

ECONOMIC CHANGE AND DEVELOPMENT IN GEORGIA AFTER THE ROSE REVOLUTION: A BOOST TO THE MIKHEIL SAAKASHVILI'S CONSOLIDATION OF AUTHORITY

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ABSTRACT

This article examines the economic change and development in Georgia after the Rose Revolution and analyzes its impact on the Georgian president Mikheil Saakashvili's struggle for remaining in power. It also explores the periods of Zviad Gamsakhurdia and Eduard Shevardnadze, the first and second president of Georgia, respectively. The article discusses how Gamsakhurdia's policies prepared the ground for the emergence of complex problems that would result in weakening of Georgian state in many fields including economy besides bringing about his own removal from power. It lastly puts forward that whereas economic hardship motivated the masses to rise against Shevardnadze in the framework of Rose Revolution, economic development and improved life standards resulted in sustained support for Saakashvili and strengthened his hand against the opposition.

Keywords: Georgia, Mikheil Saakashvili, Rose Revolution, Economic Development

GÜL DEVRİMİ SONRASINDA EKONOMİK DEĞİŞİM VE KALKINMA: MİHAİL SAAKAŞVİLİ'NİN OTORİTESİNİ SAĞLAMLAŞTIRAN BİR ETKEN

ÖZET

Bu makale Gül Devrimi sonrasında Gürcistan'da ekonomik değişim ve kalkınmayı incelemekte ve bunun Gürcü Devlet Başkanı Mihail Saakaşvili'nin görevde kalma çabasına katkısını analiz etmektedir. Makale aynı zamanda, Gürcistan'ın sırasıyla ilk ve ikinci devlet başkanları olan Zviad Gamsakurdiya ve Eduard Şevardnadze dönemlerini de incelemektedir. Bu çalışma, Gamsakurdiya'nın çeşitli alanlardaki politikalarının karmaşık sorunlar yaratarak kendi sonunu hazırlamak dışında, aynı zamanda devletin ekonomiyi de kapsayan değişik alanlarda zayıflamasına neden olduğunu ortaya koymuştur. Makale son olarak, ekonomik sorunların Gürcü halkını Gül Devrimi çerçevesinde Şevardnadze'ye karşı ayaklanmaya sevkeden önemli bir neden olduğuna ışık tuttuktan sonra, Gül Devrimi sonrasında ekonomik değişim ve iyileşmenin Saakaşvili'ye halk desteğini artırarak O'nu muhalefete karşı güçlü bir konumda olmasını sağladığının altını çizmektedir.

Anahtar Kelimeler: Gürcistan, Mihail Saakaşvili, Gül Devrimi, Ekonomik Kalkınma

1. INTRODUCTION

Georgian President Eduard Shevardnadze was removed from power through protests calling for his resignation following the allegedly fraudulent elections in 2003. The events have been called as the ‘Rose Revolution’. Mikheil Saakashvili has come to power through the Rose Revolution and initiated a comprehensive and ambitious reform program in the country aiming at economic development in addition to restructuring many fields.

This article explores how the economic change and development after the Rose Revolution contributed to the Saakashvili’s struggle for remaining in power.* To reveal the extend of economic change introduced by Saakashvili the article will first examine the periods of Zviad Gamsakhurdia and Eduard Shevardnadze, the first and the second presidents of Georgia. It will explore how the policies of these leaders in various areas conditioned the economy of the country and how the economic situation shaped the survival struggle of these presidents in turn. Afterwards, the article will discuss to what extend Saakashvili improved the economy of the country and how his degree of success in this field added to his chances for remaining in power.

