

Networks of Profit in Georgia's Autonomous Regions: Challenges to Statebuilding

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By the mid-1990s, Georgia had lost de facto jurisdiction in most of Abkhazia and South Ossetia. Over time, informal trade originating during wartime burgeoned into networks of profit, enlisting a broad spectrum of actors. Scholars have suggested that networks of profit should either eventually harden into state institutions or weaken the state as a result of the economics of deliberate violence. This article follows the state-formation approach, determining that statebuilding efforts during President Shevardnadze's reign were usurped by the largely unconscious and informal interaction between state and non-state actors detracting from the legitimacy of the Georgian state. Despite attempts by President Saakashvili to narrow their influence, these networks have persisted, leaving the Georgian state in a hybrid condition that neither tends to consolidation nor decay.

Keywords Georgia; Abkhazia; South Ossetia; statebuilding; networks

Introduction

Independence for some of the former Soviet states was marred by intra-state wars with previously autonomous republics within their territories. By the mid-1990s, Georgia had lost de facto jurisdiction in most of Abkhazia and South Ossetia. A quick succession of cease-fire agreements delineated borders between the state and these territories accompanied by a Georgian government-led embargo. Over time, informal trading originating during wartime burgeoned into networks of profit, encompassing several states, and enlisting a broad spectrum of state and non-state actors. The extent of network activity was only exposed after President Saakashvili came to power in Georgia in 2004, when his government hastily attempted to disrupt the networks with force. This essay is about the non-regulation of these networks during President Shevardnadze's reign and asks *why the networks of profit failed to assist in statebuilding*.

One line of argumentation informed primarily by historians suggests that networks of profit should eventually harden into state institutions. The most often cited historian, Charles Tilly (1985), focuses on the instruments and

institutions of modern organized violence in Europe, including informal trade. He argues that these networks were ultimately made to serve political interests, buttressing the statebuilding process, particularly mercantile capitalism. Likewise, historical-anthropological literature examines the intersection of government and illegality across the globe over the last three centuries, particularly the relationships between piracy, capitalism and statebuilding. Gallant (1999) concludes that illegal networks of 'military entrepreneurs' played a crucial role in the making of the early modern states across the globe by imposing a Weberian monopoly of violence over the means of coercion, thus allowing for greater capitalization. This is confirmed by studies suggesting that the transformation of the chaos of war into networks of profit has buttressed state institutions in both Georgia and her autonomous regions (Demetriou 2002a, King 2001, Scott 2006).

To the contrary, literature on the political economics of violence argues that networks of profit obstruct statebuilding due to destructive levels of associated violence. Networks of profit are understood to be the natural outcome of contemporary conflicts: criminalized commercial entities that have an interest in the prolongation of conflict and instability for financial gain (Collier 2007, Duffield 2001, Keen 1998, Malone and Berdal 2000, Pugh *et al.* 2004). Research on organized crime in the post-Soviet space suggests that 'entrepreneurs of violence' have not only played a role in obstructing statebuilding, but have themselves replaced Russia's fledgling economic policies by providing property rights and contract enforcement (Volkov 2002). Recent studies on Georgia hold that terrorist and criminal groups have infiltrated informal trading networks, posing a further threat to statebuilding (Kukhianidze *et al.* 2004, Kapatadze 2006, Shelley *et al.* 2007, Traughber 2007, Wennmann 2004).

This essay shows that none of these analyses on the role of networks of profit in statebuilding are fully accurate in the case of Georgia. I argue that networks of profit have been, on the whole, detrimental to statebuilding but not for the reasons previously stated. Tilly (1985) questioned his own work's applicability to the modern developing world, arguing that the global economic framework created a different environment for statebuilding efforts outside of the European context. Further, post-Soviet experts on organized crime groups have increasingly argued that the fluidity of many of these groups made them increasingly difficult to distinguish from official structures, as well as appearing more disorganized than during Soviet times (Galeotti 2002). Of course, operating in the shadows was not always harmful, and sometimes fostered a rise in productivity by avoiding socially damaging restrictions and regulations, like those imposed on imports and exports on the autonomous regions.

Rather, I argue that networks of profit were damaging to statebuilding due to the complex confluence of state and non-state actors and the breadth of their activity over time, which undermined state-societal relations, resulting in a lack of state¹ legitimacy in Georgia. While most trade was officially forbidden between the autonomous regions and the rest of Georgia, state and non-state actors created alternative markets and opportunities for illegal goods and

services. The role of state officials participating in such networks of profit undermined the authority of the government, ceding control to other forces, particularly those in the frontier regions between the state and autonomous regions. This left the marginalized majority of the population to rely on these networks for their subsistence in the short-term, but the trading activity never solidified into an effective system for long-term institutional and economic growth.

This essay employs a single case study of Georgia and petroleum smuggling networks traversing Georgia through its autonomous regions of Abkhazia and South Ossetia up through 2007. Information was gleaned during three research trips to Georgia, including two visits to Abkhazia and one to South Ossetia. The primary source material collected included works in English and Russian languages and data collection from the Georgian government and international financial institutions. Over 75 interviews were conducted in the capital and the region with parliamentarians, heads of businesses, current and former members of the government, trade organizations, donor organizations, and non-governmental organizations. There were two methodological challenges that had to be overcome: identifying members of the networks and their relations, and gaining trustworthy sources to confirm information. Triangulation, or the process of garnering multiple perceptions or interpretations to clarify meanings, was used to create a pattern out of seemingly disparate information. Due to the sensitivity of the information, none of the interviews were recorded, and some of the useful information obtained during interviews was 'non-attributable'.

This essay consists of three sections. The next section will continue with the theme of statebuilding and legitimacy. It will be argued that the statebuilding effort is usurped by the largely unconscious and informal interaction between state and non-state actors, referred to as state-formation. Following on from this will be detailed case studies of state-societal relations within the petroleum smuggling networks of Abkhazia and South Ossetia. The conclusion will link the theoretical and empirical sections to present several key findings as to why networks of profit failed to assist in statebuilding in Georgia. The networks of profit deter the creation of respected government institutions and a regulated market economy, contribute to high levels of criminal activity perpetuated by state security services, and inhibit conflict resolution as a result of lucrative profits paid to elites.

Statebuilding and Legitimacy

Approaches to statebuilding have mostly followed the neo-institutional strand, or the development-inspired track, which focuses on the institutions within the state and their ability to govern (Clapham 1996, Jackson and Rosberg 1982, Sørensen 2004). This is, for the most part, a top-down approach of state-imposed institutional mechanisms to garner political influence for the mobilization of societal groups and material resources for state action. To the contrary, the

ideational approach to statebuilding focuses on the idea of the state as a legitimate actor in providing protection for the population (Buzan 1991, Holsti 1996). This 'idea' of a legitimate state is born of a bottom-up approach to societal support for the state. That is, the citizens should see states and their institutions as legitimate, the result of social-political cohesion. The ideational approach, however, does not address a government that colludes with society, or a society that does not render legitimacy of the state a necessary attribute of survival. This study will adopt both the neo-institutional and ideational approaches in determining why networks of profit failed to assist in statebuilding.

