

## Economic dimensions

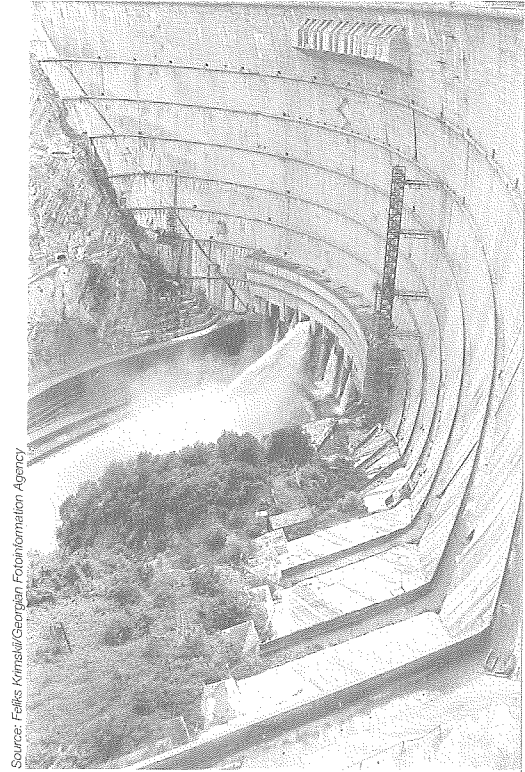
### Incentive or obstacle?

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**W**ar and the collapse of the Soviet economic system have devastated Abkhazia's industrial production, physical infrastructure and agriculture and restricted Georgia's progress to economic stabilization. But Georgia has been able to attract international investment and has begun to overcome the economic chaos that enveloped it in the early 1990s. This is not the case for Abkhazia where the long-term viability of the economy remains questionable, social distress is considerable and the likelihood of international investment minimal. Although both sides could benefit economically from peaceful co-operation economic interests work both to prolong the political stalemate and to provide an incentive to conflict resolution.

Many black marketeers, local monopolists, border guards, troops and militia members benefit from the unregulated economy and are unlikely to promote an end to the conflict. Economic and ethnic relationships between entrepreneurs and criminals are blurred when profits are to be made. Despite the sanctions imposed on Abkhazia which have severely restricted trade and the mass displacement that has reduced the skilled workforce hazelnuts, citrus fruit, petrol, scrap metal and timber continue to be traded across the Inguri and Psou Rivers and across the Black Sea with Turkey. Trade restrictions cause much hardship in Abkhazia but instead of forcing the Abkhaz to make political concessions isolation generates a siege mentality that reduces the propensity to compromise. It also contributes to the development of a criminal and national resistance economy that undermines prospects for the entrenchment of the rule of law.

Both sides might benefit economically from the return of displaced people to the Gali region – Abkhazia through reinvigoration of the agricultural sector and Georgia through the easing of the economic and political burden of



Source: Feilke/Krimelid/Georgian PhotoInformation Agency

catering for a substantial displaced population. But proposals for the joint administration of Gali, the lifting of sanctions and the reopening of the railway through Abkhazia which would accompany repatriation are politically sensitive. Additionally, the prospect for Abkhazia of being left out of oil and freight transport developments (including the EU's TRACECA programme) which the Georgian government regards as the foundation of future economic prosperity, could be severe. Without a resolution Abkhazia will be unable to benefit from its position as a key link between Russia and the South Caucasus and, while a trickle of Russian tourists may have returned to Abkhazia's beaches, as long as the conflict remains unresolved Abkhazia will be unable to develop the infrastructure to become once again the Black Sea's Riviera.

Yet the prospect of economic development appears to be an insufficient temptation to encourage the Abkhaz to compromise their long-term political goals, despite the cost of isolation. An infrastructure for co-operation between Georgians and Abkhaz is not yet in place and removing the trade restrictions will not on its own change this. In the past two years mutual economic interests have become part of the negotiations and in some cases, such as the Inguri hydroelectric operation, economic co-operation has taken priority over political confrontation. So far, however, these discussions have not broken the political deadlock.