2. CHAOS AND ECONOMIC DEBACLE UNDER GAMSAKHURDIA

As in the other parts of the Soviet Union, permissive political atmosphere created by Gorbachev’s policies of perestroika and glasnost prepared the ground for the emergence of opposition groups in Georgia (Devdariani, 2004:83). Initially, these groups had campaigned for relatively moderate aims. However, by 1988, these protests gained nationalist character and started to advocate full sovereignty for Georgia (Devdariani, 2004:84). Zviad Gamsakhurdia played a leading role in organizing mass independence demonstrations held in the country. With other prominent political figures Gamsakhurdia founded the *Ilya Chavchavadze Society* which was committed to the strengthening of Georgian sovereignty under the slogan ‘Language, Religion and Fatherland’ and formed the basis of Gamsakhurdia’s political party to come (Sunny, 1994:320). The violent suppression of a huge independence rally in Tbilisi by Soviet forces on 9 April 1989 marked a watershed in Georgian political history. It resulted in further strengthening of nationalism among the Georgians, impaired the legitimacy of Soviet rule and independence appeared as the only option for the Georgian nation (MacFarlane, 1997:415; Hale, 1999:165). The Georgian Parliament declared Georgian sovereignty in March 1990 and Georgian communist leadership announced that they aim to restore Georgian independence but it was too late. The opposition had already used the nationalist rhetoric to rally the public behind them and delegitimize the local Communist Party (MacFarlane, 1997:411).

On 28 October 1990 parliamentary elections were held in Georgia. Gamsakhurdia’s Round Table-Free Georgia won the elections by receiving 64 percent of the vote and Gamsakhurdia was elected as Chairman of the Supreme Council of the Republic of Georgia (Slider, 1997:176). Once in power, Gamsakhurdia started to put his anti-Soviet and anti-minority rhetoric into practice. On 9 April 1991, on the second anniversary of violent suppression of rally in Tbilisi by Soviet troops, Georgian parliament declared Georgia’s independence. This was followed by Gamsakhurdia’s landslide victory in the first presidential elections, which were held on 26th May. While

87 percent of the electorate voted in favor of Gamsakhurdia, the non-Georgian populations of Abkhazia and South Ossetia boycotted these elections (Zürcher, 2005: 93).

Gamsakhurdia's anti-minority policies soon led to the outbreak of war in South Ossetia. In September 1990, South Ossetia demanded reunification with North Ossetia, an autonomous republic in the Russian SSR. On 11 December 1990, Supreme Soviet of Georgia responded by abolishing the South Ossetian autonomy. Gamsakhurdia defended this policy by claiming that the Ossetians had the right to self-determination only in territories that constituted the homeland of the Ossetian nation, namely in North Ossetia. South Ossetia, like Abkhazia and Adjara, was Georgian land and Georgians had the right to determine how these lands would be ruled (Fuller, 1990:13-14).

Moscow protested this move but Gamsakhurdia refused to backpedal. Georgia started a blockade of the region and Georgian police and paramilitary entered Tskinali on 6th January. As South Ossetian militias resisted firmly, they were forced to withdraw to the heights surrounding the city. Economic blockade of the region continued to in the winter of 1991 and tense situation led to the renewal of clashes between the parties. In March 1991 Gamsakhurdia put forward his plan for solving the crisis, which offered nothing more than restoration of authority of Tbilisi and reducing the status of South Ossetia to that of 'cultural autonomy' (Zverev, 1996:44).

Following this, South Ossetia overwhelmingly voted in favor of preservation of the Union of Soviet Socialist Republics (USSR) in the referendum of 17 March 1991 and rejected participating in Gamsakhurdia's referendum on restoring Georgian independence of 31 March 1991. In an attempt to get the support of the Georgian public in the independence referendum, Gamsakhurdia ordered the newly formed National Guard to enter South Ossetia two days before the vote. National Guard had to retreat in the face of the Ossetian resistance and left another paramilitary group, *Merab Kostava Society*, in the area to continue fighting. Until the next escalation of conflict in September 1991, the level of fighting remained low. Gamsakhurdia wanted to strengthen his position by gaining a striking victory in South Ossetia and ordered the National Guard to move to the region. However, since the region had no important resources to exploit, the National Guard did not obey Gamsakhurdia. Only some detachments loyal to him organized attacks but they were quickly repelled by stronger Ossetian forces (Baev, 2003:134-136).

The war in South Ossetia was the first civil war in Georgia and it prepared the ground for the onset of future wars in some ways. With the war in South Ossetia militias entered the Georgian political scene. Eventually they moved away from the state control and played the major role in the outbreak of civil war in December 1991 and eruption of the war in Abkhazia in August 1992 (Zürcher, 2005:92-93).

The victories of Gamsakhurdia in both the parliamentary and presidential elections emboldened him too much. He became increasingly authoritarian and uncompromising. He fired or imprisoned many of his former allies. He made use of violence and manipulation of law to get rid of his opponents (Jones, 1996:41).