Thus, for the purposes of this study, the conscious effort at creating an apparatus of control, or statebuilding, is as important as the largely unconscious and contradictory processes of cooperation, collusion and conflict between diverse groups, or state-formation (Berman and Lonsdale 1992, p. 5). Migdal and Schlichte (2005) have argued since the 1980s that there could be no understanding of state capabilities in the developing world without first comprehending the social structure, of which states are only one part. In developing states, they explained, local power structures often viewed the centres more as a threat than a legitimate source of authority, and 'strongmen' gained power in the periphery of a state, resulting in the segmentation of the political community into sub-units. Mann (1986, p. 113) called the power of the state to penetrate society and implement political decisions 'infrastructural power'. This infrastructural power could not be accepted as a given, he argued, because it was challenged by multiple actors within the state and the vertical and horizontal nature of relationships between state and society. In a crisis of authority and legitimacy in a state, people's loyalties to others often proved to be greater than to the state, for example, to a resource that provided economic security (Willets 2005, p. 428). In this situation, states succumbed to the contradictions of their polities or societies (Krause 1996).

To be clear, it is not the networks of profit themselves that were detrimental to statebuilding, but rather their role in limiting access to other economic actors, creating a monopoly of trade. North *et al.* (2007) referred to this as a 'limited access order,' as opposed to a more open and competitive system. Violence was controlled as long as all elite groups were privy to the trade and were benefiting. But any major change in distribution of violence potential could force a renegotiation of the distribution of rents. Rent-creation then provided the glue that held the coalition together, and when one system was disrupted another was usually created to take its place (North *et al.* 2007, pp. 8–10). Khan (1996) argued that harmful economic effects were when the final user of a resource was someone other than the one who would have had access to the resource otherwise, and/or when resources were lost in the transaction, resulting in a decline in social output. When there was too much loss, then societal confidence in the institutional structure broke down.

By 2002 in Georgia, there was a collapse of legitimacy of the central authority. That is, in addition to the institutions themselves being unable to respond to the needs of the citizenry, the legitimacy of governance had also collapsed. President



Figure 1 Map of Georgia (United Nations Cartographic Section 2005).

Shevardnadze’s liberalization programme, so generously funded partly as a result of his role as the Soviet foreign minister who had helped bring down the Berlin Wall and end the Cold War, was deemed impotent both by a majority of Georgians, as well as much of the donor community. A leading scholar explained,

Transition is over and what is left are a poorly institutionalised form of politics, endemic levels of corruption, deeply impoverished populations, low levels of economic interaction with international markets, declining production bases and subsistence agricultural sectors – all within a climate characterised by growing popular disenchantment and a deepening gap between the ruled and ruling. (Cornell 2003, p. 12)

On the eve of the Rose Revolution in November 2003, which saw the ousting of President Shevardnadze, the economic situation in Georgia was dire. Entrenched corruption, the result of the monopolization of the political system through such practices as clientelism, criminal activity, a weak law enforcement, and the manipulation of state resources to provide economic benefits for a privileged few, had paralyzed growth (Darchiashvili and Tevzadze 2003; Huber 2004; Stefes 2005). It was evident that the prevalence of the shadow economy jeopardized macro-economic stability, impeding real sector growth (International Monetary Fund 2003). The International Financial Institutions became increasingly frustrated with the lack of reform in Georgia and, in early 2001, the IMF suspended funds due to insufficient tax and revenue collection. Years of unrealistic and

therefore unmet state budget targets left pensions and salaries unpaid for months at a time. It is in this context that the essay will next explore studies of petroleum smuggling networks across the autonomous regions of Georgia.

Petroleum Smuggling Networks Across Abkhazia

Abkhazia is located in the northwest corner of Georgia. Russia borders it to the north and the Black Sea to the west. Under the terms of the Soviet constitution, Abkhazia was an autonomous republic within Georgia with Sukhumi as the administrative capital. The region to the east of Abkhazia in Georgia is called Samegrelo-Upper Svaneti and its administrative capital is Zugdidi. The conflict with Georgians in 1992–3 had a significant impact on the formation of the de facto state Abkhazia in terms of the demographic shift in population. The Georgians lost their majority status and the Abkhaz took over political and economic control of most of the territory.²

The socio-economic conditions in Abkhazia were more extreme than in the internationally recognized post-Soviet states because of the destruction wrought by the war, restrictions on economic activity across the de facto borders, and the limitations placed on international assistance. Reliable economic data for de facto states is difficult to obtain, but a few studies have contained data on Abkhazia's budget (UN 1998a, Gotsiridze 2003, Chkhartishvili *et al.* 2004, Kolsto and Blakkisrud 2008, Kukhianidze *et al.* 2004, ICG 2006). Abkhazia's GDP in 2001 was estimated to be about US\$70–80 million or US\$350 per capita per annum, on a par with the lowest tier of states in the international community. The state budget was US\$7.2 million in 2001, doubling by 2004, and exceeding US\$44 million by 2007 (Economika 2008). However, it was too small to provide social services for the residents of Abkhazia, even if the de facto authorities had wanted to. For example, in 2005, state revenues were reportedly US\$27 million (US\$9.3 million from customs collected on the Russian border), while the state budget was US\$34 million. The extra US\$7 million was financed by the Russian government, covering military expenditures, salaries of high-level officials, and pensions for the dual Abkhaz-Russian citizens.

Russia and Georgia imposed an economic blockade on Abkhazia beginning in 1994 and this was broadened in 1996 to a CIS-wide embargo. The embargo was a major factor leading to the primacy of smuggling. It permitted direct import only of food products, medical supplies, petrol and household items. A license from the Georgian government was required for everything else. It also prohibited participating governments from establishing contact with representatives of Abkhazia and forbade financial and military support to Abkhazia (Chkhartishvili *et al.* 2004). To circumvent these restrictions and to compensate for the poor state of the economy, the Abkhaz resorted to trade along undetected or illegally sanctioned passageways, including the de facto borders with Georgia over the Inguri river and with Russia over the Psou river, as well as at its seaports. Keeping trade in the shadows eliminated the need for a license and the payment of

taxes and customs fees. Bribes also facilitated a cheaper and more efficient transaction along the transit routes and substantiated low waged state officials and security services (Gotsiridze and Kandelaki 2001). The Georgian Mission to the United Nations suggested that by 2002 there was actually little evidence of an economic blockade of Abkhazia.³

There were plenty of peacekeeping forces that could have presumably curbed the smuggling, particularly of illicit goods. The 1994 Moscow Agreement on Cease Fire and Separation of Forces established the CIS Peacekeeping Force (CISPKF) of 1,650 Russian soldiers, responsible for monitoring the Abkhaz and Georgians on their respective sides of a security zone divided by the Inguri river running from the Black Sea north about 70 kilometres to upper Gali region and Kodori Gorge (Government of Georgia 1994). Moreover, the United Nations Security Council Resolution 937 of 27 July 1994 authorized the UN Observer Mission in Georgia (UNOMIG) to verify the implementation of the 1994 Moscow Agreement, observe the operations of the CIS peacekeeping force, and verify that troops and banned weapons did not enter the security and restricted weapons zone (UN 1994). However, the CIS peacekeepers and the UN observers could neither prevent, nor even collect enough information to report objectively on, the smuggling operations. The Inguri river could be crossed in numerous places when the water level was low, particularly in the dark of night.⁴ Moreover, there were allegations that the CIS peacekeeping forces, basically poorly paid Russian conscripted soldiers, were easily bribed for unfettered passage.

