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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.

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## 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.<sup>1</sup>

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<sup>1</sup> Delany, Max, and Irakli Metreveli, “Georgian PM Ally Revels in Big Win at Presidential Poll,” *Agence France Press*, October 28, 2013.

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.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup>

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.’<sup>8</sup> If sanctions harm

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

<sup>3</sup> 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.

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

<sup>5</sup> See for example Baldwin and Hufbauer, *Ibid*.

<sup>6</sup> Data in this paragraph, all 2012 estimates, are from *CIA World Factbook*, [www.cia.gov](http://www.cia.gov), and own calculations.

<sup>7</sup> 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](http://www.menarailnews.com)).

<sup>8</sup> 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.

a nation's economy, democratic leaders will immediately be at risk, while autocrats can more easily protect a small group of favored supporters and ignore the suffering of the general public.<sup>9</sup> Second, autocrats have ample control mechanisms to prevent the spread of discontent. They can rely on state-run news media to cover up any economic problems, control of both businesses and police to punish dissenters, and compliant election officials to rig any votes which are allowed. Third, related to this, the costs and risks associated with opposing an incumbent government are far lower in a democracy. Voting in a well-run election, with a secret ballot, is very easy. As I noted in a 2013 paper, the economic theory of elections, one of the most well-established in American Government and Comparative Politics, establishes that there is a clear relationship between economic performance and the vote for incumbent parties.<sup>10</sup> Thus even a small economic impact caused by sanctions may well be enough to cause a leader to lose a democratic election, while the same sanctions would cause few problems for an autocratic leader. While it is difficult to calculate the exact damage to Georgia caused by Russian sanctions, they clearly had a significant impact. And given Georgia's fragile economy, even a moderate impact was politically important. As we shall see, commentators agreed that economic issues—such as chronically high unemployment—were important in the defeat of Saakashvili's movement.

This paper will proceed as follows. First we will briefly examine the history of Georgia's Rose Revolution, showing how Mikhail Saakashvili provoked Moscow's wrath. Next, we will consider several of the economic levers the Kremlin used to fight the Georgian leader. These included energy sanctions, trade sanctions, and sanctions against Georgian workers in Russia. Finally, the paper will attempt to link these sanctions to the electoral defeat of Saakashvili's movement in 2012 and 2013. In the end, we will see that the Georgian case offers important lessons, both for Russia's 'near abroad' and for the world as a whole.

## 2. The Rose Revolution: a challenge to Moscow

In November 2003 Georgian President Eduard Shevardnadze was toppled by the so-called 'Rose Revolution.' The overthrow was part of a series of 'Color Revolutions' taking place at the time, which were seen by Putin's

government as directed by the West and aimed at Russia. First, in 2000, Moscow's ally Slobodan Milosevic was overthrown in Serbia. Similar uprisings took place in the Ukraine, Kyrgyzstan, and Lebanon. These revolutions not only harmed Moscow by overthrowing friendly regimes. They also could be, Putin feared, a model for a similar uprising in Russia itself—as was ultimately seen in the large (but unsuccessful) 'Snow Revolution' demonstrations against Putin in the winter of 2011–12.

When Mikhail Saakashvili assumed power in Georgia in January 2004, the Kremlin initially hoped for a stable transition. Indeed, Putin's envoy, Igor Ivanov, reportedly played a role behind the scenes in negotiating a peaceful exit for Shevardnadze.<sup>11</sup> However, Saakashvili soon proved to be one of the most outspoken anti-Russian leaders in the former Soviet space. He demonstratively sided with American President George Bush, greatly expanding Georgia's role in the so-called "Coalition of the Willing" and sending many Georgian troops to fight in Iraq and Afghanistan.<sup>12</sup> Indeed, as other nations withdrew, he insisted on increasing his country's presence in Iraq. By mid-2008 2,300 Georgian troops were there, making tiny Georgia America's second most important partner in the country, behind only Great Britain.<sup>13</sup> He lobbied hard for Georgia to be included in both the EU and NATO. And he invited Bush to Tbilisi in May 2005, at a time when much of the world—even many American allies—were shunning him over the Iraq conflict. Indeed, the Georgian capital is now the only place in the world—including the U.S.—to have a major street named after George W. Bush.<sup>14</sup>

Saakashvili was also a thorn in Moscow's side on issues closer to home. He was a strong critic of Russia's actions in Chechnya, where the Kremlin was attempting to crush an Islamic insurgency. Many in Russia believed that Tbilisi was turning a blind eye to insurgents operating out of remote Georgian mountains which bordered Chechnya. Saakashvili also stepped up pressure on several secessionist enclaves within Georgia, all supported by Moscow. In one case—Adjara, in Georgia's southwest, bordering Turkey—Saakashvili was able to restore Georgian government control. Such was not, however, the case for the other two regions, both bordering Russia in the north of Georgia. In both South Ossetia and Abkhazia Russia had stationed 'peacekeeping troops' since the 1990s to bolster the breakaway regimes. Saakashvili stepped up a campaign of saber-rattling against them.

Saakashvili's defiance peaked in the summer of 2008 with open warfare, the first war between a former Soviet republic and Russia. After a long series of escalating disputes with the South Ossetians, the Georgian government decided to invade the territory on August 7, 2008. This

<sup>9</sup> In fact, some cases seem to show that sanctions actually strengthen an autocrat's hold on power. For example, pro-regime groups may be given control over smuggling goods made scarce by sanctions. This technique was used by both Saddam Hussein and the Iranian leadership when sanctions were imposed on them by the West. In Iran the Republican Guard became a favored economic actor, both strengthening that group and binding it more closely to the clerical leadership. Conversely, those critical of the regime can be punished by being forced to bear the brunt of any sanctions. Thus, for example, both Zimbabwe and North Korea have kept scarce food away from less supportive regions of their countries, letting many starve.

<sup>10</sup> Newnham (2013). See also Nikolay Marinov, "Do Economic Sanctions Destabilize Country Leaders?" *American Journal of Political Science*, Vol. 49, No. 3 (2005), 564–576. Marinov shows statistically that when their countries are sanctioned democratic leaders are more likely to lose office than non-democratic ones.

<sup>11</sup> Nygren Bertil, *The Rebuilding of Greater Russia: Putin's Foreign Policy toward the CIS Countries*. New York: Routledge, 2008, 121–122.

<sup>12</sup> A first, small commitment of Georgian forces had been made by Shevardnadze shortly before his ouster.

