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POLICY BRIEF

Contextual analysis of Russia-Georgia relations - possible threats and challenges of the “normalization” process

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This article explores current Georgia’s rapprochement with Russia known as the “normalization” process and analyzes political risks of the existing Georgian economic strategy against the increasing role of the Russian market.

1. Background

In 2012, as a result of the first democratic transfer of power, the Georgian Dream (GD) Coalition replaced the United National Movement (UNM). In contrast to the previous government, the tense rhetoric was decreased and the new government also initiated the “normalization” policy with Russia with the aim of restoring trade, economic, cultural and humanitarian relations.

The “normalization” process implies readiness for dialogue, restoring trade and economic relations, and people-to-people contacts. In pursuance of this approach, the new Georgian government appointed a Special Representative for Relations with Russia, which filled the gap of absent diplomatic relations. Moreover, Georgia muted previously assertive policy on North Caucasus: the government will no longer finance scholarships for North Caucasian youngsters to receive higher education in Tbilisi, and a Russian-language TV station PIK has stopped broadcasting. Additionally, Tbilisi’s decision to not boycott the 2014 Sochi Winter Olympic Games has to be viewed in this trend. This approach is partly in congruence with the public opinion that is quite controver-

sial: 79 percent of the Georgian population support improved relations with Russia whilst at the same time 78 percent aspire to EU integration (NDI, 2014).

Despite eased confrontation between Georgia and Russia and the discourse of cooperation, there are still red lines in the interactions that notably challenge the normalization process. “Borderization” or erecting physical barriers between the conflict regions and the rest of Georgia is one such challenge. Since the August War, Russia has been gradually advancing the occupation line from South Ossetia towards all directions in the rest of Georgia. By October, 2013, 10 percent of the whole dividing line of Shida Kartli region had been demarcated, which is about 30-35 kilometers in total (Shaishmelashvili, et al, 2014). This process has been accompanied with the frequent detention of Georgian citizens by the Russian troops with the accusation of violation of the South Ossetian so-called borders (Civil Georgia, 2013). Furthermore, with the power shift in Abkhazia and South Ossetia, new challenges emerged. Both Sokhumi and Tskhinvali have voiced their intention to sign association agreements with Russia. In this case, there is a threat of annexing these territories by the Russian Federation which is suc-

cessfully used by the Russian diplomacy for realizing its own geopolitical goals.

On the other hand, the “normalization” policy can claim some achievements the most significant of which, perhaps, is lifting the ban on Georgian products (wine, mineral water, agricultural products) that was in place since 2006 due to the “health concerns”. Resuming economic and trade relations has brought some significant consequences. Georgian exports to Russia have increased over 300 percent and as a result Moscow became Georgia’s fourth largest trade partner in 2013, while Georgia had become the third largest wine importer to Russia, out-running Spain in the first three months of 2014 (Agenda, 2014). However, this process was also accompanied with some complications. In July, 2013 Russia’s Ministry for Economic Development drafted a decree to suspend the Free-trade Agreement between Georgia and Russia, which was signed in February, 1994 (ITAR-TASS, 2014). This could mean that the Georgian products will no longer be the subject of customs preferences and consequently some products might be priced out from the Russian market.

2. Challenges

After 2012, as a result of the “normalization” process and gradual restoration of economic interactions with Russia, trade relations between the two countries have significantly increased. According to January-August 2014 data, Russia is the third largest export destination of Georgian goods after Azerbaijan and Armenia (Ministry of Economy of Georgia, 2014). Russian market accounts for 10 percent share in Georgia’s total export (National Statistics Office of Georgia). Whereas Russia was the fourth largest export destination in 2013 and in 2012 was not even in the top ten country list (Ministry of Economy of Georgia, 2012, 2013). Data shows that 2013 Georgian export to Russia increased more than four times in comparison to 2012 (National Statistic Office of Georgia). Georgia started exporting wine to Russia in 2012 first time after 2006 embargo. The amount wine exported has been increasing since then. In 2013 Georgia exported twice more wine and mineral water than the previous year. By August, 2014 Georgia has increased wine export to Russia by 69 percent in comparison to the same period in 2013. Income from wine export was 83 percent more by August, 2014 than throughout 2013 (InterPressNews, 2014). Besides wine, after two rounds of inspection, exporting mineral waters agricultural products to Russia was resumed. By August 2014, export of mineral water increased by 64 percent during a year (BusinessPressNews, 2014b). Russia has respectively become number one country by its 65 percent share in the Georgian wine export (BusinessNewsPress, 2014a). By the first six months of 2014, Georgia has the highest

increase in export with Russia (3 times) (Radio Liberty, 2014). Overall, for the first 6 months of 2014 data, Russia was Georgia’s fourth largest trade partner after Turkey, Azerbaijan and China (National Statistics Office of Georgia).

Given the fact that Georgia’s export to Russia in 2013 exceeds the same figure from 2005 by almost a quarter, it can be argued that economic dependency on Russia has been renewed and is gradually increasing. The lack of diversity in Georgia’s trade relations may render economic and later on political leverages at Russia’s disposal. This is especially problematic against the background of Russia’s previous track record of instrumentalising economic relations and punishing neighbours with embargo. Georgia as well as Moldova, Ukraine and even Belarus have experienced the effects of Russian ban on their export goods. Furthermore, against the background of Georgia’s refusal to abandon its western-oriented foreign policy, it becomes more likely that Russia will resort to using any leverage over Georgia including economic tools in order to change Tbilisi’s mind. Recognising these potential problems by the government is yet another challenge as the GD coalition seems to concentrate more on short-term benefits in these relations, than threats arising from the economic dependency on Russia.

