# Renewed Armed Conflict in Georgia?
# Options for Peace Policy in a New Phase of Conflict Resolution

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## Executive summary

### Introduction

The frozen conflicts of Abkhazia and South Ossetia have entered into a new phase. With the end of the Shevardnadze era, the situation in which the unresolved status of the conflicts benefited all stakeholders no longer exists. After the Rose Revolution, a new elite came to power in Tbilisi with a strong desire to advance the resolution of the frozen conflicts in its favour. In 2004, the Georgian government conducted a successful campaign in Adjara but later failed in South Ossetia. At present, the Georgian government seeks to change the national composition of the Commonwealth of Independent States Peace Keeping Forces (CISPKF) in South Ossetia, build up the military as a deterrent and garner more support from the United States and the European Union.

This PSIO Occasional Paper develops an analysis of the frozen conflicts from the perspective of the political economy of conflict and the interests of the major actors involved in the conflicts. Based on this analysis, the paper explores the risks of conflict recurrence and develops recommendations for peace policy in Georgia.

The paper argues that there is a danger that conflict could recur in South Ossetia and – to a lesser extent – in Abkhazia. Armed conflict could be driven by radical nationalists in Georgia supported by a coalition of disgruntled internally displaced persons (IDPs) and the losers of Georgia's anti-corruption campaigns. It could also be driven by the Georgian government that attempts to use the frozen conflicts to secure its grip on power and deflect attention from its inability to deliver reforms. In South Ossetia, conflict could recur in the form of a provocation from South Ossetian and Russian security actors based on their opposition to Georgia's rapprochement to the North Atlantic Treaty Organisation (NATO) and their desire to maintain control over South Ossetia and the access to the South Caucasus. In all three scenarios, the political economy of Georgia fosters the viability of spoilers and self-financing low-intensity conflict.

### 1. Background

The dissolution of the Soviet Union led to three armed conflicts in Georgia: a *coup d'état* and two wars of secession in South Ossetia and in Abkhazia. These conflicts were struggles between elite groups competing for power, resources and territory. With the end of the Soviet Union, some ethnic groups sought to realise their quest for independence based on pre-existing institutional structures of ethno-federalism. While Georgia was driven by a strong desire to assert its independence, Abkhazia and South Ossetia feared assimilation into Georgia and their extinction as distinct communities.

Due to its geopolitical significance, Georgia is important for external actors. Russia's policy towards Georgia is a manifestation of the multiple stakeholder interests involved and is therefore at times contradictory. At the moment, Russia is confronted with the dilemma that it fostered the status quo for too long and did not produce results in the peace process. This situation contributed to Georgia's proactive stance to change the unresolved status of the frozen conflicts. The United States became involved in Georgia as part of its regional petrol interests. After 9/11 and the war in Iraq, Georgia's geopolitical location became an additional interest. The European Union has been less visible in Georgia despite being the second biggest donor but is currently redefining its engagement. Turkey has economic interests in Georgia related to developing an alternative route for petrol and gas exports from the Caspian Sea to Europe. It provided military assistance to Georgia and is an important ally for Georgia's association with NATO.

The management of the peace processes in Georgia was channelled through the United Nations and the Organisation for Security and Cooperation in Europe (OSCE) as well as the CISPKF. Since the end of the conflicts, the peace process produced some successes; however, a lasting settlement has not yet been reached. Russian support of the CISPKF has been considered with much scepticism in Georgia and decisive external pressure to solve the conflicts has not been forthcoming. The United Nations and the OSCE are mandate driven and could only involve themselves to the extent of the political commitment of their members. However, they provide an important platform for mediation, observation and conflict resolution which will become ever more crucial if tensions increase.

An analysis of the history of the frozen conflicts leads to three lessons learned:

- *Lesson 1*: Personal agendas to control economic assets contributed to the initiation of the armed conflicts. The perception that the armed conflicts were entirely based on ethnic grievances is incorrect.
- *Lesson 2*: Georgia was able to control parts of Abkhazia and South Ossetia in the short term but was unable to maintain territorial control in the long term. The existence of military sanctuaries in the Caucasus Mountains and third party support increased the cost of the wars and contributed to Georgia's defeat.
- *Lesson 3*: The isolation of Abkhazia and South Ossetia was counterproductive for Georgia. Political and economic isolation fostered the development of resistance economies, a feeling of isolation and an orientation towards Russia.

## 2. Explaining the "frozenness" of the conflicts under Shevardnadze

The conflicts over Abkhazia and South Ossetia remained frozen during the Shevardnadze era because the situation of "no war no peace" represented the best possible outcome for all domestic and international stakeholders. Politically, the

unresolved status was used in Abkhazia and South Ossetia to consolidate the de-facto states and elite power. In Georgia, Shevardnadze used the wars to deflect attention from other problems while not being forced to recognise Georgia's defeat in war. In economic terms, elites on all sides profited from controlling, operating or taxing the parallel economies while the economic situation of the population deteriorated.

From an international perspective, the unresolved status was fostered by the geo-strategic imperatives of Russia and the United States having a similar interest in stability. Russia wanted to avoid potential repercussions for the North Caucasus and maintain a presence in the South Caucasus. The United States wanted to safeguard investments in the BTC pipeline and foster a pro-Western regime in support of its geopolitical imperatives in Central Asia and the Middle East.

## 3. Exploring the risk of renewed armed conflict in Georgia

After twelve years of "no war no peace", the frozen conflicts are entering a new phase. After the Rose Revolution, the situation in which the frozen conflicts were beneficial for all stakeholders ceased to exist. As a result, a new dynamism developed which emphasises the urgency of conflict management and resolution.

*Characteristics of violence during the crises of 1998, 2001 and 2004*

The events of 1998, 2001 and 2004 were driven by small unified armed groups. Similar to the outbreak of the wars in the early 1990s, these groups reverted to the use of force without official government approval. As a consequence, the crises spoiled the peace processes and increased the polarisation between the parties. These characteristics of violence suggest that it is important for peace policy to counteract the emergence of small unified armed groups.

*The functions of the frozen conflicts for domestic politics in Georgia*

Abkhazia and South Ossetia are frequently considered the principle reasons for Georgia's problems with corruption, smuggling and its weak state. However, it is the other way around: The reasons for Georgia's political and economic situation are related to Georgia's political system under Shevardnadze and not exclusively to the frozen conflicts. This is why the reform of the Georgian state is an essential part of conflict resolution.

*The relationship between the parallel economy and paramilitary groups*

Georgia's security actors profited from the parallel economy. The Ministry of Interior, the Ministry of Defence and three paramilitary groups were stakeholders in the parallel economy. They generated enough income to create and sustain a paramilitary capability at low operational levels. The management of the parallel

economy is essential for peace policy because it can foster the viability of paramilitary groups and provide incentives for economically motivated violence.

## 4. Scenarios of renewed conflict

Most observers of Georgia negate the possibility of renewed armed conflict at present. The Georgian leadership understands that a military option is ultimately self-defeating: Georgia cannot hold Abkhazia and South Ossetia in the long run, military intervention would not resolve the conflicts, and Georgia would lose its good international post-revolution image, millions of international assistance as well as the prospect of NATO accession. However, the events of 1998 and 2001 and renewed armed conflict in South Ossetia in 2004 question whether all security actors in Georgia are really willing to renounce the use of force.

The renewal of conflict may occur in three scenarios:

- *Counterrevolution*: Renewal of conflict could be driven by radical nationalists, IDPs and the losers of the Rose Revolution to reassert their power position and economic entitlements lost after the Rose Revolution.
- *State building*: Renewal of conflict could be driven by the Georgian government to satisfy rising expectations of the population, secure its grip on power and deflect attention from stagnating reforms.
- *Provocation*: Renewal of conflict could be driven by South Ossetia and Russia to maintain strategic control over South Ossetia and access to the South Caucasus, keep Georgia out of NATO and prevent a violent spill-over into the North Caucasus.

## 5. Policy recommendations

This PSIO Occasional Paper approaches the frozen conflicts from the perspective of the political economy of conflict and identifies the following priority areas for policy intervention:

*1. Peace policy must prevent the emergence of small unified armed groups and other spoilers who use force to achieve their political or economic objectives.*

- Unify the command and control structure of Georgia's security actors.
- Establish a dialogue with potential spoilers in Georgia.
- Increase the capacity of the police forces to counteract the emergence of small unified armed groups and other spoilers.

*2. Peace policy must communicate to Georgia that the use of armed force is counterproductive.*

- Negotiate a Memorandum of Understanding which commits all parties not to use force to settle the frozen conflicts.

*3. Peace policy should engage Abkhazia and South Ossetia to end their political and economic isolation.*

- Lift the economic embargo against Abkhazia and South Ossetia.
- Finance long term development projects in Abkhazia and South Ossetia which are jointly administered by the conflict parties in order to increase the value of the disputed territory and the opportunity cost of violence.

*4. Peace policy must assist state building in Georgia to support conflict resolution.*

- Support the reform process on the decentralisation of governance in Georgia.
- Foster the recognition that the erosion of the state and economy in Georgia was a result of Shevardnadze's governance system and not exclusively of the unresolved conflicts.

*5. Peace policy must tackle the parallel economy because it is a resource base for spoilers who could jeopardise Georgia's peaceful political and economic transition.*

- Avoid the criminalisation of all aspects of the parallel economy in order to maintain income earning opportunities and prevent the erosion of a domestic resource base.

## Conclusion

Georgia's current policy towards the frozen conflicts is a dangerous gamble. The Georgian government changed the situation of "no war no peace". It contributed to the growing polarisation of the conflict parties and started to foster a militarization of the disputes, particularly in South Ossetia. The scenarios of counterrevolution, state building and provocation must be addressed by peace policies in the future. The international community can help prevent the recurrence of conflict by assisting Georgia to counteract the emergence of spoilers, strengthen the state though decentralisation, and tackle the parallel economy as well as by leading Abkhazia and South Ossetia out of their present isolation.

## Introduction

The resolution of the conflicts over Abkhazia and South Ossetia remains an open and controversial issue after the Rose Revolution. Since the end of hostilities in 1994, the conflicts have remained calm despite the violence in 1998 and 2001 in Abkhazia and renewed armed conflict in South Ossetia in 2004. These events have underlined the potential of the so-called "frozen conflicts" to endanger Georgia's peaceful political and economic transition.[1] Twelve years after the cessation of hostilities, the central incompatibilities – the legal status of Abkhazia and South Ossetia, security guarantees and the return of refugees – remain unresolved. There has been little movement away from zero-sum solutions to possible settlements despite numerous attempts to settle the conflicts.

After twelve years, the frozen conflicts have developed a new dynamism which underlines the urgency of conflict management and resolution. Georgia has become increasingly disillusioned with international mediation efforts and is impatient to resolve the conflicts. It is rebuilding its military capabilities and proactive to change the status of Commonwealth of Independent States Peacekeeping Forces (CISPKF) in South Ossetia. Moreover, Georgia considers that current US support is a window of opportunity which may close with the next US elections. Georgia also observes that Abkhazia and South Ossetia receive increasing Russian investment and political support and are moving towards long term development policies. In South Ossetia and Abkhazia, antagonism towards Georgia has been growing, especially after the events in Adjara and South Ossetia in 2004. They contributed to a growing polarisation and the mediation between the parties became more difficult. At the same time, the international environment changed with violence in the Middle East

[1] The term "frozen conflicts" is used as a label to refer to the unresolved conflicts of Abkhazia and South Ossetia. It is understood that the political and economic situation in Abkhazia and South Ossetia was never entirely frozen as evidenced by the resumption of violence in 1998, 2001 and 2004. While it was more the peace process which may be called "frozen", the label "frozen conflicts" is nevertheless used in this PSIO Occasional Paper because it has become the standard reference to these conflicts.

altering the priorities of great powers, the beginning of negotiations on the future status of Kosovo and Russia's weaker position in the North Caucasus.

The confluence of these developments suggests that the frozen conflicts are entering into a new phase. This phase started with the Rose Revolution in 2003 which broke up Shevardnadze's political arrangement and brought to power a new political elite in Georgia. This new elite considered that the maintenance of the unresolved status of the conflicts would be to Georgia's long term disadvantage and that the use of force could become a tool to achieve territorial integrity. The crises in Adjara and South Ossetia in 2004 have been interpreted in Abkhazia and South Ossetia as a manifestation of Georgia's ambitions.

This PSIO Occasional Paper seeks to track the evolution of the frozen conflicts from the perspective of the political economy of conflict (Keen 1998, Kaldor 1999, Berdal and Malone 2000, Le Billon 2000, Ballentine and Sherman 2003, Pugh and Cooper 2004, Arnson and Zartman 2005). This literature considers armed conflict not as a breakdown of the state, economy and society but rather as a process of social transformation from which some actors derive benefits. It conceives armed conflict in terms of need, creed or greed and as a situation in which conflict organizers use violence according to political, economic and psychological functions. By this perspective, the paper hopes to develop a different understanding of the frozen conflicts beyond their common characterisation as ethnic conflicts. Based on this analysis, the paper explores the risks of conflict recurrence and recommendations for peace policy.

The paper argues that there is a danger that conflict could recur in South Ossetia and – to a lesser extent – in Abkhazia. Armed conflict could be driven by radical nationalists in Georgia supported by a coalition of disgruntled internally displaced persons (IDPs) and the losers of Georgia's anti-corruption campaigns. It could also be driven by a Georgian government that attempts to use the frozen conflicts to secure a grip on power and deflect attention from its inability to deliver reforms. In South Ossetia, armed conflict could also recur in the form of a

provocation from South Ossetian and Russian security actors based on their opposition to Georgia's rapprochement to the North Atlantic Treaty Organisation (NATO) and their desire to maintain control over the territory of South Ossetia and Abkhazia. In all three scenarios, the political economy of Georgia fosters the viability of spoilers and self-financing low-intensity conflict.

