

THE BROOKINGS INSTITUTION

GEORGIA IN THE INTERNATIONAL ARENA:
RISING RESPONSIBILITIES, RISING CHALLENGES

Washington, D.C.

Monday, September 10, 2007

Introduction:

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P R O C E E D I N G S

MR. TALBOTT: (In progress) -- region as a whole. It's going to have profound implications for good or ill for other former republics of the USSR including the largest of those former republics of the USSR which is to say the Russian Federation. Therefore, Georgia should get maximum attention and help from the United States and the West where it has many friends, and quite a number of those friends are here today.

No doubt that is an important part of the context of the Foreign Minister's visit here to Washington at this time. He has come to solidify support from the United States' government and also to meet with groups like all of you. The Foreign Minister knows our country well. He has a remarkably bipartisan education here in the United States. He has been educated both at Southern Methodist University in Dallas which gave him a chance to study law, terribly important of course not just for him in his capacity as a Foreign Minister, but also as an adviser to another trained lawyer Misha Saakashvili, the President of the country, as they and other work together to ensure that Georgia will be a truly pluralistic democracy with full respect for the rule of law. In addition to studying at SMU in Dallas, he has also studied at the JFK School at Harvard. So he has studied at one American university closely associated with a Democratic president and another associated with the incumbent president whose library will unquestionably be based at SMU. Dan pointed out there's a contract between these two universities. One has the best marching band in the country, and other

has the worst. I will leave it to all of you, and apologies to any Harvardites in the audience to figure out which is which.

The Foreign Minister is a distinguished diplomat and public servant. He has played a key role in the emergence of Georgia as an independent state. Before assuming his present post he served as Georgia's first civilian Minister of Defense and also as National Security Adviser to President Saakashvili. He is now on a tour of NATO countries. He has come just in recent days from Brussels and Berlin, and he will be going from Washington to another NATO capital, Vilnius. I haven't quite gotten used to thinking of Vilnius as being the capital of a NATO country, but it always gives me a little bit of a thrill every time I am reminded of that not least because it suggests that anything is possible, a point I'm sure that the Foreign Minister has been making at every stop along the way.

His trip to Washington highlights Georgia's aspiration to integrate as fully and as quickly as possible into the post-Cold War structures of the transatlantic community. He is going to speak to us for a little while this morning, and then he has kindly agreed to open up the floor to your questions. So Mister Minister, welcome to Washington, welcome to Brookings, and welcome to Carnegie.

MR. BEZHUASHVILI: Good morning, ladies and gentlemen, honored guests, dear friends, and I would like to thank Strobe for the kind words of introduction and kind words toward the transition that goes on in my country.

Let me begin my remarks today in expressing my gratitude to the Brookings Institution for organizing and hosting this gathering. Specifically, I would like to thank Strobe Talbott for making this event possible. I believe in occasions like this when we can discuss and shape our opinions in a very open and constructive environment ultimately helps us all make more informed policy decisions even if we do not always agree on many issues. And it is occasions like this and sittings like this for which the Brookings Institution is to be commended. This is not the first time for me to speak at such institutions and I am glad to be here today. I hope my remarks today will open a discussion. I am ready for it. In fact, I look forward to questions and answers and will limit my remarks a bit. Specifically, I would like to talk about some of the rising challenges and opportunities in my part of Europe. Here I mean the issues of energy security, of how to deal with a newly resurgent Russia, and what is necessary to ensure and institutionalize a lasting security in the European East.

What is Georgia today 4 years after the Rose Revolution? Let me begin by giving a brief update on Georgia today. For those Georgia watchers in the crowd, you will know where we were before the revolution, what Georgia was like. Today Georgia is a nation transformed and it is without a doubt a success story. This is not my subject opinion or the manifestation of wishful thinking; rather, the facts speak for themselves. If you take a look at independent institutions' indicators you will see it for your own.

This year our economic growth figures are extremely robust. For the first half of 2007, we have grown at just under 13 percent, and this is the fourth year in a row that we have a double-digit of economic growth which shows you that it is not only a good sign, but also the sign of sustainability of the process. I say this in the context in what is still an ongoing full Russian air, land, and sea embargo. This is a 2-year story, but despite the fact, we are performing and we are moving forward.

Foreign direct investment in 2007 is set to top \$2.5 billion which is an amazing amount given our population size and the fact that we have no natural resources as we are not an oil- or gas-rich country. Last year, FDI was \$1.5 billion, and 2 years ago it was \$450 million. So you see the dynamic, you see the pattern. Growth figures and trends like this are not casual. They are a function of a systematic belief in what is taking place in Georgia and by extension of what the region has to offer.

In terms of ease of doing business, we anticipate another significant jump in the World Bank/IFC global ranking into the class of the top 20 in the world, a very ambitious plan that my president announced a couple of years here in this capital, he said that this will be our target and we are approaching it. Let me repeat, Georgia is now one of the top investment destinations in the world, a fact that few people in this room would have believed a few years ago. We also started to believe in miracles. What is happening in our country cannot be put in

one way, that some things are happening that from many perspectives, economic or political, might not be visible, but they are happening.

Low corruption remains a hallmark of the new Georgia as the state sector continues to decline both in size and in areas where the state intervenes in public affairs. So this is one of the things that we achieved, minimization of the government participation in state-owned or state-run enterprises, and it pays back. It shows its effectiveness. On look at public confidence in the police tells it all, where for more than 3 years greater than 75 percent of the population expresses their trust in the institution and where more than 95 percent say that they have not been asked to pay a bribe in the last year. I see Ambassador Miles here in the audience, so Ambassador Miles knows better than others where Georgia was 4 or 5 years ago. Our credit rating continues to improve as does GDP per capita which has more than doubled since we entered office.

