

Economic and Political Environment of Georgia After the Restoration of National Independence

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Abstract

The present paper aims to investigate the economic and political environment of Georgia after the restoration of national independence over the period of 1991-2011. In the first part of the paper, we attempt to analyze the economic picture of the country dividing it in to four phases. The research presents main aspects of the political and economic situation in Georgia within the two periods after the restoration of national independence, before and after the "Rose Revolution". Main reasons of Georgia-Russia war and outcomes of this war are reviewed in details. The research is basically focused on the period after November 2003 and analyzes essential aspects of Georgia-NATO relations, main reasons of the anti-governmental protests movements in 2007, 2008, and 2009, the implementation of the reforms and their consequences.

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Introduction

Despite facing a lot of difficulties, Georgia has impressed the whole world with the improvements made in the present century and it has become a good example for others to follow. Many countries are willing to learn from Georgia, uncover the secrets of rapid economic growth and reforms in the field of democratization of the country. However, economic statistics of Soviet and post-Soviet periods in Georgia are difficult to evaluate due to the country's underground economy and difficult political situation.

In order to analyze and evaluate the reasons Georgia grew from the Soviet country into the economically fast-growing nation, and how Georgia made steps for the strengthening the democratic institutions and political stability, we should carefully look at the specific time frame: the years of 1990 to 2003, prior to the revolution and year of 2004 to 2011, post-revolution.

In our research, the analysis of economic and political environment of Georgia will be provided in two parts. First part is economic situation of Georgia after gaining the National Independence which will have four distinctive phases: the years of disregarding economics (1991-1994), years of consistent reforms (1994-1998), the period of rise of corruption (1999-2003), and years of economic growth between 2004 and 2011 (VladimerPapava 2006). Second part is political situation of Georgia after gaining the national independence. During the consideration of the political situation in Georgia, main purpose of the research is showing Georgia's political conditions, when and how the country got independence, politics of post-soviet Georgia, problems having appeared after obtaining sovereignty, wars which changed the history of the country and had horrible effects on the development of the country in both political and economic growth. Paper also includes information about politics of modern Georgia, what was and is being done to make country more attractive and stable, in which way the opposition work within a country and what are the threats and weakness that Georgia faces.

The present paper is organized as follows: section II includes economic situation of Georgia after gaining the national independence, section III describes the political situation of Georgia after gaining the national independence and the final section is the conclusion.

Economic Situation of Georgia after Gaining the National Independence

Phase One: Disregarding Economics (1991-1994)

Like many other post-Soviet countries Georgia had to go through a period of sharp economic decline during 1990s. In the Soviet period Georgia was an important supplier of food products and minerals which it was main touristic attraction. Moreover, the country was also dependent on imports to provide products vital to industrial support. When the instability was ruling the Soviet Union, Georgia no longer had reliable sources of those products; there was political instability in the country followed by the dramatic decrease of investments. All the above-mentioned factors led to the fall of Net Material Product (NMP) by 12 % in 1990.

Even in the Soviet Union era the republics weren't treated fairly. For instance, Georgian manganese went to Soviet steel plants at a very low price and Georgian agricultural goods were also sold at very low prices in different republics. At the same time, Georgia paid high prices for machinery and equipment purchased elsewhere in Soviet Union and in Eastern Europe. Even though Georgia was a popular tourist destination it could only make few benefits as most part of the tourists were Soviet visitors from Moscow with so-called "vacation packages". Of course, these are just few examples and considering that there are a lot more, we shouldn't be surprised that this country started going down.

After gaining political independence the defects of the country's economy which have been piling over the years, started showing up. Georgia depended on other countries and the conditions were only getting worse due to aggravated political and criminal conditions. There were no real plans for economic reforms.

