

Georgia Reality Check (Policy Review)

1st Non-Paper

Bratislava, April – July 2013

The “Reality Check” is a policy review process aiming to gather insights from top domestic and international analysts, practitioners, diplomats and policy-makers working in and on the EaP countries, with the ambition to discuss these behind closed doors. Under the aegis of the Lithuanian EU Presidency the first such a review was the Belarus Reality Check, held in Vilnius, Lithuania in October 2012.

The first meeting of the Georgia Reality Check took place on April 20, 2013 in Bratislava, Slovakia and gathered top Western and Georgian analysts in order to review internal and external factors influencing the country's politics. Emphasis was placed on the independent character of the group, evidence-based analysis and a balanced policy advice. This non-paper is the product of the Bratislava meeting and the subsequent thorough peer review process.

Conclusions

The period of cohabitation between the ruling Georgian Dream (GD) coalition and the United National Movement (UNM), which has moved to opposition after it lost parliamentary elections last October, is coming to an end. Both sides tried to make the cohabitation work, not least thanks to the external pressure coming from the EU and the US to make the power transition and the ensuing period as smooth as possible. But the approaching presidential elections (October 27, 2013) as well as the on-going investigations of former UNM officials – now reaching the party's top echelons – mean that the political will for compromise is gradually evaporating. In the run-up to October, political tensions are set to rise. The government and the opposition might try to win the Western political support for their cause against the other side – but thus far both sides are trying to avoid an open political confrontation, preferring instead to channel the tensions via their external partners.

Prime Minister Bidzina Ivanishvili remains the single most important factor binding the coalition rather than a common ideology or agenda – yet it is not clear even for his own coalition partners what his exact plans are and how long he plans to stay in the office. The government has taken swift steps to change the status quo inherited from the previous administration in areas such as justice and penitentiary sector or an increased parliamentary oversight. However progress on a blueprint for kick-starting the economic growth and addressing Georgia's socio-economic problems, including high unemployment, has been slower – yet this is precisely the area where most voters expect improvements. Some steps were taken to alleviate the costs of living in Georgia, including introducing free pre-school education or lowering the electricity prices.

The government has maintained the previous course and seeks closer integration with the EU: the Association Agreement (AA) and the Deep and Comprehensive Free Trade Agreement (DCFTA) negotiations are almost completed and are expected to be initialled at the Vilnius Summit. The EU integration has so far been one of the few unifying issues the government and the opposition could agree on: the signature and ratification of these documents is seen by Georgia's political elite as a guarantee to cement the country's pro-Western track. For the new government, concluding the AA/DCFTA was also important as an evidence of the administration's pro-EU/NATO policy and a way to fend off attacks that the government is too soft on Russia.

Key institutions leading the Euro-Atlantic integration are headed by the ruling coalition's most pro-Western party (Free Democrats). Implementation of these agreements will be crucial: most benefits will only come in the mid-term, increasing the pressure on the government to deliver on the popular expectations of economic growth and job creation. The violent anti-LGBT protest that took place in Tbilisi in May has highlighted that although most Georgians support closer ties with the EU and much has been done to integrate with the EU institutionally, "Europeanisation" in terms of values and political behaviour, is yet to take deeper roots in Georgia – this is also confirmed by various sociological polls exploring the population's attitudes towards European vs. Orthodox Christian values. The protests also highlighted the potentially important role the Church can play in Georgian politics, especially if supported by some of the more nationalistic/anti-Western elements in the ruling coalition – however, their political influence is for the moment marginal.

Similarly to the early years of Mikheil Saakashvili's presidency, the government has tried to reach out to Russia: without expecting quick progress on Abkhazia/South Ossetia re-integration, Tbilisi has made an effort to de-escalate tensions with Moscow. This has already brought some results – Georgian mineral water and wines have been allowed to enter Russian market – but government wants further progress on trade ties and visa requirements for Georgian citizens in Russia. However, despite the opening of the bilateral track between Russia and Georgia, Moscow has continued in 'borderisation', installing barbwire fences and recently by pushing the administrative border line (ABL) deeper into the Tbilisi-controlled territory.

Recommendations

The EU can help mediate domestic political tensions in Georgia only if it remains neutral and equidistant from the government and the opposition. It will be important to further intensify its engagement with all domestic stakeholders including a broadly-understood civil society (incl. business associations and the Church).

