State Assemblage in the Republic of Georgia

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Abstract

States of the former communist block have not followed a single, linear path of transition from “plan to market.” In the westernmost states, entering the European Union propelled the transformation of communist political and economic institutions. Further east, former Soviet Union (FSU) states exhibit lesser degrees of political pluralism and privatization without a European trajectory of transition. Yet, since its 2003 “Rose Revolution,” Georgia’s radical departure from the post-Soviet partial-reform status quo has presented important challenges path-dependency arguments about political and economic transition and development. Georgia’s transformation exposes a major gap in a literature that has failed to ask how states may rapidly gain new governmental and developmental capacities. To understand Georgia’s political and economic transformation after the Rose Revolution this dissertation analyzes the legal reforms and governmental tactics used over 2003-2007 to successfully attract high rates of inward foreign investment (Chapter 2) and to more than triple central government tax revenue (Chapter 3). I use assemblage theory, drawing on concepts developed by Deleuze and Guattari (e.g. 1987) and Delanda (2002; 2006) among others, to analyze the emergence of these new state capacities. Exegesis of an assemblage theory of the state is the focus of Chapter 4. A final, fifth chapter concludes.

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Abbreviations

EDBI	Ease of Doing Business Index
EU	European Union
FDI	Foreign Direct Investment
FSU	Former Soviet Union
GBCR	Georgia Business Climate Reform project (USAID)
GCI	Global Competitiveness Index
IFC	International Finance Corporation
IFI	International Financial Institution
MNE	Multi-National Enterprise
NGO	Non-Governmental Organization
USAID	United States Agency for International Development
SMRC	State Ministry for Reform Coordination (Republic of Georgia)
SSR	Soviet Socialist Republic

Chapter 1

Introduction

States of the former communist block have not followed a single, linear path of transition from “plan to market” (Pickles and Smith 1998; King 2002; Kornai 2006). In the westernmost states, entering the European Union propelled the transformation of communist political and economic institutions. Further east, former Soviet Union (FSU) states exhibit lesser degrees of political pluralism and privatization. Non-reformers such as Belarus, Turkmenistan, and Uzbekistan retain a great deal of state ownership of the means of production, headed by an authoritarian managerial class (Eke and Kuzio 2000). The partial reformers, Russia, Kyrgyzstan, Ukraine, Azerbaijan, Kazakhstan, Moldova, Armenia, and Georgia, exhibit greater political pluralism and privatization yet lack many of the market institutions characteristic of capitalist states (Gaddy and Ickes 2002). Scholars of post-communist transition have developed path-dependency arguments to explain the partial-reforms status quo in the FSU, citing such factors as geographic position, geopolitical pressures, the presence or absence of significant saleable oil, gas and other resources, and the legacy of the situation at independence, particularly the incidence of nationalism, civil war and ethnic separatist conflict (Dawisha and Parrott 1997a, 1997b; Barnett 1988; Smith 1999; Beissinger 2002; Wheatley 2005; McMann 2006). The “oligarch” winners of wealth and political power from early 1990s liberalization are also blamed for obstructing reforms necessary to create more competitive markets (Solnick 1998; Hellman and Kaufmann 2001, Hellman et al. 2003). Yet, Georgia's radical departure from the partial-reform status quo since the 2003 "Rose Revolution" presents important challenges to such path-dependency arguments, exposing a major gap in a literature that has failed to ask how post-Soviet states may rapidly gain new governmental and developmental capacities. To understand Georgia's political and economic transformation after the Rose Revolution this dissertation analyzes the legal reforms and governmental tactics used over 2003-2007 to successfully attract high rates of inward foreign investment (Chapter 2) and to more than triple central government tax revenue (Chapter 3). I use assemblage theory, drawing on concepts developed by Deleuze and Guattari (e.g. 1987) and Delanda (2002; 2006) among others, to analyze the emergence of these new state capacities. Exegesis of an assemblage theory of the state is the focus of Chapter 4. A final, fifth chapter concludes.

The Georgian Context

The post-Soviet partial-reform status quo was broken in Georgia by the 2003 "Rose Revolution," which brought approximately 100,000 demonstrators into the center of Tbilisi, Georgia's capital, to protest a rigged parliamentary election (Nizharadze 2003; Nodia 2003). This was the latest in a succession of tumultuous political events in Georgia that began as the Soviet Union started to disintegrate in 1987/1980, and the South Ossetian Autonomous Oblast of the Georgian Soviet Socialist Republic (SSR) declared independence. The resulting

Figure 1: Map of Georgia

low-intensity conflict led to South Ossetia gaining *de facto* independence from what most of the world came to recognize as the newly independent Republic of Georgia after the formal dissolution of the Soviet Union on December 26, 1991. Several days before the Soviet Union's official demise political violence gained intensity when Georgia's president, Zviad Gamsakhurdia, was deposed in a coup d'état perpetrated by paramilitary forces. A civil war between Gamasakhurdia's supporters followed, along with a second 1992-1993 separatist war over the independence of the autonomous region of Abkhazia in Georgia's northwest corner. As a result of this relatively bloody conflict Abkhazia too gained *de facto* independence from Georgia ; over 200,000 ethnic Georgians were expelled from Abkhazia during the fighting (Coppieters 1996).

Initially invited to return to Georgia by paramilitary groups hoping to legitimize their coup, Eduard Shevardnadze had great international prestige from his role as Soviet foreign minister under Gorbachev's premiership. Shevardnadze was elected president in 1995. He imprisoned paramilitary leaders, while reconsolidating military and police forces under central state command and consolidating presidential power by reappointing many loyal officials from his time as leader of the Georgian SSR (1972-1985) (Nodia 1998, 2002). Lack of institutional reform meant that, as in other FSU states, rapid privatization and "shock therapy" price liberalization took place in the absence of functioning legal institutions of market regulation (Pickles and Smith, 1998). Again as in other parts of the former Soviet Union in the 1990s, informal institutions, such as connected mafias and patronage by state officials, controlled market access and provided such services as contract enforcement (Radaev 2000; Volkov 2000, 2002; Gelman 2004; Ledeneva 2000, 2006). Private business activities required informal payments to "officials" in order to avoid ruinous bureaucratic entanglements (cf. Hendley et al. 2000). Informal payments flowed upward from patron to patron to the highest levels of government (cf. Hosking 2000). High office-holders and their extended kinship networks monopolized the most lucrative sectors of the economy (Wheatley 2005). The untaxed, unregulated shadow economy was estimated to encompass 60% of economic activity. Rates of tax collection never broached 12% of GDP (Schneider and Enste 2005), which meant that wage rates for state officials, eroded by inflation to starvation levels, were often not paid.

The crisis in the system of formal payments and formal rules perpetuated a system of informal payments and informal rules (Stefes 2006; Karklins 2005). This informal mode of market regulation created a highly uncertain business environment with very little new investment. Georgia's Soviet-era infrastructure rapidly disintegrated, and the government became increasingly dependent upon inflows of international aid to finance its budget deficits. Georgia's important geostrategic position as the western outlet for oil and gas exports from the Caspian Sea and Central Asia made it a priority for U.S. foreign policy (see the map in Figure 1), and Georgia became the largest per-capita recipient of bilateral aid of any Soviet successor state. With the Rose Revolution of November 2003 Georgia "made good" on the more than one billion dollars of U.S. democracy and development aid that it had received since 1991 (King 2004, 14) as Mikhail Saakashvili—the leader of the new westernized Georgian elite nurtured by U.S. educational exchange and development aid—gained the presidency and control of the Georgian parliament with a sweeping mandate to eliminate corruption and rebuild the state.

A Critique of the Transition Paradigm

In his analysis of elite competition over the form of post-Soviet Georgia's political-economic regime, Wheatley (2005) has argued that the Rose Revolution was an important step forward in Georgia's "delayed transition" from state socialism to capitalist democracy. Wheatley's account of transition in Georgia contributes to a body of scholarship that originally emerged in the 1970s through studies of democratization in Greece, Spain, and Portugal. The transition paradigm was extended to analyze 1980s democratization in Latin American countries such as Chile, Argentina, and Brazil, and then to the post-socialist space in the 1990s (see the seminal text by Linz and Stepan 1996). Transition is understood as a process of bargaining between elites, which took place in Southern Europe and Latin America between military dictatorships on one side, and civilian politicians and political parties advocating elections on the other. The approach is methodologically nationalist. State borders serve as containers of elite struggle, and the state is presumed to be a coherent and effective administrative apparatus. Control over the state apparatus is the main stake in the elite bargaining process over electoral rules. Politics and economy are consigned to separate spheres. Transition takes place in the political sphere of political and civil rights, while the economic sphere is presumed to embody a relatively stable framework of property rights that serves as little more than a backdrop to the democratization process.

Transition has been a deeply problematic approach to understanding changes in the post-socialist space, however. It was clear from the outset that the establishment of Western market-democratic order in post-socialist contexts would involve a “double transition” whereby democratization and marketization would take place simultaneously. This necessitated an integrated political economy approach to understanding change. Such an approach was however largely disenabled by the prevailing academic division of labor between economics and political science/sociology, the former focusing on transition as marketization, and the latter on transition as democratization. Despite this division of focus, an “effective state assumption” remained integral to the transition paradigm as a whole (Grzymala-Busse and Luong 2002). Marketization reforms required implementation by a state apparatus, whose presumed effectiveness would be enhanced, or at least not compromised by, the establishment of electoral rules and the popular choice of state leadership by the populace. The effective state assumption was erroneous, however. It posited the state as a unitary and intentional actor even as the Party organization at the core of the socialist state generally was disintegrating.

Superficial resemblances between bureaucratic organization in "first" and "second world" states led Western scholars to erroneously attribute "a stable and largely unchallenged administrative network" to the postsocialist state (Grzymala-Busse and Luong 2002, 530). This attribution error was particularly egregious when applied to the post-Soviet context of newly independent states with no living memory of independent self-rule in a capitalist economy. The perception that communism had over-endowed states with bureaucratic structures, or indeed a totalitarian overcapacity to regulate every aspect of social life (for critiques see Verdery 1996; Wedel 1998), led to policy recommendations of state dismantling. For example, "shock therapy" liberalization, whereby postsocialist states were stripped of capacities for central economic planning, was driven by the view of the socialist administrative form as an anachronistic behemoth.

By coupling such explanatory factors with the political violence that took place in early 1990s Georgia, Wheatley (2005) makes a strong case that "delayed transition" in Georgia resulted from state ineffectiveness, which was symptomatic of a long struggle between elites in Georgia over the structure of the political regime. Wheatley's analysis thus articulates the transition paradigm with a particular definition of state formation as "elite competition over the authority to create the structural framework through which policies are made and enforced"

(Grzymala-Busse and Luong 2002, 530). Such efforts to make transition fit the post-soviet context (cf. Stefes 2006) has the paradoxical effect of elevating the effective state to a decisive role in effecting different transition outcomes. Thus according to Wheatley, before transition could continue in Georgia elite competition needed to be resolved in favor of a westernizing faction gaining control of the state apparatus, yet the apparatus also needed to be made effective for creating progress along the path of transition.

Conceiving state effectiveness as both predicate and outcome of transition debases the notion of transition as a unitary path from a state socialist starting point to an endpoint in market democracy (cf. Carothers 2002). The transition-as-state-formation approach leads Grzymala-Busse and Luong (2002, 544) to outline four ideal-typical forms of political regime—autocratic, personalistic, fractious, and democratic—each characterized by different types of elite competition, and each of which may form different start and endpoints of transition. Elites are not freely elected in autocratic and personalistic regimes, unlike in democratic and fractious regimes. Autocratic and democratic regimes are similar, however, in that elite competition takes place "primarily through formal channels", while elites in personalistic and fractious regimes compete "primarily through informal networks". Because processes of elite competition can move states towards one or another ideal type, there is no guarantee of a particular endpoint to transitions that may variously lead to the autocratic, personalistic or fractious regimes of the former Soviet Union, and the democratic regimes of Central Europe.

With multiple endpoints to transition conditioned by the rules of elite competition, the familiar diffusion account of “successful transition” as the progressive adoption of Western capitalist democratic norms in postsocialist states becomes highly geographically determined (McFaul 2002). Following Chakrabarty’s (2000) notion of “History 1” as that in which social development is inevitably measured against European history, what we might call the “European path” of transition is predicated on starting point where distinctions between state and society remained relatively effective at the end of state socialism, despite the effort to blur such distinctions under Communist Party rule. In this view, European transition was successful in the westernmost tier of postsocialist states where the shortest histories of state socialism prevailed, and where the most concerted effort was made the European Union and its member states to motivate institutional reform. Where European transition was relatively successful, rules that delineated state from society and public from private interests structured elite competition to a greater degree than in the new Soviet successor states, which were less effective for realizing European transition (Grzymala-Busse and Luong’s 2002).

This account of divergence in transition outcomes represents an important attempt to explain why post-socialist political and economic change has not been a one-way transition to market democracy, particularly in the former Soviet

Union. Nevertheless Grzymala-Busse and Luong's (2002) argument is tautological in that it renders a particular type of state/society distinction as both predicate and outcome of successful transition to market-democracy. The distinction is the familiar one from classical sociology (Durkheim 1975; Weber 1978), where maintenance of a boundary between public and private capacities in a state of law creates the predictable environment necessary for calculating risk in the pursuit of capital accumulation. Public institutions that maintain a legal order of private property are thus foundational to a "free" market. In its inability to excise the effective state assumption, transition scholarship reifies the state/society boundary rather than examining how it is constituted, and ultimately maintains European transition as the measure of progress. Lacking sufficient histories of capitalism and democracy, post-Soviet countries become prisoners of their "non-European" geography, moving along time on substandard trajectories of transition. The normative foundations of the transition paradigm are revealed in the use of ideal types, such as "capitalist democracy," to examine state formation as competition between elites, while leaving unexamined the ground of the state as a quotidian reality of human interaction that conditions real possibilities for change.

An Alternative approach to State Formation

Instead of presuming competition between elites or a transition towards a particular endpoint, my focus is on the contemporary context of state formation conceived as an aleatory process lacking any set of predetermined outcomes. I do not assume that state capacity to organize society exists, but rather interrogate how new state/society boundaries are delineated such that states gain capacity to act as centers of authority. This work contributes to recent scholarship on political and economic reform in post-socialist countries that has examined efforts to delineate new boundaries between public and private interests. For example, Woodruff (1999) examines the legacy of the Soviet system of payments and the problems surrounding the effort to institute money as the means of payment over barter. Russian monetary policy institutions were reformed to serve public interests rather than the private interests of insider clients in order to remonetize the economy after the hyperinflation, financial crises, and the massive expropriation of the liquid assets of the state treasury and the banking sector enabled by 1990s clientelism (Hendley et al. 1998; Johnson 2000; Easter 2002). Further, Volkov (2000; 2002) examines state efforts to institute a monopoly over the use of force in the Russian marketplace through reforming the police and state security services and their legal relationship with private security services. His (2002: 165; see also Mitchell 1991) research demonstrates that state capacity to supplant the regulation of markets by mafias and patronage networks requires repeated daily practices that produce and maintain "structural boundaries" separating such relational categories as public/private in the realm of economic interests, formal/informal in the system of laws and rules, and personal/impersonal in the mode of exercising state prerogatives. Where a public/private boundary has little constancy, the state has less capacity to organize society through consent or compliance with legal codes since the "officials" responsible for law enforcement will be easily swayed by personal interests.

Conceiving states as assemblages of particular capacities means that state formation (and collapse) is ongoing, rather than a process that ends with the ascendency of a particular group of elites who establish a new "structural framework" for policymaking. Understanding the production of new relations between the state and society demands attention to not only the central design of reforms and their implementations by local state agents, but also how people in various places encounter the laws, institutions, officials, and ideologies of the state (Yurchak 2002: 311).

Methodology

Adopting this perspective, my collection of primary data focused on interactions between agents affected by political and economic reforms. My key unit of analysis is small business entrepreneurs operating in Georgia. I chose this group because its members would be strongly affected by the reform agenda of the Saakashvili government, but would lack much influence over state decision-making compared to larger firms (Hellman et al. 2003). I also studied the formation of new capacities for economic regulation through ethnographic research on interactions between the Georgian government and USAID's Georgia Business Climate Reform Project, conducting fieldwork over two periods: in summer 2005 and between November 2006 and April 2008.

I employed a mixed methods approach with a spatially embedded sampling strategy, following Creswell (2003). Primary data collection was structured by a quantitative analysis of survey data on small business's satisfaction with the regulatory regime collected by the International Finance Corporation, the business development arm of the World Bank (IFC 2004). My analysis of the survey data identified spatial variation in the quality of the business environment across Georgia's administrative regions. I chose the four regions that together exhibited the full range of variation in business environment quality—Tbilisi, Guria, Khakheti, and Adjaria, ordered from worst to best. From these four regions I selected a total sample size of 58 small business entrepreneurs for interviews. I personally conducted all interviews with the aid of a native Georgian research assistant acting as interpreter using a semi-standardized questionnaire (see Appendices A and B for interviewees and questionnaires, respectively). I also collected data on the design and implementation of specific market governance reforms from central state officials, local state officials in each of the four selected regions, business association leaders, economic policy consultants to the Georgian government, and USAID officials variously through semi-standardized and informal interviews and participant observation.

Outline of the Chapters

After the Rose Revolution the Saakashvili government quickly embarked upon a neoliberal reform agenda focused on "rolling back" state controls on economic activity and privatizing most remaining public property, while simultaneously "rolling out" new institutions to provide minimal regulation (Peck and Tickell 2002). Eschewing a form of Asian developmental state strategy characteristic of South Korea or Taiwan, with special treatment for strategic firms or economic sectors, Georgia followed other small post-socialist states such as Estonia and Slovakia with horizontal deregulation across all economic sectors designed to improve the attractiveness of the national business environment to foreign investors.

Chapter 2 details the reform strategy used to promote increased inflows of foreign investment to Georgia. The strategy made use of how global indices of economic competitiveness, such as the World Bank's *Ease of Doing Business* index (EDBI), use scores and rankings to provide investors with information on the quality of country business regulations. This work of quantifying and indexing regulatory quality to a singular ranking constructs a "best practice" model, which characterizes regulation in the highest-ranked states. Georgian policy makers worked together with USAID's Georgia Business Climate Reform project and the World Bank to design a program of regulatory reforms that improved its ranking from 100/155 in 2006 the top 20 by 2008. Georgia was rewarded for its success in transferring regulatory best practices from higher ranked states with a greatly improved international reputation for having investor-friendly policies. The rankings ascension was the centerpiece of an investment promotion campaign that accompanied inflows of foreign direct investment that more than tripled over 2004-2007 according to the World Development Indicators of the World Bank.

Making full use of EDBI as a strategic resource for investment promotion involved the composition of an institutional assemblage of the Georgian government, USAID, and the World Bank's Doing Business project. The Chapter uses ethnographic research to reveal how power geometries emerged among the assembled organizations to enable the transfer of EDBI's best practice regulations in some areas, and impede it in others. The case study reveals how limits to policy transfer are created by geographic context, and how EDBI rankings can be exploited to obfuscate problematic business conditions overlooked by its measurement methodology.

Chapter 2 thus introduces the concept of assemblage and uses it to analyze how a set of agencies interacted to create capacities for promoting inward investment that exceed the capability of any single agency acting alone. I argue that by helping to attract the interest of foreign investors, the production of elevated competitiveness rankings serves as an extraterritorial state strategy for gaining from globalization. This type of assemblage is extraterritorial in the sense that it incorporates not only Georgian government officials, but also a set of international consultants and USAID officials, as well as the World Bank's network of analysts.

Chapter 3 involves a shift in scale to examine reform processes focused on inscribing boundaries between state and society. Here I reorient the assemblage concept to analyze how the Georgian central government more than tripled its rate of tax revenue over 2004-2007, from approximately 7 to 23 percent of GDP (according to the World Development Indicators of the World Bank).

I use ethnographic observations and data from my interviews with small business entrepreneurs and state officials to investigate this process of fiscal state formation. My analysis focuses how tactics of government worked on subjects to motivate compliance with the new tax code and with new procedures for paying and collecting tax. Anti-corruption and anti-tax evasion campaigns were central to an effort to discipline the conduct of civil servants and businesses. Yet, the rapid emergence of an unprecedented scale of tax compliance in Georgia cannot be explained by central enforcement alone, but requires understanding how taxation became a normal, even prosaic part of doing business. I use Painter's (2006) concept of "prosaic stateness" to understand how the state, and its exaction of revenue, came to be embodied in the subjective dispositions of my research informants, most of whom had previously been subject to little or no taxation as small business owners operating in the informal sector. Ethnography enabled understanding how their various modes of resistance to taxation produced boundaries between state and society as tactics of government gained new organizational force in their business practices, drawing them into the formal, state-observed sector of the economy.

State formation is a largely historical field of scholarship, which makes ethnography a relatively unusual method to use in its study. As Chapters 2 and 3 attempt to demonstrate in different ways, the key to making ethnography relevant for the study of state formation is to think beyond the macro/micro distinction that guides much social science research, such that "micro-" subjective dispositions are understood as inseparable from "macro-" institutional processes. Assemblage theory provides guidance for this type of research. Chapter 4 attempts to systematically marshal a key set of conceptual resources in support of an assemblage theory of the state—useful for guiding ethnographic investigation of how the state itself is a process, and one that is continually ongoing.

My effort to articulate an assemblage theory of the state entails an immanent critique of inconsistencies in Mitchell's (1991) important article, "The Limits of the State," whereby I reach alternative theoretical conclusions from those of the author. I build an alternative theory of the state on the basis of these conclusions, arguing that the state is composed of agencies whose interactions express a set of capacities of a whole that is greater than the sum of its parts. While systems also have this greater-than-parts character, an assemblage is unlike a system in that it is a type of agency, albeit compositional in form and without a unified center of initiative. While not a subject of its own intentions, a state assemblage is nevertheless capable of differentiating itself from the object of its actions: society.

In the final sections of Chapter 4 I attempt to illustrate some of the implications of this form of state theory by drawing on data collected from one oral history with an entrepreneur of the scrap metal business in Georgia. The narrative of Zaza the scrap metal dealer demonstrates how state assemblage involves the immanence of micro-subjective and macro-institutional processes, such that capacitating the state ultimately relies on articulating desire to be governed with specific tactics of government. In the case of Zaza the effort was unsuccessful, despite his initial strong support for the Rose Revolution and subsequent effort to comply with and uphold the new codes regulating his business. Zaza's desire for a better state was ultimately not captured by the tactics of the revolutionary government. His desire became a potential counterrevolutionary force that contributes to Georgia's ongoing political instability.

The agency of the state is generally signified in terms of the actions of an apparatus or by its "machinic" character. The concluding chapter draws some implications of the theory for understanding "machinic geographies" beyond the strange case of Georgia.

Chapter 2

Assembling International Competitiveness

Despite, or perhaps because there is no consensus about what constitutes place competitiveness (Bristow 2005), recent decades have witnessed a proliferation of regimes of measuring competitiveness, variously defined, and applied to cities, regions, and states (Malecki 2002; 2004). The World Economic Forum's annual *Global Competitiveness Index* (GCI) is perhaps the best known regime of measuring and ranking the economic competitiveness of states (Schwab and Porter 2008). Similarly, the World Bank's *Ease of Doing Business Index* (EDBI) enrolls a global network of analysts to rank state competitiveness using ten indicators of regulatory quality (World Bank and IFC 2009). Published annually since 2003, EDBI is designed to further the World Bank's long-term effort to transform "second" and "third" world countries into "emerging" and "frontier" markets, where economic development is financed by foreign investment (Ó Tuathail 1997; Sidaway and Pryke 2000; Lavelle 2000; Lee 2003).