Until 1991 prices of state enterprise products were fixed by centralized government and the prices of agricultural products from private sector fluctuated freely. Political upheavals were delaying price adjustments and thus, Georgian government decided to initiate increasing the prices and soon the inflation rate reached 50-70% a month. For instance, the price of bread was increased from 0.4 ruble to 4.8 rubles per kilogram. If we take into consideration the fact that the government was artificially keeping the bread price at a low level, it might not be difficult to imagine what would happen to the prices of other products. In 1991 The National Bank of Georgia was established as an independent central national bank the main goal of which was to ensure the stability of national currency. If Georgia was able to keep a budget surplus during the Soviet Union because of the transfers from the Soviet national budget, all of a sudden about 751 million rubles became unavailable for Georgia in

1991 causing a budget deficit estimated at around 2 billion rubles. In 1992, the deficit rose to 17-21% of GDP. In 1993-1994 the country still didn't have a parliament-approved national budget. The only source of national revenues was loans from the central bank, the National Bank of Georgia. Commercial banks were extending limitless credits. Official statistics showed a decline in national income of 34% in 1992 compared to the 1985 levels.

Following to this, in 1992 the government attempted to liberalize the prices (except for the bread) but due to the deficit in national budget and uncontrolled issuance of supply of money the results were opposite: the production fell, inflation rate increased, and the country had to face an unprecedented devaluation of the national currency. Georgian bank was giving out large number of loans without any formal documents and this is why the Russian government stopped supplying Georgia with money (Ramaz Abesadze 2006). The government introduced an interim Georgian currency, the coupon, in 1993 but this didn't help. Now coupon started to devalue and its exchange rate against the USD inflated first from 5,569 to 12,629 and in two month the rate reached 42,000 coupons to the dollar.

Phase two: Consistent Reforms (1994-1998)

The second phase which is a period of reforms (1994-1998) can be estimated as the years of improvement and realization. But the achieved success was temporary and was again followed by the years of economic decreases. The main reason of failure is considered to be an isolated and not combined realization of the reforms (N.Tchitanava 1997).

In the first half of 1994 the government didn't have a determined pattern of reforms, careful and well-constructed plan. Despite the several attempts the main aims were not reached and severe economic conditions remained unchanged. Obviously, the failure was caused by serious reasons such as political instability after the restoration of independence, the conflict of interests, the lack of experience, corruption and so forth.

In September of 1995 the most important reform was taken - the establishment of new national currency, the Lari (GEL). The attempt of liberalizing prices was also taken in 1993 but it turned out to be aimless because of the establishment of interim currency or coupon which led to the hyperinflation. Since the main problem, inflation, was solved and the currency became stable the ball started rolling which is obvious from the statistics. In 1998 the foreign investment reached 27%, unemployment

rate was 12%, during the second phase the average GDP growth rate reached 29% (from GEL 4.442 Billion in 1994 year to GEL 5.729 Billion in 1998).

Other significant reforms except liberalizing prices and the establishment of national currency were enterprise privatization, improvement of foreign trade, development of bank and payment system, deepening international economic relations, etc. The reforms were implemented with the help of International Monetary Fund (IMF) and the World Bank (WB).

The positive changes in the economics of Georgia which were reached after many efforts rolled from the top to the deep again. The reasons of failure were announced as the world crisis, Russian default, complicated and instable political condition and so forth. All of these reasons dramatically affected the economics of Georgia but one of the main roles played the sudden halt of reforms which was conditioned by the inefficiency of the government regulatory functions (Ramaz Abesadze 2006). Thus, from 1999 the years of deep depression and corruption started.

Phase Three: The Rise of Corruption (1999-2003)

During this period escalation of budget crisis was evident. In 1999, the government collected only around 70% of the projected national budget. Such conditions continued through 2003 (VladimerPapava 2006). There was a serious "budget war" between the central government and the local government of Adjarian Autonomous Republic. The local government of Adjara refused to transfer the legally established quotas of tax revenues collected in the region. So, the government had to use deceptive techniques in order to create fictitious tax offsets. The country could no longer meet the IMF requirements, so nobody was willing to give monetary aid to Georgia. By 2002, Georgia's external debt has reached 50 % of GDP (VladimerPapava 2006).

Compared to other former Soviet Republics, economic crisis continued longer in Georgia. But there were some important changes: pluralization of the property, liberalization of prices, transformation of property, establishing a national currency, formation of legislative base, formation of banking and tax systems, improving international economic relations and so on (Ramaz Abesadze 2003).

Despite all the problems, Georgia managed to achieve high rate of GDP growth (11.1%) in 2003. This was mainly because of the construction of the Baku-Tbilisi-Ceyhan oil pipeline. The state budget deficit continued and reached \$90 million in 2003, which later grew to \$120 million. Monthly pension amounted to only \$7 (Vladimer-Papava 2006). Such bad conditions spread dissatisfaction among the population and

the ground for the revolution was prepared.