But other than recount the list of achievements, I prefer to focus on the implications of these achievements and the lessons of these achievements. What do they mean for Georgia, for the neighborhood, for Europe as a whole? So let's take a look at a broader picture than Georgia itself. Are they truly irreversible? This is the question that we ask not only ourselves, but we ask our partners and neighbors.

Certainly, the first point is creating an environment where the rule of law works, where democratic institutions function, and where predictability is backed by strong legal guarantees, creates tremendous benefits. For a while it is

true, for example, that the reform of our judiciary remains an area where we plan to do even more, the fundamentals are firmly in place. Nothing else explains why FDI is flowing from so many countries into so many diverse sectors, the reforms of the judiciary and reforms of our penitentiary system, and assurance of due process of law is a work in progress and this remains one of the priorities of our government and one of the priorities in our internal policy agenda.

Georgia is not only a country where corruption is no longer a feature of daily life, it is a country where the entire neighborhood is beginning to ask how they too can do the same, and these questions are being asked from our neighbors. That shows that Georgia's successful transformation is having implications in the neighborhood. This is in a sense the second point, that there is a regional effect, a regional effect is taking place, and it will take some time for this example to be followed by others.

As the neighborhood integrates more closely, be it politically, economically, or in security terms, the benefits become truly significant. We see this in terms of new transportation corridors developing, by the air, rail, or road; in the establishment and more predictable energy supply routes; and the beginnings of a regional political dialogue where our reforms are being studied and watched by closely by countries that one might not expect. Here I am thinking of the Central Asian States, or of our friends in Ukraine and from other countries in the South Caucasus. This is something to watch. This is something to be clearly examined. It is part of the larger argument that says as goes Georgia,

so goes the neighborhood, and this is an additional responsibility that we put on our shoulders. We must succeed because our success is not only for our own sake, but for the success of the whole transformation of the region. It sounds very ambitious, but this is what we mean when we say the regional effect of Georgia's transformation is taking place and is visible. I believe that there is a fair amount of truth to that line of thinking and in that I do not think that I am alone, that there are people who think likewise. Some may not like that logic, but it is indeed a regional phenomenon is what we are facing.

Perhaps the third and final point is that Georgia's success no matter how diligently will focused on internal reforms or regional cooperation is intimately tied to our relationship with Europe and the United States. In effect, Georgia and the region at large looks to Euro-Atlantic institutions for lasting partnerships and for genuine engagement. Put otherwise, my region of Europe is no different from the Baltic States or Central Europe a few years ago, and I really appreciate the remarks by Strobe when he referred to Vilnius as the capital of a NATO country and that everything is possible, indeed, and that we put ourselves exactly in this context.

When democratic reform is sought and indeed required in order to make the transition to integration irreversible, then as now, Euro-Atlantic integration offered the most tangible route to lasting stability and security. This is what we believe. For those who question the benefits of NATO enlargement who worried that our neighbor to the north might be antagonized by such a move and

who question whether or not a country like Georgia can be a contributor to the Euro-Atlantic community, one only needs to look at recent European history for the answer. Europe today simply put is stronger, more stable, and certainly more prosperous as a result, and this prosperity and security is seen in Central and Eastern European countries that greatly benefited out of the policy of enlargement, and arguably this stability has also benefited Russia.

So let me focus on irreversibility, the key to lasting security. That is how we put it. As I hinted before, the question before us is the irreversibility of the process. In my opinion, irreversibility is the fundamental challenge facing our region. In terms of policy challenges, it is also the fundamental question facing the U.S. and Europe.

If you take this issue and turn it on its head for a moment and ask, for example, why are we seeing a resurgent Russia or one that appears to be launching repeated provocations, one that appears to be less than enthusiastic about solving regional conflicts on its borders, and one that appears to feel threatened by enhanced regional cooperation or democratic transformations that are taking place around Russia, one reason is because it believes that what has been achieved can in fact be reversed, and this is a key issue to understand why we are as many of our colleagues put it in a hurry. Why are you so jumpy? Why are you in a hurry, Georgians? Why are you pushing that door so vigorously and aggressively? My answer would be because we are in a hurry because we need to be in a hurry because irreversibility is under threat and we need to ensure that

irreversibility and then sustainability of the process is ensured by integration.

Integration is the key to ensure irreversibility and sustainability.

So in some ways what I have listed about Russia is not surprising, neither to you nor to us, and all of us know that Russia today is not what it was during the President Yeltsin era 10 or 15 years ago. All of us in Georgia wish to see Russia as a full member and a responsible contributor to the Euro-Atlantic community. This is our fundamental interest. We do not seek confrontation. We do not need confrontation. We do not benefit from antagonized relations. Everybody loses. It is a losing game. That is why our responses to the grave provocations that took place last March in Upper Abkhazia and this August, basically 60 kilometers from our capital, were so restrained. That is why instead of finger pointing and accusations, we choose to take our arguments to international independent venues. And our response is and will be moderate and it will be guaranteed by transparency and openness.

Openness and transparency is a key element in all that we do internally and externally because this is the only way for a small country to survive and to achieve its objectives to be transparent and open, and open areas, international organizations, the international arena, are the right places to argue and to discuss the issues. This is how a democracy must and should respond. We expect the international community to do the same. We expect from the international community a clear message that something like this that will happen in Georgia should not take place again.

