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Georgia: Risk and Opportunity

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ACRONYMS

BTC	Baku-Tbilisi-Ceyhan (pipeline)
CIS	Commonwealth of Independent States
EU	European Union
NATO	North Atlantic Treaty Organization
OSCE	Organization for Security and Cooperation in Europe
UN	United Nations

INTRODUCTION

Georgia's independence was restored in 1991, when the USSR collapsed. Since then, it has experienced two civil wars and two unconstitutional changes in government. Its economy collapsed in the early 1990s, with gross national product dropping by more than 50% between 1990 and 1995, and inflation peaking at 15,000 per cent in 1994. The road back has been slow and uneven.

It is a small and troubled country, but it lies on one of the most significant energy transit routes of the post-Cold War era – the southern route for oil and gas exiting the Caspian Basin to Mediterranean, European, and global markets. The construction of the Baku-Tbilisi-Ceyhan pipeline from Azerbaijan through Georgia to Turkey was one of the more significant infrastructural projects associated with exploitation of “new” energy provinces early in this decade. The BTC oil line has now been paralleled by a gas pipeline from Baku through Georgia to Erzurum. These lines, and the access to Azerbaijan's energy product that they provide, make a small but significant difference to European energy security. If Transcaspien options emerge for the transport of Turkmen gas and Kazakh oil and gas to Azerbaijan, this route will become a quite substantial source of supply for Europe and international markets.

On the other hand, the Caspian Basin will account for 4million barrels per day of oil production by 2015. That is about 4% of projected global production, roughly similar to Alaska and slightly smaller than Mexico at their peaks. Gas is bigger at approximately 7%.

This paper assesses recent and current political, economic and social developments in Georgia. It also examines Georgia's international position and the risks arising therefrom. It highlights several key risks for Georgia, among them the continuing challenges of economic modernization and opening Georgia to the world economy, renewed political instability, renewal of (or the failure to resolve) Georgia's “frozen” conflicts, and potential deterioration in Georgia's international position.



THE ECONOMY

At the time of independence, Georgia's economy was strongly oriented towards the Soviet market, focusing on subtropical agriculture (wine, tea, citrus). The collapse of the USSR and the initiation of two civil wars (Abkhazia and South Ossetia) along Georgia's most significant north-south trading routes significantly damaged these trading links resulting in a substantial drop in GDP. That the Abkhaz war occurred in a region playing a prominent role in Georgian export-oriented agriculture exacerbated the problem. Much of Georgia's industrial capacity (e.g. the Rustavi metallurgical complex and military aircraft manufacturing) was dependent on energy and raw material or component inputs from other republics of the former Soviet Union. This trade encountered significant difficulties as the union disintegrated and is still not properly restored. Infrastructural ties to countries outside the former USSR were weak. These factors, combined with the cost and the associated difficulties of waging two small wars, and the political chaos of the early post-independence period, produced near-complete economic collapse. War, fiscal crisis and the attendant collapse of public spending and service provision (including public order) generated a fairly large scale humanitarian emergency in 1992-1994. That the country has yet to recover in the long term is suggested by the continuing population decline; Georgia's population was 5.4 million in 1989¹, 4.7 million in 2000, and 4.4 million in 2006.²

The precipitous economic decline bottomed out in 1995 as political conditions stabilized under Eduard Shevardnadze, active fighting ended in the secessionist regions, and Georgia reformed and stabilised its currency with the assistance of the World Bank and the International Monetary Fund. Georgia began to recover in 1995-1997, but the global financial crisis of 1997-1998 fostered a further slowdown. Recovery resumed in 1999-2000 and by the middle of this decade, Georgia was growing at an annual rate of 9.4% (see Table 1).

Table 1. Economic Trends, 2000-2006³

	2000	2005	2006
GDP (current US\$)	3.1 billion	6.4 billion	7.6 billion
GNI per capita (current US\$)	700	1300	1560
GDP growth	1.8	9.3	9.4
Inflation	4.7	8.3	5.7
Export of goods and services (%GDP)	23	40.9	45.3
Import of goods and services (%GDP)	39.7	53.4	62.1
Foreign Direct Investment (current US\$)	131.1 million	449.8 million	-
Official Development Assistance (current US\$)	169.4 million	309.8 million	-
Remittances (current US\$)	274 million	346 million	485 million

¹ 1989 Soviet census.