If we sum up this period of post-Soviet Georgian economy, according to statistics from 1999 to 2003, GDP growth rate was approximately 26% (1999 – 2.96%; 2000 – 1.937%; 2001 – 4.7%; 2002 – 5.5%; 2003 – 11.1%), investments have increased from 26.471% (1999) to 32.511% (2003) but we can't say the same thing about unemployment. Unemployment in 1999 was 12.697% and it had only slightly decreased to 11.562% in 2003.

Phase four: Promising Economic Growth (2004-2011)

Georgia opened a new white page with new government. After the Rose Revolution Georgian economy started to increase thanks to introduction of political and economic stabilization programs which involved the strengthening of central authority, decline of crime rates, fighting effectively against corruption, competitive trade regime, low taxes and acceleration of privatization.

In order to build a competitive trade regime, there was a need to have deep reforms in the system of taxation. Number of taxes decreased to six from twenty-one. Custom procedures also decreased from fifteen to only seven. There had been some tax cuts, like the VAT was reduced from 20% to 18%, profit tax was lowered from 20% to 15% and tax on dividends was also decreased from 10% to 5%. Georgia was selected as the 4th least tax-burdened country by Forbes Magazine in 2008. Number of import tariffs decreased from 16 types to only three types, 0%, 5% and 12%. Total number of licenses has decreased by 84% recently. Georgia has preferential trade regimes with major partners, including the EU, the U.S. and free trade with Commonwealth of the Independent States (CIS) countries and Turkey.

Georgia is doing its best for the promotion of establishment of new enterprises such as developing the infrastructure by building nationwide networks of roads, railways and airports. In addition, it is worth mentioning that setting up a business in Georgia needs only one day.

The reforms that Georgia launched has shown the successful results and recognized by international organizations. According to International Finance Corporation (IFC) and World Bank survey results in 2006, Georgia became the top reformer in the CIS region. Georgia is ranked in the 11th place for the “ease of doing business” in 2010 by World Bank. When we compare that Georgia was only in the 112th place in 2005, we can say that reforms were successful.

Additionally, according to Transparency International's Corruption Perception

Index (CPI), Georgia ranks 127th place in 2003. The same organizations 2010 results rank Georgia in the 66th place out of 183 countries. In comparison, Armenia ranks 123th and Azerbaijan is 134th place. According to the Heritage Foundation's Index of Economic Freedom for 2010 , Georgia improved its rating in 26 place, for the first time changing its status from " mostly un-free" to "mostly free". According to the data, most EU countries have the same degree of economic freedom. Georgia is ranked 14th out of 43 countries in the Europe region, and its overall score is higher than the world average.

With the implementation of sweeping economic reforms, investment climate became attractive for the foreign investors. As result of these effective reforms, you can see from the table 1, FDI and GDP increased each year. GDP reached its high record level, \$12.8 billion in 2008 since independence. GDP growth rate, 5.9% in 2004 jumped up to 12.3% in 2007. In spite of the fact that Georgia had twin crises in 2008, the economy grew up more than the expectations, 6.4% in 2010.

Table 1. Macroeconomic Picture Of Georgia

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------|----------------|----------------|----------------|------------------|----------------|-------------------|-----------------|
| GDP Growth(Bil. USD) | % 5.9 (5.1) | % 9.6 (6.4) | % 9.4 (7.7) | % 12.3 (10.1) | %2.3 (12.8) | % - 3.9 (10.7) | % 6.4 (11.7) |
| Inflation Rates | 7.5 | 6.2 | 8.8 | 11 | 5.5 | 3 | 11.2 |
| Unemployment Rate | 12.6 | 13.8 | 13.6 | 13.3 | 16.5 | 16.9 | 16.3 |
| FDI (Mil.) | 499.1 | 449.8 | 1190.4 | 2014.8 | 1564 | 658.4 | 553 |

Source: Statistic Department of Georgia

As mentioned by Gursoy and Kursun (2008) in their survey study that the issues such as government regulations (regulatory burden), infrastructure, or safety do not act as major deterrents of FDI inflows in Georgia, especially after the successful reforms of the Saakashvili government.