<sup>13</sup> Liklikadze, Koba, "Iraq: As Third Largest Contingent, Georgia Hopes to Show its Worth," *Radio Free Europe/Radio Liberty News*, September 10, 2007 (accessed at [www.rferl.org](http://www.rferl.org)).

<sup>14</sup> "Tbilisi Officials Name Street After Bush," *Associated Press*, September 14, 2005.

proved to be a major mistake, as Moscow rushed in reinforcements, drove the Georgians back, and even occupied more Georgian territory.<sup>15</sup>

As we shall see, each step in Georgia's defiant policy was matched by a further tightening of Russian economic sanctions in a variety of areas. In the end, when those sanctions failed to alter Saakashvili's policies, it became increasingly clear that Moscow's aim was to drive him from power.

### 3. Energy sanctions

During President Saakashvili's first term, from 2004 to 2008, perhaps the most visible economic sanctions imposed by Russia were in the area of energy supplies. Since 2000, under Presidents Putin and Medvedev, Russia has used its energy resources—particularly its huge natural gas reserves—as a powerful lever to influence its neighbors.<sup>16</sup> This leverage is rooted in the Soviet era, when the country's Union Republics were knit together by a network of gas pipelines fed by Russia. With only one supplier, they had no alternative to Russian energy. This is still true for many post-Soviet countries. The threat of turning off the gas—especially in winter—is a severe one, which Russia exploits ruthlessly. For example, in 2013 Russia's Deputy Prime Minister, Dmitri Rogozin, warned leaders from Moldova—another ex-Soviet state which has often defied the Kremlin—that “we hope that you will not freeze” in the upcoming winter.<sup>17</sup> The Baltic States and Ukraine have faced similar threats, with Kiev seeing its gas supply temporarily cut off in the winters of 2006 and 2009 and again in 2014.<sup>18</sup> In addition to gas supplies, some republics (such as Georgia) also relied on the Soviet Union's joint electrical network, creating a further vulnerability.

After the Rose Revolution brought Saakashvili to power in 2004, Moscow soon began applying energy sanctions to the recalcitrant Georgian leader. As with other defiant ex-Soviet states, Georgia was subjected to massive gas price increases. From 2004 to 2006 the price demanded by

Gazprom, the Russian state gas monopoly, increased by nearly 500 percent, from \$50 to \$235 per thousand cubic meters.<sup>19</sup> Moscow tried to portray this as a ‘normal’ price increase, designed to bring Georgia in line with prices charged to Moscow's West European purchasers, which the Kremlin described as the “world market price.” Yet the political rationale was clear. First, price increases were targeted carefully to states which angered Moscow. Georgia, in fact, was treated the worst of any state—it was the first to be forced to pay full ‘Western’ prices, even ahead of Ukraine. Friendly states, though—like Belarus and Armenia—were allowed to pay much less.<sup>20</sup> Second, there is no ‘world market price’ for natural gas. Since most purchasers have no alternative but to take supplies via pipeline, suppliers can charge what the market will bear. Some areas (such as Western Europe) pay a high price, while others—such as the U.S., thanks to the recent ‘fracking’ boom—pay much less.

The impact of these punitive price increases on Georgia's budget was substantial. With energy demand quite inflexible—heat and lighting are not optional—Georgia felt it had no choice but to pay. Additionally, as was the case in Ukraine, the Georgian government found it very hard to raise prices paid by consumers to try to make up the cost, since this would lead to political upheaval. So the costs had to be borne directly by the government. In 2007, at the peak of Georgia's dependence on Russian gas, the country paid about \$300 million to Gazprom, a significant price for such a small state—equaling about 10% of the entire government budget.<sup>21</sup>

The impact of the price increases was heightened by Moscow's refusal to allow energy loans. In the past, buyers such as Georgia and Ukraine had been able to obtain gas very cheaply, because even the low price Gazprom charged was often not paid. The countries were allowed to quietly accumulate large debts and delay payments for years without penalty. Under Putin, this changed abruptly. Payment for past debts was now demanded immediately and in full, as was prompt payment for current shipments.

Russia also pressed, as it did elsewhere in the former Soviet space, for Georgia to sell its gas pipelines to Gazprom. At the peak of Russia's energy pressure on Georgia in 2005–06, the country seemed close to giving in on this demand. This would have not only strengthened Russia's influence on Tbilisi, but also guaranteed gas supplies to Russia's ally Armenia, which can only be supplied through Georgian territory. However, in the end Georgia rejected the proposed Gazprom deal.<sup>22</sup>

Russia's most dramatic action, though, took place on January 22, 2006. Just days earlier it had stopped gas supplies to the Ukraine, allegedly over a pricing dispute. But it

<sup>15</sup> For more details on the 2008 war, see for example Asmus, Ron, *A Little War that Shook the World: Georgia, Russia, and the Future of the West*. New York: Palgrave and Macmillan, 2010; and Cornell, S. E., and S. F. Starr, eds., *The Guns of August 2008: Russia's War in Georgia*. Armonk, NY: M.E. Sharpe, 2009.

<sup>16</sup> For an overview, see for example Stuhlberg, Adam, *Well-oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*. Albany: SUNY Press, 2007, and Goldman, Marshall, *Petrostate: Putin, Power and the New Russia*. Oxford: Oxford University Press, 2008.

<sup>17</sup> David Herszenhorn, “Russia Putting a Strong Arm on Neighbors,” *New York Times*, October 22, 2013.

<sup>18</sup> In its current dispute with Ukraine the Kremlin has again employed energy linkage, along with other economic threats. For example, in fall 2013 Russia threatened to demand advance payment for all the gas Ukraine intended to use in the winter of 2013–14 unless Kiev backed out of signing the EU accord. Such threats worked, and the country's leader at the time, Victor Yanukovich, refused to sign. Kramer, Andrew, “Chocolate Factory, Trade War Victim,” *New York Times*, October 30, 2013. After the overthrow of Yanukovich in February 2014 the new pro-Western government faced a series of massive price increases and threats, culminating in a cutoff of gas shipments in June. Neil MacFarquhar, “Gazprom Cuts Russia's Natural Gas Supply to Ukraine,” *New York Times*, June 16, 2014.

<sup>19</sup> See the chart of gas prices charged to various ex-Soviet lands in Newnham (2010).