The challenges for policy will be to counteract the emergence of small unified armed groups, to communicate to Georgia that the use of force is counterproductive, to engage Abkhazia and South Ossetia politically and economically, to reform the Georgian state in support of conflict resolution and to tackle the parallel economy.

This PSIO Occasional Paper will be presented in five parts. The first part briefly charts the background of the frozen conflicts, their post-conflict period, the interests of external actors and the management of the peace process. It will also elaborate some lessons learned from the wars and post-conflict period. The second part develops an understanding of the frozen conflicts under Shevardnadze looking at the link between economic and political factors. The third part explores the risks of conflict recurrence by looking at three issue areas: (1) the characteristics of violence during the events of 1998, 2001 and 2004, (2) the function of the frozen conflicts for domestic politics under Shevardnadze, and (3) the relationship between the parallel economy and paramilitary groups. The fourth part develops three scenarios of conflict recurrence. The fifth part elaborates recommendations for peace policy.

## 1. Background

Despite its charms of mountainous landscapes and hospitality, Georgia remained relatively unknown outside circles of specialists and adventurers until the Rose Revolution in late 2003. Georgia is located on the southern slopes of the Caucasus Mountains and is surrounded by Russia to the North, Azerbaijan to the East, Armenia and Turkey to the South and the Black Sea to the West. The dissolution of the Soviet Union contributed to the emergence of three armed conflicts in Georgia

between 1991 and 1994: a *coup d'état* in Tbilisi (September 1991- September 1993), and two wars of secession in South Ossetia (June 1991- June 1992) and in Abkhazia (August 1992 – May 1994). Abkhazia is located on the North-Western slopes of the Caucasus Mountains bordering Russia and the Black Sea. South Ossetia is mountainous territory north of Tbilisi bordering the Russian province of North Ossetia.

### *1.1 The armed conflicts in Abkhazia and South Ossetia, 1991-1994*

The conflicts in Georgia were struggles between elite groups competing for power, resources and territory. With the end of the Soviet Union, some ethnic groups sought to realise their quest for independence based on pre-existing institutional structures of ethno-federalism. While Georgia was driven by establishing its independence, Abkhazia and South Ossetia feared assimilation into Georgia and their extinction as distinct communities (Cohen 2002, 404; Zverev 1996, 13; Nodia 1996, 82-83; Coppieters 1999, 1; Matveeva 2002, 418).

The collapse of the Soviet Union fostered a new round in determining the status of Abkhazia and South Ossetia with Georgian nationalism progressively marginalising the minority populations. Georgian nationalists maintained a discourse which considered the Abkhaz and South Ossetians as "guests" on "Georgian" territory. However, tensions between Georgia and its minorities were nothing new at the time of the collapse of the Soviet Union. Differences between Abkhazia and Georgia, for example, led to disturbances in 1957 and 1967, 1978 and 1981 (Cornell 2001, 155-159).

Perestroika in the 1980s gradually transformed the Georgian dissident movement into various political groups (Tarkhnishvili c.f. Demetriou 2002, 867). The increasing exclusivity of Georgian nationalism confirmed the fear that the security and survival of the Abkhaz and South Ossetians as ethnic groups was at risk. From their perspective, Georgia was building its "miniature-empire" (Sakharov c.f Suny

1994, 322). The suppression of demonstrations by Soviet troops on 9 April 1989 radicalised the Georgian national movement and contributed to ever greater calls for independence for Georgia (Suny 1994, 332; Zverev 1996, 40-41).

The relations between Georgia and the Abkhaz and South Ossetian minorities became increasingly polarised after April 1989, particularly after the Parliament of Georgia strengthened the status of the Georgian language. The ensuing "War of Laws" aimed at the progressive Georgianisation of Georgia and instituted Georgian as the only official language in August 1989 (Cornell 2001, 163-164). The mutual polarisation climaxed in March 1991 when Abkhazia and South Ossetia accepted the Soviet Referendum on Preserving the Union while Georgia rejected it. A vote on Georgian independence was overwhelmingly accepted by Georgians and Zviad Gamsakhurdia was elected President on 25 May 1991 (Baev et al 2002, 23-27, 126). His exclusive nationalism did much to further antagonise the minorities.

However, Gamsakhurdia not only estranged the minorities but also some influential strongmen in the Georgian shadow economy. After a hesitant stance on the August 1991 coup attempt in Moscow and a refusal of the National Guard and other armed formations to disband, Gamsakhurdia was overthrown in December 1991 (Nodia 1996, 85-87). About 500 forces loyal to Tengiz Kitovani besieged the Georgian Parliament until Gamsakhurdia fled to his support base in Mingrelia where he died in December 1993. The power struggle came to an end with the suppression of Gamsakhurdia supporters in Mingrelia and claimed 2,000 victims (see also below) (Baev et al 2002, 21-23, 27-28).

The war in South Ossetia developed in parallel to the power struggle in Tbilisi. The campaign to upgrade the status of South Ossetia from Autonomous Oblast to Autonomous Region was fiercely resisted by Tbilisi and led Gamsakhurdia to organise the "March on Tskhinvali" of 20,000-30,000 protesters in August 1989. In September 1990, South Ossetia boycotted the first Georgian elections and declared independence after which Gamsakhurdia levied an economic blockade. In March and June 1991, South Ossetian militias successfully repelled the Georgian National Guard

who sought to invade South Ossetia. In September 1991, Gamsakhurdia wanted to escalate the war to strengthen his power position in Tbilisi but failed to secure victory with a little motivated National Guard. After a final clash in June 1992, a cease fire was agreed in the Sochi Agreement of 24 June 1992 leading to the deployment of CISPKF and observers of the Organisation for Security and Cooperation in Europe (OSCE). The conflict had between 700-1,000 casualties and resulted in about 100,000 refugees. Most South Ossetians fled across the Caucasus Mountains to North Ossetia (Cornel 2001, 165-167, Baev et al 2002, 23-25; 27-28, see also Zverev 1996, 43-47).

The period after the coup and the war in South Ossetia was characterised by an increasing militarization of Georgian politics. This militarization was fostered by the availability of arms from former Soviet bases and the establishment of a State Council in Tbilisi. The latter included three influential warlords with links to the underworld: Tengiz Kitovani of the National Guard, Jaba Ioseliani of the Mkhedrioni, as well as Tengiz Sigua. In March 1992, they invited Eduard Shevardnadze – the last Foreign Minister of the Soviet Union and native Georgian – to redress their legitimacy problem (Baev et al 2002, 21-23, 27-28; Cornell 2001, 158-163, 168-169; Demetriou 2002b, 10-14, 22; Darchiashvili 2003b). Thus, prior to the war in Abkhazia, Georgia was in disarray after a military coup in Tbilisi, an unsuccessful attempt to take South Ossetia, three warlords in government and a powerless Shevardnadze.

The war in Abkhazia started on 14 August 1992 when about 5,000 forces of the Georgian National Guard and militias entered Abkhazia. When the National Guard took control over Sukhumi, the Abkhaz Parliament retreated to Gudauta in Northern Abkhazia. At the same time, about 1,000 Georgian forces landed in Gagra to cut off Abkhazia from Russia (Baev et al 2002, 26). Tengiz Kitovani started the war on the pretext to release hostages previously taken by Zviadist[2] and to secure the railway link to Russia. The initial stages of the war were marked by the looting of Sukhumi and Gagra reflecting the criminal character of the National Guard and

[2] Supportes of the extreme nationalism of Zviad Gamsakhurdia became to be called 'Zviadists.'

Mkhedrioni. The Abkhaz perceived these events as a systematic attempt to destroy traces of Abkhaz culture (Cornell 2001, 173).

After regrouping in the mountains, Abkhaz militias started their campaign to repel the Georgian troops. They recaptured Gagra in October 1992 to restore control over the land-link with Russia. Sukhumi was recaptured in September 1993 with the help of the Russian air force and volunteers from the North Caucasus. The latter were mobilised through the Confederation of Caucasian Mountainous Peoples which launched an appeal to send fighters to Abkhazia. About 1,500 fighters volunteered, most of whom were Chechens (Fairbanks 1995, 25; Cornell 2001, 171, 344-353). At the same time, 180,000-240,000 Georgians were displaced and their homes looted by Abkhaz forces (Walker 1998, 13). Finally, Abkhaz forces established control over the entire territory except the Khodory Valley and the Gali area where pockets of resistance remained until early 1994 (Cornell 2001, 170-174).

The Abkhazia conflict formally ended with the Moscow Agreement of 14 May 1994. The agreement stipulated a cease fire line (CFL) along the Inguri River, demarcated a security and restricted weapons zone and the deployment of CISPKF as well as United Nations observers based on United Nations Security Council (UNSC) Resolution 854 (Mackinlay and Sharov 2003, 90-91, 100-101; MacFarlane 1999).

Georgia's defeat in Abkhazia greatly reduced the power of the warlords. The wars eroded Georgia's political, economic and social fabric and contributed to the near collapse of the state in Georgia. Zviadist forces retreating from Abkhazia had a brief comeback when attempting to bring the port of Poti under their control in September 1993. However, Shevardnadze could suppress this uprising with the help of Russian troops at the political price of accepting Georgia's membership in the Commonwealth of Independent States (CIS) (Cornell 2001, 173).

At the end of the wars, Georgia lost effective control over Abkhazia and South Ossetia, about 10,000 people died in Abkhazia and about 1,000 in South Ossetia, and the wars created between 180,000 and 240,000 Internally Displaced Peoples (IDPs).

*1.2 Post-conflict Georgia, Abkhazia and South Ossetia*

After over a decade of "no war and no peace" in Abkhazia and South Ossetia, a recurring assessment was that the wars were over, Abkhazia and South Ossetia had won and the ceasefires were generally respected (Lynch 2004a, 91). Even though negotiations continued, no agreement was reached on the three key issues: the legal status of Abkhazia and South Ossetia, security guarantees and the return of Georgian IDPs. There is little trust in Abkhazia and South Ossetia that Georgia will be able to give credible security guarantees in the long term fostering reluctance to see their future with Georgia (Matveeva 2002, 418-421).

Over time, the abyss between Georgia and Abkhazia and South Ossetia has increasingly widened. Abkhazia, for example, seems completely separate from Georgia: the currency is the Russian Rouble, all products are Russian or Turkish, people speak Russian, and a majority of the population holds Russian passports. These realities have given rise to the consideration that "Georgia has already lost Abkhazia. Non-recognition of the separatist state allows Georgia to continue living a dream of national and territorial unity" (Lynch 2004a, 73).

In the direct aftermath of the wars, Shevardnadze consolidated his power by cracking down on paramilitary forces, creating the Citizen's Union of Georgia (CUG) as a broad political movement and adopting a constitution. By 1995, Shevardnadze disbanded the National Guard and Mkhedrioni and jailed Tengiz Kitovani and Jaba Ioseliani after a failed assassination attempt on him. The period 1995-1998 saw serious attempts of state building including the implementation of constitutional development and legal reforms (Demetriou 2002a, 877).

Despite the initial success of reforms, Georgian politics became increasingly influenced by personal and economic interests. This has led to growing antagonisms within the CUG and incapacitated the government. Shevardnadze successfully balanced the power of influential personalities at the cost of political and economic stagnation in the period 1998-2001. Corruption became endemic, political reforms

were halted, institutions eroded and the population estranged from the state (Khaindrava 2004, 25-30). Actors from the shadow economy became increasingly intertwined with state institutions to foster monopoly control of the economy (Gotsiridze and Kondelaki 2004, 68-76).

The Rose Revolution of October 2003 occurred within a context of state collapse and economic crises: the shadow economy amounted to between 60-80 % of the regular economy, tax revenue was marginal, state institutions ceased to function, the brain-drain increased, government officials, military and police were not paid for months, the central government ceased to control the regions, and there were serious gas and electricity shortages. The population stopped trusting the state and their leadership.

Shevardnadze was ousted after rigged elections that triggered mass protests. After a re-run of the elections, Mikheil Saakashvili was brought to power and became the President of Georgia. Saakashvili was confronted with the monumental task to manage the legacy of the collapse of the Soviet Union, two lost wars as well as Shevardnadze's period of mismanagement and corruption.

Saakashvili's rise to power was accompanied by high expectations for change. In April 2004, he successfully re-established control over Adjara which led to fears in Abkhazia and South Ossetia that the use of force would also be directed against them in the future. This fear was confirmed when Georgian troops attacked South Ossetia in summer 2004. Since then relations between Georgia and Abkhazia and South Ossetia have become even more polarised.

Post-conflict developments in Abkhazia were closely related to Vladislav Ardzinba, the *de-facto* President of Abkhazia. Ardzinba emerged strengthened from military victory in 1994. In the initial phase after the war, the Abkhaz regime was supported by Russia until the establishment of a CIS embargo in January 1996 which Russia agreed to in order to secure Georgia's support during the First Chechen War (Matveeva 2002, 421). The dissolution of the Soviet Union and the effects of the war reduced much of Abkhazia's once rich economy to subsistence (Interview Van

Reeth). Nevertheless, the Abkhaz leadership managed to control the few available economic opportunities and construct a viable resistance economy which was tightly controlled by the Ardzinba clan (Interview Khashig). The economic situation slightly improved after Russian-Georgian relations deteriorated during the Second Chechen War and Russia no longer enforced the CIS embargo in 1999 (see section 1.3) (Matveeva 2002, 421).