More than a schema for measuring competitiveness, EDBI is a tool of what Peck (2002; 2004) calls "neoliberal fast-policy transfer" and "reform at a distance." It works by fostering international competition between policymakers to raise their state's ranking, thereby demonstrating to international investors a commitment to business-friendly policies. In the case of Georgia, reforms were carefully targeted to raise the country's EDBI ranking, which vaulted from 100/155 in 2006, into the top 20 by 2008 (World Bank and IFC 2006a; 2007). This rankings ascension was used in an investment promotion campaign designed to dispel the country's profile as a post-Soviet failed state, and recast it as a new "frontier market." Concurrently, the volume of foreign direct investment (FDI) inflows to Georgia tripled between 2005 and 2007, whence it was the world's ninth-highest-ranked recipient of FDI as a percentage GDP (UNCTAD 2008).

This chapter details how the Georgia investment promotion strategy used EDBI's knowledge network to design reforms, and to represent Georgia as an economy with exemplary regulatory institutions. Networks feature prominently in relational economic geography scholarship as sources of knowledge for locally-clustered firms, especially tacit forms of knowledge produced and circulated via interpersonal contact (Boggs and Rantisi 2003; Bathelt and Glückler 2003; Yeung 2005; Sunley 2008). Assumptions about the local scale of knowledge networks have however been challenged by Bathelt, Malmberg, and Maskell (2004), as well as by scholarship on geographies of finance (Clark 2000; Sinclair 2000; Sidaway and Bryson 2002). Studies of the emerging market funds industry (Lai 2006), and infrastructure investing (Torrance 2009), reveal how transnational financial networks shape capital markets by controlling what knowledge is produced, and who gets it. While comparatively little attention has been paid to knowledge networks in the literature on territorial/regional competition for inward investment (Tewdwr-Jones and Phelps 2000; Phelps and Tewdwr-Jones 2001; Phelps and Wood 2006; Phelps 2008), I argue for their importance as strategic resources for investment promotion.

A successful investment promotion strategy will create new extraterritorial relations with investors. In order to theorize the bases of success, I use the concept of "state extraterritoriality" (Phelps 2007) to analyze how the state is "unbounded" (Massey 1994; Amin 2002; 2004; Allen 2004)—i.e. "formed out of a nexus of relations and connections, much of which takes its shape from elsewhere" (Allen 2007, 1162). My relational approach departs from much of the literature on regional/territorial competitiveness by focusing not on the particularity of locality characteristics, but rather on how such characteristics shape relations between the locality and other sites. Indeed, EDBI scores are state characteristics that matter for investment promotion because they relationally defined, showing relative proximity to an optimal regulatory model.

Fitting Georgia to the model involved composing officials from Georgia's government, USAID contractors, and the EDBI knowledge network, into assemblage with new capacities for policy transfer and investment promotion. This institutional assemblage—an integrative concept used to analyze relations between hierarchies and networks (cf. Sheppard 2008; Rankin 2008; Swain 2006; Allen 2007)—produced *scale effects*. These took the form of new central government capacities to regulate Georgia's territorial economy, new place-characteristics that shape the country's extraterritorial relations and elevate its position in the global topography of investment locations, and gatekeepers that divide global from national access to information about specific investment opportunities in Georgia. The emergence of scale effects from the assemblage reinforces the prepotency of a both/and, rather than either/or, approach to utilizing network and scale concepts in the study of economic and political change (Sheppard 2002; Leitner, Pavlik, and Sheppard 2002; Sheppard and McMaster 2004; Leitner and Miller 2007; Jessop, Brenner, and Jones 2008).

The chapter proceeds as follows: I first introduce of the concept of state extraterritoriality and the strategic implications of policy credibility for attracting foreign investment. I then move to articulate the concept of extraterritorial policy credibility with the neoliberal political economy literature, focusing on how competitiveness indices and knowledge networks incentivize the transfer of policy "best practices" from higher to lower ranked states. Subsequently, I examine the discrepancy between Georgia's high EDBI ranking and its low GCI ranking—the result of EDBI-targeted reforms. Following a methodology discussion on relational ethnography, I present data from expert interviews and from participant observation research in USAID's Georgia Business Climate Reform (GBCR) project. My analysis traces power geometries within the institutional assemblage that implemented the rankings ascension and investment promotion strategy. I conclude with a discussion of the theoretical implications of the research findings, as well as future research trajectories suggested by the case study.

State Extraterritoriality, Assemblage Theory, and Global Governance

State extraterritoriality is a useful concept for unraveling the seemingly paradoxical complicity of states in the diminution of their decision making powers as new, non-state "sites of rulemaking" emerge to govern transnational economic interaction (Phelps 2007, 371). Such new sites of authority include the knowledge networks that support capital markets by benchmarking the economic performance of firms and polities, and international institutions such as the World Bank, IMF, and WTO that support the global diffusion of "best practices" in economic policymaking. Ruggie (1993, 172) argues that inter-state relations have been partially internalized in these global governance institutions, enabling a global space-of-flows with its own rules and authorities to progressively dominate and homogenize a distinct space-of-places. Rejecting this analytically debilitating local/global binarism (cf. Gibson-Graham 2002), the extraterritoriality concept draws attention to how states produce transnational organization as part of strategies for accumulating capital (Phelps's 2007).

While global financial markets will indeed punish states that stray from the "rule" of anti-inflationary fiscal and monetary policy, the capacity of global markets to rule is founded on state capacities to guarantee property rights, regulate conflicts of interest, provide economic data, and act as lenders of last resort. Further, just as it is a fiction to consider state powers and capacities in isolation from the system of jurisdictions created by states' historical interactions (Taylor 1995; Glassman 1999), the emergence of new sites of rule in transnational capitalism cannot be isolated from states' extraterritorial strategies—"the internationalization of capital is critically dependent upon the internationalization of the state" (Yeung 1998, 296). The colonialism and neocolonialism of advanced capitalist states, and efforts to create international law, institutions and the host of regional and bilateral trade and investment agreements, should be seen as state strategies for enabling extraterritorial accumulation by favored fractions of capital. Strategic action by advanced capitalist states produces durable core/periphery relations, yet extraterritoriality not the sole preserve of core positionality (Sheppard 2002). The export-led growth of Asian developmental states is a prominent example of how determined policymakers can grasp strategic opportunities that emerge from the changing organization of transnational capitalism (Amsden 1989; Haggard 1990; Brohman 1996; Glassman and Samatar 1997; Weiss 1998), and how new extraterritorial strategies can reshape economic geographies (Yeung 2007).

State extraterritoriality is both predicate and consequence of states' pursuit of economic interests beyond their borders. In order to understand what prefigures opportunities and constraints for strategic action, I conceive state extraterritoriality as a type of assemblage with its own capacities—capacities that emerge from interactions between the agencies that compose the assemblage (Delanda 2006; Sheppard 2008). Among the components of the extraterritorial assemblage are officials from different states interacting with each other, and also state authorities interacting with transnational actors: e.g. governments giving investment incentives to multinational enterprises (MNEs), privatizing public assets, selling rated sovereign debt securities, and receiving policy advice and negotiating conditional loans from IFIs. Extraterritorial accumulation strategies entail changing how a state interacts with other agencies composing the assemblage, such that local capitalists benefit.

Sites of rulemaking emerge where strategic interactions create hierarchical relations among the networked agencies composing the assemblage. The articulation of hierarchies and networks produces a certain scale of organizational effects among an assemblage's components. Extraterritorial rules are scale-effects that characterize the assemblage's compositional form of agency, which differs from, and exceeds the capacities of the individual component agencies to affect each other. For example, a state will adopt austere fiscal policies not in direct obeisance to warnings from debt ratings agencies, but to avoid the potential systemic repercussions of a sovereign debt downgrade, such as higher borrowing costs and speculative attacks on the national currency. As seen in the fraught negotiations in the World Trade Organization over the rules of global trade, the capacities of the extraterritorial assemblage to rule economic globalization are not determined by a transcendental design, or any single agency. In recognizing the emergent character of an assemblage's capacities to act upon its components, it is not all paradoxical that states' strategic interactions have produced extraterritorial rules, and that these scale-effects may shift the available set of accumulation strategies. New components of the assemblage, such as competitiveness indices, may add to, or enhance the ruling capacities of the assemblage, as well as open new strategic opportunities for extraterritorial accumulation.

Extraterritorial Strategies, Policy Credibility and Neoliberalism

The objectives of state extraterritorial strategies may include the anchoring of global production networks in a state (especially the command and control functions of these networks), the opening of export markets to support the domestic agglomeration of production-for-export, and the stimulation of outward FDI to extend supply chains from the home market (Phelps 2007, 375-76). State capacities to pursue such strategic goals are geographically uneven, and underdevelopment constrains the set of strategic options for extraterritorial accumulation relative to the options of advanced capitalist states.

The case of Singapore is illustrative; in the years immediately following its independence, indiscriminate FDI promotion—highly successful in attracting labor-intensive production-for export (Yeung 1999)—was the city-state's most practicable extraterritorial accumulation strategy. Reaching the limits of growth via FDI in labor-intensive manufacturing in the 1980s, Singapore shifted its strategy to promote inward FDI in higher value-added sectors such as research and development, finance, and supply chain coordination and control, while promoting outward FDI in lower value-added manufacturing to Batam and Bintan islands, and other regional locations. This strategic shift to promoting outward FDI has met mixed results (Phelps 2007). Singapore nevertheless provides a model case of extraterritorial accumulation for other small developing states.

Indeed, Singapore was an oft cited model in policymaking circles during my fieldwork in Georgia in 2007-2008. Georgia's immediate goal was indiscriminant FDI attraction and finding buyers for a large-scale privatization program. Hitherto largely overlooked by transnational investors, Georgia lacked any obvious competitive advantage for the pursuit of FDI. Its strategy was to accumulate "reputational capital," i.e. the credibility of a territory as an amenable site for transnational business and investment (Phelps 2007). Among the many sources of reputational capital, policy credibility is undoubtedly important. Yeung (1996) found that an institutional and regulatory environment perceived as friendly to MNE activities is the most important determinant of the attractiveness of East Asian states for investment, trumping even monetized investment incentives.

Policy credibility can be gained from regulatory undercutting and supply-side interventions that "get the institutions right" in accordance with the neoliberal "competition state" model of economic development (Amin and Thrift 1995; Cerny 1997; Chang 2002; Fougner 2006). Neoliberalism in the periphery rejects state-directed financing to strategic firms and economic sectors, privileging FDI as "the highest form of external finance for development, ahead of portfolio investment, commercial loans, or overseas development aid" (Phelps, Power, and Wanjiru 2007, 84). The basic enabling condition for FDI is the elimination of restrictions on cross-border capital flows—a macroeconomic "Washington Consensus" policy (Williamson 1990) instituted by a global network of government economists trained at select US universities (Chwieroth 2007). Building on capital account liberalization, EDBI is a tool for extending the transnational regime of neoliberal policymaking to microeconomic reforms designed to improve local "investment climates"—"the laws, regulations, and institutional arrangements that shape daily economic activity" (World Bank and IFC 2008, *v*).

Minimalist regulation is closely tied to the institutional determinants of territorial competitiveness, as formulated by the ranking methodologies of GCI, and especially EDBI. The rankings provide transnational investors and market analysts with ready comparisons of states' institutional and regulatory environments, and policymakers with policy objectives imbued with extraterritorial legitimacy. To the extent that local policymakers are beholden to rankings-defined policy objectives, competitiveness indices define rational economic policymaking (Fougner 2008; Bruno 2009) and function as forms of extraterritorial "metagovernance" (Jessop 1999)—the governance of governance that narrows the available set of reputable policy options. This narrowing however also frames a strategic opportunity for gaining extraterritorial policy credibility by ascending in the competitiveness rankings, a feat accomplished via transferring policy "best practices" from higher-ranked states.

Competitiveness Indices as Tools for Policy Transfer

More than simply measuring competitiveness or regulatory quality, the World Bank's Doing Business project is designed to facilitate specific reforms:

> Since its start in October 2003 the Doing Business project has inspired or informed 113 reforms around the world. In 2006 Georgia targeted the top 25 list and used Doing Business indicators as benchmarks of its progress. It now ranks 18 on the ease of doing business, and the government has set an even more ambitious goal. Saudi Arabia and Mauritius have targeted the top 10. Both have made tremendous progress: Saudi Arabia now ranks 23, and Mauritius 27. (World Bank and IFC 2007, 7)

Each Doing Business report includes a "user's guide" for finding reform examples from other states, while the Project's website (www.doingbusiness.org) offers a "rankings calculator" and extensive details on the EBDI methodology—useful for determining which reforms will produce the greatest ascension in the rankings. At the center of the EDBI knowledge network, the website functions as a type of knowledge clearinghouse for policymakers to reference as they work to adopt regulatory "best practices" that EDBI identifies.

> What I like about *Doing Business*… is that it creates a forum for exchanging knowledge. It's no exaggeration when I say I checked the top 10 in every indicator and we just asked them, "What did you do?" If there is any advantage to starting late in anything, it's that you can learn from others. (Dr. Mahmoud Mohieldin, Egypt's Minister of Investment, quoted in World Bank and IFC 2008, *vii*)

The above quote recalls Gerschenkron's (1962) argument that developmentally "backwards" states should "catch up" by adopting technology from more advanced states, and skip over intervening "stages of development." Such evolutionary metaphors—widespread and problematic features of competitiveness discourses (Schoenberger 1998; Sheppard 2000)—are belied by the fundamental incongruity between evolutionary economics and competitiveness indices such as GCI and EDBI. An evolutionary approach would examine the historical and relational contexts of competitiveness, as well as stochastic factors such as entrepreneurship through which new developmental trajectories may unexpectedly emerge (Boschma 2004; Grabher 2009). In contrast, competitiveness indices use methodological territorialism and quantification to block out historical and relational contexts. This renders states as clearly bounded and internally coherent territorial economies with competitiveness attributes that are their exclusive possessions (Sheppard 2000; Bristow 2005).

By quantifying competitiveness attributes and benchmarking their relative quality via rankings, an index defines an optimal development model that is approximated by the highest-ranked territories (Malecki 2007). Further, quantification abstracts competitiveness attributes from contexts and renders them fungible—low growth, low productivity policies can be replaced with better policies, infrastructure can be upgraded, etc. (Sheppard 2000; Bristow 2005). EDBI in particular is an exemplary technology of fast-policy since it quantifies business environment quality as "simplified, disembedded, and reproducible administrative routines" (Peck 2002, 349). This implies a "level playing field" for competition, i.e. all territories are presumed to be equally positioned to succeed since the optimal development model can be achieved by adopting the proper mix of "best practice" economic policies. The development "magic bullet" is thus identified as managerial ability to successfully transfer competitiveness-enhancing attributes from higher-ranked territories.

Competitiveness indices serve as useful metrics for evaluating the managerial prowess of policymakers in different territories. This creates a more individualized competitive dynamic between different policymakers (Malecki 2004, Bristow 2005). As extraterritorial examples of the global proliferation of techniques for performance auditing (Power 1997; Strathern 2000a; Yeung 2002; Dunn 2004; Ward and England 2007; Kipnis 2008), competitiveness indicators are useful for incentivizing the adoption of international "best practices" in economic policy. The behaviorist success of such indicators is however not assured (Rydin 2007). To be successful, clear costs and benefits must be assigned to different performance scores, as in "New Public Management" (Lane 2000) competitive regimes for distributing funding (e.g. British academe's Research Assessment Exercise). Hence, IFIs and international donors increasingly attempt to motivate conformity with policymaking expectations, and impel policy transfer, by making the allocation of development assistance conditional upon a country's scores on indicators of "good governance" (Hermes and Lensink 2001;

Hout 2004; Soederberg 2004; Zanotti 2005; Nanda 2006; Roberts, Wright, and O'Neill 2007; Mawdsley 2007; Löwenheim 2008). Further monetary incentives for policy transfer—less direct but nevertheless salient—are found in multi-country econometric models that show a positive association between higher scores on various indicators of institutional quality, and greater volumes of FDI (Stein and Daude 2001; Globerman and Shapiro 2002; Benassy-Quere, Coupet, and Mayer 2007). Policymakers may thus expect greater international aid and/or investment from adopting policies that cause their state's scores to improve on governance indices such as EDBI. This set of incentives forms "the basis for a national and international market in transferable policy lessons and strategies, the unpredictable and inescapably slow process of institutional learning having been reduced to a technocratic process of administrative cloning" (Peck 2002, 349).

Since participating in the market for transferable policies is not compulsory for sovereign states, understanding this market requires attention to how specific instances of reform relate to the rewards structure surrounding competitiveness rankings. Market analysts at firms such as Standard and Poor's use GCI and EBDI rankings and various other governance indicators to assess country risk (Hessel and Hall 2007), and to create customized knowledge for investor decision making (Arndt and Oman 2006). Unlike "developed markets," which generally occupy high competitiveness rankings, competitiveness indicators may provide relatively more important data for investor decision making vis-à-vis “emerging” and “frontier” markets, where information on investment opportunities is often scarce (Lai 2006; Sidaway and Bryson 2002). As in the case of Georgia, shortcuts to extraterritorial policy credibility can be found by exploiting connections between competitiveness indicators, capital markets, and international development assistance. In this way, a rankings ascension strategy serves investment promotion.

Playing the Rankings Game: Comparing Georgia’s Performance on EDBI and GCI

If competing policymakers and organizations expect benefits to follow from ascending in a league table, then they will be likely to “play the rankings game.” For example, institutions of higher education often devise strategic plans that explicitly target higher rankings on national or global league tables, and commit significant resources and policy changes to rankings ascension (Machung 1998; Farell and Van Der Werf 2007; Marginson 2007). In the context of state competitiveness, the rankings game similarly involves “trying to “Best the System” by re-presenting/configuring…data in the most favorable way or otherwise attempting to influence the input metrics” (Hazelkorn 2008, 194). Some input metrics are however easier to influence than others, as revealed by comparing Georgia’s EDBI and GCI rankings.

While Georgia was ranked in the bottom 35th and 32nd percentiles respectively on the 2006 editions of EDBI and GCI, by 2009 Georgia occupied

Table 1: EDBI Top-20 Ranked States and Corresponding GCI Rankings

Country	EDBI 2009 Rank	GCI 2008-2009 Rank
Singapore	1	5
New Zealand	2	24
United States	3	1
Hong Kong	4	11
Denmark	5	3
United Kingdom	6	12
Ireland	7	22
Canada	8	10
Australia	9	18
Norway	10	15
Iceland	11	20
Japan	12	9
Thailand	13	34
Finland	14	6
Georgia	**15**	**90**
Saudi Arabia	16	27
Sweden	17	4
Bahrain	18	37
Belgium	19	19
Malaysia	20	21

EDBI's 92nd percentile, while its GCI percentile ranking languished at 32nd.[1] The difference between Georgia's 2009 percentile ranks on the two indices is the single largest of any country—nearly three standard deviations from the mean.[2]

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[1] Georgia's EDBI ranking reported in the yearly editions of *Doing Business* increased from 100/155 in 2006, to 37/175 in 2007, to 18/178 in 2008, to 15/181 in 2009, to 11/183 in 2010 (World Bank and IFC 2006a; 2006b; 2007; 2008; 2009). The country's GCI ranking was 85/125 in 2006, 90/131 in 2007, 90/134 in 2008 and 90/133 in 2009 (Porter, Schwab, and Lopez-Claros 2006; Porter, Schwab, and Sala-I-Martin 2007; Schwab, and Porter 2008; Schwab, Sala-I-Martin and Blanke 2009).

[2] To be exact, 2.96 is the normalized difference (Z-score) for Georgia's EDBI and GCI percentile ranks.

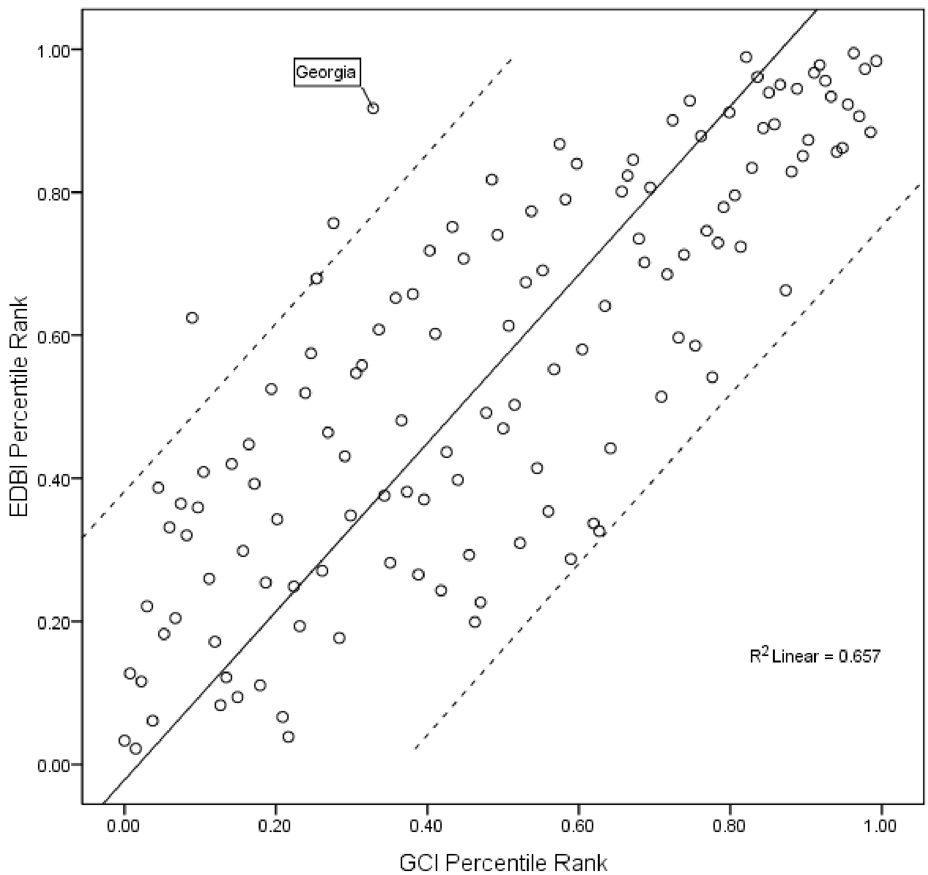
Because such discrepancies in country rankings may cast doubt on the validity of EDBI's measures of international competitiveness, the authors of *Doing Business 2009* attempt to reassure readers with the claim that "economies that rank among the top 20 are those with high per capita income and productivity and highly developed regulatory systems" (World Bank and IFC 2008, *vii*). Yet, despite its 15th rank (see Table 1), Georgia's GDP per capita is far below any other country in the top 20—only 14 percent of the average.[3] In another attempt to support the claim that EDBI measures economic competitiveness despite outliers such as Georgia, *Doing Business* reports a high overall correlation between EDBI and GCI rankings (World Bank and IFC 2009, *vi*). Indeed, the two indices' 2009 rankings are correlated with a Spearman's coefficient of 0.811.[4] The rankings scattergram depicted in Figure 2 sets Georgia's data point far in the top left-hand corner; the furthermost outlier vis-à-vis the close overall correspondence between the indices' rankings.[5] This position reflects strategic planning and

[3] Georgia's 2007 per capita GDP was $4405.44 measured by purchasing power parity in constant 2005 international dollars. The average figure for EDBI's top 20 states in 2009 was $31,423.08. Source: World Bank, World Development Indicators

[4] I deleted countries not ranked by both of the indices from the data set when I calculated this correlation coefficient (N = 130). The coefficient is significant at the 0.01 level.

[5] Though the non-parametric Spearman's rank correlation coefficient is best suited for evaluating the level of correspondence between the two indices' percentile ranks, there is also a strong linear relationship represented by the solid line in Figure 1. The dashed lines represent the 95 percent confidence intervals of the linear R^2 statistic of 0.657.

