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MA Thesis

The Georgian case of Neo Liberal Transition and its Socio-Economic
Dimension.



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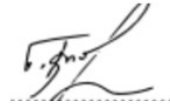
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4 August 2022

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References

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Gruzínský případ neoliberální transformace a její socioekonomické dimenze

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Abstract

The first wave of post-communist transformation which resulted in a prolonged socio-economic crisis created preconditions for the political changes of 2003. After the Rose Revolution new government under the leadership of President Saakashvili initiated radical changes to the severe social, economic and institutional problems accumulated in Georgia. The neoliberal premises of the political elite was based on the theoretical assumption that radical market liberalization, deregulation, and privatization would lead to sustainable economic growth. The concept of economic development based on governmental theoretical assumptions entailed not only a purely macroeconomic phenomenon of economic growth, but it was essentially incorporating social dimensions with a strong emphasis on poverty reduction, job creation, and equitable growth. this paper seeks to investigate how the Georgian case of Neoliberal transition manifested itself from 2003-2012. more precisely, it aims to explain How Neoliberal theoretical premises deviated from the materialized outcomes? And how were the neoliberal reforms legitimized within the system by the political elite? For the purposes of the research, I employed qualitative research methods: The single case study, critical discourse analysis, and in-depth expert interviews. empirical analysis has demonstrated that neoliberal premises with the linkages of poverty reduction, equitable growth, and job creation strongly deviated from materialized outcomes.

Key words: Liberalization, Deregulation, Privatization, Neoliberalism, Poverty Reduction, Social Inequality, Economic Growth

Introduction

After the Rose Revolution of November 2003, the United National Movement came to power under the leadership of Mikheil Saakashvili. In the post-2003 period, the government faced tremendous domestic and foreign challenges. Many acute social and economic problems have accumulated in the country.

President Mikheil Saakashvili initiated significant changes in the social-institutional and economic domains following the "Rose Revolution." Practically, the process can be described as a stage a building a new state. The strong response to the previous government's kleptocracy and corruption was the policy of intensive deregulation implemented after the Rose Revolution and the cessation of state intervention in the economy. The new government blamed the state-created bureaucracy for the economic collapse of the previous regime. Therefore, the guiding principle of the new politicians in the implementation of the institutional reforms in 2003 was anti-corruption policy and distrust of the state in all forms of control and regulation. (Transparency International, 2008)

This position was in line with radical libertarian ideology, which was shared by an influential part of Georgia's new political decision-makers. Georgia's neoliberal transformation was based on the premise that radical market liberalization, deregulation, and privatization would lead to sustainable economic growth. The concept of economic development based on governmental theoretical assumptions entailed not only a purely macroeconomic phenomenon of economic growth, but it was essentially incorporating social dimensions with a strong emphasis on poverty reduction, job creation, and equitable growth.¹

¹ Muskhelishvili, M., & Akhvlediani, A. (2003). "Democratization against the Background of Economic Transformation", in *IDEA (International Institute for Democracy and Electoral Assistance), Building Democracy in Georgia, Democratization in Georgia: Economic Transformation and Social Security*, Discussion Paper n° 8, May, Stockholm.

Considering the fact that different conceptualizations of neoliberalism have resulted in an ambiguity of neoliberal theory and practice which has led to a chaotic transformation of the institutions, strategies, functions, and mechanisms of neoliberalism, this paper seeks to investigate how the Georgian case of Neoliberal transition manifested itself from 2003-2012.

More precisely, it aims to explain:

RQ1: How Neoliberal theoretical premises deviated from the materialized outcomes?

RQ2: How were the neoliberal reforms legitimized within the system by the political elite?

My thesis proceeds as follows. The first chapter will be dealing with a literature review, where I will explore the theory of neoliberalism and its criticism. In the following chapter, I will introduce the analytical framework. The following section presents the thesis's research plan and methodologies. To address the research questions following qualitative research methods will be used: A single case study, critical discourse analysis, and in-depth expert interviews.

Before diving into Georgia's neoliberal transition in the post-revolutionary period, it is essential to investigate the historical context to detect preconditions of radical reformation. For this reason, the fourth chapter will proceed with researching the general characteristics of the post-socialist transformational processes.

The fifth chapter aims to shed the light over neoliberal premises which were manifested in official governmental documents from 2003-2012. The following part attempts to briefly overview UNM government's neoliberal reforms and its limitations. The subsequent part explores the materialized outcomes to check the compatibility of neoliberal theory and practice with regard to social equality, poverty elimination, and employment. In order to address my outlined RQ2 The eight chapter investigates how the neoliberal reforms were legitimized in the background of severe socio-economic conditions. The final section will address the research question and summarize the main findings.

The urgency of the problem is due to the importance of implementing proper economic reforms in the transition period. Given that Georgia is still considered a country in transition, a critical understanding of the results of the economic reforms carried out is a significant contribution to

the elimination of the risk of repeating the same mistakes and the implementation of more successful economic reforms in the future. Moreover, Georgian case of neoliberal transformation might prove exceptional in a way that it deviates not only from the neoliberal premises declared by the government but at the same time from Neoliberal theory itself

Literature Review

Neoliberal Theory

This section will cover the main implications of neoliberal theory. To aid the completion of this task, I will be looking through scholarly works in the field of neoliberalism. Additionally, I will provide my remarks and observations where necessary while adapting it to the case in point.

Neoliberalism, which might be defined as a collection of concepts and practices centered on a greater role for the free market, labor market flexibility, and a reorganization of state welfare programs, has grown in popularity around the world, especially since the mid-1980s.

the alleged spread of neoliberalism in the reaction to the drawbacks of Keynesian or state socialist policies has resulted in the neo liberalization of growing aspects of life in different parts of the world, including the post-soviet space. Neoliberalism's theoretical underpinnings are linked to contemporary neoclassical economists like Hayek,² Friedman,³ and development economists like Lal,⁴ as well as others who were strongly criticizing the idea of imprudent government interventions that aimed at alleviating poverty through economic growth.

According to advocators of neoliberalism, it can be deemed as a political-economic theory that claims that maximizing entrepreneurial freedoms is the greatest way to advance human welfare. In order to achieve this, a political institutional framework that upholds free market principles, preserves property rights, and promotes international trade is required.

As Scholte argues, neoliberalism might be deemed as an ideology that seeks to advance prosperity, democracy and universal peace for all people.⁵ Although it sounds quite utopian a fairly similar definition is offered by Smith et al., who define neoliberalism as a collection of

² Hayek, F.A. (1951). "The Transmission of the Ideals of Economic Freedom" in *Econ Journal Watch*, Vol. 9, No 2, 2012, pp.163-169.

³ Friedman, M. (1962). *Capitalism and freedom*. Chicago: University of Chicago Press.

⁴ Lal, D. (1983). *The Poverty of "Development Economics"*. The MIT Press; Ed.2.

⁵ Scholte, J.A. (2000). *Globalization: A Critical Introduction*, New York: Palgrave

ideas and practices that promotes the expansion of market forces, restructuration of a welfare state and deregulation of labor markets.

Larner characterized Neoliberalism by five core ideas. Those are: “pro-individualism, freedom of choice, market security, laissez-faire government, and minimum governmental intervention in the market”.⁶ Neoliberal advocates frequently describe the first two notions (i.e., pro-individualism and freedom of choice) as positive characteristics that are important in an ever-increasing globalized society. Harvey asserts that for an ideology to grow widespread as in the case of neoliberalism, it must connect with a broader audience by appealing to their values, ambitions, and the chance of having access to new opportunities.⁷

According to the theoretical conceptualization discussed above, it is evident that neoliberalism is fundamentally a political economic ideology that contends that the spread of a free market principles, massive privatization, fostered free trade, and reduced government intervention results in increased efficiency and economic growth.⁸

Nevertheless, different conceptualizations of neoliberalism have resulted in an ambiguity of neoliberal theory and practice. For example, while Hahn (2009) perceives neoliberalism as a hegemonic project that accumulates wealth and power under the privileged group of society which deepens the social exclusion, many liberal oriented economists interpret neoliberal ideology as the most efficient economic doctrine for sustainable economic growth and prosperity.⁹

Critique of Neoliberalism

An important dimension of research is to analyze in what aspect the theoretical contemplations of neoliberalism is not compatible with its materialized outcomes. The evolution of neoliberal practice, distinctive from original theory, has led to a chaotic transformation of the institutions, strategies, functions, and mechanisms of neoliberalism, especially over the past 30 years.

⁶ Larner, W. (2000). “Neoliberalism: Policy, ideology, governmentality”. *Studies in Political Economy*. Vol.63, pp. 5–25.

⁷ Harvey, D. (2005). *A Brief History of Neoliberalism*. Oxford: Oxford University Press.

⁸ Osimiri, P. (2009) “Neoliberalism and the Quest for Good Governance in Nigeria” in Edoh, T. and Wuam, T. (eds) *Democracy, leadership and Accountability in Post-colonial Africa*. Markudi : aboki Publishers, chapter 1.

⁹ Hahn, N. (2009) “Neoliberal Imperialism and Pan-African Resistance”, *Journal of World-Systems Research*, Vol 13, No. 2, pp. 142-178

Established neoliberal practices varied significantly from region to region, which once again underlines the nature of the neoliberal state, which in essence might be characterized as unstable in form and contradictory in nature.

Accordingly, one of the important issues in the critique of neoliberalism is inequality. The subject of research in this direction is the impact of economic development on social equality. There are numerous empirical studies that offer a critique of neoliberal regimes, including Piketty's book (2020) about economic and income disparities that have existed in Europe and the US since the 18th century. According to Piketty, ideologies have a cyclical propensity to support inequality, while inequality has a cyclical propensity to sustain ideologies.¹⁰ He affirms that inequality is a product of politics and ideology rather than economics or technological advancement.

Also interesting is Ritchey's research on neoliberalism and inequality in the example of the US. Although the distribution of wealth depends on many factors including industrial changes, the level of education, technological developments, institutional framework, and other related factors, Ritchey affirms that neoliberal theory and practice play a significant role in terms of analyzing the causes of growing economic inequality.¹¹

Moreover, noteworthy are Hackers and Pierson's critiques of neoliberalism, where they emphasize that on the example of the United States, pro-business policies have been central to the political agenda since the 1970s, which has been expressed in creating an attractive environment for business at the expense of labor rights violation through radical deregulation. Consequently, these political, institutional and economic arrangements further depend on the gap between privileged and impoverished society.¹²

while critically analyzing neoliberalism on the linkages of poverty reduction, it is also very interesting to examine the theoretical foundations of neoliberalism in the context of social justice. Numerous scholars of neoliberalism have clearly contributed to the criticism of social justice debates, while examining the economic, social, or gender implications of accelerated liberalization during the exit and reconfiguration of the state.

¹⁰ Piketty, T. (2020). *Capital and Ideology*. Cambridge, MA: Harvard University Press

¹¹ Ritchey, M. (2019). *Composing Capital. Classical Music in the Neoliberal Era*. University of Chicago Press

¹² Hacker, J.S., & Pierson, P. (2011). *Winner Take All Politics: How Washington Made the Rich Richer—and Turned Its Back on the Middle Class*. New York: Simon & Schuster Paperbacks

Among the important current political philosophers of egalitarian liberals who are critically examining neoliberalism, we may mention Cohen and Centeno. They depict social injustice and poverty inequalities of capitalist development and market fundamentalism which at the same time is significantly influenced by rather unequitable global institutions while addressing concerns related to failing state.¹³

The rise of neoliberalism has had a significant impact on social justice, as the “privatization of everything” creates natural segregation between losers and winners.¹⁴ As Pattison points out neoliberal economic policies create unfairness and cause a downward economic and social spiral by loosening limits on the exercise of uneven power.¹⁵

In the context of neoliberal critique of social justice, we can also highlight Iris Marion Young.¹⁶ Through a critique of libertarian, communitarian, and post-Marxist assertions, Young emphasized the limitations of civil society organizations in terms of supporting social justice agendas. She argues that, although self-development is an important component of an inclusive and democratic state, self-development requires not only civil society’s communicative and organizational activities, but also constructive governmental participation to control and steer economic policy.

Indeed, Young recognizes that if “promoting social justice” implies “creating opportunities for self-development available to everyone,” then “these inherent repercussions of market-oriented economic processes should be remedied. That way, Young critically examines neoliberal dynamics through social and governmental activities.

On the other hand, the advocates of neoliberalism like Hayek affirm that social justice itself is “entirely empty and meaningless”.¹⁷ In contrast to a socialist and collectivist conception of the state that incorporated a commitment to social justice, Hayek produced a theoretical vision of the state that embraced market imperatives. Only a controlled economy system in which individuals

¹³ Centeno, M. & Cohen, J. (2012). “The Arc of Neoliberalism”. *Annual Review of Sociology*, Vol 38, No. 1, pp. 317-340

¹⁴ Watts,

¹⁵ Pattinson, D. (2022). “Neoliberal Projects: Rationalizing Poverty in Sean Baker's *The Florida Project*”, Vol. 61, No. 1, pp. 39-61

¹⁶ Young, I.M. (2000) *Inclusion and Democracy*, Oxford: Oxford University Press.

¹⁷ Hayek, F. (1973). *Law, Legislation and Liberty: Rules and Order*, pp. 35–38

and economic activities are restricted by the central government can offer a credible interpretation of social justice.¹⁸

Hayek's criticism of the idea of social justice coincided with his distrust of the role of morality in politics. However, the main idea of his assertions were not related to criticism of morality in general, rather, he considered market systems, on the other hand, as the possessors of an inherent moral order that had developed over time without adherence of the principles of social justice. Instead, he criticized the idea of morally conscious state functioning on the basis of social order in which the reward is dependent on subjective assertions of merit rather than objective market estimation of the value.¹⁹

While critically analyzing linkages between neoliberalism and social inequality it is essential to offer some empirical evidence from the global perspective. Several important figures in the political scene such as Dollar and Kraay assert that globalization of a neoliberal nature has done nothing but narrowed the distance found between wealthy and underprivileged classes.²⁰ On the other hand, the International Labor Organization points out that that gap has been on a considerable rise since the 80s.²¹ By the same token, Milanovic claims that the states seen by the World Bank and the International Monetary Fund as the best examples of models that have carried out some economic reforms that are actually experiencing crises with their GDPs (cut in half) and are also heavily indebted.²² The World Inequality Report, produced by the world's foremost inequality experts, demonstrates how country after country, the state distributes income from the impoverished and middle-class strata to the upper class.²³

Because of increased social disparity Neoliberalism was frequently criticized for undermining democracy. Many scholars are criticizing the concept of a small government under neoliberal system. According to Gill, neoliberal economic regime can be sustained only under the strong government and interventionism. "a pure market system is an utopian abstraction and any

¹⁸ Ibid.

¹⁹ Hayek, F. (1960). *The constitution of liberty*. Chicago, IL: University of Chicago Press.

²⁰ Dollar, D. & Kraay, A. (2001). "Trade, Growth, and Poverty. Finance & Development". *Finance & Development, A quarterly magazine of the IMF*. September 2001, Volume 38, number 3.

²¹ ILO. (2005). International Labour Organisation. *Key Indicators of the Labour Market*, Fourth Edition. ILO. Retrieved on December 8, 2007.

²² Milanovic, B. (2003). "The Two Faces of Globalization: Against Globalization as We Know It". *World Development*, Vol. 31, No. 4, pp. 667 – 683.

²³ Alvaredo *et al.* (2018). "World Inequality Report". Paris: *World Inequality Lab*. p. 5

attempt to construct it fully would require an immense authoritarian application of power through the state.”²⁴

Another worthwhile contribution in terms of emphasizing the incapability of neoliberalism with democracy is the analysis carried out by Gilens who argues that excessive economic inequality is not compatible with the principles of democracy, however, some scholars underline the importance of ideological characteristics rather than consequences, which are inherently incompatible with democratic values.²⁵ As preservation of liberal economic ethics, including radical individualism and the belief of market rationality, might undermine the social needs of democratic citizen.

According to Bourdieu’s rhetoric, including words and ideas, establishes and preserves the social order by imposing division and visions that actualize symbolic power and turn it into officially sanctioned politics. the advocates of the system are symbolizing neoliberalism as a means for democratic consolidation to acquire public legitimacy. however, the essence of democratic rhetoric and its persuasiveness as it is propagated by the media and popular literature are rarely subjected to critical examination.²⁶

Additionally, it is crucially important to elaborate on some theoretical literature primarily focusing on the Georgian case. Although there are not many solid academic works devoted to this topic, I would like to highlight the work by Joel Lazarus “Democracy or Good Governance. Georgia’s Neoliberal revolution” where he characterizes the political system of that period as a combination of neoliberalism and “competitive authoritarianism” which was the direct result of anti-democratic social and economic policy supported by the ruling government and western liberal institutions.²⁷ As my research seeks to elaborate on domestic and international institutions, I find this article very useful as In his work Lazarus illustrates how leading international institutions rebranded Georgia internationally “from post-soviet failed state” to a new “frontier market”.

²⁴ Gill, S. (2008) *Power and Resistance in the New World Order*, New York: Palgrave. Ake, C. (1992) “The Feasibility of Democracy”, being a keynote address at the symposium on democratic Transition in Africa organized by the Centre for Research, Documentation and University Exchange, University of Ibadan, 16-19 June, 1992.

²⁵ Gilens, M. (2014) *Affluence and Influence: Economic Inequality and Political Power in America*, Princeton, NJ: Princeton University Press.

²⁶ Bourdieu, P. (1991). *Language & Symbolic Power*. Polity Press. *Retaliation*: Hans Reitzels Forlag, Copenhagen

²⁷ Lazarus, J. (2013). “Democracy or Good Governance? Globalization, Transnational Capital, and Georgia's Neoliberal Revolution”. *Journal of Intervention and Statebuilding*, 7:3, 259-286,

In addition, in the context of critical analysis of neoliberal reforms, I find the works of Vladimir Papava very important and worthwhile considering the aim of my research. In terms of social and economic policy analysis, he critically examines some reforms implemented by Saakashvili's government, such as the elimination of state monopoly service, which fostered the strong monopolization of the economy, an adaptation of a new labor code that nourished the business environment at the expense of the employees' rights.²⁸ Additionally, his research explored numerous cases of property rights violations, and also criticized the government's attempt to eradicate mass corruption, which has ultimately led to alarming levels of elite corruption. All these created tremendous challenges in terms of eliminating social disparity and achieving equal distribution of financial resources.²⁹

²⁸ Papava, V.N. (2005). "The Political Economy of Post-Communist Capitalism (Lessons from Georgia)". iUniverse Inc., Lincoln, 2005, p. 201

²⁹ Papava, V. (2009). "Poverty reduction through private sector development in Georgia: policy, practices and perspectives". *Caucasian review of international affairs*, pp. 307-316.

Analytical framework

In the previous section I introduced the theory of Neoliberalism and critically analyzed it in terms of inclusive economic growth and social equality. The analytical framework of my research is based on the application of the premises and findings of the literature on the case of Georgia. The paper seeks to investigate how Georgian case of neoliberal transition manifested itself from 2003-2012.

From the criticism of neoliberalism, the following theoretical assertion can be drawn.

1. Neoliberal economic policies accumulate wealth and power under the privileged group of society which deepens the social exclusion.
2. Radical market liberalization, mass deregulation and the intense privatization creates natural segregation between losers and winners within the system.
3. preservation of liberal economic ethics, including radical individualism and the belief of market rationality undermines the social needs of democratic citizen.
4. Through intense privatization of public resources and the restructuring of the welfare state neoliberal political elites shifts wealth and power from the public sphere to a privileged group
5. pro-business policies that is a central pillar for economic growth, undermines the labor rights and leads to marketization of all aspects of human life.
6. Neoliberal concept of small government is utopian abstraction as neoliberal economic regime can be sustained only under the strong government and interventionism

Considering the fact that different conceptualizations of neoliberalism have resulted in an ambiguity of neoliberal theory and practice which has led to a chaotic transformation of the institutions, strategies, functions, and mechanisms of neoliberalism - this research aims to analyze:

Research Question 1:

How Neoliberal theoretical premises deviate from the materialized outcomes?