Taking into consideration the benefits of issues such as diversification of energy supplies or the emergence of new trade routes, we must finish the job of formally cementing Georgia, and by extension of our neighbors, within the Euro-Atlantic family. For when Georgia becomes part of that family, it establishes a greater institutional permanence which can only result in greater stability. This is the formula, basically, and if one may ask how can we help you, my answer would be for the greater stability, let us integrate ourselves into this Euro-Atlantic community.

I will never tire of repeating the argument that a stable Georgia is good for Russia, that a stable Georgia is good for the region, that a stable Georgia is good for Europe and the United States, and this is a two-way street. We have a genuine national vital interest that Russia is a strong neighbor, is open and predictable, democratic in a way, and this is in our interests, but at the same time we offer Russia a partnership that is based on principles, and the most important is on respect of the territorial integrity and sovereignty of each other. This is a partnership that will offer in the interests of us an integrated, united, predictable, strong Georgia, a democratic Georgia, is good for Russia. We do believe that we can deliver by being such, and we can deliver more to even meet Russian national interests better. So this is something that we have been talking with our Russian colleagues about for a while and we will continue to push this way regardless of the changing environment and the raised aggressiveness of a neighbor toward us.

Let me say that when we talk about stability and irreversibility, we are not yet there, and this is why I am here and why I am traveling through the Euro-Atlantic space in order to gather and consolidate support and to raise awareness of the democratic communities both in Europe and America that work is in progress and we are not yet there, that the sustainability and irreversibility is not ensured yet so let's do it together.

We may be close, and we have certainly done our homework, but we are not fully there. All that we have achieved, all that this region can offer is in some ways fragile until we complete this round of enlargement. It is a challenge that the United States must embrace together with Europe, not for the benefit of Georgia but, rather, for the benefit of those who care about strengthening partnerships in the fight against international terrorism, for those who care about ensuring reliable energy alternatives which while functional and growing today will be put at risk if we do not finish the job. We must go forward because the spread of democracy and the institutionalization of democracy is the best way to promote peace, prosperity, and stability. This is a proven formula of prosperity.

Lastly, for those who are about promoting respect for the rule of law, democracy, and Euro-Atlantic values in Russia itself, and it has been said here in the opening remarks that full integration is a must, we can make a change if the democratic transformation takes place in Georgia, in Ukraine, in the neighborhood, will have certainly a positive effect in Russia itself, and this is the

point. That is why we hope to enter the next stage of our relationship with NATO, by entering the Membership Action Plan as soon as possible; that is why we have worked so hard with our European partners to make the E.U. neighborhood policy a success that was the subject of my talks in Brussels as well; and that is why we do our best in our modest way to contribute to peace and security around the globe. We have more 2,000 people in uniform abroad participating in peace and stability operations, and for a small country, I think it is very important to be there and it is very important to show the message both internally and externally that we are indeed a reliable, serious partner in the fight against terrorism and in the fight for freedom around the globe. Integration is not a component of a zero-sum gain as some would argue. Rather, it is the establishment of lasting and reliable interdependencies which in today's world means greater security and enhanced stability.

So let me look to the future together with you and how we are meeting the challenges we are facing. No discussions on Georgia or the region at large will be complete without mentioning the current territorial and separatist conflicts. This is a highly educated audience and yet sometimes as time passes one has the feeling that the conflicts in my part of Europe sometimes take on lives by themselves. For that reason is worth remembering perhaps in the context of Kosovo or other ongoing events the basic history of what we have inherited. In Abkhazia, in a region remaining depopulated, what used to be a multiethnic area home to nearly 600,000 inhabitants is now a shadow of its former self where

nearly half a million were forced to leave and those living in the region face a daily life filled with fear and repeated human-rights abuses. When I talk about the brutal expulsion of people, the ethnic cleansing that took place, I am not talking about ethnic Georgians. Here I am referring to Russians, Estonians, Greeks, Ukrainians, Jews, and even Abkhaz. Any steps that attempt to legitimize the violent ethnic cleansing that took place there with -- of independence are both immoral and deeply unsettling for the international order. That is why any settlement to Kosovo, and we have been repeatedly saying this, is *sui generis*, is unique. And that is why diplomatic initiatives that preserve the status quo or blur historical facts create dangerous incentives for separatists around the globe who may harbor similar illusions. Georgia's territorial integrity in plan language is inviolable.

That of course does not mean that we are not flexible and that we are not actively seeking peaceful solutions. It is just the opposite. We are remaining committed to solutions that ensure minority rights, that are sensitive to local needs, and that are generous when it comes to local autonomy and self-governance. We will ensure collective and individual rights of people living there in those territories, and this is our firm commitment not only to them but to the international community as a whole. However, it must be said that the current frameworks have not proved to be effective. The frameworks that have been established in order to cease-fire in 1992, 1993, and 1994, are no longer relevant to follow the current momentum in the changed environment. They have not

brought the parties close, they separated them, and maintenance of the current status quo has not increased stability in the regions. This is a fact. And these are hard truths that we face up to, and these are hard truths that our friends in the international community must take into account. That is why we are seeing changes on the ground in places like South Ossetia, and these are positive developments that are taking place indeed there, where the local population under the brave leadership of local leaders is demanding change. And this is why we have embraced those like Dmitry Sanakoyev who have stood up under tremendous pressure and offered a new path forward.

