of the free trade agreement with Georgia;
- the impossibility of a normal customs regime, given that the *de facto* trade situation does not correspond to the *de jure* non-recognition of the border and the territorial integrity of Georgia.

To overcome all these barriers, an economic bridge must be created, which is aimed at resolving the problem of occupation and becoming a road to peace. Such a regime must assist the free movement of people from all parts of Abkhazia across the Inguri and back, along with the creation of some non-discriminatory form of control, which corresponds to international norms and which does not violate the state priorities of Georgia and EU requirements. Under such conditions, the agricultural sector, transport infrastructure, tourism, and small and medium-sized enterprises would develop. Such economic relations would bring tens of millions of dollars to both sides, and would allow for the creation of new employment opportunities on both sides of the Inguri, at the same time helping to resolve social problems.

Views from Georgian policymakers

Irakli Sakandelidze

Prospects for the liberalisation of private economic exchanges across Inguri

Both government and opposition representatives largely agree that it is necessary to establish economic ties with Abkhazia. However, representatives of the opposition do not believe that such a possibility exists now, arguing that the government has missed the chance to use the opportunities that existed in the past:

“If we look at what people desire and what ordinary citizens’ interests are, we will of course agree that such activities have a lot of potential. However, if we take into account the ideology and policy employed by the Government and the Abkhazian separatists for years, we will see that neither of the sides has a real possibility to do it.”

Goga Khaindrava

Georgian State Minister for Conflict Resolution Issues 2004–2006

While some ruling party figures maintain that the government has put in place several components in the recently developed action plan to foster the establishment of economic ties, the implementation of such activities on the current stage seems quite unrealistic:

“What would crossing the Enguri mean?! It is an issue of political and legal nature rather than an economic problem. This is what has hampered the process and will continue to obstruct it in the future.”

Davit Darchiashvili

Member of Parliament of Georgia 2008–

Armenia, Turkey and Russia as political and economic actors in the region – the impact of the hypothetical regulation of trans-Inguri economic relations

The opposition’s assessment of Turkish business developments in the region is largely positive. They believe that Turkish business is to be welcomed and is a realistic objective; however, Georgia-Turkey’s historical relationship must not be ignored:

“Turkey does have the potential to become a positive partner in the process, moreover that certain business activities have been maintained since 1993, and fishing is only one of them. I can see that Turkey can contribute positively to the settlement issue.”

Irakli Alasania

President Saakashvili’s special envoy for Abkhazia issues 2005–2008

A certain section of the opposition also welcomes the development of Armenian business, mainly related to restoration of the railway connection:

“Armenia will have its share in the regional infrastructural projects we would like to get Abkhazian involvement, because the railway is one of the most important projects. They will have to participate in it and it will also be in our interests if they do.”

Irakli Alasania

Government representatives have maintained that free business relations from the Russian side are very unlikely and that such processes will always be controlled by the state, depriving it of any positive features. Representatives of the ruling power also perceive some threat from Russian businesses:

“Russia is much more interested in its imperialistic and quasi-mythological ambitions than in the economy. This is why Russia is excluded from the process. There have been many similar examples.”

Davit Darchiashvili

When talking about the development of the business sector in the region, government representatives generally emphasise the legality of business processes. They state that any such activities are welcome if they are compliant with Georgian laws. On the other hand, the Georgian government opposes and seeks to combat any illegal economic relations:

“One of the examples is our suit against Megaphon lodged by our regulatory authority because it is illegally active on the occupied territory. However, if we take Beeline that is duly registered in Georgia and complies with all the norms, it will not have any problem expanding its activities on the occupied territory. Meanwhile, we are talking about companies representing the same country.”

Shota Malashkhia

Member of Parliament of Georgia 2004–

Example of Cyprus and Green Line Regulations

Both the government and the opposition are sceptical about the possibility of extending the Cypriot model to Georgia at the current stage. Both the Georgian and Abkhaz sides will face a serious barrier in the form of Russia, which has its army on the border:

“The regime is completely controlled by the Russians. Therefore, improvement of our mutual relations in the future will be a necessary step in this regard. In order to achieve success, we must make Russia our partner. This will be the most difficult obstacle for us to overcome.”

Irakli Alasania

However, government representatives believe that the Cypriot model will be possible to activate only after a change of administration in Russia.