As my research topic seeks to critically analyze socio-economic dimensions of neoliberal transition, I will mainly focus on how theoretical assumptions deviated from actual outcomes with the linkages of poverty alleviation, social equality and job creation. In this regard, in order

to address my RQ1 I need to identify the theoretical premises of Saakashvili's government after the Rose Revolution. The theoretical assumptions of new government's neoliberal policies can be evaluated on the basis of analyzing the official programs of the Government of Georgia from 2003-2012.

I believe that is a fascinating case to delve into as the Georgian case of neoliberal transformation might prove exceptional in a way that it deviates not only from the neoliberal premises declared by the government but at the same time from Neoliberal theory itself - which is mainly manifested in manipulating with issues related to poverty, social equality or unemployment.

According to the theoretical conceptualization discussed above, it is evident that neoliberalism is fundamentally a political economic ideology that contends that the spread of a free market principles, massive privatization, fostered free trade, and reduced government intervention results in increased efficiency and economic growth. Consequently, in neoliberal theory, there is no strong emphasis on social equality, poverty elimination or inclusive economic growth. It is quite evident that the principle of equality is outweighed by the principle of economic efficiency.

Inequality within the neoliberal economic system is valued as a virtue, a kind of reward for the doers of good, a source of wealth generation that descends below to enrich others. Consequently, it might be argued that the attempts to create a more equitable society are both counterproductive and ethically reprehensible the market ensures that everyone gets what they deserve.

However, Georgian Neoliberal discourses were quite deceptive in a way that it was characterized by persistent manipulation of the political agenda. The populist rhetoric of political elite was instrumentalizing the needs of most vulnerable members of society to gain the public support.

Another interesting question to analyze based on the case study will be:

Research Question 2:

How was the neoliberal reforms legitimized within the system by the political elite?

For this reason, I will analyze the neoliberal discourses which were prevailed from 2003-2012 by employing political discourse analysis. it can be demonstrated by investigating the political speeches of Saakashvili and Bendukidze as the main architects of the Georgian neoliberal project.

I will try to reveal the neoliberal identity of the Georgian political elite through the analysis of political texts. I will mainly observe these concepts: “Free market”, “economic liberalization”, “deregulation”, “privatization”, “limited government”.

In terms of free market, Neoliberalism shares a direct bond with it. Neoliberalism is an economic theory that advocates free markets and proposes to limit the role of the state as the key to technological advancement and economic prosperity. According to Hayek , neoliberalism relies on the proper functioning of the market and rejects the intervention of the state in economic affairs.³⁰ Thus, the main difference with *classical* liberalism is that for neoliberals, civil freedoms, such as freedom of expression, information, or assembly must be combined with economic ones. In other words, according to neoliberals, a society that has a free market economy should produce the necessary conditions for all citizens to live with dignity, and be free and equal before the law. Nevertheless, critiques of the free market usually take the shape of a severe degree of trust in market fundamentalism, that is, the ability of markets to self-correct with no intervention of the state. Stiglitz , for example, claims market fundamentalism has resulted in the disregard of social values not reflected by economic statistics, the weakening of democracy, the unhealthy encouragement of unrestrained individualism and social Darwinism, and economic inefficiencies.³¹

With regards to economic liberalization and deregulation, supporters of neoliberal policies advocate liberalization or deregulatory policies for trade and investment, viewing them as beneficial to economic progress. Similarly, the reduction of regulations and limits to the bare minimum is viewed as a beneficial development (especially the guarantee of the property regime and security). To be more precise, neoliberals push for more capital mobility and labor flexibility.³²

Next, with respect to privatization, according to Mercille & Murphy, neoliberals argue that private actors tend to be more productive and efficient than public ones and that the State must

³⁰ Hayek, F.A. (1951). “The Transmission of the Ideals of Economic Freedom” in *Econ Journal Watch*, Vol. 9, No 2, 2012, pp.163-169.

³¹ Stiglitz, J.E. (2009). “Moving Beyond Market Fundamentalism to a Balanced Economy”. *Annals of Public and Cooperative Economics*, Vol.80, No.3, pp. 345–360

³² Geertz, G. & Kharas, H. (2019). “Beyond Neoliberalism. Insights from Emerging Markets”. *Global Economy and Development and Brookings*.

shrink – i.e., minimize its intervention - in order to become more efficient, thus, allowing the private sector to be responsible for the creation of wealth.³³

Allowing the private sector to take care of the generation of wealth, directly translates into a limited government. According to Ives , in order for governance to exist in a system that follows the tenets of neoliberalism, the former must be executed within “the restrictions of the theories of limited government and self-regulating markets”.³⁴ Along these lines, the same author concludes that since neoliberals also reintroduced the power ties that had prevailed in the 19th century in earlier times, the privileged classes “reclaimed the authority that they had been sharing with the elected leaders of the welfare state”.³⁵

Finally, as per individualism matters, we can trace its origins back to the liberal school of thought because it fosters the atomization of society – i.e., self-interested and self-sufficient individuals. By this token, Taylor-Gooby and Leruth , argue that Europe's welfare state policies are becoming increasingly influenced by neoliberal views.³⁶ The aforementioned authors concluded that neoliberalism emphasizes “the primacy of the individual in society and has a distinct conceptual interpretation of the state”.³⁷ Put simply, neoliberalism contributed to the adoption of policies that emphasize human responsibility and opportunity while undermining government involvement.

All in all, the sound theoretical and conceptual framework will serve to make the findings of the research more meaningful and generalizable. I assume that the aforementioned characteristics make Georgia an intriguing and pertinent case to analyze. Additionally, the research questions I seek to analyze have not been addressed by other scholars from the perspective of critical neoliberal analysis.

³³ Mercille, J. & Murphy, E. (2017). “What is privatization? A political economy framework”. *Environment and Planning A*. Vol. 49, No. 5, pp. 1040-1059.

³⁴ Ives, A. (2015). “Neoliberalism and the concept of governance: Renewing with an older liberal tradition to legitimate the power of capital”.

³⁵ Ibid.

³⁶ Taylor-Gooby, P., & Leruth, B. (2018). “Individualism and Neoliberalism”. In book: *Attitudes, Aspirations and Welfare*, pp.29-61

³⁷ Ibid.

Methodology

The subsequent chapters introduce the thesis's research plan and methodologies. It begins with a description of the study design. The reasoning for the selected research methods will then be presented in the following paragraphs. Following that I will elaborate on data collecting and detail how pertinent sources were gathered, chosen, and analyzed. To address the research questions following qualitative research methods are used: The single case study, critical discourse analysis, in-depth expert interviews,

Qualitative research method – the single case study

In accordance with the objectives of this research design, a qualitative approach is employed, allowing for a deeper exploration of the project's intricacies. Due to the nature of the qualitative methodology, I consider that a comprehensive case study will prove beneficial for identifying and explaining the characteristics of the subject of study in this paper.

According to Simons, “Case study is an in-depth exploration from multiple perspectives of the complexity and uniqueness of a particular project, policy, institution, program or system in a ‘real life.’”³⁸ In this regard, the research aims to gain a deeper understanding of Georgia’s economic transformation from 2003 to 2012 through a critical assessment of the neoliberal paradigm.

Considering the fact that the objective of the case study method is to describe phenomena or interventions in their unique context.³⁹ A benefit of the case study method is that it gives a comprehensive and deep knowledge of a topic of interest that would be too difficult to investigate in any other way.⁴⁰ Investigating the divergences between Neoliberal theoretical premises and its actual outcomes on inclusive economic growth is an illustration of such a complicated and nuanced issue.

³⁸ Simons, H. (2009). *Case study research in practice*. London: SAGE.

³⁹ Baxter, P., & Jack, S. (2008). “Qualitative Case Study Methodology: Study design and implementation for novice researchers”. *The Qualitative Report* Vol.13, pp. 544–59.

⁴⁰ Denzin, N.K., & Lincoln, Y.S. (2011). “Introduction: The Discipline and Practice of Qualitative Research”. Thousand Oaks: *Sage Publications, Inc*, pp. 1–21

In order to critically assess the Georgian case of Neoliberal transition during the research process, I will analyze the primary documents, official announcements, and interviews of the political representatives, reports of international or non-governmental organizations, media archives, and other relevant materials. Additionally, in order to have a sound theoretical foundation for critical analysis, I will use secondary literature from the field of the international economy with the dominance of the neoliberal school of thought from the critical perspective and analyze relevant academic papers and scientific works. According to Singh (2021), critical analysis of already conducted theoretical works gives us the ability to display our own findings and impose some new ideas regarding a certain subject, which I find quite relevant for my research aims as there might be some gap in terms of relevance between existing theories and material aspects of neoliberal transformation.⁴¹

In order to examine the economic performance of Georgia during 2003-2012, I will employ standard macroeconomic indicators by evaluating changing patterns of Gross domestic product (GDP), Gross national income (GNI), international trade, unemployment rates, distribution of public expenditures, trade balance and other related issues. Based on the gathered data we can assess the relevance of the criteria for poverty reduction.

In-depth Expert Interviews

In addition, as previously stated, in-depth interviews with experts were carried out during the study process. Expert interviews provide a great opportunity to acquire thorough information from those directly involved in the investigated instances. In addition, employing expert interviews as a research method provides an ideal opportunity for data triangulation since the researcher is able to merge literature review and content analysis to increase the quality of the gathered. It provides scholars with access to information that would otherwise be impossible to obtain.⁴² The interviews provided valuable background information for the case in question discussed in this research paper.

In order to proceed with the selection process, relevant specialists in the field were contacted using so-called target sampling. Participants were chosen based on their knowledge and

⁴¹ Singh, A. (2021). "Critical Analysis and Writing the Critique". *SSRN Electronic Journal*

⁴² Van Audenhove. L. (2017). "Expert and Elite Interviews in the Social Sciences". *Vrije Universiteit Brussel*, p. 14.

professional experiences in relation to the subject of interest in this paper. I obtained consent from the experts to identify them by their institutional affiliation in the text.

Overall, I conducted in-depth interviews with 7 experts. The length was around 60 minutes on average. There were in-depth interviews with professionals in the field of social sciences, economy, and political sciences. The interviews were semi-structured. Thus, the primary questions were prepared in advance; nevertheless, several follow-up questions took place during the interview process with the selected participants.

The interviews included 10 questions.

- The initial one revolved around the expert opinion about the birth of neoliberal thinking.
- The focus of the second question related to the characterization of the Rose Revolution. In this section, I tried to investigate how experts perceived the rose revolution - a neoliberal revolution or a populist revolution from which neoliberal politics grew.
- The third part was centered on neoliberal reformation and their consequence.
- The fourth question was related to Neoliberal discourses which were prevailed in Georgia from 2003-2012.
- The fifth question was investigating the role of local elites and international institutions in the process of legitimization.
- The sixth question was focused on the divergence between theoretical premises and the materialized outcomes in the case of Georgia.
- The seventh question was related to analyzing the linkages between neoliberal reforms and inclusive economic growth with a focus on poverty alleviation and social equality.
- The eighth question was centered on a comparison of the political and economic agenda of the post-revolutionary government.
- The ninth question was investigating the positive and negative implications of neoliberal reformation.
- The final question was related to statistical data which will be presented in the empirical part.

Nevertheless, this analytical technique has both benefits and drawbacks. When it comes to the former, investigating and comprehending many perspectives is a great opportunity to widen the

researcher's understanding of the issue at hand. Besides, it is a useful tool for verifying the information and facts that the researcher discovered when analyzing various data sources.⁴³ Conversely, when it comes to the drawbacks, there is a chance that the received information will be entirely or partially prejudiced. Additionally, there is a possibility of informational errors in these interviews.⁴⁴

To safeguard the respondents' interests, the research was done in strict accordance with all ethical standards and rules. Each respondent was walked through the research subject and goals before I proceeded to interview them. Provided many of the interviewees were in Georgia, interviews were done via “Microsoft Teams” online meeting platform. The interviews were conducted both in English and Georgian. All the Georgian transcriptions have been translated into English and represent the author's effort. Appendix 1 includes the interviewees, the length, and the date when they were conducted.

Critical Discourse analysis

The method of discourse analysis was employed to address my second research question: How were Neoliberal policies legitimized?

Critical discourse analysis, often perceived as critical linguistics, is a theoretical and methodological approach that analyzes language as a social practice as well as the overall meanings expressed by the language in the context. Critical discourse analysis examines the structural relations of power and domination manifested in language, as well as the social inequalities established and expressed by language/discourse. Although texts are the fundamental unit of study for critical discourse analysis, it also takes into account the social processes and structures that impact individuals and the creation of texts. As a result, the concepts of power, history, and ideology are constantly present in this approach.⁴⁵

Given that language gains power in the context of holding power, my research will therefore explore the discourse of elites. The research period for the discourses of political and economic elites is 2003-2012, which encompasses post-revolutionary reforms aiming to establish a neoliberal political regime.

⁴³ Ibid

⁴⁴ Ibid

⁴⁵ Wodak, R. (2001). “What CDA Is about—A Summary of Its History, Important Concepts and Its Developments”. In W. R., & M. Meyer (Eds.). *Methods of Critical Discourse Analysis*. London: Sage Publications, pp.1-13

I will try to reveal the neoliberal identity of the Georgian political elite through the analysis of political texts. Political texts are actively studied by European and American scholars: Teun Van Dijk (1998),⁴⁶ Norman Fairclough (1992),⁴⁷ and Ruth Wodak (2001) to name a few.⁴⁸ According to Van Dijk, the critical study of political speech primarily describes the abuse of political authority, as well as the excess and domination of political discourse which might be the cause of social and political inequality. He affirms that politicians often use a distinctive linguistic vocabulary with a certain functional purpose and communicative effect, which is directed towards the obedience of the masses.⁴⁹

In the process of analyzing political texts, Dunmire (2012) considers it appropriate to study only those discourses that are materialized in institutional contexts such as government meetings, parliamentary sessions, political party congresses, pre-election campaigns, and political debates.⁵⁰ In other words, these represent situations where the speaking subject expresses his opinion in the role of a politician in the appropriate institutional environment.

The drew the political discourse analysis on 45 speeches by President Mikheil Saakashvili and economic minister Kahka Bendukidze, both of them might be deemed as the main architects of Georgian neoliberal project. By analyzing two completely different political speeches in the same socio-political context, common patterns of discursive manipulation in post revolutionary period will be easier to identify.

Although it is not explicitly emphasized anywhere that the country's economic transformation course was based on neoliberal ideology, it can be revealed in the political statements and actions that will be discussed in detail in the empirical part of the study. I will mainly focus on specific concepts which I have introduced in the section of conceptual Framework: "Liberalization", "deregulation", "privatization", "limited government", "free market", "individualism" and so on.

⁴⁶ Van Dijk, T. A. (1998). "What is political discourse analysis?" In: Blommaert, Jan and Bulcaen, Chris (Eds.), *Political Linguistics*. Amsterdam, p. 124-142

⁴⁷ Fairclough, N. (1992). *Discourse and Social Change*. Cambridge: Polity Press

⁴⁸ Wodak, R. (2001). "What CDA Is about—A Summary of Its History, Important Concepts and Its Developments". In W. R., & M. Meyer (Eds.). *Methods of Critical Discourse Analysis*. London: Sage Publications, pp.1-13

⁴⁹ Van Dijk, T. A. 1998

⁵⁰ Dunmire, P. (2012). "Political Discourse Analysis: Exploring the Language of Politics and the Politics of Language". *Language and Linguistics Compass*, Vol. 6, No.11.

According to Bakar Berekashvili claims, in this regard the post-Soviet space is a laboratory of neoliberal ideas, practices and policies.⁵¹

I have read approximately over 100 pages of statements made by these political representatives and their justification of neoliberal policies, in the empirical section of the research I will present which neoliberal discourses prevailed from 2003-2012 and how it was legitimized within the system.

The rationale for selecting these specific texts (and politicians) for linguistic analysis is due to their communicative strength and the significant amount of language devices that they deploy to potentially convince and/or steer the masses to the fulfillment of the speaker's objectives.

In order to address my RQ2 question I will try to reveal the individual manipulative techniques adopted by Bendukidze and Saakashvili to legitimize the neoliberal transformation of Georgia through observing on following manipulative tools:

1. **Use of numbers and statistics** - while employing this strategy, the listener is unable to immediately verify the accuracy of the numbers used by the manipulator and is compelled to accept the information as it is presented.
2. **Abstract words/concepts** of evaluative semantics that do not exist in nature are frequently used as ideological instruments. For example, freedom, liberalism, equality, wealth, poverty.
3. **Repetition** - is an effective tool for determining the structure of hidden ideology.⁵² The unconscious is affected by the repetition of information. According to Reynold's, this strategy is employed to emphasize meaning and attract attention. "Multiple instances of an idea or word, and the greater the number of repetitions the more we notice it".⁵³
4. **Overloading the object** - one approach of manipulation is to overwhelm the listener with information, facts, and figures. Not stating a specific aim but developing new objectives.

⁵¹ Berekashvili, B. (2015), "Georgia's Puzzled transition"; Open Democracy Free thinking for world. Retrieved from: <https://www.opendemocracy.net/en/odr/georgias-puzzled-transition/>

⁵² Khdair, S. J. (2016). Repetition as a rhetorical device in the political speeches of three Egyptian presidents: Mubarak, Morsi and Al-Sisi a comparative translation study (Doctoral dissertation)

⁵³ Reynolds, D. W. (1995). "Repetition in non-native speaker writing". *SSLA*, 17, 185–209.

Military objectives in the region, for example, preserving minority' rights (Russia) or rescuing the globe from grave risks (terrorism).⁵⁴

5. **Concentrate on the demands of society** - the speech of the manipulator should correspond to the actual needs of the society. Concentrating on the need results in enormous satisfaction. One example is the emphasis on critical political concerns such as social security, economic development, or poverty eradication. In the political realm, this strategy is known as populism. according to Taggart we might perceive populism as " a communication frame that appeals to and identifies with the people and pretends to speak in their name ".⁵⁵

6. **Collective symbol** - Using a collective symbol is a powerful strategy of language manipulation. Language, together with history and culture, is a symbol of unity in politics. Through the relationship between language and national identity, language becomes the most efficient tool to constrict a new identity especially at the stage of political transformation.

⁵⁴ Lay, R. (1999). "Manipulation durch die Sprache" (Deutsch). *Broschiert*

⁵⁵ Taggart, P. (2000). *Populism*. Buckingham: Open University Press, pp. 269-288

Historical Context

Before diving into Georgia's neoliberal transition in post-revolutionary period, it is essential to investigate historical context to detect preconditions of radical reformation. For this reason, I will proceed with researching general characteristics of the post-socialist transformational processes.

After the dissolution of the Soviet Union, Georgia, like other post-Soviet countries, began a painful transition from a planned economy to a market economy. The continuous process of liberalization starting from this period covered all spheres of public life. In light of the changed political and economic agenda, the pre-existing social institutions and the redistributive role of welfare were completely violated.⁵⁶

In modern Western democracies, the formation of capitalist and democratic systems has taken place in parallel with the development of societies and value systems, which have led to the identification of these two concepts, thus, the provision "democracy requires a capitalist market economy" has become an axiom. Western capitalist democracies were the model and goal pursued by post-socialist societies after the collapse of the Soviet Union. The process of transformation of the socialist system was based on the principle of building political institutions of democracy and market liberalization. The first phase of the reforms, on the one hand, was fueled by the ideas of liberal democracy, freedom, and civil society, and, on the other hand, by the belief that market liberalization, privatization, and intense deregulation would automatically bring economic development and prosperity. Due to the Soviet past, the idea of a responsible state was completely discredited and with it the institutions of social welfare.⁵⁷

In the process post-socialist economic transformation two theoretical approaches have emerged: "Shock Therapy" and "Gradualism".⁵⁸

Shock therapy was particularly popular in the post-Soviet and post-socialist countries of Eastern Europe. It included financial stabilization, price liberalization, reducing the budget deficit, pursuing a strict credit policy, abolishing state subsidies, and maximizing the role of the state in economic activities.⁵⁹ Some economists believe that the orthodox scenario of shock therapy is

⁵⁶ Birman I. (1996). "I'm an Economist - About Myself and What I Love". RUSSIAN. Novosibirsk, EKOR.

