

GOVERNANCE, THE STATE, AND SYSTEMIC CORRUPTION: ARMENIA AND GEORGIA IN COMPARISON

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Abstract

Endemic corruption has been a destructive legacy of Soviet rule for most successor states of the Soviet Union. Yet as the two cases of this study demonstrate, corruption has manifested itself in different ways. While the smooth transition of power in the early 1990s has allowed Armenia's political leaders to use corruption to consolidate firm control over the state apparatus, Georgia's tumultuous transition has caused the disintegration of the state apparatus into feuding groups that abuse their official positions for private gain. Rebuilding central political authority has therefore been an arduous journey vulnerable to sudden ruptures. This path has had disastrous consequences for Georgia's economy. In contrast, Armenia's economy has fared relatively well under a more centralized form of endemic corruption. However, while Georgia's chaotic form of corruption has offered room for democratic change, Armenia's political system is stable but more strongly authoritarian.

Keywords: Armenia, Georgia, systemic corruption, state authority, informal institutions, political transition, economic development

Introduction

Almost twenty years after the disintegration of the Soviet Union (SU), it is safe to assume that widespread corruption has been a lasting legacy of Soviet rule.¹ Several studies of Soviet-era corruption demonstrate that bribery, embezzlement, abuse of authority, etc. were widespread practices in the SU.² Similar illicit practices remain prevalent in most Soviet successor states (the

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¹ I adopt the seminal definition of Joseph Nye: "Corruption is behavior which deviates from the formal duties of a public role because of private-regarding (...) pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence." Nye, Joseph S., *Corruption and Political Development: A Cost-Benefit Analysis*, *American Political Science Review*, vol. 61, (1967): pp. 417-427.

² Kramer, John M., *Political Corruption in the U.S.S.R.*, *The Western Political Quarterly*, vol. 30, (1977): pp. 213-224; Simis, Konstantin, *The Machinery of Corruption in the Soviet Union*, *Survey*, vol. 22, (1977): pp. 35-55; Schwartz, Charles A., *Corruption and Political Development in the U.S.S.R.*, *Comparative Politics*, vol. 11, (1979):

Baltic States are the exception). Now and then, corruption is *systemic* - that is, endemic and highly institutionalized. When I say institutionalized, I mean that informal rules and norms constrain and enable the behavior of corrupt officials and citizens. These informal rules and norms (i.e., institutions) are embedded in a myriad of informal networks that permeate the state apparatus and scramble the boundary between public and private spheres.

This legacy has not spared post-Soviet Armenia and Georgia. Although Armenia fares slightly better, Transparency International (TI) has repeatedly ranked both countries near the worst in its Corruption Perception Index.³ However, as I will argue in this article, the Armenian and Georgian governments have had differing levels of success trying to hold sway over the informal networks of corruption. While presidents Levon Ter-Petrosian and Robert Kocharian of Armenia have been able to manage these networks to their own political and material advantage, Georgia's erstwhile and long-time president Eduard Shevardnadze largely failed in this regard. His successor, Mikhail Saakashvili, has declared his intention to eradicate systemic corruption. Yet it remains to be seen how sincere and successful Saakashvili's fight against corruption will be.

I contend that the extent to which post-Soviet governments have been able to exert control over systemic corruption has been largely influenced by the type of transition that these countries experienced in the late 1980s and early 1990s. Armenia has experienced a negotiated transition from Soviet rule, which has facilitated the (re)emergence of a *centralized system of corruption*. In contrast, Georgia's tumultuous transition brought with it a temporary collapse of central authority, which made it difficult for President Shevardnadze to (re)impose control over the networks of corruption. The outcome has been a *decentralized system of corruption*.

The second argument that I advance in this article is that the type of systemic corruption (centralized or decentralized) has significantly influenced subsequent political and economic developments in both countries. *Ceteris paribus*, a country without corruption will do better than a country in which corrupt practices are widespread. However, a centralized system of corruption is less likely to undermine the coherence and effectiveness of the state apparatus than a decentralized system of corruption. This distinction has consequences for economic growth and the degree of political competition. Armenia's centralized system of corruption has shown higher growth rates and more political stability than Georgia's, but also increasing levels of authoritarianism.