The inflow of FDI almost doubled in 2007, reaching 2.01 billion which was 19.8% of GDP. However, the global financial crisis coupled with the August war in 2008 and their aftermath had impeded growth. FDI decreased to \$1.56 billion in 2008 and fell further to \$658 million in 2009 and \$553million in 2010. This is just 4.4 % of GDP, not only well below the pre-crisis level but also at a record low level since 2005.

Political Situation of Georgia after Gaining the National Independence

Phase one: Politics of Post-Soviet Georgia before the "Rose Revolution"

Before the collapse of Soviet Union, Georgia had elections, in 1990 parliamentary and in 1991 presidential elections were held. The first President of the country became Zviad Gamsakhurdia, during his Presidency, in April 9 of 1991 Georgia declared the Independence from USSR. But seven months later, as a result of increasing the tensions between the authorities of Georgia and opposition, Gamsakhurdia was overthrown and power was gained by the Military Council. Later, after the returning to Georgia former Minister of Foreign Affairs of USSR Eduard Shevardnadze, the State Council was established. Military coup in January 1992 (when Gamsakhurdia escaped from the country) was followed by civil war in Georgia which lasted almost till 1994. During the first period of the Shevardnadze ruling, armed gangs under leadership of Jaba Ioseliani were terrorizing the country. In Abkhazia and South Ossetia the disputes between local separatists and Georgian populations erupted into ethnic wars. With the support of Russian side those two regions were separated from Georgian control. The result of those wars was the fact that country got about 300 000 Internally Displaced Persons (IDP). Shevardnadze later signed an agreement with Russia concerning the permanent stationing of Russian military bases in Georgia (This agreement was not ratified by the Parliament of Georgia). In 1995 Eduard Shevardnadze was elected as President of the country (Chad Nagle 1999). In April 2000, Shevardnadze was elected as President of Georgia for the second time, but due to the high level of corruption and low level of the standard of living, furthermore, because of the mass falsification of the parliamentary elections in Georgia in November 2003 population started the mass protest action with the request of the resignation Shevardnadze from his post. The consequence of this action was resignation of Shevardnadze in November 23, 2003.

Phase Two: Political Situation in Georgia After "Rose Revolution"

After the bloodless "Rose Revolution" of November 2003 the former president Eduard Shevardnadze resigned and in January 2004, Mikheil Saakashvili was elected as a new president of Georgia. These elections were recognized to be the most democratic ever held before.

Poverty, high rate of corruption, unemployment, debts, low level of economic development, energy crises, budgetary crises, which was created by the inability and unwillingness of public servants to collect taxes, - these were the unresolved

problems which new government got from their predecessors. Under the leadership of Saakashvili, country, step by step started to solve these problems. The strengthening of presidential power had in some terms positive results, government succeeded in paying off debts to pensioners and public sectors employees. Government started effective fight against corruption, with the anti-corruption efforts numbers of former officials were arrested, the old, corrupted, soviet traffic police was removed and new, Western style patrol police was established, this reform is considered to be one of the most effective and successful (Vladimer Papava 2009).

New Business Environment

Population of Georgia remembers the cold winter days and nights spent without electricity. With effective fight against corruption in energy sector, since 2004, the country has uninterrupted supply of electricity. As In 2008, Transparency International ranked Georgia at 67th in its Corruption Perceptions Index, with score of 3.9 point out of 10 possible while in 2004 country was at 133rd place, with 2.0 points. The major objective for Saakashvili government became economic development, for these reasons, numbers of reforms such as reducing number of licenses and cutting tax rates, reducing import-tax. Government established the new Labor Code, which appeared to be revolutionary. – By limiting the rights of employees, it has substantially broadened rights of employers, but still, although this may encourage businesses to develop it leaves employees unprotected.