<sup>20</sup> *Ibid.*

<sup>21</sup> The country had agreed in late 2006 to import between 1.1 and 1.46 billion cubic meters of gas at \$235 per TCM. Source: Liz Fuller, “Caucasus: Georgia, Azerbaijan Seek Alternatives to Russian Gas,” *RFE/RL News*, January 5, 2007.

<sup>22</sup> See Papava, V. “Russia's Illiberal ‘Liberal Empire,’” *Project Syndicate*, February 28, 2007 (<http://www.project-syndicate.org>).

seemed that simply turning off the gas valves, even in midwinter, was not enough of a punishment for Georgia. Russia announced that both main gas lines to Georgia had been cut by bomb blasts, allegedly the work of Chechen separatists.<sup>23</sup> Doubts were quickly raised. Why would Chechens target Georgia, a state which was at worst neutral in their dispute with Russia—and perhaps covertly a supporter, as Moscow alleged? Although it was never proven, many believed that Moscow had cut the lines deliberately, to weaken Saakashvili's government. Georgia suffered through a few days of closed schools and factories and freezing homes until gas service was restored.<sup>24</sup>

Fortunately for Georgia, however, it borders on Azerbaijan, which had large untapped gas reserves. Furthermore, the Azeris looked to Georgia as a transit country for the new BTC line (Baku-Tbilisi-Ceyhan), which would take Azeri gas to Turkey (and thus West European markets) without touching Russian territory. This would allow Azerbaijan to avoid another aspect of Russia's energy power—its ability to act as the sole purchaser of gas from upstream producers in Central Asia. Russia could obtain gas from such states at rock-bottom prices, because they were not connected to any other customers, and then resell it for a vastly inflated price to Western purchasers (or former Soviet republics such as Georgia and Ukraine).<sup>25</sup>

Starting in 2008 Georgia was able to buy its natural gas from Azerbaijan, which greatly helped both states and cut Moscow out of the process. Georgia benefitted from lower, stable energy prices. Its costs fell by more than half, and have remained at that low level.<sup>26</sup> It also was given generous transit fees by the Azeris for the gas which passed through the country en route to Western purchasers.

Natural gas, though, was not the only area where Russian energy sanctions could harm Georgia. In 2004 the country was still dependent on the old Soviet electric power grid, a vulnerability which the Kremlin was quick to exploit. In January 2006, at the same time the two gas lines to Georgia were bombed, Russia suddenly announced that the main electrical connection between the two states had also been blown up. This heightened Georgia's suspicions that the blasts were the work of Russia, since the electric line was far from the gas pipelines. It seemed unlikely that a ragtag band of guerillas could cut all three simultaneously and so effectively. The electricity cutoff robbed Georgia of a quarter of its national supply, causing widespread blackouts.<sup>27</sup> In the end, though, Georgia was able to escape from this Russian sanction as well. The country is fortunate to

have great hydroelectric potential, and the Georgians were able to use that as an alternative to supply much of their power in the years after 2006. Indeed, presently Georgia is even able to export electricity to Russia.<sup>28</sup>

However, another potential vulnerability remained. As in the gas sector, Russian firms have made a concerted effort to buy up key electric utilities in the 'near abroad.' Thus, in 2003, the Russian electric giant Inter RAO purchased the operator of Tbilisi's power grid. This seemed to many Georgians to be yet another avenue for Russian political pressure.<sup>29</sup>

In all, though, Russian energy sanctions—while painful—did not seem to be politically effective, at least in the short run. They did impose significant costs in several ways: first, the direct cost of the price increases imposed by Moscow; second, the opportunity costs of lost production from the electric and gas cutoffs; and finally, the costs of setting up alternative energy supplies. As David Baldwin notes in his classic work *Economic Statecraft*, even if sanctions cannot force immediate compliance, imposing costs on an opponent is a worthwhile outcome.<sup>30</sup> Such costs hurt the opponent's domestic popularity and limit resources available for other priorities, even military readiness. Nonetheless, these costs did not deter the Saakashvili government from continuing its pro-Western policies. However, as we shall see, the Russians had other economic weapons at hand.

#### 4. Trade sanctions

As noted in the introduction, trade was one area where Georgia's great economic dependence on Russia was quite clear. Due to the small size of Georgia's economy, this trade looms far larger for Tbilisi than Moscow. In 2013, for example, Georgia had exports of only \$2.618 billion, while Russia exported almost 200 times more—\$515 billion.<sup>31</sup> Georgia's exports to Russia—\$190 million—were insignificant to Moscow, making up only one-twentieth of a percent of overall Russian imports (\$341 billion). Meanwhile, Russian exports to Georgia—almost \$600 million—make up 8.3% of Georgian imports. This is an improvement over 2003, when Russia was still Georgia's largest trading partner. Nonetheless, it makes it clear how hard it is for Georgia to avoid trade with Russia, while for Russia this trade is easily dispensed with.

Georgia was assigned a clear place in the Soviet Union's 'Socialist Division of Labor' before 1991. It was the USSR's region for sun and vacations, for wine and fruit. Its products were overwhelmingly sold in Russia, and in turn it relied on Russia for most of its manufactured goods. Georgian-themed restaurants were popular in Moscow and other major Soviet cities, and Russians

<sup>23</sup> "Russia Blamed for 'Gas Sabotage,'" *BBC News*, January 22, 2006 (<http://news.bbc.co.uk>).

<sup>24</sup> C.J. Chivers, "Georgia Reopens Old Gas Line to Ease Post-Blast Shortage," *New York Times*, January 24, 2006.

<sup>25</sup> Under President Yeltsin, the Russians were generous enough to allow countries such as Ukraine to purchase cut-rate Central Asian gas directly, charging only a small transit fee for the use of Russian pipelines. This practice ended quickly under Putin.

<sup>26</sup> See table "Georgia Natural Gas Price," US Energy Information Agency ([www.eia.gov](http://www.eia.gov)).

<sup>27</sup> "Blasts Cut Georgia Gas, Electricity Supplies," *CNN.com*, January 22, 2006.

<sup>28</sup> In early 2014 electricity made up 6% of Georgia's exports to Russia. "Georgia's Exports to Russia Increase 315%," *Agenda.ge*, April 30, 2014.

<sup>29</sup> Patsuria, N., "Georgian Electricity System Russianized," *Georgian Journal*, April 20, 2011 (<http://georgianjournal.ge>).

<sup>30</sup> David Baldwin, *Economic Statecraft*. Princeton: Princeton University Press, 1985.

