

**POWER, REVOLUTION, AND BUSINESS  
IN POST-REVOLUTIONARY GEORGIA<sup>1</sup>  
(Part Two)**

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**Business and Revolution**

The United National Movement declared the development of small and medium businesses as one of its main aims and promised to remove the taxation issue, the main irritant, from the agenda. Under Eduard Shevardnadze tax evasion was easy: businessmen and bureaucrats established unofficial relations regarded at the top as a natural development pattern of capitalism and primary ac-

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<sup>1</sup> For the beginning see No. 2, 2006.

cumulation. Businessmen were free to break the law, while bureaucrats seized the moment to grow rich by using their official positions to raise their personal prosperity. Even though the country's leaders alleviated state economic pressure on business, they increased their political and bureaucratic pressure by the same token, making the business community a hostage of the state and its bureaucracy. The latter was not only growing rich on bribes, it wanted large chunks of the businesses as well. Corrupt politicians and top bureaucrats protected the lawbreakers. In other words, while economic coercion was alleviated, pressure from the country's political leaders and corrupt bureaucrats was doubled.

Businessmen were naturally displeased: they wanted to wriggle out of the double pressure. At one time, Eduard Shevardnadze used this to tighten his control over the business community and strengthen the social base of his power. After coming to power through a coup that toppled the regime of legitimately elected president Zviad Gamsakhurdia, he badly needed all the support he could master. The deposed president's allies stood opposed to him, while most of the population badly hit by the economic devastation and sliding standard of living posed a serious threat to his political system. To strengthen the regime's economic and social basis, President Shevardnadze assembled a business community out of his friends and political allies and enlisted new allies from among the businessmen connected with his regime.

This explains how the National Bank of Georgia squandered credits and damaged the state's interests: advised by highly placed and influential people, its chairman was issuing credits in hard currency to be repaid in depreciated Georgian coupons. Huge capital formed in this way. Being aware that sooner or later he would be called to account, the chairman kept a list of all those who recommended the credit seekers. He shot himself under dubious circumstances during the interrogations. Naturally enough, society refused to accept the official version as true.

The members of the top crust were not the only ones to exploit the permissiveness of Shevardnadze's regime: ordinary people who lost their jobs when the Soviet Union fell apart found themselves at the very bottom. Some became petty merchants, others took to smuggling; still others tried to set up small and medium businesses by violating the laws. Permissiveness relieved the state's pressure and let them live.

The democratic procedures of the power struggle cost a lot under conditions where private property predominates, therefore power needs a lot of money from non-state sources, business being one of them. This explains why the ruling political forces are trying to preserve their control over business, while the business community, in turn, wants the ruling political forces to protect its interests. For this reason, business was, before the revolution, and is still, after the revolution, controlled by the bureaucracy and political power. Today, this control has become stricter than ever. The business community is much more afraid than before; it shoots much fewer critical salvos at the government than before. This, however, is not the whole picture. Deputy to the Georgian parliament David Zurabishvili says in particular: "The government counted a much better business climate as its achievement, yet businessmen are as oppressed as ever. Even the British ambassador said that foreign investors had problems with the financial police. I don't know how long businessmen are prepared to be content with the power-orchestrated extortions. They are afraid to talk openly, yet among friends any of them will paint the real picture."<sup>2</sup> According to Business Federation Executive Director G. Isakadze, businessmen were much bolder under Shevardnadze than they were after the Rose Revolution when it became hard to draw the truth out of them.<sup>3</sup>

Taxes are still a major headache for Georgian business. The congress of the Industry Will Save Georgia Party pointed out that the economic situation is going from bad to worse; business-

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<sup>2</sup> *Kviris palitra*, 28 November-4 December, 2005 (in Georgian).