According to some experts, another negative factor is the restrictions on the activities of international organisations:

“Let us take the EU. If it has the right to enter the occupied territory and execute other functions in whatever context, including economic activities, or the OSCE or UN does the same, it will make us much more flexible and mobile. All that must serve principles of our statehood. This is also what these organisations aim at. We do not have any problem whatsoever with regard to international organisations. On the contrary, we are even willing that these authorities get more involvement in the process.”

Shota Malashkhia

Implementation of the Action Plan – benefits

The opposition's assessment of the Action Plan developed by the government after the August War of 2008 is negative. They believe that the plan contradicts the Georgian Constitution and other laws. As a result, the opposition believes that an action plan and its benefits can only be discussed when the regime changes:

“There is nothing new except this absolutely ambiguous law on occupied territories that they do not even comply with and that is even counter to the Constitution and other laws in Georgia.”

Goga Khaindrava

The opposition also states that development of the Action Plan has one single aim – to show international organisations that the government was making some effort, instead of making a real change:

“Nothing can be changed in Saakashvili's policy. When they first started to refer to a strategic document, then formulated it and presented it to the international community, everything had only one object – to show the international community that a strategy does exist. They really do not want to achieve the real task – fostering Abkhazian-Georgian relations.”

Irakli Alasania

On the other hand, the government's assessment of the Action Plan is totally different. It insists that the plan contains specific steps – some of which are executable independently by Georgia and others which Georgia will need international assistance with. In all cases, the government states that the Georgian side is ready for cooperation, something that is not really shown by the other party:

“This law is certainly functional and the strategy will be too if the other party allows individual economic entities to make use of the possibilities granted by the law and the strategy, and act together with Georgia. Our country is ready for such development, but we do not see such will and readiness from the other party, either from small businesses or from larger economic players.”

Davit Darchiashvili

Free Trade Agreement with the EU

The ruling party believes that the Free Trade Agreement is a step forward in regulating economic ties. However, now when Russia is actively engaged in occupying the territories, it is difficult for the Agreement to bear the desirable fruits:

“The Agreement must cause the social and legal groups, economic entities, families or companies alike existing there to consider the advantages of complying with Georgian laws and using them as an opportunity to reach Europe. It must cause them think about it, but to what extent it will be able to do so while the Russian FSB is the one controlling the entire environment there is another issue. It is difficult to imagine the possibility of any support. Meanwhile, in the long run this is the ground Georgia is creating and something will come out of this sooner or later.”

Davit Darchiashvili

As for the opposition, a certain part of it believes there is a theoretical possibility that the Agreement could result in some positive changes, but that the practical side is more unrealistic.

Others think that the Agreement will force Georgia to enact certain reforms that can be followed by real steps to attract the interest of the other side:

“We will have to take real steps. So far, the situation has been frozen and static. This is why it is significant to me personally. That it is important for the country is beyond all doubt.”

Irakli Alasania

Assessment of steps taken by the Georgian government since 1994

While assessing the steps taken since 1994, government representatives point to a number of interesting and material circumstances that, according to them, the previous government failed to adequately assess and make use of:

“OSCE Summits of 1994, 1996 and 1999 passed resolutions with the participation of Russia, which said that ethnic cleansing had been applied to the territory, i.e. Russia recognised the act of ethnic cleansing. The Georgian Government could have used the fact to attract funds to the region and emphasise the necessity to return the displaced persons and improve their economic status. Instead of choosing another policy of blockading, etc., they could have built their policy on economic activity.”

Shota Malashkhia

Government officials say that Georgia as a state was very weak during those times and that the government’s actions were also feeble, irrelevant and often incorrect. Such actions included, for example, the Ergneti market, which, through illegal commerce and a corrupt environment, was very disadvantageous for the Georgian economy:

“These were black holes for our economy, created by the corruption in the law enforcement authorities. Without filling these holes, it was impossible to improve the judicial system or ensure economic stability. On the other hand, now it is clear it would have been reasonable to take steps in another direction also to include the market in some legitimate system and let it exist.”