⁵⁷ Beridze T. (1996). "The Republic of Georgia: Problems of Transition to a Market Economy". *CIBER*. No 83.

⁵⁸ Papava, V. (2005). *Necroeconomics: The Political Economy of Post-Communist Capitalism*. iUniverse, Inc., Chapter IX, The Post-Communist Georgian Economy, 129-136.

⁵⁹ Papava V. (1997). On the Possible Functioning of the Social Sector According to the Principles of the Private Sector. *Problems of Economic Transition*, Vol. 40, No. 2.

identical to the "Washington Consensus", which is the basis of the International Monetary Fund's strategic approach to countries in transition.⁶⁰ It was the IMF and independent economic experts representing its ideological platform that lobbied for the neoliberal economic policies that shock therapy envisions in post-Soviet countries.⁶¹

In contrast, the second, gradualist approach, involved evolutionary development. Proponents of this approach - in contrast to supporters of shock therapy - deemed the state not as a hindrance to economic development, but rather as a means of stimulating it and a major supporter of the private sector.

The first wave of post-communist reforms included trade and price liberalization, support for free market competition, deindustrialization, and strict fiscal and monetary policies. The disruption of local production, on the one hand, created a whole army of unemployed, on the other hand, began massive imports of products, which was followed by an increase in consumer prices. However, the surviving social benefits from the Soviet period have not stopped. Against the background of increased unemployment, this has led to increased government spending and inflation.⁶² Universal privatization gave rise to the clan capitalist system, since in the conditions when accelerated privatization began against the background of broken state institutions, most of the wealth was easily appropriated by the former Soviet party and bureaucratic elite. If before their source of power was the party hierarchy, now privatization and private property have become a means of reproducing power. Since the post-Soviet transformations were carried out on a "top-down" basis, ignoring the broad public consensus, economic power was redistributed in this direction as well.⁶³

⁶⁰ Stiglitz J. (1998). More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus. WIDER Annual Lectures 2. Helsinki.

⁶¹ Nickel, K.M. (2005). "Inequality in Transition Economies: Sharing the Benefits and Burdens of Post-Communist Change". In: *Blocksome, R., Sajda, P. and Nagypal, S., eds. Subtle as Serpents, Gentle as Doves: Equality and Independence*. Prague: WSCF-CESR, BGÖI & Oikumené-Akademická YMCA, pp.95-104.

⁶² Papava V. (1993). A New View of the Economic Ability of the Government, Egalitarian Goods and GNP. *International Journal of Social Economics*, Vol. 20, No. 8.

⁶³ Demetriou, S. (2002). "Rising From the Ashes? The Difficult (Re)Birth of the Georgian State". In: *Development & Change*, Vol. 33, No. 5, pp.859-884.

The implementation of shock therapy in Georgia began in February 1992 with price liberalization, when domestic prices were equated with the world market by the liberalization of prices of certain goods. As a result, the consumer price index increased 68 times in 1992.⁶⁴ The minimum wage and social assistance for the vulnerable were indexed, however, the increase in wages and social assistance still lagged behind the increase in prices. The share of subsidies in state budget expenditures decreased to 30.1%.⁶⁵ Customs tariffs were set, 2% on imports and 8% on exports. To fill the budget deficit, the National Bank issued its own temporary currency, the coupon, which was equivalent to the Russian ruble, but the bank failed to control its circulation, leading to a strong devaluation. Inflation reached 60-70% in 1993-1994.⁶⁶ Due to the political processes in 1993-1994, economic reforms and market operations were virtually suspended. In 1994, the National Bank imposed appropriate controls on the issuance of money and the banking system in accordance with international methods and lifted restrictions on the withdrawal of cash deposits. This was followed by the commercialization of state-owned banks. With the help of World Bank experts, a health care reform program was developed that provided for a gradual transition to a health insurance system. In 1995, in order to facilitate privatization, social property vouchers were distributed, which included the free transfer of state-owned property to citizens.⁶⁷ From this period, the influence of the International Monetary Fund in the ongoing reforms is activated, which, of course, is primarily due to the financial assistance received from the fund. Since 1995, an active phase of economic reforms has begun - a legal framework in line with the principles of a market economy has been established, a two-tier banking system, tax, and customs services have been established, the stabilization of the monetary system has made it possible to introduce a national currency, trade and foreign economic relations. However, economic reforms have entered a phase of stagnation since 1998, and no significant changes took place until 2003.⁶⁸

⁶⁴ Papava, V. (2011). "On the First-Generation Post-Communist Reforms of Georgia's Economy - A Retrospective Analysis". *The Caucasus & Globalization*, Vol. 5.

⁶⁵ Papava, V. (2005). *Necroeconomics: The Political Economy of Post-Communist Capitalism*. iUniverse, Inc., Chapter IX, The Post-Communist Georgian Economy, 129-136.

⁶⁶ Ibid

⁶⁷ Papava, V., 2011.

⁶⁸ Khaduri, N. (2010). "Economic System in Georgia." In *Moving Closer to Europe? Economic and Social Politics in Georgia, Armenia and Azerbaijan*. Tbilisi: Friedrich Ebert Stiftung, Centre for Economic Problem Research.

This has led, on the one hand, to the polarization of revenues, on the other hand, to the production of the shadow economy, which ultimately feeds corruption and increases the budget deficit.⁶⁹

Eventually, as a result of the first wave of post-communist transformations, living standards in these countries dropped dramatically, exacerbated social tensions, and lost much of our economic potential. The initial expectations of the society ended with alienation from the government and economic, political, and social polarization.⁷⁰ To summarize, the prolonged socio-economic crisis created preconditions for the political changes of 2003.

Theoretical premises of Georgian government's neoliberal policies

In order to address the first research question and investigate the incompatibility of neoliberal theory with practice, this chapter aims at shedding light on neoliberal premises which were manifested in official governmental documents from 2003-2012. The sub-chapters of this section provide a detailed overview of how neoliberal policies, on a theoretical level, were transformed over the years in the case of Georgia. At the end of each sub-chapter, I will gather and analyze the main points.⁷¹

As described in the previous chapter, the government after the "Rose Revolution" faced new domestic and international challenges. Many severe social and economic problems have accumulated which the country inherited from the rule of President Shevardnadze. President Mikheil Saakashvili initiated significant changes in the social-institutional and economic domains following the "Rose Revolution". Practically, the process can be described as a stage of building a new state.

The country's political, institutional, social, and economic development were all given particular priority by the new administration. The theoretical premises of new government's neoliberal

⁶⁹ Berekashvili, B. (2018). "Georgia's Liberal Transformation: An Ongoing Adventure". *Project: Liberalism in Georgia*, pp. 87-91.

⁷⁰ Muskhelishvili, M., et al. (2001). *Democratization*. Georgia Foundation, Open Society.

⁷¹ Macphee, C. R. (2005). "Roll over Joe Stalin. Struggling with Post-Soviet Reform in the Caucasus". New York, *iUniverse Inc*, p. 271.

policies can be evaluated on the basis of analyzing the official program of the Government of Georgia.

Although the government's economic and social policy following the “Rose Revolution” was not characterized by a monolithic consistency and it was experiencing some adjustments, its specific approaches remained unchanged. Following the “Rose Revolution”, on February 6, 2004, the Georgian Parliament amended the Georgian Constitution, which resulted in a change of the state administration system.

The Government program outlines the country's economic, social and political development priorities, on which the government bases its planning. The Georgian Parliament voted ten times on a motion of confidence in the administration from 2004 to 2011 and, as a result, also endorsed the government's program (see Figure 1). Official documents of “basic data and direction” that were created as part of the budget process, essentially represent an expanded version of the government's program. It provides rather detailed fiscal indicators and medium-term forecasts.

Conventionally, the post-revolutionary period can be divided into three stages:

- 1) The initial months following the revolution, when the main goal was the establishment of fiscal order and the repayment of accumulated budgetary debts.
- 2) The following phase begins in the second half of 2004 and lasts through the end of 2007 (primarily linked to Kakha Bendukidze's tenure in the Georgian government during this time). The Georgian government's rhetoric and policies during this time period showed strong characteristics of a neoliberal policy which will be analyzed in detail below.
- 3) The period that began in 2008 and came after the end-of-2007 political crisis, which was followed by the conflict in August 2008 and the subsequent worldwide financial crisis.

In **2004-2005** the government introduced the program “For a united and strong Georgia through economic growth, long-term stability, and European integration”. The document mainly focuses on economic growth while stating general aspirations of European integration.

In **2006-2007**, the government's programs are called "for a united and strong Georgia", with no obvious emphasis on one particular direction, however, priorities in terms of socio-economic policy will be analyzed in more detail below.

By the **end of 2007** Saakashvili introduced a new program called “Georgian Government for Employment and Welfare”. This time period marks the beginning of a clearly stated emphasis on social policy, which has been overlooked up until this point.

Following 2008, the names of all programs are identical – “United Georgia without poverty”. The severity of the social issues, particularly during the post-conflict period, is illustrated by the focus on poverty in the titles of official initiatives.

Figure 1: Georgian Governmental Programs

The date of adoption	Name of the Government Program	Prime-Minister
17.02.2004	A united and strong Georgia through economic growth, long-term stability, and European integration	Zurab Zhvania
27.12.2004	A united and strong Georgia through economic growth, long-term stability, and European integration	Zurab Zhvania
17.02.2005	A united and strong Georgia through economic growth, long-term stability, and European integration	Zurab Noghaideli
24.07.2006	For a unified and strong Georgia	Zurab Noghaideli
07.09.2007	For a unified and strong Georgia	Zurab Noghaideli
22.11.2007	Government of Georgia for Employment and Welfare	Vladimer Gurgendidze
31.01.2008	United Georgia without poverty	Vladimer Gurgendidze
01.11.2008	United Georgia without poverty	Grigol Mgaloblishvili
06.02.2009	United Georgia without poverty	Nika Gilauri
02.07.2010	United Georgia without poverty	Nika Gilauri

Figure 1 – Name of Government Programs 2004-2010. Source: Government of Georgia. Retrieved from official archive.

Governmental Program, February 2004.⁷²

The title of the Georgian government's program from February 17, 2004, “A united and strong Georgia through economic growth, long-term stability, and European integration”, reveals the goals of the new administration: Economic growth, long-term stability, and integration into the EU are ways to attain the goal of being united and strong, which is tied to the restoration of territorial integrity and the state development.

Overall, this program focuses on eliminating corruption, strengthening and increasing the efficiency of the public administrative sector, as well as re-establishing the country's territorial integrity; From the foreign-political point of view – “on the full integration of Georgia in the European and Euro-Atlantic space; on harmonization with European Union and NATO standards in all sectors”.

The ultimate objective in terms of foreign policy is Georgia's complete European and Euro-Atlantic integration. From an economical perspective, the primary objectives are “ensuring economic growth; creating an attractive business environment; reforming employment policies, reducing poverty rates; providing conditions for the development of agricultural, processing sector, tourism, infrastructure, and high technologies; increasing citizens' incomes; steadily increasing pensions and allowances; and equating the minimum wage to the living wage”.

Economic growth can be viewed as the primary objective in the program's economic section. To achieve this, the program discusses a number of prerequisites, including specific structural and legislative changes, which will be resulted in tax system simplification, customs procedures improvement, physical security assurance, creation of solid and inviolable guarantees of private property protection, and prevention of unjustified state interference in business.

The following goals should be noted among the numerous societal objectives: the establishment of the state employment policy, supervision of its implementation and establishment of legal relations in the employment sector, reforming the pension system, and increasing the addressability and volume of social assistance and development of state and private insurance institutions.

⁷² “A united and strong Georgia through economic growth, long-term stability, and European integration”. Adopted on 17 February 2004 under Zurab Zhvania’s tenure.

One could draw the conclusion that the government's initial agenda was primarily concerned with eradicating problems that were prevalent at the time of the “Rose Revolution”, such as corruption, pension, salary, and other budget arrears, the energy crisis, etc.

The government program in 2004 does not show clearly defined ideological orientations of the economic policy and it primarily focuses on the objectives of overcoming the existing problems and regulating the governance-financial system.

Although in Saakashvili's discourse since 2004 the emphasis on market liberalization as a means to tackle corruption and social inequality was clearly evident, in this program the government highlights the importance of welfare provisions, which is quite controversial and deceptive with the implemented reforms which will be analyzed below.

Governmental Program, December 2004.⁷³

On December 27, 2004, the Georgian Parliament voiced its support for the reconstituted Georgian government, once again chaired by Zurab Zhvania. There is important news in the composition of the government - Kakha Bendukidze has been nominated for the role of state minister in charge of economic reforms after serving first as the minister of economic development and then as a state minister in June 2004. Kakha Bendukidze might be considered one of the important actors in terms of implementing a neoliberal project at the national level.

The primary Neoliberal pathos of the program is contained in the first sentence of the government's detailed program from December 27, 2004, which reads, “We must deepen and accelerate structural and economic reforms, form an effective state, remove barriers to our entrepreneurship, and create real opportunities for restoring territorial integrity”.

The program's text lists Economic rehabilitation, development, and profound deregulation as one of its primary goals. It should be noted that this program is the first to place such a strong focus on deregulation; in the previous program of February 17, 2004, the word “deregulation” is not

⁷³ “A united and strong Georgia through economic growth, long-term stability, and European integration”. Adopted on 27 December 2004 under Zurab Zhvania’s tenure.

mentioned at all instead "liberalization of the regulatory environment and provision of competitive market conditions" was declared.

Even greater emphasis is placed on the severe liberalization of the economy elsewhere in the text:

“The government will continue to force the transition to a free market economic system. We must eliminate excessive regulation, reduce risk factors, establish a system of responsible ownership, leave to the authorities only the property necessary to carry out their functions. As a result of the reforms, economic activity should become predictable, simple, and transparent”.

Contrary to the previous document, this program has greatly expanded on the subject of deregulation and economic liberalization while mostly maintaining the previous program's ideas in other areas. Specific economic policy directions are suggested in order to accomplish these primary objectives. Among the proposed improvements from the point of view of social policy, it is worth noting the “transition from benefits to targeted assistance”.

From now on the basis of economic policy is aggressive, transparent, and competitive privatization, which will have three goals: structural, fiscal, and anti-corruption. It also promotes the concept of small government which is emphasized through the importance of reducing the areas and institutions of regulation in all spheres of social life. According to the document, Actions of governmental agencies that may lead to competition violations will be limited, and licensing will be used only to protect vital interests. Overall, financial liberalization is suggested as a basis for long-term crisis-free development.

Governmental Program, February 2005 and July 2006.^{74 75}

On February 17, 2005, due to the death of Prime Minister Zhvania, a new Prime Minister Zurab Noghaideli's was elected. Despite the change of the Prime Minister, the government program remained the same.

⁷⁴ “A united and strong Georgia through economic growth, long-term stability, and European integration”. Adopted on 17 February 2005 under Zurab Noghaideli;s tenure.

⁷⁵ “For a unified and strong Georgia”. Adopted on 24 July 2006 under Zurab Noghaideli’s tenure.

On July 22, 2006, the Parliament of Georgia again gave a motion of confidence to government and program of Prime Minister Zurab Noghaideli. It should be noted that for this parliamentary procedure, the government presented a completely new program. Calling it “for a unified and strong Georgia” and removing the phrases “economic growth”, “long-term stability”, and “European integration” from the title. Along with the title being condensed, the document's format was also altered: whereas the old government program was more than 30 pages long, the new program from July 22, 2006, was only 4 pages long. The number of issues reflected in the program also decreased.

The fundamental idea of the document is stated in the beginning as follows: “Georgia has a historic chance to establish itself as a free, unified, democratic, prosperous, and a fair state”.

The following tasks are among the program's core economic provisions: “A prosperous Georgia that protects private property rights and economic freedom; Sustainable economic growth and promotion of employment; establishment of effective governance; Infrastructure development and restoration Attaining public stability and continuing the momentum of reforms and state modernization are two prerequisites for achieving state objectives”.

In terms of economic development, the government highlighted the importance of creating more jobs in the private sector. The program's text also outlines that “good governance” and “small government” are priorities, and that “reform of state governance and public service, the perfection of personnel selection, and motivating system” are necessary to achieve these ends. The program includes a detailed list of the steps that should be taken to accomplish the priority aim of economic freedom.

Regarding social programs, it should be noted that, unlike the previous programs, the government's approach to the social assistance system is clearly stated: “Formation of the residual social assistance system; Implementation of monetized, targeted, family support system”. It is unclear whether the government has intentions to overhaul the pension system. This problem is linked to the social assistance system generally and is related to social protection against elderly poverty

However, the meaning of the “age and social” status-based pension system or how “incentives for private retirement savings initiatives” should be implemented, are both quite ambiguous.

To sum up, In the mentioned program, despite the narrowing of the topic, the emphasis on liberalization and deregulation was further highlighted. Even then, it is still unclear what exactly modernization entails. It should be assumed that it is essentially related to infrastructural modernization and promotion of the idea of a small government. Although in governmental programs, UNM movement state the importance of private property protection or promotion of employment, in the empirical part numerous property right violation will be detected alongside increased unemployment which further depends on social exclusion within the society.⁷⁶

Governmental Program, September 2007.⁷⁷

On September 7, 2007, the Parliament of Georgia again gave a motion of confidence to the government chaired by Zurab Noghaideli. With the exception of only a few issues that have been added and clarified, the government program's wording is essentially the same as the previous one. Among the amendments, the implementation of the “One Hundred New Enterprises” program is important to highlight. The program was aiming to create conditions for enhancing agricultural output efficiency and competitiveness.

If the previous program foresaw a greater involvement of the private sector in the restoration of an agricultural infrastructure component - the program of September 7, 2007 clearly states "rehabilitation and commercialization."

For the first time, the Georgian government's aim was to transform Georgia into an international financial center – “Reforming the financial sector to transform Georgia into a modern financial center”. In the program, there is a strong emphasis on the creation of free industrial zones as well as "providing the best environment for business productivity and improving the credit rating".

In terms of social policy, there has been no change in the pension system and the main focus was on the establishment of a system of targeted protection against poverty in old age.

⁷⁶ Transparency International Georgia (TI Georgia). (2007). “Property rights in post-revolutionary Georgia”. Tbilisi: *Transparency International Georgia*.

⁷⁷ “For a unified and strong Georgia”. Adopted on 7 September 2007 under Zurab Noghaideli’s tenure.

In relation to the health sector, in the previous program there is “customer-oriented, economically viable and insurance-oriented institutional reform”, and in the program of September 7, 2007 – “consumer-oriented, private property-based and insurance-oriented institutional reform”. In other words, it was clearly announced that the healthcare sector should be based on insurance principles based on private ownership, and here the plan “One Hundred New Hospitals” appears which meant privatization and investments in the healthcare sector, which would ensure the rehabilitation of old hospitals and the construction of new hospitals.

Including the latter program, government programs focused predominantly on economic liberalization and infrastructure development, with relatively less emphasis on agriculture and social policy.

To summarize, the idea of “Strong and United Georgia” was based on economic liberalization, deregulation, institutional and administrative reforms, and in the social sphere - the establishment of a monetary and targeted assistance system, and other social obligations. However, governmental disengagement from social policy served to the transition of these systems to the principle of personal responsibility

The most important aspect is that the agricultural sector, which employs half of the people, is barely represented under the agenda of “Strong and United Georgia”.

Programs also do not include changes in the structure of the labor market, sectoral distribution, technological upgrading, labor productivity, urbanization-deurbanization, geographical and social proportions, development of small and medium-sized businesses and the middle-income class, substantial improvement of living standards and living environment, including individual incomes and In terms of productivity growth. All this obscures the essence of "modernization" from the government's perspective and essentially takes the form of superficial socio-economic changes.

Governmental Program, November 2007.⁷⁸

following that, the government's program was preceded by the political events of November 2007, including street protests and the calling of early presidential elections These circumstances

⁷⁸ “Government of Georgia for Employment and Welfare”. Adopted on 22 November 2007 under Vladimer Gurgendidze’s tenure.

were reflected by bringing social aspects to the forefront and subsequently placing more attention on agriculture in successive program texts. In addition, the government's anti-inflationary goals, which were not addressed in previous years' programs, are gradually emerging.

