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A liberal developmental state in Georgia?

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Christian Timm*

Abstract

The article analyzes state dominance in Georgia's economy between 2003 and 2010 from the perspective of the (new) developmental state. The specific interlinkage of economic model, law and administration through which state interventions may generate market-enhancing effects provides the analytical framework for the examination of Georgia's institutional setting. The article argues that Georgia enjoyed favorable exogenous conditions for the emergence of a developmental state and was about to introduce a set of administrative features similar to developmental states. However, two factors significantly shaped state-economy relations different to developmental states. Firstly, Georgia opted for a radical anti-corruption-driven separation of state and economy and pursued, consequently, a strict Washington Consensus economic policy. In doing so, the government simultaneously abandoned effective formal instruments for the politically relevant steering of the distribution of economic advantages. This in turn increased the necessity for informal interventions in economic processes contradicting the chosen economic model. Secondly, the flexibility-approach of the government, which relied rather on capable managers than on structures and procedures, undermined the administrative reforms and prevented the emergence of an 'embedded autonomy' of the public service. The absence of a capable, institutional learning and autonomous administration must be seen as the major obstacle for the elaboration of appropriate strategies after 2008 when the government altered its neo-liberal approach towards state-managed capitalism. Although the government was able to steer private and public investments in the specific sectors by relying on its informal coercive power, the economic success of this economic policy, however, failed to appear. The article argues that the lack of an independent administration and the renunciation of means of formal coordination and of law in general are to be made responsible for this. In doing so, Georgian policy makers also waived the chance to reconcile their agenda of sustainable economic growth with the agenda of political power preservation. The study seeks to contribute to the question of institutional prerequisites for successful state interventions in Low- and Middle-Income Countries and, hence, to the growing literature on Post-Washington Consensus and New Developmentalism.

Singapore as a role model for development – An introduction

Within the last two decades, Singapore has made a tremendous career in becoming a prominent development model for post-communist leaders. The particular attractiveness to promote own reforms as following the Singaporean model derives from the country's success to create modern state structures and impressive economic growth while to a large extent preventing political liberalization. While some countries have started to copy from and collaborate with Singapore (Kazinform 2013),

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the ‘Singaporean model’ has mostly been used as a political cipher for the promise that a low-income country can become rich.

However, Singapore offers more to the region than a catchy label. In fact, it has become an epithet for the currently most urging challenge post-communist policy-makers are faced with: how to successfully reconcile a liberalized, global economy with state interventions. Given the rising state dominance in the post-communist region and willingness on part of the political elite to actively interfere in economic processes, Singapore provides us with a relevant framework to think about the conditions and administrative prerequisites to bring competition-based markets and state coordination together. The relevant analytical basis here is presented by the developmental state concept, which provides deep insight to the conditions of the economic success of Japan, South Korea or Singapore and to their capability to adapt to changing environmental circumstances. The currently rising literature on new developmental states (Trubek 2010, Wade 2010) in the light of the fading neoliberal paradigm deals in particular with the question how active state economic policy can be successful under the given global environmental conditions.

The present article applies this framework in order to examine Georgia’s economic policy and state-economy relations between 2003 and 2012. The period covered is characterized by the young, reform-oriented government of Mikheil Saakashvili, who, until 2011, named Singapore 35 times as a role model for Georgia’s development (Gabrichidze 2013). The article is structured as follows: part I analyzes Georgia with regard to exogenous factors that are positively correlated with the emergence of developmental states. Part II examines the public service reforms from the perspective of administrative autonomy as the core institutional prerequisite of developmental states. Part III illuminates state-business relations and the embeddedness of economic policy in Georgia, which provides the basis for the subsequent discussion in Part IV of the ability to enhance markets and competition, the role of law and formal institutions for development as well as the potential combination of a Washington Consensus environment and state coordination. It will be demonstrated in the paper that the developmental state concept provides an interesting framework to analyze state dominance and successful state intervention in the economy and will reveal that, despite favorable environmental conditions due to a series of specific policy decisions, Georgian policy-makers triggered the emergence of a highly contradictory institutional setting that proved ultimately responsible for the subsequent failure of the economic policy.