Change can be hard for some of our friends to accept, but the change is taking place. It is a fact. But we would be deeply irresponsible in our own behavior if we did not welcome any initiative that offered change for a peaceful solution. In Abkhazia I wish I could speak about positive trends. Unfortunately they are not yet there. In playing some confidence-building measures we are seeing greater obstinacy, and this deeply disturbing for the vast majority of citizens who must be allowed to fulfill their right of return. Georgia will continue to press for that right and we will continue to oppose any attempts to illegally sell the private property of families and individuals who were forced to leave. To do otherwise would be deeply immoral. This is a truism that applies to Georgia and the international community at large. For these reasons we will not shrink from advocating peaceful solutions, solutions that are based on the principles and values that underline our democracy.

Let me conclude. I believe I have provoked some of the questions and the discussions here, that was basically our objective, and yet there is still much to talk about. Georgia is at a crossroads. Whether we like it or not, our geography dictates it. We do not want to be a battlefield of big powers for influence, we want to be a ground for compromise, a ground for cooperation, but realistically speaking, you cannot avoid any of them, global competition is in progress and we need to find a way how to survive in these circumstances and offer you advantages and also disadvantages as well. So we need to be ready for any development.

It is our challenge and indeed our common task to turn that position into our mutual advantage. That is basically what our diplomacy would like to do, to find more advantages out of this situation than disadvantages. Our success over the last 4 years holds out the possibility of even greater benefits in the future and that is what keeps us being optimists. Let us not lose this historic opportunity by failing to take our common engagement to the next level. Let us work even harder to build upon the gains, and that is how we work, you need to put more effort on your strengths and not to play on weaknesses. This is old thinking, that playing on weaknesses will not lead you to the win-win situation, it is a zero-sum gain that we will play. The democratic transformation of Georgia is an American-Georgian-European partnership. That is how we put it, that this is a partnership, partnership implies more responsibilities of all partners within the partnership, we need to make this partnership succeed, and I am confident that

together with Europe and America we can do that. I thank you very much for the attention, and I am ready to answer your questions.

(Applause)

MR. BENJAMIN: Mister Minister, thank you very much for a wide-ranging, insightful, and I think a very compelling presentation this morning. You have indeed provoked an awful lot of questions and so I would now like to turn it over to the audience. If you would raise your hand, if called upon, identify yourself, and in keeping with a Washington tradition, if you could actually ask a question as opposed to deliver a statement we would all greatly appreciate it.

MR. KOBER: Stanley Kober with the Cato Institute. You mentioned irreversibility several times, and I have heard it a lot, but I am not sure I understand what an irreversible situation is. Could you give an historical example of what you mean by irreversibility?

MR. BEZHUASHVILI: One by one, or we will collect questions?

MR. BENJAMIN: Why don't we start out one by one, and as we get closer to the end we can collect a few?

MR. BEZHUASHVILI: I am coming from a European audience and you collect the questions there and then you answer, so that's why I asked. An historic example, I referred to the historic example and not only myself, but I think Strobe very briefly explained an historic example of irreversibility. I compared my region and my country with those countries in the Baltic States, for example. There are many, but the Baltics are a very good example to mention.

The Baltic countries ensured their irreversibility of the process of transformation by integrating themselves into European and Euro-Atlantic institutions, and while referring to irreversibility, I meant it. I meant that the decision to embrace Georgia, to let it start as we call it a joint process by introducing the MAP, the Membership Action Plan of NATO for example, is to put us in an irreversibility mode indeed. Within the European Union we are not talking about immediate short-term or mid-term membership, we are talking about a step-by-step approach; we are talking about the European neighborhood policy being a tool for us to ensure irreversibility. In the case of NATO, irreversibility from our point of view needs to be assured by embracing Georgia and taking political decisions to allow Georgia to join the Membership Action Plan that will ensure the irreversibility path of Georgia's democratic transformation on one hand inside, and will send a strong message to those who are opposing it for some reason that I cannot understand. So that is mean by irreversibility, and the Baltics example would be a good case study, we are studying it, by the way and we are learning from their experience, for those who are comparing both cases, the Baltic transformation and us.

By the way, while traveling to the Baltic States I hear many wise stories; they tell me exactly the same arguments. They are telling me of those skeptics who are still opposing the process of enlargement, the process of integration, the process of allowing countries like Georgia or Ukraine to integrate themselves. The arguments are the same as they were 15 years ago. So what the

reality is here, I am indeed flying from Washington to one of NATO member's capital, Vilnius, and then following to Riga. So this is the reality and this is a good example to follow.

MR. BENJAMIN: Over here, please.

QUESTION: -- a graduate student from Notre Dame University, the World Security Institute. My question is, you mentioned a lot of transformation in different areas in the country, even though I understand that we speak about foreign affairs, what is the influence and how it affects on the population of the country, all this fast transformation? And second, it is obvious that the country wants to be part of the Euro-Atlantic family and also logically a good relation with Russia. But I would like to hear from you what are the responses from these big powers, not only our region, but what are realistic steps from them? Thank you.

MR. BEZHUASHVILI: Big powers meaning Russia? This is basically a good insight that you gave me, fast transformation. You see that we have started 4 years ago, I mean, I have been working in the government since the dissolution of the Soviet Union and the gaining of our independence, so I witnessed myself the difficult part that my nation and my country went through out of the dissolution of the Soviet Union. What does the fast transformation mean for our people? It is not easy to go fast when you have inherited something like the heavy situation in the social sector, when you have overwhelming corruption in your country, when you have problems, when you have conflicts,

when you are dealing on a daily basis with some things that are very difficult for this audience to understand. But in a fast change, in something like for example, the area that the people are losing their privileges, just to give you an example, we do not subsidize anymore tariffs on electricity and gas, and it is certainly the consumer who is suffering out of these market-driven decisions. We have the highest tariffs on gas and electricity in the region. Why? Because these are market-driven decisions. But at the same time, we have now ensured stability in the energy markets. Consumers are provided with electricity on a 24-hour basis which was not the case 5 years ago. Ambassador Miles knows this about the blackouts and the permanent struggle of energy.