While Gamsakhurdia turning friends into enemies, paramilitary groups were growing in number and strength. This was followed by increasing violence in the form

of bombings and other kind of attacks aiming at rival groups. The Soviet legacy of secret criminal networks, the shock of 9 April events, patriarchal character of the Georgian society which gives the men the responsibility to defend rest of society and the willingness to revitalize the voluntary military organizations (*lashkari*) of the 'golden age' played an important role in the proliferation of these groups and the increase in political violence (Wheatley, 2005:60).

While Gamsakhurdia's popularity was decreasing and political violence was increasing in Georgia, the coup against Gorbachev took place on 19 August 1991 in Moscow. The coup was organized by conservatives that were unhappy with Gorbachev's reforms aiming at transforming USSR into a loose federation of states. Since Gamsakhurdia was allergic to Soviet authority and advocated Georgian independence passionately, it was natural to expect that Gamsakhurdia would condemn the coup quickly and vehemently (Areshidze, 2007:24).

However, things did not work in this way. Most probably fearing that hardliners would become able to come to power and their victory in the coup would be followed by an attack on Georgia, Gamsakhurdia did not condemn the military coup and made the media to evaluate the event in a positive manner (Areshidze, 2007:24). Moreover, he ordered the National Guard to give up its arms and subordinate itself to Georgian Ministry of Interior in line with Soviet military commander's demand (Slider, 1997:166). Tengiz Kitovani, the leader of the National Guard, considered this act as betrayal. Instead of obeying Gamsakhurdia, he removed the National Guard to the outskirts of Tbilisi. Kitovani soon joined by Tengiz Singua who resigned from the post of prime minister to protest Gamsakhurdia hesitation to condemn the August coup and other anti-Gamsakhurdia deputies. Opposition camp was strengthened further when Dzaba Ioseliani, the leader of *Mkhedrioni* who was jailed by Gamsakhurdia, escaped from prison and gave his support to Singua and Kitovani (Goldenberg, 1994:83). Realizing that Gamsakhurdia's policies would undermine their political and economic power, these three leaders tried to find ways of getting rid of him (Thomas, 2006:58).

The opportunity rose on 22 December 1991 when Gamsakhurdia broke up an opposition demonstration and organizers of the protest appealed to Kitovani for protection. In response, Kitovani's National Guard and Ioseliani's *Mkhedrioni* came to Tbilisi and launched an attack on parliamentary building (Areshidze, 2007:24). Fighting between government troops and opposition forces demanding the resignation of Gamsakhurdia continued until 6 January 1992. On this date Gamsakhurdia gave up and fled first to Armenia and then to Chechnya with the hope that he could start a counterattack from there (Wheatley, 2005:56).

Gamsakhurdia's rule proved to be ruinous for the economic capacity of Georgian state. When Gamsakhurdia came to power, he irritated the old managerial elite by labeling them as collaborators with the communist regime and tried to remove them. However, failing to find alternatives to them, he was forced to continue working with them. This situation created a tension and weakening efficiency in the ministries as the minister saw their personnel as collaborators whereas the subordinates saw their ministers as amateurs (Devdariani, 2004:89).

Rather than focusing on daily management of the country and pursuing pragmatic policies in the economic arena, Gamsakhurdia engaged in organizing a series of protests against Moscow that led to disruption of country's fundamental communication and trade links. By behaving in this way, Gamsakhurdia not only imposed a blockade on Georgia in reality while trying to impose one on Russia but also eliminated the chances for opportunities, like low prices, that the other former Soviet countries enjoyed (Khaduri, 2005:21). Declaring independence without appreciating the degree to which Georgian economy was integrated into the all-union economy and accomplishing prerequisites of independence led to the deterioration of living standards and eventual decline in the popularity of leadership (Dolidze, 2007:33).

The collapse of Soviet Union brought about breakdown of trade linkages and this led to shortages of grain, meat, sugar and other products that Georgia imported. Protests countrywide and clashes in Abkhazia and South Ossetia brought about a fall in both industrial and agricultural production. While industrial output decreased by two-third, agricultural product dropped by one half. Russia imposed a blockade on Georgia as a response to war in Abkhazia and this resulted in dearth of fuel, spare parts and raw materials. Persistent instability blocked the introduction of price reforms until March 1992, lagging one year behind the rest of former Soviet Union (Goldenberg, 1994:74-75). Poor fiscal performance and careless monetary policy stimulated hyperinflation (Huber, 2004:57) Economic debacle under Gamsakhurdia resulted in erosion of the popularity of the president and contributed to his removal from power through the coup.