I "We wanted to be different" - Emergence conditions of a developmental state

Authors who take Mikheil Saakashvili by his words and do comparative analyses of Georgia and Singapore tend to apply a narrow analytical framework and come up with factors like geographic obstacles and territorial conflicts (Dumienski 2011) or differences in the political system (Shergelasvili and Khokrishvili 2012) as hindrances for Georgia repeating the Singaporean path of development. In doing so, they disregard the relevance of exogenous factors that may potentially stimulate Georgian policy makers to pursue a superior policy of economic development. As emphasized in the debate on East Asia, not primarily favorable conditions but internal and external constraints and difficult environmental factors have significantly influenced the emergence of developmental states (Doner *et al.* 2005).

Developmental states are characterized by a national development agenda and the capability of the state to coordinate its agents and various private actors towards this commonly shared development project (Wade 2010, p. 157). Developmental states features furthermore a constant process of discovery in which the state seeks to empower the private sector. Therefore, state policy does not aim at replacing, but at enhancing market functions by means of collaborative structures between the public and private sector that foster experimentation and revision (Trubek 2010, p. 10).

The existence of significant pressure on part of the population for improving living conditions has been recognized as a first internal constraint to policy makers and a primary internal stimulus for a national development agenda. Corresponding to many other post-soviet countries, public pressure on Georgia's policy makers was high. After the collapse of the Soviet Union, the region experienced massive economic decline, which in Georgia led to a poverty rate that continued to exist at a level of approx. 30% of the population until 2003 (World Bank 2013). However, state structures at the beginning of transition did not have the capacity to respond to this, as they were weak and in most cases captured by strong societal groups. Building and consolidating state structures, as Saakashvili managed to do after 2003 (Mitchell 2009, pp. 100–105), generated not only the capability for state acting, but also created a new addressee for popular pressure.

A second stimulus for policy makers to decide for a pro-growth policy has been identified in material constraints, more precisely in lacking natural resources (Doner *et al.* 2005, pp. 339–340; Stark 2012, p. 57). The idea is that decision makers who

cannot rely on the exploitation of natural resources are forced to generate income from broad-based economic growth to satisfy elite and populace needs. Georgia is sufficiently equipped with natural resources such as copper, ferrous metal, manganese and rare earths for ensuring the country's economic development and energy security (Tvalchrelidze et al. 2011, p. 66). Unlike other neighboring countries, however, Georgia lacks reserves of fossil hydrocarbon or other exploitable large-scale resources and, hence, needs to develop a broader base for income.

Finally, the existence of an external security threat to the country has been recognized as an important external constraint and stimulus for actively pursuing a pro-growth strategy. Some East-Asian countries perceived economic power as indispensable for guaranteeing its military security (Haggard 2004, p. 60; Woo-Cumings 1998, p. 322). The conflict with Russia had similar effects on Georgia's decision makers. The combination of a continued occupation of approximately 20% of Georgia's territory and the reinvigoration of the Georgian state led to an intensification of the conflict under Saakashvili (trade barriers, termination of diplomatic relations) and, finally, escalated in the August war of 2008. The constant threat posed by Russia's regional interests resulted in increased integration efforts into western security structures, as well as, domestically, in political consolidation: "Russia played a role as a danger outside the country, which tries to subordinate, to influence, to take this country. This danger also stimulated [the ruling party to think] that they are the only party that can conserve the independence of the state. In this sense there was an ambition [...] not to give the country to Russia." (Interview Gogolashvili 2012).

The re-establishment and strengthening of state structures in Georgia after 2003 under the conditionality of internal, material and not least external constraints contributed to the "revolutionary governance" (Bruckner 2009, p. 174) of the Saakashvili administration, which possessed the political will to make use of newly achieved state capacities to radically change the political and economic path of development characteristic of Russia and Georgia's own past. "We wanted to position ourselves not only economically healthy and open and liberal, but also as a good example of a free society and democracy. Especially in this region, Georgia has been a different example because Russia was telling other CIS countries which way we should live. This is the post-soviet destiny, so to say. So, this is the way to develop. […]We wanted to be different." (Interview Kovsiridze 2012).

The government was endowed with a robust mandate by the populace (Wheatley 2005) and the political will to change the inherited administrative system and state policies. Simultaneously, it was aware of the small windows of opportunity that was open until next elections (Interview Janashia 2010), which significantly contributed to the hastiness and revolutionariness of the reforms. According to the environmental factors, the possibility of establishing a developmental state in Georgia after 2003 must be assessed as generally positive. The question, for which policy the government used this window of opportunity and its reestablished state management capacity, will be examined hereafter.

II With New Public Management towards a developmental state bureacracy?

