Becoming European

Georgia's Strategy for Joining the EU

Vladimer Papava and Michael Tokmazishvili

Civil society must be a participant in formal political institutions if democratic and market reforms are to take root.

WHEN the Soviet Union collapsed in 1991, the newly independent former constituent republics had an opportunity to transform their ineffective, centrally organized economies into market-based economic systems. The process of transition, especially in its initial phase, proceeded mostly by trial and error. The subsequent fifteen years have been very complicated and, in the magnitude of changes wrought, can be compared with the Great Depression of the 1930s[1] or the reconstruction of Europe after World War II.[2]

Scholarly literature and international practice employ the terms "transition economy" and "transition period" to describe the experience of the post-Soviet countries since the collapse of the USSR. Notwithstanding the plethora of scholarly publications on the subject of the transition period, there are no generally accepted criteria for deciding when a transition is completed. The simplest formal (and indeed external) resolution of this question seems to be based on obtaining the imprimatur of the European Union. If the EU designates a country with a transition economy as ready to join its ranks, then the general consensus would be that the country has completed its transition period and has a functioning economic system that, for all practical purposes, is market-based.

Europe's acceptance of the Baltics (Latvia, Lithuania, and Estonia) and the majority of the countries in Eastern Europe has, in essence, already been decided, and the EU has invited them to begin the membership accession process. The invitations can be interpreted as signifying the completion of the transition to a market economy. In other words, these countries are "front-runners," having successfully navigated their transitions.

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As a matter of both practical purpose and historical interest, the question that follows from this uneven process is: What differentiates the economic "leaders" from the other former Soviet republics whose transitions have been slower and less successful?[3]

The framing of this problem is fairly simple. If the communist system collapsed simultaneously in all of the countries of Eastern Europe and the former Soviet Union, it follows, generally speaking, that they all began under the same circumstances, and consequently that the prolongation of the transition period in some cases represents an artificial delay in reforming the economy (and society more broadly). This analysis, however, raises many questions about the causes of the artificial slowdown in reform. The answers are generally the same as the answers to a more specific question: Why hasn't Georgia been accepted for membership in the EU?

Georgia Before the Rose Revolution

On regaining its independence in 1991, Georgia was soon riven by ethnic conflicts and civil war. President Zviad Gamsakhurdia, elected in 1990, advocated a strong Georgian nationalism that alienated many minority groups. His dictatorial style and lack of interest in the economy led to a coup in December 1991. Gamsakhurdia fled the country in January 1992, and a military council was established as an interim government.

During this period, Georgia's gross domestic product (GDP) growth was weak compared to the other post-Soviet countries. In 1992–93 alone, Georgia's GDP decreased by 80 percent. In 1995, already lagging behind other states in the post-Soviet space, Georgia elected as president Eduard Shevarnadze, a former Soviet foreign minister, and under his leadership it began to build a peaceful state and transform its economy. But during this phase, the shadow sector comprised an essential part of the economy, and this had many negative and painful consequences for civil society. Because of the hyperinflation that rocked Georgia in the early 1990s, there was a dramatic increase in the role of foreign currency in the national economy. The ratio of dollarization permanently increased, reaching 86 percent before the Rose Revolution brought Mikheil Saakashvili to power in November 2003.

The new Georgian state was very weak and too feeble to provide proper public financing or even to collect taxes. The size of the state budget as a percentage of GDP was insignificant, and as late as 1995 this index amounted to a mere 5 percent. Later the state budget increased to 12 percent of GDP, which was still rather low by comparison with other post-Soviet countries. As a result, Georgia had very weak financial resources, which prevented it from making serious political and economic changes. Because of the government's numerous failures in all aspects of the budgeting process, the budget crisis of 1998–2003 became a dominant characteristic of the Georgian economy.