The article begins by laying the conceptual and theoretical foundation for understanding systemic corruption as an *intervening* variable in post-Soviet transitions - the *independent* variable being the type of transition and the *dependent* variables being successive political and economic developments. In the second section, I will show how and why Armenia and Georgia's systems of corruption diverged in different directions. The third section discusses the political

pp. 425-443; Lampert, Nick, "The Whistleblowers: Corruption and Citizens' Complaints in the USSR", in: Clarke, Michael (ed.), *Corruption - Causes, Consequences, and Control*, pp. 268-287. New York: St. Martin's Press, (1983); Clark, William A., "Crime and Punishment in Soviet Officialdom: Combating Corruption in the Political Elite, 1965-1990", Armonk, M.E. Sharpe (1993).

³ Transparency International, "Corruption Perception Index", http://transparency.org/policy_research/surveys_indices/cpi [accessed February 28, 2008].

and economic consequences of different types of systemic corruption in the two countries, relying on my own research as well as quantitative data provided by the World Bank, the European Bank for Reconstruction and Development (EBRD), and the Bertelsmann Transformation Index (BTI). I conclude by considering the long-term implications of systemic corruption in Armenia and Georgia.

Conceptualizing Systemic Corruption

The two defining characteristics of systemic corruption are the degrees to which it is (a) endemic and (b) institutionalized. Under conditions of systemic corruption, corrupt activities are the norm rather than the exception. From the bottom to the top of the state apparatus, officials routinely engage in corrupt practices, and citizens are well aware that bribes are crucial for receiving extra favors (e.g., an advantageous court ruling) or simply what they are legally entitled to (e.g. the timely issuing of business licenses). The rules of the game are usually known in advance and regularly followed by all sides. Myriads of networks are built within the state apparatus and between public officials and private citizens; their main purpose is the facilitation of corrupt exchanges. For instance, patron-client networks connect lower to higher officials. Lower officials usually buy their positions and will later share illicit gains (bribes, embezzled funds, etc.) with their superiors. In return, superiors protect their subordinates from the occasional anti-corruption crackdown. Money thereby flows all the way up the official hierarchy, and protection is granted top-down. An informal hierarchy of clientelism overlaps with the official state hierarchy. Networks are also built between businesspeople and officials to further each other's interests. Often public officials' involvement in private business and entrepreneurs' political aspirations are so extensive that the boundary between public and private spheres is permeable and ambiguous.

As Keith Darden succinctly shows in the case of Ukraine, systemic corruption can thereby reinforce official hierarchies and/or substitute for weak official rules and norms that fail to constrain the behavior of state officials. Higher officials can secure subordinates' loyalty by allowing them to augment their often meager salaries with illicit income and by gathering compromising material, which can always be used against disobedient lower officials.⁴ If these unofficial hierarchies extend all the way up to the political leaders of a country, like in Ukraine under President Leonid Kuchma, we can speak of a highly centralized system of corruption, allowing for hierarchical control and therefore state coherence. However, when these networks of corruption do not extend all the way to the top of the state apparatus and/or operate relatively autonomous from each other in various state departments and regional/local administrations, systemic corruption is more decentralized.

The type of systemic corruption inevitably affects political and economic developments. Any political leadership that seriously attempts to stay in power will counteract a decentralization of systemic corruption. The tragedy of the commons is a likely outcome in a decentralized system

⁴ Darden, Keith, *Blackmail as a Tool of State Domination: Ukraine under Kuchma*, East European Constitutional Review, vol. 10:2/3, (2001): pp. 67-71; Darden, Keith, *The Integrity of Corrupt States: Graft as an Informal State Institution*, Politics & Society, vol. 36:1, (2008): pp. 35-59.

of corruption, stifling economic growth and depriving the state of revenues. Hordes of kleptocratic officials who maximize their personal gains in competition with each other "overgraze" the economy, as entrepreneurs who are overwhelmed by requests for bribes either close down or revert to the black economy. Either way, tax revenues are lost. Embezzlement and corrupt tax and customs officials further deprive the state of income.⁵ Yet a state without a reliable stream of revenues is a failing state, and few political leaders would find the idea of a disintegrating state structure particularly appealing.