After coming to office, the Saakashvili government was able to restore state capacities for action by reestablishing the state monopoly on use of force and suppressing influential criminal networks (Slade 2013) as well as rigorously fighting corruption. Given the fact that Georgia was the 6th most corrupt country in the Corruption Perceptions Index in 2003 (Transparency International 2003), it is comprehensible that the administrative reforms were first and foremost driven by an anti-corruption agenda (World Bank 2012). Institutional and personnel streamlining, the simplification of administrative procedures and a consistent introduction of e-governance systems were meant to diminish interaction between administration and the private sector for the purpose of limiting opportunities of corruption (Engvall 2012, p. 7). Not least, the recruitment of young, western-educated employees was to contribute to a „mental revolution“ in the public service (The Economist 2010). The successful replacement of the corrupt, soviet-style bureaucracy with a modernized and efficient state administration was repeatedly awarded the UN Public Service Award (United Nations 2012, United Nations 2013) .

The central institutional prerequisite of a developmental state is the ‘embedded autonomy’ of the economic administration (Evans 1995, Evans 1998). Specific institutional arrangements shield the administration against pressure from various sides: organized societal interest groups (Pempel 1999, p. 160), rent-seeking efforts of entrepreneurs (Cheng *et al.* 1999, p. 88) as well as short-term, populist interest of politics (Haggard 2004, p. 60). Referring to this argument, (new) developmental states “depend upon capable and autonomous bureaucrats, such as those found at

the upper levels in China, which are capable of managing and coordinating sophisticated policies." (Wade 2010, p. 157)

Georgia conducted a civil service reform based on the New Public Management (NPM) approach (Dolidze 2007), which, compared with a Weberian type of bureaucracy, focuses on efficiency and output rather than on accuracy of execution (Hood 1996). The central idea of NPM is to decentralize decision-making processes and to grant the ministries and state agencies sufficient autonomy to elaborate own solutions for upcoming challenges. This approach was meant to foster institutional independence, competition between administrative units and experimental-incremental solution-seeking: As the former adviser to the Prime Minister argues: "When you centralize reforms, you get mediocre results everywhere […] You don't get very bad results, but you also don't get very good results because you are not experimenting and you are trying to just create a common denominator. When you do it in a decentralized manner, of course there is the risk of failures. But on the other hand, you have a chance of success. Then, when you have a role model, you can push all others to [match] that level." (Lejava cited by (Bennet 2011, p. 13).

This idea of autonomy and flexibility is one of the few where a neoliberal inspired public service approach that transfers organizational principles from the private sector to the administration meets a developmental state bureaucracy that also bases on the idea of autonomy and experimentation. However, in its interpretation of NPM, the Georgian government overemphasized the flexibility aspect of this approach at the expense of professionalism and, more importantly, at the expense of administrative independence; both aspects are needed for development policy to be successful in the long term.

The government organized the public sector as part of the liberalized labor market and subjected it to the principles of supply and demand (Turmanidze 2006, p. 4). In accordance with existing tasks, the administration was held to hire qualified employees temporarily and, thus, maintain flexibility to respond to changing needs. An estimated 70% of 86.000 state employees were working on a temporary contract basis in 2012 (Corso 2013). In fact, the introduction of a contract-based system undermined the central condition for a professional administration: skilled labor. Firstly, the market for skilled labor has been generally limited due to the relatively low level of education in Georgia. Secondly, the lack of professionalism within the administration was further increased, as employing young and motivated but

inexperienced cadres was preferred over hiring bureaucrats from the former regime (Bennet 2011, p. 7). Excellent, western-educated employees, thirdly, found the offered short-term contracts not overly attractive and often left the public service for more favorable conditions to the private sector: „Civil service contracts tended to last only a year or two and lacked the extended incentives of a career-based model. As professionals left to take higher-paying jobs in the private sector, their departure left many ministries without long-serving staffers who could help maintain consistency in policy directives and implementation." (Bennet 2011, p. 11). In addition, the basic idea of a contract-based administration of specialized professionals was lead ad absurdum when only permanent positions were awarded through an open competition (Corso 2013), which means that the majority of public servants was not selected on the basis of meritocratic principles. Temporarily limited contracts and a consequent high fluctuation of employees, as well as lacking meritocratic principles in hiring procedures stifled capacity-building and knowledge-accumulation within the public service as preconditions for institutional learning and rationality-based decision-making. Developmental states, instead, were aware of the importance of skilled labor and institutional learning and prevented such developments by a strict recruitment policy and attractive, long-term career models (Evans 1995, Evans 1998).