² World Bank, "Georgia Data Profile," available at <http://devdata.worldbank.org/external/CPProfile.asp?PTYPE=CP&CCODE=GEO>. Accessed 29/3/08

³ *Ibid.*

A number of issues arise here in the consideration of economic risk. First, gross national income *per capita* remains low and, in real terms, below where it was at the end of the 1980s. Growth is concentrated in sectors that produce few jobs and is stagnant in sectors of significant employment potential. Reasonably rapid growth, consequently, has produced little improvement in national employment rates. Income is also very unevenly distributed; income inequality is comparatively high and growing. High rates of income inequality in a high-poverty context⁴ may be related to propensity for social conflict. This relationship is strengthened when inequalities fall along rural-urban lines (as they do to an extent in Georgia – extreme poverty in rural areas doubled between 1996 and 2004), fostering rural-urban migration, and also where they fall on ethno/regional lines. In this context, Armenian- and Azeri-populated regions in Georgia are noticeably more impoverished than the norm,⁵ adding an economic dimension to potential ethnic tension.

A second clear vulnerability is inflation. Although far below the catastrophic rates of the mid-1990s, inflation was significant in 2004-6, and remains comparatively high. This is eroding the already low incomes of the large portion of the population in or close to poverty. Inflation is driven in part by the high proportion of GDP accounted for by remittances (since these increase the money supply) and official development assistance.

The comparatively high rates of inflow of foreign assistance into the country have an additional negative economic effect. Although currency appreciation may mitigate inflationary pressure, they reduce the competitiveness of Georgian exports, with attendant negative effects on employment and outward trade.

Exports of goods and services, moreover, are vulnerable to exogenous events. Russia, which remains Georgia's largest trading partner, has used trade sanctions against Georgia for political reasons, and for reasons discussed below, may find it expedient to continue to do so. Such measures have particularly strong effects on specific regionally concentrated categories of producers (*e.g.* the large portion of the population in eastern Georgia whose livelihoods depend on the production of wine and its export to Russia).

In a similar vein, Georgia's heavy reliance on official development assistance is in considerable measure a product of the strong relationship with the United States. As is argued below, this is an artefact of the Bush Administration's foreign policy and there is, consequently, reason for doubt about the durability of this flow. Likewise, and concerning remittance income (vital as a safety net for more vulnerable groups in the population), the bulk comes from Georgians working in Russia – often illegally or semi-legally. In this respect, this flow of income is vulnerable to the poor state of relations between the two countries.

In terms of the economic situation, two other issues bear mention. One is infrastructure. The country's road and rail infrastructure is pretty run down. No significant maintenance or upgrade was undertaken between 1990 and 1996. Since then, a substantial amount of investment in the East-West road corridor has been undertaken, largely by the World Bank, the European Union, and national aid agencies. Conditions for road traffic from the Black Sea (Poti and Batumi) to Tbilisi and beyond to the border with Azerbaijan have improved, not only because of physical improvements (including at border crossings from Turkey and into Azerbaijan), but also as a result of crime reduction along the nation's highways, as the state has retaken control of the countryside. Even so, in the judgement of the World Bank, limited

⁴ In its latest country strategy paper for Georgia, the World Bank noted that more than 50% of the population was affected by poverty and that the proportion of the population affected by extreme poverty had increased between 2002 and 2005.

⁵ Economic difficulty in the Armenian-populated zone of south-central Georgia is exacerbated by the closure of the Russian military base in Akhalkalaki. The base was a major employer of the local population, and Russian servicemen increased the size of the local market.

capacity on the road network remains a serious constraint to increasing transport volumes along the east-west corridor linking the Black Sea to the Caspian.⁶

In parallel, the rail system from the coast to Azerbaijan has been upgraded, given the importance of the shipment of oil along that line. The other major improvement has been in pipeline infrastructure. This began in the mid-1990s with the construction of a small diameter oil line from Baku to Poti and the construction of a terminal for the storage and trans-shipment (to tankers) of Azerbaijan's early oil from the Chirag-Guneshli offshore field. This was followed in the early years of this decade by agreement on and construction of a large diameter oil pipeline from Baku through Tbilisi to Ceyhan (BTC) on the Turkish Mediterranean Coast. As noted above, and stimulated by the discovery of a large offshore gas deposit at Shah Deniz in offshore Azerbaijani waters, the BTC oil line was then paralleled for much of its route through Azerbaijan and Georgia by a large diameter gas line terminating at Ezurum on the Turkish Black Sea coast.

Paradoxically, energy supply remains problematic for Georgia. Although dependence on Russia for energy (notably for gas) has decreased to an extent in the last three years, distribution networks require substantial further investment. Electricity outages are frequent, particularly outside the capital city. In the meantime, energy prices have increased dramatically, with attendant effects on growth and living standards.