The Western clout in Georgia remains strong: the Euro-Atlantic integration has proved to be one of the few issues uniting most elements of Georgia's political spectrum and remains supported by a large majority of citizens. The key to supporting further reforms is therefore for the Western partners to keep the prospect of Georgia's Euro-Atlantic integration open and firm, remain actively engaged and help consolidate the national consensus on the issue. This will be particularly important in the upcoming period when trials of former officials will take place. While continuing to monitor the court proceedings, fairness and proportionality of the court decisions, the EU should avoid being sucked into the domestic political conflicts between the government and the opposition. This way it can remain a credible mediator in Georgian politics.

Once the Association Agreement and DCFTA are adopted, the EU should focus its assistance and resources on assisting with their implementation in Georgia. Building up institutional capacities of various state agencies and supporting reforms is important. The EU though, should also concentrate more efforts and resources towards supporting deeper “Europeanisation” of the society via civic education programmes, dialogue with the Church and public diplomacy, especially in the regions. Georgia is in a good position to make substantial progress on deepening its ties with the EU: in the next couple of years, the government will need every help it can get to bring the country closer to Europe not just in terms of institutions but also mentality and values.

Domestic Stakeholders Review

Problems remain but importantly, the government was changed through the ballot box, not revolution. It is a positive sign that after the elections, both the government and the opposition agreed to follow the rules of Georgia's political system rather than trying to overhaul the entire system. Still, cohabitation between the president and the new government is far from orderly and both sides are increasingly focused on the completion of the transit of power following the upcoming presidential (October 27, 2013) and local elections (spring 2014) – the closer the presidential elections are, the less willingness on both sides for a compromise. The ruling Georgian Dream (GD) coalition remains diverse: this might lead to internal splits and possible dissolution of the coalition following the 2014 local elections: parties remain bound together by the Prime Minister rather than by a common ideology or political views. However, initially in 2003/2004, UNM was also bound by personalities rather than by a coherent government programme.

Georgian Dream-Democratic Georgia (GD-DG) party, Free Democrats and the Republicans are the strongest coalition parties but National Forum (seen as more nationalistic and less pro-Western) can also gain traction when activated. These are the parties that have a chance to remain in parliament even if the coalition splits. On its part, the UNM is trying to recover from the defeat in the parliamentary elections but with on-going resignations of their members from numerous local

councils in Georgia's regions and the recent pre-trial detention of the UNM Secretary General Vano Merabishvili, it is struggling to re-brand itself and recruit new members. The role of Mikheil Saakashvili in the UNM and Georgia's domestic politics after his presidential term ends remains unclear, adding even more questions about the UNM's future. Moderate voices on the government and opposition sides are trying to maintain a dialogue but both are increasingly focused on the upcoming presidential election – both sides are partly to blame: the new government has been trying to consolidate its position vis-à-vis the president including by restricting his funding but Saakashvili has not signed number of legislative acts and several ambassadorial nominations.

During the previous government's terms in office, there were few checks and balances – now the parliament has once again become a space for debate. Political tensions are far from over; these stem not only from the on-going investigations of former UNM-linked officials – seen by the UNM as an attack on the party rather than an ambition to objectively investigate past wrongdoings – but also from the relatively strong role of the Orthodox Church. This became apparent during the violent clashes between the LGBT-rights activists and their opponents in May. It is unclear what political role – if any – does the Church want to play in Georgia's politics, but the protests have according to the observers brought home the point that the government needs to do much more to counter the xenophobic and nationalistic tendencies within the society. Church remains the most trusted institution in Georgia (95%). Some argue that by attacking UNM and ignoring the role the Church is trying to play in Georgia's politics, the government may unintentionally create grounds for the Church to become the strongest voice against the administration.

The lesson from the previous period is that the UNM government lost power despite the fact that it presided over a period of relative economic growth (though harmed by the 2008 war and global economic crisis) – but has nonetheless failed to deliver the expected poverty-alleviation or widespread job creation: voters also considered the government's democratic performance which they associated with freedom of speech, rule of law and justice. New government should therefore be more attentive to both issues of democracy and economy. So far, it looks like the government might be misreading people's priorities: greatest focus seems to be on reform of the justice sector but polls suggest that people expect the government to solve unemployment, improve economic situation, develop agriculture, decrease taxes, increase pensions, solve social issues and restore territorial integrity. “Restoration of justice” is on the 8th place, 51% of respondents said that at least some of those investigated should be arrested; 30% think that all of them should be arrested; 12% thought, none of those who were being investigated, should be arrested. At the same time, the government has been given a relatively long grace period by the electorate: people don't expect radical improvement overnight. More than half (57%) of respondents said in February that Georgia is

developing in a right direction; 27% said the economic situation has improved (11% said it worsened). Socio-economic issues remain key priorities for the population – job creation seems to be one of the top challenges for the new government.