Main Aspects of Georgia-NATO relations

In terms of main foreign policy priorities Georgia has relations with NATO since 1994 when Georgia joined the NATO's program "Partnership for Peace". In the modern period majority of the population of the country support the integration of Georgia to NATO. However there're some complications in relationship between Georgia and NATO, like presence of Russian occupational forces in Georgian territory after military aggression of Russia against Georgia and occupation two historic parts of Georgia - Abkhazia and Tskhinvali Region. Georgia considers the membership to NATO as a guarantee of stability in the region. During NATO summit in Bucharest in 2008, most of the NATO member states demanded for Georgia to be allowed to join Membership Action Plan, but due to the opposition from several member countries of the Alliance, such as Germany and France, Georgia wasn't offered Membership Action Plan (MAP). Germany and France refused giving the MAP to

Georgia because the fear of Russian anger. The Russia is considered to be the most dangerous neighbor of Georgia. After Bucharest summit Russian officials announced that if Georgia would join the NATO, Russia would take steps aimed at ensuring its interests along its borders and these would not only be military steps, but also steps of different nature. The president of Russia announced that Russia would always protect the interests of Abkhazia and South Ossetia and even promised to open official Russian representations in these regions. In September 2008, after the Russia – Georgian war, NATO and Georgia established the NATO-Georgia Commission to oversee NATO's assistance to Georgia following the conflict with Russia and to play a central role in supervision the process set in hand at the Bucharest Summit. At the Lisbon Summit, allied leaders announced about their active support for Georgia's continued implementation of important reforms for reaching Euro-Atlantic aspirations.

Another important issue in Georgia-NATO relationship is support for NATO-led operations. Country actively contributes to the International Security Assistance Force in Afghanistan and supports NATO's anti-terrorist operation in the Mediterranean Sea.

Anti-Governmental Protests in the Country in 2007

Georgian economy was growing rapidly till 2007 when the opposition started demonstrations against government. Everything started on September 25, 2007 when Irakli Ogruashvili, former Minister of Defense and later Minister of Economy announced about the formation of new opposition movement for United Georgia and unleashed criticism on president Saakashvili, blaming him for corruption, violation of human rights, for the death of Zurab Jvania and also planning the assassination of businessman Badri Patarkatsishvili - the owner of Imedi TV. Most people in Georgia understand that all those declarations of Okruashvili were not true and main purpose of opposition was to find the reason and "invent" something against the President and in this way, destabilize the situation in the country. Protests started on September 28, 2007. Demonstrations took place in September and November of 2007. The demonstrators were insisting on early elections, more accountability and honesty from the side of government. Most of the opposition parties were united during these demonstrations.

On November 2, 2007, tens of thousands of Georgians protested outside the parliament urging president Saakashvili to resign. The crowd also requested for early parliamentary elections. People, mostly members of the opposition parties, during

their speeches were accusing Mikheil Saakashvili of authoritarianism and wanted him to be ousted democratically. On November 7, 2007 the police used the force against the demonstrators who were acting aggressively and several leaders of opposition were applying to population to come in front of the parliament with the slogan: “put an end to the government powers”. Number of demonstrators increased rapidly to about 5000 people and units of police were deployed after protestors overwhelmed the conventional police force. In response of those facts President Saakashvili said that country faced a very serious threat of unrest. He blamed Russian officials to stand behind this and also he mentioned that several Russian diplomats would be expelled from Georgia for engaging in “espionage”. On November 7, video and audio materials were shown on TV in which some opposition leaders were cooperating with Russian counter-intelligence service during a meeting with 3 Russian diplomats. On November 8, Saakashvili announced that he was ready to resign and conduct early presidential elections on January 5, 2008.

Robert Christiansen, the head of the IMF's Georgia mission, indicated that turmoil and pre-election uncertainty had dented Georgia's image with investors, adding that recovery was possible. He added that “recent political developments add considerable uncertainty to the projected volume of inflows for the remainder of this year and 2008”. According to Lado Gurgendidze, former prime Minister, during the November turmoil Georgian economy lost nearly half a billion dollars of potential investments.

The instability which was in Georgia during that period damaged country's reputation in the eyes of the investors and that was real problem as when country loses its face it can result in stopping capital inflow and the economy can be seriously affected.

Presidential Election in 2008 and the Second Victory of M. Saakashvili

The elections of January 2008 put everything on its place, as was expected Saakashvili won the elections and became the president of Georgia for the second term. The presidential elections were followed by the parliamentary elections on 21 May of 2008, after which National Movement got the control of 80% of the seats in parliament. During the election campaign, the main emphasis was on social problems, especially on poverty level in country.