Russian influence on the economy of Abkhazia is significant in terms of trade and investment. Russian companies invest in Abkhazia to avoid Russian taxes and acquire ports and tourist resorts. However, Abkhaz politicians are aware of the dangers of economic dependence on Russia because investments may be withdrawn should its status be resolved (Interview Turnava). Thus, the automatic link between Abkhazia and Russia which is very popular in Georgia may require qualification. At present, investments in Abkhazia are tolerated by Russia. In the words of Abkhaz business man Nikolaj Atschba: "Abkhazia's bank system as well as its whole economy is in a semi-legal state at present. We are thanking Russian for giving us the opportunity to work. You can close down the whole economy of Abkhazia in 15 seconds: Russia simply has to take an interest in the legality of the registration of our banking system."[3]

Since the end of the war, the politics of Abkhazia has remained very personalised and autocratic with ever growing levels of corruption. The elections in early 2005 reflected the discontent of the population with the Abkhaz leadership (Interview Gumba and Khashig). The frustration with Ardzinba and his corrupted regime was exploited by the presidential contender, Sergey Bagapsh. He became a strong advocate for political change in Abkhazia and the champion of the Abkhaz population despite Russian pressure for the alternative candidate, Raul Khadjimba. The standoff between Bagabsh and Khadjimba was solved with the former becoming *de-facto* President the latter *de-facto* Vice-President. Overall, the elections showed that

[3] I am grateful to Martin Malek for drawing this quote to my attention. It was in the Russian newspaper Vremja Novostej on 10 February 2005, page 6. The quote has been translated from Russian to German to English.

many Abkhaz were sceptical about associating themselves too closely with Russia. While Russia remains Abkhazia's main economic lifeline, there are many who fear that Russia only seeks its own benefits without giving anything back, particularly in terms of political status.

Post-conflict developments in South Ossetia were characterised by a relatively stable relationship with Georgia with the 1992 ceasefire generally holding during the Shevardnadze era. Relations between Georgia and South Ossetia became increasingly normalised after the conflict (Lynch 2004a, 31). In 2002, "interethnic relations have greatly improved and normal human interaction has largely been restored. (…) Economic and social initiatives and cooperation can continue on a pragmatic basis bypassing the unresolved status problem" (Matveeva 2002, 441).

In 2001, Eduard Kokoity was elected *de facto* President and has since sought to foster support from Russia. The violence in Abkhazia in 1998 and 2001 increased the suspicions about Georgia and its readiness to use force. Post-conflict developments were also related to the transport link of the Roki Tunnel connecting North and South Ossetia and thus Russia with Georgia. The Tedeyev clan controlled most of the trade flow through this tunnel. Only 10 percent of the revenue of the Ergneti Market was allegedly flowing into the official budget of the *de facto* authorities of South Ossetia (Chkhartishvili et al 2004, 130). However, the economic activity in the Ergneti Market also contributed to confidence building as Georgian and South Ossetian traders worked together. This collaboration also included government representatives from both sides (Mirimanova and Klein 2006, 17, 19-20).

Much of the confidence between Georgia and South Ossetia was lost when Georgian forces attacked South Ossetia in summer 2004 (see section 3.1). The strategy of the Georgian government was to cut the revenue stream of the South Ossetian *de facto* authorities by closing the Erneti Market and at the same time win the hearts and minds of the people of South Ossetia through a humanitarian aid package (ICG 2004b, 2). This strategy failed and divisions between Georgia and South Ossetia have been growing steadily.

*1.3 External actors*

The frozen conflicts have also been influenced by external actors. This section will look at the role and interests of Russia, the United States, the European Union and Turkey.

Russian involvement in the frozen conflicts started during the armed conflicts of the early 1990s. Russian military assistance continued during the break-up of the Soviet Union although there was no coherent policy. Commanders of Soviet battalions stationed in Georgia supplied weapons to the Abkhaz, South Ossetian and Georgian sides (Demetriou 2002, 10-14). During the conflicts, Russian assistance tilted towards Abkhazia and South Ossetia and helped change the military balance in their favour. Many commanders were united in their disliking of Shevardnadze whom they blamed for the break-up of the Soviet Union (Zverev 1996, 53). In both Abkhazia and Georgia, Russian involvement in the war undermined trust in its role as an impartial mediator (Antonenko 2005a, 210).

The war in Chechnya took attention away from the frozen conflicts which were largely neglected by President Yeltsin. While the Ministry of Foreign Affairs of Russia was formally charged with the dossier, the regional elites became increasingly involved in Abkhazia and South Ossetia. They included, for example, the Mayor of Moscow Yuri Luzhkov and the leaders of the adjacent Russian Republics. In exchange for Georgia's support in Chechnya, Yeltsin levied sanctions against Abkhazia. However, the sanctions became ineffective because they were disregarded by Russia's North Caucasian regions which signed a series of agreements with Abkhazia. At the same time, the Duma promoted the economic engagement with Abkhazia even though this was not the official policy of the Kremlin (Antonenko 2005a, 226-228).

President Putin took a more proactive stance on the frozen conflicts, particularly with deteriorating Russian-Georgian relations. His priorities were Russian security interests in the North Caucasus and the maintenance of Russia's role as

mediator in Abkhazia (Antonenko 2005, 230-232). The Putin administration was also concerned with the increasing expansion of the United States, NATO and the European Union into the South Caucasus. This concern underlines that officials in the Russian administration considered the frozen conflicts in terms of Cold War superpower competition and viewed with great suspicion the advance of the former arch-rival in a historically Russian sphere of influence. Moreover, the Putin administration had a sustained interest to keep the situation in Georgia stable in order to prevent conflict in the North Caucasus.

The citizenship issue in Abkhazia and South Ossetia has been a controversial aspect of Georgian-Russian relations. Putin agreed in 2001 to extend Russian citizenship to applicants from Abkhazia. While Soviet citizenship could be exchanged almost automatically for Russian citizenship since 1991, new legislation enacted in 2001 made it more difficult. Ultimately, citizenship continued to be granted to Abkhaz because they otherwise would be unable to travel internationally (Antonenko 2005, 254-255). This situation has contributed to Abkhaz and South Ossetians becoming Russian citizens which complicates Russia's role as mediator in the conflict.

In Abkhazia, the mediation attempts by Russia have shown Russia accepting Georgia's claim to territorial integrity while engaging Abkhazia economically. This policy was driven, on the one hand, by the Ministry of Foreign Affairs which conducted formal negotiations and, on the other hand, by regional and business elites who followed their economic interests. These interests were the railway through Abkhazia, a potential oil-pipeline through Abkhazia to connect to the BTC-Pipeline in Georgia, the Inguri power station, Abkhazian ports as well as investment opportunities in holiday resorts. These interests have forged a business relationship between Russia and Abkhazia (Antonenko 2005a, 249).

Similarly to Abkhazia, the de-facto authorities of South Ossetia were also supported by a multitude of actors. A first group was composed of individuals close to the Kremlin who supported Eduard Kokoity to build up South Ossetia as a deterrent to NATO expansion. A second group included military and security staff

who dislike the Georgian government due to their alleged support of Chechen separatists, NATO rapprochement and anti-Russian sentiment. A third group were Russian nationalist politicians in the Duma who support pro-Moscow elites in South Ossetia. Finally, North Ossetia was supportive of their ethnic kin in South Ossetia. Most Ossetians from the South fled to the North during the war and there are real fears that another war could upset the ethnic balance and economic situation in the North Caucasus with a new wave of refugees (Antonenko 2005b, 30; ICG 2005, 4).

Russian policy towards the frozen conflicts has been marked by contradictions and inconsistencies. This was the result of the multiple actors involved in the frozen conflicts and their incompatible interests. In the words of one commentator: "[Russian policy's] key paradox is perhaps the lack of connection between its desire to dominate a region where many of its vital interests are at stake and its inability to influence political developments in the same way. Russia behaves simultaneously as an old colonial power in retreat and a young expansionist state, as a guardian of the status quo and as a dynamic predator, while its policy style betrays a fusion of superiority and inferiority complexes" (Baev 2003, 41).

This approach has confronted Russia with a dilemma: If Russia supports the resolution of the frozen conflicts it will lose its geopolitical monopoly in Abkhazia and South Ossetia. If it does not produce progress and is perceived as wanting to maintain the status quo, it may be marginalised by other more dynamic actors who are willing to engage themselves towards the resolution of the frozen conflicts (Antonenko 2005a, 228). The realisation of this dilemma may be the key challenge for Russia at the moment as Georgia has become proactive about changing the unresolved status of the frozen conflicts.

The United States engagement in Georgia started very cautiously after the end of the Soviet Union when the South Caucasus was still considered Russia's backyard. Only with the diversification of United States' petrol supplies did the South Caucasus receive more attention as it is a transit country for petrol and gas exports from the

Caspian Sea. The main interest of the United States was the Baku-Tbilisi-Ceyhan (BTC) pipeline (Shaffer 2003).

More important were the geopolitical implications of the pipeline: It would bypass Russia and limit Iran from benefiting from Caspian petrol. Moreover, it was a way to compensate Turkey for its economic cost incurred during the Gulf War in 1991 and reducing the quantity of petrol shipments though the Bosporus. These interests were sufficient to overcome considerable commercial reservations. British Petroleum only accepted the construction the BTC pipeline after sustained pressure by the United States. Also, the European Union was hesitant as it favoured a route through Romania, Bulgaria and Greece thus bypassing the Mediterranean and Turkey. In 2003, the United States used its leverage at the World Bank to secure a credit from the International Finance Cooperation for the pipeline. Construction is now complete and the pipeline is expected to operate at full capacity by 2010 (Helly and Gogia 2005, 277-279; Shaffer 2003, 54-57).

Interest in Georgia grew after the 11 September 2001 and the war on Iraq due to its proximity to the Middle East as well as being an air corridor to Afghanistan. Increasing interest is evidenced by the renovation of two military airbases by the Pentagon in collaboration with Turkey (Interviews Tbilisi). Washington has also become one of the main supporters of Georgia's association with NATO even though it has been made it clear to Tbilisi that this would be conditional on the non-resumption of hostilities and the continuation of reforms (ICG 2004a, 18).

The interest in stability is also reflected in United States assistance to Georgia. Georgia has received USD 1.1 billion US development assistance plus USD 408 million Department of Defence and privately donated commodities since 1992 (Department of State 2002). A major part of this assistance has benefited the reform of Georgia's security sector (Fluri and Darchiashvili 2004).

The Georgian Train and Equip Programme (GTEP) supports Georgia's border guards, coast guards and other law enforcement agencies and provides equipment, training and services to enhance its border protection and anti-terrorism

capability. USD 64 million are earmarked to train and equip 2,000 Georgian border guards (Philipps 2004, 3). Overall, official US assistance in the filed of security and law enforcement amounted to USD 31.7 million in 2002, USD 41.4 million in 2003 and 38.5 million in 2004 (Department of State 2002, 2004a, 2004b). A contingent of 800 soldiers who had been trained by US forces served in Iraq and 200 in Kosovo (Interview Gotsiridze). However, troops who have undergone US training have also been active in South Ossetia in 2004 (ICG 2004a, 18). The involvement of US trained troops in South Ossetia gave rise to fears in Abkhazia and South Ossetia that US military assistance created a rapid reaction force to be used against them.

However, despite this high levels of assistance, Georgia is not an area of primary interest for the United States. It is important in terms of managing a regional security framework and preventing the recurrence of armed conflict (Helly and Gogia 2005, 271). The dilemma of US engagement in Georgia is that it has a long term interest in conflict resolution but a short term interest in stability. However, the persistence of the status quo does not foster the resolution of the conflict. This may suggest that the US government does not put its full weight behind the resolution of the conflicts. Conflict resolution is weighed against other interests such as Russian-American relations and its geopolitical interests in Central Asia and the Middle East.

After the United States, the European Union is the second biggest donor in Georgia providing a total of EUR 369.43 million since 1992 (EU 2005). Moreover, Tbilisi has strategically raised the profile of Georgia within the European Union by creating a lobby in Poland and the Baltic countries. In the long term, Georgia wants to diversify its political support and reduce its dependence on the United States. The European Union is in the process of refining its policy towards Georgia as evidenced by a recent hearing of the European Parliament[4] and the support of two studies on how to engage with Georgia (Lynch 2006, ICG 2006).

Turkey and Georgia have common interests which have been strengthened by the BTC-pipeline and the planed Baku-Tbilisi-Erzurum gas pipeline. Turkey is

[4] "Promoting Stability and Democratization in Our Neighbourhood: What Role for the EU in the South Caucasus", Public Hearing of the European Parliament, Brussels, 22 February 2006.

dependent on Georgia in its objective to become an alternative energy supply route for the European market. Both countries want to accede to the European Union and Georgia needs Turkish support for its association to NATO (Waal 2005, 334). Turkish military support for Georgia has also been significant with USD 37 million since 1998. This assistance was used for equipment, training and the modernisation of Vaziani airbase according to NATO standards (Lynch 2006, 56).

A central distinction between external actors is that the United States and the European Union – in contrast to Russia and Turkey – have no history of engagement in Georgia and the South Caucasus. This lack of historical memory as well as their geographic distance indicates that their interests are largely determined by the current geopolitical and strategic situation. Should developments in Russia, Central Asia and the Middle East change, a declining interest in Georgia may follow. The United States and the European Union therefore emphasise that Georgia must find a way to coexist with Russia: "Georgian leaders seem to believe that the West's chief concern is addressing Georgia's aspirations to be part of the Euro-Atlantic community, when in fact the West's main priority is for Georgia to put its house in order and, in cooperation with Russia and its other neighbours, to find a durable solution to its domestic problems and those of its immediate region" (Helly and Gogia 2005, 274).

How well Georgia is willing and able to put its house in order remains to be seen. Despite Presidents George Bush's reference to Georgia as a "beacon of liberty" during his state visit in 2005, much needs to be done in judicial and security sector reforms, institution building, and decentralisation. External actors are concerned about the power concentrated in the hands of President Saakashvili, military spending, corruption and radical rhetoric leading some to suggest that the rose of the Rose Revolution has started to wilt (Jacoby 2005, Kupchan 2006).

*1.4 Conflict management*

The management of the frozen conflicts was channelled through the United Nations in Abkhazia and the Organisation for Security and Cooperation in Europe (OSCE) in South Ossetia as well as the CISPKF.