<sup>3</sup> See: *Akhali taoba*, 15-16 November, 2005 (in Georgian).

men are oppressed by the very negative taxation climate; members of the old rule in various business spheres are being replaced with new bosses, while more and more businessmen are falling victim to blackmailing and intimidation.<sup>4</sup> Business is powerless, while the state machine is still functioning in the interests of the people on top and the ruling party. The public is losing its control instruments. Businessmen prefer to keep away from politics to preserve their businesses. Leader of the Industry Will Save Georgia Party G. Topadze, a well-known businessman, has pointed out: “Developing our economy is the only answer to the huge number of problems, but you all know only too well the conditions under which our colleagues are functioning in the regions. Those of their friends and relatives who have businesses of their own experience immense pressure from above and have to live in awful conditions. Despite all this, we are the only successful political party whose ideas are absolutely acceptable to the nation. Everything under the sun has its limits—we have reached ours.”<sup>5</sup>

Before the revolution, the opponents of Eduard Shevardnadze and his regime promised tax amnesty for small and medium businesses. They held forth about the unfair taxes that confiscated profits in the interests of extortionists and official racket rather than the state.<sup>6</sup> The post-revolutionary Taxation Code contained 7 taxes instead of 21.<sup>7</sup> This did nothing to improve the business climate. In July 2005, a shopkeeper from Zestafoni told me in an interview: “If I start working according to the new Taxation Code, I shall be forced to close my shop, since it created unequal conditions for the state and businesses by placing the latter under the bureaucrats’ command.”<sup>8</sup> Businessmen are afraid of speaking up—they present their claims collectively and anonymously as members of the Business Federation.<sup>9</sup> It has already transferred about 100 comments from the expert and business communities to the parliamentary Finance and Budget Committee. Businessmen are not satisfied with their present situation: fewer taxes did nothing to improve the state of affairs for them—on the contrary, they are much worse off than before. Indeed, today they pay all official taxes, so now they have to pay more officially and unofficially than they did under Shevardnadze.<sup>10</sup>

On 14 November, 2005, the presidential administration initiated a meeting with the business community represented by members and non-members of the Business Federation—150 people in all. It showed that the revolution failed to justify the hopes of Georgian business: it expected a lighter tax burden (at least regarding the part that was paid officially and unofficially under Shevardnadze).<sup>11</sup> Tax-paying discipline has improved, but the government has not yet completely mastered the situation in this sphere. Speaking at the meeting, the president pointed out that businessmen are evading social tax—20 percent of the wages of hired workers—by never signing contracts with the people they employed. They do this to be able to keep their businesses going—if they fail, their workers would have no jobs.<sup>12</sup>

Influential politicians use their own secret levers and political and administrative resource to penetrate businesses they fancied and exert pressure on the owners to appropriate the entire business or at least part of it to increase their economic influence and grow rich. To camouflage their true aims they use friends or relatives or party comrades as front men. The Rose Revolution bred rumors about the coming redistribution of businesses in favor of the ruling political forces. G. Topadze quoted above confirmed this at the third congress of the Industry Will Save Georgia Party. A parliamentary inves-

<sup>4</sup> See: *Akhali taoba*, 7 November, 2005.

<sup>5</sup> *Ibidem*.

<sup>6</sup> See: *Politicheskie partii Gruzii. Spravochnik*, Tbilisi, 2003, p. 70.

<sup>7</sup> See: *Alia*, 15-16 November, 2005 (in Georgian).

<sup>8</sup> *Rezonansi*, 25 July, 2004 (in Georgian).

<sup>9</sup> See: *Alia*, 15-16 November, 2005.

<sup>10</sup> See: *Ibidem*.

<sup>11</sup> See: *Akhali taoba*, 7 November, 2005.

<sup>12</sup> See: *Ibidem*.

tigation of the case of deputy K. Bekauri connected with the Opiza customs terminal revealed the secret mechanisms used by the ruling elite to penetrate the business sphere—something it tried to keep from the public without much success.