Figure 2: Scattergram of 2009 EDBI and GCI Percentile Ranks for 134 States



concerted effort to use EDBI guide to policy transfer, in order to hit targets for rankings ascension.[6]

Methodological differences between the two indices create the structure of opportunity for Georgia's unparalleled ascension on EDBI. Whereas GCI seeks a comprehensive model of the "set of institutions, policies, and factors that determine the level of productivity of a country" (Schwab and Porter 2008, 3,

[6] Though my arguments about Georgia's outlier status are even more relevant to its 2010 EDBI rank of 11/183 (6th percentile) than its 2009 rank, I analyze the 2009 rankings for consistency with data analysis presented in the chapter's later sections on how the 2009 rankings were targeted.

author's italics removed), EDBI provides a narrower model of competitiveness focused on regulatory rules. The model reduces institutions to "the rules of the game" for economic action after the new institutional economics (North 1990), and takes seriously De Soto's (1989; 2003) exhortations that facile regulations in areas such as property registration are the secret keys to greater capitalist entrepreneurship (for a critique see Mitchell 2007). EDBI's 10 indicators measure the quality of "regulations for starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business—as they apply to domestic small and medium-size enterprises" (World Bank and IFC 2008, *v*). Minimalism and parsimony are the overriding criteria for quantifying regulatory quality; EDBI uses a Taylorist methodology to count the cost in time and money for a "standardized case scenario"—usually a medium-sized limited liability company or local equivalent located in the country's largest city—to comply with regulations. Transactions between firms and state institutions are broken down into separate steps in order to provide time-to-completion estimates. Data are collected from textual analysis of regulations, laws, and fee schedules, as well as surveys of lawyers and business people with first-hand knowledge of regulatory compliance. The highest scoring states have the lowest official cost of regulatory compliance. For example, the state with the fewest separate taxes and separate payments, lowest tax rates, and fastest (electronic) payment system will score highest on the "paying taxes" indicator. States that score the highest on the “employing workers” indicator have the least regulation of hiring and firing decisions. The measurement focus on legally mandated procedures and fees enables states with the capacity to quickly pass reform legislation to leap upward in the EDBI rankings faster, and further, than is feasible with GCI.

The relative “stickiness” of Georgia’s GCI ranking results largely from the use of “stages of development” and opinion surveys to compile the index. At Georgia’s (low) stage of development, GCI’s opinion survey data on institutional quality are heavily weighted determinants of overall competitiveness (Schwab, Klaus, and Porter 2008, 7). *Doing Business* on the other hand rejects weighting indicators according to “stages of development,” arguing that “one size can fit all” (World Bank and IFC 2004, *xvi*)—there is one global “best practice” model of minimalist regulation which is equally applicable to all states. Further, opinion surveys are disavowed since sampling and survey design biases are difficult to avoid (cf. Lall 2001), and “perceptions measures are often driven by general sentiment but do not provide useful indicators of specific features of the business environment” (World Bank and IFC 2004, 13).

To be sure, fast-paced reforms such as the 2007 changes to Georgian laws on protecting minority shareholders, which improved Georgia’s rank on “protecting investors” from 135/175 in 2007, to 33/178 in 2008, may outpace perceptions of their impacts. Yet, without the use of perceptions data, EDBI’s indicators cannot capture institutional interdependencies that affect legal norms and the implementation of new legal rules (Davis and Kruse 2007). EDBI's methodological myopia makes it possible to game the system of measuring economic competitiveness by legislating dramatic rankings improvements, which may not reflect prevailing relations between firms and the state.

Like other transparency regimes and types of performance auditing, the type of visibility that EDBI produces works simultaneously to conceal what is not, or cannot be measured through its methodology (Strathern 2000b). In particular, the representation of an exemplary regulatory environment created by Georgia's EDBI ranking ascension is strategically valuable for concealing institutional deficiencies revealed by GCI and other sources, such as insecure property rights and the lack of an independent judiciary (Papava 2006; Transparency International Georgia 2007). Using data from opinion surveys of Georgian businesspeople, GCI ranks Georgia 109 on "property rights," 112 on "judicial independence," and 123 on "protection of minority shareholders interests," out of the total 134 countries (Schwab and Porter 2008, 169).[7] Despite the seemingly fundamental importance of these factors to the quality of a country's business environment, EDBI methodologically ignores them.

Nevertheless, outperforming peer countries according to EDBI's investment climate benchmarks has so far been an effective extraterritorial strategy for promoting certain types of investment and attracting foreign investors to ongoing privatizations of state assets. Figure 3 shows the strong

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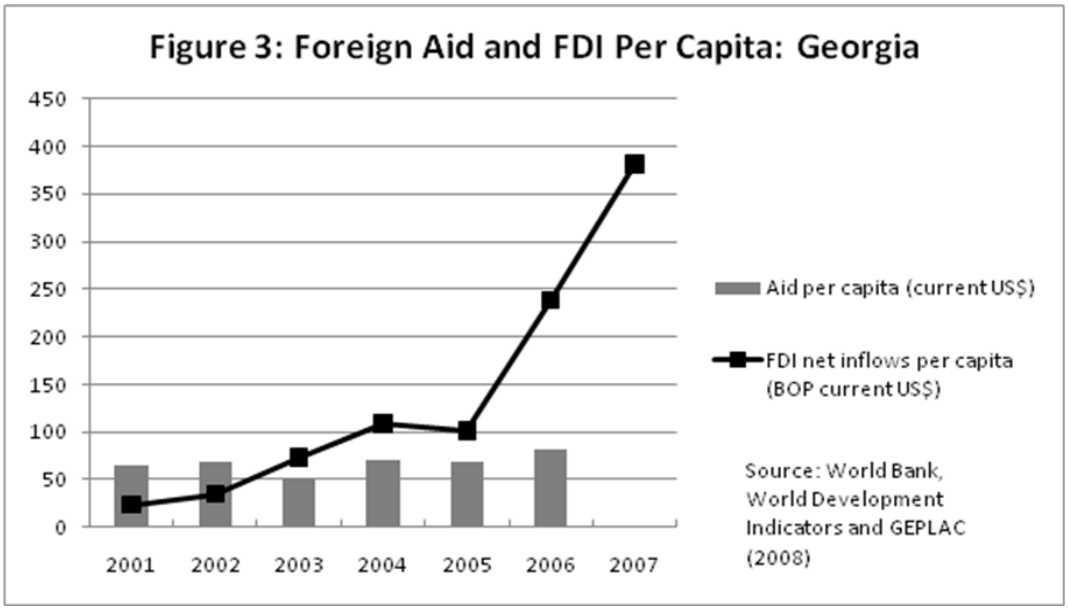
[7] These indicators are counted by GCI as sources of competitive disadvantage that outweigh Georgia's rank of 6/134 on GCI's "burden of government regulation" indicator.



increase in the volume of inward FDI to Georgia since 2005. By 2007, FDI far exceeded foreign aid as a source of development finance.[8] Winning on EDBI's playing field of international regulatory reform has endowed Georgia with new extraterritorial policy credibility. This has reduced the country risk that analysts associate with investments in Georgia. Long written off by transnational investors as a "failed state" (Nodia 2002, Demetriou 2003), for the first time in 2007 Georgia was indexed by Standard and Poor's as a "frontier market"—countries in which financial markets are less developed even than in "emerging markets," but where potentially high rates of return may be reaped on investments associated with decreasing levels of risk. "Thanks to its growing reputation as one of the most business-friendly countries in the former USSR" (Norton 2008), Georgia's

[8] FDI dropped significantly from 2007 levels after the brief war that Georgia fought with Russia over the separatist territory of South Ossetia in August 2008, which almost coincided with the onset of the 2008 global financial crisis. The relative deficit of FDI was however largely offset by approximately 4.5 billion US dollars of post-war international aid that was supplied to Georgia.

first sovereign debt offering on the Eurobond market—$500 million—was three times oversubscribed, allowing for a fixed 7.5% interest rate, and garnering a B+ rating from Standard and Poor's. Such events mark Georgia's transformation from a failed state to a neoliberal vanguard state at the leading edge of capital market expansion into the periphery of the global economy.

Relational Methodology

I construct my account of Georgia's investment promotion strategy using a relational methodology to examine the connections and interdependencies through which the strategy was designed and implemented. Because the implementation of Georgia's investment promotion strategy was a process of networking agencies into an assemblage, the capacity to promote investment should be understood not as residing with any particular agency, but rather emerging from the relations composing the assemblage. Rather than considering power as an inherent property of particular actors, positions, or structures, the relational approach attempts to make visible how power is continuously inscribed in networks through the various practices of relating the agents and structures that make up the network (Boggs and Rantisi 2003). "Emergent power"—i.e. the formation and exercise of the capacities of an assemblage—is thus contingent upon both the qualitative nature of the relations that compose networks and hierarchies, and the actor-specific practices that affect those relations (Yeung 2005b, 44-45).

Taking a relational position vis-à-vis the object of study involves continuous reflexivity that asks how an object's identity and capacities depend on its relations to other objects (Bradbury and Lichtenstein 2000). In resisting the tendency to attribute self-sameness and independence to individual objects, the relational approach rejects the ontology of space as passive, inert, containing, and separating. Rather, space is endogeneous to economic relations—the relational proximity of actors and places may bear little relation to the Euclidian distance between them (Plummer and Sheppard 2006). In the effort to understand how actors are brought into relational proximity through the implementation of Georgia's investment promotion strategy, I examine the interdependencies and intersubjectivities that created organizational coherence in the institutional assemblage of GBCR, the Georgian government, and EDBI, and produced its capacities to promote investment.

My effort to use ethnography to "compose the global from below" (Burawoy 2001, 343) involved becoming enrolled as a participant and observer in the organization of investment promotion. I gained access to weekly staff meetings at GBCR's offices in Georgia's capital city, Tbilisi, observing a total of 14 meetings between April 2007 and March 2008. These meetings of the project's entire staff usually lasted between one and two hours, with 20-30 persons in attendance depending on the presence or absence of short-term consultants working on specific project objectives. I also observed seven meetings between GBCR's top staff and top officials from Georgia's State Ministry for Reform

Coordination (SMRC)—the primary Georgian government agency tasked with writing commercial legislation and business regulations. In these latter meetings, as well as several other instances when I observed meetings between GBCR's staff and Georgian government officials, I attempted to be an unobtrusive observer of the interactions of Georgian officials with project staff. When I was in attendance at GBCR staff meetings however, I was asked to make a brief weekly report on my research activities outside the project. I also contributed editing work on the website of the Georgian National Investment Agency (www.investingeorgia.org).

My presence in the meetings and around the project's offices was quickly accepted by the staff as a normal part of the life of the project, and I was able to wander freely through the offices and informally interview staff. My credentials as an academic researcher facilitated my access to the project, including deliverables and internal documents. Further, my presence in some respects conferred an added level of legitimacy and importance to the project, and Georgia's overall reform effort, as worthy of scholarly attention. This access to GBCR enabled my observation of the power relations surrounding the design and implementation of the strategy of targeting investment climate indicators, building extraterritorial policy credibility, and promoting foreign investment.

In addition to data gathered through participant observation at GBCR, this chapter is informed by data collected from 30 individual interviews conducted over 2 different periods of fieldwork in 2005 and 2007-2008. The interviewees included foreign experts, local professionals, Georgian government officials, and

USAID officials. All of the interviewees exercised various capacities in the design and implementation of Georgia's economic reforms. Their names remain confidential. Depending on the respondent, interview questions focused on the causes of success or failure of particular reform efforts, the politics surrounding reform implementation, relations between the Georgian government and international aid agencies, as well as the departures between the new legal frameworks being created by the government and the actual functioning of regulatory institutions.

Composing the Institutional Assemblage

USAID's strong support for Georgia is part of a larger context of geopolitical competition between the U.S. and Russia (O'Loughlin, Ó Tuathail, and Kolossov 2005; Ó Tuathail 2008) over control of export routes for hydrocarbons from Central Asia (Ericson 2009). In a display of support for this important ally, USAID designed the five year, $12.9 million GBCR project not to act on its own assessment of Georgia's needs, but rather to implement the reform priorities of the Georgian government. GBCR described this as "a fundamentally different approach to development," which gives the Georgian government "unprecedented influence over the project's agenda and the allocation of its resources."[9]

GBCR's mandate also signaled USAID's satisfaction with the results of the 2003 regime change it had helped foster in Georgia, i.e. the "Rose Revolution."

[9] GBCR First Quarterly Report (September 20, 2005 – December 19, 2006), pg. 3

The revolution consisted of massive street demonstrations against a rigged parliamentary election, and resulted in an election re-run in which the major opposition party gained the parliamentary supermajority necessary to change Georgia's constitution. The leader of the opposition, Mikheil Saakashvili, then won the presidency with 96 percent of the vote. USAID helped set the stage for these events by diverting funding from the government of President Shevardnadze to Georgian civil society groups that organized the revolution (Antaleva 2003). The leaders—mostly youthful, westernized Georgians educated at U.S. universities through federal exchange programs—joined the new Georgian government, and donor funding followed them back to the national budget. In this way, USAID and the Georgian government began to form an institutional assemblage with new capacities for economic reform and investment promotion.

The Saakashvili government's sweeping mandate, reformist zeal, neoliberal economic policies, and expertise at interfacing with foreign aid donors made it a strong counterpart for USAID. Styling itself as a revolutionary vanguard leading the Georgian nation away from its Soviet past to its rightful place in Europe, the lack of any legislative check on the government was coupled with a penchant for radical, "heroic action" that placed great onus on reforms that would provide immediate, visible impacts (Bruckner 2009). For example, in 2004 approximately 50,000 public sector workers were dismissed in the effort to build a minimalist, administratively efficient state free of petty corruption (Taylor 2004). The post-Soviet *militsia* was entirely disbanded and a new, Western-style police force was created. Regulatory reforms slashed the number of licenses, permits and endorsements required to operate a business from over 900 to 160, and various inspectorates, including health and sanitary inspection regimes, were eliminated entirely. Privatization meant that Georgia would sell "everything that can be sold, except its conscience," according to GBCR's main counterpart, Kakha Bendukidze, the State Minister for Reform Coordination (Economist 2004). The success of GBCR as a counterpart for the government depended on fast results and high impact, high profile reforms that would create extraterritorial policy credibility for the Saakashvili government.

Of the many international aid projects ongoing in Georgia, GBCR was the preferred partner of Bendukidze and SMRC because its mandate enabled the flexible allocation of resources in support of the government's changing priorities. By June 2006, continuous consultation and collaboration between SMRC and GBCR led to the convergence of both organizations' priorities on making sure that EDBI reflected the progress already being made in regulatory reform. GBCR replicated EDBI's methodology using data that it collected independently using business process mapping methods—e.g. GBCR staff counted the number of documents and days necessary to clear goods through Georgian customs terminals, and visited the offices, filled the forms, and paid the fees necessary to register a new business. GBCR compared the results of its independent research with the indicators published for Georgia in the 2006 edition of EDBI (World Bank and IFC 2006a).

The World Bank team, led by project manager Simeon Djankov, met with the [GBCR] project twice in June to discuss a comparison table of World Bank 2006 data with data collected by the project over the last three months… Georgia's standing in the 2007 survey will be even better than it might have been because the World Bank was so impressed with the methodology and baseline results collected by the project that they accepted the more accurate data we collected… Business Climate Reform will be listed in this year's survey as an official contributor and we anticipate an even closer working relationship with the World Bank in compiling data for the 2008 survey.[10]

In this way, GBCR became part of the EDBI knowledge network, with several GBCR staff listed as contributors in the 2007, 2008, and 2009 editions of *Doing Business*.[11] By the time I began participant observation of GBCR's activities in April 2007, Georgian policymakers were enjoying international publicity from the award of the "Doing Business – 2007 Top Reformer Prize" by the World Bank. GBCR was highlighting its own contribution to Georgia's success story in its reports to USAID, and counting the implementation of its recommendations as "responsible for improving Georgia's performance from 59th to 36th in [rank on the EDBI indicator] "Starting a Business" and 149th to 95th in "Trading Across Borders."[12] GBCR staffers were preparing their data contribution the 2008 edition of EDBI. GBCR and SMRC were working closely together to draft

[10] GBCR Third Quarterly Report (March 20, 2006 – June 30, 2006), pg. 13.
[11] Perhaps recognizing a potential conflict of interest between writing regulations, measuring their quality, and basing claims to project success on rankings ascension, *Doing Business* no longer lists among contributors GBCR or any other development projects funded by international donors.
[12] GBCR Year Two Work Plan Update (May 31, 2007), pg. 5

legislation that would break Georgia into the top-25-ranked countries, and retain the “Top Reformer” title. Working towards a common, extraterritorial goal produced new interdependencies between GBCR and SMRC—the success of both organizations would be judged in no small part by how far Georgia ascended through the EDBI rankings. The relational geometry of agencies enrolled behind EDBI targets produced new state capacities to regulate Georgia’s economy, as USAID resources were channeled into drafting new legislation, information systems, and training for officials.

Targeting the Indicators and Transferring Policies

Pursuing the common goal of achieving a rank in the top 25 created new relational proximities between members of the Georgian government and GBCR’s staff, as well as between Georgia and competitor countries in the EDBI rankings. In April 2007 GBCR was closely watching Sweden’s seventh-ranked performance on the “registering property” indicator. GBCR sought to replicate Sweden’s best practice system, such that property registration would require only one procedure completed with the payment of a standard fee at any bank branch. New information technology purchased out of the GBCR budget, and regulations drafted by GBCR staff, enabled Georgia to ascend to the rank of 2/181, surpassing Sweden’s rank of 7/181 on the 2009 EDBI. Reforming Georgia’s national property registry was an area where power relations within the GBCR-SMRC-EDBI assemblage were relatively synergetic. Nevertheless, when SMRC wanted to push a law through parliament requiring collateralized property to be repossessed within 20 days of a loan default, GBCR was able to use its analysis of EDBI methodology to demonstrate that passing this law would lower Georgia's "registering property" rank. SMRC then shelved the draft law. The emergence of this asymmetrical power relation of GBCR-EBDI over SMRC demonstrates how EDBI became a site of extraterritorial rule when one of its indicators was adopted as a performance target. In this instance, targeting a top rank on the "registering property" indicator governed Georgian policymaking by not only incentivizing resource outlays on building the capacities of Georgia's National Property Registry, but also by interdicting a reform initiated by the government.

Unlike the successful cooperative effort to improve Georgia's "registering property" rank, targeting the "trading across borders" indicator was an area where the institutional assemblage was less capable of policy transfer. GBCR considered customs reform in F.Y.R. Macedonia to be a model for Georgia in 2007, and flew in consultants to replicate Macedonia's risk management system. The computerized system would only flag for inspection those shipments and customs declarations categorized as carrying a relatively high risk of fraud. Declarations from the "gold list" of the largest, most trustworthy importers would be accepted without inspection, drastically improving Georgia's ranking by speeding the clearance of goods through Georgian customs.

Despite the will of the Saakashvili government to remake Georgia into a Singapore-like entrepot to Central Asia, the context of constrained taxation capacities complicated the transfer of EDBI's "best practices" for customs. Nearly all manufactured goods sold in Georgia were imports, entering the country in small and irregularly packaged lots that were difficult to value for taxation. Final sale usually took place in Georgia's pervasive informal bazaars unobserved by tax officials. Given these conditions, customs terminals were the key sites for capturing tax revenue from merchandise sales. Customs worked under the assumption that every importer worked to evade payment of customs duties, and exhaustive inspections were the norm.[13] This had helped raise tax revenues by more than 300 percent over 2003-2007.[14] Yet, as indicated by Georgia's low 2009 "trading across borders" rank (see Table 2), customs clearance under these conditions was a difficult, expensive, and time-consuming ordeal.

While SMRC supported GBCR's risk management initiative, it was unable to clear the way for its implementation, as new power geometries emerged to incapacitate the policy-transfer assemblage. Opposition arose from some large importers that had histories of customs violations, and would therefore be competitively disadvantaged by exclusion from the proposed "gold list" of trusted firms. Most importantly, mid-level bureaucrats in the revenue administration opposed risk management and created the bottleneck where GBCR's policy transfer was interdicted. The revenue administration would take GBCR's latest draft regulations and rewrite them so as to disenable risk management,

[13] This perception was common refrain across several expert interviews that I conducted in Tbilisi in July 2007.
[14] Total Georgian tax revenue averaged only 7.6 percent of GDP over 1997-2003. This made the Shevardnadze regime heavily dependent on foreign aid to fund state expenditures, and was considered a symptom of pervasive official corruption by the donor community (OECD 2005). By 2007 tax revenue had grown to 23 percent of GDP. Source: World Bank, World Development Indicators, GEPLAC (2008)

whereupon GBCR would draft a new set of regulations, and hand them back to the revenue administration to again subvert.

I followed the back-and-forth over customs reform and risk management through GBCR staff meetings in the spring and summer of 2007, noting an ever increasing level of frustration with the lack of progress. When the 2008 edition of *Doing Business* was released at the end of September 2007, GBCR staff learned that President Saakashvili was disappointed by Georgia's low rank of 64/178 on the "trading across borders" indicator. The President ordered the government to "fix customs" by December 1, 2007, and the government set a new target of the 35th rank on "trading across borders" for the 2009 EDBI. To hit the target, the Minister of Finance promised to implement 90 percent of GBCR's recommendations. Yet, lack of progress on customs reform made Georgia slip down the rankings to 81/181 the 2009 EDBI, while its competitor, Macedonia, moved up to 64/181. "Trading across borders" was thus a case where the work of the assemblage was impeded by the context of building national taxation capacities. With a more sustainable tax system in place by 2009, the institutional assemblage finally succeeded in customs policy transfer, and Georgia ascended to the rank of 30/183 on the 2010 EDBI.

The limits to policy transfer are illustrated by the variation in Georgia's 2009 EDBI rankings, displayed in Table 2. Georgia's rankings on EDBI's ten indicators are listed in order from highest to lowest. Rankings ascension was easiest where the measurement focus of the indicators is on legal rules, and where SMRC and GBCR enjoyed the greatest autonomy to co-draft laws and regulations. Saakashvili's parliamentary supermajority ensured the quick passage of SMRC's laissez-faire labor laws, producing a high rank on the "employing workers" indicator. On "dealing

Table 2: Georgia's 2009 Ease of Doing Business Rankings, all 10 indicators

Indicator	**Rank**
Registering property	2
Starting a business	4
Employing workers (ease of hiring and firing)	5
Dealing with construction permits	10
Getting credit	28
Protecting investors	38
Enforcing contracts	43
Trading across borders	81
Closing a business	92
Paying taxes	110
EDBI rank (aggregate)	**15**

with construction permits," SMRC and GBCR hit the target by collaboratively rewriting the relevant regulation more than 20 times. New legislation alone produced Georgia's upward leap on "protecting investors," discussed above. In addition to reform legislation, rankings ascension on the other indicators required the popular uptake of new services such as credit registration and tax e-filing, as well as the development of new institutional capacities for quickly processing service requests. Building new institutional capacity was easiest where bureaucratic offices were relatively autonomous, i.e. where bureaucratic functions did not much depend on the work of other agencies, and where local political interests were not strongly affected by reforms. Good examples include the bureaus responsible for the property and business registries, which were relatively free to act on GBCR's legal recommendations, and to reorganize operations around the new information technology procured by GBCR. This produced high rankings on the "starting a business" and "registering property" indicators.

Targeting the indicators that fall at the bottom of Table 2 was complicated by political context, and interdependencies among state institutions with varying levels of capacity. While Georgia's ranking on "enforcing contracts" improved as a result of the new legislation co-written by SMRC and GBCR, ascension was impeded by the relatively long period of time that it takes for courts to rule on a dispute in Georgia, in comparison to other states. The assemblage was least capable of policy transfer on "paying taxes" and, at least initially, on "trading across borders." Here the priority of combating widespread local practices of tax evasion sometimes overrode EDBI's extraterritorial performance incentives.

