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Georgia on my mind? Russian sanctions and the end of the 'Rose Revolution'

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ABSTRACT

In recent years Russia has launched a concerted effort to undermine pro-Western regimes in the former Soviet area by using economic sanctions. Most studies of this economic offensive have focused on Russia's obvious use of natural gas as a political weapon. This paper adds to that literature by showing how the Kremlin in fact uses many kinds of sanctions simultaneously. The case of Georgia illustrates this clearly. To undermine President Saakashvili Moscow used not only energy sanctions, but also trade and financial sanctions, as well as restrictions on Georgian migrant workers. As this case shows, democratic regimes may be particularly vulnerable to such economic sanctions, since even a relatively small economic decline can cause an incumbent to lose an election. The Russian effort in Georgia seems to have succeeded, as Saakashvili's party was driven from office in the 2012 and 2013 elections by Georgian Dream, a new coalition founded by Bidzina Ivanishvili, a billionaire who made his fortune in Russia. However, Ivanishvili has now found that he, too, faces Russian economic pressure.

1. Introduction and theory

The former President of Georgia, Mikheil Saakashvili, was widely seen as a thorn in the side of the Kremlin. Along with the leaders of the Baltic States and the former Ukrainian President, Viktor Yushchenko, he was firmly pro-Western and consistently attacked Moscow. In Saakashvili's case, the word 'attack' is not meant only as a metaphor. Georgian troops invaded the breakaway province of South Ossetia in the summer of 2008, precipitating a brief war with Russia which ended badly for the Georgians.

After years of conflict, Russia was very pleased by the results of the October 1, 2012 parliamentary elections in Georgia. To the surprise of many observers, Saakashvili's United National Movement (UNM) was defeated by an upstart coalition known as "Georgian Dream." This new group was led by a mysterious multi-billionaire who had made his fortune in Russia before returning to Georgia, Bidzina Ivanishvili. While Saakashvili retained the presidency for another year, his influence was sharply curtailed, as his opponents controlled parliament and could appoint a new Prime Minister and cabinet. The definitive end of the Saakashvili period came on October 27, 2013, when presidential elections were held—elections in which Saakashvili was unable to run, having already served two terms in office. His party was trounced, with its candidate receiving just under 22 percent of the vote. The Georgian Dream candidate, Giorgi Margvelashvili, dominated with over 62 percent.[1]

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[1] Delany, Max, and Irakli Metreveli, "Georgian PM Ally Revels in Big Win at Presidential Poll," *Agence France Press*, October 28, 2013.

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This paper will analyze some of the reasons for the defeat of Saakashvili's party in 2012 and 2013. While there were certainly other factors in the election results, as will be noted below, the paper will argue that Russian sanctions played an important role in undermining his presidency. As was seen in the Ukrainian case, where the anti-Russian president, Yushchenko, was ousted in a 2010 election, the Russians used punitive energy price increases and supply embargoes to weaken the Georgian economy.[2] In contrast to the Ukrainian case, however, in dealing with Georgia the Kremlin relied more on other types of sanctions. As we shall see, these included a variety of trade and financial measures, ranging from banning Georgian exports (such as wine, fruit and mineral water) to restricting the ability of Georgians to work in Russia—a hard blow to a small, weak economy which relies heavily on remittances from workers in foreign countries.

I believe that cases such as this are actually quite common in International Relations. For the sake of simple, parsimonious explanations, much literature on sanctions focuses on only one instrument at a time—for example trade embargoes or financial sanctions.[3] While in some cases it may be possible to focus on one sanction—such as the international embargo on oil exports imposed on Saddam Hussein of Iraq from 1991 to 2003—many other cases involve multiple instruments. Such cases may be harder to study, but they are important to understand if we want to gain an accurate picture of the role of sanctions in today's world. I argued this in my paper on the US-led “Coalition of the Willing” in the Iraq war, written for *International Studies Perspectives* in 2008.[4] Washington used a wide variety of sanctions and incentives to help forge that coalition, ranging from threats to close military bases in Germany to offers to hire guest workers from the Philippines, and from promises of Iraq reconstruction contracts to Poland to threats to boycott French wine exports. Today Moscow uses a similar variety of carrots and sticks to influence its neighbors.