### The Opiza Case

In 2005, a well-known journalist Sh. Ramishvili, owner and head of the 202 TV company, who intended to show a film about the business activity of K. Bekauri, a popular member of the ruling majority, was arrested on accusations of extortions. When the deputy learned about Ramishvili's plans, he tried to bribe the journalist into silence. The arrest triggered a chain of events. The parliament formed an investigation commission to reveal Bekauri's interests in the Opiza customs terminal. The commission members were flooded with information about the deputy and his cabinet allies.<sup>13</sup> The witnesses revealed that the former owner of the customs terminal had sold it to Bekauri on easy terms. While the privately owned terminal flourished, the state-owned Lilo-1 terminal rapidly declined. Its employees were doing their best to ward off its bankruptcy, into which they were artificially manipulated. They sent a letter to the premier and met him personally without much success. Opiza enjoyed the most favored treatment. The administration of the Vostochnaia customs office was moved from Lilo-1 to Opiza. The importers were forced to clear their goods in Opiza, which appropriated 70 percent of customs dues and let the state take the rest. The man connected with the ruling party and its leaders was also the director of the two rivaling facilities—Lilo-1 and Opiza.<sup>14</sup>

The owner of Amagleba, one of the main shareholders of Opiza, planned to privatize Lilo-1, hence the efforts to bankrupt the state enterprise—a method only too familiar to those well aware of post-Soviet privatization patterns in Georgia. The commission stopped the process and brought to light Bekauri's close ties with the Opiza heads and owners, as well as the latter's other contacts in parliament. For example, Usaneishvili, who owned 19 percent of Opiza shares, was acquainted with Bekauri for a long time; he also had other friends among the deputies. Djavakhadze, Opiza's director, was Bekauri's close friend. The commission became interested in his finances: several years of service in the taxation structures and the financial police brought him enough money to acquire a customs terminal. The commission wanted to know why and according to which law the Vostochnaia administration had been transferred to Opiza, a private structure. When asked, the top bureaucrats directly involved in the scheme insisted that this was done to improve the working conditions. The commission, however, failed to find out which of the laws was used to justify the transfer. The heads of the Customs Committee and the Finance Ministry supplied no convincing explanations either.

The opposition, which is well aware of the secret mechanisms used by the executive structures, tried to locate the initiators among the top people who ordered around the interrogated bureaucrats. The commission's secretary, Tsagareishvili, for example, said: "It looks as if V. Chechelashvili (former finance minister who signed the relevant document.—*V.D.*) was merely a formal initiator, while everything was started by Nogaideli (the prime minister.—*V.D.*)."<sup>15</sup> According to another deputy, member of the Conservative Party Kukava, "there is not much sense in the commission's meetings. Everyone guessed what happened, but publicly they agree that Opiza offered good conditions, therefore the customs structures were moved into its building. This is a theater of the

<sup>13</sup> See: *Alia*, 1-2 December, 2005.

<sup>14</sup> See: *Rezonansi*, 1 February, 2006; *Akhali taoba*, 26 January, 2006.

<sup>15</sup> *Alia*, 1-2 December, 2005.

absurd. At the last meeting, Opiza's former owner openly admitted that Bekauri acquired the facility on easy terms, yet everyone believes that the Finance Ministry preferred Opiza because of its better conditions. Everyone knows that the customs administration was moved under political pressure. Witnesses are scared."<sup>16</sup>

After four months of painstaking investigation the commission decided to go on for another month, yet under pressure from certain influential members of the parliamentary majority, who preferred to remain anonymous, the commission was forced to suspend its activities. At a meeting of the parliament's bureau, D. Kirkitadze, a well-known member of the parliamentary majority, insisted that the commission should drop the case. The meeting had to proceed under closed conditions.<sup>17</sup> Later, when talking to the press, Kirkitadze vehemently denied his involvement, yet information had already reached the public. In an effort to disband the commission and keep secret the instruments used to achieve this, the parliamentary majority tried to convince everyone that the commission had stopped functioning of its own free will. Later the parliamentary bureau was presented with a draft document supplied by the commission refuting Bekauri's involvement in the Opiza case. An approved draft would have made the commission's continued functioning unnecessary. Its three members—Tsagareishvili, Kukava, and Chikhradze—left the meeting to demonstrate their disagreement; they announced that they would start their private investigation. Kukava added that by disbanding the commission the top leaders and their political team were merely protecting its corrupt members.<sup>18</sup>