In addition to being able to avoid a collapse of the economy and a sharp decline of revenues, maintaining tight control over the networks of systemic corruption has political benefits. A dependable state apparatus whose loyalty derives mainly from the distribution of illicit gains is a key ally during election times. Fearing the loss of lucrative positions, state officials probably do not even need to be coerced to manipulate election results.⁶ In addition, the political leaders' ability to centralize control over corrupt state agencies induces the business elite to close ranks behind the government, as any attempts to bypass the leadership by striking corrupt deals with lower officials or, even worse, with the opposition is likely to be punished. The support of the business elite is crucial for political leaders to assure a steady stream of revenues and illicit gains. Moreover, wealthy entrepreneurs are also important allies during elections, as they can secure the votes of thousands of employees and ordinary citizens who benefit from the generosity of entrepreneurs-turned-patrons.

In short, if offered a choice between a centralized and a decentralized system of corruption, rational political leaders prefer the former to the latter. Yet certain political developments can deprive a new political leadership of this choice. Interruption in the system of corruption caused by lapses of political authority leads to decentralized corruption. Under these circumstances, new governments find it subsequently difficult to convince the heads of the various networks (or clans) to succumb to the new rulers.⁷ Unless the new political leadership can credibly threaten the use of force, the loyalty of the heads can be bought only through shady deals. Over time, these deals might develop into durable patron-client relations. At least in the short term, however, leaders of corrupt networks are likely to defect if doing so is in their material or political interests.

Thinking about the types of political developments that might cause a rapid and lasting decentralization of systemic corruption, regime collapses especially in the wake of civil wars come to mind. A regime collapse implies the (at least) temporary suspension of political authority. This suspension can potentially last a long time if non-state actors have acquired large

⁵ Bardhan, Pranab, *Corruption and Development: A Review of Issues*, Journal of Economic Literature, vol. 35:3, (1997): pp. 1320-1346. Shleifer, Andrei and Robert W. Vishny, *Corruption*, Quarterly Journal of Economics, vol. 108:3, (1993): pp. 599-617.

⁶ Keith Darden (fn 4) argues that the political elite use compromising material to secure state officials' loyalty during elections. In contrast, I argue that electoral defeat does not only threaten the political leadership but also the economic interests of corrupt officials who might be replaced by a new government. Officials are therefore willing accomplices in the manipulation of elections.

⁷ Clans are essentially networks that are based on mutual material interests *as well as* kinship ties. For a further discussion of the clan concept, see: Collins, Kathleen, *The Logic of Clan Politics. Evidence from the Central Asian Trajectories*, World Politics, vol. 56:2, (2004): pp. 224-261.

amounts of weapons, as is common during and following civil wars. As I will show in the next section, Georgia experienced regime collapse in the early 1990s and a successive decentralization of systemic corruption. Armenia, on the other hand, experienced a peaceful transition, as communists and their challengers negotiated a mutually beneficial transfer of political authority.

Armenia and Georgia in Transition

Soviet officials in the Caucasus and Central Asia were notorious for being corrupt. If the number of convictions gives any indication, the level of corruption in Georgia's state apparatus and Communist Party was closely followed by Armenia and Turkmenistan.⁸ Moreover, corruption in Soviet Armenia and Georgia was not only systemic but also highly centralized. Under the rule of the first secretaries of the republics' communist parties, Karen Demirchian (1974-88) and Vasily Mzhavanadze (1953-72), the communist leadership maintained tight control over the sale of public offices, everyday bribery, and embezzlement.⁹ Yet the dramatic political, social, and economic changes of the Gorbachev era allowed for countless opportunities for personal enrichment outside the established networks of corruption. Especially the formation of nationalist movements and their paramilitary groups undermined the authority of the communist leadership in Armenia and Georgia.¹⁰ However, the uninterrupted transfer of power in Armenia allowed the political elite of independent Armenia to counteract these tendencies. In contrast, the tumultuous transition in Georgia made recentralization of systemic corruption an arduous task for President Shevardnadze.¹¹

In Armenia, the transition from Soviet rule was relatively smooth, being negotiated by the communist elite and the Armenian National Movement (ANM) under the leadership of Levon Ter-Petrosian. In fact, top Soviet bureaucrats began to switch sides already in the late 1980s. As Edmund Herzig argues, this negotiated transition facilitated the emergence of a small corrupt clique at the helm of the newly independent state.¹² The new government lost no time purging state ministries of disloyal officials. Moreover, Minister of Interior Vano Siradegian swiftly eradicated emerging criminal syndicates and allegedly brought their illegal businesses under the control of his ministry. The ANM was thereby able to (re)create extensive patron-client networks that tied bureaucrats and business leaders to Ter-Petrosian's government. An internal coup that swept Ter-Petrosian from power in 1998 temporarily threatened to undermine the coherence of

⁸ Clark (fn 3).