External Stakeholders Review: Relations with Russia

The government has relatively small room to manoeuvre when it comes to relations with Russia – the territories are already occupied, the mandate of the EU monitoring mission (EUMM) is weak as it has no access to Abkhazia and South Ossetia and the Geneva talks have so far brought few tangible results. The attempt to 'normalise' relations with Russia is not only aimed at improving the situation with Abkhazia and South Ossetia but also to improve the situation of almost one million Georgians currently living in Russia and address the problems with trade and visas. Pragmatic rapprochement between Tbilisi and Moscow is important, especially on issues related to renewing economic links as these have critical implications for Georgia's economy – much more than for Russia's. At the same time, it is not clear what benchmarks does the Georgian government have for measuring the progress of its talks with Russia and how far it is willing to go in these negotiations.

For Moscow, its presence in Abkhazia and South Ossetia has more to do with Moscow's red lines about Georgia's Euro-Atlantic integration, not with personalities in Tbilisi. Russia might seek greater cooperation with Georgia on anti-terrorism ahead of the Sochi Olympics in 2014 but the atmosphere has been soured by the recent unilateral extension of the administrative border line between South Ossetia and the rest of Georgia deeper into Tbilisi-controlled territory. It is unlikely that the Geneva talks will deliver progress anytime soon – in the meantime, Abkhazia is turning into an ethnocracy: president and parliament members must be ethnic Abkhaz. Borderisation of the ABL continues too, especially in South Ossetia, and it negatively affects the well-being of local population on both sides of the ABL. Neither South Ossetia neither Abkhazia have resources for a full-fledged independence; their only option is either russification (already on-going) or joining Georgia's European integration.

Given Russia's red lines on Georgia, the attempt of Tbilisi to improve relations with Moscow whilst aiming to achieve de-occupation of breakaway territories and Euro-Atlantic integration might achieve limited results beyond possible improvement of economic, cultural and social ties. But the on-going talks, even if fruitless, might decrease the chances of another escalation or war.

While both the government and the opposition agree that an eventual re-integration will be a difficult and long-term process and that Moscow is currently unwilling to proceed in this direction, they differ in the way they see the role Georgia itself played in the build-up to the 2008: the government argues that by failing to meaningfully engage Sukhumi and Tskhinvali, Tbilisi created conditions on the ground that were exploited by Russia. The government's policy therefore seeks to

improve ties with populations in Abkhazia and South Ossetia but also to investigate the adequacy and proportionality of the previous administration's response to the Russian provocations. Moscow remains hostile to any direct engagement between Tbilisi and the breakaway territories' authorities – but Sukhumi and Tskhinvali are also concerned and suspicious about the bilateral engagement between Tbilisi and Moscow. There is an agreement between political actors in Georgia that people-to-people contacts between populations on both sides of the ABL should be encouraged, practical areas include healthcare, education, infrastructure projects, gas/water sharing facilities.

The West is not involved in the Georgian-Russian bilateral initiative; there was also very limited public criticism in the West of the recent change in the ABL. Visa-liberalisation for Georgian citizens traveling to the EU might greatly increase Georgia's attraction among the population in the breakaway regions. The US remains heavily present in Georgia, since 1993 it has provided more than \$3billion in assistance and Washington's political clout in Tbilisi remains substantial. The US embassy's role during the 2012 parliamentary elections in Georgia has been instrumental and according to a number of participants, continues to be more important than that of the voice of the EU Delegation in Tbilisi.

Assessing Georgia's Reforms

There is a relative continuity in the new government's economic policies with those of the previous government: no major changes took place, even the labour code has not been changed as drastically as many suggested it would. According to a UNDP study, more than 70% of Georgian population remains vulnerable to social and economic changes. Georgia's economic growth is currently caused by big domestic demand and partially by foreign investments: The optimistic forecast of 6% growth in 2013 was based on expectations of greater productivity in the agriculture sector, increased tourism and benefits of the re-opened access to the Russian market as well as FDI inflows into manufacturing sector – but the forecast has been recently cut to 3%. Restoring confidence of domestic and foreign investors is the key challenge for the government through changes in legislation and incentives policy, property protection and anti-corruption and anti-monopoly measures. Although most of Georgia's companies are small/medium-sized, previous government has focused mostly on big business, there is no clear vision for development of the SMEs sector. Export promotion also needs to be streamlined. DCFTA might boost Georgia's exports, 9% short-term, 12.4% long-term; GDP forecasted to increase 1.7% in the short run and 4.3% in the long-run; chemical, petrochemical and machinery industry expected to benefit the most from the DCFTA; however, great deal of standards and regulations are yet to be implemented. DCFTA impact on job creation will be marginal, according to various estimates, real benefits from DCFTA will come in mid-term. So far, the government has not unveiled a strategy to tackle unemployment; it has not presented a clear strategy for enhancing