## Political Struggle in the Post-Revolutionary Period

The defeated opposition structures that lost the Rose Revolution are gradually reviving, while the social base of the United National Movement is shrinking. The disappointed populace is withdrawing its support. In addition, some of the political forces that gained political weight in the course of the Rose Revolution and won support of at least part of society have moved away from the ruling party. However, compared to Mikhail Saakashvili, their leaders are political lightweights—so far the president and his party are enjoying wide popularity across the country. The majority of the United National Party deputies, the president's political base in the parliament, cannot act independently—they need a popular political figure to continue their political careers and preserve the related privileges. As soon as the rating of the president and his party drops below that of the opposition, the ruling political monolith will crumble even faster. There are many signs of this. According to World Bank experts, Georgia is the poorest South Caucasian country; moreover, it is the only country in Eastern Europe, including the CIS members, where the poverty index remains the same: over 50 percent of its population lives below the poverty line.<sup>19</sup> The revolution did nothing to bridle unemployment: according to the ILO, in 2000 its level was 10.3 percent; in 2001, 11.6 percent; in 2002, 12.6 percent; in 2003, 11.5 percent; in 2004, 12.6 percent; and in the first nine months of 2005, it reached 13.8 percent. These figures do not offer the full picture: they do not cover the agricultural unemployed, the majority of whom produce marketable output for their own consumption alone. The relatively low share of unemployed in the countryside—5.1 percent—against 26 percent in cities and towns confirms that huge masses of people work for themselves. According to official figures, the share of the agriculturally

<sup>16</sup> *Akhali taoba*, 25 January, 2006.

<sup>17</sup> See: *Akhali taoba*, 14 February, 2006.

<sup>18</sup> *Ibidem*.

<sup>19</sup> See: *Rezonansi*, 16 February, 2006.

employed population is 64 percent, two times higher than in cities (36 percent). In 2005, the country's economy gave jobs to 1,737,700 people, only 23 percent of whom worked in the public sector.<sup>20</sup>

Before the revolution, President Shevardnadze was seen as the main culprit, without whom private lives and the situation in the country would improve overnight. According to a public opinion poll conducted by the Scientific Center for National Strategy Studies of Tbilisi State University, only 7.2 percent of the respondents were satisfied with what they gained from the revolution; 37.6 percent believed themselves cheated out of their hopes; 19.9 percent believed that the revolution justified, rather than dampened, their hopes; 14.8 percent said that the revolution did not justify, rather than justified, their hopes; and 22.2 percent remained undecided. On the whole, people feel that the general situation has improved. The majority of those polled (44.5 percent) described the improvement as slight; 16.9 percent believed that the situation has improved; 12.2 percent that the improvement was considerable; 10.3 percent believed that the situation worsened, while 16.1 percent were convinced that it remained the same. There is a large share of optimism as well: 25.4 percent said that the country's situation would improve in five years' time; 2.6 percent expected considerable improvement; 17.8 percent some improvement. Only 3.6 percent expected no improvement; 21.6 percent believed that things would get even worse; 24.5 percent were undecided, while 4.5 percent offered other opinions.