3. SHEVARDNADZE PERIOD: FROM RELATIVE STABILITY TO EVENTUAL DECAY

When Shevardnadze turned to power on the invitation of the Military Council in early March 1992, he faced many problems which were needed to be solved without delay. The war in Ossetia was continuing, the tension in Abkhazia was threatening to turn into war, minorities remained anxious about their future in Georgia, Russia was pressuring Tbilisi to join the Commonwealth of Independent States and to open Russian military bases in the country and violence and criminal activity were out of control. He had to bring ceasefires in South Ossetia and Abkhazia, sideline paramilitaries and impose his control on the power networks in the country. He became able to focus on economic field only after a relative political stability was ensured.

Although Shevardnadze turned to economic matters belatedly, his attempts at establishing his authority had wide ranging and lasting repercussion on the economy of the country. His policy for increasing control over parliament is a point in the case. Shevardnadze did not enjoy a reliable majority on the parliament to rely on when he was elected in 1992. As a result, he had to engage in coalition building. Members of the parliament were provided with lucrative governmental posts at least one time for a certain period to secure their loyalty. Shevardnadze first placed his key allies in key ministries, which provided opportunities for making money. As a result, the minister worked like entrepreneurs in the areas under the competence of their ministries (Christophe, 2004:8).

Shevardnadze also used state resources to prevent the outbreak of secessionist wars in the regions inhabited by Armenians and Azeris. Privileged access to state

resources was granted to local strongman in these regions to this end. A general tendency to attribute power to persons instead of office holders emerged and this served to keep a limited number of families in key positions in ministries and in regional governments. Once attained their posts, families tried to entrench their positions by establishing extended patronage networks cutting across state agencies to avoid investigations and provide co-ordination of their profit making activities (Chiaberashvili and Tevzadze, 2005:191).

Opposition party members in the parliament were also co-opted by granting them lucrative positions and opportunities in the state structures as a part of Shevardnadze alliance-building efforts. Having first replaced important members of the elite to the key ministries, Shevardnadze then resorted to rotation to prevent their emerging as rival autonomous power centers (Christophe, 2004:8-9).

Lucrative governmental posts did not constitute the only favor offered to allies by Shevardnadze. The president also granted the ownership of former state enterprises to the members of the ruling party to maintain their support. The Citizens' Union of Georgia (CUG) included administrative cadres and factory managers who used to run state enterprises when Shevardnadze served as the first secretary (King, 2001:96).

With the return of Shevardnadze to power in post-independence period, these people gained the control of enterprises they managed in the Soviet period due to dubious privatization process of the country. While the public was largely busy with the wars in Abkhazia and Ossetia and Zviadist uprising in Western Georgia, the former Soviet nomenclatura increased its grip on the economy of the country. (Zurab Chiaberashvili and Gigi Tevzadze, 2005:199). The continuity with the Soviet past both in terms of ruling elite and the ways of governance would increasingly antagonize the society and some members of the political elite and motivate them to 'complete the unfinished revolution of 1991' by removing the conservative Shevardnadze team and changing the way that the country was run (Jones, 1996:38).

Georgia could start its post-Soviet economic reform process only after some degree of stability was provided with the ceasefires in South Ossetia and Abkhazia. Between 1994 and 1998, the Shevardnadze administration introduced a series of reforms based on the 'Washington Consensus' to stabilize and liberalize the economy (Muskhelishvili and Akhvlediani, 2003:10). Georgians also experienced ephemeral economic recovery in this period. Economic development was given a start with the help of International Monetary Found (IMF) and the World Bank. *Lari* was introduced as the national currency in 1995 and kept relatively stable thanks to an IMF stabilization fund. Inflation has been reined in and GDP growth was resumed even though it was disrupted by the negative effects of Russia's August 1998 financial crisis. Moreover, Georgia adopted laws to realize economic reform. Lastly, Georgia managed as one of the key actors in the development and transport of Caspian oil and gas. This was a notable success on the part of Shevardnadze to make Georgia a part of this project since the country experienced instability arising from coup attempts and secessionist rebellions since becoming independent (Gegeshidze, 2002:5).