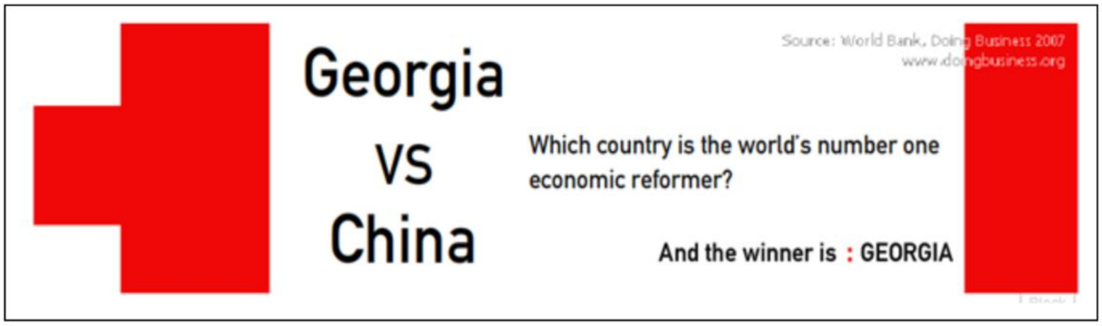
Georgia's relatively low 2009 rank on "closing a business" resulted not from impediments to policy transfer, but rather from a failed departure from the policy transfer model of institutional assemblage. State Minister Bendukidze and the creator and director of the Doing Business Project, Simeon Djankov, co-drafted Georgia's 2007 bankruptcy law without significant involvement from GBCR. According to *Doing Business 2008* (World Bank and IFC 2007, 55), the new law created "bankruptcy procedures that should take less than 1 year in the event of reorganization and just 6 months if the business is slated for liquidation. That would allow Georgia to enter the top 10 list on the speed of resolving bankruptcy." Here, a power asymmetry of EDBI-SMRC over GBCR emerged in the effort to use Georgia as a kind of laboratory for establishing a new global benchmark on bankruptcy reform. New legislation set time to completion requirements, yet failed to reduce the average time to resolve bankruptcy. This results from complicated auction procedures that are theoretically sound but practically dysfunctional in the Georgian context, discouraging potential buyers of distressed assets.[15]

Investment Promotion and Scale Effects

Georgia's EDBI rankings provided the central focus of an investment promotion campaign designed to "imagineer" (Lai 2006) Georgia as an investment destination. Although *Doing Business 2008* would not be published until September, the data gathering for Georgia's 2008 rankings was completed by mid-June 2007. After vetting its calculation of how the year's reforms would affect Georgia's 2008 rankings with Doing Business Project officials, GBCR was positive that Georgia would meet its objective of moving into the EDBI top-25, and be included on the list of the top 10 reformers.[16] The government wanted to

[15] The "closing a business" indicator measures whether a typical bankrupt firm's assets do in fact change hands quickly, not whether the law says that they must. Georgia's EDBI indicator of time to close a business was unchanged at 3.3 years from the 2008 to 2010 editions of Doing Business (World Bank and IFC 2007, 121; 2008, 105; 2009, 122) . Cross-country comparison of auction procedures is missing from otherwise extensive background research on "closing a business" (Djankov, Hart, McLiesh, and Schleifer 2008).
[16] Because other states had made larger moves up the rankings from lower starting points, Georgia won fifth place among the world's top reformers, despite having made the most reforms of any state

Figure 4: Advertising Georgia's EDBI Ranking



Source: www.investingeorgia.org

maximize the international publicity that Georgia's reform performance would receive when *Doing Business 2008* was published. The international advertising firm M&C Saatchi was contracted to design an advertising campaign to promote investment in Georgia that would run through the second half of 2007.

The Georgian government allocated $7.8 million to the first year of its investment promotion campaign (Black Sea Press 2007), targeted at "key opinion formers, and businessmen in Western Europe and the United States" (Georgia Today 2007). The campaign included the production and placement of print advertisements in *The Wall Street Journal*, *The Economist*, and *The Financial Times*, as well as television advertisements aired on CNBC and CNN. It culminated with Georgia's prime minister, other top officials, and favored Georgian businesspeople traveling on a road show of investor relations forums held in Vienna, London, and New York, and hosted respectively by *The Economist*, *The Financial Times*, and Dow Jones.

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according to Doing Business. Ministers from the top 10 countries attended the "Doing Business Reformers Club" event held at the New York Stock Exchange in June 2008.

Using the slogan, "And the winner is: GEORGIA," the advertisements drew directly on EDBI rankings to make favorable comparisons between Georgia and other countries (see Figure 4). Examples from the advertising campaign include, "Georgia vs. Georgia: which Georgia—country in Europe or the state in the US—has the most attractive climate for overseas investors? Georgia vs. Germany: where is it easier to start a business? Georgia vs. Australia: Which country has lower bureaucracy and more liberal employment laws?" Georgia is declared the winner of each contest, and EDBI is cited to support the claim that Georgia outcompetes richer and better-known territories as an attractive site for foreign investment.

By conforming Georgia to EDBI's optimal regulatory model, the institutional assemblage disseminated new characteristics for Georgia's territorial economy across the *Doing Business* knowledge network. Advertising the country's competitive performance on EDBI in global business news media expanded the circulation of knowledge of the Georgian reform trajectory among transnational investors. Using EDBI rankings to contrast Georgia's investment climate with other states constructed new relational proximities between Georgia and other sites of investor opportunity. This shifted the territory's relative position in the global space economy by extending and reorganizing Georgia's extraterritorial connections. This shift in positionality—i.e. how the trajectory of economic development in a place depends upon its connectivities with other places (Sheppard 2002)—was a scale effect that emerged from the assemblage of the Georgian government, GBCR, EDBI, and finally, M&C Saatchi.

I observed the emergence of a related scale effect in mid-2007, when the work of targeting the EDBI indicators and using them to fuel Georgia's rebranding effort was largely complete. M&C Saatchi's advertising campaign was directing internet traffic to the website of the Georgian National Investment Agency (GNIA). GNIA was understaffed and undertrained for handling the volume of investor inquiries coming in via the advertisements. The director of GNIA was replaced several times, forcing GBCR to start building investor-servicing capacity anew with each new director. Despite this slow start, GBCR saw the transformation of GNIA into a "world class" investor servicing agency as the next step in Georgia's investment promotion strategy.

The consultant that GBCR brought to Georgia in June 2007 was critical of the fact that, while Georgia was receiving increased attention from foreign investors, there was as yet no real "product" to offer them. He saw a "time to market" advantage for investments in Georgia arising from regulatory streamlining as the key to outcompeting other regional states attempting to attract FDI. Maximizing a time-to-market advantage involved creating a freely accessible online database of investment opportunities pre-packaged for MNE's. Investment sites would be profiled as either an undeveloped "greenfield," or previously developed "brownfield," and mapped with details such local labor market characteristics and proximity to major cities, ports, and other transportation and communication infrastructures. Particular sectors of the Georgian economy, such as transport and manufacturing, would be targeted for investment promotion. In short, by creating a new information infrastructure and new capacities for the global marketing of investment opportunities in Georgia, GNIA would become a "one-stop shop" for investor servicing.

SMRC however disagreed with the notion that particular sectors of the economy should be targeted for investment promotion, in keeping with State Minister Bendukidze's arch-neoliberal view of economic development, and his concomitant opposition to "picking winners" or industrial policy in any form. Other aspects of GBCR's recommendations for GNIA met with resistance from factions within the Georgian government, and little changed at GNIA. A necessary law redefining GNIA's capacities was not introduced to parliament. Foreign investor relations, including privatization decisions, and also the selection of those Georgians who would participate in the "Invest in Georgia" forums, continued to be handled directly, and non-transparently, by SMRC and President Saakashvili's office. By November 2007 GBCR had drawn a line under its unsuccessful efforts to reform GNIA, and refused to provide any more support to the agency unless SMRC and GBCR could agree on a unified approach to investment promotion.

In this way, as the volume of FDI inflows rose dramatically in 2007 and the first half of 2008, the institutional assemblage reached the limit of its capacity for investment promotion. High Georgian officials positioned themselves as "gatekeepers" for investment inflows, and refused to be displaced by investor-servicing via GNIA. This form of emergent power in the institutional assemblage produced a global/national scale effect—GBCR's role in the investment promotion network would be relegated to the global branding of Georgia, as a group of Georgian elites of non-transparent composition formed a national boundary for foreign investors to cross. The gatekeepers to Georgia's inter-territorial "networks and subsequent geographies of information that are embedded in these relationships and networks" (Torrance 2009, 80), kept GBCR outside the national "inward investment regime" (Phelps and Wood 2006). In this way, power asymmetries in the GBCR-EDBI-SMRC institutional assemblage interdicted the global-local extension and "deepening" of an investment promotion network that would connect foreign investors directly with local sites and investment opportunities within Georgia. The EDBI rankings produced by the assembled agencies thus came to define Georgia's external boundary for inward investment. Manning this boundary, and directing investment inward, are gatekeepers who are well positioned to profit.

Conclusion: Adding Ruling Capacity to the Extraterritorial Assemblage

EDBI functioned as an "attractor" around which a set of agencies— the Georgian government, USAID and GBCR, the *Doing Business* project, and finally, M&C Saatchi—assembled to reconfigure Georgia's extraterritorial connectivity, and promulgate "brand Georgia" as a frontier market. Attractors are points with respect to which dynamic systems move, but which may never be reached (e.g. limit cycles). The EDBI attractor is the shifting "best practice" regulation model, which is defined according to the relative efficiency of different states' business regulations, and which therefore cannot be entirely actualized even by EDBI's top ranked countries. Receding ahead of the territorially dispersed reform trajectories plotted by the Doing Business project, the optimal model is a *virtual attractor* that reform trajectories may close with indefinitely, but never reach (Delanda 2002, 29).

Though the attractor is virtual, it is nevertheless real, and has definite effects (Delanda 2002, 32). It produces new relational characteristics for territories and adds ruling, or organizing capacity to the extraterritorial assemblage, as states pursue strategies for rankings ascension in order to gain credibility with transnational investors. The attractor also draws together "intellectual, policy, and practitioner networks that underpin the global expansion of neoliberal ideas" and, when used as a strategic focus for extraterritorial accumulation, it impels neoliberalism's "manifestation in government policies and programs" (Larner 2003, 510). If capital flows to peripheral states continue increasing in volume after the 2008-2009 global financial crisis, then incentives will grow for grasping the extraterritorial policy credibility that accompanies ascension through EDBI, and similar competitiveness and governance rankings. We should thus expect that more policymakers will engage in competitive policy transfer and efforts to play the rankings game. At the extreme, institutional isomorphism towards the receding EDBI optimal regulation model could impel a kind of neoliberal "Red Queen's race"—i.e. "it takes all the running *you* can do to keep in the same place," the queen tells Alice in *Through the Looking Glass* (Carroll 1982, 104; Robson 2005).[17]

In studying the assemblage by becoming part of it (Yeung 2003), relational ethnography enabled tracing the relational geometries and power dynamics that emerged in executing the Georgia investment promotion strategy. New capacities for economic regulation and investment promotion were created through a "complex relational geometry comprising *local* and *non-local* actors, *tangible* and *intangible* assets, *formal* and *informal* institutional structures, and their interactive power relations" (Yeung 2005, 48 author's italics). Successful ascension through the EDBI rankings positioned Georgia as a neoliberal vanguard state able to "catch up" and even "leap ahead" by transferring the regulatory best practices that create an attractive destination for transnational investment. This vanguard positionality means that the World Bank's neoliberal discourse and ideology was not simply imposed "from above." Rather, the policy transfer was used tactically for accumulating extraterritorial policy credibility, while simultaneously masking illiberal aspects of doing business in Georgia not measured by EDBI, such as weak property rights and a lack of judicial independence.

[17] Thanks to Luke Bergmann for pointing out this implication, and to Eric Sheppard for his input on attractors.

In this same vein, one high-level USAID official in Georgia criticized the GBCR project as "teaching to the test," while not doing enough to push the government on reform priorities not highlighted by international rankings.[18] More generally, if such fast and successful results can come from playing the EDBI rankings game, then country rankings may reflect little else than relative success at transferring specific policies. This calls into question the significance of EDBI's indicators of institutional quality. EDBI-impelled reforms that fail in implementation because of a lack of support from other interdependent institutions, such judiciaries, will reduce or undermine the accuracy of the EDBI indicators as reflections of a state's economic competitiveness and developmental capacity. In a similar sense to corporate debt security ratings that become, "objectives in themselves, enshrined in corporate plans even where this raises the cost of capital for the concern in question and lowers long-term profitability" (Sinclair 1994, 149), defining reform priorities according to rankings-targets may divert attention from alternative, and potentially more developmentally beneficial policy choices. Such policies may be more context-specific than allowed by indicators that are commensurable across-countries; e.g. technical and financial assistance to promote the growth of indigenous small and medium-sized enterprises is one area of development policy that is lacking, but sorely needed in Georgia. Perhaps not coincidentally, this area of development policy is not measured by EDBI.

[18] Author interview (June 26, 2007)

This chapter entrains several trajectories for future research on policy transfer processes and how quasi-markets for fast policy are created by various benchmarking techniques, how place contexts limit policy transferability, and on the consequences of extraterritorially-driven policymaking for economic development. There is as yet little scholarship that examines sources of extraterritorial policy credibility, and the general importance of this form of reputational capital relative to other influences on a territory's attractiveness for investment. While it is clear from the case study that policymakers perceived a positive relation between rankings ascension and greater FDI inflows, and that these coincided in Georgia, this chapter establishes no causal connection. Further research is necessary to understand how competitiveness indicators are used in investor decision making, and how investor networks are linked to various technocratic networks that produce and disseminate knowledge about investment environments. Increased attention to shifting global regimes of economic policymaking will cast light on how new strategic opportunities for gaining from globalization emerge from the changing composition of the extraterritorial assemblage.

Chapter 3

Sovereign Power and Fiscal State Formation

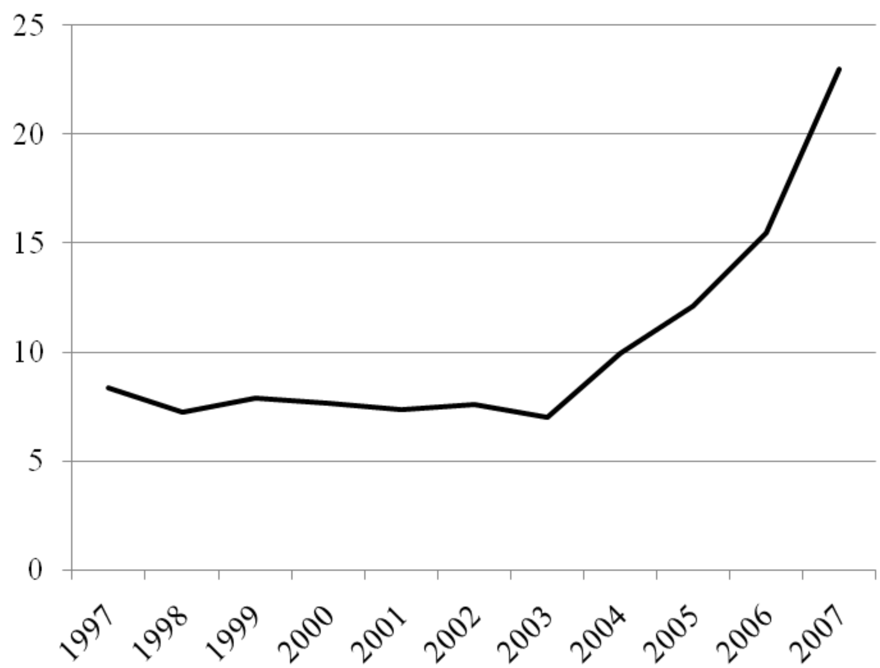
The state is sovereignty. But sovereignty only reigns over what it is capable of internalizing locally (Deleuze and Guattari 1987/1980, 360).

"In this world nothing can be said to be certain, except death and taxes," wrote Benjamin Franklin in a 1789 letter. The unceasing currency of this prosaic sentiment is revelatory not for its leaden acceptance, but for the fact that tax, like death, is continuously contested, despite its seeming inevitability. Part of what Painter (2006) calls "prosaic stateness," taxpaying is one of the "little things" (Thrift 2000)—eating standard quality food, drinking decontaminated water, registering names and addresses, receiving receipts for purchases—that make the state an organizational presence in everyday life in the Global North. Perhaps because of its mundanity, geographers have paid little attention to taxation (Cameron 2006). Yet, the contemporary geopolitical order is profoundly shaped by internationally uneven geographies of taxation, reflecting variegated state capacities shaped by different historical trajectories of state formation (Elias 1996; Tilly 1975; 1992; Mann 1986; Bonney 1998). Tax compliance is perhaps the best illustration of how prosaic stateness underwrites states' more spectacular acts, such as military adventures or giant public works (Ogborn 1998; Painter 2006; Beer 2008).

In marking out the relation between mundane and spectacular manifestations of state power (cf. Fuller and Benei 2001), the concept of stateness parallels the "everyday nationalism" relationship that Jones and Merriman (2009) articulate between "banal" and "hot" nationalisms. Here, the ignition of "hot" national extremism and war (Ignatieff 1993) is fueled by "banal" practices surrounding flags, anthems, money, postage stamps and other symbolic objects that affirm belonging to national communities (Billig 1995; Unwin and Hewitt 2001; Edensor 2002; Jones and Desforges 2003; Raento and Brunn 2005). Crucially, however, the banal/hot nationalism relation is not inevitable, but rather contingent upon context. This contingency can be understood by theorizing everyday life as a "complex and contested arena" of subject formation (Whitehead 2005, 281-283; Lefebvre 1991), where individual, state and nation become co-implicated in a set of power relations connecting persons' micro-subjective dispositions to macro-institutional processes (Jones and Merriman 2009; Jones and Fowler 2007; Haldrup, Koefoed, and Simonsen 2006; Flusty, Dittmer, Gilbert and Kuus 2008; Burkitt 2004).

Fiscal state formation is one such micro-subjective/macro-institutional process, where stateness comes to be embodied by newly compliant subjects of taxation. Providing a vivid illustration of what Painter (2006) calls the "statization of social life" this chapter examines changing practices of taxation, taxpaying, and revenue exaction before and after the 2003 “Rose Revolution” in the (post-Soviet) Republic of Georgia. There, mass street demonstrations against a rigged parliamentary election were precipitated by years of budgetary crisis and infrastructural decay—the result of post-Soviet economic collapse, and persistent state incapacity to collect tax revenues much in excess of seven percent of GDP. The revolution produced a new reformist government backed by a parliamentary super-majority that, from 2004 to 2007, succeeded in more than tripling central government tax revenue to 23 percent of GDP (see Figure 5).[19]

Figure 5: Georgia Tax Revenue (% of GDP)



Source: World Bank: World Development Indicators

[19] For comparison, in 2007 the equivalent figure for the USA was 27 percent. Source: World Bank: World Development Indicators

I use data from ethnographic fieldwork to document this process of rapid fiscal state formation, as micro-subjective dispositions were assembled into a macro-institutional apparatus of revenue capture. I analyze the set of tactics deployed by Georgia's government to produce new distinctions between state and society, and public versus private interests, effectively reordering business and bureaucratic practices into an unprecedented scale of tax compliance. My approach resonates with scholarship that analyzes how "public" and "private" distinctions are not spatiotemporally fixed, but rather plural and contingent outcomes of ongoing political geographic processes (McGuirk and Dowling 2009; Kirby 2008; Blomley 2005; Smith 2005; Brown 1999; Staeheli 1996). To understanding how new state capacities emerge from the reorganization of practices it is necessary to reject tendencies to reify the state as a structure that is somehow "out there," an actor separated from the people and practices that create political order (cf. Aretxaga 2003; Askew 2009; Das and Poole 2004; Gupta, 1995, 2005; Hansen and Stepputat, 2001; Mitchell 2002; Steinmetz 1999; Trouillot 2001). Rather, I examine the "peopled and everyday qualities of the state"—the embodied, material practices and power relations whereby the state is "reproduced and contested from within as a result of the everyday micro-politics that take place within its organizations and throughout its territories" (Jones and Merriman 2009, 169; Mountz 2003; 2004; Marston 2004; Secor 2007; Blomley 2005; Reeves 2009; Asher and Odeja 2009).

My analysis of the everyday contingency of state power, and its embodiments, is framed by an assemblage theory of the (fiscal) state as an "apparatus of capture" (Deleuze and Guattari 1987/1980; Patton 2000, 104). This conceptual framework is designed for articulating micro-dispositional and macro-institutional processes of fiscal state formation in Georgia through a Foucauldian emphasis on power applied through particular techniques of individual accountability, anti-corruption, and anti-tax evasion. The conducts governed through the application of these techniques combine into more than the sum of the parts, producing a state assemblage with its own emergent capacities for capturing revenues. That is, the apparatus of capture worked to impel tax compliance by bringing state and subject into a relation of in-finite indebtedness, rendering life itself an irreconcilable debt always, already owed to the state (Deleuze and Guattari 1983/1972, 192-199, 217; 1987/1980, 113, 442-444).

This notion of in-finite debt is not unique to Deleuze and Guattari, but is also developed by Giorgio Agamben (1998/1995) in his uptake of Schmitt's (1985/1922) conceptualization of state power as founded on sovereign exception from legal order. Antagonistic strategies and tactics of sovereign exaction and resistance—the focus of the empirical section of this chapter—are what Agamben (1998, 26-27) calls thresholds of indistinction between the outside and inside of juridical order. At these thresholds, defiance and guilt comingle in affecting the "capture of life in law." Guilt in this sense is the *a priori* of the law; the law's simple reference to something. Vis-à-vis taxation, guilt and defiance evince indebtedness to the state, which is a relation of always already being-in-debt—a infinite debt of existence owed to sovereignty for inclusion in the juridical order of life that can never be fully assumed (cf. Secor, 2007). “[B]efore it becomes a feigned guarantee against despotism, the law is the invention of the despot himself: *it is the juridical form assumed by the infinite debt*” (Deleuze and Guattari 1983/1972, 213, original italics). I draw on these conceptual resources to argue that in Georgia after the Rose Revolution, rendering typical practices of tax evasion as exceptional acts of “corruption” deserving of prosecution—often using compromising information collected extra-legally—was the key mode of applying sovereign power to making business practices tax compliant.

The chapter proceeds as follows: Following a brief discussion of ethnographic methodology, I document the attenuation of stateness in Georgia that followed the disintegration of the Soviet Union, and the piecemeal shift from *ad hoc* semi-official extortion to systematic taxation, which took place after 2003. I do not lay out my theoretical framework in the form of a literature review, but rather attempt to make the set of concepts work through my ethnography of how redefining “corruption” worked to impel adherence to new procedures of tax payment and tax collection. My findings from interviews, observations of business taxpaying practices, and the work of a rural tax office in Georgia illustrate how the apparatus of capture gained capacity to exact revenue via contested processes of statization that made tax compliance an increasingly prosaic aspect of everyday life.

Towards an Ethnography of Fiscal State Formation

The emergence of new taxation capacities in Georgia highlights the importance of conceiving states as continuously in-formation (Driver 1991, Steinmetz 1999). My ethnographic approach to the study of state formation is a methodological departure from much previous, largely historical work on the topic (e.g. Tilly 1975, 1992; Mann 1986). There is however one fundamental point of convergence, the analytical starting point is non-differentiation between state and society. Following Gupta's (1995) ethnography of "blurred boundaries" between state and society in rural India, I conceive anti-corruption discourses as modes of state/society distinction that codify right versus wrong official practices, and public versus private roles. Anti-corruption discourses precipitated the mass protests of Georgia's 2003 "anti-corruption revolution" (Scott 2007; Nodia 2003), and the fiscal policies subsequently adopted by the revolutionary regime. The analysis below explores peoples' perceptions of corruption, and the role of anti-corruption techniques in state formation.