To a large extent public optimism is fed by the anti-corruption efforts and by fighting crime and smuggling; to an even larger extent people are inspired by the extensive TV coverage of these efforts. The opposition reproaches the ruling elite for abusing PR technologies employed to fan real, and much more modest, achievements. The use of the media to preserve and improve the image of the ruling party and the opposition's obvious inability to formulate and promote alternative development programs is slowing the downward movement of the president and his party's rating. The authorities are unable, however, to halt the process altogether—the social and economic conditions are driving the majority to despair. The poll conducted by the Gorbi public opinion center revealed that Saakashvili has lost some of his support even if his rating (40 percent) remains fairly high.<sup>21</sup> It is much higher than the ratings of the opposition parties and their leaders. Another poll organized by the Institute of Public Opinion and Social Feelings revealed that Saakashvili still enjoys much wider support than his political rivals, even though it has diminished. As distinct from the Gorbi figures, this poll presented 15.5 percent as the share of Saakashvili supporters (Tables 1 and 2).<sup>22</sup>

The figures are up for debate, yet the picture they supply is very close to political reality. Despite the fact that the United National Movement has lost some of its supporters, it is still the leader. Nearly 25 percent of the respondents did not want to vote for anyone (24.2 percent for the parties and 24.9 percent for their leaders). At the same time, we are witnessing processes that bring to mind the pre-revolutionary period when the rating of the then ruling Union of Georgian Citizens and its parliamentary faction plummeted. It was a time when its deputies rushed to the opposition to secure their political future. Today, the processes are just beginning, yet two prominent politicians—K. Davitashvili and Z. Dzidziguri—have already left the ruling party to set up a Conservative Party. They objected to the constitutional amendments, which gave the president too much power, removed him from parliamentary control, and increased his control over the legislature. By the time they decided to leave, the two politicians had already accumulated enough political weight to become less dependent on the president. Mounting popular discontent, meanwhile, offers an excellent opportunity for winning more points, especially among the old-age pensioners who think of K. Davitashvili as an ardent defender of their interests.

<sup>20</sup> See: *Rezonansi*, 16 February, 2006.

<sup>21</sup> See: *Akhali taoba*, 20 December, 2005.

<sup>22</sup> See: *The Georgian Times*, 14-21 December, 2005.

Table 1

How Are You Prepared to Vote  
if a Presidential Election Were Held Tomorrow?

M. Saakashvili	—15.5 percent	Sh. Natelashvili	—12.7 percent
S. Zurabishvili	—11.5 percent	K. Davitashvili	—8.8 percent
N. Burjanadze	—4.4 percent	I. Giorgadze	—3.9 percent
G. Topadze	—2.9 percent	D. Gamkrelidze	—2.6 percent
K. Gamsakhurdia	—2.6 percent	D. Patiashvili	—1.8 percent
G. Maisashvili	—1.6 percent	Undecided	—6.2 percent
No one	—24.9 percent		

Table 2

Which Party Are You Prepared to Vote for  
if a Parliamentary Election Were Held Tomorrow?

United National Movement	—16.4 percent	Labor	—13.7 percent
Conservative	—10.4 percent	Salome Zurabishvili Movement	—10 percent
Samartlianoba Party	—3.6 percent	Industry Will Save Georgia	—3.3 percent
Tavisupleba	—3.1 percent	Republican	—2.5 percent
The New Right	—1.6 percent	Momavlis Mtavroba	—1.6 percent
Tsin Sakartvelo	—0.9 percent	Undecided	—6.4 percent
No one	—24.2 percent		

*Source:* Poll of the Institute of Public Opinion and Social Feelings.<sup>23</sup>

Members of the Republican Party with a strong position in Batumi, where it was instrumental in restoring Georgia's jurisdiction in Ajaria and removing its government together with Aslan Abashidze, followed in the steps of Davitashvili and Dzidziguri. David Zurabishvili, one of the most prominent members of the ruling political force, also moved to the opposition's side. Together they set up an opposition parliamentary Democratic Front faction. Before that the only opposition faction consisted of the right. There were 17 of them—10 deputies represented the New Right Party, and seven the Industry Will Save Georgia Party. They both represent the business community, while their leaders are known as prominent businessmen. Early in 2006, though, the faction split: the Industrialists