In Abkhazia, the Moscow Agreement of 14 May 1994 formally ended the armed conflict. The agreement stipulated that there should be a durable ceasefire between the Georgian and Abkhaz armed forces and no armed forces or heavy weapons in specially demarcated areas. The agreement also gave the mandate for the CISPKF to be deployed to Abkhazia. The objective of the 2,500 men strong force was to maintain the ceasefire, promote safe conditions for the return of the displaced, implement the conditions of the Moscow Agreement, pursue a political settlement, and supervise the withdrawal of heavy weapons (Mackinlay and Sharov 2003, 91, 96). The role of Russia as the principle actor behind the CISPKF was the consequence of the multitude of peacekeeping commitments of Western states at the time, particularly in the Balkans and Africa. Both European states and the United States considered it politically and financially opportune to leave the leadership of the CISPKF to Russia (Interview Brunner).

The United Nations Observer Mission in Georgia (UNOMIG) was established by Security Council Resolution 858 (August 1993) with the mandate to monitor and verify the Moscow Agreement of 1994 (see section 1.1), to observe the operation of the CISPKF, and to contribute to conditions conducive to the safe and orderly return of refugees and IDPs. In 1996 and 2003, UNOMIG was enlarged with a human rights office in Sukhumi and the inclusion of a police component on the two sides of the cease-fire line. UNOMIG's initial presence was established by Eduard Brunner, who was appointed by the Secretary General of the United Nations as Special Envoy for Georgia. He was followed by Liviu Bota, Dieter Boden and the current Special Representative of the Secretary General, Heidi Tagliavini (UNOMIG 2006).

Dieter Boden facilitated discussions on the *Basic Principles of the Division of Competences between Tbilisi and Sukhumi* of July 2002. This document previewed the broadest possible autonomy for Abkhazia while recognising the sovereign integrity of Georgia. However, it received little support from Abkhazia because it did not include the prospect of independence. Russia says to have attempted several times to press Abkhazia to accept the Boden plan but ultimately failed to secure its agreement. However, critical observers suggest that Russia supported the Boden plan only half-heartedly because it implied the reduction of Russia's influence in Abkhazia (Antonenko 2005, 238-240).

The Boden document was preceded by the establishment of the Coordination Council in 1997. The Coordination Council maintained working groups on security issues, the return of refugees and IDPs as well as social and economic issues. However, the Council has not met since January 2001. Nevertheless, weekly meeting on operational issues take place in Abkhazia between representatives of Georgia, Abkhazia, CISPKF and UNOMIG. Another initiative has been sponsored by a trust fund to alleviate suffering of the conflict affected population, create better conditions for the return of refugees, as well as restore basic public services and rehabilitation (UNOMIG 2006).

The United Nations also facilitated the so-called Geneva Process. This initiative of Liviu Bota brings together the conflict parties and the Group of Friends of the Secretary General. The latter are representatives from Germany, France, Russia, the United Kingdom and the United States. The Geneva process works on the same issues as the Coordination Council and produced cooperation between the parties on a working level (MacFarlane 1999).

Overall, UNOMIG and the CISPKF have contributed to stability and the avoidance of conflict recurrence (Sagramoso 2003, 65). Despite the crises of 1998 and 2001, they have contributed to the reduction of the levels of violence from conventional warfare to hit-and-run attacks. "It was not what [the CISPKF and

UNOMIG] did that was important, but simply by being in Abkhazia, they achieved their purpose" (Mackinlay and Sharov 2003, 94, 107).

Nevertheless, the 1998 crisis proved to be a mayor challenge for UNOMIG and the CISPKF. The crisis highlighted the dilemma of the CISPKF that, on the one hand, the Moscow Agreement previewed the return of IDPs and, on the other hand, IDP return would almost certainly trigger violence and put the peace process in jeopardy. In 1998, the CISPKF opted for preventing the return of IDPs in order to avoid the recurrence of conflict (Mackinlay and Sharov 2003, 95). However, despite obvious signs of preparation for a larger military operation three days prior to the Gali crisis in 1998, the CISPKF did not intervene to prevent the outbreak of six days of fighting (Interview Veitsman).

The official conflict management by the United Nations was paralleled by a multi-track diplomacy including the promotion of bilateral contacts between non-governmental organisations, multilateral contacts, training, reintegration of IDPs, demobilisation of ex-combatants, information exchange, cross-border visits, research and public debate (Matveeva 2002, 425-433).

In South Ossetia, the OSCE facilitates the peace process. It has a mandate to promoted negotiations between Georgia and South Ossetia and participates in the Joint Control Commission (JCC). The JCC is a platform to facilitate the peaceful resolution of the South Ossetia conflict and is also composed of Georgian, Russian, North Ossetian and South Ossetian representatives. It gives a framework for the 1992 Sochi ceasefire agreement, the facilitation of refugee and IDP return as well as economic reconstruction (ICG 2005, 5). The OSCE has also a mandate to build confidence in the zone of conflict, to observe the CISPKF in South Ossetia, to dismantle stockpiles of ammunition and neutralise dangerous chemicals from former Soviet bases (OSCE 2006). These initiatives contributed to the improvement of interethnic relations between Georgia and South Ossetia.

However, with the increasing polarisation after the Rose Revolution and the election of Kokoity in South Ossetia, the confidence built over the years was lost.

The events in Ajara and the military action against South Ossetia in 2004 have deepened the divide between the conflict parties. There was reluctance on both sides to agree to compromise; Russia refused to act as an impartial third party and the OSCE could not provide a credible set of inducements and threats in these circumstances (Ghebali 2004, 284).

Overall, the work of the United Nations and the OSCE was compromised by the unwillingness of the conflicting parties to work together. On a working level, progress has been made as evidenced by negotiations on the non-use of force, collaboration on the Inguri power station and the facilitation of cross-border travel. However, this progress has not always been carried by the political leaders who gave mixed signals with nationalistic rhetoric. Moreover, both organisations are mandate driven and can only be involved as far as major international actors permit. In parallel to the United Nations and the OSCE, Russia and the United States have also used their bilateral channels to mediate in the frozen conflicts. Nevertheless, the United Nations and the OSCE provide an important platform for mediation, observation and conflict resolution which will become ever more crucial if tensions continue to increase.

### *1.5 Lessons learned*

Based on the history of the conflicts and the post-conflict period, the role of external actors and the evolution of conflict management, this section highlights three lessons from the armed conflicts in South Ossetia and Abkhazia in order to develop a better understanding of the risk of conflict recurrence.

*Lesson 1: Personal agendas to control economic assets contributed to the initiation of armed conflict in Georgia.* The perception that the armed conflicts were entirely based on the ethnic grievances of the Abkhaz and South Ossetians is incorrect. The risk of future conflict is therefore unlikely to be entirely grievance-based either. This is not to deny that the

conflict created grievances in terms of conflict deaths, population displacement and looting, but it underlines that there also existed an economic dimension to the conflict. A better understanding of the economic dimension is therefore helpful in reducing the emphasis on grievance-based explanations to the armed conflicts in Georgia to develop an alternative view on the conflicts which understands the use of force as being part of an economic strategy to control territory and resources.

The economic dimensions of the armed conflicts in Georgia are not as apparent as in some contemporary African conflicts. Georgia has few natural resources, but was nevertheless one of the most prosperous regions of the former Soviet Union mainly due to its metal, agriculture and tourism industries. In the past, conflict was partly determined by Georgia's geopolitical position between the Caspian and the Black Seas and at the edge of three great empires – Russia, Persia and Turkey. At various times, these empires invaded Georgia to use it as a buffer and cultivate its fertile lands (Suny 1994, 20-59). Within Georgia, Abkhazia was the most prosperous region which made it one of the richest districts of the Soviet Union. Its prosperity was based on tourism and agriculture and it had a geo-strategic value with its transport corridor between the North and South Caucasus and ice-free ports. South Ossetia was less prosperous as it is a rural land-locked territory on the southern slopes of the Caucasus. However, it had a geo-strategic importance as well with the Roki Tunnel connecting the North and South Caucasus.

Economic factors were important considering that some of the leading figures of the armed conflicts were from the criminal underworld trying to safeguard their economic interests. The main organised armed groups on the side of Georgia included the Georgian National Guard led by Kitovani and the *Sakartvelos Mkhedrioni* (Georgian Horsemen) led by Ioseliani (Fairbanks 1995, 21-23). Both Kitovani and Ioseliani generated funding from taxing illicit businesses, running extortion rackets and smuggling weapons and fuel. Mkhedrioni was effectively a large criminal syndicate, and was able to raise support through its connections in the underworld. Looting was the central means of sustaining and motivating their forces. Widespread

looting occurred all over Georgia in the early 1990s, but particularly in Sukhumi and Gagra in August 1992, and to a lesser extent in South Ossetia. Thus looting was a strategy to motivate and pay troops and not necessarily a strategy to ethnically cleanse the opponent.

In at least three instances, the prospect of loot and economic opportunities influenced the dynamics of the armed conflicts (Baev *et al* 2002, 24-25, 35, 40-41):

- After a number of unsuccessful attempts by the National Guard to take Tskhinvali at the beginning of 1991, Gamsakhurdia wanted to escalate the war to strengthen his position against domestic challengers. However, both the National Guard and the *Mkhedrioni* were convinced that going to war with South Ossetia would not pay off given its few lootable resources. Hence, Gamsakhurdia's campaign was sabotaged and the National Guard defeated.
- Having lost confidence in Gamsakhurdia after an ill-fated attempt to increase his control over the armed factions, Kitovani and Ioseliani decided to control the state by themselves, including its monopoly over protection rackets and the prospect of new loot. After a coup in 1991, Kitovani established control over the arms trade and Ioseliani over the distribution of fuel.
- Under Shevardnadze, Kitovani was made Minister of Defence. This position was an effective cover to organise the war in Abkhazia and establish control over the province's valuable tourism industry and transportation networks. However, the complete economic collapse of the formal and informal economy by 1993 made the supply of the troops impossible and led to a poor organisation of the military campaigns. The National Guard and Mkhedrioni were defeated and the economic assets they were fighting for destroyed.

*Lesson 2: Georgia was able to control parts of Abkhazia and South Ossetia in the short term but was unable in the long term to maintain territorial control.* The existence of military sanctuaries in the Caucasus Mountains in Abkhazia and South Ossetia and third party

support increased the long term cost of maintaining armed conflict and contributed to Georgia's defeat. Given the persistence of these sanctuaries and third party support, the use of force against South Ossetia and Abkhazia is a very risky endeavour and ultimately a self-defeating military strategy with incalculable political and economic opportunity costs for Georgia.

In South Ossetia, Georgian troops lost motivation with the declining power base of Ghamsakhurdia and few lootable assets available locally. At the same time, South Ossetian militias received support from North Ossetia and the Ossetian Diaspora in Moscow. The tunnel connecting North and South Ossetia was central in supplying the South Ossetians with weapons and other assistance (Zürcher 2005, 106). The strategic advantage of South Ossetia over Georgia was its military sanctuary in North Ossetia, third party support from Russia and North Ossetia as well as high motivation which was based on the fear of Georgian domination. These factors taken together decreased the viability of the use of armed force for Georgia which ultimately frustrated its attempts to retake South Ossetia.

In Abkhazia, the strategic rational of Georgia's intervention was to control the railway and road to Russia, close the mountain passes to cut off Abkhazia's supply line and win a war of attrition against a small Abkhaz force (Zverev 1996, 49). While this policy initially worked, it was unsuccessful in the long term. The Abkhaz managed to regroup in the mountains of Northern Abkhazia and received the support of about 1,000 volunteers from the North Caucasus and Russia. The Abkhaz used guerrilla tactics with the mountainous hinterland as a military sanctuary (Walker 1998, 13). Russian military support was a decisive factor in tilting the military balance for Abkhazia towards the end of the conflict. It provided T-72 tanks, rocket launchers, landmines and other heavy equipment to Abkhazia. Russian support became more evident when a Sukhoi fighter plane was shot down (Cornell 2001, 170-171, 344-353; Fairbanks 1995, 25).

In both Abkhazia and South Ossetia, looting and domestic resources alone were not enough to maintain the armed conflict. From the Georgian side, the

conflicts were waged and maintained by mobilising domestic resources which dwindled with a deteriorating economy. Once there was nothing more to loot in Abkhazia and South Ossetia, Georgian armed groups lost their morale. When the Georgian economy collapsed during the Abkhazia conflict, they also lost supply lines and with it their combat effectiveness. Georgia had no third party support to offset its declining resources. At the same time, the Abkhaz and South Ossetians maintained their economic and combat effectiveness by mobilising third party support from the volunteers from the North Caucasus and Russia and could therefore change the military balance in their favour (Baev et al 2002, 34-35; Fairbanks 1995, 25; Cornell 2001, 171, 344-353).

*Lesson 3: The isolation of Abkhazia and South Ossetia was counterproductive.* Political and economic isolation fostered the development of a resistance economy. The CIS embargo, the hostile rhetoric from Georgia and a feeling of being forgotten by the international community strengthened the feeling of self-reliance, determination and isolation among the Abkhaz and South Ossetians. As a result, an ever greater abyss developed between the two territories and Georgia. Their economies gradually oriented themselves towards Russia and opportunities deriving from the parallel economy. At present, Abkhazia and South Ossetia appear to be completely separated from Georgia.

The economy of Abkhazia is based on subsistence. There is no industry and its main base is services and agriculture. Most parts of the population are impoverished and old with widespread unemployment. Due to the economic situation, consumption is very low and people are looking for economic opportunities. Politics and economics were very tightly connected in Abkhazia because the political survival of the Ardzinba regime and the de-facto state were related to the control over the economy to survive in conditions of isolation. The Abkhaz economy is controlled by about 15-20 people who control the little economic activity there is (Interview Khashig). Given this tight control over the economy and

its utilisation towards the political goal of independence, the Abkhaz economy has become a resistance economy.

The CIS embargo against Abkhazia contributed to the economic orientation of Abkhazia towards Russia. It pushed Abkhazia towards regional leaders of Russia's North Caucasian Republics and then fostered trading with Russia in disregard of the embargo. The embargo pushed Abkhazia towards Russia and fostered divisions rather than confidence. Even if this outcome was in the long term against Georgian interests, during the Shevardnadze period the embargo had short term political functions: it was used as a tool during the peace negotiations and as a way not to recognise defeat.