Between 1994 and 1998 the government introduced a series of reforms based on the economic formula known as the "Washington Consensus" to stabilize and liberalize the economy. These reforms transformed the banking system, introduced a national currency (the lari or GEL), privatized small- and medium-sized enterprises, and liberalized trade. These structural adjustments and stabilizing reforms were aimed at curbing hyperinflation, balancing the economy, and creating the institutional preconditions for a market economy. With these reforms implemented, Georgia's GDP grew rapidly, and in 1997 GDP growth reached 10–11 percent. This positive growth was due both to the reforms and to the construction of the Baku-Supsa petroleum pipeline.

Unfortunately, however, the period of economic revival was very brief, and Georgia's economic development fell short of the gains promised by the Washington Consensus. State power and market institutions both remained underdeveloped. Until 2004 Georgia's economy grew at a very slow rate. In 2003, the Georgian economy attained only 73 percent of its 1990 economic growth.[4]

The monetary system was the only sphere in which macro-economic indicators pointed to some stability, but despite moderately low growth, Georgia's economy was still highly susceptible to foreign shocks and was unable to avoid the effects of the international currency crises in neighboring Russia (1998) and Turkey (2000).[5] These indicators of a weak economy resulted from the imperfect implementation of macro-economic policy, incomplete structural reforms, and a non-transparent financial system that encouraged corruption.

Between 1998 and 2003 stagnation set in—structural reforms all but ceased entirely and economic growth failed. A change finally came in November 2003, when mass protests over the conduct of parliamentary elections led to the resignation of President Shevardnadze. Many Georgian economists and politicians maintain that the domestic economic crisis was a key reason for the Rose Revolution in November 2003.[6] This explanation may seem quite attractive at first glance (because of its simplicity), but it does not accurately describe the prerevolutionary economy situation. Indeed, the years between 1998 and 2003 saw low but relatively stable economic growth and moderate inflation, clear indications that there was no economic crisis for whatever cause—overproduction or underproduction.

Between 1998 and 2003, Georgia's average economic growth rate amounted to 3–3.5 percent. Wages and pensions were stagnant, and what little economic growth there was served only to increase the wealth of a small, elite segment of society. Average wages amounted to 60–70 percent of the minimum necessary to survive. Even worse, in real dollars, wages were decreasing. The official unemployment rate reached as high as 14 percent.[7]

A sharp contrast developed between the impoverished population at large and the wealthy few who had gotten rich, usually by illegal means. The government was unable to foster the creation of a middle class because of the antiquated state policies that had led the country into economic stagnation. Georgia lacked the small- and medium-sized businesses, not to mention an appreciation of the human resources essential for a knowledge-based economy, that are the backbone of the middle-class growth that generates progress. Despite an awareness of these facts, there was no effort to build an economy that could develop through the powerful entrepreneurship of the middle class and the active participation of civil society institutions. Instead, government inactivity and economic stagnation persisted for nearly seven years.

Following the end of the civil war and the subsequent double-digit economic growth, the late 1990s were years of high expectations, but the Shevardnadze government had no new approaches and implemented no significant reforms. The contrast between the living standards of most people and the lucrative illegal economy heightened. The Georgian economy lacked the productive forces that could transform it into an engine of development for the country.[8]

A growing divide emerged between illegal and regulated economic spaces. The division was created and nurtured by politicians, entrepreneurs, mafia elements, and the general public. As the divide widened over time, it began to absorb the system of governance. Like the other transitional countries, Georgia needed fundamental new reforms. It became obvious that the reforms championed by the Washington Consensus had exhausted their resources and no longer could serve as the ideological basis for the development of transitional countries. The consequences of structural-adjustment reforms and the problems with their implementation are beyond the scope of this article. What is important here is that transitional countries need new approaches if they are going to further their strategic development—new approaches that will provide new ideological bases for reform.

The main result of the post-communist economic reforms was the introduction of market forces, but these were weak from the start and were further weakened because they were preyed upon by the entrenched corruption of public and private life. Political and economic institutions were too weak to accelerate economic growth, while the positive efforts of civil-society forces were ignored, further hampering the state-building process.