Despite evidence of infrastructural improvement in road and rail, one key further shortcoming remains – the deterioration of north-south infrastructure linking Georgia to its major historical trading partner – Russia. The rail line from central Georgia north through Abkhazia to the Russian border fell into disuse in 1992, and has not been rehabilitated. Likewise, the important road link through South Ossetia and the Rokhi Tunnel to North Ossetia has been disrupted by continuing conflict between the Georgian government and the *de facto* authorities of this small region along Georgia's northern frontier. Much work remains to be done to improve the third major North South link, from Tbilisi to Vladikavkaz.

The final point to stress here is corruption. In 2002, Georgia was ranked 85th out of 102 countries included by Transparency International in its "corruption perceptions index." In 2007, Georgia was ranked 79th out of 179 countries included.⁷ So the good news is that the situation has improved markedly since the 2003 Rose Revolution (see below). The bad news is that corruption remains serious at both petty (*e.g.* the need to bribe to secure government documents) and grand (*e.g.* the allocation of major projects or market sectors to allies of the government) levels. The 2007 ranking puts Georgia in the company of Serbia, Trinidad and Tobago, and Saudi Arabia, and just ahead of Bosnia. Linked to questions of the rule of law in the economy are growing ambiguities about property rights; over the past two years, the government has expropriated considerable amounts of private real estate in the capital, on grounds of ambiguous title or illegal use, and with a view, ostensibly, to rehabilitation of the city. However, this may have benefited those close to the regime. It has also fostered considerable discontent. This uncertainty contributes to the general political malaise.

POLITICS IN GEORGIA

Georgia declared independence in 1990 and was recognised as an independent state in 1991 after the collapse of the USSR. Since that time, it has had two unconstitutional presidential successions. The first (in 1992) was accompanied by a third minor civil war in the streets of Tbilisi as the opposition attempted to force the government of the first president, Zviad Gamsakhurdia, out of the Parliament. The fighting flattened a fair amount of

⁶ World Bank, "Georgia: Country Strategy" (October 2005), Report No. 33295-GE (Washington, DC: World Bank, October 2005), p.23.

⁷ http://www.transparency.org/policy_research/surveys_indices/cpi Accessed 30 March, 2008.

central Tbilisi. The second was the Rose Revolution of 2003, when mass demonstrations produced a peaceful invasion of Parliament by supporters of Mikheil Saakashvili. After three days of standoff, Eduard Shevardnadze resigned and the current president took power, and began what is widely perceived to be a process of significant democratization and economic reform. This process was dominated by constitutional changes strengthening the power of the presidency at the expense of Parliament, a very public anti-corruption programme, and the reform of numerous state institutions, notably the police. In the first election after the revolution, Saakashvili received 96% of the votes in a process generally perceived as free and fair. His supporters went on to secure effective control of the legislature.

Since that time, matters have stagnated or deteriorated. Constitutional changes have concentrated power in the hands of the presidency at the expense of the Parliament. The Parliament is less representative than previously, owing to threshold percentage rules that have excluded several smaller parties from the legislature.⁸ Government control of media is stricter than it was under the previous government. Human rights violations by law enforcement officials continue. These have included beatings and assassinations of opponents of the government. The judicial system has yet to obtain substantial independence from the government. There has been little progress in the establishment of a deeply rooted civil society. Non-governmental organizations generally have rather narrow elite memberships. One influential study suggests that their influence has shrunk since the revolution.⁹ Mature and stable political parties are lacking; Georgian politics remains highly personalistic. In other words, not much progress has been made to stabilise the political situation since the 2003 Revolution.

Economic and political discontent with the Government boiled over into large street demonstrations in November 2007. These were forcibly suppressed, contributing to widespread political resentment. The principal independent television station – Imedi – was taken off the air and has yet to be fully restored. The disturbances were followed by the resignation of the president who then ran for re-election, winning 52% of the vote and resuming office in January 2008. Although the elections were generally deemed free and fair by international observers, it was clear that Saakashvili enjoyed preferential access to the media. The voting suggests a dramatic reduction in popular confidence in the government. Had the opposition been able to find a more plausible candidate, Saakashvili might well have lost despite the advantages of *de facto* incumbency. Georgian political life since then has been punctuated by opposition demonstrations and hunger strikes on the steps of Parliament. Observers expect a close result in parliamentary elections in 2008, in the event that the election is free and fair. If the opposition wins a majority of seats, there is a danger of policy paralysis.