On January 31, 2008, the Parliament of Georgia gave a motion of confidence to a new government led by Prime Minister Vladimir Gurgenzidze. The corresponding government program is presented under a new name: "United Georgia without poverty". The program is founded on two main principles:

"The efforts of the government to improve the well-being of the population will be oriented, on the one hand, to ensuring fast and wide-ranging economic growth and, on the other hand, to the implementation of large-scale social programs aimed at combating poverty."

In contrast to its predecessors, this program presents the actions of the government in measurable, numerical indicators. Furthermore, the program's long-term nature might be regarded the most ambitious, as it is planned to run from 2008 to 2012. As a result, the following is a rather extensive examination of the program.

The program outlines a clear action plan regarding economic growth. It suggests that the economy's strong expansion will continue which is emphasized in numeric indicators, which from this perspective seems quite unrealistic and delusional: "during the next five years, the economy will increase by an average of 8% each year". According to the World Bank's categorization, Georgia will be classified as a "middle-high-income country".

A stable macroeconomic environment, reduction of the state's role in the economy and maintaining a low level of inflation are assumed to be the main ways to achieve this goal. It should be noted that inflation as a problem appeared for the first time in government programs after the "Rose Revolution" and it is predicted that it will average 7% in the next 5 years.

Also, for the first time, the concept of "budget surplus" is introduced, with the program assuming that the budget surplus will reach 0.5 percent of GDP in the following five years. In order to lower the state's share of the economy, budget spending will be reduced from 29 % to 22%. The

mentioned program is optimistic about the prospects for attracting foreign direct investments in Georgia: “The volume of foreign direct and portfolio investments and financing attracted by the private sector will increase in 5 years - investments will be more than 10% of GDP annually and will total \$10 billion”.

In the previous program, the premise of transforming Georgia into an international financial center was stated and strengthened, and specific indicators were predicted: “Georgia will turn into an international financial center - it will attract financial resources throughout the region. Its attractiveness will be based on simple and low taxes, transparent financial regulation, a reformed economy, a regulated tax system, and transparent regulation. As a result, financial resources of at least 12 billion dollars will be invested”.

The emphasis is on export growth, which is expected to reach 40% of GDP by the end of the five-year term. It is worth noting that assuring export orientation is linked to "liberal trade policy, economic growth, and free industrial zones. It is also stated that more than 80% of exports will be carried out under the “free trade regime”.

Actions are also assigned based on international comparison and rating criteria: "According to globally acknowledged credit studies, the country's credit rating will improve by at least three points over the next five years. The assessment of the country's investment environment will be improved - in the international comparative analysis of the business environment, the indicators of Georgia will be higher than the average indicator of the EU countries,”

To summarize, in contrast to the previous programs, the social issue is more widely presented and specified, and first of all, the program plans to steadily allocate 1/3 of the budget to social programs over the next 5 years, and at the same time, the practice of "untargeted, "flat" aid will be replaced by the principle of targeted aid.” The government anticipates that \$10 billion in foreign direct investment will result in the creation of 200,000 new employment. And the degree of poverty will fall "substantially," it was predicted that "50 % of social program beneficiaries will leave the lists of beneficiaries owing to improvements in their well-being.

Additionally, the concept of state/mandatory insurance is introduced and 1,200,000 people are expected to be included in this program. Beneficiaries of this program are divided into categories: all members of families below the poverty line, school teachers, combat personnel of

the armed forces and the police. Besides, it is mentioned that insurance will be mandatory for all civil servants.

The mentioned government program is more ambitious than other programs, although it essentially fits into the general line. Besides, this governmental program might be characterized by a strong emphasis on numerical indicators and statistics, and the implementation of this program is based on more utopian aspirations rather than realistic calculations.

This governmental program manifests Georgian neoliberal transformation as an exceptional case in a way that it deviates not only from the neoliberal premises declared by the government but at the same time from Neoliberal theory itself while putting a strong emphasis on poverty alleviation and related social policies.

[Governmental Program, February 2009.](#)⁷⁹

On February 6, 2009, the Parliament of Georgia gave a motion of confidence to the government of the new Prime Minister Nika Gilauri and his program. The name of the program is unchanged: "United Georgia without poverty". The document essentially repeats the primary goals stated in the preceding program.

In addition, the employment program is relatively at the forefront. It should be noted that the text does not mention the "18-month plan for stabilization and reconstruction", however, it is stated that "the government's "strategy for protection against the global financial crisis" should return the Georgian economy to the path of accomplishing the 50-month plan".

The anti-crisis strategy is formulated as follows: "The global financial crisis protection strategy is a response to the current events in the world economy and includes an economic stimulus package in the amount of 2.2 billion GEL" which will be mainly spent on infrastructure construction in Georgia; The second part is 500 million GEL, which donors will spend independently on various projects; And the third part is 250 million GEL, which will be left to the customer at the expense of reducing the tax burden.

⁷⁹ "United Georgia without poverty". Adopted on 6 February 2009 under Nika Gilauri's tenure.

The world financial crisis and the 2008 August conflict significantly affected socio-economic situation and rendered the prior program's numerical indications and goals more illusory.

Unlike previous programs, there is a strong emphasis on the problem of unemployment: “the government of Georgia has one objective in the sphere of economics - to preserve jobs and overcome unemployment”.

In the program, the government's statement regarding inflation sounds quite ambiguous, as deflationary trends emerged with the recession in the economies of numerous countries across the world, and the Georgian economy displayed similar signs in the second half of 2008: “Unlike many other countries, Georgia was able to halt the inflationary processes; The inflation rate at the end of 2008 was 5.5 % down from 10 percent the previous year”.

On the other hand, the program continues to prioritize infrastructure projects, which the government claims will result in the creation of tens of thousands of employments.

[Governmental Program, July 2010.](#)⁸⁰

On July 2, 2010, the Parliament of Georgia again gave a motion of confidence to the government of Prime Minister Nika Gilauri and his program. The name of the program is still preserved: “United Georgia without poverty”. The described program makes no mention of the “18-month stabilization and reconstruction plan” or the “50-month plan”. It is not indicated what was accomplished. In this regard, they are only highlighting the crisis's effective resolution: “The Georgian government has successfully managed the decisive stage of the fight against the consequences of the global economic crisis. The government's present challenge is to sustain and expand on these achievements in the context of the current crisis”.

⁸⁰ “United Georgia without poverty”. Adopted on 2 July 2010 under Nika Gilauri’s tenure.

It should be noted that the unemployment issue is still actualized in the program, Employment is declared as the primary priority of both the Georgian government's economic and social policies. The key factors of employment policy include returning Georgia's economy on a path of high economic growth, infrastructural development, high-quality education, and a favorable business climate. Infrastructure projects remain a priority and are hailed as the bedrock of economic growth and employment.

[Strategic Development Plan of Georgia for Modernization and Employment](#)

In 2011, the Government of Georgia presented the “Ten-Point Plan of Strategic Development of Georgia for Modernization and Employment (2011-2015)”. This document should be considered as one of the most important documents, where all the approaches and visions that were fragmented in the program documents of the government after 2004 converge.

This document is important to the extent that it allows, on the one hand, to perceive the government's plan and vision directly on the socio-economic development policy in a complex way and, on the other hand, to retrospectively analyze all the approaches that were formed and implemented by the Georgian government over the years.

It is worth noting that this is the first legally recognized document, the word “modernization” occurs in its title, which has been repeated multiple times in the public speeches by Georgia's President and government representatives. Accordingly, at least in the socio-economic realm, the aforementioned paper serves as an essential document for identifying the "modernization" policy of the Georgian government.

The preamble of the program outlines the goal to create prerequisites for a “successful, unified and prosperous” Georgia. As a means of achieving the goal, there is a clear focus on two topics: on the one hand, boosting employment, lowering unemployment, and, on the other hand, providing social protection for the unemployed population.

This preamble reflects the issue of unemployment in the title of the program, but does not address this issue under the concept of “modernization”. Accordingly, the content and vision of modernization should be found in the text of the program itself.

The program comprises the following ten goals: 1. Financial stability. 2. Increasing current account balance. 3. Creating and sustaining a favorable investment and business climate. 4. Establishment of regional commercial and logistics hub. 5. Infrastructure development. 6. development of agriculture . 7. Enhancement of the educational system 8. development of Social policies. 9. Establishing an accessible, high-quality healthcare system. 10. Urban and regional development.

In terms of macroeconomic stability, the main goals are: “rapid growth, fiscal stability, modest and regulated budget deficit, low inflation, small government, financial system stability, healthy banking sector, shock resilience”. However, this is only a set of goals, with no indication of the methods or foundations that will be to achieve them.

It is interesting that the concept of “financial cushion” has been introduced, which implies the following: since the foreign debt in relation to the GDP of Georgia does not exceed 32%, and the foreign debt of up to 60% of the GDP is not considered alarming under the program, the reserve for taking the existing foreign debt is considered as a “financial cushion”, which will be used in case of crisis and investment reduction,

According to the program, the third step is creating/maintaining the best investment and business environment - non-corrupt environment, best conditions for entrepreneurship, comfortable tax environment with low taxes. There is no significant news in the explanation of this step. The objective of expanding the number of investments is again set against the backdrop of building a corruption-free and tax-friendly environment.⁸¹

The following is a form of novelty: “in order to promote employment, the labor market and regulations should be as flexible as possible for mobility and high employment in the labor market”, however, after analyzing the materialized outcomes of implemented reforms it will be

⁸¹ Kupatadze, A. (2011). “Similar Events, Different Outcomes: Accounting for Diverging Corruption Patterns in Post-Revolution Georgia and Ukraine”. In: *Caucasus Analytical Digest*, 26, pp.2–7.

quite evident that liberalized labor market only deepened the unemployment and social exclusion.

The program also addresses agriculture, namely agriculture based on entrepreneurship, which is presented as an important prerequisite for creating jobs and qualitatively improving living conditions in rural areas.

The program also aims for social policy refinement - assuring targeted and proportionality and eliminating poverty. there are no specific mechanisms or tangible results to achieve this goal.

Additionally, the program envisages “establishing an affordable, high-quality health care system”. The government has defined goals in the field of health care: From a structural standpoint, the program's major emphasis is on the establishment of new medical centers and state insurance systems. It also addresses urban and regional development. Although this goal is balanced through the emphasis on the development of different regions and decentralization of the economy, the suggested program mainly focuses on the rehabilitation of internal rural roads, water supply infrastructure, and the employment of the population in these areas.

Overall, it might be argued that the last governmental program adopted by the UNM movement is largely a consolidation of the government's 8-year policy, although on the theoretical level it contains premises of socio-economic development and does not provide tangible means for long-term sustainable economic growth.

[Economic reforms of the new government](#)

After analyzing the theoretical assumptions of the new government's neoliberal policies, in order to address our research question, it is important to examine Saakashvili's government's economic policies. This chapter attempts to briefly overview the UNM government's neoliberal reforms and their limitations. Considering the goal of the research during analysis the emphasis will be drawn only on economic reforms and their consequences. As described in the analytical framework the main concepts I will be touching upon are related to deregulation, privatization,

and market liberalization. At the end of each section, I will try to apply the findings of the literature review to conduct economic reforms.

Analysis

The primary goal of the new government was to impose financial discipline, which required the dismantling of clandestine organizations, the confiscation of property that had been illegally acquired by their major subjects, and the transfer of wealth in favor of the lower socioeconomic classes. The Rose Revolution's strategy of extensive deregulation, market liberalization and the cessation of state intervention in the economy was a forceful response to the previous government's kleptocracy and corruption.

Privatization

The process of privatizing state-owned property began in earnest after the "Rose Revolution." One of the pillars of the government's liberal economic policy was expedited privatization. The motto of Kakha Bendukidze, Minister of Economy and later State Minister for Coordinating Reforms, served as the foundation for the privatization policy: "Everything is for sale, except conscience." A rather aggressive and active policy of privatization caused protests from certain groups of society.

According to Tsagareli during the interview:

“At the initial stage, the notion of privatization was coupled with the false premise that it would benefit everyone, but widespread privatization mainly benefitted those who were socially privileged.” the top down economic growth, which was expected to promote economic development, was contradictory to Georgia's reality, resulting in a division between the poor and rich.”⁸²

There was no limit on the alienation of "strategic" objects during the privatization process. Additionally, there were no restrictions on the transfer of ownership to offshore companies and other state-owned businesses. In 2003-2010, 4,280 objects were privatized, and the income from privatization amounted to 1.6 billion US dollars. Privatization affected both large enterprises and small enterprises and land. In the process of privatization, emphasis was placed on the fiscal effect, which meant the accumulation of budgetary revenues through privatization.

⁸² Tsagareli, A. 20 March 2022

Particularly during Kakha Bendukidze's tenure as state minister, the government frequently appeared in the role of a market player in the process of privatization, attempting to increase price of privatized objects by using methods typical for the private sector (statements by government representatives focused on increasing the selling price of objects, market trading, etc.). Additionally, the new private owners frequently failed to uphold their duties, which frequently resulted in a change of ownership of already privatized facilities between 2005 and 2007. Consequently, by 2008, the number of state-owned enterprises was significantly reduced, and only a small portion of the large enterprises (e.g., railways, major gas pipelines, energy facilities) remained in state ownership.

Privatization policies that also affected non-production facilities (e.g., buildings in the city center), together with accelerated policies by foreign investors and commercial banks with infusions into real estate and construction, ultimately increased real estate prices significantly, which persisted in 2008. before the August War. Although there was less of a demand for privatized facilities following the August war, prices dropped much more slowly. It is worth remembering that the government regarded the rise in real estate prices as one of the indicators of economic policy success²⁹. Foreign direct investment growth and inflow were largely influenced by the privatization process because the latter was closely linked to the purchase of facilities for privatization and the subsequent operations associated with it. From a macroeconomic perspective, privatization and related foreign direct investment inflow played an important role, on the one hand, in terms of GDP growth, and on the other hand, in terms of fiscal impact on the state budget.

However, the biggest drawback of governments massive privatization policies was the infringement of property rights. While the government has finished extracting funds from former corrupt officials, it was the entrepreneur's turn to deposit their own funds into the above-mentioned off-budget accounts.

An example of property rights infringement was the 'voluntary donation' of property to the state by business enterprises that occurred immediately after the Rose Revolution. considering the fact that there was no law in Georgia for the de-privatization of illegally obtained property, the compelled donation was regarded as a legitimate solution.

According to Papava: *“Businessmen were invited from different state agencies, by the ministry of interior, by financial police and were under pressure to return their property to the state.”* (Interview Papava 2022).

He affirmed that the strategy included a second stage of privatization through so-called property tenders, The scheme contained a second component: a “second privatization” which resulted in the resale of the acquired property quite often the tenders were won by companies that had recently been founded they were distinguished by a lack of transparency in ownership (Interview Papava 2022).

For some reason, the representatives of the World Bank were never interested in why Georgian entrepreneurs "preferred" to donate their property to the state, completely or partially, and why less developed states ranked higher than Georgia in terms of property rights protection.

We might consider the international financial institutions' mistake to be the most significant of their faults because it impacted many other important areas outside the economy.

De-privatization and second privatization operations, primarily in 2004 and 2005, resulted in large re-distribution of property with a defined goal: “the infringement of the property right aimed at distributing this property amongst the so-called elite businessmen standing close to the government”. Furthermore, the state gained directly from this re-distribution of ownership, as proceeds from the "second stage of privatization" were deposited in the budget.

it was a legitimate means for accumulating the state budget after the post-revolutionary period. This was especially important after the Rose Revolution when the state was in need of collecting revenues.

Although I will analyze the prevailed discourses of this period in another section, it might be argued that the government was disseminating the rhetoric of "public accountability of business.". The forcible transfer of land and another real estate in strategic areas was a powerful tool of the government to compel private enterprises and accumulate revenue.

While attempting to apply theoretical premises and findings derived from the literature review, it might be argued that from the critical point of view, this case serves as a good illustration of the previously described criticism of neoliberalism. Although, according to advocates of

neoliberalism property rights are an essential element of the political-institutional framework that upholds the free market principles, deregulation policies in Georgia failed to adhere to it.

Deregulation

The process of eliminating restrictions on business, industry, and other professional activities is known as deregulation. Different types of regulations prior to the "Rose Revolution," were characterized by low economic efficiency. In reality, regulatory institutions were plagued by a high level of corruption and were unable to function and carry out their responsibilities properly (e.g., protection of competition, control of the quality and safety of goods, safety of construction, etc.). Considering the fact that Given that the economic ideology of the National Movement team was based on the principles of neoliberalism, radical deregulation has been an integral part of Georgia's economic agenda since the post-revolutionary period.

The abolition or reduction of various regulating systems was one of the fundamental tenets of the government's strategy following the "Rose Revolution." deregulation policies were supported by three justifications:

1. This system is inefficient and regulatory agencies are not able to execute their functions.
2. The level of corruption in regulatory institutions is high, and such institutions are unacceptable under the anti-corruption policy.
3. Economic liberalization entails reducing the scope and types of regulation, including the abolition of some regulations.

Based on the aforementioned, the antimonopoly service was abolished, and in its place, the "Free Competition Agency" with severely constrained functions was established. In light of the government's position that the market should be entrusted with antimonopoly control instead of the state.⁸³

In addition, food safety control systems and relevant institutions, as well as those structures that carried out technical regulation, standardization, and the issuance of licenses and permits, were abolished. The number of own licenses and permits decreased by 84%. The reform led to a shift

⁸³ Transparency International Georgia (TI Georgia). (2009). "Competition in Georgia". Tbilisi: *Transparency International Georgia*.

toward a system of voluntary standards and a reduction in the state's regulatory involvement in the system, with the aim to stimulate entrepreneurial activities. Under these circumstances, the entrepreneur had the option of using any national, international, or regional standard or even creating his own standard and registering it with the National Agency for Technical Regulations and standards.

Overall, the government's neoliberal economic policy, particularly between 2004 and 2008, drastically veered toward the "libertarian," and in certain areas, the discourse took on an anarcho-capitalist shape, specifically in regards to various citizen security measures (eg: food safety, technical inspection, etc.). As a result of downsizing the state's role and entrusting the market system.⁸⁴

Significant deregulation was also implemented in the labor market. In 2006, a new labor code was adopted, which effectively reduced the areas of regulation to a minimum. In this regard, Georgia hold the leading position in the world in terms of liberal labor legislation.

"Liberalization of labor relations and adaptation to market conditions" - these are the main goals declared by the Georgian government when justifying the need to develop a new draft of the "Labor Code". On May 25, 2006, the Parliament of Georgia adopted the aforementioned Code, which establishes basic labor norms and minimum standards. In the same period, the number of controlling governmental institutions was reduced, and the powers of some of them were significantly limited, among them, the labor inspection was canceled due to the corruption of the agency. The outcomes were devastating to the workforce.⁸⁵

The Labor Code adopted in 2006 often contradicts the European Social Charter and the principles of the International Labor Organization. The Code prioritizes the employer and disregards the employee's social protection. For example, according to the aforementioned code, "The employee is obliged to notify the employer at least 30 calendar days in advance of the termination of the employment contract, unless otherwise stipulated by the employment

⁸⁴ De Waal, T. (2011). *Georgia's Choices. Charting a Future in Uncertain Times*. Washington: Carnegie Endowment.

⁸⁵Arobelidze, G. (2018) "The role of pro-Western NGOs in the Process of Neoliberalization 2003-2012 in Georgia". MA Thesis, *Tbilisi State University* (Own translation).

contract." However, at the same time, the employer has the right to dismiss the employee at his own will without warning, which naturally puts the employee and the employer in unequal conditions. As a result, In 2007-2009, Georgia ranked first in the world in the liberality of labor legislation component of the Economic Freedom Index. The simplified labor relations also significantly increased the country's performance in terms of ease of doing business.

Overall, the government's neoliberal economic policy, particularly between 2004 and 2008, drastically veered toward the "libertarian," and in certain areas, the discourse took on an anarcho-capitalist shape, specifically in regards to various citizen security measures (eg: food safety, technical inspection, etc).

From the Neoliberal criticism standpoint, which was described in previous chapters, the findings of the literature are especially applicable in terms of labor rights violations. The case study demonstrates that pro-business policies which have been expressed in creating an attractive environment for business at the expense of labor rights violations have been central to the political agenda after the rose revolution.