Now you see the society is changing because now they are asking not for the availability of energy, but the quality. Most of the complaints we are receiving now are about the quality of the supply, and that is a change in attitude, that is a good trend, that is a positive trend. But when we went through this process, it was fast, the people did not like it. Still there are populists who are saying the government should subsidize, the government should put some sectors of our population in a privileged position.

In this I can give you more arguments, the educational sector, how fast we are going. We have a lot of problems associated with it because people are not happy. Old Soviet-style professors are not happy that they must compete for money today. Scientists must compete for money today and not to hang on on a budget transfer. The budget cannot bear those expenses. So the fast

transformation is difficult to sustain, but this is the only way to make a change in a country that inherited so many negative things in our start from scratch, from zero, at any extent.

We understand that we cannot move that fast in the future because of the many factors internal and external, so we take a momentum that whenever we can go fast, we go fast, and not without making mistakes, by the way. We admit that mistakes have been made and we will make mistakes because we are moving fast, and I think this is necessary to do.

As far as the reaction from as you call them big powers is concerned, the reaction is different. The transformation creates an effect and one may not like it, but it is happening. Mostly if you take it positively, the European community and the Euro-Atlantic community reacted positively to the changes in Georgia mostly. But still we are exercising very active diplomacy in order to solidify this support in the West. It is not easy. It is not like taking for granted that everything is rosy. No. We spent a lot of capital, political, human, financial, in order to consolidate the support for Georgia.

As far as Russia is concerned, Russia for some reason is not happy about the change. They perceive the change in Georgia, that is how we see it, this is our perspective, you may argue with this, but they see it as a threat. The transformation of Georgia, Ukraine, and other countries, poses a threat. And as one of the Russian high-ranking politicians framed it, for example, enlargement will create a geopolitical shift, the integration of Georgia will create a geopolitical

shift, of Russia's global affairs. I am proud that we are making such a geopolitical shift being a small country at the crossroads of civilizations, it might be the truth, but the case is that we are setting up positive examples.

For example, Europeans see it a different way. The Japanese have seen it very positively and what they the transformation is an arc of freedom and democracy. Some aggressive Russian politicians call it a sanitary belt to be built around country. There are two different points of view. The Japanese perceive the democratic transformation in Georgia and Ukraine as an arc of freedom and democracy, and some of those aggressive nationalists in Russia call it a sanitary belt around Russia, and you see here is a different philosophical and political context behind those two concepts and schools of thought.

MR. BENJAMIN: In the back, please.

QUESTION: -- I am with the "Armenian Reporter" newspaper. I have a question regarding the recent concession agreement with the investment company who managed the Georgian Railway. Could you bring some clarity into this in terms of who it is behind the investment fund? And if you cannot, what is the reason for keeping this a closed issue for now?

MR. BEZHUASHVILI: I know a little about the transaction. I know that that happened and the government took that decision. I am in the third week of my business trip so I was not there and I cannot give you details. But generally speaking it is part of the philosophy I talked about. We minimized the government participation in managing of ports, key infrastructure, because we do

believe that the private sector can do it better and who is taking that business is secondary. The priority is there and I think there is unity in the government to minimize government participation in business by deregulating the economy, by minimizing participation of government officials in running business, and helping. On one hand the function of the government is to help business to flourish and this is the formula that we believe is right for the country's development.

MR. WARE: Jim Ware with Public International Policy Group. My question is you had mentioned the challenge of people displaced internally by some of the conflicts and I was wondering if you could just talk about what you envision as the role of the international community in that regard.

MR. BEZHUASHVILI: This is a good question. What we are asking from the international community is to pay attention and paying attention means that there are institutions involved in the resolution of conflict, but there is no result-oriented process that we would call it. For 15 years, we, and when I say we, the United Nations, the OSE neighborhood, Russia, us, the group of friends of the Secretary General of the United Nations, you name it, many institutions are involved and we could not achieve a major thing to ensure the dignified return of the people expelled from their places as a result of ethnic cleansing. In the 15 years the international community is tolerating or even to some extent trying to legitimize the effect of ethnic cleansing in Georgia. That is unacceptable. That is our call to the international community not to proceed with this, but to change it,

to change the paradigm to focus more on the fundamental issues which are right of return and bring them to justice and make them accountable those who were behind this ethnic cleansing of Georgians, Jews, Greeks, and others who lived in Abkhazia. It is really a case when we are now trying to make a difference, trying to make a change, and certainly the people who have comfort about of these 15 years of doing nothing, the people are not happy. We have built dividing lines there and when we talk about confidence-building measures, for a confidence-building measure you need as a minimum standard an opportunity to channel messages, to communicate. And when you have Abkhazia, for example, guarded by Russian peacekeepers, guarded because their function is basically border guarding, they are standing on the border not allowing people-to-people even. The recent development is that the soldiers on the ground are taking bribes for the people who live on both sides of this administered border to cross the border. How you are going to establish a confidence-building measure? If somebody could give us a good formula for it, we would accept it, but not at the expense of the major issues such as right of return, right of private property, which is the case right now. This is on sale. Abkhazia is on sale. If you look at the Russian newspapers and even Forbes Russian edition which really is unacceptable, it puts the private property of our citizens on sale, and who are the buyers? Make a guess. Not people from -- buyers are from the neighboring Russia, even from remote distances like in cities in the Far East. Now, I understand that if something is on sale and they see it on a website, this is one of the beautiful parts

of the Black Sea. I can imagine an oil-rich Russian citizen, I understand him putting his money into buying a dacha on the Black Sea Coast. But who is behind it? What worries me is the Russian establishment, Russian politicians, who are allowing that to happen, and it is a gross abuse of the rights of your neighbor. So this is basically why we are calling for the international community's more active role and a more results-oriented process to be established.