Initially Georgia emerged as one of the most successful countries among the former Soviet republics in increasing its gross domestic product as it achieved 11 per

cent GDP growth in the year 1996 and 1997. The same years also saw the intensive legislative reform in the economic arena. Despite these achievements, including the stability of the *Lari*, the financial system and the market institutions of the country remained too weak to sustain the economic growth in the coming years. Since the economic growth rates and the stability of the currency were mostly achieved with the help of the credits of international organizations such as World Bank and IMF, they proved to be only temporary. Between 1998 and 2003, Georgian economy experienced stagnation as the economic growth only took place at a very slow rate (despite the contributions of BTC pipeline project) and economic reforms came to a halt (Muskhelishvili and Akhvlediani, 2003:11).

The legislative basis for the economy established by the parliament did not match the actual ways of conducting business. Shevardnadze administration could not establish a reliable tax base to increase state revenue. More than 55 per cent of the economic activity remained hidden from the state and transactions and settlements took place outside the banking system (Muskhelishvili and Akhvlediani, 2003:11). As people tended to evade taxes and more economic activity moved to the realm of shadow economy, the state budget shrank every year and the state found it increasingly difficult to provide basic state services and pay the salaries and pensions.

As a result, minimum wages and pensions became as low as \$20 and \$14 a month respectively and these were rarely paid on time. While a few in the private sector got rich enormously, most of the population lived below the poverty level. The wealth and resources were concentrated in Tbilisi, whereas regional governments did not have access to them. Thus, the economic system that Shevardnadze regime created proved to be good for only about 1 percent of Georgia's population (Kakabadze, 2005:4).

The unequal access of a small class in the economic resources in a society where 65 per cent of the population lived below poverty line served to the widening gap between the state and society (Jones, 2000:44). In the clientelistic structure of Georgia, the family of Shevardnadze, the members of Shevardnadze native Guria region, the former communist nomenclatura and their family members enjoyed a disproportionate access to state positions and economic resources and their influence increased at the expense of rest of the society in the course of time. For example, 36 per cent of state officials in 1997 and 41 per cent in 1999 were from Shevardnadze's native Guria region although it has only 3 per cent of the population (Kikabidze and Losaberidze, 2000:20).

Georgia had only quite limited economic resources and tried to improve state revenues with external financial aid. Economic reforms remained on the paper. In reality, Shevardnadze used to distribute state resources in a way that favored a small group at the expense of rest of the society. This unfair use of state resources played an important role in the mobilizing the society against the regime in the framework of the Rose Revolution.

Despite the appearance of stability identified with Shevardnadze on the surface, the system he established was rotting from within (Jones, 2006:40). Corruption, an important feature of continuity provided by Shevardnadze, came to drain state resources, which could have been used for economic development and satisfying citizen needs. This created deep grievances among the population already tired of dealing with

economic difficulties. When corruption was combined with state ineffectiveness to impose control over the elite and the media, mass mobilization against the regime was experienced.

People interviewed during the completion of this study generally agreed that Shevardnadze was not a corrupt person himself but he was surrounded by corrupt associates. This brings mind to the question why he let corruption to reach such a rampant level in his country. This question becomes more pressing when one thinks that corruption was the key factor mobilizing the society against the regime ending up with the removal of Shevardnadze. The answer lays in the inability of Shevardnadze to impose state control over the elite and the latter's capacity to act autonomously.

Shevardnadze's struggle against corruption started long before the independence period. Sent to Georgia to fight corruption by Moscow in Soviet period, Shevardnadze soon realized how deep the problem was entrenched and gave up his initial aim (Nodia, 2005:49). He would experience the same problem when he returned to power as the president of independent Georgia. Now instead of Moscow, Western donors were pressuring him but he was again powerless. Faced with deep state weakness, he engineered the creation of democratic constitution and institutions to give the impression of a democratic regime. However, in reality, he mediated between clashing corrupt interest to keep the system stable (Nodia, 2005:50). As discussed, Shevardnadze took over a state struggling with many daunting tasks at the same time. As a small state with limited resources and a powerful enemy aiming to restore control over the country, i.e. Russia, Georgia came to the brink of dismemberment as a result two secessionist wars and a civil war. In this dangerous environment, Shevardnadze resorted to the networks he had become familiar with during the Soviet period.