After winning the elections government embarked on fulfilling its promises with a five-year poverty reduction program. Government created 50-day action plan

within the framework of the five year program. This plan included projects toward economic development and reducing poverty level. The so-called “revolutionary” economic package of laws was developed, the main aim of this package was turning Georgia into a global financial centre by offering tax exemptions on income to large financial companies whose activity in Georgia doesn't exceed 10% of their financial turnover.

One of the most important projects was the creation of financing facilities in the form of “cheap credits” for developing small businesses. Unfortunately this project was carried out without sufficient transparency. The decisions about credits for each concrete project weren't taken by the credit agency which was hired for this reason, but by the government itself. The action plan also included increased pensions. Monthly pension increased by 27% in April 2008 and the government also promised to raise the minimum pension up to \$100.

Russian Aggression Against Georgia in August 2008

Another serious damage in country's politics and economy and even most serious one was caused by the war between Georgia and Russia in August 2008. The war was brief but it resulted in many deaths, displaced people and de-facto redraw of the regional map after Russia recognized South Ossetia and Abkhazia as independent. On August 7, 2008 after the continuous fair from the side of Ossetian separatists-who were supported by Russian “peacekeepers”, Georgian side replied to those attacks with the purpose of the establishment constitutional order and protect Ossetian and Georgian population of Tskhinvali Region. On the following day Russia deployed combat troops in South Ossetia and launched bombing raids deep into Georgia. Russian and Ossetian soldiers fought with Georgian soldiers during 4 days in Tskhinvali and that was main battle of the war. On August 9, Russian Marine forces blocked Georgian coast and landed marines on Abkhaz coast. Abkhazian and Russian forces opened second front by attacking the upper Abkhazia, held by Georgia. After 5 days of heavy fighting, Georgian forces retreated, enabling Russians to enter uncontested Georgia and occupy the cities of Poti, Gori, Senaki, and Zugdidi.

On August 12 president of Russia Medvedev met French president Sarkozy who presented the ceasefire plan on behalf of the EU. Medvedev backed some elements and later French Foreign Prime Minister flew to Tbilisi to present the proposal to Georgian government. Medvedev and Saakashvili consulted by phone and finally a six-point peace plan was established. This plan called parties to cease hostilities and pull troops back to the positions they had before the war. On August 21, the deputy

chief of the Russian General Staff, Anatoly Nogovitsyn, stated that by the end of August 22 all forces of Russia would leave Georgian territory and stay within the area of Russian peacekeepers responsibility. However, the withdrawal was just partial. On August 22, Russian forces left village Igoeti, but Ossetian militia occupied the village of Akhagori. The same day Russian forces were leaving Gori, until then city was partially locked and the access to the city was restricted. Later Russian troops left Senaki military base. Finally, Russia pulled most of its troops out of uncontested Georgia but established buffer zones around Abkhazia and South Ossetia and also created check-points in Georgia's interior. Russia completed its withdrawal from uncontested Georgia on 8 October but as of 2009 but Russian forces remain stationed in Abkhazia and South Ossetia under bilateral agreements with the corresponding governments.

Reaction of the International Community on the Russian Aggression

All international society criticized Russia for not fulfilling the ceasefire agreement. During the Munich Security Conference on February 7, 2009, Joe Biden stated that United States would not recognize Independence of Abkhazia and South Ossetia (Jim Nichol 2009). On February 23, 2009, Czech Foreign Minister Karel Schwarzenberg, representing the EU warned Belarus that recognition South Ossetia and Abkhazia as independent states would remove Belarus from the "European consensus" not to extend diplomatic recognition to the regions, and might make it less eligible to participate in prospective EU Eastern Partnership Program of expanded economic cooperation.

The Parliamentary Assembly of the Council of Europe on January 28, 2009 approved the resolution criticizing Russia for failing to follow rules of ceasefire agreement. Russia was once more called on to withdraw its troops from the territory of Georgia, which was under Georgian control before the August 2008 conflict such as Kodori Gorge in Abkhazia, Perevi village near Tskhinvali and Akhagori district in South Ossetia and was requested to respect the territorial integrity and sovereignty of the country. PACE called for full access by international monitors and humanitarian aid workers to South Ossetia and Abkhazia as well as establishment of international peacekeeping forces in the regions. It criticized building military bases from Russian side.