The second major dimension for discussion here is Georgia's "frozen" conflicts. As already noted, Georgia had two civil wars in the early 1990s. These ended in South Ossetia in 1992 and in Abkhazia in 1993. In each instance, the government failed to re-establish central control over areas attempting to secede. In each case, Russia supported the secessionists. The ceasefire in South Ossetia is monitored by a mixed peacekeeping force comprising local Georgians, local Ossets, and forces from North Ossetia and Russia. In Abkhazia it is monitored by a peacekeeping force comprising units of the Russian Army.

The civil conflicts resulted in the displacement of some 250-350,000 Georgians into areas remaining under Georgian government control. These people have constituted an impoverished and very disaffected faction in Georgian politics, and this constrains the government's flexibility in negotiations aimed at a lasting peace.

⁸ To obtain representation in Parliament, a party must receive 7% of the votes cast. In the first elections after the revolution, only one party (other than the ruling coalition) did so.

⁹ Freedom House, *Nations in Transit: Georgia* (New York: Freedom House, 2007), p.286.

Since the end of active hostilities and despite the active mediation of the UN, the OSCE, the United States, the European Union, etc., there is little evidence of progress towards a political resolution. This is a result of several factors: resistance to the return of Georgian internal refugees to areas from which they were cleansed,¹⁰ the lack of trust on the part of secessionist authorities that their interests will be preserved in the event of a settlement, and the preference of the Russian Federation that there be no settlement.

Saakashvili came to power promising to reunite the country and restore effective sovereignty. Within a few months, he had succeeded in restoring the government's remit over Ajaria, a third troubled region to the south of Abkhazia. This was the easy one, since there had been no violent conflict. Attention then shifted to South Ossetia where, in 2005, the Georgians increased military and police pressure on the local *de facto* authorities. The result was a major incident in which a number of Georgians died. This episode underlined the continuing fragility of the cease-fire and the risks of efforts to move things forward. In 2007, the government moved to restore control over the Upper Kodori Gorge, the only area of Abkhazia not under the direct control of the Abkhaz "government". The action provoked a number of Russian air and artillery incursions and attacks across the borders, presumably out of a desire to warn the Georgians off Abkhazia itself. I return to this issue in the following section.

Turning to political prospects, one major risk is the general level of discontent and potential instability, and specifically that the parliamentary elections in May will be accompanied by significant disturbances. As noted above, if the parliamentary elections favour the opposition, one can expect significant difficulties between the two branches of government in years to come.

A second lies in the evolution of the situation in secessionist territories. For reasons discussed below, there is reason for concern about the possibility of a resumption of hostilities. In addition, if Georgia fails to enhance living standards in other minority areas, notably the Armenian-populated zone of south-central Georgia, disaffection may affect the security of the oil and gas pipelines to Turkey, both of which pass through this area. Any resumption of hostilities between Azerbaijani and Armenian forces in or around Karabakh would also carry risk for the pipeline, since, in the Armenian view, revenue from oil and gas export from Azerbaijan risks destabilising the balance of forces in the Karabakh conflict.¹¹ From Armenia's perspective, one way to mitigate this risk would be to damage or destroy the pipelines.

GEORGIA'S EXTERNAL RELATIONS

Georgia is a small state in a tough neighbourhood next to an increasingly assertive great power (Russia). Small powers facing growing proximate threats that they have insufficient resources to manage on their own have two basic policy options. The preferred option is balancing: the construction of partnerships or, more ambitiously, alliances with other centres of power. The alternative, in the absence of balancing options, is accommodation with the power posing the threat. To judge from its enthusiastic pursuit of membership in NATO and in the EU, Georgia prefers the former. The question is whether the balancing option is viable. If it is not, then the effort to pursue it carries substantial risk.

Whatever happens in, and whoever rules, Georgia, the country faces a growing threat to its autonomy, if not its territorial integrity and statehood. That threat is rising Russian strength

¹⁰ In the case of Abkhazia, allowing refugee return as part of a political settlement would result in Abkhaz loss of control over the territory they claim, since the returning Georgians would outnumber the Abkhaz population.