Tax Reform

The goal of tax reform was to accelerate the country's economic development, boost GDP, increase state revenues, eliminate corruption, determine the optimal tax burden, etc.

Tax reform in Georgia, according might be divided into three stages.⁸⁶

The first stage lasted from 2004 to 2007, when major changes were made. The campaign against bureaucracy, corruption and other challenges began. The most significant shift that occurred at this point was a reduction in the tax burden. It should be highlighted that the "liberalization," which was primarily seen in the modifications made to the legal system, was followed by a stern tightening of the tax administration. On January 1, 2005, a completely new tax code that had been adopted by the Georgian government According to the previous tax code, Georgia had a total of 20 taxes, including 1 customs tax, 6 local taxes, and 13 general state taxes that were regulated by the Georgian customs code. The new tax code defined 5 general-state and 2 local

⁸⁶ Kemularia, R. Deputy Minister of Finance of Georgia.

taxes, which were added to the customs tax regulated by the customs code. Consequently, the number of taxes has decreased to 8.⁸⁷

The second stage spans the years 2007-2009. During this time, the tax revenue service was established, the infrastructure was strengthened, the profit tax rate was decreased from 20% to 15%, a single tax-paying base was created, and the social and personal income taxes were consolidated into a single tax.⁸⁸

The third ASYCUD phase lasted from 2010 to 2011. During this time, a new tax code was developed, new taxing regimes for small and medium-sized firms were implemented, and bureaucratic barriers were eliminated.

The tax reform implemented in 2005 also had its shortcomings. The major flaws were caused by the high concentration of power under the government.

Various scientific literature mentions the non-democratic management style of the government that came after the Rose Revolution. Therefore, the degree of democracy and the rights of certain groups of people were the inevitable "victims" that resulted from the rapid implementation of reforms under centralized governance.

Professor Nodia points to the centralization of the government in an article published in 2017 and notes that the success of the government was manifested in the implementation of reforms and not in the establishment of democratic governance.⁸⁹ The same was pointed out by the researcher of Georgia and the South Caucasus - Professor S. Jones, in an article published in 2006, when he noted that, the government applied the Bonapartic management style, because it was not the degree of democracy that mattered to them, but the speed of implementation of reforms.⁹⁰

⁸⁷ Transparency International Georgia (TI Georgia). (2010). "The Georgian Tax System. An Overview". Tbilisi, *Transparency International Georgia*, p. 15.

⁸⁸ Ibid.

⁸⁹ Nodia, G.(2017). "Democracy and its Deficits: The path towards becoming European-style democracies in Georgia, Moldova and Ukraine", p. 78

⁹⁰ Jones, S. (2006). "The Rose Revolution: A Revolution without Revolutionaries?" *Cambridge Review of International Affairs*, Vol. 19, No. 1, March 2006, p. 35

There was no fiscal decentralization. Due to the centralized style of governance, there was no political will to adopt decentralization, including fiscal decentralization, which was also reflected in the reform of the tax system.

Local self-government in municipalities lacked the necessary funds to address issues of local importance⁹¹. Self-government power was restricted in 2007, which was manifested in the complete centralization of income and profit taxes.⁹² Non-implementation of fiscal decentralization hampered economic development in municipalities. The country was managed within the framework of a single governmental vertical, depriving the municipality of the opportunity to tackle problems of local importance with its own budget. This, in turn, had an impact on the country's economic progress.

In parallel with the delay of fiscal decentralization reform, the centralized management style has resulted in a rise in instances of tax officials placing pressure on taxpayers.⁹³

Taking the foregoing into consideration, it is possible to conclude that the 2005 tax reform on the one hand, contributed to the lowering of the tax burden and the acceleration of economic growth. However, on the other hand, authoritarian management style encouraged tax officials to persecute individuals working in the business sector and violate their fundamental rights, which had a detrimental impact on business development outcomes and the pace of economic growth.

Market liberalization

In compliance with commitments made to the World Trade Organization., reforms aimed at reorganization, liberalization and simplification of trade regulation were implemented in Georgia. Georgia's trade borders were further opened as a result of institutional changes brought about by these reforms, which intensified after November 2003.:Export-import procedures were streamlined, tax rates and types were reduced, tariff and non-tariff regulation was simplified, and trade relations were diversified by signing free trade agreements with major trading partners.

Through the simplification of customs, license and permission requirements, property registration, labor regulations, and loan availability, the investment environment was improved. In order to promote economic growth, the government's reforms called for the elimination of

⁹¹ International Poverty Georgia, Review of the Tax System of Georgia, Tbilisi, 2010, p. 12

⁹² Losaberidze, D., Local Self-Government Reform in Georgia, 1991-2014, Tb., 2015; p. 135

⁹³ International Poverty Georgia, Review of the Tax System of Georgia, Tbilisi, 2010, p. 6

tariff and non-tariff trade barriers, the creation of competitive market conditions, an improvement in the business environment, and the diversification of international trade.

Nevertheless, the establishment of a free trade regime in Georgia significantly affected the competitiveness of local enterprises. Although the government introduced certain incentives to restructure local enterprises and make them more responsive and adaptable to changes in market demand, local businesses did not benefit evenly from the free trade system. Some of the primary trading and economic partners have adopted protectionist policies resulting in unfair competition.. For example, it is known that Turkey is the main importer of grain in Georgia (it should be noted that grain is one of the five main import products in Georgia). Cereal production is stimulated by the Turkish government by subsidizing this industry. This allows the exporter country to sell its own products cheaply in Georgia, thereby reducing the market for Georgia's noncompetitive agricultural products.

As Adeishvili outlined during the interview:

“under extreme liberalization, local output and competitiveness could not be enhanced, increasing the country's reliance on imports.”⁹⁴

From the perspective of neoliberal criticism, it might be argued that the fostered free trade and reduced government intervention which was described as the most efficient way for economic growth did not manifest itself in the case of Georgia. In the conditions when the productive capabilities of the Georgian economy were less developed and consumption increased, free trade led to a sharp increase in the volume of imports and increased the trade deficit (see below for details). The low competitiveness of the Georgian economy in both the agricultural and industrial sectors was further exposed by the free trade system. At the same time, the trade itself could not create the conditions necessary for the expansion of this competitiveness.

[Materialized outcomes manifested in Statistical data](#)

After investigating the theoretical premises of the Georgian neoliberal transition, it is important to analyze the materialized outcomes to check the compatibility of neoliberal theory and practice with regard to social equality, poverty elimination, and employment.

⁹⁴ Adeishvili, D. Expert Interview. 1 February 2022 [Conducted in Georgian, Translated by Author]

With the purpose of exploring materialized outcomes of economic policies, I decided to investigate how the Georgian case of Neoliberal transition manifested itself in socio-economic spheres. As described in the section on methodology to support my reasoning I will draw conclusions based on statistical data.

At first, I will briefly introduce the main indicators from international rating in the section on discourse analysis it was revealed that international economic rankings in public speeches, served as an important source of legitimacy for neoliberal policies both domestically and internationally.

After this, I will present statistical data outlining the main macroeconomic trends and foreign direct investments in relation to GDP. In this regard, the UNM's neoliberal discourses were based on the premise that an improvement in the investment climate would speed economic growth and employment.

Following that, I will assess the changing patterns of incomes and consumption, labor market and employment rates, social equality, and poverty rates. At the end of each subchapter I will summarize main findings.

Georgia in international indexes and ratings

One of the important features of the neoliberal transition is that international ratings and indicators was often instrumentalized by the government as the main indicators for the success of various economic reforms. Among these indicators, it is worth noting, first of all, the indicators of economic freedom.

Georgia ranked 26th out of 183 nations in the world in 2010 according to the Economic Freedom Index of the Heritage Foundation. This index indicates that Georgia has advanced significantly. Prior to the "Rose Revolution," in 2002 and 2003, it held far lower positions. After the "Rose Revolution" of 2004–2005, this trend persisted. Georgia's standing in the index of economic freedom has significantly increased since 2006 (see Figure 1).⁹⁵

⁹⁵ Economic Freedom Index - Georgia (2002-2010); The Heritage Foundation. Retrieved From: <https://www.heritage.org/index/>

Economic Freedom Index

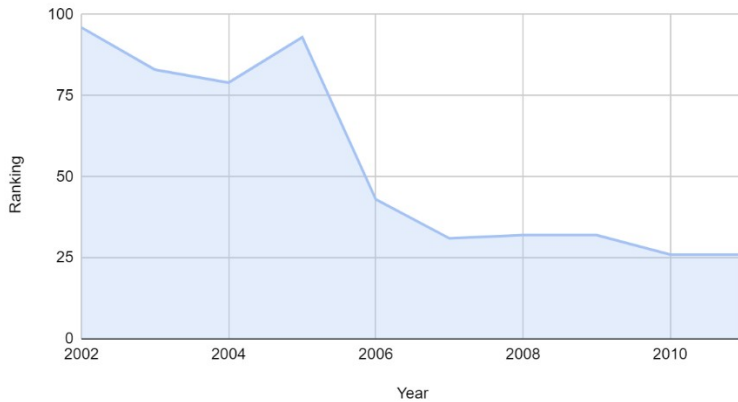


Figure 2: The Heritage Foundation - Economic Freedom Index

Overall ratings consist of separate components. In this regard, the dynamics of the economic freedom index according to the constituent components are quite interesting to analyze (see figure 2).⁹⁶

Indicator for Georgia according to the components of the economic freedom index (0 is the worst position, 100 is the best)

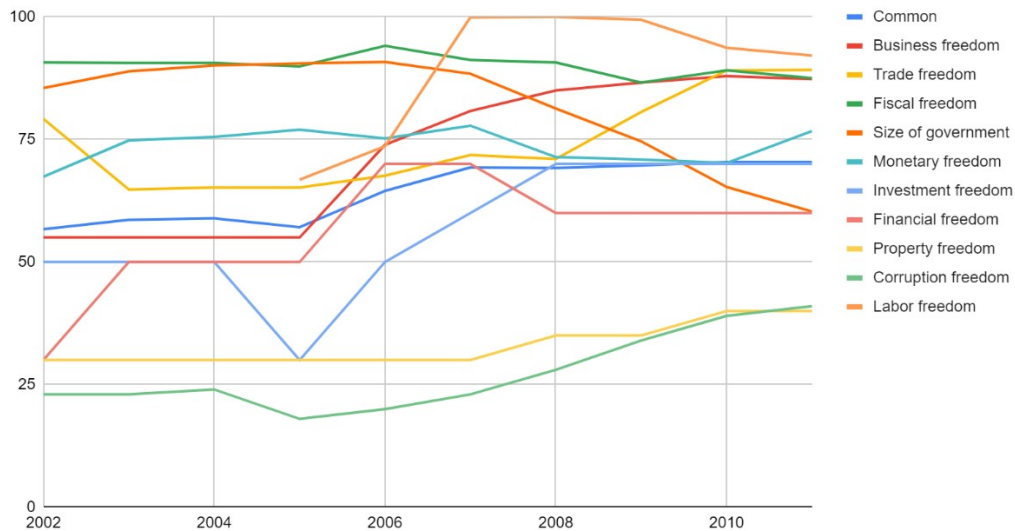


Figure 3: The Heritage Foundation – Economic Freedom Index - <https://www.heritage.org/index/>

⁹⁶ Economic Freedom Index according to different components- Georgia (2002-2010); The Heritage Foundation. Retrieved From: <https://www.heritage.org/index/>

In terms of business freedom, since 2006, the index of Georgia has been steadily rising. If this score was 55 from 2002 to 2005, it rose to 73.9 in 2006, and to 87.9 by 2010. This is mainly due to the deregulation of licensing and permit regulations and the streamlining of business registration processes.

The liberalization of Georgia's trade policy, which in turn resulted in lower tariffs on most imported commodities, fewer non-tariff obstacles, and the elimination of the internal subsidy system, contributed to the country's continuously high score in terms of trade freedom. It should be highlighted that Georgia had a high index in this component even before the "Rose Revolution". In 2002, it was 79.2; in 2003, it was 64.8. After the revolution, the rate grew even higher, from 67.6 in 2006 to 89.06 in 2010 as a result of the government's liberalization policies.

Between 2002 and 2010, Georgia's fiscal independence indicator has been consistently high, both before and after the so-called "Rose Revolution." These indicators were 90.7 and 90.6 in 2002-2003, and 86.8 and 89.1 in 2009-2010 respectively. Before the revolution, this high figure was mainly influenced by the low percentage of tax revenues in relation to GDP. The types and rates of taxes fell after the revolution, despite the fact that the absolute quantity of tax receipts increased significantly in comparison to GDP. This increased the index of financial freedom in 2006–2007, and from 2008 it decreased substantially.

Georgia consistently has a high government size index, with scores of 85.5 and 88.9 in 2002-2003 and 74.6 and 65.3 in 2009-2010. It should be noted that between 2002 and 2010, the lowest rate was recorded in 2009–2010. This is primarily due to the fact that the state employed a far higher budget deficit than it had in earlier years to revive the economy.

From 2002 to 2010, the rate of monetary freedom was likewise consistently high. This indicator ranged between 67.4 and 74.8 in 2002-2003, peaked at 77.8 in 2007, and fell to 70.2 in 2010. In general, Georgian banking and monetary policy were marked by a high level of liberalism both before and after the revolution.

When compared to other characteristics, Georgia's indexes of investment freedom are relatively low. Between the years 2002 and 2006, this index remained around 50, with the exception of 2005 when it dropped to 30. In 2007, it rose to 60, and from 2008 to 2010, it reached 70. This increase is most likely due to the Georgian government's initiatives, which include the

establishment of specific incentive regimes for investors, the development of tourist infrastructure (in maritime and coastal zones), free industrial zones, and so on.

Georgia has an extremely low rate of property protection. This index was consistently low - 30 - from 2002 to 2007, increasing to 35 in 2008-2009 and 40 in 2010. This is one of the most essential indicators for the business climate, as a low position precludes the establishment of a really attractive investment environment and the implementation of long-term, industry- and innovation-focused initiatives.

The situation is considerably direr in terms of freedom from the corruption index. This indicator was 23 during 2002 and 2003, and it increased slightly to 24 in 2004. In 2005-2006, the indicator fell to a lower level compared to the period before the "Rose Revolution" and constituted to 18 and 20 respectively. Since 2008, this component began to improve and, accordingly, in 2008-2010, it amounted to 28, 34, and 39.

Since 2005, the economic freedom index is calculated with consideration for the labor freedom index. This indicator ranged between 66.8 and 73.6 in 2005-2006. In 2005-2006, this indicator was 66.8 and 73.6. As a result of the liberalization of the Labor Code, in the following years, Georgia took a leading position in the world in terms of labor freedom - in 2007-2009, it ranged from 99 to 100. In 2010, it slightly decreased and amounted to 93.7. Unfortunately, this high rate could not be reflected in the labor market of Georgia in terms of employment growth, on the contrary, a tendency of rising unemployment was observed.

Another important indicator, that the Georgian government appeals to, is the World Bank Ease of doing business ranking. In this ranking, Georgia's ranking made a leap forward in 2006-2007, when it moved from the 112th position to the 37th position. Georgia's rating increased further in 2006 and 2008, moving the nation to 21st position, then in 2009, to 15th place. Georgia ranked 12th globally in 2010 and 13th globally in 2011. The aforementioned ranking is an amalgamation of different variables (see figure 4). The examination of the different indicators reveals that institutional context dominates the rating of doing business. It primarily reflects the simplicity of legal-institutional procedures. Georgia is in the top ten countries in the world for the simplicity of establishing a business (legal registration, etc.), obtaining building permits, and registering real estate. This is primarily explained by the public register revisions and the drastic

deregulations of the licensing or permits system, notably in the construction industry. Georgia ranks 15th and 20th in the credit-taking and investor protection components, respectively. Georgia's ranking is relatively low according to the indicators of payment of taxes (61), compliance with contracts (41), and the reasonably lowest being the indicator of business closure (105) (see Figure 4).⁹⁷

Ease of Doing Business 2011

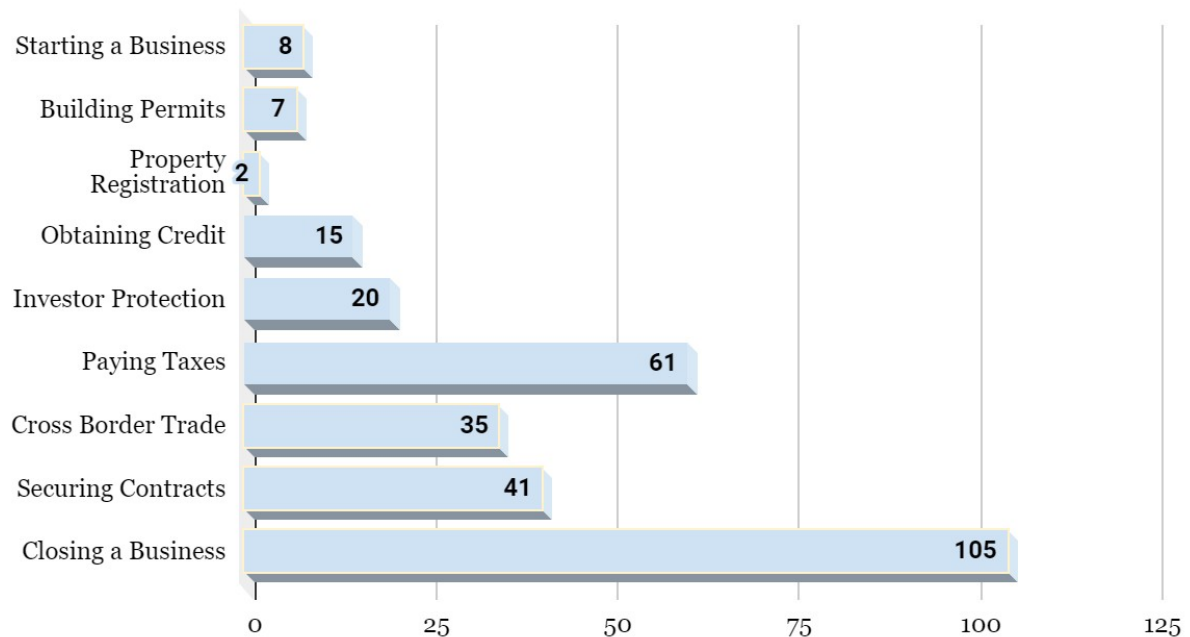


Figure 4: World Bank – Ease of Doing Business

Main macroeconomic trends

The UNM's neoliberal premises was based on the claim that the reducing economic corruption and state interference should lead to an improvement in the investment climate. In order to address my RQ1, it is essential to examine the influence of major macroeconomic trends on economic development.

In 2004-2007, the average annual growth of the gross domestic product was 9.3%. In addition, the highest double-digit growth was recorded in 2007 and amounted to 12.3%.

⁹⁷ Ease of Doing Business – Georgia (2011); World Bank. Retrieved From: <https://data.worldbank.org/indicator/IC.BUS.EASE.XQ>

Until 2008, direct foreign investment and the development of the banking system were the primary drivers of the economy.

The dynamics of the gross domestic product alone are less effective for analyzing economic progress, particularly in Georgia, where the economy is not structurally formed and the degree of decapitalization is high. Under these conditions, the "rapid growth effect" may mislead us about the economy's development.