Among the most lucrative of trading networks were those handling petroleum. According to a US government sponsored report, only 10–5 per cent of legally imported gasoline in 1999, or 48,000 tons out of 331,000 tons were registered as official retail sales in Georgia (Shenoy 2002). The remainder of petroleum imports were smuggled into Georgia, including by networks of affiliates originating in Russia, continuing through Abkhazia to the Gali region, and joined by Georgians in Zugdidi and onto Tbilisi. Petroleum entered Abkhazia over the river Psou, crossing at the Russian border, or by ship to the Abkhaz ports of Sukhumi, Ochamchire, Gagra and Gudauta. According to the Georgian State Department of the Secret Services, petrol was shipped from Sochi to Sukhumi in railway tankers belonging to the Russian peacekeeping forces. Petrol originated from Russia, Romania, Turkey and Bulgaria. Smuggling was made easier when Russian President Putin signed a decree in September 1999 cancelling all previous documents concerning the restriction of the border crossing at the Psou river. This act rescinded in principle and practice the CIS economic blockade (Diasamidze 2003).

It is reported that Abkhazia imported more than 8,000 tons of petroleum products from Russia monthly and an additional 1,000 tons from Turkey (Chkhartishvili *et al.* 2004, p. 137). Approximately 2,000–2,500 tons per month or 5–6 per cent of Georgia's overall fuel transited Abkhazia. Petrol arrived in the Samegrelo region of Georgia in 20 ton tanks, approximately 2–3 times per week and was distributed to local stations (Kukhianidze *et al.* 2004, p. 38). While smuggling of petroleum through the autonomous regions provided at most 20 per cent of

Georgia's total annual consumption, it was the relationships that developed among supposed enemies, and the violence that accompanied this business, that made these routes particularly relevant for this essay (Kukhianidze *et al.* 2004, p. 7).

The formation of the networks began in the early 1990s. In the lead-up to the war between Georgians and the forces in Abkhazia and South Ossetia, motley gangs of approximately 50 to several thousand people created irregular armed formations as private militias (groups forming the armed wings of political organizations) and paramilitary groups (armed units loosely affiliated to, but possessing considerable autonomy from, state structures) (Demetriou 2002b). Some scholars argue that these armed formations became 'entrepreneurs of violence' and triggered the outbreak of war in Abkhazia in order to control their business assets (Zurcher 2005). During the war, these armed formations and criminal groups took control of local administrations within Georgia and the autonomous regions. In the aftermath of the conflict, the economic situation fostered an environment in which the forces involved in counter-insurgency operations and illegal commercial activities overlapped (Fairbanks 2002).

By 1995, two of the three main Georgian armed groups operating in Abkhazia – *Forest Brothers* led by David Shengelia (formerly of *Mkhedrioni*) and *White Legion* headed by Zurab Samushia – had slowed down their counter-insurgency operations and were more involved in commercial activities as business groups (Billingsley 2001). They had established links to Abkhaz authorities, security services and law enforcement agencies to transit goods across the Inguri river. The *Forest Brothers* were by far the most active group in smuggling across the ceasefire line, and were responsible for high levels of violence in the Gali district. Allegedly, Shengelia's share did not exceed 30 per cent of the profits, with the rest distributed to law enforcement on both sides at the local, regional and central levels (Kukhianidze *et al.* 2007, p. 81). The *White Legion* was more notorious for instilling fear in the Abkhaz community. In Kodori Gorge, there were three paramilitary groups – *Monadire*, *Svaneti* and *Khevsureti* – operating with the Georgian government. The group *Monadire* or 'Hunter', led by Emzar Kvitsiani, included a 200-man battalion and operated criminal rackets in the area (Socor 2006a). *Zviadists* still allegiant to the deposed first president of Georgia, Zviad Gamsakhurdia, allegedly operated in the Tsalenjikha district of Georgia neighbouring Gali. There were also splinter groups as well as 'copy' groups, who called themselves guerrillas but were in fact private security groups protecting politicians' business interests.

The respective presidents' families of Georgia and Abkhazia headed the petroleum smuggling business. Presidents Eduard Shevardnadze and Vladislav Ardzinba had solidified their rule by 1994 and had earlier served as leaders in their Soviet governments. Shevardnadze held various positions including the general secretary of the Georgian Communist Party, and Ardzinba served as a member of the Soviet parliament of the Autonomous Republic of Abkhazia. Both presidents' nephews – Nugzar Shevardnadze and Levan Ardzinba – acted as the primary interlocutors in the petroleum smuggling through Abkhazia until Levan was assassinated in September 2004. Another relative, Zurab Ardzinba, imported

the petroleum from Russia by ship, which was then moved by his brother Aka's trucks to Georgia (Kukhianidze *et al.* 2004, p. 30).

Eventually, the networks resembled a complex web of actors on either side of the Inguri river and beyond Georgia. Among them were government authorities, armed forces, law enforcement authorities, peacekeeping forces, private militias, criminals and local residents as go-betweens (Khukhianidze *et al.* 2004). Given the non-transparent and highly personalized nature of the networks, it is unclear how the groups were managed and financed, but it was likely a mixture of public and private means. In our discussions during 2003 to 2005, Georgian experts suggested that some Georgian groups were paid by the Abkhaz Ministry of Interior and State Security. Abkhazia's Deputy Minister of Foreign Affairs admitted that links were substantial, but he opined that many of the local Georgians were either proxies for the Georgian armed forces or were operating private businesses.⁵

On the Abkhaz side, the most powerful sponsor was the Presidential Guard headed by Valmer Butba and the second most powerful sponsor was the State Security Services of Abkhazia headed by Otari Turnanba (Anon 2002). The latter manned five checkpoints, as well as the main bridge over the Inguri river, using their position to demand illegal payments from freight transporters and extorting money from the local population (Khukhianidze *et al.* 2007). Perhaps the most influential sponsor for the Georgians was the Abkhaz government in exile, composed of Georgians who had fled during the war and were headquartered in Tbilisi. From 1994 to 2004, they were led by Tamaz Nadareishvili, a confidant of Shevardnadze and member of the National Security Council.⁶ He denied that his followers were engaged in trade across the Inguri river.⁷ However, those who were knowledgeable about the activities of the special forces of the Ministry of State Security of the Abkhaz government in exile, located in Samegrelo, believed that this organization was the primary sponsor of the trans-Inguri trade.