¹¹ Nagorno-Karabakh is an Armenian-populated region of Azerbaijan that rebelled against Azerbaijani authority in 1988 and has remained outside government control since 1992.

and confidence and their implications for the distribution of power in the former Soviet space. Russia is the previous owner, and substantial sections of its body politic have not reconciled themselves to Georgia's departure. Relations between Russia have been troubled since 1991. There was substantial evidence of Russian involvement in the uprisings in South Ossetia (1990-1992) and in Abkhazia (1992-3) that have resulted in the partial *de facto* dismemberment of Georgia. Eduard Shevardnadze, Georgian head of state from 1992 to 2003, was reviled by large sections of the Russian political and security elite as the man who – when he was Soviet Foreign Minister in the late 1980s – presided over the dismemberment of the Warsaw Pact and a substantial loss of Soviet power in Europe.

Georgia refused to participate meaningfully in the Commonwealth of Independent States, the organization that Russia saw as a way to maintain at least some control over the former Soviet space after the collapse of the USSR. Georgia is widely considered in Russia to have assisted the Chechen rebellion against Russian rule. The two sides have quarrelled steadily over Russian military bases remaining in Georgia. Russia opposed the creation of an east-west energy corridor from the Caspian Basin to the West, seeking to maintain a monopoly on energy export from that region. Georgia provided the route for the east-west corridor. Among the Caucasian states, Georgia has been the most consistent advocate of closer relations with the United States, NATO, and the European Union.

In sum, relations were bad. However, in the 1990s, Russia faced an economic crisis, a loss of central authority over many of Russia's regions, the near collapse of military power, and deep crisis of confidence among elites and publics. Russia lacked the capacity to project force effectively in its neighbourhood. This created a window for the assertion of effective sovereignty by Georgia, as well as creating space for substantial and relatively unimpeded engagement by outsiders. That window may now be closing and the space shrinking.

Russia's economy and financial position have substantially recovered since the end of the 1990s as a result largely of rising oil and gas prices. In the meantime, Mr. Putin and his colleagues, including his president elect, have achieved an impressive degree of political consolidation and are essentially unchallenged in Russian politics. Russia's capacity to reassert influence in its neighbourhood has grown; its confidence in the assertion of power has returned.

Russia seems increasingly prone to domineering behaviour in the region and beyond. Russia's successful effort to remove American bases from Uzbekistan, and to tie Turkmen gas into Russian distribution networks are examples of the former, leaving aside the political manipulation of energy supplies to neighbouring states. Its undermining of the Nabucco project, acquisition of energy assets in southern and east-central Europe, adamant opposition to American missile defence projects in Poland and the Czech Republic, obstruction of Western initiatives on Iran, re-entry into Middle Eastern politics, and growing strategic collaboration with China are examples of the wider challenge.

The evolution of Russia's relations with Georgia fits this pattern. Russia has applied increasing pressure against Georgia economically (the embargo on Georgia's wine exports, restrictions on visas for Georgian migrants, and interruptions of energy supply), politically (Russia's blocking of the continuation of the OSCE's border monitoring mission in the vicinity of Chechnya, recent initiatives in the Russian Parliament to recognise the breakaway regions of Abkhazia and South Ossetia), and militarily (the growing numbers of military incursions, and use of Russian artillery and air power against Georgian targets in the Kodori Gorge). This evolution in Russian policy has been accompanied by growing Russian interference in the affairs of Abkhazia and South Ossetia through financial subsidies to the *de facto* authorities of these secessionist regions, secondment of military personnel, and the grant of Russian citizenship to residents of those regions. In April 2008, and in view of NATO's "promise" of membership for Georgia, the Russian government significantly

upgraded its official relationship with South Ossetia and Abkhazia by permitting direct links between Russian ministries and their counterparts in the two secessionist regions.

Georgia's strongly pro-American, pro-NATO and pro-EU orientations and the Georgian government's vituperatively anti-Russian rhetoric probably have not helped here. These positions contribute to the hardening of the Russian position (as do particular actions on the part of Georgia such as the arrest of four Russian military officers on charges of spying in 2006), but there is little doubt that Russia would be reasserting itself in the Caucasus, as elsewhere in the CIS, in any event. The aspiration to restore influence in the region has been present since the early days of the Yel'tsin era. Now Russia has the capacity to pursue the aspiration.

In other words, Georgia's position in the regional structure of power is deteriorating. Despite Georgia's own growing defence expenditure,¹² the country will remain relatively weak in comparison to the Russian Federation. That is one reason Georgia has pursued balancing options. There are two obvious focuses for this policy: the United States and Europe.

The Bush Administration has invested heavily in the relationship with Georgia. The question is how sustainable this level of engagement is. In the first place, for many in the United States, the bloom was off the Georgian rose well before the events of November 2007, for reasons discussed in the previous section.