In South Ossetia, the main economic activity was associated with the Ergneti market and direct payments from Russia. Russia pays 660 Roubles per month to pensioners in South Ossetia and is allegedly paying the salaries of officials of the *de facto* authorities as well as teachers and other civil servants (ICG 2004a, 18; Interview Gogia). Trading through the Roki Tunnel is the only profitable economic activity in South Ossetia which is otherwise a landlocked, mountainous area. The market has been controlled by the Tedeyev clan. Georgian sources estimate that only 10 percent of the income of the market was earmarked for the budget of South Ossetia while 90 percent remained in the hands of influential clan leaders (Gotsiridze 2003, 22). As the market was based on transit trade, it was key to informal cooperation between Georgian and South Ossetian traders and was tolerated by Tbilisi. The closure of the market in 2004 and the attempt to further isolate South Ossetia mobilised South Ossetian traders against Georgia and drove the de-facto authorities closer to Russia. Moreover, the events surrounding the closure of the market undermined years of successful confidence building (see part 5).

## 2. Explaining the "frozenness" of the conflicts under Shevardnadze

In the period before the Rose Revolution in 2003, the overall post-conflict situation in Georgia was characterised as "no war no peace" (Walker 1998). In Abkhazia and South Ossetia, the situation remained relatively calm even though the conflict was not frozen as evidenced by the events of 1998, 2001 and 2004 (see section 3.1).

The situation of "no war no peace" fostered the development of de-facto states in Abkhazia and South Ossetia. Concerning Abkhazia, assessments diverge. Some observer consider Abkhazia to having successfully established a de-facto state whose empirical aspects of statehood evolve. In this sense, the result of the war in Abkhazia was not a "frozen conflict" but rather a "successful example of making states by making war" (King 2001a, 525). Others, however, consider Abkhazia far from a de-facto state but rather as a de-facto protectorate of Russia. Russian border guards control Abkhazia's borders and its political and economic life is strongly influenced by Russia (Mackinlay and Shirov 2003, 71). The international isolation of Abkhazia has done much to foster Abkhaz determination for independence (Interview Gamisonija and Turnava). Nevertheless, Abkhazia did not prosper due to the economic blockade and its unresolved status. This has been clearly understood by Bagabsh and Ankvap whose policies shift towards long term development policies and the diversification of foreign investment into the ports, agriculture and tourism.

In South Ossetia, the de-facto state is less developed and even more reliant on Russian support. The South Ossetian Army is led by a formed colonel of the Russian Army and Kokoity travels to Moscow at least monthly for consultations since May 2004 (ICG 2004a, 17). Most of the income for state structures was generated through the Ergneti market. After the attacks on South Ossetia in 2004, the Ergneti market has been closed which contributed to the deterioration of the economic situation in South Ossetia. In order to offset the revenues, Russia allegedly pays salaries to each de-facto state official, including bureaucrats, soldiers and teachers as well as pensions

to the elderly (Interview Klein). Moreover, Russia reportedly delivered 700 tons of humanitarian aid in October 2004 (ICG 2004a, 18).

How did these *de-facto* states develop? What explains the maintenance of the unresolved status of Abkhazia and South Ossetia? This section discusses various explanations for the maintenance of the unresolved status of the frozen conflicts from the perspective of the political economy of conflict.

*1. The regimes of Shevardnadze, Tedeyev and Ardzinba profited from the control of the shadow economy*. Shevardnadze managed to provide a general equilibrium between the central government, the regions and the autonomous provinces which was based on regional clans controlling regional economic activity in exchange for political support to the central government. In this "dark version of Pareto efficiency", general welfare could not be improved without making key interest groups worse off (King 2001a, 525-526). This equilibrium contributed to a "reasonable strong economic incentive not to settle the conflicts" (MacFarlane 2004, 138). The conflicts of Abkhazia and South Ossetia, like other post-Soviet conflicts, became "a system with myriad levels of interaction between the system's constituent parts and with an internal logic that drives it" (Lynch 2004a, 119-120). Moreover, members of the regime received an economic incentive to maintain the status quo. It provided them with opportunities to make money and paid for trips abroad (Interview Gegeshidze).

*2. The Shevardnadze regime had little political interest in changing the status of the frozen conflicts.* Abkhazia and South Ossetia provided a rallying point for political support for Shevardnadze. If he had agreed to far reaching concessions, it would have exposed his government to criticism by nationalist parties, destabilisation and risking losing popular support. At the same time, Georgia could not grant Abkhazia and South Ossetia full independence for fear of similar requests from other regions, thus further undermining its territorial integrity (Nodia 1999; Interview Kukhianidze).

*3. The maintenance of the status of the frozen conflicts was all the Georgian government could pragmatically hope to achieve.* Georgia lost the war, the economy and state nearly collapsed; it did not have the military capability to retake Abkhazia and South Ossetia and there was little intent to consider power sharing as an option for conflict resolution. At the same time, the external economic barriers worked from the point of view of Tbilisi: The separatist regions did not prosper, the barriers exerted pressure on the separatist regions during negotiations, and they avoided Georgia recognising its defeat in war (Interview Lynch; see also section 1.3). In addition, the status quo did not create an economic incentive to implement agreements. As long as a dialogue was maintained, foreign financial support continued (King 2001a, 548-549).

*4. The maintenance of the status of the frozen conflicts was all the Abkhaz and South Ossetian governments could hope to achieve.* With de-facto statehood and control over economic resources, both Abkhazia and South Ossetia received what they wanted during the war with the exception of international recognition. There was no real incentive to join Georgia or advocate policies of power sharing given Georgia's abysmal economic situation and a sustained discourse against the two autonomous regions (Lynch 2004a, 69; Huber 2004, 62-63). In the words of a Georgian analyst: "What has Georgia done to make Georgia more attractive to Abkhazia? Georgia is hardly attractive to Georgians" (Zakareishvili c.f. Lynch 2004a, 71-72). In this sense, Georgia was negotiating from a relative position of weakness, Abkhazia and South Ossetia from relative positions of strength. In Abkhazia, the peace negotiations strengthened Abkhazia's statehood especially when humanitarian relief agencies started contributing an annual USD 4-5 million to the local economy and essentially covered its social services together with Russian pension payments (King 2001a, 549). Due to the size and geographic location, South Ossetia's statehood has developed less. However, the profits from cross-border trade have fostered a strong clan network behind the state.

*5. Georgia had a strategic interest to avoid the recurrence of armed conflict.* In strategic terms, Georgia would have been unlikely to win a war against Abkhazia given the desolate state of its armed forces and the geo-strategic situation of Abkhazia and South Ossetia (see section 1.5). Even if Georgia had had the military capacity to attack Abkhazia, Georgian forces would have been unlikely to maintain control over Abkhazia given its strategic features (see section 1.3). As in 1991-1994, a Georgian advance would have likely triggered a retreat into the mountains from where guerrilla warfare had been organised (Interview Iskanderov and Gegeshidze; Walker 1998, 13).

*6. Georgia had an economic interest to avoid the renewal of armed conflict.* The recurrence of conflict would have jeopardized the provision of bilateral and multilateral aid and the BTC Pipeline which became a pillar of the Georgian economy. Georgia is the second biggest per capita recipient of US development assistance (Department of State 2002). The recurrence of conflict would not only have destroyed the conditions to build the BTC pipeline but also would have driven away multilateral and bilateral donors. Overall, humanitarian and development assistance increased the opportunity cost of conflict recurrence and fostered an interest in keeping the conflicts unresolved.

*7. Abkhazia had an economic interest to avoid the recurrence of armed conflict.* Given the lower level of assistance to Abkhazia, this argument is less important to Abkhazia in comparison to Georgia. Nevertheless, the activities of humanitarian organisations in Abkhazia helped the Abkhaz leadership to survive politically and foster the creation of a *de-facto* state. In 1997, Abkhazia received a total of USD 17.5 million humanitarian aid. A large segment of society is dependent on external aid (Lynch 2004, 78). Without these activities, popular discontent may have provoked much higher levels of popular discontent with the de-facto authorities of Abkhazia thus creating political pressure for change.

*8. Russia had an interest in stability*. Russia has an interest in keeping a level of control over Abkhazia and South Ossetia because of Russia's security interests in the South Caucasus (see section 1.3). These interests are driven by a group close to the Kremlin which views Abkhazia and South Ossetia as a means to prevent Western expansion into the former Soviet space. The Russian military supports the autonomous regions to work against encirclement by NATO and prevent spill-over effects into the North Caucasus. Russia has no interest in armed conflict on its Southern flank fearing potential repercussions in the North Caucasus, in particular offsetting its delicate ethnic balance. Moreover, the Russian military and individuals have investments and property in Abkhazia which they want to safeguard (Antonenko 2005a, 30; Antonenko 2005b, 231-232).

*9. The United States had an interest in stability*. The main interest of the United States is to keep Georgia stable in order to ensure a pro-Western regime and to safeguard its investments into the Baku-Tbilisi-Ceyhan (BTC) pipeline. The latter is part of the larger strategy concerning the energy reserves of the Caspian Sea and the diversification of American energy supplies. However, at present, the United States' involvement in Georgia may be more adequately explained by its geopolitical interests in the Middle East and Central Asia. The United States has an interest to foster its alliance with Georgia given its territorial proximity to the Middle East and its role as transport corridor to Afghanistan (Huber 2004, 12; Vaux 2003, 16; Shaffer 2003).

*10. Profiteers from the parallel economy had an interest in stability.* Georgia's parallel economy is based principally on transit trade. Clan leaders in the regions of Georgia and their collaborators in the public sector derive their power from controlling borders and transit routes. The fact that most of the smuggling is transit trade, even if some part is for local consumption, suggests that local clans are not opposed to each other. Since smuggling is based on transit, it is reliant on the cooperation of others. To make the parallel economy work, therefore, requires collaborators on all levels of government

and society, hence, the emergence of tacit arrangements between the regions and the central government in which the protection of profits at the regional level are exchanged for political support at the national level (Wennmann 2004, 109-113). These characteristics of smuggling in Georgia suggest that profiteers from the parallel economy had an interest in stability and the status quo because it was a prerequisite for maintaining established business practices.

*11. In Abkhazia, the presence of a military deterrence system in the Gali region prevented the recurrence of major armed conflict.* The presence of the CISPKF tilts the military balance in favour of Abkhazia, thus increasing the weakness and disorganisation of the Georgian armed forces (Lynch 2004, 78, 93). At the same time, the CISPKF discouraged the Abkhaz and Georgian forces to conduct any further hostile advances (Mackinlay and Shirov 2003, 94, 107).

This review of several explanations for the unresolved status of the frozen conflicts indicates that the situation of "no war no peace" represented the best possible outcome for all stakeholders. The Rose Revolution changed this situation as a new Georgian elite saw the frozen conflicts no longer in their long term interests and made their resolution a policy priority.

## 3. Exploring the risks of renewed armed conflict in Georgia

Why is it important to look at the risk of renewed conflict in Georgia? After twelve years, the frozen conflicts have developed a new dynamism which emphasises the urgency of conflict management and resolution. Georgia has become increasingly disillusioned with international mediation efforts and wants to advance the resolution of the conflicts. It is building up its military capability and is proactive to change the status of the peacekeeping forces on its territory. Moreover, Georgia observes that Abkhazia and South Ossetia receive increasing Russian investment and political

support and are moving towards long term development strategies. In South Ossetia and Abkhazia, antagonism against Georgia has grown especially after the events in Adjara and South Ossetia in 2004, contributing to a growing divide between them and Georgia.

At the same time, the international environment has evolved with the violence in the Middle East changing the priorities of the Great Powers and the beginning of negotiations on the future status of Kosovo. For the United States, Georgia has become a more important military partner for its operations in Iraq and it is supporting Georgia's quest for NATO's Individual Partnership Action Plan (IPAP) or Membership Action Plan (MAP). Georgia's Westward orientation concerns Moscow, which is sceptical about a US military presence in the former Soviet space as well as Saakashvili's verbal attacks against Russia.

The confluence of these developments suggests that the frozen conflicts are entering into a new phase. This phase started with the Rose Revolution in 2003 which broke up Shevardnadze's political balancing system and brought a new political elite to power which considered the maintenance of the unresolved status of the conflicts not to be in Georgia's long term interest. The Rose Revolution ended the process in which all political and economic elites involved in the frozen conflicts benefited from the maintenance of the unresolved status of Abkhazia and South Ossetia. The crises in Adjara and South Ossetia in 2004 contributed to fears that the use of force would become a policy tool for Georgia in managing the frozen conflicts. The strengthening of the Georgian military was perceived by Abkhaz and South Ossetians as a sign that Georgian policy would become more militaristic.

This part looks at three factors to develop a better understanding of the risks of conflict recurrence in Georgia and identifies policy priorities to prevent the recurrence of conflict. It will first look at the crises of 1998, 2001 and 2004 in view of finding out what type of violence predominated in Georgia after the formal termination of the conflicts. The second section considers the function of the frozen

conflicts for domestic politics in Georgia. The third section looks at the nexus between the parallel economy in Georgia and the viability of paramilitary groups.

### *3.1 Characteristics of violence during the crises of 1998, 2001 and 2004*

The crises in 1998, 2001 and 2004 are important to consider as they underline that the so called frozen conflicts have not always been frozen. This section looks at these crises in view of finding out what type of violence predominated since the formal termination of the conflicts. The three most violent incidences taking palace in Georgia after the armed conflicts were conducted by small unified armed groups. Similar to the outbreaks of the wars in South Ossetia and Abkhazia, small armed groups reverted to the use of force without official government approval in order to unify the territory of Georgia. As a consequence, these crises spoiled the peace processes and increased the divisions between the parties.