The Georgian authorities attempted to curb petroleum smuggling from Abkhazia through decrees and law enforcement. Georgian Presidential Decree No. 434 of 12 July 1999 required a Special Freight-Customs Declaration (SFCD) to import products into Georgia. Subsequent regulations established by the Georgian Customs Department permitted the import of petroleum from Russia into Georgia only at a single northern checkpoint Kazbegi. The Government of Georgia even created an armed unit under the Ministry of Tax Revenues to deter smuggling into Georgia (Kukhianidze *et al.* 2004, p. 55). However, compared to the volume of illicit traffic, there were relatively few cases of reported customs violations (0 in 2000, 0 in 2001, 2 in 2002, and 12 in 2003) (Ministry of Internal Affairs Georgia 2003, cited in Kukhianidze *et al.* 2004).⁸ Lucrative rents and the collusion of security services meant that the trade continued unhindered.

Petroleum Smuggling Networks Across South Ossetia

South Ossetia is located on the southern foothills of the Caucasus mountain range in northern Georgia, separated by the mountains from its northern neighbour

North Ossetia just across the Russian border. Under the terms of the Soviet Constitution, the South Ossetian Autonomous Republic was part of Georgia with its administrative capital Tskhinvali. South of this region is the Georgian area known as Shida Kartli with Gori as its administrative centre. In 1992 the Ossetians claimed control of most of South Ossetia and, after a short war against Georgia, a ceasefire agreement was signed. The population is estimated to have dropped from the pre-war 100,000 to 70,000 with approximately 17,000 Ossets staying in North Ossetia.⁹

After the ceasefire, Tbilisi maintained control of part of several majority ethnic Georgian villages comprising less than one-third of South Ossetia's total population (UN 2003). Under the auspices of the Organization for Security and Cooperation in Europe (OSCE), a Joint Control Commission (JCC) of Russians, Georgians and Ossetians was created to monitor the conflict zone. In October 1994, a quadripartite agreement was signed, which divided Ossetian participation in the JCC into North and South, and elaborated on the steps towards a peaceful resolution of the conflict. After the war, relations between the Ossets and Georgians were better than between Abkhaz and Georgians due to several factors. These included the lower scale of conflict and casualties during the war, the coexistence of the two groups in villages, and greater economic cooperation (Darchiashvili and Tevzadze 2003).

The first de facto leader of South Ossetia was Ludwig Chibirov, who had chaired the Supreme Soviet in South Ossetia since 1992. During his administration, law and order collapsed and the region degenerated into heavily armed banditry. The absence of central control over the region and the region's contiguity to Russia allowed for organized criminal activity (Hansen 1998, MacFarlane *et al.* 1996). In 2001, Eduard Kokoity replaced Chibirov. Kokoity had worked as a businessman in Moscow since 1992 and, prior to that, had been the First Secretary of the Tskhinvali branch of the *Komsomol*. Kokoity issued a decree in July 2003 sacking the Ministers of Defence, Security and Justice. He disbanded the intelligence and the security departments within the defence ministry, ordered the paramilitaries to disarm, and took over responsibility for customs. All of those sacked had held powerful positions in South Ossetia since 1992 (Liklikadze 2005).

South Ossetia is a poorer region than Abkhazia, with far fewer natural resources, only one major crossing connecting it to North Ossetia, and two trading partners – Russia and Georgia. Estimates put South Ossetia's GDP at US\$15 million or US\$250 per capita per annum (US\$100 less than Abkhazia) (Dzhikaev and Parastaev 2004, pp. 194–195). Residents existed on subsistence agriculture, remittances from family working in Russia, and small-scale trade. Through 2004, customs duties at the Roki tunnel pass on the border with North Ossetia provided most of South Ossetia's state revenues. The Roki tunnel is on the TransCam transportation corridor, which runs north from Vladikavkaz (Russia) through the tunnel and south to Tskhinvali on the way to the rest of Georgia. An estimated 62 per cent of all South Ossetia's budgetary income came from the TransCam transportation corridor and more than one-third of the entire

population was dependent on salaries from the government (Dzhikaev and Parastayev 2004, pp. 194–195). From 1999 onwards, the South Ossetian government compensated for minimal revenues by borrowing from Russia.

After the declaration of the ceasefire in 1992, trade developed spontaneously on neutral territory between Tskhinvali and the Georgian-controlled villages in Gori. The success of this trade was based initially on the large number of mixed marriages between the Georgians and Ossets, which helped to cultivate post-war entrepreneurial relationships based on friendship and family ties. By 1999, this trade had transformed into a more structured and profitable business for members of the government and private business. The ability to transit freely along the TransCam transportation corridor was enhanced by the refusal of Georgian authorities to establish guards and customs service checkpoints on the border with Russia (Kukhianidze *et al.* 2004, p. 19). As a result, Russian military vehicles used TransCam to move personnel and goods through Ossetia to their military bases in Georgia without undergoing inspection by Georgian security services.¹⁰ The South Ossetians established a system for collecting taxes and duties for transporters, which made it convenient for the trader to pay once (Dzhikaev and Parastayev 2004). The result was a managed, secure, duty-free corridor for the transit of goods between Russia and Georgia that had its main hub in an area outside the village of Ergneti in South Ossetia.

The most lucrative of the networks were those composed of Russians, Georgians and South Ossetians operating between Tskhinvali, South Ossetia and the Georgian regions of Shida Kartli and Kvemo Kartli. The stakeholders' professions ranged from former members of paramilitaries who had fought in the war, to law enforcement bodies, governing structures, armed forces, private entrepreneurs and a broad social base of the population.¹¹ On the Georgian side, an elite grouping of Nugzar Shevardnadze and the Georgian ministers of interior and transport controlled the heaviest trade of petroleum. Minister of Interior Koba Narchemashvil and former Shida Kartli Governor Davit Koblianidze were the two main Georgian government sponsors (Freese 2005, p. 110). Lokha Chibirov, the son of the former president, controlled the Ossetian part of the Ergneti market. Liangi Chavchavadze, a former official of the Ministry of Internal Affairs, controlled the Georgian part of the market (Kukhianidze *et al.* 2004, p. 19). His nephew created a company for safe freight delivery of goods – 'Express Service Ltd'.

