



## Trade and trust: the role of trade in de-facto state conflict transformation

*Tamta Gelashvili, Nino Kemoklidze, and Helge Blakkisrud*

### RECOMMENDATIONS

- The conflict transformation literature highlights the role of trade in fostering trust and, hence, conflict transformation. In the context of contested statehood, however, the correlation between trade and trust, and thereby between trade and conflict transformation, may be less straightforward. When a state does not enjoy formal recognition, we should not assume that increased trade necessarily leads to increased trust, and vice versa.
- A case study of Abkhazia, a de facto state situated in the contested neighborhood between Russia and the EU, shows that economic interaction can develop and thrive also in post-conflict conditions of mutual distrust. However, as long as such trade remains informal and shadowy, it will not contribute to building trust at the state level. The conflicting parties should be encouraged to explore ways to legalize existing informal, mutually beneficial trade.

## Introduction

De facto states – unrecognized secessionist entities that eke out a living on the margins of the international system – are often heavily dependent on external patron states for economic aid and investment. When the parent state – the state that the de facto state seeks to break away from – responds to the secessionist attempt by imposing sanctions or economic blockades, this further exacerbates such dependency. Moreover, due to their lack of international recognition, de facto states often have limited opportunities to engage with the outside world beyond the patron and the parent state. However, closer examination of one such de facto state, Abkhazia, reveals that de facto states can enjoy some bounded independent economic agency. Abkhazia’s maneuvering between Russia as “patron,” Georgia as “parent state,” and the wider international community (here exemplified by the EU) in the sphere of trade and economic interaction has important implications for de-facto state conflict transformation.

The conflict transformation literature highlights the interrelationship between trust and trade. We might expect levels of both to be high between Abkhazia and its patron state, Russia. As the first country to grant Abkhazia official recognition (in 2008), Russia has provided generous economic assistance as well as security guarantees. In contrast, in view of the history of secessionist warfare and economic blockade, we should assume low levels of trust and trade between Abkhazia and Georgia proper. Finally, given the lack of international recognition – besides Russia, only Nicaragua, Venezuela, Syria, Nauru and Vanuatu have recognized Abkhazia as an independent state – it would be reasonable to assume that trust and trade with the rest of the world to be very low. Standing outside all international trade regimes and being a legal blank spot on the map are hardly conducive to developing trade – or to building trust.

However, Abkhazia’s economic interactions with Russia, Georgia proper, and the EU show that the interrelation between trade, trust, and recognition proves more complex than often assumed. Trade does not necessarily correlate with trust: and it may thrive even under conditions of mutual distrust.

## Trade with Russia

Russia is Abkhazia’s most important trading partner by far. According to [Abkhaz official statistics](#), in 2019 Russia

stood for 70% of all Abkhaz trade. Given the extensive economic interaction based on trade agreements and harmonization of rules and regulations, mutual trust could be expected to be high. However, closer examination of the Abkhaz tourism industry, a traditional economic mainstay, as well as Russian direct investments, reveals that this is not necessarily the case.

For Russian tourists, the Abkhaz Black Sea Coast has long been a popular low-cost alternative to Turkey or destinations in the Middle East. However, recent Russian campaigns promoting Crimea as a now-domestic alternative, accompanied by media reports of Abkhaz resorts offering poor service and, even worse, plagued with rampant crime, have [hit](#) the Abkhaz tourism industry hard. In fact, travel advice issued by the Russian Ministry of Foreign Affairs warns of high criminality levels in Abkhazia.

As for FDI, although Abkhazia has officially given priority to Russian investment, Russian businesspeople often find Abkhazia a difficult place to navigate. Overall, the legal framework protecting Russian investments is [said](#) to be faulty; for instance, the two countries do not recognize decisions made in the other county’s arbitration courts. A major damper on investment has also been the Abkhaz refusal to allow foreigners to buy real estate in Abkhazia.

For Abkhazia, Russia represents an enormous market, virtually the only possibility for engaging in official trade, and a source of potential investment in the Abkhaz economy. However, this economic interaction does not necessarily translate into high levels of trust. In Moscow, there is a growing feeling that Sukhum/i is unwilling to adhere to the basic rules of business cooperation, and that the Abkhaz show a lack of gratitude for Russia’s recognition, security guarantees, and economic support. From an Abkhaz perspective, the asymmetry in size and economic power means that there is always the risk that the Abkhaz economy – indeed, the state itself – may simply be absorbed into Russia, or at the very minimum, that Russian firms might monopolize large swaths of the most lucrative businesses. Abkhazia sees no real alternative to Russia today, but it still tries to keep its patron at arm’s length, even if to the detriment of its own economic and socio-economic development.

## Trade with Georgia

Abkhazia [considers](#) all commercial goods crossing

the administrative borderline (ABL) into Abkhazia as contraband. Abkhaz businesses are not [allowed](#) to trade with Georgia proper – the sole exception being hazelnuts, a major Abkhaz cash crop, legalized in 2015.

From the Georgian side, the understanding of Abkhazia as an integral part of Georgian territory, temporarily outside the central government's control, means that cross-ABL trade is seen as internal trade. Since 2008, however, the Georgian law "On Occupied Territories" prohibits any economic activity in Abkhazia without an appropriate permit issued by Tbilisi. Georgia does not recognize any paperwork issued by the Abkhaz de facto authorities – therefore, no goods produced in Abkhazia can legally access the Georgian market. The law also specifies that any actor wishing to invest in Abkhazia or to transport goods through Abkhazia to Russia must first obtain approval from the Georgian government. However, since the adoption of this law, no company engaged in trade has [applied](#) for such a permit. In cases where international companies have tried to circumvent the law, Georgia has [responded with sanctions](#).