The party Shevardnadze formed to consolidate his authority, the CUG, was mainly composed of administrative cadres, security officials and factory bosses who were in power during the 1970's when Shevardnadze was running the country. Some parts of the administrative cadres like the former factory bosses were turned into the new entrepreneur class of the post-Soviet Georgia by taking over the state enterprises they had previously run thanks to the dubious privation process. In this way, Soviet era elites maintain their power in the country's economy in post Soviet era (King, 2001:96). Other parts of the former communist nomenclatura who regained important positions in state institutions after Shevardnadze came to power continued to run the affairs as in the Soviet period with one difference: instead of Moscow, state officials were exploiting the Western donors for enriching themselves. In this way, Shevardnadze established a state in which ruling party and economic structure fused into one another. Shevardnadze's party, the CUG, became an instrument for seizing the state rather than strengthening it (King, 2001:96). Due to its heavy role in the state structure, it came to be associated with different aspects of state failure and this prepared its end.

The growing dissatisfaction with Shevardnadze's rule first gave some minor signals. The lack of willingness on the part of the Georgian citizens to participate in April 2000 elections was such a signal. The Georgian society did not care to participate in the elections since they did not want to support Shevardnadze with their votes. As a result, the election turnout was in fact low but the ruling elite managed to mask it with ballot box stuffing (Tchiaberashvili, 2001). The citizens would continue to express their

discontent by organizing street demonstrations. Immense embezzlement in the energy sector led to the routine power cuts which prompted the citizens in the capital to organize demonstrations. Rampant corruption in the higher education system mobilized the students against the regime (Lavery, 2008:147).

As the people found ways to avoid paying taxes exploiting corruption, they caused the already limited state revenues to decline further. As the dominant clans monopolized the use of economic resources, distributive state capacity became increasingly ineffective. As a result, more than 50 percent of the population started to live below the poverty line. The salaries and pensions ranged between €15 and €23 and €7 and €12 respectively and the government frequently failed to pay even these limited amounts. Unemployment surpassed 40 percent in the cities while the external debt amounted to more than half of the country's GDP (Huber, 2004:12).

All these economic problems became instrumental in increasingly mobilizing the society against the regime. When the angry masses took the streets to demand the resignation of their president, Shevardnadze did not resort to force to suppress the protests and this brought the end of his rule.

4. IMPROVING ECONOMIC CAPACITY UNDER SAAKASHVILI DESPITE REMAINING HURDLES

Having resumed power in June 2004 as the Georgia's Minister of Economy, Kakha Bendukidze, initiated a comprehensive economic program aiming at curbing corruption, reform of the taxes and customs, privatization of state-owned assets and natural resources and improvements in the labor market (Kulick and Yakobashvili, 2008:35-36). This section is devoted to examining the degree of success of the Saakashvili's administration in strengthening the capacity of the state in economic terms.

Decreasing petty corruption is one of the frequently cited achievements of Saakashvili administration after the Rose Revolution. Since petty corruption was mostly about taking bribes from the citizens for basic services like issuing a passport or registering the sale of properties, its curtailment positively affected the Georgian citizens en masse. The traffic police, whose practices of stopping the drivers frequently to demand bribes constituted a notorious example of corruption under Shevardnadze, have been reformed and the practice came to a halt (Tsepliaeva, 2008:3; Khechinashvili, 2005:2). The salaries of new patrol police have been increased significantly to keep them away from taking bribes (Dadauri, 2005:12). Saakashvili administration's anticorruption program also aimed at ending the corruption in the education system. The introduction of national university entrance exams in 2005 to prevent bribes and patronage amid the harsh debate and resistance has proved to be an important step taken in this respect (Civil Georgia Newspaper: 2005).

Despite these successes at curbing petty corruption, it has been argued that under the Saakashvili administration the corruption at the highest level is continuing (David Chipashvili, 2007:6). Having resumed power, the Saakashvili government initiated the purge and the arrests of high-ranking officials served in Shevardnadze administration including those of the former Minister of Energy (alleged of misappropriating \$ 6 million while in power), chief of Georgian Railway, former head of the Chamber of

Control, the owner of the cell-phone company MGT Georgia and the former president of the Georgian Football Association (Dadalaui, 2005:12-13). However, high-level corruption has been reproduced by the Saakashvili team in some ways. For instance, it has been underscored that after the 'Revolution' regional or local governors forced the businessmen to hand over shares to them (Chipashvili, 2007:6).