Russia-Georgian war resulted in too much damage: peaceful residents were killed and houses destroyed. Country got huge number of refugees. Country's economy was strongly damaged. Russian troops bombed important economic infra-

structures, Black Sea Port of Poti, airfields were bombed, they exploded the railway bridge near Kaspi, Tskhinali and nearby territory was destroyed. As we already saw in economic chapter, country's economy was restricted by 4% after this war. Since beginning of the war, Fitch Rating and Standard & Poor's decreased Georgia's sovereign credit rates on 2 levels. Fitch rated Georgia from BB- to B+. Standard and Poor's decreased the rate from B+ to B. European Bank of reconstruction and development also announced that if the military actions would continue, the economic growth of Georgia would be under the serious risk.

Consequences of the Georgia-Russia War

Almost all economic spheres were heavily damaged after the war: the buildings of the constructions were stopped, the necessary equipments for constructions were coming with hamper and nearly 75% of constructions were stopped. Country's industry appeared to be in bad conditions. During the Russian invasion, Kaspi factory of cement and Tbilisi Aircraft Factory were bombed. Many small and medium industries were robbed and destroyed. Agriculture was damaged even more. Vineyards, apple fields were fired during the war. One of the first victims of the August events became tourism. Before the war country was in leaders' rate. Before invasion the number of tourists in Adjara was nearly 34000, but immediately after war started, the most of the visitors left Adjara and the season was failed. The companies which were working on tourist inflow got serious financial crisis, they had to pay the money back to the people who were planning to visit Georgia in August.

This brief war had horrible effects. Georgia had serious problems and only with the help of international society the country was able to somehow solve these problems and continue development. According to the information of World Bank and other International financial institutions, this conflict resulted in shocks to economic growth and stability in Georgia. Events of August 2008 weakened confidence of investors, lenders and consumers, stressed public finances, damaged physical infrastructure and increased number of displaced people. The conflict caused an estimated \$394.5 million in damages.

The Second Wave of the Protest Actions in Georgia in 2009

The war between Russia and Georgia had major effect on Georgia's internal politics. After military action were over, politicians started to ask more and more questions concerning the situation in the country regarding democracy and whether

or not the August war could have been avoided by the Georgian leadership.

At the beginning opposition muted their criticism about Saakashvili but later there appeared debates about causes of conflict. Former legislative speaker Nino Burjanadze formed new opposition party – Democratic Movement-United Georgia. Former Prime Minister Zurab Noghaideli announced that he would found opposition party, and later 2 opposition parties – The New Right and Republican Parties – formed an alliance. In February 2009, Irakli Alasania, former ambassador of Georgia to the UN entered this alliance.

The opposition started activities to make unity but it wasn't so easy, because of the difference in views about the future of the country's development. On 27 March 2009, opposition parties decided to unite against Saakashvili and demand his resignation. 13 parties made unity. The leaders of opposition announced that the protest would be intended to change power in a country by "constitutional way". They argued that demonstrations would remain until the president would step down.

Demonstrations started on April 9, 2009. The only request was resignation of president Saakashvili for his poor human rights record for concentrating power to himself, for the 2008 August war. Nearly 60000 people gathered on 9 April. Saakashvili was given time till 11:00 of 10 April to agree to the demands and resign. On April 10, the opposition announced the start of national disobedience campaign. Central roads were blocked for some hours that caused serious traffic jams. On April 13 a camp was made in front of President Saakashvili's office, the announced that they were ready for talks with Saakashvili but that election was only way out of situation. On 21 April demonstrators from opposition parties set up prison cells in the capital, mainly in front of parliament. On May 6, 2009, protesters and police clashed near police base. Opposition was demanding the release of three activists, which were arrested for beating a journalist on may 5. On May 26, 2009, on the Georgian Independence Day nearly 50000 protesters gathered in Dynamo stadium in Tbilisi demanding the resignation of the president. The government called off a major military parade to avoid clashes. Opposition leaders insisted that protests would continue till Saakashvili resigns, however, president Saakashvili repeated his refusal once again.