Davit Darchiashvili

On the other hand, the opposition’s assessment of the political decisions made under both Shevardnadze’s rule and Saakashvili’s administration is negative. They believe that recovery of trust between the parties is of primary importance and that the best opportunity was presented in 2005 when the de facto regime changed in Abkhazia. They also contend that the government should have focused more on economic ties, rather than on blockading the breakaway territory:

“Under Shevardnadze’s Government, we maintained the solution was in Russia, in Moscow, i.e. it was our priority to bargain with the Russians, to make some arrangements and then, in our opinion, Russia would settle everything in one swift movement. That was a mistake. Under Saakashvili all the accents shifted to NATO and we started to move towards NATO, hoping that we would settle everything from above and after having solved the problem with Russia in the upper circles, we would remain face to face with Abkhazia and proceed with the negotiations ... We have never actually considered the possibility to give prevalence and priority to development of an economic, commercial or infrastructural strategy rather than emphasising the political aspects. Meanwhile, that was the key to start improving relationships with the Abkhazians and recovering the trust.”

Irakli Alasania

Reaction to previous proposals on the Georgian-Abkhaz peace process ('Key to the Future', Boden plan, etc.)

According to the government officials, the real reason why the document 'Key to the Future' was created was to give a good impression to others, rather than consider the problems in a genuine manner:

"Their logic was like: Georgians are advertising the ideas Europeans like. I think it was the OSCE Summit in 2005 where Georgia presented its proposals, and other assemblies as well. This is what Europeans like, the Abkhazians said, and we are meanwhile losing the information war. Let us also say things they like. I think this was mainly the source of the document, a very vague and uninformative paper."

Davit Darchiashvili

Irakli Alasania's assessment of the Shamba document is similar. He also maintains that Abkhazia sought to compete with the Georgians through the document.

According to the government representatives, consideration of such documents was rarely accompanied by positive results. Meetings would always come to a dead end, because Russia was opposing them:

"Russia never showed any goodwill for the change to happen. We tried many times to talk with the Abkhaz, but everything was always terminated at some stage. I clearly remember the last meeting with Shamba. Irakli Alasania was accompanying us and he asked if what they had agreed four or six weeks before was still valid. The answer was that unfortunately the previous agreement was no longer valid."

Temur Iakobashvili

State Minister of Georgia for Re-integration, 2008–2010

While the official and opposition approaches to the Shamba document are largely similar, their views with regard to restoration of the railway connection are radically different. Both Irakli Alasania and Goga Khaindrava view recovery of the railway as a positive fact and believe it will be a step forward in the process of settlement, fostering economic recovery and the restoration of relationships and trust:

"We could let the Abkhazian railway work. It would create a lot of advantages for the refugees and local Abkhaz and would practically make contacts between them inevitable. It would actually save us, only hard to say when, at least sooner or later."

Goga Khaindrava

On the other hand, government officials do not think that restoration of the railway connection has much importance for Georgia at present:

"This is not a project of essence for Georgia. It would have some political importance for us if we could agree on the status and make the project a certain step in the reconciliation process, a step on the legal and political level, one of the common aspects between the two sides. Then it would have a different importance, it would be a clearly positive step. However, what they really want is to just let the railway pass through the land and recognise the land as some sort of ex-territory, to have Russian jurisdiction on the railway, or something of a similar sort."

Davit Darchiashvili

According to the government officials, the document developed regarding railway restoration lacked quality in terms of the law:

“The document was not adequate. It contained numerous legal errors in certain parts. It was a very unclear initiative, not related to anything and not likely to bear any economic results.”

Shota Malashkhia

Action Plan: Possible results

As for the possible results of the Action Plan with regard to the development of business links, the views of the government officials and the opposition differ again.

Both Irakli Alasania and Goga Khaindrava are very sceptical about the processes. They believe that the existing plans are futile because the government is not really interested in achieving real progress:

“An action plan is good when its implementation is advertised by someone and this is known in advance. We cannot be serious about any action plans, since our recent past has shown us all the difference between empty words and real steps of a state. This has nothing to do with Saakashvili’s regime.”

Goga Khaindrava

The opposition says that, in the current circumstances, businesspeople are not able to initiate any business projects and invest money, and that whatever project is underway now is illegal:

“I think it is still a utopia today to try and attract businessmen to mutual projects. As for small business, such as commerce, they are always characterised by seasonal interests, even now, such as in trade in nuts, but this is all illegal.”

Irakli Alasania

Government officials, on the other hand, are optimistic about the situation. They believe that the government is striving to advance the processes by taking various steps to this end. They say they have studied many aspects and shared other countries’ experiences:

“Many things have been considered, including by NGOs that have been working on this for eight years. We only made what they had produced as a theory into a state policy. This is a situation that cannot have a ready-made solution. There is always some political risk. But we believe we need to take the risk and make some commitments, because an alternative to this situation is degradation and such an alternative is bad.”

Temur Iakobashvili

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