3. Economic dependency and need for market diversification

In this context, the Georgian government tends to emphasize the positive aspects of the enhanced trade and economic relations, whilst somewhat underrating potential threats. Restored trade relations with Russia are primarily assessed by the Prime Minister as “a result of constructive, pragmatic, right, thoughtful policy of the Georgian government” (Government of Georgia, 2014). On the other hand, rarely but still some threats of increasing dependence on the Russian market are also acknowledged and businessmen are suggested to consider other countries’ experience and treat the Russian market as means for diversification, hoping that the Georgian businesses will follow this suggestion. In public sphere, Georgian government members seem quite indifferent about potential Russian moves and potential use of economic dependence as political leverage. For instance, a decree on suspending the Free-Trade Agreement is perceived as a minor change particularly in the context of deepening economic relations with the European Union: as members of the Georgian Dream and Prime Minister among them noted in their statements “this will is not a tragedy.”

Economic dependence on Russia is not regarded as high enough to harm Georgia in case of an embargo: Accord-

ing to Zurab Abashidze: “several businesses might have some loss but I repeat that we have such anticipations that we are not expecting any tragedy” (Civil Georgia, 2014a). Maybe partly true for the moment, this approach, however, underestimates the threats in the long-run. Assuming that the trend of gradual increase of trade relations with Russia is maintained, the threat of abusing economic dependence for its own geopolitical goals will further increase that craves for more careful attitude from the Georgian government.

4. New challenges of trade relations

Georgian government, convinced of the possibility of combining Georgia’s trade relations with Russia, on the one hand, and with the EU, on the other, does not expect any “dramatic changes” in the Russo-Georgian economic relations (Civil Georgia, 2014b). According to the special representative of the Prime Minister of Georgia for Russia, Zurab Abashidze, “Russian side is trying to find out whether this new reality - Ukraine, Moldova and Georgia’s signing the association agreements - will threaten Russian economy and market in any way. Our position is clear. We do not see any barriers.” (Civil Georgia, 2014b). However, Moscow has reintroduced embargo on Moldovan goods after the latter’s signing the association agreement with the EU but Kremlin has not made up its mind regarding Georgia. A draft about cancelling the 1994 free trade agreement with Georgia was prepared but the final decision has not been made to date.

Unlike the Georgian government, however, Russian officials tend to be more careful in their statements. Gregory Karasin emphasised the need for studying this issue thoroughly (Civil Georgia, 2014b). The FM Lavrov has suggested that Russia will observe the developments (Liberali, 2014), while the PM Medvedev underlined the need for protecting Russian economy (ITAR-TASS, 2014).

The main reason why Moscow may try to limit the access of Georgian products to the Russian market, is the fear of re-export: that after the DCFTA’s coming into force European goods will start arriving in Russia through Georgia as Russia and Georgia belong to the free trade area of the CIS (Expert Online, 2014). However, this argument is flawed due to the fact that Georgian market was opened to the European goods even prior to signing the Association Agreement. Therefore, in line with this logic, the threat of re-export should have arisen before. Therefore, we can assume that Moscow is mainly irritated by political factors, for instance, such as that the EU negotiated the association agreements with the three Eastern Partnership countries in a bilateral format, whilst Russia was excluded from this process and as a result could not ensure protection of its own interests by en-

gaging itself in the negotiation process. Therefore, it can be argued that Russia’s political insecurities are wrapped up in economic arguments and presented in a way that would make them more legitimate. Consequently, when Russian politics intervenes in the realm of economy, security concerns naturally arise. The need for examining political and security dimension of Georgian-Russian economic relations, thus, becomes apparent.

5. Political risks of economic relations

Considering all of the above-mentioned, there are series of factors that could threaten Tbilisi’s “reset politics” with Russia. Despite the new Georgian leadership’s attempt to only restore trade, cultural, and humanitarian ties with Russia, distinct challenges in diplomatic relations will remain as long as Russia occupies parts of the internationally recognized Georgian territory. Tbilisi has an additional non-negotiable red line: the freedom to independently lead its foreign policy and sovereign rights to choose its own alliances. Meanwhile, Moscow has drawn a red line of its own: Russian politicians and high officials have several times confirmed that Russia does not intend to revoke its recognition of the independence of Abkhazia and South Ossetia. Moreover, as Tbilisi’s Western trajectory so far remains unchallenged, concerns persist that Russia’s proxy war in Ukraine could have long-term effects on security dynamics in the region and conflict zones there, as well as on the political landscape in Georgia. Furthermore, there are clearly clashes of national interests between Georgia and Russia, and how they see the prospect of bilateral relations and their respective roles in regional security arrangements. As new Russian-Georgian dialogue toned down the heated rhetoric in bilateral relations, it is unlikely to produce a wholesale change in the posturing of Tbilisi and Moscow. Whatever the result of this political flirtation with Moscow, finding the middle path between confrontation and capitulation will be one of the toughest tasks for the Georgian political class.

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