Total additional value and Costs for final consumption

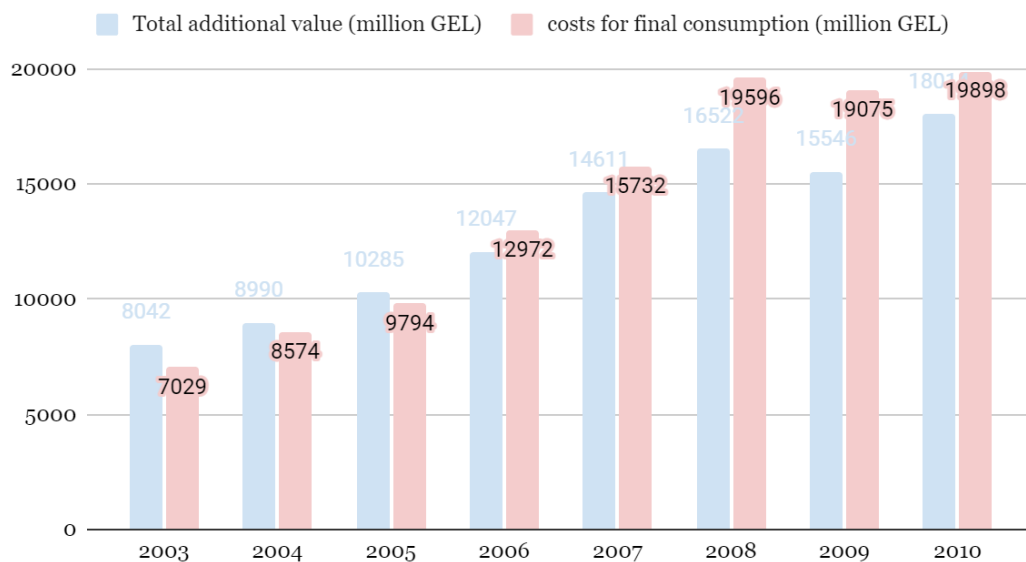


Figure 5: National Statistics Office of Georgia – Total additional Value and Costs for final consumption

Figure 5 depicts the dynamics of the total added value generated in the Georgian economy and spending on total consumption, demonstrating that the dynamics of spending on final consumption have been rapidly expanding and have surpassed the dynamics of added value growth since 2006.⁹⁸ This graphic demonstrates that the Georgian economy exhibited increasing indicators of a consumption-oriented economy while the economy's output capacity expanded less. According to Adeishvili during the interview, this aspect of the Georgian economy was one of the key reasons why the inflation crisis came to the fore in 2008-2010.⁹⁹

⁹⁸ Total additional value and Costs for final consumption – Georgia (2003-2010); National Statistics Office of Georgia. Retrieved from: <https://www.geostat.ge/en>

⁹⁹ Adeishvili, D. Expert interview. 1 February 2022 [Conducted in Georgian, translated by Author].

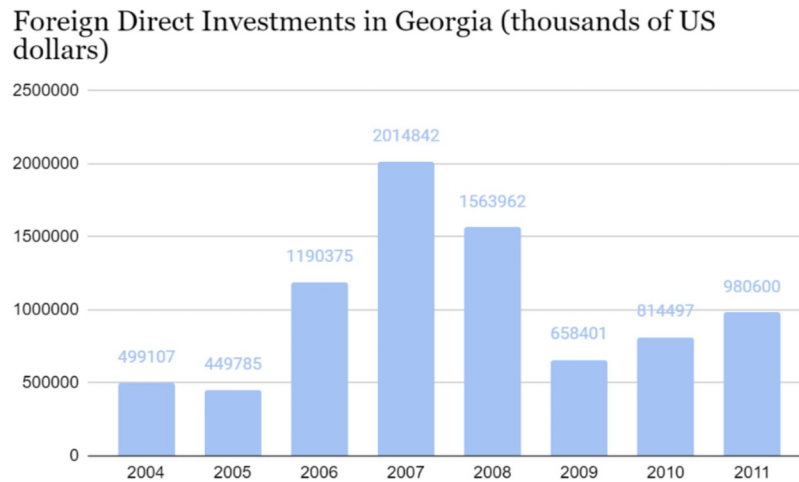
To conclude, From the macroeconomic perspective, the government's policy was most clearly reflected on the growth dynamics of GDP. Fiscal and external variables were the most important influences on GDP growth. Among the fiscal factors, the sharp improvement of tax administration and foreign financial flows increased the budget several times. Such characteristics, while statistically leading to GDP increase, are less connected to sustainable economic growth.

Moreover, the existence of foreign resources, on the one hand, helps the national economy to cover the gap in domestic savings and provide investment possibilities, which is a good event. However, in Georgia, the incoming financial flows were mostly spent on consumer expenditure, both by the private and public sectors. Investments failed to have a substantial influence on the growth of the domestic sector's productivity. As a consequence, these flows statistically had an influence on GDP growth. However, in terms of sustainable economic development, it had the characteristics of inflationary growth on the one hand, and consumption-oriented growth on the other. This was mainly due to the underdevelopment of domestic production.

Foreign Direct Investments

Following the "Rose Revolution", there was a significant increase in investment flows to Georgia. This tendency was primarily dictated by the country's relative budgetary stability, liberal economic course, and mass PR campaigns carried out by the country's authorities at the international level. Nevertheless, since 2007-2008, a downward trend in the level of investment activity can be observed. In the process of analyzing the impact of foreign investments on economic growth, it is necessary to note that the illegal income received before the "Rose Revolution" was legalized in 2003. A considerable portion of this money was invested in

construction, financial fields, and telecommunications, which in turn had a positive impact on

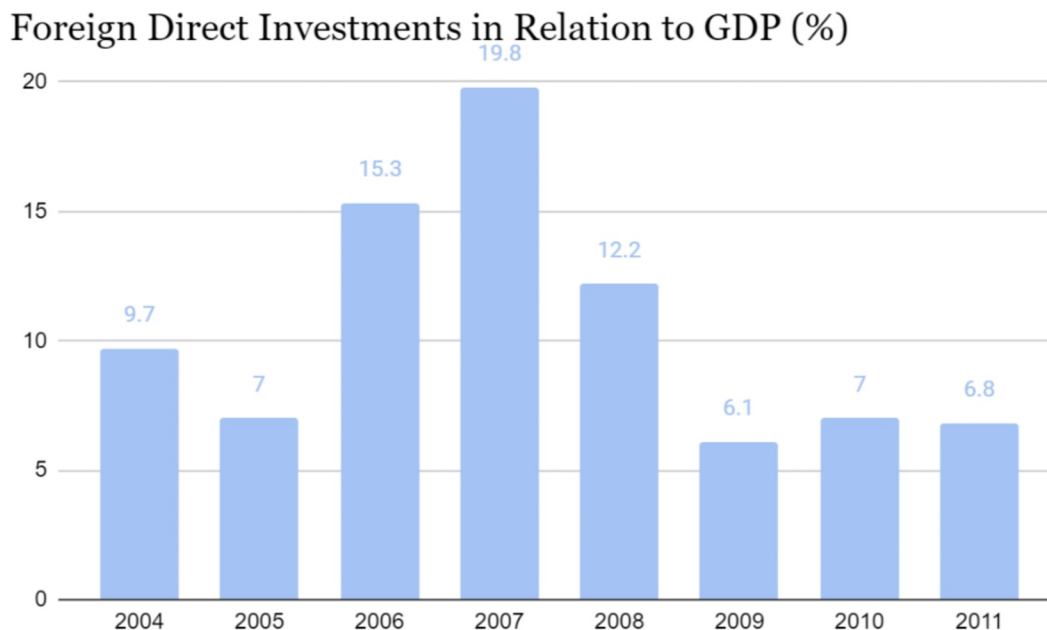


GDP growth.

Figure 6: National Statistics Office of Georgia – Foreign Direct Investments in Georgia

In 2006, total foreign direct investment increased to 1,190,374.6 thousand US dollars, and in 2007, it reached its highest level since Georgia's independence, which amounted to 2,014,841.6 thousand US dollars. Investment reductions began in 2008, particularly in the third and fourth quarters, following the global financial crisis and the August conflict between Georgia and Russia. Annual investments, however, remained strong, totaling 1,563,962.4 thousand US dollars. Foreign direct investments fell dramatically in 2009-2010 compared to prior years, totaling 658,400.6 and 814,496.6 thousand US dollars, respectively (see Figure 6).¹⁰⁰

Given that the attraction of foreign direct investment is one of the major pillars of national neoliberal policy, it is critical to analyze the percentage of foreign direct investment in relation to



¹⁰⁰ From:

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GDP.

Figure 7: National Statistics Office of Georgia – Foreign Direct Investments in Relation to GDP (%)

Foreign direct investment as a percentage of GDP grew from 2005 to 2007, reaching 19.8 percent in 2007 before falling to 12.2 percent in 2008. From 2009-2011, the share of direct foreign investments in proportion to GDP fluctuated within 6-7 percent, and this indicator could not deviate from the level of 2004-2005 (see figure 7).¹⁰¹ this might be another proof that the government's neoliberal premises significantly diverged from their materialized outcomes.

It is worth considering the structure of investments according to sectors of the economy, which shows that the biggest portion of investments always falls on transport and communications - on average, a fifth. Whereas in agriculture, where the absolute majority of the population is employed, the percentage of investments is the smallest, averaging 1-2%.

Based on the overall and sectoral analysis of investments, the following might be highlighted:

There is a strong relationship between foreign direct investment and the sectoral composition of GDP growth. Furthermore, foreign direct investment should be seen as one of the primary drivers of GDP growth.

Sharp fluctuations in the amount and structure of investments in different industries over time reveal the fragility and unsustainability of economic growth.

The dynamics of investments are inextricably linked to the privatization process, encompassing both transactions directly related to privatization and "injections" carried out in the relevant facilities following privatization. On the one hand, this type of investment frequently involves a change in asset ownership and does not result in the production of new productive assets. On the other hand, the resource for the growth of privatization-related investments is steadily diminishing, and the jump-like increase in the rate of such investments in individual years does not accurately represent the economy's internal resource capacity.

¹⁰¹ Foreign Direct Investments in Relation to GDP – Georgia (2004-2011); National Statistics Office in Georgia. Retrieved from: <https://www.geostat.ge/en>

Trade Liberalization

One of the central pillars of the government's neoliberal premises was trade liberalization which was demonstrated in governmental programs described in the section 4.2. In the official statements they were linking trade liberalization with Georgia's enhanced export potential.

This subchapter aims to examine how trade liberalization affected domestic production. For this reason, I will analyze Georgia's trade balance.

Georgia's exports and imports rose between 2002 and 2007, with imports growing faster than exports. The import-export overlap ratio progressively dropped, from 46.5 percent in 2002 to 27.0 percent in 2007. As a result, the trade deficit expanded six times and the current account deficit twice between 2002 and 2007, reaching 19.0 percent of GDP in 2007 and roughly 22 percent in 2008. The current account deficit was 11.2 percent of GDP in 2009, however, the export potential grew in 2010, reducing the current account deficit to 9.6 percent of GDP. In 2011, this indicator increased again to 11.7% (see Figure 8).¹⁰²

foreign direct investments and transfers from abroad were a source of covering the deficit. During 2002-2007, direct foreign investments increased 6.6 times, and transfers from abroad - 8.5 times.

The volume of direct foreign investments and remittances declined dramatically in 2008-2009. Remittances climbed again in 2010, reflecting the global economic recovery, despite a large decline in direct foreign investment flows.

Institutional reforms in Georgia after 2003 contributed to the expansion of the country's trade turnover, however, the development of trade was negatively affected by the 2006 Russian embargo, the 2008 hostilities, and the global financial crisis.

As a result of trade liberalization, the abolition of trade barriers, and the establishment of free and preferential trade regimes, imports have grown particularly rapidly. In 2003-2010, it was 4.7 times higher than the level of 1996-2003. As a result, Georgia's trade balance still posed significant macroeconomic risks, which increased especially in recent years.

¹⁰² The Rate of Overlap of Exports with Imports – Georgia (1996-2010); National Statistics Office of Georgia. Retrieved from: <https://www.geostat.ge/en>

The rate of overlap of exports with imports (%)

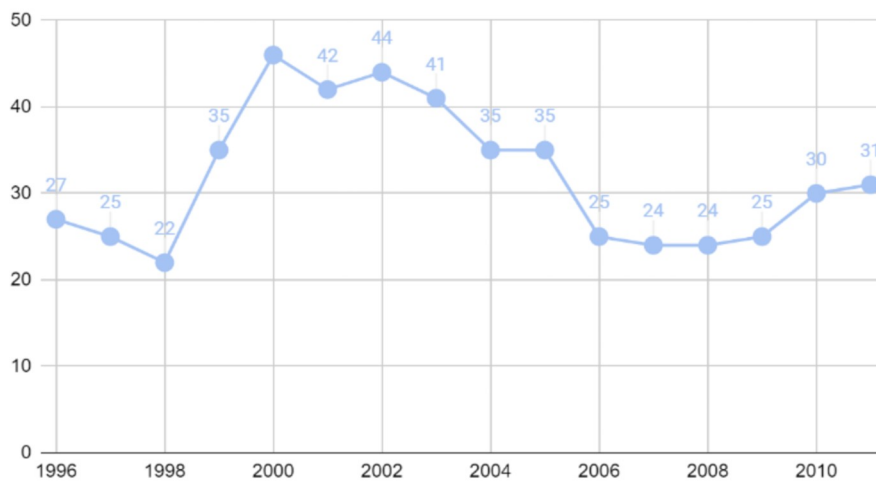


Figure 8: National Statistics Office of Georgia – The rate of overlap of exports with imports (%)

In 1996-1998, the percentage of overlap of imports and exports was 27%, 25%, and 22 %, respectively. Since 1999, this indicator has begun to increase, reaching 44% in 2002 and 41% in 2003. After 2004, this indicator began to fall again; from 2005 to 2009, it varied between 24 and 25 % (meaning that imports surpassed exports four times), and from 2010 to 2011, it slightly improved to 30 and 31 %. The trade deficit expanded 5.1 times between 2003 and 2010, while the current account deficit climbed 2.9 times. World prices, which experienced major swings from 2008 to 2010, had a considerable influence on trade turnover.

To summarize, this is another proof of how neoliberal political premises deviated from its materialized outcomes in the case of Georgia. Based on statistical data its quite evident that fostered trade liberalization did not strengthen the country's export potential, in contrast, one of the key characteristics of the Georgian economy following the "Rose Revolution" was the rise of foreign trade while also increasing the trade imbalance, which had a substantial impact on the domestic market.

Despite the government's introduction of certain incentives to restructure local enterprises and make them more responsive and adaptable to changes in market demand, local businesses did not benefit equally from the free trade system.

Labor market and employment

Although in Saakashvili's discourse since 2004 the emphasis on market liberalization as a means to tackle corruption and social inequality. Georgian Neoliberal discourses were quite deceptive in way that it was characterized by persistent manipulation of the political agenda. In section 4.2 where I have analyzed the neoliberal premises of the UNM government, a strong emphasis on increased employment through labor market liberalization was observed. With the aim to address RQ1 in this subchapter I will neoliberal policies' linkages with the labor market in the case of Georgia.

The economic profile of Georgia is inherent to nations transitioning from a state centrist economy to a market economy model. In this regard, market services and construction are the driving force given the large consumer demand and actors emphasis on the provision of public goods (e.g., infrastructure and communication). However, in Georgia, the transition to a market economy model has shaken the labor market to a far larger degree than in other nations that were also under Soviet rule in the past.¹⁰³

According to Khundadze during the interview:

“Our economic system, as strange as it may appear, drives individuals into unemployment. As previously stated, the majority of Georgians are self-employed, either in agriculture or low-skilled economic activity.”¹⁰⁴

In general, the results of economic policies have a significant impact on the labor market and employment. This entails not only the dynamics of the employment rate but also the structure of employment, labor productivity, sectoral and geographical distributions, incomes, etc. It should be mentioned that despite the economic expansion, the issue of widespread unemployment following the "Rose Revolution" was not solved but rather got worse.

¹⁰³ Baumann, E. (2010). *“Post-Soviet Georgia: the Rocky Path towards Modern Social Protection.”* Social policy and the Global crisis ESPANET, Budapest. Stream 14: Post-Socialist Welfare Systems.

¹⁰⁴ Khundadze, T. Expert Interview. 16 March 2022 [Conducted in Georgian, translated by Author].

Unemployment Rates 1998-2010

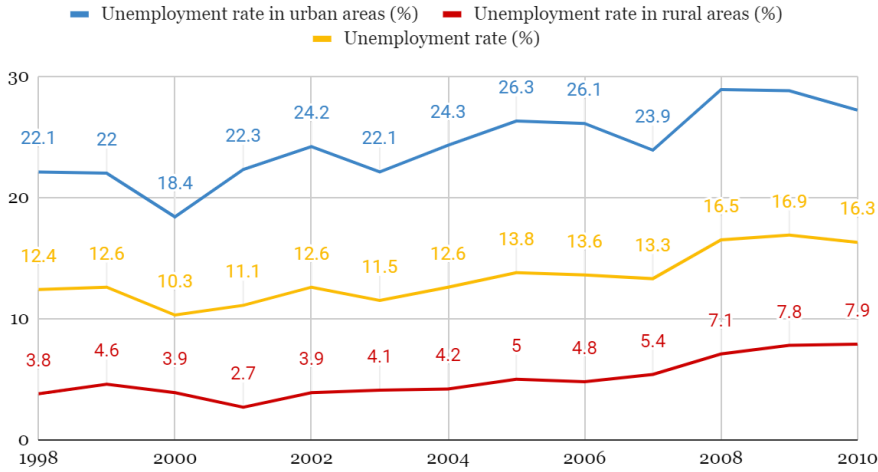
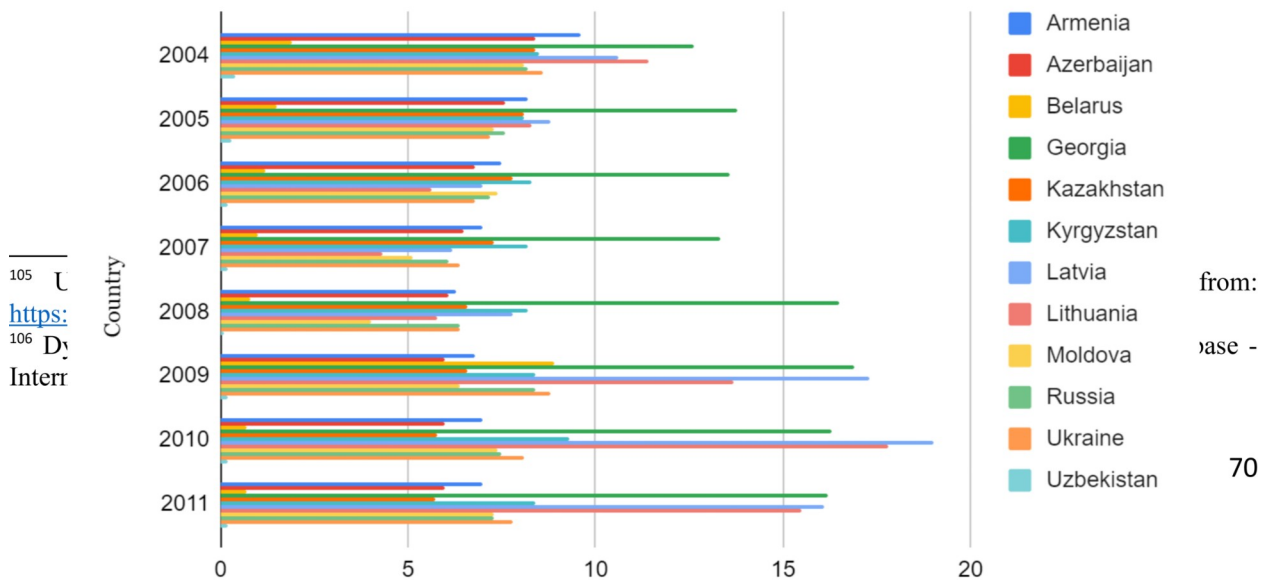


Figure 9: National Statistics Office of Georgia – Unemployment Rates (%)

Unemployment is the most important social problem, which is caused mainly by the underdevelopment of small and medium-sized businesses and the low proportion of hired workers in the entire workforce. The risk of families falling below the poverty line increases with the number of unemployed members. The official unemployment rate increased from 12.6% in 2003 to 16.3% in 2010. This indicator does not include the majority of the population residing in rural areas, whose family farms hold at least one hectare of land. The official unemployment rate in the capital alone is 30% (see Figure 9).¹⁰⁵

Compared to other post-Soviet countries, the level of unemployment in Georgia is one of the highest (see Figure 10).¹⁰⁶ If we consider that the majority of Georgia's workforce is comprised of

Dynamics of unemployment level in post-Soviet countries (%)



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self-employed population in their own households in agriculture, with low labor productivity and, in fact, underemployment, the real picture becomes even more unsettling, especially in comparison with other post-Soviet republics. It should also be noted that Georgia ranks first in the post-Soviet space in terms of the share of self-employed people.