⁹ Simis, Konstantin M., *USSR: the Corrupt Society. The Secret World of Soviet Capitalism*, New York, Simon and Schuster (1982). Suny, Ronald Grigor, *The Revenge of the Past: Nationalism, Revolution, and the Collapse of the Soviet Union*, Stanford, Stanford University Press (1993).

¹⁰ Dudwick, Nora, "Political Transformation in Postcommunist Armenia: Images and Realities", in: Dawisha, Karen and Bruce Parrott (eds.), *Conflict, Cleavage, and Change in Central Asia and the Caucasus*, pp. 69-109. New York, Cambridge University Press, (1997). Solnick, Steven Lee, *Stealing the State: Control and Collapse in Soviet Institutions*, Cambridge, MA, Harvard University Press (1998); Bardhan (fn 6).

¹¹ For a critique of this argument, see the review of my book (fn 1), in: Robinson, Neil, *The Political Is Personal: Corruption, Clientelism, Patronage, Informal Practices and the Dynamics of Post-Communism, Europe-Asia Studies*, vol. 59:7, (2007): pp. 1217-1224.

¹² Herzig, Edmund, *The New Caucasus. Armenia, Azerbaijan and Georgia*, London, Royal Institute of International Affairs (1999).

this system of corruption. However, the new President Kocharian and his close ally, then Defense Minister and later Prime Minister Serge Sargsian, swiftly co-opted the political and economic elite through a mix of coercion and material incentives. Following the example of his predecessor, Kocharian further centralized power through a series of constitutional changes. These changes allowed him to direct the nomination of judges, top police commanders, prosecutors, and the head of the country's anti-corruption agency. Kocharian has thereby been able to monitor members of the state apparatus and business elite, using compromising material if necessary to punish disloyalty.¹³

In contrast, the Georgian transition from Soviet rule caused the collapse of political authority, leaving the newly independent country without an effective leadership for approximately three years. While Georgia's first president, Zviad Gamsakhurdia, enjoyed popular support due to his former involvement in the dissident movement, he was despised by the old communist elite and young reformers alike. Most importantly, he was an ineffective leader who was unable to prevent the rise of paramilitary units, which financed the acquisition of weaponry through racketeering and other criminal activities. Less than a year into his presidency, Gamsakhurdia was driven from power in the midst of a short but bloody civil war (1991-92). Following the ouster of Gamsakhurdia, the Georgian state was at the brink of collapse, as the paramilitary groups and separatist movements in South Ossetia and Abkhazia defied any political authority. At this point, the new government invited the former first secretary of Georgia's Communist Party, Eduard Shevardnadze, to assume political leadership, calculating that he would have the experience and respect to restore political order.¹⁴

Shevardnadze was indeed able to (re)establish political authority by cutting deals with various political factions, including the former communist nomenklatura and Western-oriented reformers. Yet this strategy came at a high price. The return of the nomenklatura assured the continuation of widespread corruption in key state ministries and departments such as interior, fuel and energy, and the tax and customs departments. While he tried to counterbalance these forces by promoting young reformers to government positions, his plan backfired. The reformers in his government, supported by a liberal media and a vigilant civil society, were at times able to force the resignation of corrupt or incompetent state officials. Corrupt officials therefore rightly concluded that Shevardnadze was either unable or unwilling to protect them. Two assassination attempts and regular mutinies further indicated the president's political frailty. These officials therefore tried to steal as much as possible, as fast as possible. Widespread corruption in the legal system ultimately assured that they would never go to jail. Moreover, liberal reforms had limited the authority of the president over the procuracy, police, and courts, depriving Shevardnadze of the power to gather and use compromising material against disloyal and utterly corrupt members of the state apparatus. In response to increasing levels of corruption, Shevardnadze's popularity rapidly declined, further accelerated by the fact that members of his own family were involved in major corruption scandals. The reformers eventually turned against the president and ousted Shevardnadze in the 2003 Rose Revolution. Since then, Shevardnadze's successor, Mikhail Saakashvili, has tried to curb corruption but with mixed results.

¹³ For sources and further details, see: Stefes (fn 1), esp. Chap. 4.

¹⁴ Ibid.