<sup>31</sup> Figures in this paragraph from CIA World Factbook and author's own calculations.

were familiar with the major producers of Georgian wine and mineral water. The cold Soviet Union also lacked other sources for warm-climate products such as wine and citrus fruits, giving Georgian producers a favored role.<sup>32</sup>

After the end of the USSR, however, this tradition of trade seemed to be a major vulnerability for Georgia. Aside from Russia, who else wanted Georgian wine, citrus fruits and mineral water? Similar products were easily available elsewhere, and other consumers were not familiar with Georgian brands. As a monopsony purchaser of these goods, Russia was in a position to damage the Georgian economy by cutting off imports.

As tensions rose with the new Saakashvili government, that is exactly what Moscow did. Georgian shipments were delayed by long ‘customs inspections’—a fatal measure for goods such as fresh fruit. The quality and safety of Georgian wine and mineral water was questioned. Russia’s Chief Sanitary Inspector, Gennady Onishchenko, claimed that Georgian wine contained heavy metals and pesticides.<sup>33</sup> In March, 2006, sales of Georgian wine were forbidden on ‘health’ grounds—a measure which remained in effect for over seven years—until, as we shall see, the election of a new President suddenly made Georgian wine ‘healthy’ again. Similarly, two major brands of Georgian mineral water were barred from the Russian market in May, 2006 for “failing to meet water purity standards.”<sup>34</sup> Banning imports on ‘health’ grounds has become a favorite tactic of the Kremlin, since these actions seem superficially plausible compared to open embargos.<sup>35</sup>

In addition to official measures, the Kremlin also supported an unofficial campaign by Russian nationalists to encourage a boycott of Georgian goods. For example, a May 2006 poster in *Komsomolskaya Pravda* shows a proud Russian man refusing a glass of Georgian wine with the caption “Respect Yourself and the Motherland—DON’T DRINK Georgian Wine!”<sup>36</sup> This measure can be compared to attempts to American conservatives to boycott French wine at the time of the invasion of Iraq in 2003, when the

French refused to join the U.S.-led ‘Coalition of the Willing.’<sup>37</sup> While that effort, though, did not have government backing, the Russian campaign did.

The impact of these measures on Georgia was clear. Where Russia was once Georgia’s largest trading partner, it dwindled to insignificance. From 2008 to 2012 Russia on average took only 2% of Georgian exports.<sup>38</sup> In 2010 Georgia exported more to such small and distant countries as Canada, Spain, Lebanon and Cyprus than to Russia. In dollar terms, Georgian exports to Russia fell to a low of \$21 million in 2009, barely 13% of the 2005 figure (\$154 million).

The Russian import restrictions not only impacted Georgia’s overall trade balance—which, as noted above, is extremely negative, with imports twice as large as exports. They specifically impacted sectors which previously had depended on the Russian market. Before the boycotts, for example, Georgia had sent 80–90% of its wine exports to Russia.<sup>39</sup> Replacing that huge market was impossible. Although alternate outlets were found—for example, Ukraine (a key political partner of Saakashvili’s government from 2004 to 2010) became the leading purchaser—in 2012 the overall volume of wine exported stood at only 1/3 of pre-embargo levels.<sup>40</sup> As wine expert Kym Anderson points out:

In 2005 wine accounted to almost one-tenth of the value of all goods exported from Georgia, making wine exports around six times as economically important as in France, Italy and Spain. Moreover, virtually every Georgian farm household grows grapes and produces wine, and they represent nearly half the country’s households and employment and most of the poverty in this relatively poor nation in which one-third of the population survives on less than \$2 a day.<sup>41</sup>

Obviously, then, the Russian embargoes of products such as wine, mineral water, and fruit hurt Georgian workers—and would eventually hurt President Saakashvili’s popularity.

## 5. Sanctions against Georgian migrants

As a poor Caucasian republic, Georgia has long seen its young people move to get jobs abroad, then send remittances home to support their families. Like other former

<sup>32</sup> These traditions were parodied in a classic joke from the Soviet era. Because air travel was highly subsidized, Georgian traders could fly themselves and their ‘checked luggage’ (crates of fruit) cheaply to Moscow, selling the goods for a nice profit. In this joke, a Georgian trader is hailed as a hero in the Soviet press for subduing an Islamic extremist hijacker who tried to divert a Tbilisi-Moscow flight to North Africa. Why, his shocked friends want to know, would he risk his life to prevent the hijacking? “Because,” he answers, “how the h\*\*l can I sell 250 kilos of oranges in Tunisia?”

<sup>33</sup> Robert Parsons, “Georgian Agricultural Minister in Moscow for Talks on Wine Ban,” *Radio Free Europe/Radio Liberty*, April 13, 2006. See also Anjaparidze, Z., “Russia Continues to Press Georgian Wine Industry,” *Eurasia Daily Monitor*, Vol. 3, No. 77, April 20, 2006 (<http://www.jamestown.org>).

<sup>34</sup> “Russian Bans Georgia Mineral Water,” *BBC News*, May 5, 2006.

<sup>35</sup> For example, Russia in fall 2013 banned Moldovan wine, citing ‘health concerns,’ to punish that country for agreeing to sign an Association Agreement with the EU. Similarly, at the same time Russia banned dairy imports from Lithuania—since it hosted the EU summit on November 28–29, 2013, at which Moldova and Georgia both initiated EU association accords. See David Herszenhorn, “Russia Putting a Strong Arm on Neighbors,” *New York Times*, October 13, 2013.

<sup>36</sup> *Komsomolskaya Pravda*, May 5, 2006.

<sup>37</sup> The boycott of French products seemed ridiculous to some, as when Republican leaders in Congress renamed the french fries served in the House cafeteria “Freedom Fries.” Yet it had a real effect: economists estimate that weekly French wine sales dipped 26% at the height of the boycott, with a 13% dip over a longer six month period. Larry Chavis and Phillip Leslie, “Consumer Boycotts: The Impact of the Iraq War on French Wine Sales in the U.S.” *Quantitative Marketing and Economics*, Vol. 7 (2009), 37–67.

<sup>38</sup> Source for figures in this paragraph: geostat.ge, as reported in Nutsa Tokhadze, “Factcheck: Georgia Tripled the Volume of Its Export to Russia,” April 4, 2014, <http://factcheck.ge>.

<sup>39</sup> Glenn Kates, “Something Old, Something New: Georgian Wines Adapt to Changing Market,” July 28, 2014, *Radio Free Europe/Radio Liberty*.