Georgia's emphasis on flexibility included also relying rather on persons than on structures and procedures. Although the government established semi-autonomous public bodies, such as the civil and public registries that were furnished with far-reaching competences regarding self-organization, an autonomous personnel policy as well as own sources of income by means of fees in order to independently provide public services (Urushadze 2011), the government dispensed with institutional arrangements that would have guaranteed genuine autonomy to these public bodies. Usually, NPM-organized agencies are headed by a chief executive officer and supervised by a board of directors, which ensures both autonomous decision-making and supervision. In Georgia, public agencies were directly headed by Vice-Ministers (Bennet 2011, p. 7). As no independent boards of directors existed, politics enjoyed far-reaching power to influence the execution of professional work, not least amplified by the above stated personnel policy, which grants high flexibility to the employer (Urushadze 2011). The Georgian emphasis on strong managers vis-à-vis structures and procedures undermined the de jure-chartered autonomy of administrative units and subjected them directly to political influence.

Strong and specific management competences of ministers and other senior officials were perceived as the key factor for the success of the modernization agenda and

the rapid change of state and society. Therefore, senior officials were moved where their skills were needed most (Bennet 2011, p. 11), resulting in the phenomenon of regular cadre reshuffles. Alternatively to this argument, rotation can also be comprehended as an effective means for preventing corruption and generating loyalty (Timm 2012). Of greater importance in this regard, though, is that the 'governmental carrousel' had negative effects on the professionalization of public services. Firstly, an assumption of office was usually accompanied by personnel changes that often went down to the junior level of the administration (Engvall 2012, pp. 51–52). The personnel autonomy in hiring, firing and promoting employees was originally granted to facilitate administrative units with sufficient competences of self-organization. In fact, this autonomy turned into a potential political instrument for influencing professional work of the administration. Secondly, the new arrival of a minister or head of agency led to the regular introduction of new internal planning- and decision-making structures at the expense of the performance of agencies: „Not surprisingly, agencies that experienced fewer turnovers of deputies, such as the Ministry of Justice's Civil Registry Agency, achieved greater success in implementing long-term strategies." (Bennet 2011, p. 11). Obviously, the decentralized, goal-oriented management approach of NPM, which grants high organizational autonomy for the purpose of efficient service provision, was undermined by the cadre policy of the president and led to even less effective structures. Similarly, the system of bonus payments was introduced as an instrument for efficiency improvement. However, since distinct legal regulation or administrative prescriptions were missing, decisions about payments and their amount became exclusively subject to the respective senior management (Narmania 2013). Instead of installing objective criteria and procedures, the government preferred to maintain high flexibility in the organization and execution of state administration. This was meant to preserve significant room for maneuvering in the framework of the government's modernization agenda but simultaneously prevented a separation of politics and administration. The New Public Management-based reforms introduced de jure administrative elements akin to a developmental state bureaucracy; while de facto the public service remained subordinate to politics and lacked the autonomy and capacity to elaborate and implement rational and long-term oriented development policies on its own.

However, such state-led policy, for which an autonomous administration would be needed, was not on the agenda following the Rose Revolution. Georgia's state reforms were initially driven by the anti-corruption agenda, which entailed a strict withdrawal of the state from the economy. This approach fitted well with the ideas of

libertarianism, a school of thought that became exceptionally popular among Georgian policy makers (European Stability Initiative 2010, pp. 9–10; Jobelius 2011, pp. 83–87). This specific amalgamation and normative grounding made Georgia probably the last major proponent of the ideational triad of the Washington consensus: privatization, deregulation, and liberalization. Accordingly, Georgia's administrative reforms were aimed at the creation of a favorable environment for entrepreneurs and investors as prescribed by the neoliberal paradigm and managed to push Georgia to the Top 10 of the Ease of Doing Business Index within short time (Doing Business 2013). For this economic policy, the public service was endowed with sufficient capacities.

III Reconcilableness of politics and economy – embedded state interventions in the economy

Successful developmental states build upon two different incentive compatibilities or sources of legitimacy. The first incentive compatibility emerges between politics and populace when political leaders bind their own political survival to economic growth (for emergence conditions see section I). Shared economic growth creates legitimacy for state interventions, which means a congruency between economic policy and the political agenda of power preservation. The second incentive compatibility must be created between the state and relevant groups of the private sector. Close interaction and negotiation between state and business sectors creates a comprehensive system of coordination and thereby forges a sense of common interest. State interventions and facilitation focus on enhancing the competitiveness of firms by constant upgrading and/or diversification (Ahrens 2002, pp. 173–178). "From its role in helping business to succeed the state gained legitimacy for further interventions, and the circle became virtuous rather than vicious." (Wade 2010, pp. 157–158) . This close collaboration with the private sector is what has been called the embeddedness of economic policy. The border of this developmental partnership, however, marks loyalty of the business to politics. By formally (and informally) controlling access to state favors and resources, state agencies hold powerful tools not only for stimulating firms to improve their performance on the market but also to limit the risk of political opponents. This constitutes the second element of the congruence of economic policy and political power preservation in developmental states.