As in Abkhazia, there were also criminal groups that operated in the Georgian-Ossetian conflict zone, the most infamous of which was *Robota*, headed by Nikoloz Khmiadashvili. Originally working for the police in Gori in the late 1990s, he returned to Georgia in 2001 to engage in smuggling from Russia through South Ossetia, working with the Deputy Head of the Shida Kartli Regional Police (Kukhianidze *et al.* 2007, p. 82). This group's sponsor was named by Georgia's State Minister, Avtandil Jorbenadze, to be a collection of officials in the Georgian State Chancellery (Freese 2005, p. 110). There were also remnants of paramilitary groups that had fought for Georgia during the war, but were now engaged in trade on the TransCam. These included the *White Eagles*, *White*

George, White Falcons, Black Panthers, the Kutaisi National Guard and the Merab Kostava Society. On the South Ossetian side were former members of the Republican Guard, established in November 1991, consisting of 2,400 men at the time of the conflict (Helsinki Watch 1992, pp. 20–21).

According to the Georgian Ministry of Finance, illegal fuel products entering Georgia's market amounted to approximately 5,000 tons per month. Of this, fuel products transiting through Ergneti amounted to 7.7 per cent of monthly consumption in Georgia (Kukhianidze *et al.* 2004, pp. 41–42). At its peak, the average monthly transport of petroleum flowing through South Ossetia was estimated to be between 2,800 and 3,400 tons per month, worth roughly US\$840,000 to US\$1.26 million (Gotsiridze 2003). Means of transport varied, from taxis and tankers to pipelines. An expert estimated that two runs of taxi drivers with 1,000 litres of petrol departed daily from Ergneti market towards Tbilisi.¹² One observer noted that along the Georgian road leading into Ergneti over 100 oil tankers stood alongside a one kilometre stretch.¹³ Large fuel deliveries could be unloaded into underground pipelines that ran a kilometre to a Georgian petrol station (Areshidze 2002).

The paths of petroleum smuggling across Georgia were semi-permanent, remaining dynamic over time. This was due, in part, to the stakeholders' efforts to deter detection. They created artificial shortages in supply from one direction in order to gradually shift to another transit corridor, resulting in a rush on demand and increased profits.¹⁴ In 1998, changes in Georgia's tax system made the price of officially traded petroleum from Russia into Georgia increasingly more expensive, particularly as world prices rose after 1999. If, for example, the average spot price for illegally imported petrol was US\$0.15 per litre, the price of legally imported petrol was set at twice that, providing a 50 per cent profit for the stakeholders. Thus, favourable economic conditions for smuggling petroleum into Georgia from Abkhazia and South Ossetia resulted in an increase in volume of smuggling from 1998 to 2000. However, by 2001 more petroleum smuggling had shifted to Red Bridge on the Azerbaijan-Georgia border.

Starting in 1999, there was an effort by the Georgian government to impose customs tariffs on freight originating from Tskhinvali into the neighbouring region of Shida Kartli. However, collusion between Georgian law enforcement bodies, customs officials and politicians was so endemic that the mechanism failed to operate effectively. In 2002, the level of criminality in South Ossetia was once again on the rise and the European Union (EU) proposed establishing joint customs and taxation regimes with the proceeds from TransCam going to the population. In exchange for agreement to this regime from the South Ossetian authorities, the EU would initiate a €2.5 million rehabilitation of the roads. According to the Office for the Coordination of Humanitarian Affairs in Georgia, the South Ossetian authorities did not agree to the plan, expressing concern that the programme would impede their sovereignty. At the same time, there was an increase in the level of violence between factions vying for control of smuggling and a breakdown in the credibility of the JCC because of its inability to deal with it.

Measures were taken towards the end of the Shevardnadze era to legalize the petroleum trade. The government departments, which gained responsibility for countering smuggling in Georgia, included the Ministry of Finance, the Ministry of Internal Affairs and the State Department of the Border Guard. Additionally, parliamentary committees and the National Security Council had legislative and oversight responsibilities. However, as of 2003 there were no major cases under investigation and no prosecutions of those operating in the networks. From 2001 to 2002 there were 82 cases of 'light smuggling' and the majority of those sentenced came from socially vulnerable groups (Kukhianidze 2004, p. 67). Thus, despite the anti-corruption rhetoric and legislation, Georgians continued to operate in networks throughout the Shevardnadze era.

Informal Networks in Transition

The falsified November 2003 Georgian parliamentary election led to weeks of protests across the country and an eventual resignation of President Shevardnadze. These events, referred to as the 'Rose Revolution', culminated in the January 2004 election of one of the leading revolutionaries, Mikheil Saakashvili, as president. Curbing contraband trade was a major initiative undertaken in the first days of the Saakashvili administration (Kukhianidze 2004). Efforts were made to improve the capacity of the security forces manning the borders and transit corridors, and to decrease the level of influence of regional politicians in both Georgia and South Ossetia. This was the idea behind the closure of Ergneti market on the border with South Ossetia and the withdrawal of Georgian Ministry of Defence sponsorship of guerrilla groups operating on the Abkhaz border in the Gali district.

The attempt to close Ergneti market in May/June 2004, however, ended in military conflict and a worsening of relations between Georgians and South Ossetians. When the Georgian government ordered interior troops to close Ergneti market, the real goal was allegedly to repeat the successful ousting of the de facto leadership, as they had accomplished in another autonomous republic, Adjara. However, the Ossetians, with the help of Russian arms and ammunition, defended their positions and, after six weeks of low intensity conflict, the Georgian troops retreated (ICG 2004). Ergneti market never reopened and traffic through the Roki tunnel on the Russian side of the border with North Ossetia was initially curbed. All imports of petrol products were to be directed first to Tbilisi for official accounting purposes and then distributed out to the regions. As a result, the only official checkpoint on the border between Georgia and Russia, at Kazbeki, reported a five-fold increase in revenues from imports, jumping from GEL900,000 in August 2004 to GEL4.6 million in January 2005 (Sepashvili 2005).

Despite the anti-smuggling efforts, however, there is evidence that smuggling through Abkhazia and South Ossetia remained a problem. Instances of bribery persisted at the level of local government, and customs and law enforcement

officials continued to engage in smuggling operations (Kupatadze 2005). The legalization of petroleum trade meant that the number of fuel importers rose to 80 in Georgia. And, as they had to split profits from a relatively small market, smuggling increased (Alkhazashvili 2007). According to a journalist living in Gori, 'The levels of smuggling have stayed the same. The only difference is that the goods are being brought in by top officials and their associates. And no one else dares to touch it.' (Vilanishvili 2005) In 2005, associates of the new governor of Shida Kartli, Mikheil Kareli, were accused of assisting a group of officials and their relatives to run contraband through South Ossetia, using towns in Gori as transfer points (Biganishvili 2005). Other routes were allegedly sponsored by the administrative head of Gori and the Chairman of the Gori District Court (Civil Georgia 2005b). President Saakashvili sacked over 20 top police officials in Shida Kartli for their participation, but it did not eradicate the smuggling (Freese 2005).