The only way out of the deadlock was for the government to accept democratic values, strengthen economic liberalization, and radically change the state institutions that were creating extreme social unrest. Unsurprisingly, given the country's dire straits, the poverty rate in Georgia was at one time 52 percent. Burgeoning social problems and overall dissatisfaction with the Shevardnadze regime led to extreme social unrest, creating the conditions that—along with the personal leadership and charisma of the opposition leaders—led to the Rose Revolution in November 2003.

It is a principle of political economy that every revolution has a transaction cost. Put differently, the public makes a sacrifice (in the form of social turmoil or economic hardship) in the hope of future benefit. The cost of a revolution generally depends on the intensity of the political changes that result and the civil society's degree of confidence in the new political forces. A cost is almost always exacted, however, on a country's economic development. Since inflation is the distillation of all political and economic changes, inflation rates can be used as a barometer of the costs.

During the events of November 2003, inflation increased by 4.8 percent because of the unstable political conditions and the government's anti-revolutionary declarations. Economists and analysts feared a sharp rise in inflation following the government's collapse, but the annual inflation in 2003 was only 7 percent, while the financial and banking systems remained stable and steady. Notably, economic growth for 2003 amounted to 8.6 percent, a peculiarly high rate that was bolstered by the construction of the Baku-Tbilisi-Ceyhan pipeline. (The revolution did not adversely affect pipeline construction.) The relatively low inflation coupled with high GDP growth shows that the Rose Revolution had a neutral effect on the economy as a whole, indicating in turn that the cost of the revolution was low. The population's confidence in the new revolutionary government was strong, a fact confirmed by the presidential and parliamentary elections in the beginning of 2004.

Goals and Strategic Plans of the Post-Revolution Leaders

In the first decade of the twenty-first century, Georgia designed a strategic development plan called the "Economic Development and Poverty Reduction Program." In the long term, President Saakashvili's government intends for Georgia to obtain membership in the European Union, but this plan will remain a romantic dream unless Georgia can sharply curb its widespread domestic poverty and bring an end to its necro-economy.[9] Put simply, Georgia is a mostly "dead economy" because there is absolutely no market for the expensive, low-quality goods it produces.

The new government began working toward EU accession by strengthening state power, reforming governmental structures, bringing Georgian legislation closer to that of the EU, developing infrastructure, and resolving to maintain annual economic growth at approximately 6 percent in the medium term. It hoped that this strategy would narrow the political-economic gap between Georgia and the EU member countries. Medium-term economic growth of 6 percent, however, would hardly be sufficient for Georgia to close its economic gap with the EU. With an annual growth rate of 6 percent, for example, it would take Georgia about twelve years merely to match Turkey's GDP per capita. Despite this gloomy forecast, EU membership is Georgia's principal long-term foreign policy goal. Indeed, the hope of EU membership has been a significant catalyst for change in Georgian society. The vision of joining a larger Europe without barriers has motivated the government to transform the country's economy and deepen economic and political integration during the pre-application period. In addition to joining the EU, the Georgian government also seeks membership in the Organization for Economic Cooperation and Development (OECD) and NATO.

Economic Reforms. In August 2004, the parliament of Georgia ratified an agreement with the EU on partnership and collaboration. This step brought Georgia closer to the economic integration with the EU and the rest of the world that is a prerequisite for efficiently utilizing its resources and facilitating much-needed direct foreign investment. In this respect, Georgia's geographic location between Europe and Asia can help expand EU markets and at the same time create a North-East trade corridor. To this end, the government has eliminated or simplified many business regulations to boost the country's competitiveness and facilitate international integration.