For Georgia, the first form of incentive compatibility can be assumed. Georgia's policy makers committed themselves to economic development and were aware of

the fact that their political survival depended on the success of economic policy. However, the government believed in the assumption that a free economy will develop best and bring most benefit for all. In order to free economic subjects from state regulation and intervention as much as possible (Interview Lejava 2012), reforms after 2003 aimed consistently at deregulation, abolition of state supervision and agencies as well as the pursuit of a non-intervention policy in terms of subsidies, tax exemptions or regulating access by licenses (Partskhaladze 2013).

The creation of an incentive compatibility between state and business sector was much more complicated. Formally, the state pursued a non-intervention policy, which means that a close collaboration with the business sector and intervening in economic processes would not have been in line with the given economic paradigm. The comprehensive change of the formal institutional setting and state non-intervention policy also resulted in the abolition of the majority of formal means through which political elites were able to influence the distribution of economic advantages (Timm 2013). This was particularly critical given the fact that key economic players enjoyed close connections to the former regime, which posed a high risk for the new government and the success of the political modernization agenda. Therefore, regardless of the dogma of non-intervention, the new government started to informally intervene in economic processes from the very beginning of its incumbency. Firstly, it initiated a process of redistribution of property to the advantage of the new political elites and their followers (Papava 2008, p. 24). The government continued to informally interfere in property and use rights, which is reflected in accordingly poor positions in international rankings (Property Rights Alliance 2011; World Economic Forum 2013, p. 175). Secondly, market barriers may have been formally removed to a great extent, but the government managed to informally regulate access to markets and resources (Timm 2013). Both measures allowed for steering of who economically benefits and who not. This relationship between state and business resembled less the above-described developmental partnership than the phenomenon of business capture (Gel'man and Marganija 2010).

These informal interventions laid the basis for the phenomenon of “Corporate Political Resonsibility” (Khishtovani and Pirveli 2012, p. 3), which entails different forms of ‘voluntary’ contributions of the business community to the state and the ruling party. The specific relationship that emerged between state and business has been described as symbiotic and mutually beneficial: "The government thought that if a company is under political control, this is better for [the state] and also for the

company." (Interview Narmania 2012). The fundamental difference to developmental states is that in developmental states business is required to produce better products or to increase economic performance in return for state favors and in doing so, indirectly contributes to the legitimacy of the regime by economic improvements. In Georgia, business contribution did not bring about economically relevant value added but went directly into popular state and party activities. The second difference to developmental states is that the applied economic model and strategies of political power preservation in Georgia were incongruent to one another. The politically driven informal interventions in the economy were not compatible with the applied liberal economic model and tended to undermine FDI-attraction as the government's primary economic growth strategy. In doing so, Georgia thwarted the neoliberal triad of privatization, deregulation and liberalization by property right infringements, informally regulating markets and limiting the privity of contract.

IV Bringing the state back in - market-enhancing policy after 2008

Market and competition are not opposite to developmental states, but inherent and indispensable components of a successful developmental state policy. State interventions and coordination in East Asia were not to replace the market, but, instead, to enhance competiveness of domestic firms trough diversification and upgrading. "Firms had to meet performance targets in exchange for special favors – such as targets for exporting, or local content requirements, or product specifications (Wade 2010, p. 155). By creating the possibility for firms to benefit twice, from the success on the market through better products and from state rewards, state reinforced existing market-incentive structures and, in doing so, was able to accelerate sectorial development. In addition, developmental states seek to empower the private sector by providing funds and risk sharing or promotion of foreign direct investment towards growth sectors. It organizes searches for promising products and markets; makes investments in education and technological innovation; uses tariffs, taxes and subsidies to create comparative advantage and makes major investments in infrastructure to connect domestic markets to the global marketplace (Trubek 2010, pp. 6–12) . Wade (2010) has conceptualized these different state interventions as a combination of 'leading' and 'following' the market.