In May 1998, the spontaneous return of refugees and incursions by Georgian paramilitaries were countered by about 1,500 Abkhaz militias who swept the Gali district. About 40,000 returning IDPs were displaced for the third time (Cohen 1998). In order to ensure that Georgian IDPs do not return again, Abkhaz militias burnt all their houses which seven years after still leaves a haunting impression with foreign visitors. In Abkhazia, the events of 1998 were interpreted as an attempt by Georgia to retake Abkhazia. Gaining control over Gali is important because it can be used as a base to retake the rest of Abkhazia, particularly Sukhumi. Seven years later, about 40,000 IDPs have again returned to live in the Gali district. They returned to live in their destroyed houses in very limited conditions. This return is motivated by a strong sense of attachment to their land and having no where else to go.

The events in 2001 were linked to a crisis in the Pankisi Valley which sparked a crisis between Russia and Georgia concerning Chechen militias who were hiding there. Russia frequently criticised Georgia for giving sanctuary to Chechen fighters in the Pankisi Valley. Tengiz Targamadze – then Minister of Interior – coordinated

travel arrangements for a group of about 500 Chechen fighters from the Pankisi to Khodori Valley. The Khodori Valley links Georgia with Abkhazia and is inhabited by the reclusive Svan population (Interviews Speck, Gogia, Freiser, Gegechidze).[5]

Abkhazia found itself in an awkward position. To have a sizable military force just outside Sukhumi made many fear that an attack was imminent. Moreover, even if the Chechen group only sought passage, it would have a negative impact of relations with Russia. In the end, the Abkhaz de-facto government called for general mobilisation and succeeded in fighting back the Chechen group at the exit of the Khodori Valley (Interview Khashig). It is still unclear at present if it was an attempt to recapture Abkhazia or simply the evacuation of Chechen guerrillas through the Khodori Valley. Evidence supporting the first suggestion points to Shevardnadze tacitly supporting Targamadze because he did nothing to stop him. Moreover, Georgian media reported on military actions all over Abkhazia to demoralise the Abkhaz population and mobilise Georgians (Anonymous interview).

The events in South Ossetia in 2004 involved between 1,650 and 2,000 South Ossetian militias and about 1,000 Russian mercenaries as well as 3,000 Georgian troops (ICG 2004a, 14). Mobilisation from the Georgian side was uncoordinated and under the Ministry of Defence. Georgian forces were unable to maintain their position because they lacked the resources to engage in months of combat. Moreover, Tbilisi was pressed by the United States and the European Union to not further escalate the crisis (ICG 2004a, 14, 21).

The conflict was preceded by alleged weapons deliveries to South Ossetia from Russia and an anti-smuggling operation of Georgian troops. The latter led to the closure of the Erneti Market in June 2004 and increasing polarisation. The closure of the market increased the numbers of armed men in Tskhinvali and destroyed the relatively peaceful environment of co-existence around the market. However, Georgian officials considered the closure of the market essential because it weakened

[5] The Svans are notorious for their military toughness. The Khodori Valley has neither been controlled by Abkhazia nor Georgia after the fall of the Soviet Union. The Svans were so militantly guarding the Khodori valley that even Stalin did not touch them (Interview in Tbilisi).

Georgia's economy though smuggling and provided a revenue source for the South Ossetian *de facto* authorities. The Georgian authorities sought to offset the effects of the market closure by offering a humanitarian package to South Ossetians which was unsuccessful due to intimidation by South Ossetian *de facto* authorities to whomever would accept it (ICG 2004a, 13).

All three events contributed to the polarisation of politics in Abkhazia and South Ossetia and therefore undermined trust between the parties and the peace processes (see section 1.4). From the point of view of Abkhazia and South Ossetia, the events underline Georgia's aggressive position. The Georgian calculation to emulate the success of Adjara by cutting off the economic support base of the *de facto* authorities in South Ossetia, increase military pressure and bring the population closer to Georgia through humanitarian aid did not succeed. South Ossetia received overwhelming support from North Ossetia and Russia and has ever since coordinated its defence more closely with the Russian military (ICG 2004a, 17).

### *3.2 The function of the frozen conflicts for domestic politics in Georgia*

This section looks at the functions of the frozen conflicts for domestic politics in Georgia in the Shevardnadze era. It looks at the relationship between political and economic factors of Shevardnadze's balancing strategy to govern Georgia and analyses the role that the frozen conflicts played in domestic politics in Georgia.

An important legacy of the Shevardnadze era is the discourse in Georgia that considers Abkhazia and South Ossetia as the principle culprits for Georgia's problems with corruption and smuggling (see for example Gotsiridze 2003, Kukhianidze et al 2004, Chkhartishvili et al 2004). However, the erosion of the state and economy was primarily a result of Shevardnadze's political strategy to maintain power and not of the unresolved conflicts. Locating the reasons for Georgia's political and economic situation within Georgia's political system – and not in the frozen conflicts – underlines the importance of reforming the Georgian state away

from a Shevardnadze-style balancing system and shifting the peace process of the frozen conflicts away from being exploited to bolstering domestic support and deflect attention from other problems.

Domestic politics in Georgia after the armed conflicts was influenced by the relationship between the capital, the regions and the autonomous provinces of South Ossetia and Abkhazia. After the wars, Shevardnadze consolidated his power by balancing regional and central interests with each other. In exchange for votes, he gave regional authorities access to governance structures in Tbilisi and tolerated regional strongmen to profit from the parallel economy. In this way he established *de jure* control of the regions of Georgia and established a *modus vivendi* with Abkhazia and South Ossetia. Within this balancing system, the maintenance of the unresolved status of the frozen conflicts had a political function.

Shevardnadze governed Georgia through a complex system of clans, the largest of which were the clans of Shevardnadze (Tbilisi), Ardzinba (Abkhazia), Abashidze (Adjara) and Tedeyev (South Ossetia) (Chiaberishvili and Tvzadze 2004). Shevardnadze's power derived from the control of state institutions, giving him the capacity to negotiate with international donors and investors. In addition, control of formal state institutions gave Shevardnadze the opportunity to control markets through quasi-monopolies such as official petroleum imports or the aviation business, both of which were controlled by individuals close to Shevardnadze (Darchiashvili 2003a, 113; Chiaberashvili and Tevdzadze 2004).

Vladislav Ardzinba derived his power from winning the war in 1992-1993 which gave him control over the territory of Abkhazia and its economic assets. In South Ossetia, local clans based their power on the control of the Tskhinvali market and the Roki Tunnel linking Russian province of North Ossetia with South Ossetia and Georgia. The Tskhinvali market was essential for the commercialisation of the transit trade coming through the Roki Tunnel from which the Tedeyev clan profited greatly (Kukhianidze 2003, Gotsiridze 2003, ICG 2004a). In Adjara, Aslan Abashidze established his power on the exploitation of the transborder trade with Turkey and

control over the port of Batumi (ICG 2004b). The relationship between clans and the control of the local economy was also evident in Javakheti (Metreveli 2004, 16-19).

The price of Shevardnadze's political arrangement was the increasing criminalisation of politics and the integration of clan networks into the political institutions of Georgia (Gotsiridze and Kandelaki 2004). Ultimately, it fostered the erosion of the state which was effectively run like a company with the government handing out various franchises. Government departments were left alone to make their own money in return for political or financial support for higher levels within the administration (Vaux 2003, 16).

In parallel, Georgia's official economy nearly ceased to exist. After an initial positive economic development which stopped the war-time hyperinflation and led to GDP growth in 1996 and 1997, the Georgian economy lacked structural reforms and was deeply affected by the collapse of the Russian economic crisis in 1998. By the end of the 1990s and early 2000s, the shadow economy was estimated at 35% and 70% of the official economy (Interview Papava). Tax collection was scarce and public revenue including foreign grants accounted for only 20% of GDP.[6]

Through Shevardnadze's political arrangement to govern Georgia, the frozen conflicts received the political function to maintain his power. In times of economic and political crisis, the frozen conflicts were used to garner public support and deflect attention away from Shevardnadze's incapacity to deliver reforms. Moreover, the conflicts were instrumentalised to deflect attention from the increasing criminalisation of the economy blaming Abkhazia and South Ossetia for the pervasiveness of smuggling, corruption and the weak state in Georgia. As the autonomous regions were outside the control of Tbilisi, they were portrayed as "black holes" which Georgia had to save from lawlessness and crime by incorporating them into the Georgian state.

However, the perception of Abkhazia and South Ossetia as "black holes" is not always consistent with the characteristics of smuggling in Georgia. Abkhazia and

[6] Most European states tax revenues account for 40-45% of GDP (Huber 2004, fn132).

South Ossetia have been two entry and exit points for smuggled goods. However, smuggling cannot be understood without considering the other points of entry on the border between Georgia and Turkey, Armenia and Azerbaijan. With the exception of South Ossetia, the bulk of smuggling occurred over the territory that was de-facto under the control of the Georgian government and was conducted with the knowledge and collusion of senior state officials. This was tolerated in the framework of Shevardnadze's balancing mechanisms between the centre and the regions.

The case of smuggling from Abkhazia into Georgia is an example that the "black hole" status of Abkhazia has been misrepresented. Observations collected during field research in Abkhazia suggest that smuggling is not systematic and large scale (hundreds of USD millions) and possibly not even medium scale (tens of USD millions). It is mainly subsistence smuggling which was paralleled in the past by individual operations of actors close to the Ardzinba regime.

This assessment is based on the following arguments: (1) If smuggling were a pervasive social phenomenon, there would be much more visible signs of profiteering (fancy cars, renovated houses, etc). (2) Given the close knit social fabric in Abkhazia, there would have been an unofficial discourse on smuggling if it was pervasive. However, there is no such discourse at present. (3) Interlocutors with experience in other post-conflict zones indicated that the level of smuggling from Abkhazia into Georgia was negligible. (4) Sukhumi has no functioning port which could be used for major smuggling operations. (5) Smuggling has never been an issue in official peace negotiations between Georgia and Abkhazia.

Given the function of the frozen conflicts during the Shevardnadze period, there is a danger that the instrumentalisation of the frozen conflicts will be repeated under President Saakashvili. After having been elected with overwhelming popular support and having successfully ousted Aslan Abashidze from Adjara, President Saakashvili may need to rely on mobilising popular support through the frozen conflicts. The perception of Abkhazia and South Ossetia as a source of smuggling, crime and terror still lingers in the Georgian society.

The reasons for the maintenance of the "black hole" status of the frozen conflict areas may also have important military side effects. Should it become opportune, the "black hole" status could become part of making a case for armed intervention and lobbying for foreign financial and military assistance in the framework of an anti-terror or anti-crime campaign. Making others perceive Abkhazia and South Ossetia as "black holes" could legitimise Georgia's military intervention and help the military to present itself as a benign force that brings back law and order. The resumption of hostilities in South Ossetia in 2004 is evidence of this strategy.

### *3.3 The relationship between the parallel economy and paramilitary groups*

The parallel economy is an important factor in understanding the risk of conflict recurrence because it affects the incentive structure of spoilers and the viability of paramilitary groups. In order to understand the nexus between the Georgian parallel economy and paramilitary groups, this section looks at the history of organised crime in the Soviet Union, the parallel economy in Georgia as well as its relationship to the security actors in Georgia. A key conundrum to understanding the parallel economy of Georgia is to identify if it changed after the dissolution of the Soviet Union or if it is a continuity which outlived the Soviet Union, Shevardnadze and the Rose Revolution.

The parallel economy in the Soviet Union can be traced back to pre-revolutionary Russia and Soviet labour camps. It provided parts of the Soviet leadership with an alternative source of revenue (Makarenko 2003, 26). In the 1970s and 1980s, the activities of the parallel economy became intertwined with the state apparatus by way of corruption and toleration of the black market. The leadership had a political interest in the parallel economy because it provided employment opportunities for the officially non-existing unemployed and channelled the energies of minorities into commerce rather than political opposition. The parallel economy in

the Soviet Union contributed to the erosion of the planned economy by diverting resources away from formal production, undermining the central government and shifting the value system from collectivism to individualism (Naylor 2002, 37-39).

Already in Soviet times, Georgia was infamous for its ability to bend the rules and its strong parallel economy based on clan and kinship relations and protectors in Moscow. After the collapse of the Soviet Union, clan structures were de-linked from Moscow and concentrated in Georgia. With the legalisation of private business and the near absence of formal state structures, mafia networks found a positive operating environment and greatly capitalised on Georgia's privatisation of state assets. However, the power of the informal economy declined with the devaluation of the Rouble and Russia's economic crises 1998 because most groups held their fortunes in Roubles. Nevertheless, over time criminal networks became increasingly specialised in different import and export sectors such as the commercialisation of scrap metal or the smuggling of cigarettes (UNDP 2000, 68-71).

The pervasiveness of smuggling in Georgia is related to its geographical location as a transport corridor. After the collapse of the Soviet Union, Georgia became a crossroads for two drug smuggling routes from Afghanistan to Europe: the "Balkan Route" (heroine from Afghanistan via Iran, Azerbaijan, or Nagorno Kharabakh into Georgia for further shipment to Russia or Europe) and the Southern flank of the "Northern Route" (heroine from Afghanistan via Turkmenistan, the Caspian Sea and Azerbaijan to Georgia). It is also a transit point for arms trafficking to Chechnya and from Russia to the Middle East. Weapons seizures ranged from small arms to enriched uranium (Cornell 2003, 28-34, 37). Smuggling became also important for consumer goods which were imported to Georgia from Turkey and Russia.

This situation was exploited by Georgia's security actors. Under Shevardnadze, the Ministry of Interior was linked to corruption and racketeering. During the office of Kakha Targamadze as Minister of the Interior, the police forces effectively resembled a commercial firm. The Ministry was associated with the cigarette and oil

businesses as well as the retail and wholesale market (Darchiashvili and Nodia 2003, 12). Given that oil and cigarette smuggling alone were estimated to account for tax losses of USD 250 million and USD 70 million respectively, it was estimated that individuals within the Ministry of Interior profited greatly from the parallel economy (Gotsiridze 2003, 9,11). The rampant corruption and racketeering was evidenced by the fact that six out of nine declared official sources of income was subject to regulations that the Ministry of Interior issued itself (Darchiashvili and Nodia 2003, 12).