Figure 10: International Monetary Fund – World Economic Outlook

According to official data, a large share of the unemployed population between the ages of 15 and 50 is concentrated in cities. In comparison to rural areas, the unemployment rate in cities is around four times greater.

Additionally, self-employment in rural regions is a sign of low levels of welfare as well as unemployment. The rate of self-employment among the active population in the mountainous area is 70%, which is higher than the national average of 51.7%.

The level of poverty and unemployment in Georgian regions are negatively correlated: the lower the unemployment rate, the higher the proportion of families living below the poverty line in these areas, and vice versa.

Only 31.3 % of all employed persons reside in rural regions. To put it another way, the number of individuals employed in rural regions is 3.4 times smaller than in cities. In rural regions, the number of individuals employed in the non-state sector is 3.1 times lower than in metropolitan areas. This indicates underdevelopment of business activity and insufficient investment activity in rural areas.

Furthermore, the share of unemployed people with higher education is considerably high, accounting for more than one-third of the total.

Long-term (three or more years) unemployment is prevalent in Georgia, accounting for more than half of the total. It should also be highlighted that this figure is relatively low among young individuals who find job but only for a short period of time, indicating the labor market's rapidly changing nature and tension of the labor market..

The duration of unemployment lasts more than one year in 2/3 of the cases. This problem is more acute in urban centers than in rural areas. For every 1,000 people, the number of unemployed under 1 year in urban areas is 4.9 times higher than in rural areas, the number of unemployed for

1-3 years is 5.1 times, and the number of unemployed for more than 3 years in urban areas is 7.2 times higher than the number of unemployed in rural areas.

Additionally, while comparing the employment rates according to Economic Activity, it might be argued that hired employees in Georgia could not become the driving force of the economy. Their share in the total number of employees decreased from 41.9% (1998) to 37.9% (2010), while the share of the self-employed increased from 57.1% to 61.9% in the same years.

Structure of employees according to economic activity



Figure 11: National Statistics Office of Georgia – Structure of Employees According to Economic Activity

Moreover, substantial changes in the economy, on average, indicate changes in the flow of employees across sectors and, as a result, in the dynamics of the percentage of employees in the economy's sectors. Significant developments in this respect have not been recorded in Georgia in recent years (see Figure 11).¹⁰⁷ More than half of those engaged in agriculture have remained constant over the years. The total employment in the industry fluctuates between 10% and 20%. The percentage of employees in the service sector is marginally dropping from 40%, mainly at the expense of the increase in the share of agriculture.

As Khundadze mentioned during the interview:

¹⁰⁷ Structure of Employees According to Economic Activity – Georgia (1998-2011); National Statistics Office of Georgia. Retrieved from: <https://www.geostat.ge/en>

“Agriculture has the lowest revenue, according to data from the Statistics Service. Furthermore, agriculture is the least productive sector, accounting for only 8% of the total economy. This is due to the fact that around 50% of agricultural laborers are self-employed. The neoliberal approach has failed to address social issues such as unemployment, poverty, and inequality.”¹⁰⁸

Distribution of Employment among Sectors of the Economy in Georgia (%)

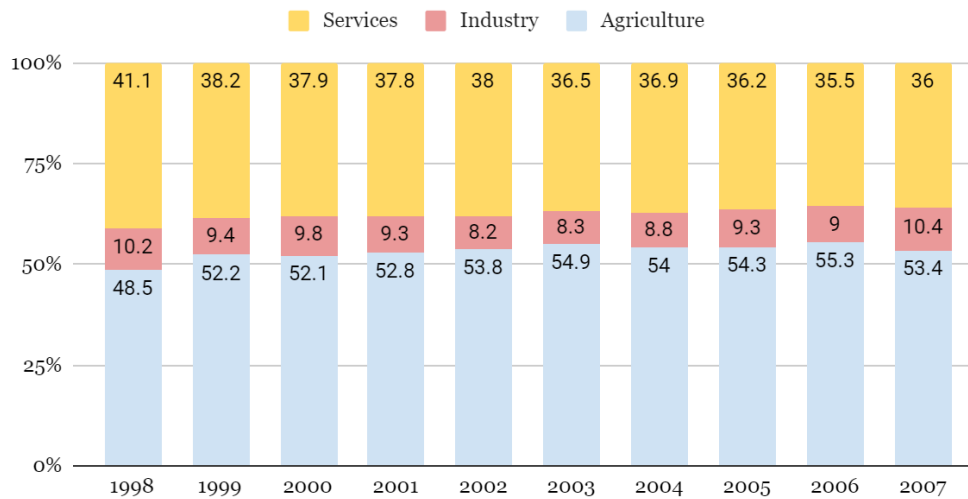


Figure 12: National Statistics Office of Georgia – Distribution of Employment among Sectors of the Economy in Georgia 1998-2009

From the critical neoliberal perspective, the flexible labor market and accelerated market liberalization promoted by the UNM government in reality did not succeed in overcoming unemployment. This is demonstrated by the increasing trend of unemployment from 12.6% in 2003 to 16.3% in 2010 (see figure 12).¹⁰⁹

Inequality and poverty

As described in previous chapters *Populist* rhetoric of the political elite was instrumentalizing the needs of the most vulnerable members of society to gain public support. Amid neoliberal reforms, manipulation with social economic agenda manifested itself with a strong emphasis on poverty alleviation. In order to address the outlined RQ1, this subchapter will demonstrate How

¹⁰⁸ Khundadze T. Expert Interview. 16 March 2022 [Conducted in Georgian, translated by Author]

¹⁰⁹ Distribution of Employment among Sectors of the Economy in Georgia, 1998-2009; National Statistics Office of Georgia. Retrieved from: <https://www.geostat.ge/en>

Neoliberal theoretical premises deviate from the materialized outcomes with the linkages of poverty eradication and social inequality.

The changing patterns of actual social inequality can be revealed by observing the Gini Index of the work bank reports from 2003-2012 (see Figure 13).¹¹⁰

Gini Index Georgia 2003-2012

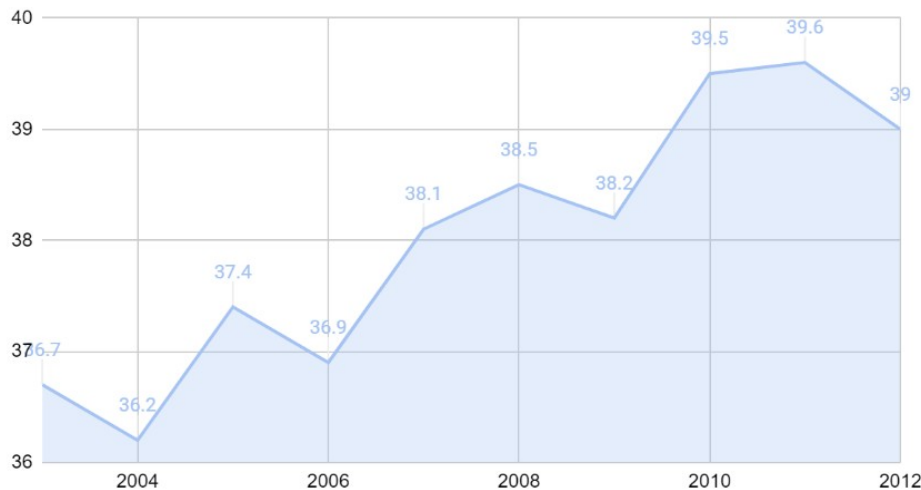


Figure 13: World Bank – Gini Index Georgia 2003-2012

Based on the figures provided, it is possible to conclude that the distribution of income in Georgia deviated significantly from the theoretical premises proclaimed by the UNM administration. A constant increase trend can be observed from 2003 to 2012. If the index was 36.2 % in 2004, it approached the maximum point at 39.6 % towards the end of 2011. This comes to say that the neoliberal premises of the Georgian government with regard to poverty alleviation exposed itself in rising social inequality.

With regard to poverty, since 2006, the government has eliminated all unemployment benefits and merged social protection and employment programs with a tailored assistance system for the most vulnerable.

¹¹⁰ Gini Index Georgia, 2003-2012; World Bank. Retrieved from: <https://data.worldbank.org/indicator/SI.POV.GINI?end=2012&locations=GE&start=2003&view=chart>

There are several indicators of the level of poverty. According to statistical data in 2002, 52% of the population lived below the poverty line. From 2004, the State Statistics Service has adjusted the living wage and with a new calculation methodology, reduced the value of the consumer basket by almost a third, as a result of which the poverty level statistically decreased significantly, and in 2004 the rate dropped from 52% to 35.7% (see Figure 14).¹¹¹

Figure 14: National Statistics Office of Georgia - Poverty Rates

Poverty Rates	2000	2001	2002	2003	2004	2005	2006
The level	51.8	51.1	52.1	54.5	35.7	39.4	38.5
The depth	20.2	19.3	19.8	12.1	12.2	13.5	13.4
The intensity	10.7	9.9	10.3	11.2	6.1	6.6	6.7

Additionally, it should be highlighted that before 2006 poverty was measured in terms of its intensity, depth, and level. Since 2007, these figures have not been published.

According to Papava during the interview:

“The revolutionary government decreased poverty by 17 percent through methodological speculation, but when everything was measured again in 2005, it was discovered that even with the new calculating methodology they established, the poverty line was increased to 39%. After 2006, this data was not published at all; nevertheless, using the new methodology they created, the poverty line jumped to 42 percent in the year after 2006. Mikheil Saakashvili's statement in the summer of 2007 that Georgia's poverty threshold had dropped to 28 percent was surprising.”¹¹²

An increasing trend can be observed in terms of the population below the poverty line (see Figure 15).¹¹³ The Social Services Agency maintains data on the population living below the

¹¹¹ Poverty Rates, 2000-2006; National Statistics Office of Georgia. Retrieved from. Retrieved from: <https://www.geostat.ge/en>

¹¹² Papava V, Expert interview. 3 January 2022 [Conducted in Georgian, translated by Author]

¹¹³ Population Below the Poverty Line, 2007-2010; National Statistics Office of Georgia. Retrieved from: <https://www.geostat.ge/en>

poverty line, which is based on the number of beneficiaries receiving subsistence allowance and their fraction of the overall population. Based on this indicator, the poverty level in Georgia is 9-10%, according to 2010 data. However, far more people in Georgia consider themselves to be poor than what is measured by the state. This is proven by the fact that, as of January 2012, 1,639,264 persons (511,060 families), or 36.7 % of Georgia's population, were registered based on applications submitted to the database of socially disadvantaged people. Only 9% of them received aid based on the Social Assistance Agency's poverty assessment standards. As a result, the poverty rate might be three times greater than the number of the population the state aided.

Figure 15: National Statistics Office of Georgia – Population Below the poverty line

Population Below the Poverty line	2007	2008	2009	2010
Population receiving subsistence allowance	279,474	368,431	436,309	430,603
Share with an average annual population (%)	6.4	8.4	9.9	9.7

In 2009, the Social Service Agency served 2.5 million people and provided monthly cash assistance to 1.8 million people. In addition, 539,000 families were registered in its database. According to these indicators, in 2009, approximately half of the population of Georgia belongs to the poor.

Similarly, high rates of the proportion of the population below the international poverty line are observed in the statistical data from the world bank in the case of Georgia (see figure 16).¹¹⁴

¹¹⁴ Population Below the International Poverty Line, 2004-2012; World Bank. Retrieved from: <https://data.worldbank.org/indicator/SH.UHC.NOP1.ZS?locations=GE>

Proportion of Population Below International Poverty Line (%)

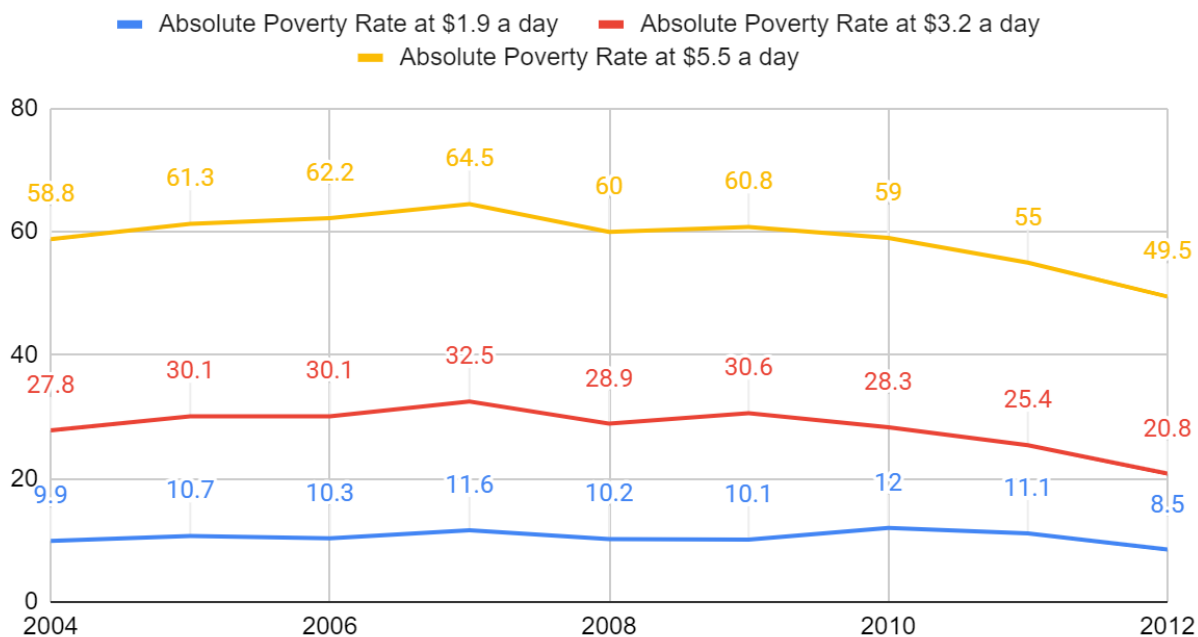


Figure 16: World Bank - Proportion of Population below International Poverty Line (%)

This once again indicates that neoliberal premises in terms of poverty reduction strongly deviated from materialized outcomes and the country's high proportion of poverty remained a major impediment to equitable growth.

According to Adeishvili during the interview:

“Although the economic growth was quite impressive in the initial stage of the reformation, it did not improve the social conditions, that growth mainly affected only some individuals, a tiny fraction of the population, and the majority remained impoverished since social security mechanisms were not developed.”¹¹⁵

Political Discourse Analysis

¹¹⁵ Adeishvili, D. Expert Interview. 1 February 2022 [Conducted in Georgian, translated by Author].

To address my outlined RQ2, it is necessary to analyze how the neoliberal reforms were legitimized in the background of severe socio-economic conditions. It can be demonstrated by investigating the political speeches of Saakashvili and Bendukidze as the main architects of the Georgian neoliberal project. I drew the political discourse analysis on 45 speeches and over 100 pages of statements. Political manipulation will be observed by employing specific manipulative tools: 1. Numbers and statistics 2. Abstract words and concepts 3. Repetition 4. Overloading the object 5. Concentration on the demands of society 6. Collective symbol.

By studying two different political speeches of the same socio-political setting, common patterns of discursive manipulation in the post-revolutionary period will be easier to identify. As I have stated in the conceptual framework.

I will try to reveal the neoliberal identity of the Georgian political elite through the analysis of political texts. As outlined in the conceptual framework I will mainly focus on specific concepts: “Liberalization”, “deregulation”, “privatization”, “limited government”, “free market”, “individualism” and so on. I will present the main findings and address RQ2 in the section of conclusion.

President Mikheil Saakashvili and his political discourse

I will start the analysis of Saakashvili's political discourse from the post-revolutionary period. He addressed the serious corruption and impunity that occurred throughout Shevardnadze's tenure in a discussion with the media after his inauguration in 2004.

Interestingly, corruption is viewed as a source of social inequality and injustice:

“Money and power are in the hands of a few elite groups; They steal millions from the poorest communities and at the same time they are not punished because they have authority”¹¹⁶

According to Saakashvili, poverty should be overcome by combating corruption and corrupt elites. Both poverty and corrupt people are labeled as enemies.

¹¹⁶ Saakashvili, M. (2004) Inaugural speech of the President of Georgia Mikheil Saakashvili, January 25, 2004, M. Matsaberidze (ed.), Inaugural Speeches of the President of Georgia (1991-2004), Institute of Political Science, Tbilisi. [translated by Author]socio-political

*"At this point, any corrupt official, in my opinion, is a traitor to national interests. My main enemy is poverty, poverty is an insult to the Georgian nation."*¹¹⁷

He employs a manipulative strategy of collective symbol to create the image of the common enemy while also drawing attention to sensitive problems for the people. The aforementioned statement is populist in character while also attempting to discredit the previous government.

The referenced statement is particularly notable as openly suggests that poverty and social exclusion may be tackled through the elimination of corruption and market liberalization rather than the provision of a welfare state. He affirms that the most efficient way to eliminate corruption is the establishment of an attractive investment and business environment.

At the same time, Saakashvili's rhetoric becomes increasingly anti-imperialist (anti-Russian), military, and threatening. In a speech at the National Academy's graduation in 2004, he threatened that Georgia would brutally strike and destroy any opponents who came to interfere with Georgia's autonomous course and development.

*"We will brutally destroy everyone who enters Georgia with a sword and a gun... Our adversary is any external force that may invade Georgia to prevent Georgia from joining NATO, or from developing economically..."*¹¹⁸

Therefore, we may infer that the enemy is Russia, an empire willing to hinder Georgia's independence and integration into the "European family," and at the same time, an enemy is everyone who opposes economic growth, which entails blind devotion to the neoliberal regime.

Consequently, with the Rose Revolution, which deposed Shevardnadze, Georgia gains a strong European identity through Saakashvili's discourse.

The anti-Russian, anti-Soviet, anti-socialist, and overtly Western identity of Saakashvili's political regime is a key pillar of the neoliberal administration's legitimacy.

According to UNM discourse, democratic values, economic progress and modernization of the country can only be achieved by moving toward the West.

¹¹⁷ Saakashvili, M. (2004); Mikheil Saakashvili's press conference, (DVD A10-592), Georgian Public Broadcasting Archive, Tbilisi. [Translated by Author]

¹¹⁸ Mikheil Saakashvili (2004); Mikheil Saakashvili's press conference, (DVD A10-592), Georgian Public Broadcasting Archive, Tbilisi. [Translated by Author]

Since 2004, Saakashvili has been establishing close ties with the United States of America. At the joint press conference of Saakashvili and Bush, Saakashvili spoke about the fact that after the Rose Revolution, Georgia's closest friend and supporter is the United States. The partnership between Georgia and the USA is important because *“here we are talking about sharing freedoms, sharing principles of democracy and establishing values.”*¹¹⁹

The partnership with America is linked to the liberalization and deregulation of the market, which is recognized as a guarantee of achieving sustainable economic growth.

As Lazur outlined during the interview, not only did western institutions legitimize neoliberal reforms in Georgia but also created the regime.

*“US-dominated economic (IMF and World Bank) or intellectual institutions created Georgian Neoliberal project, to illustrate the successful story of transformation. ‘ as a country being reborn as an exciting democracy”*¹²⁰

To address my outlined research question, it is necessary to analyze how the neoliberal reforms were legitimized in the background of severe socio-economic conditions. It can be demonstrated by investigating his political speeches about labor market liberalization.

*“For the liberalization of the economy, it is also necessary to create a liberal labor code. Not a single large investor will enter a country where all the details of labor relations are regulated only by law and where the employed personnel do not have the flexibility to create and agree on the working conditions themselves.”*¹²¹

This is another example of political manipulation where he deliberately tries to influence society to achieve his pre-determined goal of accelerated liberalization. Although radical liberalization of the labor code only worsens workers' conditions, Saakashvili convinces the public that this is the only way for the country's economic progress, which is certainly not the case.

his political rhetoric is quite controversial and in some cases paradoxical, in 2004 in one of his interviews he declared:

¹¹⁹ Saakashvili, M. (2005); George Bush in Georgia (DVD C4-164). Archive of the Georgian Public Broadcaster, Tbilisi. [Translated by Author]

¹²⁰ Lazurs, J. Expert Interview. 20 July (2022). [Conducted in English]

¹²¹ Saakashvili, M. (2004) Parade May 26, Independence Day; (DVC F8-15); Archive of the Georgian Public Broadcaster, Tbilisi.

