

**Thursday, October 02, 2008**

**[The August Conflict | Economic Impact on Georgia?](#)**



Tbilisi radar, destroyed by a Russian missile

In Georgia, attention now turns towards sorting out the impact of the short August conflict. How plausible is the reporting we are seeing? Do the journalists get it right?

Here's one account by the New York Times, outlining some of the damage and the upcoming challenges.

September 28, 2008

## **War Left Georgia Economy Bruised, but Not Broken**

By DAN BILEFSKY

**TBILISI, Georgia** — During the recent war between Georgia and Russia, Russian soldiers broke into a tower housing Georgia's largest Internet provider and blew up its transmission equipment with hand grenades, shutting down television, phone and digital access for two million people across the country.

More than a month later, the company, Caucasus Online, is still struggling with the economic fallout. The company's managing director, Mamia Sanadiradze, said that having restored Internet access to clients at a cost of \$50 million, he now risks defaulting on plans to build a giant telecommunications network stretching to Western Europe.

The project was to be completed by October, but has been set back because

[Click here](#) for the complete article (access is free, but it will require you to register; we can make the article available to you directly as well).

Posted on an e-mail newsgroup focusing on Georgia, this NYT article quickly drew a response. Here is what (Dr.) George Welton, a consultant we have worked with extensively and who has done various research projects in Georgia, had to say:

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"This is sufficiently fishy to warrant comment. First, 'Caucasian Tiger' gimme a break. As far as I could tell before the war the economy was vastly overheating with an inflated property market and a banking sector expanding way too fast (is there any other city in the world with this many ATMs?) But more importantly, Georgia was still not really producing anything that the world wanted to buy. Two of its largest exports – manganese and copper – have increased their revenues dramatically largely because of the price of resources going up on world markets and agriculture has still not recovered from the Russian market closing (wine is now exporting at about 40% its pre-ban levels – not allowing for inflation). But now everything wrong with the Georgian economy is going to be blamed on the war.

That said, I think that the war damage melodrama is vastly unhelpful.

1/ I don't really buy this claim of \$50 million repair costs for Caucasus Online. Can anyone verify this happened? I know people who were emailing, texting and skyping throughout the war – and there are lots of reasons why a business might want to exaggerate its losses. I have a feeling a lot of Georgian businesses might find they had things hit by the Russians in coming weeks.

2/ The tourist season has been damaged but 'Russian tourists?!'. The Armenian tourists (who have to be the vast majority of the Georgian tourist market) will be back next year.

3/ There is no evidence that the fire outside of Borjomi National Park was started with incendiary bombs. The 950 hectares (just under 10 square kilometres) was almost entirely outside the park (the revised Gvt figures put 150 hectares in the park) and even if it had all been in the park, this is only slightly more than 1%. Borjomi did not 'burn'.

4/ The idea that the Russians targeted infrastructure or that they might in the future is completely unsupported by the evidence. One train bridge (right next to another train bridge which almost immediately replaced it) was destroyed. None of the key infrastructure (Inguri dam, the BTC pipeline, the ports etc) were damaged significantly.

5/ The banking system survived without banks closing their doors for a significant time and in spite of the fact that there was a war. This is remarkable and while I am sure it will continue to need support, I think this should be seen as a sign of the strength of the Georgian economy, not its weakness.

6/ One billion infrastructure losses?!? – I guess he must be talking about the military (which still seems a little implausible)

The reason why this matters is that where the article is right is that the key damage to this country is investor confidence. Foreign aid might get the Georgian budget through the next two years or so – but after that if investors don't start to come back then the country is really in trouble. And talking about the horrendous damage and huge risks that Russia poses to the country are not going to help that confidence return.