Corruption also became endemic in the Georgian Armed Forces. Generals diverted funds from the defence budget and junior officers were known to steal and sell weapons. The Ministry of Defence officially acknowledged to have lost 14,000 firearms since independence (Perlo-Freeman and Stålenheim 2003, 12-13; Feinberg 1999, 20-22; Darchiashvili and Nodia 2003, 11). Corruption and mismanagement severely limited the combat effectiveness of the Georgian Armed Forces which were "wholly unable to tackle the chronic instability in the country" (Perlo-Freeman and Stålenheim 2003, 14). As a result of years of neglect and corruption, they did not have enough ammunition to sustain a single day of combat and only 70 out of 220 tanks were said to work (Interview Rondeli). In April 2001, salaries had not been paid for 16 month, soldiers were found to be undernourished and desertions increased (Perlo-Freeman and Stålenheim 2003, 12-13).

Georgia's security actors also included paramilitary groups. The armed militia under the control of Aslan Abashidze, the former leader of Adjara, was equipped with modern state-of the-art military equipment standing in great contrast to the Georgian Armed Forces. Much of this equipment was captured by Georgian forces when Abashidze was ousted in 2004 (Interview Rondeli).

The *Tetri Legioni* (White Legion) and the *Tkis Dzmedbi* (Forest Brothers) were two paramilitary forces active around the cease-fire line between Georgia and Abkhazia. The White Legion was headed by Surab Samushiya who was involved in the coup against Gamsakhurdia. The Forest Brothers were commanded by a former

member of Mkhedrioni, Dato Shengelia. Both groups recruited their support from the Georgian IDP community and were associated with the broader objective of recapturing Abkhazia. They carried out attacks in the Gali district and were the driving force behind the Gali crisis of 1998 (Feinberg 1999, 34). Both paramilitary groups were supported by the Executive Council of the Abkhaz Government in Exile which was in turn subsidized by the Georgian government with the objective to destabilise the de-facto authorities in Abkhazia (Lynch 2004a, 71).

The White Legion and Forest Brothers have also been involved in criminal activities in the Gali district and smuggling across the cease-fire line. Over time, Tbilisi lost control over the paramilitary groups who increasingly shifted their activities towards profiting from the parallel economy (Interview Gegeshidze). Two years after the Rose Revolution both the White Legion and the Forest Brothers disbanded and their financial support through the Abkhaz Government in Exile stopped.

This analysis indicates that Georgia's security actors were implicated in profiting from the parallel economy. The Ministry of Interior, the Ministry of Defence and the three paramilitary groups were key actors in the parallel economy of Georgia. The parallel economy generated sufficient income to create and sustain small unified armed groups at low operational levels. Thus, the control of the parallel economy is essential in order to discontinue the link between the parallel economy and security actors to stop the viability of paramilitary groups and incentives for economically motivated violence.

Even though much has been done to ensure the transparency of the defence budget in Georgia after the Rose Revolution, one source of concern is a system of parallel funds established to finance the acquisition of arms. Voluntary funds were allegedly created to generate emergency funding for the military, the police and Adjara (Interview Kindersheli). However, government circles indicated that these funds no longer exist and the military only draws on a transparent budget which is approved by Parliament.

Nevertheless, some analysts suggest that parallel funding still exists. This funding comes from the continued practice of the parallel economy which survived the Rose Revolution: Government officials receive payments from economic stakeholders in exchange for allowing economic activity to be controlled by a specific individual. After the Rose Revolution, this strategy was used to create windfall revenue. Those profiting from the parallel economy under Shevardnadze were allegedly allowed to keep their businesses by paying a sum of money into the parallel funds. From this perspective, the Rose Revolution is considered merely an ownership change within the parallel economy rather than the end to Shevardnadze's balancing strategy (Interview Losaberidze and Kindersheli).

**4. Scenarios of conflict recurrence**

At present, most observers of Georgia negate that renewed conflict is imminent. The Georgian leadership seems to understand that a militarily option is impossible and ultimately self-defeating: Georgia cannot hold Abkhazia and South Ossetia in the long run, military intervention would not resolve one of the main issues of the conflict (security guarantees) and Georgia would risk losing its good international post-revolution image, millions of international assistance, the support of key allies and the prospect of NATO accession. Relative Georgian restraint during the election in Abkhazia in 2005 signalled a willingness to diffuse tensions between Abkhazia and Georgia. However, the use of force in South Ossetia in 2004 raises the question if Georgia is really willing to renounce the use of force.

An understanding of the risk of renewed conflict is particularly important in the present situation in Georgia. With an increasing disillusionment of the hopes associated with the Rose Revolution and the existence of a group of reform losers, President Saakashvili must maintain public support. His success in regaining control over Adjara, the reform of the police forces and the military and the closure of the Erneti Market gave him short term success. However, since popular support is

Saakashvili's only base of power, he must satisfy rising expectations and produce one success after another.

After the Rose Revolution, the Georgian government realised that it derived no long term benefit from the unresolved status of the conflicts. As a consequence, the resolution of the frozen conflicts became a political priority for the new political elite. Georgia had to be the actor giving the impulse for change because Abkhazia, South Ossetia, Russia and the United States were unwilling to press for change. There was a tacit understanding in Georgian government circles to deal first with Adjara, then with South Ossetia, then with the economy and ultimately with Abkhazia. Adjara turned out to be a success, South Ossetia a disaster; the economy and Abkhazia remain outstanding.

Georgia was encouraged to take this path for the following reasons: (1) Georgia received assurances by the United States that it would maintain its security and development assistance. (2) Georgia became more confident of long-term US support due to Georgia's increasing geopolitical importance in the context of the war in Iraq and the crisis over Iran. (3) The Georgian government perceives the current period as a window of opportunity in which it has unprecedented US support. This could change after the next elections in the United States. As a consequence, Georgia has been actively engaging the European Union to diversify its support structure. (4) The Georgian government is currently relatively united because of US support for gaining NATO's IPAP or MAP status. (5) The Georgian government perceives Russia as becoming weaker in the North Caucasus. The events in Beslan and the continued instability in Chechnya have fostered this perception.

Thus, an imbalance has emerged between external pressures for the maintenance of the status quo and domestic pressure in Georgia for change. The international community seeks to control the potential consequences of what could become a dangerous gamble. The following sections discuss three scenarios of conflict recurrence should this imbalance evolve into a security crisis. The recurrence

of armed conflict could recur in the disguise of counterrevolution, state building or provocation.

*4.1 Counterrevolution*

Nearly three years after the Rose Revolution, patience over the frozen conflicts is running thin in Georgia. While the Adjara problem was solved in early 2004, the resolution of South Ossetia and Abkhazia remains open. A military attack against South Ossetia failed in 2004. IDPs and more radical Georgian nationalists become increasingly weary that all efforts to regain Abkhazia and South Ossetia by peaceful means have not led to regaining full territorial control. In the words of one government official: "There will be no more 15 years" (Interview Gotsiridze). This impatience may be a fertile ground for political mobilisation, particularly if the illusions of the Rose Revolution fade and Saakashvili cannot deliver economic and political reforms. A nationalist lobby could emerge pressing for an armed solution of the frozen conflicts or inciting small armed groups to use violence without government approval against Abkhazia and South Ossetia.

This counterrevolution scenario is linked to the problem of rising expectations. The pool of IDPs and reform losers provides a fertile recruiting ground for political entrepreneurs and represents a real threat to stability in Georgia (Interview Rondeli). IDP's who were children in 1993 have experienced little else but a miserable life in exile. Moreover, they have been exposed to a discourse of being able to return to their homeland at one point in the future. As the patience of this constituency is running thin, IDPs may be easily convinced to advocate an armed solution to the Abkhazia conflict (Billingsley 2001, 20).

The IDP community may even become more powerful if it links forces with the losers of Saakashvili's reforms. 15,000 police forces were laid off after the Rose Revolution. Moreover, the anti-corruption campaign deprived parts of Georgia's Armed Forces of their sources of income, thus, creating discontent in senior and

lower ranks (Huber 2004, 42). Pressing for armed conflict in Abkhazia and South Ossetia would give the reform losers a cover to reassert their economic entitlements and power position while weakening and reversing reforms. Mobilisation could be facilitated by constructing a discourse of Georgian nationalism and feeling of injustice with regard to the frozen conflicts.

*4.2 State building*

In a state building scenario, Saakashvili may be pressed to garner political support based on revitalising the frozen conflicts should his reforms fail to deliver results. In order to secure his power position, he could engage in a violent state building project and attempt to recapture Abkhazia and South Ossetia. This scenario depicts the Georgian government as the main actor in the renewal of conflict. If Saakashvili's promises of political and economic reform remain unfulfilled and popular disillusionment emerges, the government may resort to mobilising popular support though a more assertive military policy and eventually a call to arms to preserve territorial integrity (Huber 2004, 12).

The history of the Shevardnadze period has shown that it is difficult to control strongmen within the government. Saakashvili may face a similar problem of keeping his ministers and ministries together, particularly the Ministry of Interior which kept its position of being a state within the state. Thus, in order to gain internal control, Saakashvili may become more assertive with respect to the unresolved conflicts.

The Ministry of Defence and the Ministry of the Interior of Georgia have already become more assertive as evidenced by the policies adopted towards Adjara and South Ossetia in 2004 (ICG 2004a and 2004b). In Abkhazia and South Ossetia, this assertiveness has already led to a counter reaction and security forces are on high alert (Huber 2004, 12).

Armed violence can become part of an attempt to convert the parallel economy into legitimate market activities. The state can reduce the attractiveness of

the parallel economy by working towards an effective taxation system, an impartial legal system and civil society. However, from the point of view of the stakeholders of the parallel economy, these measures are considered an attempt to capture parts of the economy which was previously outside state control. Thus, the state is perceived as a competitor who wants to increase its control over the economy for its own profit. Stakeholders benefiting from the parallel economy may therefore not like interference by the state in what they understand is "their" business. Considering that the potential value of this ownership change could be in the tens of millions of US Dollars, attempts to converting parallel into legitimate markets may have the potential to go beyond sporadic violence and develop into low intensity conflict (Wennmann 2004, 112-113).

The potential of this scenario should not seem too far fetched if it is considered in context that political entrepreneurs could mobilise volunteers from the IDP community, the availability of weapons and the viability paramilitary groups. Thus, the renewal of conflict could take place in the context of state building in which the government seeks to establish control over its territory and economic resources. The stakeholders who benefited most from the parallel economy may not appreciate interference by Tbilisi in what they consider "their" business and trigger a violent counter-reaction.

However, the knowledge of the opportunity cost of a violent state building process could prevent the occurrence of this scenario. Government circles in Tbilisi maintain that the government is united in the pursuit of coming closer to the resolution of the conflicts by diversifying the deployment of peacekeeping forces in South Ossetia and Abkhazia and obtaining the NATO's IPAP or MAP status. The Ministry of Defence's priority is to gain MAP and it knows that the resumption of state violence would be counterproductive.

Both the counter-revolution and state-building armed conflict scenario may become more likely if the following shifts in the political landscape occur: (1) Georgia becomes more isolated from the international community, thus more inward looking

and nationalistic; (2) the Georgian government becomes more vulnerable before the next presidential elections; (3) Georgia's military strength becomes superior to that of Abkhazia and South Ossetia; and (4) Russia ceases to support Abkhazia and South Ossetia (Interview Gegeshidze).

*4.3 Provocation*

The situation in South Ossetia has led to a third scenario of conflict recurrence: Provocation. Government circles in Tbilisi maintain that the year 2006 will be a crucial year for Georgia because its association to the West may be determined. Military reform is being implemented to become NATO interoperable with the hope that IPAP or MAP will be decided during the NATO Riga summit in November 2006. With the United States and various Central European countries, Georgia has backers within NATO to support their quest for NATO membership. However, in order to achieve these goals, Georgia needs political stability and further economic development. From the Georgian side, armed conflict is therefore to be prevented by all means.

However, Georgia fears that the situation in South Ossetia will be used by Russia to promote instability or low intensity conflict in Georgia. Georgia is observing with concern that Russia would use South Ossetia to prevent Georgia's integration into NATO. Particularly nationalist and military circles vehemently oppose the presence of the United States and NATO in the former Soviet space. The United States has an interest to associate Georgia closer to NATO because it will reduce its presence in Central Asia and needs air bases closer to Iraq and Iran. Senaki and Vaziani airbases are currently refurbished with help of the United States and Turkey.

The explosion of a gas pipeline and the main electricity mast in January 2006 confirms Georgian fears. According to Georgian intelligence sources, the incident was executed by Russian Special Forces. There have been previous reports available

to the Georgian government that the attack on the pipelines was planned. In anticipation of the effects of such an attack, Tbilisi held consultations with Iran prior to the incident. Georgian fears that this was an attack against Georgia were further supported when it became apparent that the pipe as well as the main electricity mast were destroyed at the same time. In addition, pipeline installations on the Russian-Azeri border – to be used to transport gas towards Georgia – were damaged a few days after the attacks (Interview Bakradze).

However, even from the Russian side, the stakes of renewed armed conflict in South Ossetia are high considering the potential spill-over effects into the North Caucasus. Armed violence in South Ossetia could upset the delicate ethnic balance in the North Caucasus and foster low intensity conflict. Russia has understood its vulnerability in the North Caucasus and has recently devised a new counterinsurgency strategy and is changing its deployment patters in the North Caucasian republics (Trifanov 2006).

## 5. Policy recommendations

This PSIO Occasional Paper approached the frozen conflicts from the perspective of the political economy of conflict and explored the risks of conflict recurrence and three scenarios of how the security situation in Georgia could deteriorate. Based on this analysis, this section develops five priority areas for peace policy.