MR. BENJAMIN: There is someone in the back there.

QUESTION: -- a graduate student at Notre Dame University and currently working in the Russia Program at the Carnegie Endowment. With the launch in construction of the Baku-Tbilisi-Ceyhan pipeline, many believe that there will be regional integration happening in the region, but from your speech it sounds like you are looking Westward, not so much inward into the region. If you could elaborate how much you believe in regional integration and what Georgia is doing for that, I would appreciate it. Thanks.

MR. BEZHUASHVILI: This is good that you picked it up from my speech, so I am happy that the speechwriter was right in putting this. I was trying to say, I am not sure if it was clear enough perhaps, that the regional effect of Georgia's success is both inward and outward because on one hand I said that some of the positive trends and dynamics in Georgia are closely not only watched, but already followed by the neighbors, so it solidifies the neighborhood indeed to some extent. All the projects that are developing and we have developed, being it energy, land, air, transportation, are all-inclusive, not exclusive projects. When

time comes and the political conditions are met, everybody will benefit out of it, everybody I say in the region. This is the philosophy behind it. We are not for exclusivity; we are for an inclusive process. It is not in our interests to play exclusive.

As far as concern to our Westward approach, yes, our place is in Europe. We are a European country as much as our neighbors, Armenia and others. This is an historic reality. We might be more outspoken about this issue, but it does not mean that people are sleeping. We are in close contact with our neighbors. The destination of our neighbors is in Europe; so a Westward destination is not only Georgia, it is all the region. I am speaking on their behalf, but I know their priorities and how they see themselves. So we might go with a different speed, with a different tempo, but we go in the same direction, so I do not see the controversy in what we do inside our country and how it applies to the neighborhood.

MR. BENJAMIN: We have a question here.

MR. OBERLANDER: I am Leonard Oberlander, an independent consultant. Picking up on your comment about the development of the infrastructure being much more productive in the private sector, could you characterize or give your impression of who are the actors in the transactions that are developing the infrastructure, given the old business networks, the geography and so forth, how much are different points on the globe a part of that?

MR. BEZHUASHVILI: Good question. It's a good question because it really fits with a philosophy of us being inclusive and open. I mentioned the foreign direct investment. If you look at their diversity and destination you will be maybe surprised because it surprised me how quickly we started from direct inflow of investments from Kazakhstan into our tourist sort of sector, followed by IPO of our banks on the London Stock Exchange, followed by Russian investment in the energy and banking sectors, French and German investment in the construction and banking sectors, and also United Arab Emirates and Kuwait are putting a lot of money into both real estate and the tourism infrastructure on our Black Sea Coast or ski resorts.

Unfortunately, it is very unfortunate to me that U.S. business is not that involved there, but if you take these big projects like the Baku-Tbilisi-Ceyhan pipeline that BP was involved in, the U.S. certainly was involved, not that much from the business perspective but politically backing the project which was a success story and is a success story, we would welcome U.S. business. It is a small country, but from the regional perspective, and everybody comes from the regional perspective, when I met with the CEO of the largest German construction company, Hochtief, who is expanding its business Eastward, they traveled to the region. You know how they do their assessments, they are very careful. They have assessed the market in Central Asia and in the Caucuses, in Ukraine, they certainly have an interest, and they came and they put their -- in Georgia. They said this is a country, it is his words, he explained to me, and I was very glad

when he said when the plane landed and I came out of the plane, it smelled Europe in Georgia, that's his words, I was thrilled and I was glad that he mentioned it. And when he started his consultations with the business officials, with the people running the banking sector, he concluded and he said, this is the right place to be. So they dismantled the factory in Germany and are putting it in Georgia. Why? Because the regional perspective is there and because our market is rather small, but the market for construction materials such as cement is going to be huge, Turkey and the reconstruction of Iraq is there, so they are sort of seeing for themselves being the suppliers of Iraq even, Central Asia, so regional perspectives are there, and diversity of income investments is a key. We are not going to hang on on one flow, on one stream of investment because it is always dangerous when you are hooked by one supplier or one investor or one dominant in your market. So your question is quite logical, but we are very happy with what is happening with infrastructure.

MR. BENJAMIN: Have you tried to develop that smell of Europe program?

MR. BEZHUASHVILI: Of course. It smells even more right now.

MS. GOGLIANI: Tina Gogliani, World Security Institute, Washington, D.C. You mentioned about the regional effect of Georgia's transformation. What is your insight and your vision in case when Georgia becomes a full member of the Euro-Atlantic community, what influence it may

have on the regional environment, I mean the South Caucasus regional environment? Thanks.

MR. BEZHUASHVILI: This is a good question, and basically I will try to reply my arguments. My question would be rather short; it will take years, for example, just to start with for Georgia to be a full-fledged member of the Euro-Atlantic institutions. It is not like we are talking about tomorrow. It will take years. But the key issue is here to ensure irreversibility to start the process. We have started ourselves, but we need a partnership, and the Membership Action Plan for NATO, for example, offers this partnership, a two-way street.

