
Russia And Georgia : Economy As A Battlefield

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In international conflicts economic levers are sometimes more effective than military moves.

Blockading supplies of strategic raw materials, freezing money transfers, and strikes at the businesses of the national Diaspora may deal as much damage as tank attacks and air strikes. Since coming to power Georgian President Mikheil Saakashvili has repeatedly complained about Russian economic pressure, and has done much to separate the economies of the two countries.

Today, economic relations between Russia and Georgia have been reduced to the minimum. In conditions of tough confrontation, not to mention armed conflict, this situation is in many respects favorable to Georgia because it reduces the threat of economic pressure.

Georgia needs about 1.8 billion cubic meters of gas per year, but unlike many countries in the region it does not depend on Russia for it. It receives almost all of its oil and gas from Azerbaijan. However, a pipeline pumping Russian gas to Armenia passes through Georgian territory. This year, Armenia is to receive 2.1 billion cubic meters of gas. Georgia gets 10%, or 210 million cubic meters, as a transit fee. Despite the recent conflict the supplies have not been stopped. Georgian Minister of Energy Alexander Khetaguri said at a news conference that there is no threat to the pipeline at all. However, on August 11, Georgian gas workers reduced supplies by 30%, later explaining that this was because they needed to conduct some tests. Armenia, meanwhile, has no grievances against either side. The reductions do not affect its consumption, and the deficit can be compensated by gas from its underground depot.

If the conflict escalates, however, Georgia may lose 210 cubic meters of gas, which amounts to 11.6% of its consumption. The Armenian economy would lose much more.

There have been no reports of fuel shortages in Georgia. After Georgia reported a bombing in the vicinity of the Baku-Tbilisi-Ceyhan oil pipeline, Azerbaijan's state oil company announced it would suspend oil imports through sea ports, but the pipeline's operator BP did not confirm this report, and it later transpired that at least one tanker was ready to go to Georgia.

Until the end of the last year, Russia was the main supplier of electricity to Georgia, which received 100 megawatts of electricity per year via the Kavkasioni transmission lines. But after the electric power station in Inguri reached capacity last November, Deputy Minister of Energy Archil Nikoleishvili reported that Georgia would not need supplies from Russia anymore.

Nonetheless, Saakashvili has failed to break all links between our economies. Like most former Soviet republics, Georgia is relatively overpopulated, and various estimates say up to one million Georgians live in Russia. Migration alleviates the burden borne by the Georgian economy, and earns it considerable money in remittances. The Russian Central Bank estimated that \$142 million was sent from Russia to Georgia in the first quarter of this year alone. That is more than three times the official volume of trade between the two countries. Last year the figure was \$558 million, which is 50% more than Georgia's military budget.

Russia toughened its stance on Georgian immigration during a bilateral row two years ago. After the Georgian authorities detained Russian army servicemen in the fall of 2006, Vyacheslav Postavnin, deputy director of the Federal Migration Service (FMS), said: "The majority of Georgian migrants stay in Russia illegally. Last year, about 321,000 people from this area crossed our border for different purposes and a mere 4,500 of them work in Russia legally. We will toughen measures against them, up to deportation." Representatives of Georgian Diaspora complained that innocent people suffered due to some misunderstanding between political leaders. However, after the FMS statement, followed by the deportation of only a couple hundred, out of hundreds of thousands of illegal migrants, the conflict was resolved rather quickly.

Today, the Russian authorities have not yet resorted to deportation, though the Russian Communications Ministry announced discontinuation of postal service and money transfers from Russia to Georgia for technical reasons. However, Saakashvili is pushing Russia to tougher measures with his increasingly hysterical rhetoric.

For instance, his statement about Russia being at war with his country requires an adequate response. If two countries are at war, established practice should prompt Russia to immediately deport all the enemy's citizens with diplomatic immunity, as well as women and children, and declare all men of military age prisoners of war and intern them. Needless to say, their property should also be confiscated. Formally, however, Russia and Georgia are not yet in a state of war.

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