After 2008, Georgia fundamentally altered its economic approach and increasingly introduced elements of a state-led economy. This was a response to, first, domestic

protests and, second, declining FDI (due to the August war, the global financial crisis and declining international reputation). From the analytical perspective of a developmental state, the newly created state instruments were established to compensate for existing market inefficiencies. The promotion of entrepreneurial activities by financing technology transfer or the provisioning of technical equipment (i.a. by the Georgian Agrarian Corporation), the provision of capital and risk-sharing (i.a. by the Partnership Fund or "Cheap credit"- program), the creation of comparative advantages (i.a. by Free Economic Zones) or establishing Public-Private-Partnerships and steering private and public investments (i.a. in Free Tourism Zones) were measures to facilitated sectorial growth (Timm 2013). The government even abandoned its formerly strict attitude towards privatization and entered the wine-producing sector by founding a state-owned enterprise that acquired significant market shares within a short time (Fleury 2013).

When it comes to implementation, the administration of Georgia's state programs has often been criticized as inefficient and opaque. The "cheap credit" program was blamed for its ineffective distribution of credits and a questionable procedure with regard to transparency (Papava 2009, p. 311). The award practice of the Partnership Fund has been similarly criticized as being non-transparent and prone to political influence (Interview Tvalchrelidze 2012). The above-stated lacking of an independently working administration or of respectively specialized autonomous organizations can be made responsible for the flawed implementation. For instance, it has been argued that the "cheap credit"-program was flawed because it was administered by the Ministry for Economic Development itself – instead of delegating the screening and selection of qualified projects to independent financial institutions (Partskhaladze 2013, pp. 148–149). At the beginning of the reforms, the centralization of decision-making appeared to be conducive to organizing a rapid liberation of the economy from administrative and regulatory barriers. The absence of administrative autonomy and the primacy of politics over administration became only an obstacle as the government pursued a more active state-led economic approach. The result was policy measures that were exposed to political influence and, hence, activism of the government.

The objective of the 'revolutionary governance' shifted now from withdrawing the state from the economy towards making the state the central clock generator of the economy. Given the missing social embeddednes of the policy-making process, the government forfeited its ability to develop appropriate long-term strategies. This

resulted in unrealistic and unrealized projects, such as the founding of the new city of Lazika (Girardot 2013) or the settlement of 40.000 Boers from South Africa (Prasad 2012). The foundation of state-owned enterprises also did not show market-enhancing effects, but was rather conducted on the expense of private entrepreneurs. The entry of the state into the wine sector did not improve the market in terms of an expansion of selling markets or in an increase of efficiency or quality, but led primarily to a tax-financed state competitor and the displacement of private entrepreneurs (Fleury 2013).

Developmental states often enjoy a high degree of administrative discretion, which creates room for experimentation within the system of personalized exchange and collaboration (Trubek 2010, pp. 19–20). The phenomenon of Corporate Political Responsibility (CPR), which was used after 2008 to extort and steer private investments in tourism and other prioritized sectors of the economy (Timm 2013), exhibits close resemblances to "administrative guidance" of developmental states. „Administrative guidance is a form of pressure on regulated parties to modify their behavior and is characterized by its lack of formal legal effect. Frequently implicit, however, is the threat of collateral sanction unofficially imposed on companies that do not follow the guidance. [...] Private compliance is therefore nominally voluntary, but frequently obtained." (Ginsburg 2001, p. 587). In both cases, discretionary power over access to state orders and other resources allows to informally influence investments and entrepreneurial decisions. The main difference is, however, that in developmental states an independently working and adaptive-efficient learning administration steers economic processes, while in Georgia discretional power was exercised by politics itself. The coerced modernization of hospitals or investments in infrastructure in state-promoted touristic areas close to the border with the break-away region of Abkhazia were politically important for domestic and international reasons. Economically, this engagement was associated with high losses for the businesses involved (Khishtovani and Pirveli 2012; Tchokhonelidze 2013). Private investments here were not part of a mutually beneficial developmental partnership as in developmental states, but rather a strategy of survival of entrepreneurs within the established Corporate Political Responsibility.

The limited market-enhancing effects of the government's efforts are reflected in the Global Competitiveness Index (World Economic Forum 2013), in which Georgia, out of 144 countries, was poorly ranked in categories such as "intensity of local competition" (128), the „extent of market dominance" (112) or the „effectiveness of

anti-monopoly policy“ (135). It can be argued that the main reason for existing market dysfunctions in Georgia is not to be sought in state interventions itself, but in the way they are planned and implemented. The absence of an embedded-autonomous administration, which elaborates appropriate growth strategies in close exchange with the private sector, and the dominance of politics over economic policy, led to formal and informal measures that impeded competition and the emergence of functioning markets.