The new government's radical changes in the social, political, and institutional spheres were followed by a corresponding change in the country's monetary space. The monetization rate declined significantly, and the appreciation of the GEL created new problems for investment growth and savings. There are at present four currencies in Georgia, the U.S. dollar, the euro, the Russian ruble, and the GEL, and each has its own specific zone of circulation. The GEL is a convenient currency for paying taxes and purchasing current-consumption goods. The euro and the dollar are used primarily for savings and for purchasing consumer commodities, while the ruble circulates mainly in the post-conflict zones (i.e., the separatist territories).

Georgia's integration with the EU countries will produce mutual benefits and is already being facilitated by the government's macro-economic, structural, institutional, and political decisions to work toward meeting the EU's membership requirements.

Territorial Integrity. From a geopolitical point of view, two of Georgia's most pressing problems are the restoration of its territorial integrity and expansion of its political control. For the past twelve years, efforts to resolve separatist conflicts in Georgia by political means have had little effect, and efforts at conflict resolution are now effectively frozen. Two unresolved ethno-political conflicts continue to exact political and economic costs. These conflicts involve the secessionist, formerly autonomous republics of Abkhazia and South Ossetia, and Russia's support for their separatist leaders.

The conflicts in South Ossetia and Abkhazia are products of the Soviet-era struggles for independence that broke out during Gorbachev's *perestroika* program. The armed conflicts that began in 1991 ended in 1994 when Russian peacekeepers occupied the two territories, and pro-Russian interests have dominated ever since. Georgia's leadership has a two-pronged strategy for settling these frozen conflicts. First, to use its relationships with Russia, various other countries, and the United States to press for their help in finding a workable solution. Second, to forge a federal model with broad autonomy for the two separatist territories. Nonetheless, armed clashes have resumed occasionally, as was the case in the summer of 2004 in South Ossetia.

The separatist conflicts have had a major negative impact on the country's democratic development and economic potential. The frozen ethno-political conflicts hamper Georgia's development, and the government has employed both peaceful means and armed pressure to resolve the conflicts and create a federal model that will serve as the foundation for a country without corruption and with no terrorists in its midst. This goal will be achievable if Georgian society can arrive at a consensus. NATO could play a significant role in resolving the conflicts and in laying the groundwork for a durable peace.

Georgia's function as an important European transit corridor for goods, people, and energy has significantly boosted the international community's interest in its security and stability. Consequently, what the country needs is a comprehensive strategy that would transform the region from an area of confrontation into a liberal economic space. The time has come for a reassessment of Europe and Georgia's common future as neighbors and for establishing a new vision of how they should cooperate.

Georgia has formulated a foreign policy with a pro-Western orientation and intends to promote itself as a transportation corridor in order to encourage Western investment and obtain Western mediation of its regional conflicts. Tbilisi's primary foreign and security policy goal is progressive integration into European and Euro-Atlantic political, economic, and security structures. Western countries and organizations will see their own interests advanced by helping Georgia manage the internal destabilization and separatism that has so intensified over the past thirteen years. In the long term, multi-faceted cooperation in the region could serve as an important stimulus for overcoming the ethnic conflicts in Georgia and establishing mutually beneficial international relations.

Georgia has already made significant strides toward strengthening its statehood and internal economic cohesion. The Ajarian Autonomous Republic, which remained outside of Tbilisi's jurisdiction from the first days of Georgian independence, was the scene of the second phase of the Rose Revolution. After a crisis that teetered on the brink of armed conflict, the self-styled president of the republic, Aslan Abashidze, was peacefully removed from power on May 6, 2004, after he refused to allow the president of Georgia onto his territory. The principal problem between the Ajarian Republic and the central government was a tug-of-war over budget contributions and redistribution.