Systemic Corruption and Its Consequences: Armenia and Georgian in Comparison

A decentralized system of corruption undermines political leaders' ability to use the state apparatus in order to further the government's political, economic, and social goals. In the Weberian sense of the concept, the state barely exists, as it has disintegrated into feuding groups that abuse their formal authority for their own enrichment at the costs of the public good. In contrast, a centralized system of corruption implies that the leadership controls the state apparatus, being able to employ state authority effectively. In order to show that Armenia and Georgia support this hypothesis, I rely on data included in the BTI 2003, the last year of Shevardnadze's presidency.¹⁵ In addition to assessing the progress that has been made in the areas of political and economic transformations, the BTI includes a "Management-Index", which reflects states' ability to shape the economy and society. The BTI ranks Georgia at the bottom of the index with little management success (barely above Afghanistan and Haiti), while Armenia ranks significantly higher, on a par with countries such as Ukraine and Singapore. Given Georgia's fragmented state apparatus under President Shevardnadze, this abysmal ranking does not come as a surprise.

Table 1: State Capacity in Comparison

	Armenia	Georgia
Management-Index	5.1	2.3
Ranking (out of 116)	39	95
Predictability	6	2
Effective Use of Resources	5	2
Ability to Transform	6	2

Source: BTI 2003 (fn 15)

Notes: With the exception of the ranking, all numbers are on scale from 1 (worst) to 10 (best). *Predictability* relates to the degree to which governments follow consistent and coherent reform policies that give citizens some assurance about the future. *Effective Use of Resources* concerns the ability to implement reform policies and curb corruption. *Ability to Transform* refers to the skillfulness of the political elite and their authority.

A centralized system of corruption should generally exhibit lower degrees of corruption. Indeed, in its 2003-2005 indices, TI has ranked Georgia lower (more corrupt) than Armenia in its widely published corruption index.¹⁶ Yet what might matter even more for political and economic development is not the quantity but the quality of corruption. My interviews with businesspersons from both countries indeed suggest a different quality of corruption. Unlike their Georgian counterparts, entrepreneurs in Armenia found the business environment at least somewhat predictable. Georgian entrepreneurs in contrast expressed their frustration with legions

¹⁵ Bertelsmann Stiftung, "Bertelsmann Transformation Index" (2003), <http://bti2003bertelsmann-transformation-index.de> [accessed March 05, 2008].

¹⁶ Transparency International (fn 4)

of greedy and unreliable state officials, indicating that decentralized systemic corruption had evoked the tragedy of the commons. Data from the World Bank’s Transition Economies Enterprise Survey (BEEPS) and the EBRD confirm this first impression. Armenian entrepreneurs usually know whom to bribe, how much they had to bribe, and what they would get for it. This predictability was not true for Georgian businesspeople under Shevardnadze’s rule.

Table 2: Types of Systemic Corruption and Business Climate

	Armenia	Georgia
Percentage of entrepreneurs who do not consider corruption an obstacle for their businesses (1999)	57.5%	10%
Percentage of entrepreneurs who always or frequently know in advance how much to bribe (1999)	42.5%	30%
Percentage of entrepreneurs who believe that an ‘additional payment’ always or most of the time secures the delivery of a certain service (1999)	62.5%	42.5%
Percentage of time senior managers spent dealing with public officials (2002)	3%	12%
Percentage of companies that consider organized crime to be no threat.	70%	25%

Sources: EBRD, “Transition Report 2002”, London (2002); EBRD, “Transition Report 2005”, London (2005); World Bank, “Transition Economies Enterprise Survey”; <http://info.worldbank.org/governance/beeps/> [accessed February 13, 2005].

Although it would be reductionist to relate economic growth and state revenues solely to one variable, the impact of corruption can hardly be ignored. In terms of domestic and foreign direct investment, Georgia has lagged considerably behind Armenia, as the anarchic nature of corruption in Georgia deterred potential investors. Overall growth patterns have accordingly been considerably more stable in Armenia than in Georgia (even though the distribution of growth has been more unequal in the former than the latter). Moreover, Armenia’s revenue share of GDP has been considerably higher for the past ten years, allowing the country to spend more money on social services and public salaries than Georgia did during the Shevardnadze years.¹⁷ The economic situation in Georgia further deteriorated due to the cutbacks in foreign aid and loans, as international organizations and Western governments steadily withdrew their support for the Shevardnadze regime in response to the appalling levels of corruption. These differences inevitably influenced the political developments in both countries.