There has been significant growth in state revenues in the immediate period after the 'Rose Revolution' due to improvements in the tax collection, decreasing corruption, restoration of authority over Adjara and increasing external financial aid. Original targets for tax revenues had to be revised upward twice in 2004 because of the boom in tax collection. During that year, tax revenues doubled the 2003 levels. As a result, the government became able to finance its expanses in several sectors (paying salaries, increasing military spending) and was able to double monthly pensions. More businesses, especially medium and large-scale enterprises, have been moved out of the shadow economy due to the improvements in the enforcement of tax laws (Wertsch, 2005:522-523). The government also discovered some new sources of non-tax revenues. For instance, as a part of the fight against corruption, the government introduced 'voluntary payment for ransom' or the return of illegally gained money to state budget as a precondition for the release of oligarchs from prison and this also contributed to the rise of state revenues. However, the government was not able to rely on such returns for a long time since they were only temporary (Papava, 2005:16). Restoration of authority over Adjara also brought about increased state revenues. First, an important increase in the customs fees has been experienced as a result of government's taking control over the region. Second, after Abashidze's removal from power, his property was confiscated and went into the state budget (Wertsch, 2005:522-523).

Finally, state revenues have increased with expanding external assistance. As discussed, international donors cut financial aid to Shevardnadze as they had come to the realization that their money served nothing more than feeding the corrupt inner circle of the president. This situation changed when Saakashvili came to power as he showed his determination to restart the reforms demanded by the Western donor community and stalled by Shevardnadze leadership (Jawad, 2006:32). In 2006 World Bank listed Georgia as the leading reformer in the world and it has remained one of the top ten reformers around the globe in 2007 and 2008. Georgia gained this place in the list because Saakashvili has made it significantly easier to start up business by clearing up formalities, improved tax and customs systems and realized important reforms in the finance sector (Tatum, 2009:156-171).

The government also gained a rise in state revenues through an important degree of increase of foreign aid to the country. As early as summer 2004, the government ensured the revitalization of the IMF program and restructuring of the country's debt. Afterwards, Georgia was granted credit and grants amounting to \$1 billion by donor countries. Additionally, September 2005, Washington promised to provide Georgia with \$295.3 million assistance under the Millennium Challenge Account (Papava, 2006:662). Today, the Georgian state officials are not only proud of the increase in the external financial aid to Georgia in the aftermath of the 'Revolution' but they also emphasize

that they shape the Western donor organizations and use the revenues in line with the needs of the Georgian state.

The benefits of these improvements in the economic capacity have not been shared equally and some of the reforms have only served to deteriorate unemployment and the poverty (Kulick and Yakobashvili, 2008:35). The new Labor Code of Georgia, which was regarded by the government and International Financial Institutions (IFIs) as one of the brightest accomplishments of Saakashvili administration, resulted in lowering firing costs to some of the lowest levels in the world and was strongly criticized by the International Confederation of Free Trade Unions (ICFTU) and the International Labor Organization (ILO) (Chipashvili, 2007:3). However, it is also necessary to add that many of these reforms covered only some specific areas such as finance and energy and most of the increased revenue went to the armed forces. Most of the reforms were realized to increase cooperation with organizations such as World Bank and IMF and to attain eventual membership in NATO. As a result, they have remained short of addressing many problems that the society faced and deteriorated some others (Tatum, 2009:168). The overflow of foreign investment has fueled inflation (officially eleven percent in 2007, but widely regarded by economists as higher), with wages and pensions were not improved enough to compensate for the price increases (Kulick and Yakobashvili, 2008:35-36).