V Law and developmental states

The developmental state of the 1950's -1970's required public law and legal institutions that allowed it to direct and mold economic behavior. Legislation served as a tool for effecting national economic planning and governing state industry (Sherman 2009, pp. 1261–1262) . Apart from this functionalistic application of law, administrative law needed to leave sufficient room for experimentation and discretionary decisions of state officials (Ginsburg 2001). These both sides constituted the legal framework by which classic developmental states steered economic development.

In contrast, the neoliberal paradigm and the Washington Consensus shifted the focus from public law to private law. The aim of the legal agenda was not to empower the state with sufficient steering instruments but to disentangle the state from the market (Kennedy 2008, pp. 29–30). "Private law became the primary tool for limiting state interference in the market through property and contract rights." (Sherman 2009, p. 1264). Good governance and rule of law presented the accompanying program of the neoliberal paradigm for developmental policy fostering formalization and depersonalizing, enforcing property rights, reducing corruption, improving the effectiveness of the bureaucracy, the judiciary and the police, and strengthening transparency and political accountability.

Despite the obvious contrariness, these legal regimes are not necessarily mutually exclusive, as developmental states in East Asia since the 1980s/ 1990s prove. In the course of their development and adaptation to a changed global economic environment, developmental states sought to benefit from the new opportunities of free trade and increased Foreign Direct Investments. Singapore is a prime example of how a developmental state provided legal security for investors by means of a

strict positivistic interpretation of law. Singapore created a legal system that meets formal standards of rule of law, while simultaneously preventing the expansion of individual freedoms (Silverstein 2008, p. 82). The investment in strong property rights may limit political interference possibilities on the one side, while on the other side it increases the country's reputation as a secure investment location and as a reliable partner to do business with. As the debate on 'rule by law' illustrates, the partial provision of judicial independence and rule of law can be highly beneficial even for non-democratic leaders and is not necessarily equivalent to political liberalization or the introduction of individual civil rights (Ginsburg and Moustafa 2008). According to Trubek (2010), new developmental states require a hybrid structure from both legal regimes. The legal framework must provide a balance between sufficient flexibility for experimentation as well as confidence in the reliability of law because of the new developmental state's reliance on private investment (Trubek 2010, pp. 19–20). Law can serve developmental states to (1) define the goals of the developmental state through regulations and legislation, (2) to identify the instrument for achieving these goals and (3) to establish the institutional framework of collaboration between public and private actors. Thus, formal rules can facilitate and guide the collaboration between private and public sector towards a common development agenda (Coutinho and Mattos 2008).

Against the background of Georgia's neoliberal development agenda, public law was not seen as a vital instrument to steer economic development. Quite to the contrary, Georgia followed the legal reform prescriptions advised by the Washington Consensus and abolished formal-state regulatory instruments to a great extent. In doing so, Georgia waived legislation and formalized state interventions – as argued above – as means to organize economic development and regime stability conjointly as development states are able to do.

Moreover, Georgia also missed to establish a rule of law, which presents a prerequisite of a liberal economy and, to some extent, also for new types of developmental states. The chosen liberal, FDI-based economic model, however, relies on the rule of law and the confidence of investors in the legal framework. Still, Georgia did not invest in an independent jurisdiction providing sufficient protection against infringements on part of state officials. This becomes very obvious in the field of property rights. While Singapore is ranked 2nd with regard to the protection of property rights, Georgia is placed at the 131th position out of 144 countries (World Economic Forum 2013, p. 175). The informal state interventions in the economy,

which were applied for the purpose of political power preservation, prevented the emergence of a rule of law. The result was a contradictory institutional setting between the formal and informal dimension. The policy shift after 2008 led to a re-introduction of formal state interventions in the economy, however it did not change the general attitude towards law. The government continued to adhere to the flexibility approach and informal interventions instead of investing in strong rules and procedures and an independent judiciary. In doing so, the government missed the chance to use law as an effective instrument to credibly demonstrate its self-commitment to economic growth and to create a developmental partnership between the state and the private sector.

VI Georgia - A liberal developmental state?