<sup>40</sup> Kym Anderson, “Is Georgia the Next New Wine-Exporting Country?” *Robert Mondavi Institute—Center for Wine Economics Working Paper 1301*, January 2013.

<sup>41</sup> *Ibid.*, 5.

Soviet Republics—in Central Asia, for example—Georgia sent most such workers to Russia. This was of course greatly facilitated by the fact that Georgia was linked with Moscow under both Tsarist and Communist rule. In recent years, with the end of Communism, this diaspora has grown greatly. It is currently estimated to be 800,000 strong.<sup>42</sup> With only 4.5 million living in Georgia itself, it is obvious that many Georgians have relatives—often breadwinners—across the border. As tensions rose between the countries after Saakashvili took power, this group was a clear target for Russian retaliation.

In June, 2006, at the same time that the energy and trade sanctions were underway, Russia hastily expelled some 2,300 Georgians, after issuing 4,600 deportation notices.<sup>43</sup> The action took place at a low point in Russia-Georgian ties, when Tbilisi arrested four Russian spies and initially refused to release them. The Russians allegedly deported any Georgians they could quickly find, including some whose visas and passports were fully legal. The detainees were expelled in a highly dramatic fashion. They were bundled into Russian military cargo planes with whatever possessions they could to grab quickly and flown directly to Tbilisi. A hyper-patriotic media campaign accompanied the action, similar to the infamous 'masked shows' which the Putin regime uses to humiliate domestic opponents.<sup>44</sup> Three Georgians died in the course of these raids, and a mother who was eight months pregnant lost her child. After years of litigation, the European Court of Human Rights ruled in July 2014 that the deportations had violated human rights norms, and ordered Moscow to pay compensation.

Three months later, in October, 2006, the Russian authorities staged a dramatic raid on a Georgian-owned casino in Moscow.<sup>45</sup> They also seized a Georgian-owned hotel, accusing it of hoarding Georgian wine in violation of Russian economic sanctions. All of these actions not only hurt Georgia economically; they also became part of a campaign by Moscow to portray Georgians as criminals, a stereotype which was already widespread in Russian society. This campaign made many Georgians fear for their safety in Russia.

Beyond such dramatic actions, the Russians more quietly tightened the screws on Georgian workers with a series of punitive actions. Visa rules, for example, were very easy to manipulate. Requirements could be tightened. Visas could be delayed, or arbitrarily denied at moments of high tension in bilateral ties. The same was true of the vital flow of money moving back to Georgia. At the height of the 2006

crisis, for example, Russia completely severed postal and transport links to Georgia for several weeks.<sup>46</sup> Even after the four Russian spies were released, the Russian Duma announced it was preparing a bill which would bar money transfers to Georgia.<sup>47</sup> Beyond such outright blockages, Russia could also manipulate the rules and create delays in such payments at will.

The threat to Georgia's economy was clear. One analysis estimated that in 2011 foreign remittances made up 8.8% of Georgia's GNP.<sup>48</sup> Remittances from Russia still made up a large part of that, although the squeeze imposed by Moscow after 2006 had a clear effect. In that year 67% of remittances came from Russia, while in 2011 that had fallen to 52%.<sup>49</sup> Clearly, any serious reduction in remittances can be quite painful—the sudden disappearance of almost ten percent of a country's GNP would certainly be noticed. The many families affected can be a powerful pressure group against the Georgian government.

## 6. The 2012 and 2013 elections

Moscow's years of patient economic sanctions impacted the 2012 and 2013 Georgian elections in two ways: First, as predicted by the classic model of economic sanctions, such leverage helped to turn the Georgian population against Saakashvili and his political party, hastening their defeat. But Moscow also used its economic clout more indirectly, by facilitating the creation of a force to oppose Saakashvili, the Georgian Dream movement.

There were of course other factors which made Saakashvili vulnerable. His democratic credentials had eroded over the years, as his government increasingly seemed to crack down on opposition parties. This helped to turn some earlier supporters against him—including, interestingly, Bidzina Ivanishvili, who had reportedly been quietly bankrolling the Georgian government during the first years of Saakashvili's reign.<sup>50</sup> Also, shortly before the 2012 election an expose on the mistreatment of prisoners in Georgian jails seemed to make the government look both cruel and incompetent. Yet underlying economic problems continued to play a large role.

As noted at the start of this piece, the Georgian economy is very small and weak. Its GNP per capita, about \$6,000, is only about 1/3 that of Russia and 1/9 that of the U.S.<sup>51</sup> Its official unemployment rate in late 2011 was about 15%, roughly triple that of the U.S. or Russia, and several percent higher than when Saakashvili first assumed office.<sup>52</sup> Beyond that, many estimates placed the unofficial rate

<sup>42</sup> "Georgian Diaspora Study, 2012." Economic Policy Research Center (Tbilisi).

<sup>43</sup> Information in this paragraph from Sopho Bukia, "Georgia Wins Against Moscow at European Court," Institute for War and Peace Reporting, *Caucasus Reporting Service* Issue 743, July 7, 2014, <http://iwpr.net>.

<sup>44</sup> The 'masked show' involves heavily armed masked police wearing ski masks bursting into the offices of an offending media outlet, business or NGO, accompanied by several TV cameras from pro-Putin networks. The target is thus branded as a mafia-like criminal organization, even if no charges are ever filed.

<sup>45</sup> Myers, Steven, "Russian Officials Pledge More Sanctions to Cut Off Cash to Georgia," *New York Times*, October 4, 2006.

<sup>46</sup> "Georgians Deported as Row Deepens," *BBC News*, June 10, 1996.

<sup>47</sup> Myers, *Ibid*.

<sup>48</sup> Melkadze, Givi, "Labor Migration and Remittances to Georgia," September 26, 2012, *International School of Economics, Tbilisi (ISET)*, [www.iset.ge](http://www.iset.ge). For an earlier analysis see Kakulia, M., "Labour Migrants' Remittances to Georgia: Volume, Structure, and Socio-Economic Effect," *Georgian Economic Trends*, October 2007 (<http://gfsis.org>).

<sup>49</sup> *Ibid*.

<sup>50</sup> See Usupashvili, David, "Saakashvili Persecuted by his Own Past and Not Putin's 'Accomplice'," *Agenda.ge*, October 16, 2014.

<sup>51</sup> *CIA World Factbook*, [www.cia.gov](http://www.cia.gov).