*“Our development formula is to achieve political freedom for the state and economic freedom and equality of opportunities for citizens. For Georgians, freedom is private property and its power, because private property is a key driving force, along with the common values of society.”*¹²²

Based on the mentioned statement, the discourse of economic freedom and equal opportunities can be observed at the theoretical level, however, in the empirical part, in the process of analyzing the reforms, it is clearly evident that the liberalization of the economy was achieved at the expense of increased social exclusion and inequalities.

Saakashvili frequently employs the manipulative tool "numbers and data" in his political discourse; one example is his use of international economic ratings in public speeches, which served as a significant source of legitimacy for neoliberal policies both domestically and internationally.

*“In terms of economic reforms aimed at strengthening the business climate, Georgia is ranked second among the 12 best reformers by the International Finance Corporation, while the Heritage Foundation supports Georgia in 28 stages and primarily places it among nations with a free economy.”*¹²³

While adopting this manipulative strategy, the listener is unable to immediately verify the accuracy of the manipulator's data and is forced to accept the information as presented. The same pattern can be observed in his political statements from 2005.

*“International financial institutions - the IMF, World Bank, and other donor organizations - acknowledged 2005 as Georgia's most successful year based on financial indicators and remarked that the country has good prospects since the government is successfully implementing the initiated reforms.”*¹²⁴

On February 14, 2006, when presenting the annual report at the parliamentary session, he again employs the manipulative technique of numbers and statistics:

¹²² Ibid.

¹²³ Saakashvili, M. (2004) Mikheil Saakashvili's press conference (DVC E4-168). Archive of the Georgian Public Broadcaster, Tbilisi. [Translated by Author]

¹²⁴ Saakashvili, M. (2005); George Bush in Georgia (DVD C4-164). Archive of the Georgian Public Broadcaster, Tbilisi. [Translated by Author]

*“In the most authoritative economic magazine "The Economist", according to the forecast of the growth rate of the economy in 2006, Georgia takes the third place, and among the non-oil-producing countries, it takes the first place.”*¹²⁵

Populist manipulative rhetoric is still evident in the appeal of the previous election campaign of 2007, which is aimed at gaining the support of the most vulnerable strata of society. Despite the fact that Saakashvili's government's neoliberal policies had the greatest impact on this socioeconomic strata, Saakashvili continued to manipulate over the masses to gain the public support.

“I need these people's [socially vulnerable strata's] support because my presidency [for the second term] is dedicated to you,” Saakashvili added.¹²⁶

*“I want all of you who are in trouble today to believe in me and have faith that I will lead you to peace and that the reforms I initiated will result in the defeat of your poverty and hardship.”*¹²⁷

The global financial crisis and the August conflict hampered Georgia's socioeconomic progress after 2008. Saakashvili's speech has centered on social concerns at the level of political discourse since this time. This is demonstrated by the United National Movement's populist government program "United Georgia without Poverty."

The program's primary objectives were the elimination of poverty, national security, and full territorial and civil reintegration.

In his political statements, Saakashvili, particularly during this period, employs manipulative techniques such as a focus on societal expectations. Although Georgia's economic growth strategy was founded on neoliberal ideology, his rhetoric during the crisis was populist.

His populist and delusional political language is fairly evident in this 2008 statement:

¹²⁵ Annual Report of the President of Georgia Mikheil Saakashvili on the Spring Session of the Parliament February 14 (2006) retrieved from : <https://www.president.gov.ge/Files/ShowFiles?id=5ed7df63-6ef7-40a8-8022-8677f0eccc89> [Translated by Author]

¹²⁶Zhgenti, N. (2012) "Saakashvili's False Promises." Retrieved from : <https://for.ge/view/14328/saakaSvilis-cru-dapirebebi.html> [Translated by Author].

¹²⁷ Ibid.

“Today, I announce that our initiative "Georgia without Poverty" will begin immediately, and we will have tangible results in exactly 50 days.”^{128/129}

As Muskhelishvili mentioned during the interview Saakashvili quite often used to manipulate with political agenda.

*“If at first democracy and fighting corruption were significant, then market liberalization and Euro integration was the priority, and following the world crisis and august war in 2008, manipulation begins by bringing social problems to the fore.”*¹³⁰

Saakashvili stated at the 2008 inauguration ceremony:

*“We were able to open the society, liberalize the economy, eliminate corruption and criminal mentality, brighten the darkened country, create opportunities for realizing people's abilities and talents, attract large amounts of investment, and create new jobs. Where formerly there was only poverty and sadness, new opportunities have emerged.”*¹³¹

Despite the fact that the trends in unemployment growth have been observed on a practical level, Saakashvili effectively employs the manipulation tactic "overloading the object" to overwhelm the audience with information and mislead the public that implemented reforms have resulted in the creation of numerous jobs.

As Zhorzholiani mentioned during the interview:

“The main arguments for the legitimation of neoliberal reforms were based on two premises: First, it was a prerequisite for democratization because democracy requires the concept of freedom to be strengthened, and the principle of freedom materializes itself under the conditions of a free economic regime. The second argument was based on the idea that an efficient

¹²⁸ Saakashvili, M. (2008). Rally on Rustaveli Avenue (DVC E3-228). Archive of the Georgian Public Broadcaster, Tbilisi. [Translated by Author].

¹²⁹ Laskhi, I., et al. (2008). “Analysis of the ‘50-Day Program of the Government of Georgia’”. Tbilisi: Open Society Georgia Foundation, p. 43.

¹³⁰ Muskhelishvili, M. Expert interview. 26 January 2022. [Conducted in Georgian, translated by Author]

¹³¹ Saakashvili M. (2008). Mikheil Saakashvili's inaugural speech. Retrieved from: <https://www.president.gov.ge/en/SinglePage/LoadSinglePageContent?menuId=255>

economy can operate only in the conditions of deregulation, liberalization, and derivatization."¹³²

He frequently employed the manipulative technique of "repetition," particularly during the crisis period, when he used to concentrate on the challenges that were relevant in the post-revolutionary period.

"Up until now, our objective has been to build a Georgia free from corruption, anarchy, and criminals." Our new objective is to create a Georgia free of poverty."¹³³

Georgia without poverty is a discourse that was constantly repeated on a theoretical level, however, political actions and economic policies were incompatible with theoretical premises.

[Kakha Bendukidze and his Political discourse](#)

Mikheil Saakashvili's discourse is complemented by businessman Kakha Bendukidze, who has a leading role in implementing UNM's economic reforms. From 2004 until 2008, he served as Minister of Economy and later as Minister of Reform Coordination. In June 2004, upon his arrival in Georgia to take up his new position as Minister of Economy, he famously declared:

*"It doesn't matter who buys the state enterprises - Russian, American, or another businessman. The main goal is to get as much money as possible from the privatization of these facilities.... We will sell everything, except our conscience."*¹³⁴

Kakha Bendukidze's discourse incorporates more explicit neoliberal features compared to Saakashvili's, which is why he has frequently been the target of societal criticism.

He was the main protagonist of the massive privatization of state assets, the elimination of bureaucracy, the abolition or large downsizing of government agencies, and the implementation of Georgia's ultra-liberal labor laws and low taxes. Despite the internal social resistance and

¹³² Zhorzholiani, G. 4 February (2022). [Conducted in Georgian, translated by Author].

¹³³ Ibid.

¹³⁴ Jones, S. (2015); Kakha Bendukidze and Georgia's failed experiment; Open Democracy free thinking for the world.

severe socio-economic situation, the reformation was supported by western dominated international institutions. these initiatives were significantly responsible for the significant increase of FDI in Georgia in 2007 and 2008.

Kakha Bendukidze's discourse, like Saakashvili's, is strongly anti-Soviet and anti-Russian. In political statements and personal blogs, he often refers to the legacy of the Soviet Union and Russia as harmful and hostile events. For example, in one of his blogs, "Soviet influence on the economy of Georgia", he discusses a phenomenon known as "Soviet thinking," which he believes is false, absurd, and irrational. He cites one of the Georgian factories as a prominent example of "Soviet thinking". "Planned unprofitable enterprise", which turned out to be incomprehensible to a business magnate based in the West.

His rhetoric demonstrates radical individualism and autonomy, which can be achieved by distancing oneself from the legacy of the Soviet Union.

In 2004 during one interview he declared:

*“Any economic policy should have maximum deregulation of the economy as its priority. In Georgia, this should take the form of ultra-liberalism, since if Georgia wants to build a normal country, its economy has to grow at very high rates.”*¹³⁵

In Bendukidze's discourse, state building is linked to his defined economic good (market economy), which is fundamentally opposed to economic evil (planned economy, socialism). Accordingly, Bendukidze's neoliberal identity is strongly economic in origin.

For example, in one of his blogs, he calls socialism a "disease," and claims that it is a major contributor to the impoverishment of developing countries. "I want to tell you the story of how monetary freedom was achieved in Georgia. It was the struggle of Russia with Georgia, the struggle of the state sector with the private sector, the struggle of restrictions and coercion with freedom." Therefore, Russia and the state sector are evil, and Georgia and the private sector are good.

¹³⁵ Eradze, I. (2021) “State, Capital and New Antagonism”; Heinrich Boll Stiftung South Caucasus Region, Tbilisi. Retrieved from: <https://ge.boell.org/en/2021/12/13/state-capital-and-new-antagonism>

In another blog, Bendukidze offers a formulation of Georgia's economic strategy in opposition to the desires of the adversary (Russia), which is rhetorically articulated as follows:

*"Our enemy wants us to spend more money, increase taxes, take on debts. what should we do?"*¹³⁶

Based on this rhetoric he adds an economic aspect to the Georgian nation-state project, stating that economic coexistence - trade and exchange - should be the foundation of nation/state formation. In his discourse international trade and globalization are observed quite often, however, he believes that Georgians primarily need "internal globalization" to learn how to trade with one another.

According to Bendukidze, economic interests and rational calculations will unify the country rather than a shared language, culture, or family. As a result, the nation's strength and integrity will be dependent on individual interests rather than a sense of collectivism for solidarity.

During a political debate on "Georgia's transformation into a modern market democracy" in 2008, Kakha Bendukidze clearly stated that the government's objective was unilateral liberalization, intensive deregulation, and massive deprivatization.

*"we don't wait for bilateral and multilateral agreements – we unilaterally open our country"*¹³⁷

As a result, we can observe in Bendukidze's rhetoric the nation's new identity is being constructed in line with pro-Western, neoliberal ideals. Bendukidze opposes the Soviet Union and Russia, but embraces the West as it is manifested in liberal principles.

Pro-Western nationalism is more apparent in Bendukidze's discourse than in Saakashvili's, since Bendukidze prioritizes economic efficiency and cultural values above territorial integrity and military aggression. According to Bendukidze, the Soviet Union and Russia are irrational, absurd, ridiculous, and "unprofitable," but Western principles are associated with freedom, progress and economic prosperity.

¹³⁶ Bendukidze, K. (2010) "Russian Horse" Tabula, Tbilisi. [Translated by the author] Retrieved from: <https://tabula.ge/ge/news/659115-rusuli-tskheni>

¹³⁷ CATO Institute (2008) "Georgia's Transformation into a Modern Market Democracy"; Policy Forum. Retrieved From : <https://www.cato.org/events/georgias-transformation-modern-market-democracy>

To conclude, Bendukidze's aggressive privatization, massive deregulation, and liberalization policies were based on a belief in universal economic principles and unwavering faith in the free market economy.¹³⁸ According to Jones, the core of Georgia's neoliberal change was a "*mental revolution*" that sought to marketize every aspect of human life. As a result, some critics refer to him as a "*utopian engineer*."

After evaluating Kakha Bendukidze's deceptive discourses, it might be claimed that he was promoting neoliberal policies that were controversial by the nature and unproductive for the majority of the population, impeding democratic progress.

They were false because of unrealistic goals (the eradication of poverty) and the method by which the UNM administration and western economists judged the achievement of radical changes. This is a recurring pattern in the post-colonial globe, according to Jones, as Western countries impose universal economic blueprints with little consideration for local context and social capabilities. "*The premise behind western democratization in post-communist states is that economic liberalization is necessary, even if it increases inequalities.*"¹³⁹

In terms of manipulative tools, unlike Saakashvili, his political statements or personal blogs are less popular; yet, his candor was typical. He openly favored the complete neo-liberalization of Georgia's political and economic spheres. Bendukidze's most commonly used manipulative tactic is the abstract phrases "wealth," "money," "sell," "freedom," "individualism," "privatization," "deregulation," and "liberalization."

¹³⁸ European Stability Initiative (2010) "Georgia's Libertarian Revolution, Part Three: Jacobins in Tbilisi".

¹³⁹ Ibid.

Conclusion

The aim of this paper was to investigate how the Georgian case of Neoliberal transition manifested itself from 2003-2012. After introducing literature review, analytical framework, and methodology, in order to address my RQ1 I attempted to shed the light on neoliberal premises which were manifested in official governmental documents from 2003-2012, in the subsequent I explored the materialized outcomes to check the compatibility of neoliberal theory and practice with regard to social equality, poverty elimination, and employment.

The concept of economic development based on governmental theoretical assumptions entailed not only a purely macroeconomic phenomenon of economic growth, but it was essentially incorporating social dimensions with a strong emphasis on poverty reduction, job creation and equitable growth. After investigating the neoliberal premises of the UNM government and actual outcomes we may draw a conclusion and address outlined RQ1.

RQ1 - *How Neoliberal theoretical premises deviate from the materialized outcomes? (with the linkages of poverty alleviation, social inequality, and employment)*

According to the neoliberal premises, market liberalization, deregulation and the creation of an attractive environment for investments would promote job creation. However, empirical analysis demonstrates the increase in the scale of investments was not positively correlated with job creation. Moreover, presented statistical data demonstrated that the level of unemployment was increasing steadily. This entails not only the dynamics of the employment rate but also the structure of employment, labor productivity, and sectoral and geographical distributions. Unemployment was one of the most important social problems, which was caused mainly by the underdevelopment of small and medium-sized businesses and the low proportion of hired workers in the entire workforce

Moreover, As described in previous chapters Populist rhetoric of the political elite was instrumentalizing the needs of the most vulnerable members of society to gain public support. Amid neoliberal reforms, manipulation with social economic agenda manifested itself with a strong emphasis on poverty alleviation.

Based on the figures provided in the empirical part, it is possible to conclude that the distribution of income in Georgia deviated significantly from the theoretical premises proclaimed by the UNM administration.

Poverty rates were strongly influenced by the fact that agriculture employs half of the Georgian population and labor force, and the neoliberal economic policies did not envision any form of sectoral policy in the agricultural sphere and entrusted its development entirely to the market. In turn, the market was in close touch with the agriculture sectors of other countries, where sectoral, including intervention policies, are implemented on a large scale. As a result, Georgia's agriculture sector's competitiveness has deteriorated more, and output has plummeted. Poverty, particularly in the areas, remained the most critical concern. An economic policy that fails to generate opportunities for the growth of a sector in which a majority of the population is involved has been notably socially ineffective.

Following the challenging socioeconomic background and crisis political events of 2007, social concerns have been brought to the fore in government plans and announcements, social expenditures from the budget have increased, and the emphasis has shifted to employment and agriculture. However, the government's premises on agriculture and employment in documents and announcements was not expressed in the implementation of systematic and long-term initiatives.

High rates of the proportion of the population below the international poverty line are also observed. This once again indicates that neoliberal premises in terms of poverty reduction strongly deviated from materialized outcomes and the country's high proportion of poverty remained a major impediment to equitable growth.

Finally, the changing patterns of actual social inequality can be revealed by observing the Gini Index of the work bank reports from 2003-2012. Based on the figures provided, it is possible to conclude that the distribution of income in Georgia deviated significantly from the theoretical premises proclaimed by the UNM administration. A constant increase trend can be observed from 2003 to 2012. If the index was 36.2 % in 2004, it approached the maximum point at 39.6 % towards the end of 2011. that demonstrates that the neoliberal premises of the Georgian government with regard to poverty alleviation exposed itself in rising social inequality.

Although as described in a theoretical framework, in neoliberal theory, there is no strong emphasis on the social sphere, Georgian neoliberal premises strongly relied on poverty elevation, job creation, and equitable economic growth.

Georgian case of neoliberal transformation has been proven to be exceptional in a way that the actual outcomes with the linkages of socio-economic challenges, deviated not only from the premises declared by the government but at the same time from Neoliberal theory itself.

RQ2 – *How were the neoliberal reforms legitimized within the system by the political elite?*

In order to address the RQ2 I investigated how the neoliberal reforms were legitimized in the background of severe socio-economic conditions. For that reason, I examined the political speeches of Saakashvili and Bendukidze as the main architects of the Georgian neoliberal project. By studying two different political speeches of the same socio-political setting, common patterns of discursive manipulation in the post-revolutionary period was identified.

To sum up, although it is not explicitly emphasized anywhere that the country's economic transformation course was based on neoliberal ideology, the neoliberal identity of Saakashvili's and Bendukidze's discourses is manifested in specific concepts which both of them were using quite frequently. These concepts were: "deregulation", "privatization", "free market", "liberalization", "foreign direct investments", and "attractive business climate."

In terms of addressing outlined RQ2 it might be argued that both political actors were employing different manipulative tools to legitimate radical neoliberal reforms. Based on the analysis we may conclude that his major source of legitimation was based on:

- The support and close partnership with the US served as an important source of legitimization as a new western identity that was linked to democratic values, economic progress and modernization was against the Russian identity. New western identity also entailed strong emphasis on market liberalization and deregulation of the market.
- The success in terms of international ranking. That was reviled by employing manipulative tool "numbers and data" in his political discourse; his use of international economic ratings in public speeches, served as a significant source of legitimacy for neoliberal policies both domestically and internationally.

- Populist manipulative rhetoric. Despite the fact that Saakashvili's government's neoliberal policies had the greatest impact on this socioeconomic strata, Saakashvili continued to manipulate the masses to gain public support by giving false promises, which were controversial and paradoxical at the same time. An example of it is the emphasis on “United Georgia without Poverty.”

- Finally, by employing another manipulative technique “overwhelming the audience with information”, and misleading the public that implemented reforms have resulted in predetermined objectives. An example of it is the premise about job creation, amid increased unemployment Saakashvili was still able to legitimize neoliberal reforms by misleading the masses. another example of it is the strong emphasis on deregulation and accelerated liberalization. Presenting it as the only way for the country's economic progress, which is certainly not the case.

Appendix 1 – List of conducted interviews

The Expert Name and Surname	Format of the Interview	Date	Duration	Language
Vladimir Papava	Online In-depth semi-structured interview via "Microsoft Teams"	3 January 2022 12:30 CET	59 minutes	Georgian

Marina Muskhelishvili	Online In-depth semi-structured interview via "Microsoft Teams"	26 January 2022 10:00 CET	55 minutes	Georgian
Davit Adeishvili	Online In-depth semi-structured interview via "Microsoft Teams"	1 February 2022 09:30 CET	1 hour and 5 minutes	Georgian
Gia Zhorzholiani	Online In-depth semi-structured interview via "Microsoft Teams"	4 February 2022 14:00 CET	50 minutes	Georgian
Tato Khundadze	Online In-depth semi-structured interview via "Microsoft Teams"	16 March 2022 10:30 CET	60 minutes	Georgian
Aleksandre Tsagareli	Online In-depth semi-structured interview via "Microsoft Teams"	20 March 2022 09:00 CET	1 hour and 7 minutes	Georgian
Joel Lazarus	Online In-depth semi-structured interview via "Microsoft Teams"	20 July 2022 12:00 CET	53 minutes	English

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“For a unified and strong Georgia”. Adopted on 7 September 2007 under Zurab Noghaideli’s tenure.

“Government of Georgia for Employment and Welfare”. Adopted on 22 November 2007 under Vladimer Gurgendidze’s tenure.

“United Georgia without poverty”. Adopted on 2 July 2010 under Nika Gilauri’s tenure.

“United Georgia without poverty”. Adopted on 6 February 2009 under Nika Gilauri’s tenure.

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