As another negative development, the August 2008 war and the global economic crisis have resulted in a number of significant blows to growth and stability, including a deterioration in investor and consumer confidence, contraction of liquidity in the banking system, infrastructure damage, and increased numbers of internally displaced persons (IDPs). Economic growth, estimated at 2.1 percent in 2008, represents a sharp slowdown from rapid growth in excess of 9 percent during the preceding four years. The economy contracted by 3.2 percent during the second half of 2008 (World Bank, 2009). In the donors' conference, which was held on 22 October 2008 in Brussels, 38 countries and fifteen international organizations promised more than \$4.5 billion over a three-year period – \$2 billion indirect aid, the rest via low-interest loans. While the Georgian government can use this external financial funding to satisfy some urgent needs of the society and make some critical investments, it will have hard time in restoring international investor confidence in Georgia (International Crisis Group, 2008:10). Recovering consumer confidence would be another daunting task to tackle with. When the effects of global crisis have been combined with those of the August War the situation has become complicated. Together with the discontent over losing jobs as a result of government downsizing and dismissal of personal in the framework of restructuring and fight against corruption, the uneasiness about the economic difficulties prepared the ground for the emergence of spring protests in 2009 which would last for nearly three months.

Although the defeat in the South Ossetian War created the expectation in opposition circles that citizen discontent would result in Saakashvili's removal from power, these hopes were dashed in a short while. Opposition protests could not appeal to the Georgian society much and attract wide participation. At the end of the day, the opposition ended the protest without taking what they demanded, Saakashvili's resignation (Civil Georgia Newspaper: 2009). Georgian society showed its support for

Saakashvili even in a more significant extend in the municipal elections that were held on 30 May 2010. Mikhail Saakashvili's party won 65.6 percent of the vote in municipal elections which took the form of an informal referendum on Saakashvili's presidency (Georgian Daily Newspaper: 2010). This can be attributed to a number of factors. First of all, most of the society blame Russia not the Saakashvili for the outbreak of South Ossetian war. Therefore resulting economic damage is not viewed as the sole fault of Saakashvili. More importantly, although Saakashvili's reforms hurt some segments of the society, an even wider part of the society benefitted from them. Despite remaining hurdles like corruption at the top or unemployment, the Georgian people seems to embrace the view that compared to Shevardnadze's term they live under better conditions under Saakashvili's leadership. Whereas the opposition tried to make the Georgian public to focus on the negative sides on the Saakashvili's rule, the society tends to focus on improvements and achievements. This accounts for the continuing support for him despite existence of some problems.

5. CONCLUSIONS

Georgia experienced an important degree of instability with the weakening of Soviet authority and the coming of independence. Gamsakhurdia's style of governance exacerbated the problems that Georgia inherited from the pre-independence period. With his provocative statements and exclusionary policies, Gamsakhurdia increased the anxieties of the minorities contributing to the outbreak of secessionist conflicts. Moreover, he antagonized Russia with his confrontational stance. His policies prepared the ground for the emergence of complex problems that would result in weakening of Georgian state in many fields including economy besides bringing about his own removal from power.

Shevardnadze tried to address the problems leading to Gamsakhurdia's fall after he had resumed power. He established and strengthened the CUG as his power base and tried to tie the members of this party to himself by providing them with lucrative positions and reserving the right of appointment for himself. In this way, he took the role of balancer among different elites competing for power and economic resources.

However, starting with 1995, the system he established contributed to the weakening of the state. The increasing corruption started to eat state resources and deteriorate the economic hardship of the masses. As revenues declined further, the regions, whose leaders were provided with exclusive control over state resources, have turned into the personal fiefdoms of these local leaders and moved out of state control. Whereas a small group controlling state assets enriched themselves increasingly, the Georgian state became deprived of resources to provide basic services, pay salaries and pensions and satisfy citizen needs. Economic hardship played an important role in motivating the Georgian society to mobilize against Shevardnadze regime and bring its end through the Rose Revolution in 2003.

Whereas economic hardship motivated the masses to rise against Shevardnadze, economic development and improved life standards resulted in sustained support for Saakashvili. Saakashvili period was not devoid of negative developments in the economic field. Some of reforms harmed some groups in the society including the ones that lost the previous privileges or their jobs. The Ossetian War of 2008 resulted in

infrastructural damage and acted as a blow to consumer and investors confidence. However, compared with Gamsakhurdia and Shevardnadze periods, Georgian society experienced improved life standards in Saakashvili's term. Moreover, Saakashvili realized many reforms, most notably curbing corruption, that have smoothed the progress of daily lives of the masses. Consequently, the Georgian society did not tend to support opposition protests to a significant extent and showed its support for Saakashvili's party in the municipal elections of May 2010.

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