Ajarian leaders ignored Tbilisi's budget requirements and tried to remain separate from the central financial system. In particular, Ajaria refused to participate in the national system of tax collection and redistribution. A budgetary war erupted when Ajaria's leadership refused to remit to the central treasury the legitimately determined portion of the fiscal revenue raised within their jurisdiction. The Ajarians argued that their refusal was grounded in the alleged failure of the central government to send monetary transfers from the central budget to the autonomous republic for yearly budgets. As a result, the Ajarians insisted, the central government owed it a large debt. Whatever the reason for Ajaria's refusal to turn over the taxes it had collected, the fact remained that the central budget and ultimately all other regions of Georgia were short of receivable budgetary transfers and Ajaria's actions further aggravated the national budgetary crisis.

Immediately after the Rose Revolution, some political analysts wrongly predicted that the relationship between the government of Georgia and the Ajarian leadership could be improved and the budget war would come to an end. Later developments proved these beliefs misguided at best, and not only regarding the question of budgets.[10] Since Abashidze's downfall on May 6, 2004, new opportunities have emerged for working out a normal budgeting process between the central government and Ajaria's local government, and as a result, state tax revenues are likely to grow significantly.

Other Problems. The main goals of Saakashvili's government are to establish fiscal discipline, restore the legal basis of the economy, destroy shadow structures, confiscate illegally appropriated property, and redistribute confiscated property through social programs. The post-revolutionary period is especially remarkable because of the government's effective fight against corruption. Criminal charges have been filed against numerous former high-ranking officials suspected of having engaged in corrupt practices. Among the arrested were members of former president Shevardanadze's family, and they, along with many others, have already relinquished to the state some of the funds they "earned" by illegal means.

A consensus on the path to progress has developed among civil society, entrepreneurs, and the authorities through the liberalization of the Tax Code and the removal of state control over various sectors of society. Benefits for the individual and for entrepreneurs should also benefit the government and society as a whole. After more than a decade of decline, independent Georgia is now oriented toward enhancing market institutions, protecting property, and upholding human rights.

The government must also radically improve Georgia's investment climate. Apart from the construction of the Caspian Sea oil and gas pipelines, direct foreign investment in Georgia has been very limited because of bureaucratic interference, political instability, and the enormous shadow economy, which combined to create a very tense investment environment. The government is using the struggle against corruption, more secure property rights, a liberalized tax code, and institutional reorganization to improve the investment climate.

As a first step in this program, President Saakashvili launched a radical government reorganization that reduced corruption and bureaucracy, increased the responsibility of government officials, and boosted their wages. With greater legal income, bureaucrats will be less tempted by illegal offers. The government also pushed through constitutional changes, while the old presidential administration was closed and replaced by a new cabinet of ministries.

Barely two years have passed since the Rose Revolution, but the first results of the subsequent institutional and economic reforms are obvious. Although Tbilisi faces the post-revolutionary temptation to show the public positive outcomes of the revolution as soon as possible, it must take a more prudent, long-term perspective. The economy, in particular, can be extremely harsh in its revenge for hasty decisions.

Today it is obvious that Georgia's economic growth rate and institutional arrangements are far from EU standards. Georgia's development resembles that of other post-communist countries—apart from the Baltic states and Central Europe—but new conditions and incentives that have emerged only recently do indeed demonstrate its halting progress toward the EU.

Institutional Transformation and Civil Society

After Georgia regained independence in 1991, latent social, political, economic, and ethnic problems swelled. Some of these issues resulted from the lack of new ideological or strategic approaches during the period of transformation after the initial Washington Consensus reforms. In addition, the inability of officials to take decisive steps to enhance the country's economic development caused people to lose confidence in the government. When Georgia separated from the Soviet Union, it lacked the institutions of statehood, and from the very beginning, the problems of transition were compounded by the simultaneous need to construct these institutions.[11] Many of the economic reforms advocated by Western experts depended on the existence of the very same institutions that Georgia was struggling to create, effectively pre-ordaining those reforms to failure because of the lack of supporting structures.[12]

At the beginning of the twenty-first century, unlike in the previous ninety years, Georgian officials are moving social and economic problems such as poverty to the top of the political agenda, and the state is determined to genuinely address these issues. Georgian officials are working to increase economic development and reduce poverty. They must overcome the main obstacles that hindered reform in the late 1990s: an imperfect market and a weak system of governance that could not generate economic growth. The Shevardnadze government neglected to find a use for civic resources, and civil society became a passive subject of state policy rather than an engine of growth. Moreover, there was no place for an active civic society in the reforms championed by the international community immediately after the collapse of communism, a fact that became obvious only in the late 1990s.