<sup>52</sup> "Georgia: Tbilisi Turns Unemployment Issue into a Reality Show," *EurasiaNet.org*, December 1, 2011.

much higher. For example, a survey in September 2011 reported that 31% of respondents claimed to be unemployed and actively looking for work.<sup>53</sup> Many Georgians could be considered ‘underemployed,’ and many others eke out an existence on small subsistence farms. Sectors targeted by Russian sanctions were particularly hard hit. A detailed 2007 report estimated that in the first year alone (2006–07) Russian sanctions cost the Georgian economy about \$635 million, a substantial amount in a country with a GNP of only \$15 billion.<sup>54</sup>

Thus, although the Georgian economy did grow overall during Saakashvili’s reign, in the end it was still a losing issue for him in the 2012 and 2013 elections.<sup>55</sup> Many Georgians did not see the growth in their own lives, with unemployment and income inequality both quite high. Many reports stated that the economy was a vital issue in the election, and Ivanishvili’s plan to reduce tensions with Russia was seen as an important way to improve matters. As one analyst stated before the 2012 poll, “the economy is by far the most important issue for Georgian voters,” with unemployment as the most important economic issue.<sup>56</sup> Similarly, *The Economist* noted before the 2013 presidential election that “opinion polls show jobs are still the main concern for ordinary Georgians” and that voters had “high expectations of economic change” if the Georgian Dream coalition won.<sup>57</sup> Not surprisingly, the opposition put addressing joblessness at the top of its platform, and analysts noted that the unemployed were particularly strong supporters of Georgian Dream.<sup>58</sup> Many voters also saw a link between the economy and relations with Russia. As the *New York Times* noted in reporting on the 2012 election, Ivanishvili “suggested that he would take a more conciliatory line [toward Moscow] and Russian markets would reopen to Georgian produce, wine and mineral water, providing an economic lift.”<sup>59</sup>

Bidzina Ivanishvili, the billionaire who formed Georgian Dream, is sometimes derided as a “Russian stooge” by his political opponents. This seems greatly exaggerated. As was noted above, he initially seemed supportive of the Rose Revolution. And he, too, has now run afoul of the Kremlin—by continuing some of the pro-Western policies of the Saakashvili era. Nonetheless, a key point in his campaigns in 2012 and 2013 was that Georgian Dream would be better able to work with Moscow than the previous leader. His own background helps explain this. Ivanishvili lived in Russia for

almost 30 years, beginning in 1982 when he moved there to attend college.<sup>60</sup> He held Russian citizenship and was known to his Russian friends as “Boris.”<sup>61</sup> His fortune stems from a range of investments in Russia, a business empire rooted in the freewheeling 1990s. As cases like those of Mikhail Khodorkovsky and Boris Berezovsky make clear, only pro-Putin oligarchs can prosper in today’s Russia. In fact, Ivanishvili’s longtime business partner in Russia, Vitaly Malkin, served from 2004 to 2013 as a pro-Putin member of the Federation Council, the upper house of Russia’s legislature. Critics of Ivanishvili have also found it suspicious that he was able to liquidate his Russian holdings at a large profit before he formed Georgian Dream. Only oligarchs who enjoy Moscow’s favor are allowed to ‘cash out’ their holdings so easily. This would be particularly true for a Georgian. How, indeed, could Ivanishvili so easily move a huge fortune out of Russia, at the same time the Kremlin was imposing sanctions on small Georgian traders and migrant workers? Clearly Moscow calculated that ‘the enemy of my enemy is my friend.’ Anyone with a reasonable chance of ousting Saakashvili should be supported.

Ivanishvili’s success in the 2012 parliamentary elections in Georgia startled many observers. His movement emerged suddenly, just a few months before the elections. He was able to unite six small opposition parties under his banner and rise to prominence with amazing speed, thanks to his ample financial resources. Indeed, it is difficult to overstate how outsized his wealth is in a small, poor country. His personal fortune is estimated at \$5.2 billion, about 1/3 of Georgia’s entire annual GNP.<sup>62</sup> In fact, according to Forbes.com, Georgia is at the top of the world rankings for economic influence by billionaires—due solely to this one person.<sup>63</sup> Many observers in the U.S. complain about the role of money in politics, singling out the influence of wealthy, secretive actors like the Koch brothers. Yet clearly, a billionaire in America—with an overall economy about 1,000 times larger than that of Georgia—has far less influence than Ivanishvili.<sup>64</sup>

Well before the election Ivanishvili had quietly begun to subsidize Georgian intellectuals, theater companies, and media outlets, as well as a number of villages near his ancestral home town. He himself now claims that he has spent some \$3 billion for “social and charitable purposes” in Georgia.<sup>65</sup> This amount—20 percent of the entire

<sup>53</sup> Ibid.

<sup>54</sup> Eric Livny, Mack Ott, and Karine Torosyan, “Impact of Russian Sanctions on the Georgian Economy,” *International School of Economics in Tbilisi Research Project*, 2007.

<sup>55</sup> Between 2006 and 2012 GNP growth averaged almost 5% annually. It did dip in 2008, with the Georgian-Russian war, and fell 4% in 2009, but seemed to rebound after that. Figures from National Statistical Office of Georgia, [www.geostat.ge](http://www.geostat.ge).

<sup>56</sup> deWaal, Thomas, “A Crucial Election in Georgia,” Carnegie Endowment for International Peace, September 11, 2012, [carnegieendowment.org](http://carnegieendowment.org).

<sup>57</sup> “Georgia’s Economy: Too Much Uncertainty,” *The Economist*, August 9, 2013.

<sup>58</sup> deWaal, *Ibid.*

<sup>59</sup> Barry, Ellen, “Georgia’s President Concedes Defeat in Parliamentary Elections,” *The New York Times*, October 2, 2012.

<sup>60</sup> Details on Ivanishvili’s background from Steavenson, Wendell, “The Good Oligarch,” *Prospect*, July 21, 2010.

<sup>61</sup> Before forming Georgian Dream, he dropped his Russian citizenship, taking that of France and, later, exclusively Georgian citizenship.

<sup>62</sup> Value of holdings from Forbes.com list of world’s top billionaires, as of July 30, 2014.

<sup>63</sup> Alexander, Don, “Ex-Soviet States Dominate List of Countries Where Billionaires Have Most Control,” *Forbes.com*, March 14, 2014.