During his second term, President Shevardnadze faced mounting pressure from the street, and corruption was often a major cause of public discontent. Due to massive embezzlement schemes in the energy sector, Georgians routinely suffered from blackouts, which gave rise to spontaneous neighborhood demonstrations throughout the capital. Low pensions and public salaries as well as corruption in the higher-education system mobilized students, state employees, and retired people against the Shevardnadze regime. Shevardnadze’s party, the Citizens’ Union

¹⁷ For data and sources, see Stefes (fn 1), Chap. 5.

of Georgia, was unable to tie the economic elite to the regime. When the president's fortunes rapidly declined, Georgia's oligarchs quickly swung their support behind various opposition parties. When demonstrations eventually culminated in the 2003 Rose Revolution, the state apparatus offered almost no resistance, signaling a complete lack of loyalty of officials toward the president. A defining characteristic of a decentralized system of corruption is that loyalty does not extend much further than to the immediate superior. During the Rose Revolution, demonstrators "were supported by policemen from the local precinct, because one of their bosses...was among the protestors."¹⁸

When the Kocharian regime in Armenia faced public upheaval a year later, the state's response was swift and effective. Well-trained and loyal security forces dispersed tens of thousands of demonstrators who protested against the outcome of the presidential election that had taken place in 2003. Before and during these elections, the tight alliance between the political and economic elites paid off, as oligarchs used their wealth, bodyguards (who attacked opposition politicians and critical journalists), and control of the media to secure Kocharian's victory.¹⁹ The Armenian analyst Alexander Iskandarian aptly summarizes the difference between Georgia and Armenia.

The Shevardnadze regime was so weak that its police force would not have obeyed an order to break up the demonstrations. In Armenia, in contrast, the alliance of convenience between army generals, business barons and regional leaders was sufficiently strong for them to feel that their interests would be threatened if Robert Kocharian...were to be overthrown.²⁰

The ruling Republican Party thereby serves as an intermediary between the government and the business elite. Most Armenian oligarchs are not only members of parliaments but also members of the Republican Party. At the same time, disloyal state officials and members of the economic elite are effectively disciplined through embezzlement charges and tax audits. President Kocharian thereby "rules from a strong yet narrow power base made up of oligarchs and influential power-brokers..., [moving] Armenia along a course of increasingly clan-based rule that has done little to strengthen democratic institutions or the rule of law."²¹ While Armenia's centralized system of corruption has done little to strengthen formal institutions, Kocharian's power base has nevertheless been strong enough to move the country's economy forward and hold the opposition down. His Georgian colleague Shevardnadze never commanded such a power base, being unable to establish firm authority over either the formal or the informal hierarchies in- and outside of the state apparatus.

Conclusion

The Rose Revolution thoroughly restructured Georgia's formal system of authority as well as the informal political system of corruption. If there is anything positive about a decentralized system

¹⁸ Aprasidze, David, *The Bureaucratic-Patrimonial State in Georgia: Has The "Roses Revolution" Given It a New Lease of Life?*, *Central Asia and the Caucasus (online)*, vol. 1:25, (2004).

¹⁹ Danielyan, Emil, "Armenian Oligarch Makes Bid for Power with New Political Party", *Eurasia Daily Monitor (online)* 13 January 2006.

²⁰ Iskandarian, Alexander, "Analysis: Armenia's Battle of the Weak", *Institute for War and Peace Reporting (online)* 28 April 2004..

²¹ Giragosian, Richard, "Armenia 2002: Two Steps Forward, One Step Back", *Transitions Online (online)* 2003.

of corruption, it is its propensity to aggravate public discontent while weakening the state's ability to contain this discontent either by dispersing public goods or by cracking down on opposition forces. Shevardnadze's successor, Mikhail Saakashvili, rose to power on his promise to root out corruption. Since his election in 2004, he has indeed lost little time in making good on his promise. Dozens of former oligarchs and corrupt officials were arrested. He has ordered almost the entire replacement of the corrupt traffic police, recruiting a new generation of professional and well-paid police officers. His security apparatus has broken up several criminal groups that engaged in the lucrative drug, arms, and contraband trade. Finally, his government has lowered taxes and sharply reduced the number of licenses needed to establish a business. These measures have shown almost immediate success. Citizens and entrepreneurs have found new trust in the government, the economy has recovered from sluggish growth, and state revenues have quintupled.²²