Until recently, state reforms and the new class of owners that emerged after privatization were the main forces involved in building the new Georgian society. A pact between the state system and the new oligarchs became the basis for creating a bureaucratic elite that suppressed the interests of other social classes and hindered development and reforms. They tried to maintain a degree of social stability but only to solidify the gains they had made from privatization, not to end widespread poverty. This short-sighted pact required an institutional vacuum with other social forces excluded from the political scene. Since the authorities had no motivation to create a new system of social values, the country fell into disorder, providing even more opportunities for the oligarchs to enrich themselves. This economic polarization, in turn, led to the political polarization that precipitated the 2003 Rose Revolution. Shevardnadze and his cadres were completely unable to advance the country's development, and, as a result, his government lost the confidence of the people. Widespread suffering forced society to bring new political leaders onto the scene, and thus the Rose Revolution was a battle to put civil society in charge of transforming the state. In the wake of this generational and philosophical change, the new Saakashvili government and civil society have both pledged to restore the country's territorial integrity, resolve ethnic conflicts, redistribute resources, reform governance, and promote the rule of law.

Conclusion

The Rose Revolution gave civil society a chance to radically change the way the Georgian government operates, and these changes quickly gained widespread support. Members of the old *nomenklatura* had two choices: obey the law and return the money they had pilfered in their illegal alliance with the corrupt former government or have the money confiscated outright. After some institutional changes, a new social balance emerged between government, civil society, and business institutions. The social consensus resulting from this alliance has helped foster economic growth.

The Georgian experience demonstrates that civil society and government are symbiotic. Unless there is a permanent dialogue between them, it is impossible to build a just, democratic state. This principle is the basis of Georgia's revolutionary changes, and it is the principle driving Georgia closer to European standards.

A country's development is successful when its government depends on the will of civil society—this idea embodies the new approaches to the governance of post-communist countries such as Georgia. If a government tries to "govern" society on its own (as Georgia's government did in the past), the transition to democracy and a market economy will be inefficient, and attaining EU membership, only a dream. It will be a long time before civil society is completely integrated into the governing process in Georgia, but achieving a consensus between the political authorities and society is a precondition for successful economic reforms and something civil society is perfectly situated to do. In this sense, civil society must become a regular participant in formal political institutions in order for government officials to realize their goals, and in Georgia, this process is in its initial stage. Reviving civil society, strengthening statehood, and reforming the economy are the paths by which post-communist countries can make their dreams come true.

Notes

[1] Vladimir Sergeevich Avtonomov, "Politicheskaia ekonomiia perekhodnogo periody" (Political Economy in Transition Periods), *Mirovaia ekonomika i mezhdunarodnye otnosheniia* (Global Economics and International Relations), no. 9 (1996): 11.

[2] Stanley Fischer and Jacob Frankel, "Macroeconomic Issues of Soviet Reform," *American Economic Review* 82, no. 2 (1992): 37–42; Jeffrey D. Sachs, "Privatization in Russia: Some Lessons from Eastern Europe," *American Economic Review* 82, no. 2 (1992): 43–48.

[3] Vladimer Papava, "The Basic Causes of 'Dragging Out' the Transition Period," in *Central Asia and South Caucasus Affairs: 2003*, ed. Boris Rumer and Lau Sim Yee (Tokyo: Sasakawa Peace Foundation, 2003), pp. 324–34.

[4] Database, Georgian State Statistical Department (www.statistics.ge).