Fieldwork took place over two periods in 2005-2008 in Georgia's capital Tbilisi, and three other regions. I used interviews with a systematically selected sample of small business entrepreneurs (N=58) to collect data on perceptions of corruption and on changing modes of local interaction with state officials. I conducted all interviews in Georgian with the help of a native Georgian research assistant. Of particular importance are the ethnographic observations and interviews from one district center in western Georgia (not named for confidentiality reasons) where I spent seven weeks in 2007. My analysis also incorporates data collected from interviews with international development consultants advising the Georgian government on fiscal and regulatory reform, as well as observations and interviews during a series of visits to local government offices. Through social networks that I developed in my fieldwork sites, I was also able to interview three officials from the tax and customs departments in informal settings (two from the central revenue ministry office in Tbilisi and one from the customs terminal in Georgia's Adjaria region).

More than simple question and answer, these interviews deployed a set of terms of encounter—e.g. *mtavroba* (government), *sagadasakados systema* (tax system), *opfizialuri nebartva* (official permission)—to create a "field of power" (Katz 1992) that brought researcher and informant into relation with the State. I gathered valuable data by observing how these terms relate differently in translation and displacement across contexts (Hörschelmann and Stenning 2008, 346), and through attention to the affects of their deployments on the relations between informants and myself. Some of the most valuable data from these interviews was non-verbal, conveyed in body language and evasions, the reasons for which I sometimes was able to understand through triangulation with information gathered from other informants. If the state is a social relation (Poulantzas 1978, Painter 2006), then engaging research informants in a discourse on the state made each interview a "site" of ethnography of the state.

Soviet Disintegration and Post-Soviet Stateness

From post-Soviet independence in 1991 to the period of my fieldwork in 2005-2007, people in Georgia experienced an attenuation of stateness, followed by a re-statization of everyday life. This attenuation of stateness is closely linked to what Verdery (1996) describes as a transition from socialism to a quasi-feudal form of political economy (cf. Humphrey 2002). Taking place in much of the former Soviet Union in the 1990s, quasi-feudalization was path dependent—i.e. it was a predictable effect of the marketization and political decentralization policies enacted in Moscow, given the Soviet institutional context (Pickles and Smith 1998).

Since private property did not officially exist and state/society boundaries were formally elided in a single Party apparatus, the basis of social and political power in the Soviet Union was the ability to distribute resources and patronage through local Party organizations and state enterprises. These provided not only wages, but also housing, childcare, clinics, pensions, sporting and cultural facilities, and other services (Clarke 1992). Rapid price liberalization, privatization and the termination of subsidies to state enterprises caused economic involution—loss of production capacity resulting from asset liquidation and the general diminution of production with a corresponding expansion of exchange, particularly among a new mass of formerly waged laborers turned petty traders reaping small profit margins from price arbitrage (Burawoy 1996; 2001). Hyperinflation decimated wages and savings, unemployment spiked, the ruble zone demonetized, and payments began to be made via vouchers, in kind, or barter (Woodruff 1999; Lemon 1998; Bridger and Pine 1998; Smith 2000; Seabright 2000; Mandel and Humphrey 2002; Pavlovskaya 2004). Economic turmoil accompanied political uncertainty as Soviet Republics became independent and regions within them declared autonomy. These conditions strengthened tendencies for local organizations to function as "suzerainties" providing for their members in exchange for loyal service (Humphrey 2002), a relation that Dunn (2004, 124) describes as postsocialist "vassalage." People became increasingly "dependent on their workplace, or their boss for access to food, housing and loans. Belonging to a suzerainty, by either having a regular job or enjoying some other tie to a powerful and successful patron, meant dependence, but as in feudal times it also meant at least minimal security" (Verdery 1996, 206).

Post-Soviet quasi-feudalization tendencies were exacerbated in Georgia by the failure of the central government to monopolize organized violence from late December 1991 through September 1995. This internecine period began with a coup d'état by paramilitary groups against the country's first post-Soviet president, Zviad Gamsakhurdia. Following this was a civil war with Gamsakhurdia's supporters, wars for control over the breakaway territories of South Ossetia and Abkhazia, and a general breakdown of law and order across Georgia's territory, with widespread looting and extortion perpetrated by bandits and paramilitaries (Hunter 1994; Goldenberg 1994; Coppetiers 1996; Dawisha and Parrott 1997; Wheatley 2005; Zürcher 2005; Stefes 2006; Driscoll 2009). Georgia's "time of troubles" ended with the arrest of paramilitary leaders, the reestablishment of central government control over the police, military, and other security services, and the election of Eduard Shevardnadze as President. Georgia now met the Weberian residual definition of stateness (Weber 1978): the central government could claim to monopolize the legitimate use of force (Nodia 2002).

More prosaic forms of stateness did not reach far into everyday life, however (Dunn 2008). This is attested to by journalistic accounts, such as a duel witnessed by Steavenson (2003) in which a dispute was settled according to a code of honor that excluded central government authority. Both men were severely wounded in the duel, and the news quickly spread through Tbilisi's social networks. Yet, no official sanction followed, despite the fact that one of the duel's protagonists was a police colonel. Parallels with feudalism were unmistakable.

> Peasants farmed their plots and suffered in the winter, and the ruling class of whatever they were–bandit politicians, the odd warlord, shallow academics–ruled in their own manner... locally, badly, with deep pockets, petty rivalries and occasional violence. The idea that Georgia was a sovereign state with a flag, a democratically elected government, a seat at the UN etc. was entirely notional (Steavenson 2003, 142).

Quasi-feudalism took its most extreme form in Georgia's southwestern Ajaria region, ruled by former Soviet *apparatchik*, Aslan Abashidze, as his personal fiefdom (Nodia 2000; Pelkmans 2006). Abashidze controlled Georgia's main border-crossing with Turkey, sending the central government little of the customs revenues from cross-border trade. This was an important cause of the budgetary crisis that precipitated the end of the Shevardnadze regime, but it was not the only suzerainty that diverted revenues from the national treasury.

Movable State/Society Boundaries and Budgetary Crisis

The "parcellization of sovereignty" (Humphrey 2002) that bankrupted the Shevardnadze regime extended also to suzerainties that were not territorially exclusive, as in the Ajaria example, but rather overlapped with central and local government bureaucracies. Suzerainties emerged as privatization decoded socialist property relations, debasing the Soviet state's mission of amassing and redistributing the means of production (Kornai 1992; Verdery 1996), and making state financing contingent upon public appropriation of private income. Suzerainties recoded property relations via shifting the boundaries between official-public and official-private state practices (cf. Yurchak 2002). On the official-public side of the boundary was the central government administration that appropriated meager revenues for the national budget. On the official-private side, suzerainties frayed the state into tributary lines that distributed extra-budgetary revenues to officials as personal income in proportion to rank and influence.

I observed the official-public/official-private dynamic of a customs suzerainty during my departure from Georgia on board a Black Sea ferry in 2001. In exchange for customs clearance, which carried no official fee, a Ukrainian passenger handed a U.S. five-dollar bill to a Georgian customs officer without protest, and without being directly asked. The payment was a matter of course—

not a bribe or a form of venality, but a tribute necessary for maintaining one's position and privileges at whichever level these were held (Humphrey 2002, 143). The young customs officer had almost certainly purchased his position for a price much higher than he could expect to pay back from his meager and inconsistently paid wage, and held the position by virtue of his willingness to collect and pass tribute upward to his superiors in the official-private hierarchy. The sale of official positions, including a high price for matriculation at Georgia's universities, was a longstanding informal institution rooted in the Soviet-era (Dragadze 1988). I contested this local form of prosaic stateness, however, by refusing to pay. An argument ensued and the surprised officer threatened to inspect my luggage, suggesting that drugs might be found (or planted in my belongings if necessary for extortion). He finally relented when I threatened to bring the matter to the attention of the ship's captain, who was in a nearby compartment. The captain apparently was not enrolled in the customs suzerainty, enabling me to invalidate the official-private payment by invoking an official-public interaction between the customs officer, the captain and myself.

The success of the ship's-captain-tactic against the customs suzerainty is a small illustration of how state/society boundaries are not fixed but malleable—their inscription in everyday practice depending upon the successful application of particular tactics. In this particular instance my notion of proper official practice prevailed, but this is not to say that I was somehow right, as a U.S. passport holder with privileged access to a higher (Western) state, or that a tributary payment in this context was wrong or corrupt despite being normal. The important point is rather that antagonistic strategies and tactics make the state—the state is not the source of power—and that applicable tactics of stateness differ with context and positionality. Ethnographic research among post-Soviet business people has revealed how blurred boundaries between public and private interests created vulnerability to extortion, but also resources and strategic opportunities for entrepreneurship (Volkov 2002, Bonnell and Gold 2002, Ledeneva 2006). In Georgia, a firm that refused to make use of the strategic opportunities for arbitraging blurred boundaries—e.g. by refusing to enroll in a tributary relation with official-private suzerainties—would likely become prey to an official-public tax regime characterized by a small, captive tax base that was "squeezed to the limit" (World Bank 2002, *vi-vii*).

This form of official capture was illustrated in my interview with Tamuna,[20] a former employee in the accounting department of an Italian-Georgian joint venture importing goods to Georgia for wholesale. The firm had invested $20 million in Georgia and was determined to do business to the letter of the law. Tamuna's job was to keep the firm in compliance with Shevardnadze's tax code, adopted in 1997. The code had "initially provided a comprehensive framework for taxation, which was considered one of the best in the CIS region. But the proliferation of innumerable amendments…seriously undermined the consistency of the code over time" (World Bank 2002, *vi*). Amendments were

[20] Author interview, July 1, 2005

created as piecemeal measures for meeting revenue targets mandated by IMF loan agreements, targets which the government consistently fell short of (Papava 2003). Tamuna described how new amendments would come without warning, would often create unresolved contradictions with older parts of the code, and would alter the rules to such an extent that it became extremely difficult for the firm to make monthly projections about what their tax liability would be. The tax department would also force the firm to pay taxes in advance, amounting to interest free loans to the government, extracted through the threat of constant audits during which the firm's operations would be suspended. An extremely complicated invoice system made many taxes nearly impossible for the tax authorities to accurately assess (cf. World Bank 2002), and created large divergences between the firm's and the tax department's estimates of the amount of tax due. This led to negotiations with tax officials over the amount to be paid, creating opportunities for tax inspectors to solicit bribes. Tamuna described her job as "constantly fighting with the tax and customs officials", who she characterized as corrupt and punitive. She estimated that in an average year the firm had paid 42 percent of its gross revenue in taxes, eliminating its viability as an ongoing venture. In short, under the old rules, taxes had been so high, the code so complex, ambiguous, and difficult to administer effectively, that it was "nearly impossible to do business legally."[21]

[21] Ibid.

Given the near impossibility of compliance, the Shevardnadze tax code produced a regime of illegalisms consisting not of excluded or banned acts, as in illegality, but rather of legal nonconformities conducive to the aggrandizement of suzerainties providing tax exemption (on illegalisms see Deleuze 1988b, 29; Foucault 1995; cf. Agamben 1998, 49-50). Tamuna's employer had lacked a *krysha* (Russian: roof). Rooted in the Soviet-era informal economy, the *krysha* is a profit-sharing relationship with officials or other politically well-connected patrons who provide protection from excessive taxation, extortion and harassment from state officials and/or criminals (Volkov 2002; Ledeneva 2006). My interview with Zura,[22] an executive of a Georgian beverage firm, made clear the competitive advantage that this firm gained from the protection of its *krysha*—a member of parliament. Through this suzerainty the firm gained negotiating power with tax inspectors, helping reduce the firm's tax liability and avoid sanctions for underpayment. This enabled the firm to expand even as others, such as Tamuna's employer, were losing money. Attempting full compliance with the tax code had put the Italian-Georgian joint venture at a competitive disadvantage. Its Italian owners were so unhappy that they wrote off the $20 million invested in Georgia and pulled out of the country entirely.

These examples demonstrate how efforts to appropriate revenue for the national budget were debased through a self-reinforcing dynamic of everyday stateness in which the tax code made success in business contingent upon

[22] Author interview, June 25, 2005

official-private practices that helped enable tax evasion. The necessity of tax evasion for business viability aggrandized the importance and profitability of official-private practices, formally illegal, but nevertheless normal illegalisms. Yet, in the decades following the disintegration of the Soviet Union, chronic under-funding caused unabated decay of Georgia's national infrastructure and systems of social provision, and people increasingly rejected this regime of illegalisms by deploying a normative discourse of "systemic corruption."

Corruption as Governmental Technique and Oppositional Discourse

While Georgia's regime of fiscal illegalisms countervailed stateness during the Shevardnadze's presidency, this does not mean that official corruption is an intrinsically "centrifugal force." Indeed, in Armenia (Stefes 2006) and Ukraine (Darden 2008) the regime of illegalisms that normalized official-private practices provided conditions of possibility for hierarchical control by central-state officials. In Georgia, corruption was used more effectively as a tactic of sovereign power after Shevardnadze abdicated the presidency with the Rose Revolution. The potential for using corruption as a mode of control arises from the double-bind situation where employment as a civil servant is conditional upon compromising oneself. Officials were always, already compromised by inclusion in the regime of illegalisms, since official-private income was necessary to supplement official wage rates that were set below subsistence levels (Machavariani 2007), positions were often purchased, and could not be maintained without paying tribute to superiors. At the same time, higher-level bureaucrats and state security services systematically monitored official-private practices and collected compromising information—known by the Russian term *kompromat'*. If a civil servant was disobedient, *kompromat'* could be used as evidence of criminality, shifting state/society boundaries such that official-private illegalisms were prosecuted as official-public illegalities. Because civil servants were always, already guilty, not being prosecuted for corruption demanded obedience to superiors who held *kompromat'*.

This form of blackmail—widely used in post-Soviet states as a disciplinary technique of the state's administrative hierarchy—exhibits *de rigueur* the sovereign exception; "the decision (for example to use *kompromat'* for legal prosecution) reveals the essence of state authority most clearly" as the "creation of a situation where juridical rules can be valid" (Schmitt 1985/1922, 19-22; cited in Agamben 1998, 16). Through *kompromat'* sovereignty becomes the author of a case-by-case division of illegalism from illegality, "the situation created in the exception has the peculiar characteristic that it cannot be defined as either a situation of fact or a situation of right, but instead constitutes a paradoxical threshold of indistinction between the two" (Agamben 1998, 18). The exception makes the rule by delimiting the inside and outside of the juridical order which, as the sovereign act of decision first attests, is fundamentally a dispositional state of the body and its conducts. Simultaneously a mode of government by a hierarchical state organization, and self government of one's individual conduct, *kompromat'* can be understood as a technology of governmentality (Foucault

1994). Deployments of *kompromat'* capture conducts and hierarchically assemble them into state capacities through the force of exception that makes illegalisms continuously illegalities awaiting the sovereign decision that obedience may defer but never escape.

Darden (2008, 52) confirmed that Shevardnadze used *kompromat'* to control his subordinates in an interview with the late prime minister of Georgia, Zurab Zhvania. Yet, whereas *kompromat'* is used in other post-Soviet states to restrain tributary incomes to levels that maintain adequate financing for the national budget, the Shevardnadze government was unable to finance even the maintenance of essential infrastructure. Comparative research across post-Soviet states reveals that effectiveness of *kompromat'* as a governmental technique depends on personal leadership (Stefes 2006); the force of the sovereign decision is contingent upon the extent to which the person at the apex of the state hierarchy maintains a monopoly on surveillance and control of official-private illegalisms. Observers of the aged Shevardnadze's final years as Georgia's president agree that his control over subordinates slipped away, with corruption contributing to both the budgetary crisis and popular disapproval of the regime (Karumidze, Wertsch, and Karumize 2003; Wheatley 2005; Jones 2006).

The government's inability to repay or meet loan conditions from the IMF, World Bank and bilateral donors prompted these organizations to redirect aid money to civil society groups, which fomented a popular opposition discourse of anti-corruption. When it appeared that Shevardnadze's party had rigged the outcome of the November 2, 2003 parliamentary elections to maintain its majority, opposition parties and non-governmental organizations (NGOs) organized mass street demonstrations against corruption. The "Rose Revolution" climaxed with Shevardnadze's abdication of the presidency and the announcement of new elections. The opposition leader, Mikheil Saakashvili, was elected President with 96 percent of votes cast, and his United National Movement party won more than the two-thirds majority necessary to change Georgia's constitution. By mobilizing the populace behind the articulation of Georgia's future with the form of a non-corrupt, "normal state," Saakashvili's group of youthful Westernized elites displaced the old post-Soviet political elite led by Shevardnadze (Miller 2004).

Abashidze's fiefdom in Adjaria survived Shevardnadze's abdication of office by less than six months. Under pressure from a mass uprising of Ajars organized by supporters of Saakashvili's new central government, Abashidze resigned his presidency on May 5, 2004, fleeing to Moscow. The extension of the "people power" mobilized in the "Rose Revolution" allowed Saakashvili's central government to extend territorial control over Adjaria, and perform a rapid recentralization of sovereign power.

The Revolutionary Regime and the Recoding of *Kompromat'*

A top priority of the Saakashvili government was to solve Georgia's budgetary crisis. To this end, the anti-corruption discourse that had mobilized the electorate was articulated into a set of tactics for enforcing new distinctions between state and society according to new codes separating public from private interests. In his inauguration speech President Saakashvili announced: "every corrupt official is a traitor who betrays the national interest" (Corso 2004, 1). The government went on to imprison officials and prominent businessmen who were compromised in the public eye by their high profiles as rich beneficiaries of corruption under the previous regime. While being held in pre-trial detention, the accused were confronted with collected *kompromat'* and given the opportunity to make large lump-sum payments to the government in exchange for freedom. Once payment was made, criminal charges were dropped. In the most prominent case of this extra-judicial form of "plea bargaining," Gia Jokhtaberidze, Shevardnadze's son in law and then one of Georgia's wealthiest post-Soviet businessmen, was arrested for evading $350,000 in taxes, but allegedly paid $15 million to the government as the price for his release from custody (Peuch 2005, 1).

Kompromat' thus continued to be used as a key tactic of sovereign power. State security services maintained *kompromat'* files from the Shevardnadze era, and the use of secret wiretaps and surveillance for collecting compromising information continued after the revolution.[23] Yet it now was used to debase suzerainties, cut tributary lines, and aggrandize a central apparatus of capture. Initially a popular form of "social revenge" (Papava 2006), the use of *kompromat'*

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[23] Although and *kompromat'* was the most difficult mode of capture to research and the full extent of such practices is unclear by nature, its continued use was confirmed by Zura, a research informant who had recently retired from a top position in Georgia's secret service after a long career beginning during the Soviet period. Source: author interview, 10/6/2007

to capture revenue became less popular as the tactic was turned against relatively low-profile firms that had become compromised by non-compliance with the impracticable tax code, and lower-level civil servants who had engaged in relatively petty cases of giving and soliciting small bribes, skimming state funds, and other everyday illegalisms.

Because the group of youthful politicians that formed the revolutionary government was largely untainted by association with the previous regime of illegalisms, they were unlikely to be implicated when *kompromat'* from the Shevardnadze era was deployed. The Saakashvili government could thus maximize the tactical effectiveness of *kompromat'* for governing conducts en masse, assembling them into new state capacities for revenue exaction. Moreover, new laws were designed for compliance rather than for amassing additional *kompromat'*, i.e. public/private distinctions were recoded such that many private-official illegalisms became illegalities. This break with the past meant that "corrupt" practices under Shevardnadze could be clearly and retroactively defined and prosecuted according to the new codes of the revolutionary regime.

The increased executive control over the judiciary that was written into the new constitution passed by the revolutionary parliament further strengthened the effectiveness of retroactive *kompromat'* for producing compliant subjects of taxation, and assembling their conducts into state capacities for revenue capture. Despite *de jure* independence, Saakashvili gained wide powers to appoint and dismiss judges, and to discipline judges for errors in hearing cases in which the outcome was unsatisfactory to the government (American Bar Association 2005). A perceived reduction in judicial independence after the Rose Revolution featured consistently in my interviews with Georgian small business entrepreneurs and was a consistent critique made of the government by oppositional news media. This perception undoubtedly contributed to reducing the percentage of the population expressing some or a great deal of confidence in the judiciary in response to perception surveys—15.2 percent in 2008 according to one methodologically sound poll.[24] Lack of judicial independence meant little hope of being judged "not guilty" if prosecuted by the state for some infraction. Law without justice offered no recourse against despotism. Life and livelihood were thus captured in a relation of subjection to sovereign power. The latent threat of *kompromat'* grew in intensity, assembling state capacity through self-government in accordance with the new codes created by the government.

As the revolutionary regime moved to establish hegemony over the judiciary, there was little protestation from the Western governments and international institutions providing generous development assistance to Georgia—a strategic Western ally in the geopolitical competition for control of export routes for hydrocarbons from Central Asia (O'Loughlin, Ó Tuathail, and Kolossov 2005; Ó Tuathail 2008; Ericson 2009). Indeed, donors redirected funds

[24] Source: Transparency International Georgia and Caucasus Research Resource Center. Online, accessed 9/24/2009, http://www.transparency.ge/index.php?lang_id=ENG&sec_id=210&info_id=412

to the state budget and away from civil society groups. Funds from the United Nations Development Program and George Soros's Open Society Foundation provided ample salaries to 11,000 civil servants in 2004 (Nodia 2005, 71). By relieving the new government of dependence on the Shevardnadze-legacy tax administration for its operating budget, international donors endowed the government with policymaking autonomy for undertaking sweeping civil service reform from the top-down.

Abstract Machine: Individual Accountability and the Right-Sized State

Speaking in Tbilisi in November 2004, one year after the Rose Revolution, John B. Taylor, then U.S. Treasury's Under Secretary for International Affairs, applauded the Saakashvili government's work to reduce the size of the civil service, fight corruption, and crack down on tax evasion. Among the Saakashvili government's achievements in its first year, Taylor (2004) listed the elimination of approximately 50,000 civil service jobs, including 3,200 out of a total 5,700 at the interior ministry (Tchalaganidze 2005). The post-Soviet traffic police and *militsia* were almost entirely eliminated, with the dismissal of 16,000 law enforcement personnel (Kuptatadze, Siradze, and Mitagvaria 2007, 102). A new replacement force of blue-uniformed patrol police was organized following U.S. models. Composed almost entirely of inexperienced officers, the new force was equipped with brand-new Volkswagen patrol cars and trained by foreign experts working under contract with international donors. Overall downsizing continued through 2009, perhaps amounting to a 250,000 reduction in public sector employment (a figure cited by President Saakashvili; Nemtsova 2009). Maintaining employment in the civil service necessitated strict adherence to the new official procedures being rapidly developed.

Centralization, downsizing, efficiency, and individual accountability were all part of the "diagram" that guided the revolutionary state building program. In Deleuze and Guattari's (1987/1980, 71, 144-145) terminology, the right-sized state and its public/private procedural codes formed an "abstract machine" immanently related to the "concrete machinic assemblage" of revenue capture. Unifying the force of sovereign exception in a set of individuating effects, the abstract machine worked to subject the conducts of individual state officials to new to procedural codes defining relations between roles of tax collector and tax payer, and public official and private citizen. Both benign and coercive techniques were deployed to make new procedural codes and official roles into modes of self-conduct and self-government. Support from international donors enabled the raising of civil service salaries to levels that obviated the need to engage in petty corruption in order to ensure livelihoods, as well as providing training for large numbers of new officials, and retraining in new procedures for officials retained from the Shevardnadze regime. Such benign measures were combined with coercion; punishment for bribery even in small amounts was certain and severe enough to make the risk of engaging in petty corruption outweigh the reward. In order to exclude the solicitation of bribes from police practices, for example, individual officers were disallowed from carrying more than the equivalent of five

U.S. dollars on their person while on duty, and made subject to frequent, unannounced body searches by undercover agents. A police officer found to be in possession of more than the allowed amount of cash would be dismissed and likely face criminal charges on the suspicion of collecting bribes. Such tactics attenuated petty corruption, recoding the practices of civil servants through the combination of better wages and fear of criminal prosecution and unemployment.