And I am absolutely that Georgia's participation in integration processes and Georgia's eventual membership in the Euro-Atlantic institutions will make a huge difference in the region, a positive one, I talked about this, from many perspectives, political, economic stability, democratic transformations in the region, and beyond the region. When I talk about the region, I am not talking about the South Caucasus only. I am talking about the wider Black Sea. We are a Black Sea country and there is a developing Black Sea region which is on the border of Europe if you look at the map right now, it is on the Black Sea. We are a European neighbor today already. But at the same time we are a gateway of Europe to the Caspian and Central Asia. So when I am talking about the region, I am talking about Central Asia as well. So this is the neighborhood, and this chain reaction will happen, is happening already, but it will happen. I have no doubt.

That is why when I said that we must succeed, I meant it. We must succeed not only for our sake, but for the sake to ensure that the process of transformation is taking place in the region and in the wider region as well. I have great confidence in this.

MR. BENJAMIN: I have restrained myself thus far, but I would like to ask you a question now. In one of its recent acts to show displeasure particularly with the United States, Russia announced its withdrawal from the CFE treaty. I was wondering if you would like to make a comment on the implications of that for Georgia and whether or not that will be an issue that you will be bringing up with any of your interlocutors while you are here.

MR. BEZHUASHVILI: The CFE is one of the things that is happening in the relationship of the West versus Russia. We are part of this debate on CFE, for example, because one of the commitments that Russia has undertaken in 1999 in Istanbul was the withdrawal of Russian troops from Georgia and there is a link. I know that our Russian colleagues disagree with the link, but I am taking the perspective that there is a link of the Istanbul commitments and CFE ratification. So the process of bases withdrawal by the way it needs to be said goes well and on time. We cooperate very well. It is a very good example of cooperation, by the way, between the Russians and us, when we agree on something it goes well here.

We have an open issue on the Gudauta base which is in Abkhazia which is rather a technical issue than political and I do not understand why we

cannot close it. That is a base in Abkhazia and we need to verify that it is closed, that it is empty. We called for international inspections to go there and to verify whether the base is closed and based on this verification material and documentary handover of the base, we are ready to declare in the case of Georgia that the Istanbul commitments are fulfilled. To put it very simply, these are some things that need to be clarified. But let me about the CFE broader than Georgia. I think the CFE is an important instrument of arms control and confidence building in the European Continent. We see it from the same perspective as our German colleagues or American colleagues see it. We do see some of the negative implications out of the withdrawal of Russia from the CFE because what it means for us means basically a further military buildup of Russia close to our borders, not only us, but maybe northern -- countries also should be concerned about this possible military buildup. That is by the way happening now under the ceilings of the CFE, but Russia is increasing its military presence in the North Caucasus for example. It is taking place right now. We will look at this dynamic with concern, but it is just really a source for our analysis as to how to meet this challenge. But that is what is going to happen if we cannot resolve the CFE issue.

We will be participating in the beginning of October in a conference initiated by Germany on CFE issues and our delegations will be there presenting the arguments in helping the process. We try to help the process to survive, but we also are preparing ourselves for a negative result if Russia

withdraws by the end of this year from the CFE. Then some of the negative implications will be, and we see them clearly.

MR. BENJAMIN: At this point I would suggest that we start grouping questions by threes. Who still had questions? I saw a bunch of hands go up last time. Why don't we start here and move our way one, two, and three?

MS. RED: Megan Red from the International Republican Institute. I work on Central Asia programs. Not to return to integration yet again, but just a question. You've talked about Georgia both as a leader and a gateway for the region for integration. I am curious what you think about moves by some of the other former Soviet republics to integrate, specifically Kazakhstan's bid for the OSCE chairmanship. Some of these republics do not have many democratic institutions to back it up, I guess you would say that Georgia does, and just whether you think that is a good thing or a bad thing, and what the best response from the international community and from countries like Georgia might be.

QUESTION: -- World Security Institute. My question relates somehow to the CFE. Recently there are some concerns over the high tempo of the militarization of the region and among them again Georgia is a frontrunner being considered as the number-one country in the world of average growth of military spending. What is your sense of what kind of consequences can this bring, and don't you think that this can minimize the kinds of chances of peaceful solutions of the conflicts and in opposite, enhance the possibility that the chain of violence in the conflicting zones would resume somehow? Thanks.

QUESTION: -- from American Observer News. I am also a graduate student of the American University. My question is about the Trans-Caspian Pipeline. What is the real picture there, and what steps does Georgia take on the diplomacy level? And do you think that the Europeans and America still have a clear position about that? Are they pushing enough for this project for implementation? Is that realistic? Thank you.

MR. BEZHUASHVILI: Let me talk about Central Asia, and I mentioned Central Asia as a wider region and the fact that the transformation in Georgia might take on the development of those countries. But having said this I need to outline that the word integration in the sense that we understand, we need to be very careful because integration into the European or Euro-Atlantic institutions is the own choice of the countries. It is our own choice. It might be the choice of Kazakhstan or some other country, so they need to choose themselves their own path. If Kazakhstan, Russia, or Armenia, for example, have chosen to be a part of the Organization of Collective Defense, for example, or the -- that has been created some years ago as the military alliance of the former Soviet countries, we respect their choice. There is nothing wrong with this. I respect the choice of our neighbor Armenia to be part of that organization, and as such, we accept and expect from Russia the right for choice of Georgia to choose its own path to ensure its political or security stability.

