The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Selling the Georgian Dream

By Luka Oreskovic

November 22, 2012



Eight years ago, an enthusiastic crowd gathered in front of the Tbilisi parliament for Mikheil Saakashvili's presidential inauguration. "We must create the Georgia that our ancestors dreamed of," he told them, "the Georgia that we dream of." His dream was that of a democratic, NATO member country with a growing liberalized economy, low corruption and high living standards. Since then, President Saakashvili turned the economy around from one with perpetually contracting GDP to a forecasted 6 percent growth rate in 2012, pursuing what became his trademark aggressive privatization and liberalization programs. The Heritage Foundation and The Wall Street Journal's Economic Freedom Index ranked Georgia ninth out of 184 countries in 2012 (up from 113th in 2003). But voters believed that reform spiked unemployment to 16 percent and picked another dream catcher: Bidzina Ivanishvili and his Georgian Dream party.

In his election strategy, newly elected Prime Minister Ivanishvili addressed popular grievances and promised dramatic change but conspicuously left out details about his economic plans. However, Ivanishvili's initiatives as prime minister and his personal past offer some insight into his plans for the country's economic future and its privatization

program.

Bidzina Ivanishvili carefully molded his public image as a self-made businessman who returned to lead Georgia to progress and wealth. With a net worth Forbes estimated at $6.4 billion, Ivanishvili is perceived as a man who got into politics to share rather than gain wealth. Ivanishvili earned his initial wealth in the early '90s privatizations in Russia. His largest investments were in banking, mining and metal production assets. After selling his companies, he invested the proceeds in the Russian stock market and across Georgia.

Ivanishvili's views on privatization and the extent of the state's role in the economy are largely unknown. Given the country's ambivalence on these subjects that is understandable, but the lack of clarity is causing consternation among analysts and investors.

Kakha Bendukidze, the author of Saakashvili's aggressive privatization program, also earned his wealth in Russia's privatizations. However, Ivanishvili might not share Bendukidze's views on the potential of privatization, which made them both very wealthy. When asked about his plans to further deregulate the economy, Ivanishvili responded by accusing Saakashvili of rigging the Doing Business rankings but left out his own position on liberalization.

Ivanishvili's campaign rhetoric was broadly focused on mass unemployment, labor laws and direct foreign investment. Privatization remains a controversial topic in Georgia, where it often implies crony capitalism and nepotism. On the other hand, statism will hardly prove the much-needed engine of economic growth necessary for the increased social spending that Ivanishvili promised. Ivanishvili's economic policy will become clearer once he decides whether Saakashvili's deficit-liming Economic Liberty Law will come into effect in early 2013.

Ivanishvili's economy minister appointee, Giorgi Kvirikashvili, was a board member of Ivanishvili's Cartu Bank and a longtime member of parliament. Only weeks into his term, Kvirikashvili resolved the Poti port workers' strike by promising them a 20 percent wage increase and announced a Labor Code revision in favor of wage workers. One of Saakshvili's biggest reforms was the deregulation of the labor market.

Kvirikashvili has said that he is committed to promoting minimal economic interventionism and effective legal protection of business. The first is rather hard to believe with Saakashvili's government as a benchmark. But the Ivanishvili government's more conservative economic policy might be more productive than some critics expect.

Recently, Kvirikashvili said that low tariffs on the extraction of natural resources like gold, copper and mineral water should be reconsidered. In anticipation of increased social spending, tariff increases might be necessary but will prove disadvantageous in attracting foreign investors. Shares in the London-listed Bank of Georgia are on a falling trajectory, while the Georgian lari has weakened against the dollar. Attracting investors is essential for any privatization program, as domestic capital markets are no match for any substantial share-issue privatizations. In this, Ivanishvili's speculated openness to economic cooperation with Russia might prove a benefit if, with increased exports to Russia, he also opens Georgia to Russian investors — something Saakashvili often opposed. Kvirikashvili recently denounced government meddling in tariffs on Azeri-dominated gas imports and reiterated his commitment to improving the business environment. Such an explicit commitment makes

it likely that Ivanishvili's government will eventually pursue some form of privatization program.

Shortly before the elections, the Georgian parliament was moved from Tbilisi to a costly new building in Kutaisi as part of Saakashvili's decentralization effort. After the elections, Ivanishvili halted the privatization of the historical parliament building in Tbilisi and is considering the feasibility of moving the parliament to Kutaisi. While echoing a note of populism, reconsidering the old parliament's privatization and the move to Kutaisi might indicate a sense of reason on Ivanishvili's behalf. He may yet prove to be the much-needed moderate pragmatist that can lead the privatization of non-core assets while maintaining control of strategic ones, stabilizing the Georgian economy and increasing social equality. Progress necessitates hard choices, but Ivanishvili might strike just the right balance between reducing burdens on Georgia's future development and preserving things that mark its past, like the old parliament building he refuses to sell.

Carin Knoop, executive director of the Global Research Group at Harvard Business School and co-founder of the Strategic Asset Stewardship Initiative, contributed to this article.

Currently studying history and economics at Harvard, Luka Oreskovic is the co-founder of the Strategic Asset Stewardship Initiative, which focuses on global trends in privatization, nationalization and economic reform.

Related articles:

- Ivanishvili Pledges to Work With Saakashvili
- Ivanishvili Is Georgia's Chavez
- Georgia Justice Hinges On Who Is the Leader

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url: https://www.themoscowtimes.com/2012/11/22/selling-the-georgian-dream-34518-a34518