The closure of Ergneti market brought about the loss of the major source of income for poor Ossets and Georgians, a shortage of low-priced goods, and the destruction of a regular meeting place between the two populations (Areshidze 2004). Approximately 2,000–3,000 people worked in the market, and many others were indirectly engaged in activities supporting the market (Civil Georgia 2005c). After the forced closure, the Ossetians became more convinced that the new leadership in Tbilisi was not acting in their interests. The Georgian anti-contraband campaign turned into a sustained low-level armed conflict between the sides, reigniting tensions among the communities. The loss of the market also meant that the Ossetians became ever more reliant on Russia for their survival. Russian issuance of passports meant that Ossetians could receive pensions. Russia also increased contributions to the Ossetian budget for payment of official wages. This financial assistance was accompanied by Russian appointments to head the security services and armed forces in South Ossetia.¹⁵ Whereas previously the resolution of the conflict with South Ossetia appeared to be easier than that of Abkhazia, the participants in the South Ossetian conflict were now resolved to split from Georgia and join North Ossetia in Russia.

About 18 months after the closure of Ergneti, President Saakashvili gave a speech to the parliamentary assembly of the Council of Europe calling for the formalization of a trade regime between Georgians and South Ossetians. At the same time, Georgia offered South Ossetia autonomy equivalent to North Ossetia's in Russia, plus quotas for representation in the national parliament, executive branch and judiciary. However, the offer was followed by Georgia's support for the election of an alternative government led by a former secessionist official, Dimitry Sanakoyev, representing the majority Georgian-populated part of South Ossetia. Moreover, the Georgian government insisted that Sanakoyev be added to the conflict resolution discussions within the JCC format. The culmination of these actions bolstered president Kokoity's role as the guarantor of South Ossetians' security and resulted in his rejection of Georgian proposals.

The Abkhaz trade over the Inguri river was initially halted, but then increased as a result of the closure of the Ergneti market. In 2005, the Georgian government authorized the Ministry of Interior's special purpose units located in Georgian villages near the de facto border with Abkhazia to provide security and curb the smuggling. This resulted in an increase in conflicts and deaths of Georgian police (Civil Georgia 2005a). Also troubling was the Black Sea trade to Abkhazia, the majority of which made its way in ships under Turkish flag in violation of the embargo, but also included vessels with Ukrainian, Russian and Greek flags. In 2005, there were incidences of the Georgian coast guard firing on ships, as well as boarding the vessels and arresting the crew for delivering goods to Abkhazia. The internal security of Abkhazia also seemed to be deteriorating with the attempted assassination of the Abkhaz Prime Minister Aleksandre Ankvab on 28 February 2005. Linking the attempt on his life to his initiative to curb shadow economic activities in Abkhazia, the prime minister charged the interior minister with further limiting the operations of criminal gangs operating in Abkhazia.

The Abkhaz leadership admitted in their proposal for confidence-building measures, delivered to the Georgian government in 2007, that one path to resolving the conflict would be for the two sides to make unambiguous statements regarding their mutual aspiration to cooperate in combating crime in the coastal zone. They also requested an end to the Georgian sanctions, explaining that, 'The blockade deprives the Abkhaz people of a substantial part of their income, which might otherwise be spent on implementing more important and more comprehensive social and humanitarian programs'.¹⁶ Their request was addressed, however, not by the Georgians, but by the Russians. In March 2008, the Russian foreign ministry sent an official notification to the CIS Executive Committee stating that the Russian government was lifting the ban to address issues of trade, economic, financial and transport relations with Abkhazia. The notification also urged other CIS countries to take similar steps and lift restrictions on Abkhazia (Tass 2008). This was followed by the Russian Duma's adoption of a resolution suggesting the expediency of recognizing Abkhazia, South Ossetia and Transnistria in Moldova. Finally, on 16 April 2008, President Putin ordered the foreign ministry to aid the population of Abkhazia and South Ossetia and restore normal ties in all areas.

Thus, it could be argued that the use of force to close Ergneti market followed by the continuation of smuggling networks and accompanied violence contributed to the events leading up to the August 2008 war between the Russians/Ossetians and the Georgians. The breakdown in community relations at Ergneti market were mirrored in the lack of conflict negotiations between the governments. Moreover, South Ossetia became much more reliant on Russia for aid, which increased Russia's influence in the region. These factors combined to set up a situation in which levels of violence increased, misunderstandings grew as a result of poor channels of communication, and the Saakashvili government apparently never gave up the goal of taking back South Ossetia, even if by force. Russia's formal recognition of Abkhazia and South Ossetia bolstered these

regions' calls for independence and both autonomous regimes welcomed more Russian troops and security guarantees.

Obstacles to Statebuilding

The complex hybrid of networks connected state and non-state actors, blurring binary distinctions between formal and informal or between legitimate state-based violence and illegitimate private violence. Networks of profit did provide some social and economic support, for example, connecting rural villages to outside markets. Private entrepreneurs could also be hired to provide security along a transit corridor. Elites on both sides accumulated wealth in an otherwise tenuous situation. But, in the case of Georgia, there does not seem to be hard evidence that these short-term gains hardened into state institutions either in the central government or in the autonomous regions. The primary conclusion reached by this essay is that networks of profit not only failed to assist in statebuilding, but also rather presented at least three major obstacles.

First, the monopolization of these networks over lucrative business inhibited the development of legitimate institutions and sustainable economic development on both sides of the *de facto* border. Political and security appointments in state institutions were made, in part, based on people's loyalty to sustaining the operations and delivering profits to the authorities, rather than on professional qualifications. A power bargain was designed whereby the central authorities distributed local political positions and, in return, they shared the financial benefits gained from networks of profit (Metreveli 2003). Towards the late 1990s, two factors shifted the power dynamic gradually from the centre to the periphery in Georgia. The first factor was the growing influence that local families obtained in regional governing structures as a result of deals made with the centre. The second factor was growing cooperation between regional stakeholders and actors in neighbouring states.

Large-scale protection rackets employing coercion-backed extraction measures to defeat competition resulted in low levels of official revenue collection in all regions of Georgia. By 2003, it was evident that the prevalence of the shadow economy jeopardized macro-economic stability of Georgia, impeding real sector growth. The shadow economy was estimated to be between 25 and 40 per cent of GDP (TACIS 2000). According to the Georgian state department of statistics, the Georgian shadow economy from 2000 to 2003 was between 32 and 34 per cent (TACIS 2003). However, Georgian pundits unofficially estimated that as much as 80 per cent of all consumption was obtained through contraband by 2000 (Lynch 2003, p. 11). Lost revenue to Georgia from smuggling through South Ossetia was estimated to be around US\$10–12 million per month, or nearly half of Georgia's budget (Areshidze 2002).

The autonomous territories in particular suffered from a combination of isolation, mismanaged economies combined with hyperinflation, demonetized economies and the criminalization of economic activity. Furthermore, they

suffered from a subsistence syndrome, reliant upon foreign assistance and international aid organizations to provide adequate social services to the population (Lynch 2002, 2004). One expert estimated that activity in the smuggling between the Abkhaz and Georgians accounted for half of the Abkhaz economy.¹⁷ In South Ossetia, as has already been noted, smuggling through Ergneti market was the primary income in the region. A more recent studies point to nuances in some positive developments in the autonomous regions over the last several years, in particular the holding of fairer elections, the development of functioning state institutions, and the strengthening of security forces (Caspersen 2008). However, this study maintains that despite these developments, particularly in Abkhazia, economic advantages remain limited to a few, too much is still lost in market transactions, and the majority of the populations are reliant on Russian payments. Thus, societal confidence in the institutional structures remains broken.