Georgia's economic development and growth. Tax code also needs to be improved – the current legislation offers few possibilities for companies to protect themselves in tax disputes with state institutions.

If the forecasted economic growth of 6% does not materialise, it is not clear where will the funds to fill the gap in state budget come from. The renewed exports of Georgian wine to Russian markets will help the wineries, but will have only a modest effect on Georgia's foreign export (\$25-50 million in 2016) – Georgian wines became more expensive, export is limited to 1 million bottles per year and there is an influx of cheaper wines on the Russian market that might price out the Georgian wines. The merger of wealth and power remains – previously, UNM was linked to a number of businesses and now the country's richest man runs Georgia and contributes to several government initiatives out of his own pocket. There is no clear division between private funds and state funds that are put into various government initiatives – there needs to be more regulation and transparency. Rules governing the functioning of the Investment Fund, Sovereignty Fund and the Partnership Fund, established by the government to stimulate economic growth, remain unclear.

Remittances continue to play an important role in Georgia's economy, especially in the regions with highest unemployment. Due to the economic crisis in the EU and the US these have been falling. Half of these still come from Russia, Greece comes second.

Assessing the EU in Georgia

The population continues to support Georgia's EU membership (67% strongly support; 21% support). However, the EU is seen only as the fifth most important partner after the US, Russia, Azerbaijan and Ukraine. The Association Agreement and the DCFTA will be crucial for Georgia's foreign policy as well as domestic politics and economy – negotiations are on track to be concluded before the Vilnius summit in November this year. Despite this progress, there is no coordinated information campaign about these steps run by the government or the EU itself. Steps towards visa liberalisation, one of the most attractive offers the EU has for Georgia, have been partly delayed by the elections and political transition – now steps need to be taken to improve document security, border management, asylum policy, public security and fight against corruption. Improvement in protection of ethnic minorities' rights, status of minority languages and anti-discrimination legislation might be potentially divisive, given the role of the Church in country's politics. The May anti-LGBT rights demonstration shows just how much can the pro-European and Orthodox values clash – there needs to be much more attention devoted to civic education.

The EU is not seen only as a foreign policy choice – the population expects the EU to help on number of their everyday problems such as poverty or unemployment, education or healthcare – the EU can

play a bigger role here by providing capacity-building for civil servants and state agencies as well as local administration bodies, promoting entrepreneurship and a better business environment. This is the case for most of the country and for most of the activities the EU is doing: participants pointed out that there is little public awareness about the aid the EU provides to IDPs in Georgia. The EU can also assist with the reform of public administration and regional decentralisation.

Who are the main drivers of Europeanisation of Georgia? TV remains the main source of information for general public, but information about the EU is scarce, especially in the regions: civil society and the media need to play a bigger role to spread these messages outside Tbilisi. Youth needs to be specifically targeted as potential drivers of change: younger people are now more religious than the older generation; priests are important local opinion shapers and need to be engaged much more in the debate about Georgia's future as well as its relations with the EU.

There remains a consensus among the government and the opposition on Georgia's Euro-Atlantic integration. This is also because despite the ruling coalition's diversity, institutions working on Euro-Atlantic integration are all led by the government's most pro-Western personalities. Is this course sustainable if the composition of the ruling coalition changes? The government needs to do a better job to explain the implications of Georgia's closer relations with the EU, currently there is little awareness about what will the Association Agreement and the DCFTA bring to Georgia. The Association Agreement and further integration should be used by the EU as a positive incentive for the government and the opposition to seek compromises and diffuse political tensions. There is a risk that with the on-going investigations of the former UNM officials, the EU agenda might become too politicised.

Although Tbilisi's determination to join the EU is strong, there is not guaranteed end-game; unlike elsewhere in the Caucasus, Georgia's pro-EU stance represents a civilisational choice, rather than just purely political and was first articulated in early 1990s. For number of Georgians Russia remains an option for doing business but there is little support for deepening political or economic integration with Moscow via Eurasian Economic Union.

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