But on the other hand, the transformation develops slowly but is also taking places in those countries you mentioned. It is happening. I spent 3

years in Kazakhstan as a deputy ambassador back in the beginning of the 1990s and I see the change, a drastic, dramatic change, maybe not as much as we wish, but it is taking place. As far as the bid for chairmanship of the OSCE of Kazakhstan is concerned, we support it and we are going to support it because we do believe in the inclusiveness of the process. OSCE is our organization. Every country should be provided an opportunity to take the leadership if they want to, if they are able to, whether they are able we need to see, but the will of the country to chair the Organization on Security and Cooperation in Europe should be respected. That is our position.

I am sure that as far as Georgia goes in its Euro-Atlantic ambitions, it will set up a positive dynamic precedent in the wider region so we see ourselves maybe not as you frame the leaders, but the frontrunners I would say in the transformation race.

As far as the CFE issue brought by the colleague, the CFE, and for example, I understood what you mentioned about the military spending of Georgia or raised defense spending of Georgia, they are not related issues because we do it very transparently, it has nothing to do with CFE, because CFE has a ceiling and we work in the framework of the ceilings. As far as military spending is concerned, for example, if you look at the region, if you look at your own country, Armenia, for example, the strengths, speaking as a former deputy defense and defense minister, I know it, the force structure and the strengths of the Armenian Army are three times exceeding Georgia's, three times. The same

applies to our neighbors, at least not talking about Russia and Turkey. So I think we have a quite modest strength of our military and out of this modest strength of our military, about 30,000, we have one-third of our line forces abroad, and it is a very expensive exercise to send your people abroad. We have 2,000 soldiers in Iraq, we have committed ourselves for Afghanistan, and we have since 1999 our contingent in the Balkans under the NATO led operation, so it is costly. And by the way, the spending of our military and defense budget are high, yes, but that is how we try to build a responsible, efficient, self-restrained military in our country. So it is a costly exercise. We are transforming the former Soviet-type Army into the modern force, NATO compatible and interoperable. So by 2009 we will say no to conscripts into the system at all and it is, again, to sustain the contract soldier is much more expensive than to have a conscript system. And by the way, there are no profound questions about that. Yes, our defense budget is growing year by year but, again, we do it in a very, very transparent and open way. And again, this is done in a framework of our integration into NATO and it is not against anybody. For example, many of the officials in NATO headquarters are even putting us as an example because they know our defense spending is succeeding the minimum standard for NATO, 2 percent of your GDP to spend on the military, we have it higher, so we take this defense spending and defense transformation of our military in the context of our NATO integration which is a very responsible process and I think nobody should be worried about it.

Pipelines. The Trans-Caspian Pipeline is a project, I would put it as a trans-Caspian because it can be a pipeline, it can be L&G terminals, it can be many ways. It would it as a trans-Caspian energy project that we have a wider interest in, in Europe and globally, consumers of gas have it. I think there is a need, and I talked about this in Brussels, of a more robust presence of the E.U. and the U.S. in the Caspian and in Central Asia because I think there is not enough effort spent in order to push this project forward. There is the need for a robust presence and we have been calling our Europeans and I am sure we will be talking about it with our colleagues here in the U.S. The U.S. does a lot there much more effectively I think than the Europeans, but we need to consolidate our efforts in order to develop I would call it a transatlantic energy security strategy that would put U.S. efforts, European efforts, our efforts, as the supplier and countries in the Caucuses into one context in order to solidify the base for a more diversified supply of energy to the world markets.

MR. BENJAMIN: Do you have time for one more short round?

MR. BEZHUASHVILI: I am totally enhanced of these -- guys, so if they are happy and sitting quiet.

MR. BENJAMIN: That is a very small nod, so we are going to take that as an assent. We have one question there.

MR. BEZHUASHVILI: A couple of questions.

MR. BENJAMIN: Anyone else? I guess that will take care of it then.

MR. KREGO: Paul Krego from the Library of Congress where I am about to start a fellowship year on Abkhazia. My question has to do with President Saakashvili's speech last week which was critical of the U.N. Secretary General's recent report. I have not yet seen specifics. Could you give us some of the specifics of the criticism and what you and President Saakashvili might be doing or might be discussing with the Secretary General while you are here in the United States?

MR. BENJAMIN: Are there any final questions?

MR. BEZHUASHVILI: It's in the context of a question asked by a colleague about the U.N. role in conflict resolution. There is a press release of President Saakashvili's remarks, so it is available in the embassy and we will give it to you for your detailed information what the president referred to. But, yes, the president expressed himself as discreetly as he could about dissatisfaction of us of the U.N. approach to resolve the conflict because the last report of the Secretary General focused more on details than on substance. For example, they focused too much on the opening of a youth camp in a conflict zone and not addressing properly the issues I referred to, return of people, abuse of human rights, abuse of private property rights. So the criticism was basically taken from that standpoint that we are focusing too much on details and are losing the substance. That is what my president said quite rightly and I think we are going to push this agenda when he is here and I am here during the General Assembly session by the end of this month. We will be asking the U.N. to play a more meaningful and active role

in pushing the substantial issues forward while dealing with details, no doubt, we need to deal with details, but the substance should not be forgotten.

MR. BENJAMIN: Mister Minister, thank you very much. I don't think anyone could accuse you of having dwelt on details and avoiding substance. You have been extremely forthright and frank with us, and I greatly appreciate it and I hope now the audience will join me in thanking Gela Bezhuashvili for joining us this morning.

MR. BEZHUASHVILI: Thank you.

(Applause)

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