<sup>64</sup> Alexander, *Ibid.*, notes that while Ivanishvili’s fortune equals 32% of the entire Georgian economy, all 492 billionaires in the U.S. together hold only 14% of the American economy.

<sup>65</sup> Ioffe, Julia, “Nobody’s Bigger Than Bidzina,” *Forbes*, March 7, 2012. Her article shows that the entire region around Chorvila, Ivanishvili’s birthplace, is run as a “fiefdom” by the billionaire. He has built 40 schools, a hospital, and housing for most residents, and provides jobs and stipends to all sick or disabled residents as well as to “families with many children.”



national GNP—must have played a large role in his election victory in 2012. As we shall see, Ivanishvili used his wealth even more directly in the 2013 Presidential campaign.

In sum, voters faced two powerful economic factors which propelled them to Georgian Dream: the ‘pull’ of the lure of Ivanishvili’s wealth, and what it could do for their lives; and the ‘push’ of the failure of Saakashvili’s team—despite good GNP growth—to help most working-class Georgians. The result was seen clearly in the 2012 and 2013 elections.

In the 2012 parliamentary poll, Ivanishvili’s party won a surprisingly decisive victory, capturing 55% of the vote to 40% for Saakashvili’s UNM. Most polls leading up to the voting still showed the UNM in the lead.<sup>66</sup> Reportedly, the main concern in Saakashvili’s camp in the weeks before the poll was how to cope with demonstrations by disappointed Georgian Dream supporters after their defeat was announced.<sup>67</sup> However, in the end Ivanishvili’s forces captured 85 of the 150 seats in parliament, to 65 for the UNM. This allowed Ivanishvili to easily win election as the new Prime Minister, a position which was greatly increased in importance by constitutional changes made before the election. President Saakashvili was thus left as a relatively powerless lame duck for the remaining year of his term.

The repudiation of the UNM in the 2013 Presidential elections was even more decisive. With Saakashvili constitutionally barred from running for a third term, his party nominated the former speaker of parliament, Davit Bakradze. Giorgi Margvelashvili, nominated by Georgian Dream, led consistently in the polls, although there was some doubt if he would achieve the 50% needed to avoid a runoff in a field with many candidates.<sup>68</sup> At this point Ivanishvili made his financial appeal to the voters even more direct. He announced that he planned to resign as Prime Minister after the presidential election to devote himself to running a huge investment fund to improve the Georgian economy. The fund was to be worth \$6 billion, almost half of the country’s GNP, with about 20% provided by him and the rest by overseas investors he had recruited.<sup>69</sup> However, within days he further stated that if his chosen Presidential candidate did not win at least 60 percent of the vote—enough to avoid any talk of needing a runoff with his UNM opponent—both he and his Presidential candidate would simply quit politics, and the investment fund would disappear.<sup>70</sup> Ivanishvili got his wish. Georgian Dream won over 62% of the vote, with the UNM candidate managing less than 22%. Clearly, the Saakashvili era was over. The Rose Revolution had wilted.

## 7. Positive and negative economic linkage in a new era

The victory of the Georgian Dream coalition in the 2012 and 2013 elections certainly did not mark the end of Russia’s use of economic leverage in Georgia. Indeed, the Kremlin’s success in helping to depose the Saakashvili regime—like its success in ousting Victor Yushchenko in Ukraine in 2010—likely only encouraged further meddling. This has become clear to the new Georgian leaders over the past two years.

Initially, Ivanishvili and his government had high hopes of being able to improve relations with Moscow. Naturally, the departure of Saakashvili made any successor appear positive from Moscow’s perspective. And Ivanishvili, with his close personal ties to Russia, seemed to be a good partner. Russian leaders were quick to welcome Georgian Dream’s 2012 election victory. Prime Minister Medvedev said “We can only welcome this [election result], as it means there will be more constructive and responsible forces in parliament,” and the Russian Foreign Ministry said Saakashvili’s defeat could allow the “normalization” of ties and establishment of “constructive and respectful relations.”<sup>71</sup>

Both sides discussed the possibility of opening diplomatic ties, and Moscow began to loosen its economic strictures. On June 15, 2013, after a seven-year hiatus, the first batch of Georgian wine crossed the Russian border.<sup>72</sup> Suddenly, the allegations that Georgian wine contained “heavy metals and pesticides” were forgotten. Georgian mineral water was also suddenly discovered to pose no health problems. In all, Georgian exports to Russia rose by an impressive 315% in 2013, bringing in an additional \$150 million in income to Georgia—a large amount for such a small country.<sup>73</sup> The previously embargoed wine, mineral water, and citrus industries led the way, with wine alone bringing in almost \$60 million in sales. Even in the previously frozen energy sector movement seemed to set in. To the surprise of many, Ivanishvili’s Energy Minister revealed that he was thinking of resuming gas imports from Russia, which would give Georgia two sources of supply.<sup>74</sup>

Similarly, Russian visa restrictions on Georgia were being reconsidered. Russia’s Deputy Foreign Minister, Grigory Karasin, was quoted as saying that “dialogue on easing visa conditions continues, and we are thinking over extending the number of those people who obtain visas ... and to make it more flexible.”<sup>75</sup> Surprisingly, President Putin himself went even further: on December 19, 2013 he

<sup>66</sup> Kathleen Frankovic, “Polling and Democracy in Georgia,” *Open Society Foundation*, July 9, 2013.

<sup>67</sup> “Georgian Politics: A Stunning Victory,” *The Economist*, October 6, 2012.

<sup>68</sup> According to the website of the Georgian electoral commission there were 23 names on the presidential ballot. (<http://www.results.cec.gov.ge/eng/>).

<sup>69</sup> “Georgia’s Billionaire PM Launches \$6 Billion Fund,” September 30, 2013, [www.eurasianet.org](http://www.eurasianet.org).

<sup>70</sup> Lomsadze, Giorgi, “Pouting Power: Georgian Dream Will Abandon Presidential Runoff if Results ‘Disappoint’ PM,” October 18, 2013, [www.eurasianet.org](http://www.eurasianet.org).

<sup>71</sup> Cited in Alana Goodman, “The Georgian Election and Democracy,” *Commentary*, October 3, 2012.

<sup>72</sup> “Russia Receives First Batch of Georgian Wine After Seven Year Break,” *Radio Free Europe/Radio Liberty* ([www.rferl.org](http://www.rferl.org)).