Yet there is also a dark side, questioning Saakashvili's motives and the sustainability of his anti-corruption drive. First, his attack on oligarchs, criminals, and corrupt officials has often taken place in blatant disregard of the rule of law. Torture has been allegedly used to extort confessions, and fair trials have rarely been granted.²³ Even more concerning are claims by the opposition that these measures have been used not to eradicate corruption but to recentralize control over the system of corruption, shoring up political loyalty and amassing personal wealth. In fact, residents of one of Georgia's border regions assert that whereas in the past almost everyone was able to trade in contraband, today the routes are controlled by a few high-ranking officials of the Saakashvili government.²⁴ Given last year's political unrest and wealthy businesspersons' increasing support for opposition parties, it might indeed be tempting for Saakashvili to follow the example of his Armenian counterpart. Today, establishing tight control over the networks of corruption is a real option for the president, taking into account that he has pushed through constitutional changes that further concentrate power in the presidency (e.g. exclusive authority to appoint judges). It is difficult to predict what he and his successors will do with this power. Yet the division of power has been severely curtailed, which bodes ill for a sustainable fight against corruption.

In Armenia, the recent political turmoil following the presidential elections, which pitted Prime Minister Sargsian against former president Ter-Petrosian, has once again demonstrated that political and economic power has remained firmly in the hands of the ruling elite. Sargsian, replacing Kocharian, who had to step down due to constitutional term limits, won the election in the first round with more than 50 per cent of the vote. Although international observers argued that the elections were held in a relatively free and fair manner, the opposition rightly pointed towards massive irregularities prior to election day, as state and private media, predominantly owned by the country's oligarchs, were overwhelmingly biased in favor of the prime minister's candidacy. Moreover, state agencies frequently disrupted the political campaigns of the

²² Stefes (fn 1), Chap. 6.

²³ Human Rights Watch, *Agenda for Reform: Human Rights Priorities after the Georgian Revolution*, New York: Human Rights Watch, (2004).

²⁴ Freese, Theresa, "Georgian Defense Minister Distances Himself from Corruption Scandal," Eurasianet.org ([online](#)) 17 March 2005; Vilanishvili, Nana, "Special Report: Smuggling Row Hits Georgian Town," Institute for War and Peace Reporting (online) 21 April 2005.

opposition.²⁵ When the opposition staged massive street protests in the aftermath of the election, the state apparatus once again demonstrated its loyalty to the leadership by brutally repressing demonstrations around the capital, leaving several protestors dead and dozens injured.

At the same time, the recent anti-government demonstrations have included significantly fewer people than the protests that followed the last presidential elections. While in 2004 Armenians sensed that the opposition offered a clear alternative to the country's corrupt leadership, Ter-Petrosian has convinced only a few that he would and could turn Armenia into a law-based (instead of clan-based) country, taking into account that his former presidency was marred by corruption scandals involving his family and close allies. It is therefore safe to assume that of the 5,000 demonstrators, most have been former followers of Ter-Petrosian who had lost their influential and lucrative positions in the economy and the state apparatus after Kocharian and Sargsian's coup in 1998.

Under the current circumstances, Armenia is unlikely to experience major political change – not to mention, *democratic* change. Under the country's centralized system of corruption, political power and economic resources have merged, allowing the leadership to choose from a variety of instruments (e.g. state repression, control of the media, and material inducements to voters) to stay in power. Yet centralized systems of corruption have unraveled in the former Soviet Union and other parts of the world. Kyrgyzstan under the leadership of President Askar Akaev is a good example. Here, competing centers of loyalty developed in the first half of the 2000s, which eventually culminated in Akaev's downfall in 2005. Akaev's fate is therefore comparable to Shevardnadze's rapidly unraveling fortunes. On the other hand, Armenia and Kazakhstan demonstrate that a centralized system of corruption can weather significant challenges, keeping its leadership firmly in place. Given the importance of informal institutions and structures for the political and economic developments in this and other regions of the world, more research is needed to reveal how formal and informal institutions interact, how this interaction stabilizes or destabilizes regimes, and when systems of corruption are likely to consolidate or unravel. We have just begun to look beyond formal state institutions and political organizations.

²⁵ Institute for War & Peace Reporting, Caucasus Reporting Service No. 429, 30 January 2008.