In a broader context, Georgia's close relations with the United States rest in considerable measure on the personal relationship between Presidents Saakashvili and Bush. Bush will be gone within the year. The perspectives of the more likely contenders for the US presidency are uncertain, with the partial exception of Senator McCain, who has long been interested and involved in Georgian affairs. But the political transition in the United States will almost certainly reduce the personal engagement of the American leadership with Georgia.

Leaving aside personalities, the United States is heavily preoccupied in Iraq and Afghanistan, and faces some potential for serious conflict with Iran. It has a full docket of strategic problems already. The US economic position deteriorated throughout the Bush era, and that deterioration has now accelerated with the bottom yet to be found. Given the economic strain, the atrophy of the American military, and the domestic political consequences of Bush's foreign policy and military activism, there is strong reason to expect a more circumspect and less activist American engagement in global politics, particularly in places like Georgia, where critical American interests are not in play. In short, the prognosis for American policy in Georgia is for disengagement and a reduction in profile. The domestic political ruction in Georgia since November 2007 strengthens this tendency. In such conditions, a balancing strategy focusing on the US may well not provide the security that Georgia needs.

That leaves Europe as a possible strategic partner for Georgia. The problem here is that it is not entirely clear that Europe (the EU) is an entity capable of strategic action toward Georgia. The European neighbourhood is a contested concept. The Baltic and Black Sea states know what neighbourhood they are talking about, and that neighbourhood includes Georgia. However, EU members on the Mediterranean littoral are talking about a different neighbourhood (North Africa, the Levant, Turkey, and the Balkans). Even in the Black Sea context, one might expect Bulgaria's recent agreements with the Russian Federation on energy transit to raise doubts about the capacity of that part of the EU to achieve strategic

¹² Georgia's defence budget rose from \$(US) 90 million in 2004 to \$(US)349 million in 2006. See IISS, *The Military Balance, 2006 and 2007* (London: Routledge for the IISS, 2006 and 2007), pp.125 (2006) and 166 (2007).

consensus on Georgia. Some of the EU's older members, meanwhile, show little interest in policies that might complicate Russian energy supply.

In addition, the EU is more sensitive than the US to the obvious departures of the current Georgian government from what Europe understands to be democratic development, while also being uncomfortable with the rapid increase in Georgian defence spending. Membership in the EU is decades away, not only because of the difficulty of getting Georgia to a level where it could meaningfully participate, but also because the Turkish candidacy needs to be resolved first.

Turning to NATO, the same tensions evident in the EU have reproduced themselves here. Membership is important to Georgia because the treaty contains a security guarantee. It was clear that many members of NATO had reservations about Georgia's desire for membership.¹³ NATO itself had expressed serious concerns about the evolution of Georgia's institutions (*e.g.* the judiciary). At the April 2008 NATO Summit, President Bush put his weight behind Georgia's application for a Membership Action Plan (MAP). Germany, France, and some smaller member-states refused to go along. The outcome was a vague (and meaningless) promise that one day Georgia would become a member. This outcome suggests that, for the time being, NATO membership and the associated security guarantee are off the table.

In short, for Georgia, balancing in the face of the growing Russian threat seems unpromising. Accommodation may be the only sensible option. There is, however, no evidence whatsoever that the government of Georgia understands this. In consequence, and when combined with Russia's unhappiness over the widespread recognition of Kosovo by Western governments,¹⁴ we can expect further deterioration in the relationship with Russia, and further pressure from Russia on Georgia. The secessionist territories, and also the trade relationship, are the obvious targets.

SUMMARY AND PROSPECT

Georgia is in a difficult economic situation which has produced and will continue to produce potential for political instability. Domestic resentment of the incumbent government is growing and could spill over. The government has failed to deliver on its promise of reunification. There seems little prospect of early movement towards a durable resolution of its internal conflicts and some possibility of their exacerbation or proliferation. The relationship with the most significant power in the region is a mess. There is little evidence that Georgia can rely on others to defend it in the context of worsening relations with Russia. Georgia, in short, faces an intimidating array of domestic and international difficulties. It is not obvious that the government understands its situation or that it is developing robust measures to address it. In this context, risk clearly outweighs opportunity.

¹³ Among them taking in a member with two suspended secessionist conflicts on its territory, as well as the impact of an expansion of the alliance into the Caucasus on their relations with Russia.

¹⁴ Russia adamantly opposed the movement of Kosovo towards independence, given its close relationship with Serbia and general unhappiness with the assertion of NATO, the US, and the EU in the western Balkans.

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