

Georgia: its hands tied by its economic dependence on Russia

Description

Despite the apparent danger of a rapprochement with its giant northern neighbor, Georgia continues developing economic relations with Russia. The consequences of this choice are already being felt, beyond the economy, in the foreign policy of this small South Caucasian country.

Georgia's pro-Western orientation was enshrined in the Constitution (Article 78) following the 2008 war with Russia. However, Georgian economic policy seems to be moving differently, leading Tbilisi to re-engage with its former enemy⁽¹⁾. Tbilisi's delay in condemning the Russian invasion of Ukraine and its refusal to impose economic sanctions against Moscow shows the strength of the ties between the two countries. This union is even being strengthened at the initiative of the Georgian Dream party, which defends a liberal policy with little regard for the political profile of its economic partners and whose leader, Bidzina Ivanichvili, is particularly well connected to Moscow.



An unequal alliance is increasingly alienating Georgia.

According to a report published in August 2022 by the NGO Transparency International Georgia, the share of Georgian GDP from trade with Russia increased 2.5 times between the first half of 2021 and the first half of 2022. This phenomenon is partly due to the arrival in Georgia of a large flow of Russian expatriates, some of whom are fleeing the mobilization, who transfer their capital to Georgian banks and register companies there. This phenomenon should not, however, hide the particular dynamism of the partnerships between Tbilisi and Moscow, which are the result of a clear desire on the part of both governments.

Despite the 1994 Free Trade Agreement, which advocates the “*development of equal and mutually beneficial economic, scientific and technical cooperation*” (Article 7), trade between Russia and Georgia is evolving towards an unbalanced relationship: while Georgia imports products that are essential for it, Russia does not at any time commit itself to autonomy (in the first half of 2022, almost 40% of Georgian imports consisted of beverages, whether alcoholic or not). While Georgian exports to Russia decreased following the launch of the Russian offensive against Ukraine⁽²⁾, falling by 2.8% in the first half of 2022, there was a sharp increase in imports (+51% over the same period). Some aspects of this pattern are particularly worrying, notably wheat imports, which have increased drastically over this period to account for 95% of Georgian stocks. This type of dependence poses a security problem, as it is known that Russia is quick to suddenly interrupt the supply of territories when they do not align with its political line.

This happened in 2006, a year that remains engraved in the memory of Georgians. Then, in the middle of winter, the Kremlin interrupted the country's gas and electricity supply using the pretext of a breakdown. This cut-off was immediately interpreted as a response to the rapprochement between the government of Mikheil Saakashvili and the West. Yet, despite this painful memory, the current government has continued to increase its imports of Russian hydrocarbons in recent years. In fact, between 2018 and 2021, the share of Russian gas in Georgian imports rose from 2.8% to 23.1%. Similarly, oil imports increased fourfold in the first half of 2022 by \$118 million.

Finally, it should be noted that Georgian economic growth is primarily supported by the service sector, which accounts for 60.4% of GDP. Many of these services, such as hotels and restaurants, can be linked to tourism, for which many development projects have been launched, such as the coastal infrastructures in Adjara. However, this dynamism and economic outlook rely on Russian investors and tourists, whose financial contribution is essential for Georgia. One only has to visit the former spa town of Tskhaltoubo, which has been almost abandoned since the fall of the USSR, to see the disastrous effect that the interruption of Russian tourism in Georgia would have.

Under the guise of “partnership,” the maintenance of Moscow’s control over its zones of influence

The development of the partnership between Tbilisi and Moscow cannot be understood as a simple economic issue insofar as Georgia's economic dependence on its northern neighbor ties its hands on the diplomatic level. Through a primary system of punishment-reward, the Kremlin ensures control of the Georgian government's political choices. In addition to the case of winter 2006, there are other, more recent examples: in 2019, Vladimir Putin announced a ban on direct flights to Georgia following a series of anti-Russian demonstrations in Tbilisi. This diktat was accompanied by a “recommendation” to Russian travel agencies to stop selling tours to Georgia. This embargo, which is still in place today, has hampered the recovery of post-Covid-19 tourism flows, with the 2019 figures (1.5 million Russian visitors generating \$776 million in revenue) still not recovered: comparing the first half of 2019 with the first half of 2022, the number of Russian visitors is 2.5 times lower.

Members of the Georgian government are partly complying with Russian demands, respecting a tacit agreement that guarantees Russian economic support to Georgia as long as it does not oppose the Kremlin's foreign policy. However, in the context of the current war, this positioning may arouse suspicion: Lasha Khutsishvili, the Georgian Finance Minister, has categorically denied that Russian companies could use Georgia to circumvent economic sanctions imposed by countries supporting Ukraine. Instead, a liberal consensus prevails in the government, which puts Georgian interests first and approaches economic issues in isolation, refusing to politicize them. Of course, this is only the continuation of the ultra-liberal posture defined under the Saakashvili government. But it is also a sign of the influence of the oligarch B. Ivanishvili, who owes most of his fortune to his cooperation with Russian businessmen such as Vitali Malkin. Thus, the Georgian economic liberalization, which was supposed to allow the country to be firmly integrated into the community and international flows, now has the opposite effect and risks compromising its European candidacy.

The Georgian Dream party came to power in 2012 on a platform of easing relations with Moscow. This change in posture was followed by a ‘reward’ from Russia, which shortly afterward lifted the embargo on Georgian wines, the second most exported product to Russian territory. It is true that President Salome Zurbishvili firmly defends distancing herself from Moscow, this former diplomat advocating,

above all, the integration of her country into the international community via NATO and the EU, but the Georgian Constitution grants her few powers. While most Georgian citizens say they favor supporting Ukraine, only half want economic sanctions to be adopted against the Russian aggressor. Similarly, only a third of Georgians want their country to limit its economic dependence on Russia. In an economic crisis, the Georgian population and government are pressured to opt for safe solutions and develop an existing partnership, however imperfect, rather than risk looking for new partners.

In the center of Tbilisi, the manager of one of the capital's large hotels shares his feelings: *"We are a poor country in a precarious economic situation. Unfortunately, we are very dependent on Russia. The members of the current government are descendants of those who served the USSR. They have learned from their fathers; they do as they did. It is easier, even if it is bad for the country. The government should take things in hand, look for investors in Europe, in Asia... Not in Russia. We have to cut ties with the Russians. We know how they are; they cut the pipelines when unhappy with our actions. This happened in 2006, in the middle of winter. In the same year, they sent back thousands of Georgian expatriates working in Russia. Not in passenger trains, in freight cars... People with common sense can see that getting closer to and depending on Russia is extremely bad for our future."*

Notes :

(1) Many Georgians consider that the 2008 war is not over, as Russia still occupies 20% of Georgian territory (Abkhazia and South Ossetia).

(2) The slowdown of the Russian economy forces Georgia to find new markets. Therefore, the problem posed by this dependence is due to structural factors: any slowdown in Russian economic growth immediately impacts the Georgian economy's dynamism. The most telling example is that of the famous [mineral water producer Borjomi](#), which was forced to stop its activity and have its shares repurchased by the state because of international sanctions against its majority Russian shareholder, the Alfa

Thumbnail: Tank car convoy for transporting Russian gas between Tbilisi and Kutaisi (photo by the author).

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[Back to the top of the page](#)**date créée**

27/03/2023

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