[5] Teimaraz Beridze and Vladimer Papava, "The Main Macroeconomic Tendencies of Georgia in 1995–2002," in Rumer and Lee, ed., *Central Asia and South Caucasus Affairs*, pp. 307–23.

[6] Roman Gotsiridze and Otar Kandelaki, "Georgia: Halfway Reforms as a Factor of the Economic Crisis," *Central Asia and the Caucasus* 6, no. 12 (2001): 179–88. The regime change was named the "Rose Revolution" because of the flowers the protesters carried as symbols of their peaceful intentions.

[7] This does not include the rural population, which represents half of the total population. Under Georgian law, farmers who own up to 0.8 hectares of land are not counted as unemployed. The average annual income of these farmers is €150–500 and at least two out of three farmers are unemployed; farmers are among the poorest members of Georgian society.

[8] World Bank, World Development Indicators, 2002, 2003 (www.worldbank.org/website/external/datastatistics/).

[9] The overthrow of the communist regime and the collapse of the controlled economy (against the background of the world market) stripped bare the economy of the post-communist countries. With some exceptions (in particular, enterprises that produce hydroelectric power, oil and natural gas extraction, and the primary processing of raw materials), the goods produced in these countries were unable to compete with world standards either because of their low quality or high cost. There is no market for such goods and, in principle, will never be. An economy of this type is dead—a "necro-economy" (from the Greek word *nekros* [dead]). See Vladimer Papava, "Necroeconomics: The Theory of Post-Communist Transformation of an Economy," *International Journal of Social Economics* 29, nos. 9–10 (2002): 796–805. The fact that the "front-runner" countries have been recognized by the European Union as nearly ready for admission attests, in principle, to the fact that a necro-economy does not exist in these countries. As for the laggard countries, the necro-economy is the main cause for the delay in their transition to the market economies that can create the economic basis necessary for post-communist capitalism.

[10] Mamuka Tsereteli, "The Political Economy of the Ajarian Crisis," *Central Asia-Caucasus Analyst* (April 21, 2004) (www.cacianalyst.org/view_article.php?articleid=2297/).

[11] It bears noting that the process of transition to a market economy and the construction of institutions of statehood were considerably simpler in the former German Democratic Republic (GDR) than in the former republics of the Soviet Union because the reforms in the GDR were preceded by union with the Federal Republic of Germany. See K. Barfus, "Istoriia ekonomiki Germanii posle Vtoroi mirovoivoiny" (History of the German Economy After World War II), in *Menedzhment i rynok: germanskaia model* (Management and Markets: The German Model), ed. U. Rora and S. Goldova (Moscow: BEK, 1995), pp. 58–66; Hans-Ulrich Derlien, "The Triple Revolution: Administrative Transformation in the Former GDR, " in *The State After Communism. Administrative Transition in Central and Eastern Europe,* ed. Barbara Nunberg, Luca Barbone, and Hans-Ulrich Derlien (Washington, DC: World Bank, 1999), pp. 195–236.

[12] Nevertheless, this factor cannot be deemed decisive in delaying the transition to a market economy in Georgia and other "outsider" countries. One need only look to Croatia, Slovenia, and the Baltic countries for counter-examples. They too were outsider countries after acquiring independence and lacked their own institutions of statehood. The example of their economic transformation refutes the thesis about the fundamental impossibility of a rapid transition to a market economy simultaneous with the process of creating new state institutions. See also Leszak Balcerowicz, *Socialism, Capitalism, Transformation* (Budapest: Central European University Press, 1995), p. 146; Vladimer Papava, "The Georgian Economy: From 'Shock Therapy' to 'Social Promotion'," *Communist Economies and Economic Transformation* 8 (1996): 156; Branko Milanovic, *Income, Inequality, and Poverty During the Transition from a Planned to a Market Economy* (Washington, DC: World Bank, 1998), p. 3.

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