Georgia's policy of applying sticks against international businesses has since 2010 been accompanied by offering some carrots to the Abkhaz. The 2010 "State Strategy on Occupied Territories" noted possible ways to enable the sale of products from Abkhazia, and the 2018 initiative "A Step to a Better Future" is based on the idea of building trust through engagement, including economic interaction. However, reactions from Abkhazia have been lukewarm, not least due to the status issue.

Given the profound distrust between Georgian and Abkhaz de facto authorities and the legal restrictions on trade, limited economic interaction might be expected. However, informal cross-ABL trade has been thriving for years. The Abkhaz de facto authorities have [reported](#) an estimated 150 tons of commercial cargo moving in and out across the ABL every day, with an annual value of USD million 7 to 15. This trade is asymmetric, flowing mostly from Georgia to Abkhazia.

However, the vibrant informal trade has not led to public pressure to change the restrictive policies in both entities. Even if informal trade contributes to trust on the societal level, it does not necessarily contribute to trust at the state level. The Georgian and Abkhaz authorities are cautious about taking any steps that could be perceived

as a compromise on the status issue, as that would be highly likely to backfire at home, triggering protests from the opposition and the public alike. In these relations, status trumps trade, even if trade would be mutually advantageous.

### Trade with the EU

Due to the lack of international recognition, Abkhazia's possibilities for developing trade relations with the outside world beyond the patron and, potentially, the parent state are severely circumscribed.

In 2009, the EU [adopted](#) a "Non-Recognition and Engagement Policy" (NREP) with a new strategy for engaging with the two Georgian secessionist entities Abkhazia and South Ossetia, including "economic interaction across conflict lines." The results have fallen short of expectations: the Abkhaz side has not capitalized on these initiatives, and Georgia's law "On Occupied Territories" severely circumscribes the range of avenues available for engaging the de facto state authorities. However, Abkhaz resentment toward the EU's "engagement without recognition" now seems to have softened, due to the growing [resistance](#) among some segments of the public and the political elite alike to what is perceived as excessive Russian dominance.

The Abkhaz de facto authorities report that trade [with individual EU members](#) has been growing in recent years. Given the formal legal constraints related to status, however, Abkhaz businesses have to rely on Russian and Georgian [middlemen](#) – a practice said to double, even triple, the cost of doing business. The only feasible way for Abkhaz businesses to access European markets directly would be through inclusion in Georgia's Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. In 2017, the EU started [exploring possibilities for extending the DCFTA to include Abkhaz businesses](#). As yet, however, this has failed to move beyond the exploratory phase. The status question continues to block any major breakthroughs in direct trade or investment in the Abkhaz economy. Levels of trade as well as trust remain low.

### Conclusions

The conflict transformation literature highlights the interrelationship between trust and trade. However, in the case of Abkhazia, there seems to be scant correlation between the two.

Trust is surprisingly low between Abkhazia and its patron Russia. This could be due to Abkhaz insecurities, stemming from the fundamental asymmetry in size and power that characterizes Russo–Abkhaz interactions, combined with the Abkhaz self-understanding of the nation as balancing on the brink of physical extinction. Despite the close economic integration, there is a strong undercurrent of mutual suspicion as to motivations and intentions.

As for relations with the parent state, Georgia, despite all the grievances and suspicion that permeate relations between Sukhum/i and Tbilisi, we find far more economic interaction than expected: ever since the war of secession, the ABL has seen a steady flow of (illegal) trade. However, as long as this trade remains a shadowy affair, the chances of any societal trust that might exist in the immediate cross-border region contributing to greater trust at state level remain low. Official distrust does not prevent local trade, but there is no feedback loop influencing trust at the state level.

Finally, as regards the EU, the picture is basically as expected: trust and trade remain low. Trade is expected to evolve – but, as producers and their markets do not interact directly, and must work through middlemen, such interactions are not conducive to developing trust.

Summing up: with de facto states, the correlation

between trade and trust, and thereby between trade and conflict transformation, may be more complex than often assumed. In the absence of formal recognition, trade does not necessarily promote trust. In the case of Abkhazia, we observe how not only rational economic and political facts, but also emotional aspects related to memory and self-understanding, factor in. Given the unresolved status issue, combined with acute uncertainties about the nation's future, Abkhazia's trade relations with Russia, Georgia, and the EU alike have been characterized by deep distrust. Trade is not followed by trust. There is a recognized need to diversify, but little appetite for the compromises needed to achieve this.

**Tamta Gelashvili** is Junior Research Fellow in the Research Group on Russia, Asia and International Trade at the Norwegian Institute of International Affairs (NUPI).

**Nino Kemoklidze** is Senior Lecturer (Associate Professor) in International Relations at the University of Chichester, UK, teaches at the Universitat Oberta de Catalunya (UOC), and is an Associate Editor of the *Caucasus Survey*.

**Helge Blakkisrud** is Senior Research Fellow in the Research Group on Russia, Asia and International Trade at the Norwegian Institute of International Affairs (NUPI).

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NUPI  
Norwegian Institute of International Affairs  
C.J. Hambros plass 2D  
PB 7024 St. Olavs Plass, 0130 Oslo, Norway  
[www.nupi.no](http://www.nupi.no) | [post@nupi.no](mailto:post@nupi.no)

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