<sup>23</sup> Ibidem.

left it; the New Right leaders explained the move by the ruling party's intrigues. It should be said here that owning a business is the weak spot of some politicians, which the ruling forces can take advantage of to control them. This means that what D. Gamkrelidze, the New Right leader, says about commercial interests figuring prominently in the split is partly true. Yet Tkemaladze, who leads the Industrialists in the parliament, flatly refused, as was expected, to admit that the ruling party was putting pressure on them. His explanation is purely pragmatic: one more faction will create more seats for the opposition in the parliamentary bureau, committees, and commissions. He also said that the Industrialists would preserve the bloc with the New Right.

The split, however, was not a result of pressure alone: the two parties do not see eye to eye on several political issues. The New Right looks to the West—they are pro-American and pro-NATO; the Industrialists are anti-American, are against the Western financial institutions, and criticize the IMF and the WB. In his book *V petle kolonializma* (In the Noose of Colonialism), their leader Topadze accused the United States and the Western financial institutions of turning Georgia into a colony. Even before the split, the faction's two parts could not agree on many things. The New Right accused Minister of Economics Kakha Bendukidze of pro-Russian orientation, while the Industrialists defended him. The minister has big business interests in Russia; he is well known for his anti-American and anti-Western pronouncements; he supports the idea of transferring the main gas pipeline to Gazprom of Russia. He arrived in Georgia after the Rose Revolution to join Zurab Zhvania's cabinet. The New Right interpreted this as a step toward Russia's stronger influence in Georgia. As distinct from them, the Industrialists see no harm in transferring the gas pipeline to Gazprom. In fact, their bloc was suggested for pragmatic considerations—together they managed to get seats in the post-revolutionary parliament, a feat impossible for each of the parties acting separately.

Foreign Minister, citizen of France, Salome Zurbishvili created a political sensation when she left the cabinet and started her own movement. She banks on the issues that are looming high in the post-revolution climate and undermining the ruling party's influence: massive redundancies among professionals and skilled workers, violations of the supremacy of law principle, formal democracy, secret contacts with Russia, etc.

The post-revolutionary amendments to the election laws that decreased the chance of the opposition parties, the low ratings of their leaders, and their barely noticeable influence inside the country force them to look for allies. The main left (the Labor Party) and right center parties (Republican, Conservative, New Right, and Industry Will Save Georgia) have launched consultations that revealed numerous tactical contradictions: the Laborites want to boycott the coming local elections, while the New Right are still undecided. The choice is between nominating candidates from the opposition at the primaries and siding with the Labor Party. The Republicans and the Conservatives favor an alliance with Salome Zurbishvili. The Industrialists object to this; they argue that it will upset the balance and will let one of the parties dominate the coalition. Salome Zurbishvili believes that instead of boycotting the elections the opposition should fight for changes in the election laws conducive to a one-party regime in the country that kills democracy.<sup>24</sup>

If the ruling elite manages to set up a one-party cabinet (and it seems that it wants precisely this), authoritarianism will win and democratization will be over.

## *C o n c l u s i o n*

After the revolution, authoritarian trends in Georgia became even more pronounced while the democratic institutions grew weaker. The onslaught on democracy is growing more aggressive, while

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<sup>24</sup> See: *Rezonansi*, 16 February, 2006.



business is being placed under control of the people on top. The widespread fear in the business community is doing the country's democratization no good; it is slowing down democratic processes, promoting authoritarianism, depriving the opposition of economic sources of influence, and narrowing down the possibility of developing a civil society. Economic and political dependence on the West prevents open attacks on the Georgian democratic institutions—the powers that be are busy building up a democratic façade to conceal what is going behind it. All sorts of secret levels are moved to transform the institutions into obedient, harmless, or even impotent elements of the “democratic shop window.” The democratic structures, in turn, are out using the Western public and the Western organizations and their influence on the country's leaders to stem the process. This is the only chance to place power under public control.