Tactics of individual accountability produced adherence to new procedural codes among tax and customs officials, who were held personally liable for any missed or missing revenues. When I asked my research informants from the tax and customs departments about their working conditions, I was offered a string of anecdotes about colleagues who had been prosecuted for corruption, in some cases after making innocent errors stemming from lack of familiarity with new official procedures or simple mistakes. In one instance I was told of a large truck carrying a shipment of imports out of the customs terminal near Tbilisi that was stopped and inspected by the financial police after the importer had paid the assessed duty.[25] Upon inspection of the cargo and customs declaration, the financial police determined that the value of the cargo exceeded what had been declared. Criminal charges were then filed against the officer who had approved the importer's customs declaration. The officer was dismissed and prosecuted despite the fact that no bribery had been witnessed. Lack of witnesses made

[25] Author interview, July 5, 2007

meant there was no way to determine whether this undervaluation and underpayment had been precipitated by collusion between the customs officer and the importer, or was simply an unavoidable mistake arising from the impossibility of exhaustively inspecting each and every shipment. Because a regime of total inspection would effectively close the border to traffic, holding customs officers personally liable for inaccurate declarations worked against the efficient operation of the terminals. While inefficient and perhaps unfair, structures of individual accountability enforced strict adherence to procedural codes, and produced stateness as a subjective relation of fear of being made exception by the sovereign decision that would render ignorance of procedure, or inevitable errors into illegalities deserving prosecution. Techniques of coercive individualization were particularly effective means of disrupting routine modes of conduct and quickly systematizing new procedures after 2003. New state capacities for capturing increased public revenue emerged as new official conducts became increasingly prosaic.

Coercion, Accountability, and In-Finite Debt

While I could not independently verify the incident at the customs terminal, this and other similar anecdotes for this ethnography of state formation are important in documenting the mix of fear, antipathy, and resignation engendered in the people who told them. Many Georgians who I interviewed about their perceptions of the state, both bureaucrats and private business people, spoke in the same way; their voices alternating between tones of resentment and resignation, their body language shifting from bluster to melancholy and vice versa. "They don't care at all for your situation all! ...everyone is afraid" I was told by Tamara, a bureaucrat at the central Revenue Administration in Tbilisi when I asked her to describe her working environment.[26] Pleased by her increased salary, critical of some new procedures that she saw as impractical, and working in constant fear of the heavy individual consequences that followed from procedural violations and concomitant suspicion of corruption, Tamara was an example of a Shevardnadze-era bureaucrat who had kept her position in contrast to her brother who had been irrevocably compromised by working for Abashidze as a tax inspector in Adjaria. Techniques of individual accountability that threatened her livelihood and freedom—*kompromat'* from having been a functionary of Shevaradnadze's tax system, and the threat of punishment for procedural exception or error—worked to make her conduct aggrandize state capacities to capture revenue.

The tactics of state assemblage changed rapidly as reform legislation took effect. Following neoliberal "best practice," Saakashvili's new tax code sought to raise total revenues by creating a system that would be simple for the government to administer, and easy for the taxpayer to comply with. The new code, which became law in December 2004, reduced the number of taxes, created low, flat tax rates, and eliminated most exemptions. The World Bank (2007) calculated the total tax rate at 38 percent of a typical firm's profits—not overly burdensome

[26] Author interview, August 15, 2007

except for the smallest firms with the least access to finance. In the effort to break clientelistic relationships between firms and particular tax officials, many Shevardnadze-era officials were dismissed or moved to new locations, as was the case with the director of the local tax office in the town where I obtained the ethnographic data discussed below. Tax inspectorates also were reorganized, with inspectors from the largest regional cities responsible for overseeing tax enforcement in smaller regional cities and rural areas.

The new tax regime's main instrument of coercion was the financial police, a force created in February 2004, and directly under President Saakashvili's control. Their initial crackdown on tax evasion was very ostentatious; balaclava-wearing, Kalashnikov-wielding, black clad platoons raided Tbilisi businesses during opening hours, hauling away documents for audit. The offending firm would typically be closed for the duration of the audit—several days or weeks—and would be assessed large sums in back taxes. Since, as discussed above, compliance with the Shevardnadze regime's exorbitant tax rates and contradictory code—still in effect throughout 2004—was impracticable for the general viability of firms, all those in operation prior to the revolution were potentially liable for back taxes. The decision of who to audit thus was generally arbitrary and unpredictable, and amounted to criminalization of the firm. The only outstanding question was whether or not an audited firm would be bankrupted by paying the back taxes assessed. The arbitrary sovereign decisions about which firms would serve as the exceptional cases to be audited for back taxes signaled to all firms and public officials that the state would call in debt at will--despite the indeterminacy of what was actually owed, or what constituted a "fair" sum, and notwithstanding the lack of functioning institutions for the mediation of tax disputes. For those firms not audited, and those that survived an audit, the latent threat of becoming such an exceptional case of prosecuted tax evasion re-delineated the boundary between state and society, making the inside of the juridical order an infinite debt relation where a firm's continued existence, and the freedom and livelihood of its proprietors, remain owed to the beneficence of the state (on the use of similar tactics in Russia, see Gustafson 1999; Hendley 2004).

This "debt of existence" amounts to a despotic relation of sovereign power unchecked by procedural law. Despotic power becomes the exception in the liberal form procedural law created to protect citizens against despotism (Deleuze and Guattari 1987/1980, 213). Indeed, Georgia's revolutionary government was keen to establish its liberal credentials by accompanying its December 2004 tax code with a law granting amnesty to persons who evaded paying taxes prior to January 1, 2004. The amnesty was partial, however. Amnesty did not extend to state officials, and government prosecutors could still order audits of back taxes from the Shevardnadze period, though this became relatively rare under the new tax code. Further, the new tax code included no mechanism for resolving disputes and there was no increase in judicial independence, leaving the exceptional firm that was audited for Shevardnadze-era back taxes without third-party recourse for quantifying the amount owed. In this way, the infinite debt relation remained a core component of the apparatus of capture after tax reform, but receded in dispositional immediacy as more prosaic, impersonal and spatially extensive technologies of statization were deployed, and new procedural codes became routine.

Prosaic Technologies of Stateness, Resistance, and the Embodied State

No *krysha* could now protect Zura's beverage firm from prosecution for tax evasion, but Zura was largely satisfied with the new tax system and expressed no reservations about full compliance. For example, the new excise tax was an effective mode of capturing revenue because it was simple and exhaustive. It was easy to purchase 10 *tetri* excise stamps (approximately 6 U.S. cents) from the revenue department and affix them to every finished bottle as it came out of the factory, passing the cost transparently onto the consumer. To ensure that no manufacturer gained a competitive advantage by evading the tax, anyone could check to see whether excise stamps were on the bottles. Excise stamps thus quickly became a prosaic form of stateness that created a reliable stream of revenue for the national treasury.

Relatively large firms such as Zura's possessed the requisite accounting expertise to adapt to the new tax system with little difficulty. Compliance with the new tax code soon became a mundane part of the firm's operation. However, what was a prosaic form of stateness for larger firms would become a source of adversity for smaller ones. Small enterprises with fewer than 20 employees had been largely ignored by the tax authorities in Georgia since private business had been legalized with the collapse of the Soviet Union. This group of entrepreneurs—the thousands of shopkeepers, restaurant proprietors and other service providers that make up the vast majority of firms in Georgia's highly fragmented small business sector—generally had rudimentary accountancy capacity, few employees, small premises, low turnover, very narrow profit margins, and little access to credit. The new requirement to pay 30-38 percent of profits in tax, depending on the firm's turnover and profitability (the range cited by my interviewees; cf. the estimate by World Bank and IFC 2007), required that firms either passed the cost onto the consumer as higher prices, or cut profit margins. Higher prices reduced demand from these firms' generally impoverished clientele, while less profit meant less money for reinvestment in enterprise development, given the general paucity of debt finance. The small business sector thus had strong incentives to evade capture by the new tax regime and remain outside the formal, state-observed economy.

While the financial police could be dispatched to strong-arm Georgia's relatively few larger firms into tax compliance, a more geographically extensive mode of surveillance and discipline was necessary to capture revenue from the much larger and more scattered group of small business entrepreneurs. The cash register receipt acted as the key technology that coded public/private distinctions into small business practices, composing the network of small businesses, and the revenue administration's bureaucratic hierarchy, into an assemblage with new capacities to capture tax revenue. Thus a law was passed in December 2005, requiring that firms purchase and use cash registers to document all transactions, coming into force on March 1, 2006. Figure 6 shows part of the English version of the brochure printed for the Georgian government by USAID to inform businesses about the cash register law.

Since unrecorded transactions would enable entrepreneurs to minimize tax liabilities, the law imposed heavy fines on any firm failing to provide customers with a receipt.[27]. A nation-wide enforcement initiative of unannounced inspections was underway in May 2007, when I was conducting interviews in a town in western Georgia—a regional commercial and government center with about 8,000 residents. During the month preceding my interviews all the town's businesses had undergone unannounced inspections. Inspectors were sent from the region's largest city and paired with the director of the local tax office. Three weeks prior to my interview, Makha, the owner-operator of a small "supermarket" and pharmacy, had been fined 500 lari (approximately 300 USD at the time) for not giving a receipt to a teenager from an outlying village, who the tax officials had sent into the pharmacy to make a 5 lari purchase. This incident was recounted to me by both Makha and three other local entrepreneurs.[28] One of these, Goga, owned the neighboring shop and had been an eye-witness to the

[27] The fines as of 2007 were 500 Georgian Lari (GEL; approximately 300 USD, 1.7 GEL was the equivalent of 1 USD at the time of this fieldwork) for the first offence, 1,500 GEL for the second offence, 2,500 GEL for the third, and 10,000 GEL for subsequent transgressions.

[28] Author interviews: Makha, May 18 2007; Mikheil, May 17, 2007; Goga, May 13, 2007; Ana, May 28, 2007

dispute. Confronted by the inspectors, Makha protested that her cashier had printed the receipt, but the teenager had rushed out of the shop without it. Goga and another bystander argued with the inspectors in support of Makha, saying that even if no receipt had been given, an undocumented 5 lari purchase should not warrant a 500 lari fine. The way Goga told me this story made it clear that he was trying to relate to the inspectors on a personal level, to get them to take the specific circumstances of the incident into account--especially Makha's law-abiding, upright character. "But there was no way out. From them nothing will save you," he sighed, captured.

The tax inspectors produced a witness who signed a statement swearing that no receipt had been printed. Makha nevertheless maintained that the register tape proved that a receipt had been printed at the exact time of the inspection. She told me that if she challenged the fine in court and received a fair hearing, she was sure that she would win, and that the director of the local tax office would be disciplined for using a false witness. Worried, however, that her challenge might be unsuccessful because of a biased judge, or that it would create further difficulties with the tax authorities, Makha reasoned that it was better to reach some accommodation by contesting the fine informally through the town's social networks rather than opposing the inspectors directly. She chose to pay the fine, while spreading a shameful story of how the local tax director had used a false witness to trap her into paying despite hard evidence that a receipt had been printed at the time of sale. She reasoned that this might function as a form of

Figure 6: Prosaic technology of capture

kompromat' that would give her leverage over the local tax office in case of future disputes, or make the director think twice before visiting her with another inspection or fine. While I could not verify whether or not Makha had actually given a receipt to the customer involved in the unannounced inspection, the important point is that Makha's claim to be innocent and her story about the tax inspection were part of a counter strategy of producing a power relation that would recode the tax collector/taxpayer relation, shifting state/society boundaries locally in favor of private interests opposed to the new tax regime.

After two weeks conducting interviews with the town's business people I also interviewed the director of the local tax office at the local government center, where I had previously informed municipal officials of my research agenda in the town. The local tax director received me coldly with brusque responses to my questions about cash register receipts, inspections and whether anyone had been fined for non-compliance.[29] When I asked whether there had been any challenge to the inspections, he refused to answer and left the room. His demeanor was extraordinarily rude; Georgia's high standards of hospitality were upheld by the rest of his staff as we drank coffee and interspersed interview question-and-answer with amiable chatter. As I continued for the next 20 minutes to pose questions to the tax clerks, who cycled in and out with 4-8 people in the office with me at any one time, the director returned anxiously to the open doorway four times, listening in on the discussion. His actions, both verbal and non-verbal

[29] Interview date: May 28, 2007

made it clear that he wanted me to leave. Such a disturbed response to my presence signaled that disputed inspections were a serious matter, but did not provide any ground for normative judgments on local governance, or indicate whether or not the incident in Makha's shop was the ground for the director's discomfort. Minor surveillance of my movements in the town by plain-clothed police also signaled sensitivity about the types of questions that I was asking. Aware of my positionality as a foreign presence who could potentially threaten the status quo in the town through negative reporting to the outside, reactions to my questions helped illustrate how local strategic antagonisms where shaping a geography of stateness as new state/society boundaries were being inscribed in the power relations between individuals and groups.

The circumstances surrounding the incident reveal important aspects of how the apparatus of capture exercised its capacities via the handle on small business practices that it gained through bodily dispositions of resignation to capture, combined with seething discontent with the regime of debt exaction. Makha's disposition of resistance to the inspection, and strategic compliance with the resulting fine, assembled the apparatus of capture by inscribing the state as a power relation between Makha and the tax director—a mutual relation of indebtedness and of guilt that is not a clear transgression but simply marks the subjection of both parties to sovereign power (cf. Agamben 1998, 27). Yet dispositions of resistance were more than simply a handle for the state apparatus to produce tax compliant business people. Resistance also featured in strategies of escape, or "lines of flight" (Deleuze and Guattari 1987/1980), from the apparatus of capture, strategies that often exploited the uneven spatiality of cash registers across small business networks. Despite the cash register's seeming mundanity, it was impractical to impose this technology in the bazaars, where thousands of shuttle traders sold goods imported in very small lots and subsistence farmers sold surplus produce.

Sales volumes and profits in the bazaars were generally so meager that taxation would destroy the viability of the bazaar trading, whose low-priced commodities most people in Georgia depended on as a livelihood strategy. Resulting social unrest might have threatened the revolutionary government (Corso, 2006). Retailers such as Guliko—who owned a supermarket and other shops across the street from Goga and Makha—also purchase their merchandise in the large bazaars in Georgia's biggest cities, profiting by reselling this at a 5-10 percent markup. Because traders in the bazaars were not required to use cash registers or issue receipts, there was no documentation of how much Guliko had paid for the commodities in the bazaar, and thus no way for the tax authorities to compare receipts in order to determine Guliko's profit margin on the goods she resold and assess tax on her profits. This meant that the paper trail began and ended with the receipts that Guliko gave to her customers, enabling her to evade tax by declaring less than her actual profit. Guliko's resistance to the tax regime only resulted in her firm becoming an exception to the "tax amnesty", however. She was assessed 19,000 GEL (11,176 USD) in back taxes from 2002-2003, capturing her in the infinite debt relation of future and past claims on her business income that marks her assemblage into fiscal stateness, even as she explored new strategies of escape.

Conclusion: Assemblage theory and the Emergence of State Capacity

Explaining the rapid increase in tax revenue in the Republic of Georgia requires a theory of state capacity that paradoxically is not centered on the state. The extent of tax compliance in Georgia, and elsewhere, cannot be explained by central enforcement alone, given the general lack of resources for total surveillance and sanctioning of all instances of tax evasion. Rather, the organization of economic life for the reproduction of sovereignty—fiscal stateness—emerges from the application of techniques that localize and individualize responsibility for actions sanctioned by legal codes, such that subjects govern themselves in mutual presupposition with the organizational capacities of the state. In stateness, governing others is immanent to governing oneself; state/society distinctions are embodied as the "conduct of conduct" (Foucault, 1994).

While my data analysis utilizes Foucault's (1994) concept of governmentality in focusing on particular tactics of government that impelled tax compliance, the assemblage theory that I attempted to illustrate through the case study entails an important departure from Foucault's ambivalence on sovereign power and state apparatuses. Assemblage theory does not attempt to deny that states are powerful actors in their own right (cf. Mitchell 1999). Indeed, the

Georgian state did act powerfully, but the growth in its capacity to act was contingent upon the Saakashvili government's successful application of techniques of enforcing compliance with new procedures that assembled individuals' conducts into state capacities. Central to the assemblage of fiscal state capacity was the tactic of *kompromat'*. *Kompromat'* made all firms that had operated prior to the Rose Revolution potentially subject to ruinous prosecution under the new anti-corruption agenda, since tax evasion had been normal under the Shevardnadze regime of illegalisms, and the judiciary was subordinate to the government. Here, Agamben's (1998) concept of the sovereign exception provides a key insight into how stateness fundamentally entails modalities of arbitrary coercion that undergird its more prosaic aspects. Making technologies of taxation such as purchase receipts and excise stamps into routine, prosaic aspects of business practice was a part of a coercive process that threatened livelihoods with the eventuality of a normal illegalism being prosecuted as an exceptional act of "corruption" under the Saakashvili regime. Affected by the threat or reality of ruinous audit and potential imprisonment for corruption, business people and civil servants were impelled to conduct themselves to according to recoded boundaries between public and private, state and society. Relatively benign tactics such as salary increases for civil servants and easy-to-follow procedures for tax payment joined with coercive technique to impel civil servants and small businesses to assemble their practices into a fiscal state apparatus.

This application of assemblage theory enables understanding state capacity (to collect tax) as a phenomenon that emerges from the application of strategies and techniques of subjectification through which new boundaries between state and society are enacted by autonomous subjects. Ongoing interactions between these agencies, including both conformist and escapist conducts, form the assembled agency of the apparatus of capture. Increased revenues were a goal of Georgia's revolutionary government, but there was no predetermined path to achieving this goal, and no ready-made system that could be imposed from the top down. The emergence of fiscal stateness was an outcome of interactions between variegated, spatially extensive business and civil service practices that were made mutually intelligible via techniques that impelled conformity to new public/private procedural codes, allowing hierarchical relations of revenue appropriation to be articulated into the distribution of conducts. Georgia's new "tax system" characterizes the prosaic certainty of taxation more than the set of rules and procedures scripted by the tax code. Rules and procedures should instead be seen as superficially stable outcomes of interacting processes and continuous contestations that defy order or equilibrium. Rather than system, assemblage is the process whereby more-than-sum-of-parts characteristics emerge to capacitate new forms of compositional agency, such as states whose spectacular acts of creation and destruction are immanent to the prosaic stateness enacted by their subjects.

Chapter 4

Towards an Assemblage Theory of the State

Whereas the previous chapters used the concept of assemblage to analyze investment promotion and fiscal state formation in Georgia, the goal of this chapter is to clarify the concept's implications for state theory more generally. Thus, the chapter is less focused on analysis and interpretation of fieldwork data, and more on offering an assemblage theory of the state as an alternative approach for social science research.

Following Mitchell (1989) the dominant strands of state theory can be loosely grouped into constructivist (Abrams 1988; Easton 1965) and idealist (Evans, Rueschemeyer and Skocpol 1985) alternatives. Constructivists vary in the strength of their claims, from Easton's (1965) argument that the state is so chaotic a concept that it should be expunged from political theory in favor of the "political system," to Marxist analyses that argue variously against the state as an entity separable from the capitalist class (see the review of this literature by Barrow 1993), to Foucault's (1994, 220) ambivalence on whether "maybe, after all, the state is no more than a composite reality and an mythicized abstraction, whose importance is a lot more limited than many of us think." Across the breadth of state theory that may be loosely classified as constructivist is a uniting suspicion of reification, which "represents the state as a thing: a more or less unified entity that can be the subject of actions such as deciding, ruling, punishing, regulating, intervening and waging war" (Painter 2006, 754). In short, constructivists find little credence in any ontology of the state that posits an *a priori* categorical division between state and societal entities, questioning whether "the state" is a useful category for social science.

Idealist state theory, on the other hand, reifies the state/society dichotomy as its analytical starting point. Much like constructivist ones, idealist strands of state theory are woven from a diversity of claims and analytical gradations on the extent that states exist as organizations that are separable from societal organizations. "State autonomy" (Evans 1995)—the extent to which state organizations are capable of acting on society—is here a variable with a particular geography and temporality, yet a distinction between state and society is always presumed as the identity of the variable. Unlike constructivists, idealists thus do not set "the state" into question as a meaningful category, instead rendering the state as an analytical *a priori*. In this way the state/society distinction parallels the Cartesian dichotomies of mind and body, ideal and material. Idealist state theory may thus be termed state-centric or statist in that its practitioners presume the existence of separate spheres in order to resolve analytical focus on how the state, rendered Cartesian cogito, acts intentionally upon its object, society.

An assemblage theory of the state, as I develop it here, differs from idealist accounts in that it entails no reification of the state as a "sphere" or subject of its own intentions. Unlike constructivism, however, assemblage theory makes no attempt to deny that states do exercise a form of agency, albeit compositional in form, which differs from the agency of the heterogeneous human and non-human materials from which it is assembled. Assemblages express characteristics that emerge from interactions between their components, and exercise capacities that differ from and exceed the capacities of their component agencies (Delanda 2002, 2006; Sheppard 2008). Assemblages are also capable of reacting upon their component agencies to alter their capacities. The main value of an assemblage theory of the state for social science research is an improved understanding of the sources of state capacity, and the processes of its emergence—an approach that elides distinctions between macro (institution) and micro (behavior). Because assemblage theory rejects any transcendence of ideal versus material it does not superimpose frameworks such as macro/micro over complexity, and eschews in particular Weberian ideal types and explanations based on deviance from such types (Weber 1978). This makes the theory non-normative and highly adaptable to diverse geographical contexts of political and economic organization.

Assemblage theory entails an ontology of immanent materialism where nothing is transcendent, no ideal realm is separable from a material one, and the distinction between subject and object that produces consciousness of cause and effect, and thus autonomy, is a process inseparable from and internal (immanent) to action. A key tool in a more-than-human theory of subjectivity that elides differences between ideal and material "spheres," the concept of assemblage usefully cancels ambivalence towards state ontology that characterizes constructionism, while historicizing states as processes of individuation rather than *a priori* subjects as in idealism. While the categories of state and society are indeed "socially constructed," these categories are material and create important organizational effects in the form of particular modes of interaction between agents—interactions that compose a state assemblage with capacities that differ from those of its component agencies. As a mode for understanding how particular state capacities emerge from behaviors that draw distinctions between state and society, assemblage theory provides important insights for the study of the state as an ongoing process of formation. Indeed, assemblage theory is distinctly applicable to understanding change precisely because the state is inconceivable as anything other than a process of continuous emergence.

My argument for an assemblage theory of the state is expressed below in reference to the arguments and analysis from previous chapters, while also drawing on additional data from field interviews and ethnographic observations in Georgia. In the chapter's second section I present a critique of idealist and constructivist theories of the state. There I draw heavily on Mitchell's (1991; 1999) arguments on the "state effect," and find inconsistencies in his theory of the material effects of representing the state as something separate from society.

Contra Mitchell, I argue that representation is not the most important mode of state/society distinction, and that the organization of practices does assemble a whole with capacities greater than the sum of its parts. The third section draws on the work of theorists such as Bourdieu, Althusser, Deleuze and Guattari, Foucault, and Agamben to conceptualize how subjectivity is made such that human agency is assembled into the capacities of states. Of central importance for understanding the driving force of desire in the process of assemblage is Deleuze and Guattari's (1983/1972, 1987/1980) concept of the "line of flight". To illustrate the utility of this concept I draw on empirical data in the chapter's fourth and fifth sections that I collected from an oral history of one dealer of scrap metal, Zaza, who I interviewed in a town in western Georgia. Zaza's line of flight illustrates both the process of assemblage of state capacity, and the force of desire that escapes the state thereby threatening to destabilize the assemblage and unmake its capacities. The final section of the chapter draws some theoretical conclusions concerning assemblage theory's potential as an alternative approach for the study of political and economic change.