The limited access order of the Shevardnadze era was never opened to competition in the petroleum sector in any significant way. According to the Georgian customs department, in 2005, oil products worth US\$354.6 million were imported, which is almost 74 per cent more compared to the figure in 2004 (Sarke Information Agency 2006). These figures do not, however, necessarily represent a significant increase in imports since the Rose Revolution. Rather, they are to do with a more transparent and accountable customs and tax regime on the borders and an overall decrease in smuggling. And, while the smuggling networks were temporarily dislodged in 2004/5 across the autonomous regions, they soon found new sponsors on the Georgian side and continued until the August 2008 war with Russia, at which point armed forces (mostly Russian) patrolling the de facto border regions had been significantly increased and economic relations with Georgia severed.

The second obstacle to statebuilding was that the networks of profit traversing regions of Georgia were predisposed to criminal activities and violence, creating an unstable environment and increasing the power of criminal organizations over official bodies and citizens. As South Ossetian researchers wrote, 'Economic systems – in an extremely truncated manner – have been created in [the separatist regions] that provide for the survival of most of their residents, while simultaneously creating the conditions for enriching criminal organizations' (Dzhikaev and Parastaev 2004, p. 184). The NGO International Alert examined the nexus between corruption and the unresolved conflicts, concluding that informal network connections usurped the official mandate to guard and secure the economic interests of the state in the pursuit of personal profit (Mirimanova 2006).

This was partly the result of the lack of rule of law. Key positions in law enforcement agencies were for sale; the price of a position could eventually be recovered from engaging in smuggling and extraction of rents along smuggling corridors.¹⁸ There was also a general proliferation of 'criminal' societal practices within these regions, including the role of consumer networks in smuggling petrol. What was perhaps more threatening for international security, however,

was that the same transit corridors established for petroleum products could be used for other commodities, from drugs to weapons and components of weapons of mass destruction (Cornell 2002). By the early 2000s, Georgia was at the crossroads of the Afghanistan-Europe heroin traffic, as well as the Russia-Middle East arms smuggling (Cornell 2003).

Violence in the form of assassinations and kidnappings occurred when the sides did not agree on the division of spoils (Khubutia 2003). This violence was at its worst in the Gali region of Abkhazia and neighbouring Samegrelo in Georgia, where security forces stationed for the protection of the citizens used their positions to destabilize the other side, as well as to protect their share of the spoils from smuggling. Georgians and Abkhaz forces maintained a low intensity conflict, including incidences of shooting, killing, abducting, mine blasting, ambushing and robbery. There were major outbreaks of violence in 1998 and 2001 that threatened to trigger a resumption of hostilities. In May 1998, there was a sharp rise in activity by Georgian paramilitary units in western Abkhazia. This led to clashes with the Abkhaz militia and an unsuccessful attempt by Georgia to seize the Gali region, which resulted in some 30,000 mostly Georgian residents being displaced (UN 1998b). Again, in April 2001, a conflict between the *Forest Brothers* and Abkhazian militias over the smuggling of contraband and ammunition resulted in the killing of two Georgians and the taking of hostages by both sides (UN 2001a).

A 2001 UNOMIG report described the security situation on the de facto border as follows: 'While partisan activities continue to be of concern, the main threat . . . is the high level of criminality in the area of conflict and the inability of local law enforcement agencies to deal with the problem effectively.' It went on to explain that the Abkhaz law enforcement authorities did not control the lower Gali security zone and the Georgian authorities did not control the upper Kodori valley (UN 2001b). Georgian security services in the region only earned US\$7 per month and supplemented this by working with the Abkhaz authorities (Korsaia *et al.* 2002). Thus, the ceasefire-line actually became a competitive market for various Abkhaz and Georgian forces vying for the spoils of trans-border trade. In the first two months of 2003, there were 13 major crimes and three high-profile murders in the Samegrelo border region (Khubutia 2003).

The third obstacle to statebuilding was that the vested interests in the continued activity of the networks of profit discouraged the resolution of the secessionist conflicts. Walker was the first to argue that the 'no peace, no war'-status favoured the secessionists, in terms of solidifying their hold on power, such that they would remain reluctant to reach a compromise (Walker 1998). Vaux (2003) suggested that the financial benefits from operating within networks traversing autonomous regions and unrecognized borders were so substantial as to encourage the political elite to maintain the 'frozen' status of the conflicts for much of the Shevardnadze era. A recent study conducted by International Alert corroborated Vaux's argument with interviews conducted in the field. The report suggests that the elite in Georgia and the non-recognized entities were

comfortably benefiting from the situation and that they had no effective settlement plan to offer the citizens of these entities (Mirimanova 2006).

Some experts, such as Jonathan Cohen, took issue with the 'vested interests' argument, citing numerous reasons for the non-resolution of conflict, such as historical grievances.¹⁹ It is difficult to make a direct correlation between the networks of profit and the 'stalled' status of the conflicts in the South Caucasus. Given the examples provided in this study, however, financial incentives do appear to have been a major factor in sustaining their activity, which had an indirect affect. Firstly, the levels of violence among competing groups in the shadow economy depleted confidence between the sides. And, secondly, the power of the elite rested in the financial benefits gained from their sponsorship of the networks of profit.

In addition to the vested interests argument, the participation of Georgian armed forces, security services, politicians and state-sponsored guerrilla groups in the networks with Abkhaz groups undermined the credibility of the Georgian state as a viable protectorate. The competition for control of the smuggling networks damaged efforts by the Georgian government to convince the Abkhaz that living under their authority was in their interests. Their joint engagement in networks fostered the perception among residents of Abkhazia that Georgia lacked transparent and accountable governing institutions, as well as a fully-fledged private sector and market economy.²⁰ Vaux (2003) explained that if Georgia wanted to establish its credentials as a functioning nation-state, it was going to have to reduce the power held by criminal groups. The confidence residents of Abkhazia had in the Georgian state was further eroded by violence in the Gali region of Abkhazia (Wennmann 2004). The same forces that were meant to be protecting Georgian citizens in Gali were actually perpetuating violent clashes with the Abkhaz, making their lives extremely difficult.