*1. Peace policy must prevent the emergence of small unified armed groups and other spoilers who use force to achieve their political or economic objectives.*

In the past, armed conflict in Georgia was started by relatively small groups before conflict evolved into larger, relatively unstructured campaigns. These groups were not only motivated by grievances, but also had an economic agenda which aimed at controlling territory to control trading routes and other economic resources. In order

to prevent the emergence of small armed groups and other spoilers, the Georgian government and the international community should:

- Unify the command and control structure of Georgia's security actors in view of preventing the unsolicited use of force by individual factions of the Ministry of Interior and the Georgian Armed Forces. Those involved in parallel funds for the acquisition of military hardware must be identified, investigated and prosecuted.
- Establish a dialogue with potential spoilers in Georgia. Potential spoilers are located in the Ministries of the Interior and the Georgian Armed Forces and the security actors in South Ossetia. This dialogue should be implemented with the diplomatic and economic pressure of the United States, Russia and Turkey.
- Increase the capacity of the police forces to counteract the emergence of paramilitary groups and spoilers. Georgia's political economy fosters the viability of small unified armed groups and the propensity for self-financing low intensity conflicts. Effective police forces should therefore be supported as a means to prevent the emergence of small unified armed groups and spoilers.

*2. Peace policy must communicate to Georgia that the use of armed force is counterproductive.*

The dynamics of the previous armed conflicts suggest that Georgia was unable to maintain territorial control in Abkhazia and South Ossetia in the long term. The use of armed force would therefore be militarily unsustainable and the end of Georgia's ambitions of NATO association and economic recovery. Moreover, the rearmament of the Georgian Armed Forces has contributed to fears in Abkhazia and South Ossetia that they would be deployed in an offensive capacity against them. In order to prevent further polarisation, the United Nations and the OSCE should mediate a Memorandum of Understanding (MoU) which commits all parties not to use force to settle the frozen conflicts. A MoU would provide security guarantees to Abkhazia and South Ossetia without preconditioning the outcome of negotiations and their final

status. It would also reflect the consent within the Georgian government that the use of force is counterproductive for Georgia's association to NATO and economic recovery and send a message to Abkhazia, South Ossetia and Russia that the Georgian military will not be used in an offensive capacity.

*3. Peace policy should engage Abkhazia and South Ossetia to end their political and economic isolation.*

The lessons from Georgia's post conflict period indicate that the economic blockade of Abkhazia and South Ossetia was ultimately counterproductive for Georgia. Even if it gave short term advantages for Shevardnadze's domestic policy; it ultimately contributed to the emergence of resistance economies and orientation towards Russia.

In Abkhazia, it is clearly understood that being too close to Russia is not in its best interest even though resistance to Georgia rises as a reaction to anti-Abkhaz rhetoric in Tbilisi and the situation in South Ossetia. In order to allow for rapprochement, all conflict parties have to relinquish maximalist positions and prepare their societies for compromise. This is why a priority for a peace policy should be to end the economic isolation of Abkhazia. The economic blockade of Abkhazia is no longer effective. On the ground, lifting the economic blockade could contribute to the regularisation of trade flows and the reduction of smuggling. In an interim period, provisional joint customs offices on the Abkhaz-Russian border and the cease fire line between Georgia and Abkhazia could be used to this effect. Lifting the economic blockade would also give a strong signal to Abkhazia that the Georgian side is willing to enter into a dialogue. This signal would foster and expand the existing cooperation on the Inguri power station, the three districts along the ceasefire line and the Sukhumi-Tbilisi railway.

One method to engage Abkhazia and South Ossetia would be to begin long term development projects which are jointly administered by the conflict parties. The

rational is to increase the opportunity cost of renewing armed conflict and fostering cooperation between Georgia and the autonomous provinces on a functional level. These development projects could, for example, include the establishment of a special economic and agricultural zone along the Abkhaz-Georgian cease-fire line with a joint administration. Additional projects could include the rehabilitation of infrastructure such as the railway between Sukhumi and Tbilisi as well as the renovation of the Roki Tunnel and roads in Tskhinvali. Funds should be made conditional on accepting joint administration and the provision of third party security guarantees.

*4. Peace policy must assist state building in Georgia to support conflict resolution.*

Attempts to find a resolution to the conflicts depend on the successful reform of the governance of the Georgian state away from a Shevardnadze-style balancing mechanism. The current reform process on the decentralisation of governance in Georgia should be considered as a tool of conflict management. Fiscal decentralisation is a crucial aspect to generate local resources for local investment and create exchange mechanisms between prosperous and poorer regions. Abkhazia and South Ossetia could be included more easily in a federal state than in a centralised state.

An important step into the direction of state building would be the recognition that the erosion of the state and economy in Georgia was the result of Shevardnadze's governance strategy and not exclusively of the unresolved conflicts. The political discourse in Georgia that considers Abkhazia and South Ossetia as the principle culprits for Georgia's problems with corruption and smuggling is therefore incorrect and misleading. The characterisation of Abkhazia and South Ossetia as "black holes" which persists in nationalist rhetoric must be discontinued to build confidence in Abkhazia and South Ossetia.

*5. Peace policy must tackle the parallel economy because it is a resource base for spoilers who could jeopardise Georgia's peaceful political and economic transition.*

Shevardnadze's balancing strategy fostered a network of centre-regional and politico-economic interest in Georgia. While the Rose Revolution brought a new political elite to power in Tbilisi, Shevardnadze's legacy of corruption in Tbilisi and the regions has not been entirely stopped through anti-corruption initiatives. The parallel economy therefore maintains its potential to contribute to the emergence of spoilers and the viability of armed groups.

In order to tackle the parallel economy, it is important to avoid the criminalisation of all its aspects. In post-conflict societies, there is a fine line as to what constitutes a legal or illegal transaction. Despite the issue of who controls the revenue from trade flows – the states or other actors – the parallel economy is a substantial part of a country's resource base. While criminalising parallel economies may provide a political pretext to gain control over the parallel economy by coercion or to fight political contenders, it may also lead to an unnecessary loss of economic potential through capital flight, the creation of antagonisms and the discouragement of reinvestment of profits made during conflict (Wennmann 2005, 490).

The closure of the Ergneti market in Tskhinvali 2004 is a case in point. While the closure of the market has achieved the reduction of illicit trade into Georgia, it has had the side effect that the economic opportunities available to young South Ossetians disappeared. As a result, these young men transformed themselves from traders into soldiers, the level of polarisation between South Ossetia and Abkhazia further increased and the potential of the market to become a tool of conflict resolution was lost. In addition, the confidence between Georgians and South Ossetians which has been build up through commercial transactions and programmes from the OSCE was undermined.

## Conclusion

The frozen conflicts of Abkhazia and South Ossetia have entered into a new phase of conflict resolution. The situation in which the unresolved status of the conflicts benefited all stakeholders no longer exists. With the end of the Shevardnadze era and its political balancing system, a new elite came to power in Tbilisi with the intent to advance the resolution of the frozen conflicts in Georgia's favour. As a consequence, they are actively trying to change the national content of the CISPKF, garner more support from the United States and the European Union and build up the military forces as a deterrent.

The tensions over the frozen conflicts are rising as Russia is becoming increasingly concerned with Georgia's policy and the possibility of NATO's presence in Georgia. These tensions are evidence of a rising polarisation between Georgia and Abkhazia, South Ossetia and Russia fostering zero-sum perception of the resolution of the conflicts. The Georgian government reportedly stands united behind the policy to engage the frozen conflicts and should understand that the use of force would undermine Georgia's ambitions to gain association with NATO.

Georgia's policy towards the frozen conflicts is a dangerous gamble. It has contributed to the increasing polarisation of the parties involved in the conflicts and started to foster a militarization of the disputes, particularly in South Ossetia. Thus, the scenarios of counterrevolution, state building and provocation must be addressed by peace promotion policies in the future. The international community can help prevent the recurrence of conflict by assisting Georgia to counteract the emergence of spoilers, strengthen the state though decentralisation and tackle the parallel economy as well as by leading Abkhazia and South Ossetia out of their present isolation.

**List of interviews**

*Geneva, 31 March 2006*

1. Edouard Brunner, Former Special Envoy for Georgia of the Secretary General of the United Nations

*Tbilisi, 24 February – 2 March 2006*

2. Irakli, Alessania, Special Representative for Abkhazia of the President of Georgia
3. Levan Alexidze, Director, Institute of European Law and International Law of Human Rights, Tbilisi State University
4. David Bakradze, Member of Parliament, Chairman Committee on European Integration, Parliament of Georgia
5. Mitchell Carlson, Chief Technical Advisor, Abkhazia Livelihood and Recovery Programme, United Nations Development Programme Georgia
6. Martin Christensson, Programme Analyst, United Nations Development Programme Georgia
7. Sabine Freizer, Caucasus Project Director, International Crisis Group
8. Archil Gegeshidze, Senior Research Fellow, Georgian Foundation for Strategic and International Studies
9. Giorgi Gogia, Analyst, International Crisis Group
10. Niculin Jäger, Deputy Head of Mission, Embassy of Switzerland to Armenia, Azerbaijan and Georgia
11. Tinatin Kindersheli, Tbilisi District Representative, Republican Party
12. Ketevan Kheladze, New Approach Support Unit Coordinator, United Nations Development Programme Georgia
13. John Lewis, Programme Manager for the Abkhazia Livelihood Improvement and Recovery Programme, United Nations Development Programme Georgia
14. David Losaberidze, Programme Director, Caucasus Institute for Peace Democracy and Development
15. David Melua, President, Civitas Georgicas
16. Ekatrine Metreveli, Research Fellow, Georgian Foundation for Strategic and International Studies
17. Levan Mikeladze, Ambassador of Georgia to Switzerland, Ministry of Foreign Affairs of Georgia
18. Mikheil Patashuri, Third Secretary, Department of Energy Security, Ministry of Foreign Affairs of Georgia
19. Alexander Rondeli, President, Georgian Foundation for Strategic and International Studies
20. Marian Staszewski, Senior Political Advisor, United Nations Observer Mission in Georgia

*London, 20-23 February 2006*

21. Oksana Antonenko, Senior Fellow, Programme Director Russia and Eurasia, International Institute for Strategic Studies
22. Rachel Clogg, Caucasus Programme Co-Manager, Conciliation Resources
23. Stacy Closson, Doctoral Candidate, London School of Economics
24. Jonathan Cohen, Caucasus Programme Manager, Conciliation Resources
25. Dennis Corboy, Director, Caucasus Policy Institute, King's College London; Former European Union Representative in the South Caucasus.
26. Amiran Kavadze, Ambassador of Georgia to the United Kingdom and Ireland
27. Diana Klein, Eurasia Senior Program Officer, Business & Conflict, International Alert
28. Anna Matveeva, Independent Expert on the Caucasus and Central Asia
29. Oskari Pentikainen, Project Coordinator, International Alert
30. Domitilla Sagromosa, Lecturer, Department of War Studies, King's College London

*Yerevan, 15 March 2005*

31. Mr. Alexander Iskanderov, Director, Caucasus Media Institute, Yerevan

*Sukhumi and Gali, 6-11 March 2005*

32. Anton Widmer, Police Advisor, Chief of Staff, Civilian Police, United Nations Observer Mission in Georgia
33. Vitali Turnava, Deputy Chairman, Committee on Budget and Economic Policy, Parliament of Abkhazia
34. Ilja Gamisonija, Chairman, Committee on Budget and Economic Policy, Parliament of Abkhazia
35. Sergej Shamba, Minister of Foreign Affairs of Abkhazia
36. Laurent Van Reeth, Project Coordinator, Première Urgence
37. Inal Khashig, Co-editor, Panorama Newspaper
38. Julia Gumba, Lecturer in Economics, University of Sukhum, and Chairman, Abkhaz Union of Business Women
39. Vladen Stefanov, Head, Human Rights Office in Abkhazia, United Nations Observer Mission in Georgia
40. Christian Castelli, Trust Fund Programme Officer, United Nations Observer Mission in Georgia, Sukhumi
41. Boguslaw Romantowsky, Deputy Chief Military Observer, United Nations Observer Mission in Georgia

*Tbilisi, 28 February – 4 March 2005*

42. Archil Gegeshidze, Senior Research Fellow, Georgian Foundation for Strategic and International Studies
43. Volker Jacoby, Former Coordinator of Political and Military Affairs, Mission to Georgia, Organization for Security and Cooperation in Europe
44. John Lewis, Project Manager, United Nations Development Programme
45. Niculin Jäger, Deputy Head of Mission, Embassy of Switzerland to Armenia, Azerbaijan and Georgia
46. Alexander Kukhianidze, Director, Transnational Crime and Corruption Centre, Georgia Office
47. Stan Veitsman, Special Assistant to the Special Representative of the Secretary General, United Nations Observer Mission in Georgia
48. Ekatrine Metreveli, Research Fellow, Georgian Foundation for Strategic and International Studies
49. Alexander Rondeli, President, Georgian Foundation for Strategic and International Studies
50. Giorgi Gogia, Analyst, International Crisis Group
51. Sabine Freizer, Caucasus Project Director, International Crisis Group
52. Roman Gotsiridze, Chairman, Budget Committee, Parliament of Georgia
53. Stefan Speck, Ambassador of Switzerland to Armenia, Azerbaijan and Georgia

*Paris, 27 January 2005*

54. Dov Lynch, Senior Research Fellow, European Union Institute for Security Studies

*Other interviews before 2005*

55. Neil MacFarlane, Lester B. Pearson Professor of International Relations, University of Cambridge
56. Pierre-André Campiche, Police Advisor-Liaison Officer, United Nations Observer Mission in Georgia
57. George Gatskaradze, National Security Council of Georgia
58. Vladimir Papava, Senior Fellow Georgian Foundation for Strategic and International Studies
59. Srdjan Stojaninovic, Deputy Head, Office for the Coordination of Humanitarian Affairs
60. Nana Gibradze, Coordinator, United Nations Development Programme
61. Levan Lomidze, Head, Department Trade and Economy, Ministry of Foreign Affairs of Georgia
62. Markus Dürst, Coordinator for the South Caucasus, Swiss Agency for Development and Cooperation

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