A materialist critique of idealist and constructivist state theory

Liberal social contract theories of the state are prominent in idealist political theory where state and society are reified as entities capable of entering into a contractual relation with one another. The notion of a social contract however has no place in an assemblage theory of the state, as the previous chapter demonstrated by analyzing the formation of fiscal state capacity without assuming that there existed any *a priori* difference between state and society. Unlike idealist theories of "the tax state" (Moore 2004; Schumpeter 1991/1918; Goldscheid 1958) that guide research on popular trust in state institutions to explain different levels of tax evasion and "tax morale" across countries, (Torgler 2003; 2007), assemblage theory has no difficulty accounting for the sudden emergence of an unprecedented scale of tax compliance in countries such as Georgia where trust in state institutions is lacking.[30]

Against the liberal notion of a social contract as the basis of state capacity, an assemblage theory of the state maintains a set of commitments to Marxism. Indeed, Deleuze and Guattari (1987/1980) develop the concept of assemblage under the influence of Althusser and Balibar's (1997) rejection of idealist elements in Marxism, in favor of a historical materialism in which ideas do not belong to a "realm," "sphere," or "superstructure" unto themselves. Rather, in this perspective ideas are nothing more than material practices; their existence is immanent to the production of material effects (Deleuze and Guattari 1987/1980, 587). This immanent materialism implies that the idea of a social contract is itself materially effective, perhaps forming part of tax compliance in the practices of certain subjects in certain contexts of state assemblage, but never separated from the exercise of particular tactics of government.

[30] Nationally representative survey research in Georgia found that, on average, less than 32 percent of the population professed to "fully trust" or "somewhat trust" the national parliament, police, legal system, executive government, president and ombudsmen in 2007. Source: Caucasus Research Resource Center 2007 data initiative. Answers to questions on trust in various institutions were scaled with five intervals from "fully trust" to "fully distrust." Dataset available online at http://www.crrccenters.org/di/datasets

An assemblage theory of the state builds on the contributions of the major Marxist state theorist Nicos Poulantzsas (1978), who follows Marx in conceiving the state as a "social relation" that is intrinsically conflictual rather than consensual. For Poulantzas (1978, 136) the state is composed of "shifting and contradictory tactics" that form an "assembly of detachable parts." Jessop (1990; 2007) has further articulated Poulantzas's notion of a "fissiparous unity of state power," with Gramsci's (1972) theory of hegemony, to argue that the unity of state power is a function of national-popular projects. Indeed, a key enabling condition for state formation in Georgia was the national-popular surge of the 2003 "Rose Revolution." Nevertheless, popular desire for improved state services should not be confused with the means to that end or the different actual outcomes enabled by a mass outpouring of desire such as was witnessed in Georgia's Rose Revolution. More important to the process of state formation are the specific governmental technologies (Poovey 1998) that assemble state capacities through the interactions of acting subjects. Previous chapters have dealt with the formation of state capacities for taxation, economic regulation, and investment promotion through specific governmental techniques such as policy-transfer and audit.

The question of state capacity complicates the notion that the state is a social relation (Poulantzas 1978). Social relations of stateness do not necessarily imply that the state is an apparatus that exercises a set of its own capacities (Painter 2006). Conceiving the state as an apparatus posits an object of state action, and thus a boundary that differentiates an acting state from the society upon which it acts. Despite the ease with which this state/society boundary is reified, in practice it is difficult to delimit where the state ends and society begins. The state could be defined by identifying which actors are parts of the state (civil servants being obvious candidates), and which are not. The problem arises, however, that individual civil servants are simultaneously members of society and state employees. Thus, any action undertaken by a civil servant could simultaneously be a function of both society and the state (Mountz 2003), as in cases of corruption conventionally defined as "the use of public office for private gain." On a different register, the indeterminacy of state/society boundaries is created by the heterogeneous composition of entities such as tax systems (lawyers, banks, employers, receipts), justice systems (attorneys, judges, witnesses, law books), and systems for regulating public health, environmental quality, food safety, and labor relations, among others. Amid the dispersal of actors, institutions, and power relations that may or may not be constitutive of stateness, it is not immediately clear what creates specifically state capacities.

In opposition to certain constructivists who take the difficulty of delimiting the state as evidence of its mythological or imaginary status (Abrams 1988), I do not seek to refute the commonplace notion that states are real, material agencies that exercise capacities such as taxation. The concept of the state need not be expunged from political theory in favor of the "political system," as Easton (1965) attempted. But this also does not require recourse to idealism in order to “bring the state back in” as an autonomous subject and author of its own intentions, as in Evans, Rueschemeyer and Scokpol’s (1985) statist approach. In a critical review of the debate between these two camps, Mitchell (1991) concludes that neither side resolves the state/society boundary problem. The political system approach left no way of dividing political order from the wider organization of society. The statist approach, on the other hand, presumes the existence of separate state and societal ideal “spheres” as its analytical starting point. Given the difficulty of materially separating state versus societal agents and agencies, statist defenses of the separate spheres assumption utilize a form of idealism that imputes volition to the liberal capitalist state, rendering it as an autonomous actor that expresses “the public interest.” The state is thus reduced to a “subjective system of decision making” that “appears to stand apart from society in the unproblematic way in which intentions or ideas are thought to stand apart from the external world to which they refer” (Mitchell 1991, 78, 82).

Unfortunately for the statist camp, any effort to parse sites of original ideas and intentions—arising potentially from political leaders and civil servants in the state, or lobby groups and private firms in society—encounters the same difficulty as attempting to categorize agents as state or society. The “public interest” defies clear definition, since the ideas and intentions that guide the making of actual policy rarely if ever originate strictly from policymakers. Convinced that material and ideal aspects of the state should not be separated, Mitchell (1991; 1999) concludes that state/society boundaries cannot be precisely fixed in any abstract sense. Rather, for Mitchell the fact that “the state” is so easily reified, that the idea of the state is commonsensical despite the practical difficulty of defining its material boundaries, is a clue to the nature of state power.

Instead of positing a fixed boundary between state and society, Mitchell argues that this delineation is an effect of related organizational processes:

> The precise specification of space and function that characterizes modern institutions, the coordination of these functions into hierarchical arrangements, the organizations of supervision and surveillance, and the marking out of time into schedules and programs all contribute to constructing a world that appears to consist not of a complex of social practices but of a binary order… reality seems to take the two-dimensional form of individual versus apparatus, practice versus institution, social life and its structure or society versus state (Mitchell 1991, 94).

In this view, the state/society boundary is localizable in the subjective sense of the state as a structure separable from practice—“the state” is a “structural effect” that “arises from techniques that enable mundane material practices to take on the appearance of an abstract, nonmaterial form” (Mitchell 1999, 77). For Mitchell, then, the incidence of state/society boundaries is immanent to modes of organization and the repetition of particular practices. This means that the line is real, not illusory, and “producing and maintaining the distinction between state and society is itself a mechanism that generates resources of power” (Mitchell 1999, 83).

By conceptualizing the state/society boundary as contingent on the organization of practices, Mitchell obviates any fixed or transcendent definition of the state. State and society are discrete entities only insofar as agents are successful at utilizing particular techniques of social ordering that enforce state/society distinctions as their mode of application. Given the heterogeneity of such techniques and the actors that apply them, Mitchell (1991, 1999) argues that the unity of state power is ultimately cognition of a state that "appears" or "seems" to precede particular practices, even as practices instantiate the state.

In keeping with his arguments against idealist, state-centric theory Mitchell conceives representation not as ideal but rather material, existing to the extent that it is organizationally effective. If the material force of representation shapes potential conduct such that subjects' actions reproduce state/society boundaries in practice, then there is a recursive relation between the production of representations and ongoing practice. Yet, Mitchell (1999, 87) carefully words his argument to produce a strictly "ascending analysis" (cf. Foucault 1980, 99) with a linear movement from local practice to supervenient (state) effects that can only ever "appear" to precede practice, rather than actually doing so. By insisting on the appearance of the state versus its reality and drawing this distinction via unidirectional sequencing, Mitchell creates an inconsistency in his conceptualization of how state/society boundaries are instantiated. If the separateness of ideal and material is to be elided such that only the precession of practices is preserved, then it is unclear what different effect the "appearance" of precession versus actual precession might have on particular practices. Consider

Mitchell's (1991, 93-94) examination of the French army as one type of structural effect that parallels the state effect:

> For example, the new military methods of the late eighteenth century produced the disciplined individual soldier and, simultaneously, the novel effect of an armed unit as an artificial machine. This military apparatus appeared somehow greater than the sum of its parts, as though it were a structure with an existence independent of the men who composed it... Of course this apparatus has no independent existence. It is an effect produced by the organized partitioning of space, the regular distribution of bodies, exact timing, the coordination of movement, the combining of elements, and endless repetition, all of which are particular practices. There was nothing in the new power of the army except this distributing, arranging, and moving. But the order and precision of such processes created the effect of an apparatus apart from the men themselves, whose structure orders, contains, and controls them.

Indeed, the French army was not a structure that existed independently of the men who composed it, but Mitchell's insistence on the appearance of a separate apparatus is a moot point, particularly for the disciplined men who made up the new power of the army. The army's capacities are such that any trained soldier could be replaced by another without reducing the army's power. Further, the military capacities of the army do not rely on the ability of any individual to perceive it as a structure with an independent existence. Subjective apperception of a separable structure is of minor significance precisely because the army's capacities are greater than the sum of the particular practices of the replaceable bodies that compose the military assemblage at any given time—the distinction between individual soldier and apparatus is real, not illusory. The representation of the army, or the state, as a structure matters to the extent that particular representations of structure in whatever material form participate in impelling subjects to order their practices such that the capacities of the whole assemble from interactions between the parts. The state, like the army, must necessarily be greater than the sum of its parts precisely because the interactions between the parts produce capacities of the whole that differ from the capacities of the parts.

The difference between part and whole is under-theorized by Mitchell (1991, 1999), who founders on the question of representation. His insistence that the state "should be examined not as an actual structure, but as a powerful metaphysical effect of practices that make such structures appear to exist," and simultaneously that state/society boundaries are very much real and material, reproduces a distinction between metaphysical and material that parallels the division between ideal and material worlds that Mitchell critiques. The power of Mitchell's materialist state theory is reduced to the extent that it relies on an immaterial dichotomy of appearance and reality. Further, despite his critique of constructionism, Mitchell produces no alternative with his unidirectional relation of material practice giving rise to the state understood as a metaphysical effect.

For assemblage theory on the other hand, the problem of representation vis-à-vis illusory structure or false consciousness is of little relevance, since the approach is founded on a univocal materialism that elides any break between a material world and a transcendent sphere of ideals and ideas (Deleuze 1994) . While assemblages are characterized by capacities to produce what Mitchell identified as structural effects, conceptualizing the state as an assemblage—irrevocably material and composed of practices—requires systematic treatment of how embodiments and enactments of stateness extend beyond subjective representational frames of cognition. Here, the state is not so much an effect, as stateness is affective (Askew, 2009)—a territorially delimited spatiotemporal field of often prosaic experiential regularities, or pre-individual intensities to which bodies are protractedly exposed and attuned (cf. Protevi 2006, 28). As such, stateness engages a "*corporeal knowledge* that provides practical comprehension of the world quite different from the intentional act of conscious decoding that is normally designated by the idea of comprehension" (Bourdieu 2000, 135, original italics; see also Deleuze, 1988a). Representation thus is neither the only, nor likely the most important mode of coordinating practice with respect to state/society distinctions.

Due to his inconsistent conceptualization of representation in his theory of state effects, Mitchell's argument is too easily bent by other scholars to support a reductionist, micro-analytical form of constructivism that reduces the state to an "imagined collective actor in whose name individuals are interpellated," or a "symbolic resource" used to produce certain effects (Painter 2006, 758; Hansen and Stepputat, 2001). Because it does not conceptualize the state as an agency, a constructivist approach is of little use for understanding the emergence of new state capacities, such as the case of taxation and investment promotion in Georgia. In order to arrest constructivist tendencies, and build on Mitchell's contribution to the tradition of materialist critique of philosophical idealism (Juniper and Jose 2008, 3), my analysis of fiscal state formation treats Mitchell's "state effect" as a "phenomenon of intraconsistency" (Deleuze & Guattari 1987/1980, 433) that composes subjects into a state assemblage. "Machinic" capacities emerge from the assemblage, producing a diversiform agency enacted by subjects in composition with other materials.

Producing subjectivity, assembling state capacities

My reconceptualization of the "state effect" using Deleuze and Guattari's (1987/1980) concept of assemblage is additionally an effort to theorize the state outside the categories of micro (subjectivity) and macro (institution) that Mitchell maintains with his "ascending analysis" from the former to the later. The subject is a lacuna in Mitchell's state theory, appearing at most by implication as perceivers of the state effect generated surreptitiously by the arrangement of their practices. Deleuze and Guattari, on the other hand consistently capitalize the term "State" to connote the immanence of state and subject formation processes in their philosophy. Immanent causality is non-linear. It connotes relations of mutual presupposition, such as those that Foucault (1995/1977; 1994; 2000) identifies in his histories of the codetermination of modern (European) sovereign states and modern autonomous individuals. Pierre Bourdieu also finds immanent causality in submission to state order, arguing that cognitive structures—e.g. Mitchell's state effect—are "*dispositions of the body*... the obedience we grant to the injunctions of the state cannot be understood either as mechanical submission to an external force or as a conscious consent to an order (in the double sense of the term)"

(1999, 69, original italics). Similarly, a *predisposition* to obeisance is evident in Althusser's (1972, 118) example of how a police officer's hail inscribes the state/society boundary in everyday practices of walking on a city street:

> Naturally for the convenience and clarity of my little theoretical theater I have had to present things in the form of a sequence, with a before and an after, and thus in the form of a temporal succession. There are individuals walking along. Somewhere (usually behind them) the hail rings out: 'Hey, you there!' One individual (nine times out of ten it is the right one) turns round, believing/suspecting knowing that it is for him, i.e. recognizing that 'it really is he' who is meant by the hailing. But in reality these things happen without any succession. The existence of ideology and the hailing or interpellation of individuals as subjects are one and the same thing.

Here, there is no precession of practice, or of a representational state (effect)—the state is immanent to the hail, writ as the presupposition of the state, and the pedestrian's turning. The state materializes in the hail when the encounter produces stratification beneath an apex of central authority in the state's hierarchy, capturing relations between the two individuals, pedestrian and policeman. The two-dimensionality of the encounter, i.e. the resolution of a simultaneous "horizontal" dimension of (societal) interpersonal connection subordinated to a (state) hierarchical "dimension of depth," is a state effect produced by a successful application of the "police" technique of government (cf. Ferguson & Gupta, 2002). In short, the hail-turn is a point of subjectification where the police/pedestrian relation becomes part of a state assemblage with capacities to accost, arrest, and detain (Deleuze & Guattari 1987/1980, 129-30, 137).

Conventionally rendered "assemblage" in English translations of Deleuze's texts, the French term *agencement*, connotes both an active assembling or arranging, and a resultant ordering or assemblage (Tomlinson and Habberjam 1987, xiii; Phillips 2006). In combination, the two senses of *agencement* are useful for conceptualizing how techniques such as a police hail are at once predicated on state order, and immanent to the formation of that order. Immanent causality thus entails contingency; a state assemblage is the formation of state capacities via the successful application of specific, spatially and temporally variable tactics of government that "make possible the continual definition and redefinition of what is within the competence of the state and what is not, the public versus the private, and so on" (Foucault 1994, 221). Further, *resistance is primary* as it forms the circumstance of the exercise of power, giving shape to power's effects. The existence of power "depends upon a multiplicity of points of resistance, these play the role of adversary, target, support, or handle in power relations" (Foucault 1990/1978, 95). Techniques of power create conditions of possibility for effective prohibitions or commands issued "from above" by the sovereign or central state—power exceeds the state, which is not the source of power (Foucault 1994; Rose and Miller 1992). In this view, strategies, tactics, and local sites of resistance—however infinitesimal or unsuccessful—are loci of state formation, and the analytical foci for revealing the deployments of sovereign power that assemble a state apparatus.

The various examples of resistance to governmental tactics that I encountered in my fieldwork, such as that to inspections of cash register receipts from the previous chapter, each effectively inscribed a boundary between state and society in the practices of my research subjects. Where governmental tactics were successful in exacting revenue from business people, their practices were drawn across the threshold between the inside and outside of the juridical order of the fiscal state (cf. Agamben 1998, 26-27). This threshold is where strategies and tactics of sovereign exaction meet strategies and tactics of resistance—these are "points of subjectification" where practices become interior to the (fiscal) state apparatus, and state capacity is assembled from practices of tax compliance. In the Georgian context the threat that normal practices of tax evasion under the Shevardnadze regime would be prosecuted at will as exceptional cases of corruption after the Rose Revolution, was a powerful coercive tactic that captured business people in a relation of always already being-in-debt. Such infinite debt is owed to the sovereign for not being excluded from the juridical order of life—being made exception to law by sovereign power—a continuously possible eventuality since the law itself is originally a despotic invention (Deleuze and Guattari 1983/1972, 213). While applicable tactics of sovereign power for capturing life in the juridical order of stateness will differ across contexts, tactics of government must be applied in each state in order to achieve the assemblage of practices into state capacities.

To be effective for assembling state capacity from everyday practices, such techniques must involve more than coercion, compulsion and domination. Rather, state capacity requires the compliance and active participation of the subjects who are parts of the assemblage; persons must govern themselves such that their practices assemble into state capacities. Whereas governmentality is Foucault's concept for understanding subjectification, or how strategies of power produce subjects who act to reproduce and valorize their own everyday subjection, Deleuze (2006, 126) sees such strategies as secondary phenomena in assemblages. The primacy of desire over power is for Deleuze (2006, 122) the solution to the macro/micro problem that he finds in Foucault's (e.g. 1990) social theory.

The macro/micro problem arises from Foucault's simultaneous insistence that power is "capillary" or diffused in micro-arrangements that cannot be reduced to a state apparatus, but also that power is unified on a macro-dimension of a *dispositif*—apparatuses akin to Deleuze and Guattari's (1987/1980) assemblages, such as schools, factories, prisons, armies, mental hospitals and, indeed, states. Endemic also to Mitchell's theory of the state effect, the macro/micro problem is unavoidable where power is conceived as simultaneously productive in micro-subjective arrangements and repressive in macro-institutional arrangements. In order to avoid this problem with Foucauldian power, Deleuze and Guattari theorize desire as the element of social dynamism that is not driven by contradiction or opposition between macro (repression) and micro (resistance) dimensions of power.

> Our only points of disagreement with Foucault are the following: (1) to us the assemblages seem fundamentally to be assemblages not of power but of desire (desire is always assembled), and power seems to be a stratified dimension of the assemblage; (2) the diagram and abstract machine have lines of flight that are primary, which are not phenomena of resistance or counterattack in an assemblage, but cutting edges of creation and deterritorialization (Deleuze and Guattari 1987/1980, 531).

Desire is thus something akin to vitality or life force, and never exists for the lack of something. "Desire does not lack anything; it does not lack its object. It is, rather, the *subject* that is missing in desire, or desire that lacks a fixed subject; there is no fixed subject unless there is repression" (Deleuze and Guattari 1983/1972, 26, original italics). Desire is the creative act of assemblage—a line of flight or cutting edge that opens the assemblage to mutation and conjugation with other assemblages (deterritorialization)—as well as the element of stratification where subjectivity is coded by strategies of power mobilized by particular assemblages, such as states.

For Deleuze and Guattari desire produces both conformity to procedural codes and a constant overflow of codified boundaries that are inscribed in social life by strategies of power, such as state/society. "Flight lines are not necessarily revolutionary, on the contrary, but they are what power arrangements are going to seal off and tie up" (Deleuze 2006, 27). Deleuze and Guattari (1983/1972; 1987/1980) describe the capture of desire in processes of state assemblage through the concept of "overcoding". This concept parallels Althusser's (1996) articulation of the Freudian concept of "overdetermination" with Marxism, to develop a historical materialism in which revolutionary events are seen not as driven by unified causal contradiction, but rather arising as a result of a multiplicity of causal processes. For Deleuze and Guattari (1987/1980, 8), "unity always operates in an empty dimension supplementary to that of the system considered." Overcoding is the superimposition of a supplemental dimension of a unity of form over unformed vital forces of desire, capturing a light of flight as, for example, the Saakashvili regime met the popular outpouring of desire for a "strong state" to resolve social problems that was one expression of purpose for Georgia's Rose Revolution. The desire to be led, to fight for servitude, to be legislated—this Deleuze and Guattari see as the fundamental problem of political philosophy:

> As Reich remarks, the astonishing thing is not that some people steal or that others occasionally go out on strike, but rather that all those who are starving do not steal as a regular practice, and all those who are exploited are not continuously out on strike… no, the masses were not innocent dupes; at a certain point, under a certain set of conditions they *wanted* fascism…" (Deleuze and Guattari 1983/1972, 29, original italics; Reich 1970)

Fascism serves as the extreme example of subjects enacting a repressive state as the mode of expression of theirdesires—a conjugation of lines of flight that performed the Nazi mutation of Germany. As subjectivities conform to state codes of conduct they become part of an apparatus that "realizes" an "abstract machine of overcoding," that regulates relationships between those practices which techniques of power successfully encode (Deleuze and Parnet 1987, 129-30).

Similar to the capacities of armies, firms, and other institutional assemblages, state capacities emerge from interactions between component practices to the extent that they are made mutually intelligible through codification governing conducts such as policing. While the state has no agents that are exclusively of it, state agency is exercised through various techniques of codifying social practices as state or society, public or private, and subjectifying these codes in bodily (pre)dispositions (Bourdieu 1999).Yet the capacities of an assemblage exceed those of individual components, which can be removed without altering an assemblage's character (Delanda 2002; 2006). The state is able to "see" (Scott 1998) by identifying individuals according to fulfillment or non-fulfillment of actions prescribed by binary codes such as "tax collector/taxpayer" or "police officer/suspect." Further, an assemblage is capable of reacting upon its components to alter their practices, including shifting state/society boundaries such that new practices are captured. This robust dynamism of the assemblage results from the state apparatus's work of overcoding desire to produce subjects such as the taxpayers and tax collectors of the previous chapter that act to assemble their practices into state capacities.

It should be emphasized however that the success of state assemblages at aggrandizing their capacities is in no sense guaranteed. Deleuze and Guattari (1987/1980) make very clear that the "plane of consistency" of vital, unformed desire continuously exceeds the “plane of organization” created by the State, threatening to “deterritorialize” the state apparatus absolutely: “A society, a social field does not contradict itself, but first and foremost, it leaks out on all sides. The first thing it does is to escape in all directions. These lines of flight are what come first (even if first is not chronological)” (Deleuze 2006, 127). To gain and maintain its capacities the state must continuously strive to capture and retain flight lines, making state assemblage an ongoing process of mutation with uncertain outcomes.

Despite its high level of abstraction, locating the driver of change in desire’s overflowing of the encoding of practice is perhaps the most important aspect of Deleuze and Guattari’s assemblage theory as a framework for social science research on political change, such as took place in the rapid transformation of Georgia with the Rose Revolution. The following section illustrates the dynamic of overflow and capture surrounding the line of flight of one of my research informants in Georgia. The account is meant to reveal how the concept of assemblage replaces those of behavior and institution (Deleuze 2006, 177) in an integrated analysis of the continuity of state and subject formation.

Zaza the scrap metal dealer, interview of May 31, 2007

To illustrate the concept of a line of flight and its relation to the assemblage of state capacity in Georgia I draw on data from one oral history that I collected in spring 2007. The narrative describes the trajectory of a small business owner from a town in western Georgia, who I will call Zaza to protect confidentiality. Prior to the Rose Revolution, the lack of state capacity to provide an adequate wage for his work as a police officer created an unsustainable situation for Zaza's young family, leading him build a business selling scrap metal. Desire for political change led Zaza to support the Rose Revolution, but the subsequent course of state formation created precarious conditions in the scrap metal business. Concerted effort to comply with new regulations did not protect his small firm from harassment by police during off-duty hours. Zaza's desire for a state of law thus remained unfulfilled. His line of flight escaped overcoding by the state assemblage, becoming a potential counter-revolutionary cause.