The Georgian economy was—and remains—very vulnerable to Russian sanctions. This can be clearly by the criteria which experts use to predict sanctions success.[5] First, the Georgian economy is vastly smaller and weaker than that of Russia. While Russia's GNP is currently estimated at about 2 trillion dollars, Georgia's stands at only 16 billion, about 125 times smaller.[6] Similarly, Georgia's trade turnover is a rounding error compared to that of its larger neighbor, with Georgian exports in 2012 estimated at $3.3 billion and Russia's at $530 billion, about 160 times larger. Additionally, Russia enjoys a hefty trade surplus—about $200 billion in 2012—while Georgia's imports are double its exports, leaving it with a large trade deficit ($3.3 billion). Russia's GNP per capita is estimated to be three times that of Georgia's (roughly $18,000 versus $6,000) and its unemployment rate is about three times lower (5.7% versus 15.1%). All of these factors make it relatively easy for Russia to use economic leverage against the Georgians. Clearly any disruption caused by trade or financial sanctions will be insignificant for Russia, but highly painful to the small, weak Georgian economy. As we shall see in more detail in the sections to follow, Georgia's overall economic weakness is mirrored in more specific areas, including energy, trade and migration.

Georgia's economic dependency is further deepened by a second fact—its geographic location. Georgia borders on Russia, and has few other strong neighbors it can turn to as economic alternatives. As we shall see, Azerbaijan was able to provide Tbilisi with useful energy resources. Yet in other ways, the small, poor states abutting Georgia to the south and east are not terribly useful economic partners—for example, they cannot match Russia in providing many jobs for Georgian workers or large markets for Georgian exports. For example, while Turkey is now Georgia's largest trading partner it is too small to purchase as much as Russia, and trade has also been hampered by the lack of an easy route over the harsh mountains separating the countries.[7]

Finally, a third important factor is that, due to their shared history in the Russian Empire and Soviet Union, economic ties were built up for many years between Russia and Georgia, both through deliberate government policy and through natural economic evolution. Such long-established ties are costly to break. Both Czars and Commissars feared that Georgia, like other parts of the Russian/Soviet empire, might be tempted to veer away from Moscow's control. This fear seemed justified when the Georgians briefly gained their independence in the Russian Civil War of 1917–21. In all of the economic areas we will consider—energy supplies, trade, and labor migration—the well-established ties with Russia became strong vulnerabilities for the Georgians when they tried to defy Moscow's wishes.

How, though, does the Georgia case fit into the broader literature on economic sanctions? This case helps to confirm an important theory in the study of economic leverage: democracies may be more vulnerable to sanctions than autocracies. There are several reasons for this. First, democratic leaders must keep the support of a majority of citizens to stay in power. Autocrats can make do with a much smaller ‘winning coalition.’[8] If sanctions harm

[2] Newnham, Randall, “Pipeline Politics: Russian Energy Sanctions and the 2010 Ukrainian Elections,” *Journal of Eurasian Studies*, Vol. 4, No. 2 (July 2013), 115–122.

[3] See such classic works on sanctions as Baldwin, David, *Economic Statecraft*. Princeton: Princeton University Press, 1985; and Hufbauer, Gary, et al., *Economic Sanctions Reconsidered* (3rd Ed.). Washington, DC: Peterson Institute for International Economics, 2007.

[4] Newnham, Randall, “Coalition of the Bribed and Bullied? U.S. Economic Linkage and the Iraq War Coalition,” *International Studies Perspectives*, Vol. 9, No. 2 (May 2008), 183–200.

[5] See for example Baldwin and Hufbauer, *Ibid*.

[6] Data in this paragraph, all 2012 estimates, are from *CIA World Factbook*, www.cia.gov, and own calculations.

[7] The two sides are working hard to change this: a railroad link, the Baku-Tbilisi-Kars line (BTK) is under construction and is now scheduled to be completed soon. Sam Applegate, “First Test Train on BTK Railway,” *MENA Rail News*, January 30, 2015 (www.menarailnews.com).

[8] See for example Risa Brooks, “Sanctions and Regime Type: What Works, and When?” *Security Studies*, Vol. 11 No. 4 (2002), 1–50; Susan Allen, “The Determinants of Economic Sanctions Success and Failure,” *International Interactions*, Vol. 31 No. 2 (2005), 117–138; David Lektzian and Mark Souva, “An Institutional Theory of Sanctions Onset and Success,” *Journal of Conflict Resolution*, Vol. 51 (2007), 848–871.