Ultimately, this lack of faith in Georgia as a responsible interlocutor also led to greater cooperation between the autonomous regions and Russia. As previously noted, Russia replaced the Georgian government as the protector of the people through multiple channels of assistance (Popescu 2006). Militarily, the support came in the form of military forces, bases and the training and equipping of secessionist forces. Russia also delegated its former civilian and military leaders to serve in key posts in the autonomous governments (Popescu 2006, Socor 2006b).²¹ Economic support included subsidies, paying pensions, special trade regimes, upgrading infrastructure such as bridges and the railroad to Sukhumi, investing in companies, banking, energy subsidies, and providing passports for easier transit to Russia for work. Politically, Russia increasingly convened meetings of the heads of the autonomous regions in Moscow and was viewed by Georgians to be representing the autonomous regions' agenda in multinational consultations. Ultimately, an intra-state conflict with the participation of some external actors morphed into an inter-state conflict between Georgia and Russia.

For the Georgians, the networks of profit, to some extent, provided a cover for incursions into Abkhazia to collect intelligence information. They also lent

credibility to the argument that the authorities in Abkhazia and South Ossetia were unable to maintain control over their territory (although at the same time they also made it clear that the Georgian authorities were equally unable to maintain control over Georgia). What is unclear, however, is why, if its aim was to resolve the conflicts, the Georgian government maintained support for the networks. The governments' policies of isolating the autonomous regions for the purposes of bringing them to the negotiating table in a weak position only strengthened entrenched elites. There is a possibility that if Georgia had stopped participating in these networks, particularly the more lucrative ones transiting illicit material, that violent activity would have decreased, deflating the power of the paramilitaries seemingly acting as independent criminal operatives. Eventually, this could have fostered a better environment for negotiations, and given greater credibility to the Georgian side in negotiations over the more difficult points, such as whether the residents of Abkhazia would allow Tbilisi to once again be responsible for their territorial security.

Conclusions

As stated at the beginning of this study, scholars have suggested that networks of profit should either eventually harden into state institutions or weaken the state as a result of the economics of deliberate violence. This study has shown that neither of these analyses of the role of networks of profit in statebuilding is fully accurate in the case of Georgia. Previous arguments do not fully appreciate how the complex confluence of state and non-state actors in the networks, and the breadth of their activity over time, undermines state-societal relations, resulting in a lack of state legitimacy. Indeed, the networks of profit deter the creation of respected government institutions and a regulated market economy, contribute to high levels of criminal activity perpetuated by state security services, and inhibit conflict resolution as a result of lucrative profits paid to elites. That is, they inhibit statebuilding.

This essay has sought to contribute to shifting the study of statebuilding away from a concentration on international policies and Western development efforts towards scrutinizing the complex social processes that evolve around and within the non-Western state under diverse forms and circumstances. To this end, it has been useful to replace the focus on the conscious statebuilding effort with a more nuanced understanding of state-formation. Appreciating the unconscious and contradictory processes of cooperation, collusion and conflict between diverse groups is critical to understanding why states like Georgia are unsuccessful in realizing their stated goals of regaining legitimacy in the autonomous regions of Abkhazia and South Ossetia. From this study, it is apparent that there are two simultaneous conditions influencing the process of state-formation in Georgia, one internal and the other external. The first are the interdependencies and negative mutual repercussions between the statebuilding ambitions of a newly emerged nation-state and competing projects of

statebuilding at a sub-national level between the state and the autonomous regions. The second is the struggle for the state to deal with external influences, such as Russia's political, economic and military support provided to the autonomous entities. In their aim to constitute a state, non-Western state actors are in a constant balancing act between local and international influences, demands that are often irreconcilable.

The Western community continues to struggle with defining the ideal 'modern state' and designing programmes to achieve this state. While critical approaches have contributed significantly to understanding international practices of statebuilding, less attention has been given to questions of local agency and to the effects statebuilding practices have on non-Western state dynamics. And yet, it is precisely this aspect of state-formation that has posed the largest challenge to the Western assistance. Perhaps more effort should be placed on understanding the particular dynamics of state-formation in non-Western states, including in-depth country studies. However, no amount of studies and assistance is going to be able to deconstruct the networks of profit. Therefore, a cross-country historical study comparing states' abilities to consolidate networks of profit into hard institutions, or to do away with them completely, could serve as a basis for re-evaluating Western statebuilding assistance.

Notes

1 Throughout this essay, the term state will refer to the government apparatus, as it does in the European notion of the state.

2 The 1989 Soviet census counted 17.8 per cent Abkhaz (93,267) compared to 45.7 per cent Georgians (239,872). A 2003 census carried out by the Abkhaz counted 45,953 Georgians and 94,606 Abkhaz, with Russians, Armenians and Greeks totalling 68,476.

3 Interview with Gorcha Lordkipanidze, Deputy Head of Mission, Georgian Mission to the United Nations, New York, USA, April 2003.

4 Interview conducted off-the-record with senior military member of the UNOMIG mission, Sukhumi, Abkhazia, July 2003.

5 Interview with Giorgi Artoba, *de facto* Deputy Minister of Foreign Affairs, Abkhazia, Georgia, July 2003.

6 With the support of the Georgian state, the Abkhaz government in exile formed a state-like administration and bureaucracy numbering 5,000 people, including a military directorate, tax authority and a police force, as well as several designated seats in parliament. They also had security forces stationed in the Samegrelo region.

7 Interview with Tamaz Nadareishvili, President, Abkhaz Government in Exile, Tbilisi, Georgia, July 2003.

8 The title of the Ministry document is: Organized crime and smuggling through Abkhazia and its impact on Georgian-Abkhaz conflict resolution.

9 North Ossetia is the most economically viable economy in the northern Caucasus, with factories producing metals, electronics, chemicals, alcohol and processed foods.

10 Interview conducted off-the-record with Georgian familiar with Ergneti market, April 2005, Tbilisi.

11 Interview with Vano Nakaidze, Director, Group of States Against Corruption (GRECO), American Chamber of Commerce, Tbilisi, Georgia, August 2003.

12 Interview with Vano Nakaidze, August 2003.

- 13 Interview with Lord William Wallace, Professor (Emeritus) London School of Economics and Member of the House of Lords, London, UK, 2004.
- 14 Interview with Vano Nakaidze, August 2003.
- 15 Interview with Ministry of Economy staff, Tskhinvali, South Ossetia, July 2007.
- 16 *Key to the Future* is an unpublished, May 2006 position paper containing the Abkhaz de facto government's proposals for a comprehensive resolution of the conflict.
- 17 Interview with Paata Zakareishvili, Independent Political Analyst, Tbilisi, Georgia, June 2003.
- 18 Interview with John Wright, Political Advisor, European Centre for Minority Issues, Tbilisi, Georgia, April 2005.
- 19 Interview with Jonathan Cohen, Co-Director of the Caucasus Programme, Conciliation Resources, London, UK, April 2003.
- 20 Perception gleaned from discussions with a cross-section of residents of Abkhazia in July 2003 and July 2005.
- 21 For example, the defence ministers of both Abkhazia (Sultan Sosnaliev) and South Ossetia (Anatoli Barankevich) were appointed by Russia. The former Abkhaz Prime Minister in 2004/5, Nodar Khashba, previously worked in the Russian ministry of emergencies, and Prime Minister Morozov of South Ossetia was sent from Russia.

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