<sup>73</sup> “Georgia’s Exports to Russia Increase 315%” *Agenda.ge*, April 30, 2014 ([agenda.ge/news/13266/eng](http://agenda.ge/news/13266/eng)).

<sup>74</sup> Jackson, Alex, “Georgia Looks Longingly for New Gas Suppliers,” *Natural Gas Europe*, June 3, 2013. In the face of public disapproval, however, Georgia backed away from these plans.

<sup>75</sup> “Russian Deputy FM: Moscow Mulls Easing Visa Rules for Georgia,” *Civil.Ge: Daily News Online*, June 13, 2013. ([www.civil.ge/eng](http://www.civil.ge/eng)).

stated that “we might well go towards returning to a visa-free regime” with Georgia.<sup>76</sup>

Recently, though, the Russians have made it clear that Georgian Dream can expect to face sanctions as well as incentives if it fails to hew to the Kremlin line. This has become clear as Georgia continues its efforts to achieve closer relations with the EU. In the summer of 2013 Georgia completed negotiations on a free trade pact with Brussels. In November, at the Vilnius summit, it initialed a more far-reaching Association Agreement with the EU. This, in turn, was formally signed on June 27, 2014. Moscow has been upset over this continued progress, preferring that Georgia cooperate with its Eurasian Union free trade zone, along with Belarus, Kazakhstan and Armenia. Ivanishvili tried to hedge, initially expressing his openness to the Russian proposal while continuing to move ahead with ties with Brussels.

Recent Russian actions have made it clear that Moscow's patience is running out. It has refused to follow through with plans to lift all sanctions on Georgian fruits and vegetables, and has now re-imposed sanctions on some Georgian wines.<sup>77</sup> With the final signing of the Association Accord in June, 2014, the Russian Deputy Foreign Minister threatened “serious consequences.”<sup>78</sup> Analysts noted that Georgia's very success in resuming trade with Moscow in 2013 had, ironically, created a pressure point for Russia to exploit. For example, in the first quarter of 2014 70% of Georgia's wine exports and 48% of its mineral water sales went to Russia.<sup>79</sup> Once again, the screws can be tightened just as easily as they can be loosened.

## 8. Conclusion

Structurally, Georgia remains in a position of dependency on Moscow. As America's southern neighbors say, “when the United States sneezes, we catch a cold.” The same is true for Russia and the ‘near abroad.’<sup>80</sup> As this paper has shown, Russia does not have to rely on only one economic lever when trying to influence the former Soviet zone. Both scholars and journalists have focused mainly on Russian oil and gas sanctions against recalcitrant neighbors. However, as we have seen, Russia can also use sanctions related to trade, financial transactions, and travel/migration. Although it is difficult to measure the exact economic influence of such a variety of sanctions, it is vital to attempt to do so. As the cases of Ukraine in 2010 and Georgia in 2012–13 make clear, Russian sanctions can have not just an economic impact, but a political one. In both cases, I believe, sanctions helped to drive opponents of

Russia from office through electoral means. The details of the cases differ, but in each case the more pro-Russian candidates were able to argue “voting for me will bring back prosperity, because I can improve relations with the Russians.” For populations tired of conflict and economic disruption, such arguments can be quite effective.

In addition to its relevance for the region near Russia, I believe this paper is also important for broader studies in International Relations. In many cases, sanctions are now imposed on states which hold elections. The old, ‘classic model’ of economic sanctions calls for imposing economic pain until the people of a targeted state put enough pressure on their government to force it to change its policies. If the government targeted is authoritarian—as was the case with sanctions against Cuba, Libya, North Korea, the USSR, and Iraq under Saddam Hussein—such popular pressure would be seen in demonstrations, even revolutions. But in cases such as Ukraine and Georgia, governments can be overthrown more quietly, though the ballot box. And, I believe, it is much easier to motivate people to vote than to revolt, since the ‘costs’ of voting are much lower. As noted at the start of this paper, the economic model of elections has made it clear that economic decline has a direct, predictable impact on voting results. This is an important insight, which helps to disprove the sweeping assertion that ‘sanctions don't work’ which is so often heard in policy debates.

This paper's conclusions could suggest that Western sanctions can be effective in some cases, when states we target are at least partly democratic. For example, Iran—while not fully democratic—does have competitive elections representing real disagreements over policy. In the most recent elections, observers were surprised by the large margin of victory for Hassan Rouhani, the most reformist candidate in a field dominated by conservatives. It seems quite likely that Rouhani's victory was influenced by popular discontent with Iran's dismal economic condition, largely due to decades of Western economic sanctions. As is well known, Rouhani's election has resulted in a nascent détente with the West, with difficult issues like Iran's nuclear program moving closer to resolution. As was true in the cases of Georgia and Ukraine, the Iranian case may prove to be another example of the power of sanctions to influence elections.

However, in general this paper's conclusions could be troubling for the West. The states which the West supports in the world—like Georgia and Ukraine—are mostly democracies. If they are unusually vulnerable to economic sanctions this could be a problem. Furthermore, the U.S. and its Western allies are themselves democracies. If democracies are vulnerable to sanctions, what does this say about our own ability to withstand economic pressure? Currently the West and Russia are engaged in a ‘sanctions war’ over the Ukraine. Will the West be the first to fold? Suppose, for example, that Russian energy cutbacks cause economic problems in the EU, leading to the election of more conciliatory leaders in some countries. Meanwhile, in contrast, many of the West's competitors are states which do not hold competitive elections—such as China—which may be less vulnerable to sanctions. These contrasting levels of vulnerability may cause problems for Western countries in the future.

<sup>76</sup> “Putin Speaks of Relations with Georgia,” *Civil.ge*, December 19, 2013.

<sup>77</sup> “Russia Reintroduces Limits on Georgian Wine Imports,” *Business News Europe*, October 9, 2013 (<http://bne.eu>). While keeping the Russian market open to most Georgian wine, Russia cut off exports from seven producers, again alleging ‘health issues.’

<sup>78</sup> Lorasz, Agnes, “Ukraine-Led Trio Signs EU Pacts, Risking Russia's Ire,” *Businessweek*, June 27, 2014.

<sup>79</sup> *Ibid.*

<sup>80</sup> The comparison between the U.S. and its southern neighbors and Russia and its neighboring states is a long-standing one. See for example a classic work from the Cold War era, Jan Triska, *Dominant Powers and Subordinate States: the United States in Latin America and the Soviet Union in Eastern Europe*. Durham, NC: Duke University Press, 1986.