On May 28, 2009 some protesters were injured in clash close to the parliament. Government announced that police officers were beaten by demonstrators; however opposition denied this information, arguing that this clash was provocation made by a group of policemen, wearing civilian clothes, who started beating people. In the beginning of the June, when the citizens were annoyed that the main roads were blocked for so long time, demonstrator had to remove the cells from the roads. Gov-

ernment had offered the opposition to have a dialogue. Some part of opposition insisted on no compromises, but several oppositionists, like Irakli Alasania thought that dialogue would be useful. He announced that dialogue was the way to resolve the political and economic crises that country had after the August war. The government sought to open dialogue with opposition, Saakashvili had named Penitentiary and Probations Minister Dmitri Shashkin as his envoy to talks on national security, economy and political reform. But, the opposition parties didn't participate in those talks.

At the same time, Tbilisi Mayor Gigi Ugulava proposed that direct mayoral election in the capital would be held in 2010, this was one of the key reforms being demanded by opposition.

The opposition sought to make the rallies permanent by setting up tents and improvised prison cells outside the parliament and the presidential residence, blocking several of Tbilisi's main thoroughfares, and bringing in activists from other regions to increase their numbers. The government responded by pulling police off the streets, moving them inside the perimeter of buildings to be protected rather than mixing with protestors on the street. The discipline exerted by both the authorities and the opposition helped avoid a repeat of November 2007 which earned Georgia respect among Western observers. The confrontation was generally handled in a calm and professional way by both the authorities and the opposition. Both sides seemed to understand the dangers that a repeat of November 2007 would hold for Georgia at this extremely fragile moment in time. Nevertheless, several opposition members' attempts to provoke tensions with the authorities indicate the high level of tension involved.

These demonstrations could make dangerous moment for country, outside forces like Russia could use this situation for its own ends, and there was real threat that country would appear to be plunged into chaos and total destruction.

On April 2009, Fitch Ratings had warned that Georgia's long-term credit could be downgraded because of the political instability ahead of the planned protests. April 9, 2009 Prime Minister of Georgia Nika Gilauri warned that political standoff and protest in the country would hit the Georgian economy.

These examples show how the instability within a country can affect its political and economic development. But still the attempts of opposition to take the control in their hands failed. The general consensus is that the opposition lost credibility because of the radicalism of the demonstrations and the demonstrators' maximalist demands; opposition politicians' popularity ratings indicate that the more radical opposition politicians lost most ground. Even in 2012, before the parliamentary elec-

tions in Georgia, when de-facto leader of the coalition "Dream of Georgia" –main oppositional block, is Georgian billionaire Bidzina Ivanishvili who funded several political parties in Georgia, the rate of all those forces together does not prevail 10% according to the sociological survey, implemented by National Democratic Institute.

Despite the problems which Georgia was facing in the last years, country is still developing. Cities are built and infrastructure is constructed, however, there're reforms which should be done, like strengthening the jurisdiction and reforming electoral system. These are vital for democratization process.

Conclusion

Pre-revolution (1991-2003) economy of Georgia was ambiguous and very unstable. During the 12 years Georgia met the economic fall which was caused by disregarding economy, then 4 years of improvement and reforms which were again replaced by the depression and corruption. The reasons and causes of failures are considered to be political condition, complicated relations with Russia, corruption, racket and so forth. They really affected Georgia. But we also should take into the consideration that Georgia was one of the countless victims of the Soviet Union which controlled all aspects, dictated what to do and how to do and decided everything for others as well as for Georgia during 79 years. So, the restorations of forgotten independence, freedom, lack of experience which led to many mistakes, conflict of interests were also the main backgrounds for the failure. Implementation of effective reforms brought economic and political stability in the country after the rose revolution. In order to have better growing economy, Georgian and the foreign experts are suggesting that Georgia should provide better conditions as well as identifying and promoting the most promising business sectors.

Nowadays Georgia is entering at the third phase of the political transformation of the last decade. The first phase after the "Rose Revolution" was lasted within the 2004-2008. It was the next period of the peaceful revolution in Georgia, which has brought the new generation to the public sector of Georgia. The second phase is connected with the war with Russia in August 2008 and the International and internal effort to stabilize the situation in Georgia. Now country should pass through the Parliamentary in 2012 and Presidential in 2013 elections. After this period the new constitution will enter into force, which will change the political structure. It will be the new exam for the generation of the "Rose Revolution".

One thing is clear for further democratization of the country: it is necessary to

continue modern foreign policy course, main purpose of which is European and Euro-Atlantic integration of the country. Accordingly, it can provide the promotion of the restoration of territorial integrity of Georgia by peaceful means.

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