At present, the world is witnessing the vanishing of the once bright persuasiveness of the neoliberal paradigm. What exactly will constitute a 'Post-Washington Consensus' (Birdsall and Fukuyama 2011) still remains unclear. But one thing is obvious; the state will be awarded increased importance in economic processes in the future. Concepts like 'New Developmental States' (Wade 2010), 'New Developmentalism' (Trubek 2010) or 'New Industrial Policy' (Birdsall and Fukuyama 2011) seek to define the role of the state as 'visible hand' in the economy. How this 'visible hand' will relate to the once constituting triad of neoliberalism: privatization, deregulation and liberalization, which still shape the global economic environment, will sample out very differently. In the near future, we will observe a growing institutional variety and states applying more pragmatic policy approaches instead of institutional fetishism (Bugaric 2013, p. 27).

This, obviously, does not mean a return to an economic regime before the Washington Consensus. An economic growth strategy cannot consist of repeating the Import Substituting Industrialization (ISI) of the developmental state of the 1960s and 1970s but must apply more sophisticated methods of intervention and, thus, new laws and institutions (Trubek 2010, p. 5). East-Asian countries have demonstrated that developmental states can adapt to changing global environments and may benefit from free trade and free flow of capital. Increased openness to investment capital, decrease of transaction costs by deregulating the labor market, for instance, or specific legislation to simplify the opening and closing of enterprises met the requirements of a globalized economy and were at the same time favorable for

preserving the developmental state itself. “In Singapore, operationalising the neoliberal [...] rationality has been highly beneficial to the economic interests of the PAP-dominated state and capitalism, as the accumulation of capital is rendered more efficient under such a regime.“ (Liow 2011, p. 259). This form of a (neo-) liberal developmental state can adopt favorable (neo-) liberal elements and operate in a highly liberalized environment but preserves state dominance in terms of a formally and informally steering autonomous administration as the core of the economic model.

Georgia has taken the other way around. It introduced liberalism as an economic model and, therefore, a policy of non-intervention and deregulation. This model, however, did not leave sufficient room for expressing and channeling state dominance. Given these self-determined institutional constrains, state coordination and intervention in market processes for the political reason of power preservation had to be conducted informally. This resulted in the above-described systemic contradictions that characterized Georgia’s s state policy between 2003 and 2012. Georgia during the presidency of Mikheil Saakashvili presented an unintentional Anti-Washington Consensus policy rather than a successful Post-Washington Consensus combination of liberal and developmental-state elements.

Conclusion

This paper aimed at utilizing the developmental state concept for analyzing economic policy and state dominance in Georgia between 2003 and 2012. Throughout this period, Georgian policy makers shared a common characteristic with developmental state leaders: the necessity to generate legitimacy by state performance. The Georgian government archived to (re-) establish the state monopoly on the use of force and to initiate a ‘revolutionary’, national development agenda aimed at radically changing state and society. The reforms of the public service introduced elements akin to developmental states such as flexibility, autonomy, competition trough decentralization as well as efficiency- and goal-orientation. However, a series of policy decisions shaped the execution of state dominance in contrast to developmental states significantly.

Given the experienced endemic corruption of the predecessor regime, the government exhibited a deep-rooted suspicion towards state structures and consequently pursued a radical separation policy of state and society. Withdrawing

the state from regulating and intervening in the economy was seen simultaneously as an instrument to fight corruption as well as to promote economic growth. The consequence was the pursuit of a strict Washington Consensus policy. The suspicion towards the state led also to rather relying on capable and trustworthy managers than on rules and procedures, which left more room for flexibility to political decision makers.

However, the flexibility approach towards the public service prevented a separation between administration and politics and the emergence of an autonomously working and institutionally learning public service. From a developmental state perspective this must be seen as the major hindrance to elaborate appropriate development strategies after 2008 when the government altered its economic approach.

It has been furthermore argued that the initially pursued Washington Consensus policy abandoned regulatory instruments and intervention options that, apart from their economic dimension, were also relevant to steer the distribution of advantages in society for the purpose of political power preservation. This led not only to the necessity of increased informal intervention and a subsequent undermining of the chosen economic model, it also prevented the government to create a mutually beneficial incentive compatibility with the business sector based on long-term economic growth. State-business relations resembled more a form of business-capture than a developmental partnership typical for developmental states.

The developmental state concept, which provides an example of how economic development model, law and administration must be linked to each other in order to generate market-enhancing effects, served as a analytical framework to reveal the institutional contradiction in Georgia's economic policy between 2003 and 2012. The developmental state concept has proved an interesting analytical framework to identify institutional obstacles for state-managed economic approaches under the conditions of the still prevalent global regime of the Washington Consensus.

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