Zaza became a police officer in 1990 as the Soviet Union was coming to an end. He served the newly independent Georgian state through the outbreak of successive civil and separatist wars, Shevardnadze's new constitution and consolidation of presidential power in 1995, and subsequent disappointments with the continued decline of living standards and disintegration of public infrastructure. As a police officer, Zaza had survived by collecting informal payments to supplement his meager wages. The normality of such payments, predicated on their necessity for the police to persist as an organization, meant that these were not generally considered bribes or forms of venality, but marked a lack of clear boundaries between state and society. Unable to support adherence to official protocol through the provision of an official wage, the state had lost all capacity to pay Zaza any amount during the last two years of his employment in the police. “Bribes were all we had to live on then,” Zaza told me.

Zaza finally left the police in 2002 to concentrate on the family’s scrap metal business. This sector of the economy was largely unregulated at the time, despite scrap metal consistently being one of Georgia’s largest export commodities by value. His mother-in-law had started the business in 1993 while Zaza was still working as a police officer. Like many other Georgian entrepreneurs, he and his mother-in-law were forced into the market by the lack of alternative opportunities to support their family, and slowly expanded the business by carefully reinvesting earned income. The business was run out of the family’s front yard, where scrap was purchased from local scavengers, stockpiled, and sorted, and from where Zaza had previously sold cheap fuel. Scrap metal could be freely scavenged from the ruins of the town’s Soviet-era factory buildings, while the sale of fuel was also practically ungoverned by state regulatory requirements. Three times per month Zaza worked together with 11 or so employees to load the accumulated scrap onto old Soviet trucks, and drove it to the Georgian port city of Poti where he sold the scrap to an exporter. Zaza thus built a prosperous small business operating in an environment with little formal regulation, selling the ruins of Soviet industry on the global market.

Zaza nevertheless desired change to the political order that had failed to provide him with a respectable livelihood as a civil servant. He had been a strong supporter of Saakashvili’s National Movement leading up to the Rose Revolution.

In November 2003, he donated a large quantity of gasoline to fuel the caravan of minibuses that Saakashvili led from the regions to Tbilisi, helping swell the number of protestors in Tbilisi's central Freedom Square to over 100,000. This mass mobilization of protestors led the military and police to conclude that popular support for the government had been lost. Protestors were allowed to surge into the unguarded parliament building, interrupting the inauguration of the new parliament as it convened for the first time after the disputed 2003 parliamentary election. President Shevardnadze's flight out the back door symbolically swept away the old regime. No unified cause can be identified for these revolutionary events. Zaza's small but important role in the protest movement was not motivated by an effort to resolve of any contradiction, or to realize any specific future plan. Rather, the revolution was overdetermined. It took place as a kind of social overflowing of desire that was directed by Saakashvili and other political leaders towards new goals of state reformation, what Deleuze and Guattari (1987/1980) might call a "conjugation" of lines of flight.

Despite his initial enthusiasm for the Revolution, Zaza's livelihood was soon negatively affected by the change in regime. As a small player in one of Georgia's biggest economic sectors, Zaza was not privy to reliable information about who gained control of the exportation-link in the scrap metal commodity chain with the passing of the Shevardnadze regime. However, he had been forced to stop work for a month after the Revolution while the most lucrative parts of the scrap metal export business changed ownership from persons close to the former Shevardnadze government to a new group of elites. Rumors swirled that the family of Irakli Okruashvili, who had first held the portfolio of the interior ministry, then the defense ministry in the Saakashvili government, had gained control of the business after the revolution. When Okruashvili was relieved of his portfolio as Georgian minister of defense on Nov. 10, 2006 and took up residence in France, however, instability in the scrap metal business again interrupted operations as control passed to someone else's clan (Zaza heard a rumor that Vano Merabishvili, the interior minister, was in control for some time, then control had passed to someone else). Blurred boundaries between state and society thus persisted at the commanding heights of the scrap metal economy, but for small dealers like Zaza the government applied new tactics to assemble business practices into new state capacities to pursue a different development trajectory for the country, one that would be catalyzed by the promotion of inward foreign direct investment discussed in the first chapter.

New regulations and tactics for their enforcement were designed to prevent people from further stripping or collecting metal from the industrial ruins still owned by the state, as the government pushed ahead with the rapid and extensive privatization of state property. The overall effect of the new regulations was to make dealing in the scrap metal business more difficult. Zaza saw this as partially the result of a heightened sensitivity from the government to the negative image created by scrap metal being one of the country's largest export commodities as the government embarked on a publicity campaign to promote foreign investment.

Zaza's firm became subject to frequent state inspections, and when I spoke with him he had recently been fined 1000 Lari (about 600 USD) for transporting some of his metal before the end of a newly imposed 30 day waiting period between purchase and resale. After he was fined, a competitor in the scrap business saw an opportunity to use her connections with the police in the region's administrative capital to cause further disruption to Zaza's business, leveraging locally blurred boundaries between state and society to harass her competition. At her behest drunken police arrived to conduct an unofficial inspection and demanded payment in return for leaving the business in peace. When Zaza and his family refused to pay, a noisy altercation ensued during which his wife and mother-in-law were struck by the police. Neighbors came out and loudly defended Zaza and his family, and finally the police left empty-handed. Zaza was livid with anger yet felt powerless to successfully challenge the actions of the police in court, and feared that some pretext would be found for sending him to jail for seven years. His general conclusion on the matter was that, because the government seemed to want scrap metal to shrink as an economic sector in Georgia, his position was very vulnerable. He lived in fear of the police and tax inspectors of the revolutionary regime for which the scrap metal business was not seen as projecting the proper image of Georgia as no longer a failed state, but rather an emerging market.

In this way, Zaza's line of flight that helped mobilize the protest movement that unseated the Shevardnadze government was captured by the new capacity of the state to regulate the scrap metal economy. The new rules made the state an organizing presence in the practices of the scrap metal business through regulating the circulation of the material in space-time—a process of circulation and arrest that Secor (2007) sees as characteristic of the general action of sovereign power. Zaza's subjection to the new regime was designed to inscribe a new boundary between state and society in the scrap metal business: increasing the value of state assets in privatization auctions, reducing the availability of scrap metal, and threatening Zaza's livelihood. Zaza's non-compliance with the new regulations left him vulnerable both to large fines and unscrupulous competition. Yet, paying the fine and complying with the new regulations on trade in scrap metal did not protect Zaza from the police harassment meted out at the request of his competitor. This was itself a type of overflowing of the boundaries between state and society that were being constructed locally: The state was unable to capture the agency of police and business people and assemble it into state capacity to create justice.

Overflowing and Overcoding

Zaza's line of flight illustrates the dynamic of overcoding that worked to assemble state capacities to regulate the scrap metal trade, as well as the overflowing of boundaries between state and society being inscribed between agencies. The overflow and escape of lines of flight such as Zaza's, particularly in conjunction with similar lines, makes state assemblage a precarious process subject to continuous change. Consider the following quotations from my interview with Zaza:

> At first I didn't care about the law that scrap had to be kept in the yard for 30 days before I could haul it away. I was worried about turnover, that I didn't have enough working capital to buy scrap over that many days and pay for the transportation of so much.

The new law was a tactic for drawing a state/society boundary in the buying and selling of scrap metal. The law required that scrap be stockpiled for thirty days before it could be sold. This held the material in place so that it, and Zaza's documentation of its purchase, could be inspected to certify that the metal originated from a non-state owned source. At first Zaza had regarded this law as little more than an inconvenient abstraction. His yard was too small to stockpile 30 days worth of metal. His normal business practice readily overflowed this state effort to inscribe a boundary in space-time for holding the scrap in place so that tactics for controlling its origin could be exercised, just as the material itself began to overflow his yard before 30 days had passed. Zaza's line of flight continued:

> The first inspection was no problem. The police came with official documents and probably just looked to see what was in the yard. When they came back for the second inspection they had documents again. They saw that I had removed some scrap before the end of the 30 days and they gave me the [1000 Lari] fine... After I paid the fine I got a line of credit from the company that I sell to at the port so that I can cover my costs for the 30 days between deliveries.

The heavy fine had a chastening effect on Zaza, and moreover the fine motivated him to conform his business practices to new regulations. Indeed, Zaza did not express an entirely negative view of the changes that the state forced upon his business, but took some pride in his ability to overcome the obstacles presented by operating within the new boundaries of the scrap metal trade:

> It's more work but now I follow the government's rules completely. I use my computer to keep records of every transaction… I take their name and identification number [from the people that bring me scrap], I record the weight and type of scrap that I buy and the amount that I pay, I give them a receipt that we both sign to certify that the metal isn't stolen [from state-owned industrial ruins]. I keep the scrap for 30 days before I sell it.

Each time that Zaza bought scrap from someone he certified its origin and took the seller's identification number. People were reluctant to provide their identification, but Zaza demanded it because he could be fined again or imprisoned if the origin of some of his scrap was traced to a state-owned source. Documenting who sold him the metal was the only way that he could trust the word of the seller that the scrap had not been scavenged from state property. Zaza thus changed his business practices such that they assembled new state capacity to "see" scrap metal, and control its origin and its movement through space and time. Mediated by the new regulations for the scrap metal trade, Zaza's relation to the state was not simply one of conformity to new codes, but moreover an overcoding where Zaza valorized his ability to grasp the complexities of the new legal regime and meet his responsibilities by developing his own computerized system for documenting transactions—a system that aggrandized state capacity to organize trade in scrap metal. Zaza's saw this effort as a positive reflection on his personal qualities as a principled businessman working to gain comprehensive knowledge about the economic and political situation of his business, and to work hard to achieve success whatever the difficulties. Zaza's pride in his ability to work within the shifting boundaries of the scrap metal trade and support the government's effort to prevent theft from state-owned property, while successfully maintaining the profitability of his firm, was belied by the unofficial "inspection" visited upon him by the police: "That's why the last inspection was just terrorism, but no one will stand against [the Saakashvili government], you'll just go to jail for seven years and no one will support your family."

Zaza's anger at the police who had struck his wife and attempted to extort money from his business was one manifestation of how his line of flight escaped capture by the state assemblage amid the imperfect territorialization of state/society boundaries to encode police conduct. Such lines of flight threaten to disassemble the capacities of the state apparatus, particularly when brought into conjunction with other lines of desire's escape from assemblage with new mass surges of desire for political change. The escape of Zaza's line of flight despite his initial enthusiasm for the Rose Revolution illustrates how state assemblage is an ongoing and precarious process, where success depends upon applying tactics of government that are not simply modes of repression and control, but more fundamentally creative of desire to be governed.

Conclusion: Immanent Causality and Deterritorialization

An assemblage theory entails conceiving the state as neither a transcendental subject possessed of its own "public interest," as in statist accounts, nor an "illusory account of practice," after constructivists. State and society, public and private, practice and institution—these modes of categorical differentiation are never transcendental or pre-given, not illusory, but rather material. The emergence of any organizational forcefulness of these distinctions is immanent to the power-laden interactions that assemble a state apparatus that differs from society without the constitution of a separate sphere. A state assemblage emerges through the application of specific governmental techniques to hierarchically codify, coordinate, and integrate conducts into the superordinate capacities of a state's machinic form of agency. State apparatuses work through the power relations that they assemble, and presuppose, in a relation of immanent causality.

> What do we mean here by immanent cause? It is a cause which is realized, integrated and distinguished in its effect… In this way there is a correlation or mutual presupposition between cause and effect, between abstract machine [i.e. of overcoding subjectivity according to governmental codes of conduct] and concrete assemblages [i.e. the state apparatus]… If the effects realize something this is because the relations between forces… define only possibilities of interaction… But realization is equally an integration, a collection of progressive integrations that are initially local and then become or tend to become global, aligning, homogenizing and summarizing relations between forces (Deleuze 1988b, 37).

In Georgia, bodily dispositions and abstract codes were progressively integrated into state capacity for economic regulation. This integration was not however a strictly "bottom-up" process to be understood via "ascending analysis." Rather the integration was a tactical effort to realize the Saakashvili government's strategic goals of state capacity building. The exercise of state capacity is however presupposed by the subjectification of new state/society distinctions—the overcoding of subjectivity such that desire is productive of the assemblage. Determined leadership was essential to realizing these new capacities, yet “state autonomy” (Evans 1995; Samatar 1999) was a tactical effort to realize an institutional design, not a precondition for the formation of state capacity. Assemblage theory enables putting leadership into strategic context and understanding why the tactics used to carry out the intentions of leaders, such as eliminating the theft in scrap metal from state-owned sources and reshaping Georgia’s international image into an investment destination, may have unintended consequences that undermine these leadership intentions.

Of more general significance to the study of state formation is Deleuze and Guattari’s (1987/1980, 531) insistence upon the primacy of lines of flight over the territorial stratification effected by sovereign tactics. “Deterritorialization” is the key concept for theorizing how vital forces of desire continuously escape the overcoding of subjectivity, which makes a state assemblage a process of continuous mutation or “reterritorialization.” This continuous excess of desire is the source of an aesthetic, as well as an ethic of assemblage theory (Deleuze 2005). The aesthetic is a conceptual one found in the complementary regress of subjectivity and (state) institution to the thought of pure non-differentiation. The ethic is realized in desire that produces subjectivity in full recognition of its constitutional inseparability from institutional coding, and action that accompanies the realization that to act intentionally is to form an assemblage that reinforces particular capacities or produces and aggrandizes alternative ones with an attendant set of possibilities for deterritorialization. In Georgia, desire's mass overflowing of post-Soviet encoding was the event of deterritorialization, and the "Rose Revolution" was the reterritorialization of the state through the recoding of desire—a process catalyzed by a foreign-backed vanguardist leadership deploying coercive tactics to capture and recode subjectivity into new forms of stateness. Yet, as the case of Zaza's scrap metal business demonstrated, this is a precarious process, continuously incomplete and threatened with destruction bylines of flight that escape capture by the state apparatus.

Such is the precarious situation of the Georgian state where the rapid assemblage of state capacity is escaped by subjects such as Zaza, whose line of flight contributes to an unstable milieu that undermines state capacity to express popular desires. Six months after my interview with Zaza on November 7, 2007, large street demonstrations became riots that threatened to overrun central government buildings and were violently disbursed by the police. The demonstrations began in reaction to the arrest of the former Georgian defense minster, Irakli Okruashvili, on charges of embezzling public money from military construction contracts. Okruashvili's sudden prosecution for corruption was seen as an example of arbitrary exercise of state power to crush an opposition leader who had fallen out with the government, much like Zaza's sense that he was being terrorized simply for being in a business that the government frowned upon. The conjugation of lines of flight in this event led to President Saakashvili's resignation and a special election in which he regained the presidency with a reduced mandate. An assemblage theory of the state enables understanding how such mass events are presupposed by other seemingly minor ones, such as Zaza's line of flight, and how such lines of flight make the state a process of continuous formation.

Assemblage theory offers conceptual tools that elide distinctions between macro-institutional and micro-subjective processes. In lieu of macro- and micro-entities the objects of analysis are processes of emergence that produce the scale effects, such as state capacities, that characterize assemblages. Methodological innovation is required to more effectively deploy these conceptual tools to understand processes of emergence taking place in various contexts. This involves a focus on collecting interactions data with a view to understanding how localized interactions, such as Zaza's tribulations with the police in his area, are ramified into processes of social change with larger scale effects. Such theoretically informed research may enable geographers to better understand processes of rapid political and economic change, as has been the norm in the post-socialist region since 1989.

Chapter 5

Conclusion

The Rose Revolution in the Republic of Georgia produced a profound political and economic transformation. To put in perspective how radical was this change, consider the account of Wendell Steavenson (2003)—a journalist who lived in Georgia for more than two years over 1998-2000. Her narrative is remarkable not for incisive analysis of elite competition leading up to the revolution (cf. Wheatley 2005), but rather for her visceral portrait of life where the state has little organizational presence. Like her Georgian neighbors she slept fully clothed under heavy blankets in a freezing apartment, rejoiced when the electricity and water supply made rare and unexpected reappearances, and hears children ask their parents what all the radiators are for—they are too young to remember when Tbilisi's central heating system still pumped hot water around the city. Indulging in a form of black humor while driving across the country she mentally collected "LAOs"—Large Abandoned Objects—"everywhere lay the debris of the Soviets, the husk of an Empire"

> Rusting tractors, bits of pipeline, lines of coal cars shunted and left along a rail line, half-built bridges and apartment blocks standing concrete and empty; a skeletal, burnt-out crane hanging over them…ruined collective farm barracks and factories with all their windows smashed and their plant ripped out for scrap…lumps of concrete…bits of twisted metal…hundreds and hundreds of piles of reinforces concrete slabs, rotting, crumbling, rusting from the inside (Steavenson 2003, 93-94).

Within a few years however the sense of living in the decaying "husk of an Empire" was replaced with a new sense of future that was no longer "post-Soviet"—not determined by the past but rather by the vitality and capabilities of the people of a newly functional state of Georgia.

By 2008 when I was completing dissertation fieldwork the electricity supply across the country was almost uninterrupted. Water was available in Tbilisi for all but a few hours in the middle of the night while the municipality continued extensive repairs to the distribution system. New trash collection and street sweeping services had created a more sanitary urban environment. What had been a nighttime dark and dangerous city of unlit streets and unreliable, venal police was bright with new streetlamps and protected by a trusted force of patrol police. In each of these, among many other ways, the state had made a powerful resurgence as an organizing presence in everyday life. The Rose Revolution thus resulted in a qualitative change in stateness approaching a Eurocentric "normal" (cf. Jones 2006).

The Strange Case of Georgia

This radical departure from Georgia's hitherto post-Soviet trajectory defies "structural" explanations. Geography is not destiny in the case of Georgia. Separated from the EU by the Black Sea, no offer of EU membership motivated its politicians to implement reforms as was the case in postsocialist states further west. Indeed, Georgia's geography seemed to countervail "transition" prior to the Rose Revolution—its important geostrategic position makes it an indispensible ally in the completion between Russia and the West for control of hydrocarbon export routes from Central Asia. This geostrategic importance meant the allocation of increasing amounts of aid despite lack of progress on reforms. Over $700 million in bilateral aid was allocated to Georgia from the US government between 1995 and 2000. Entering into the 21st century Georgia was the third highest per capita recipient of U.S. bilateral assistance after Israel and Egypt, amounting to US$200 per person from USAID in 2000. The EU was nearly as generous, providing 420 million Euros to Georgia between 1992 and 2004. Much more could be counted in direct bilateral contributions from EU member states, or indirect aid provided in grants to NGOs operating in Georgia (Jones 2006, 41). Moreover, lack of donor coordination meant that Shevardnadze could enjoy aid earmarked for duplicate or contradictory tasks, such as the simultaneous production of cadastral maps undertaken simultaneously by the German aid organization GTZ and USAID, which then required another follow-on project by GTZ to reconcile the demarcation of landholdings represented by the two different cadastres. Growing inflows of aid created a clear structure of monetary incentives for political and economic elites to maintain dependence on foreign aid. Having broken away from Moscow, Georgia had found new patrons in the West.

Yet, the new group of elites that gained control of Georgia's government with the Rose Revolution did not respond to these incentives in the same way as the Shevardnadze regime. The Saakashvili government instead made clear that it intended to finance Georgia's economic development through FDI. Georgia would become an investment destination through a radical program of liberalizing reforms targeted at raising its EDBI ranking in order to gain reputation capital with foreign investors. Rather than depending on foreign donors to fill Georgia's treasury, finance its budget deficit, and provide basic services to the population, the priority was to raise tax revenues to levels where the government could finance services itself, and take the lead in rebuilding Georgia's crumbling infrastructure. Indeed, the objective of the Saakashvili government was to use international assistance to build a state that ultimately would no longer need it—the opposite reaction to the incentives that fostered aid dependence under Shevardnadze.

Given the lack of structural explanations for Georgia's departure from its post-Soviet partial-reform status quo, this dissertation adopted an alternative approach via assemblage theory. An important strength of this mode of explanation is its ability to transcend statist and constructivist state theory, such that state autonomy is a realization of assemblage rather than an analytical presumption. The Saakashvili government made a choice to pursue a strategic objective of leveraging international assistance for state building rather than continuing to collect geostrategic rents. This choice of strategic objectives was however not a source of state autonomy in itself. Leadership is a critical variable that creates a mode of assemblage with strategic coherence, yet the emergence of new capacities from state assemblage relies upon the articulation of strategy with tactics of government that impel action according to state or societal codes of conduct. The success of such tactics makes stateness prosaic, and self-conduct becomes a mode of aggrandizement of state capacities for autonomous action.

New laws and procedures were key tactics for the assemblage of state capacity. The Saakashvili government changed laws, but more importantly it also changed the axioms upon which the law in Georgia is founded. Between post-Soviet independence and the "Rose Revolution," economic illegalisms were administered such that the law promoted non-compliance; success in business and state revenue administration necessitated compromising the legality of one's actions to some extent. In contrast, revolutionary legal codes were designed for strict compliance. Civil servants and business people would now act *within the law* according to re-codified legal/illegal and public/private distinctions, or else face harsh sanctions. Retroactively defining past actions as illegalities made *kompromat'* amassed under the old regime a particularly effective tactic of sovereign power. This was instrumental for unmaking Georgia's post-Soviet suzerainties, cutting the lines of tribute that had maintained them, capturing revenue in the national treasury using new procedural codes, and building state capacity by leveraging international assistance for civil service and police reform. *Kompromat'* was assembled with more prosaic mechanisms of government such as cash registers, fines and inspections in the scrap metal business, new procedures for registering businesses and property, and a myriad other "little things" that gave the state a new organizational presence in everyday life. The assemblage realized an abstract machine of overcoding that produced self-government in accordance with new codes distinguishing state from societal conducts. New state capacities emerged to resolve problems of revenue generation and development finance. Radical changes to longstanding patterns of civil service and business conduct produced new routines that became increasingly prosaic as desire manifested in resistances to new codes—"lines of flight" in Deleuze and Guattari's terminology (1987/1980) —were captured, blocked, conjugated, and/or redirected across changed conditions of possibility for political and economic life.

Machinic Geographies

While the spectacle of rapid state formation in Georgia makes this a good empirical demonstration, assemblage theory is of wider applicability to the study of emergent political and economic geographies, and "machinic" forms of agency such as that exercised by state assemblages. The term assemblage is gaining increasing currency in the field of human geography. This is revealed by a Google scholar text search of the top 13 human geography journals (ranked by Thompson Reuters ISI impact factor), which revealed that assemblage was used in 36 articles in 2002 and nearly tripled to 95 articles in 2009. The rise in the currency of this term has however not always accompanied its rigorous application as an analytical concept. This dissertation is meant to demonstrate several contributions that assemblage theory can make to geographic scholarship. A non-exhaustive list can be compiled as follows:

1. Assemblages are processes of change. Capacities that are proper to an assemblage emerge from interactions between the parts, and the whole continuously acts upon the parts to alter their capacities. The assemblage dynamic is thus one of reciprocal action of the part upon the whole and the whole upon the part causing continuous mutation.
2. Whereas rules, tendencies and equilibriums characterize the more-than-sums-of-parts qualities of systems, assemblages differ in that they are capable of focused and directed forms of agency beyond the whole acting to define (systemic) relations between the parts. That is, assemblages are "machinic." The formation and exercise of state capacities through strategic designs is a good example of machinic agency.
3. As compositional forms of agency assemblages are not unified subjects of their own initiative. The agency of an assemblage is rather an emergent phenomenon that relies upon the production of certain scale effects. State capacity is a scale effect through which territory becomes a mode of assemblage in composition with tactics of government that encode human subjectivity. The same principles apply to other human geographies, but their degree of agency differs according to the mode of assemblage that produces their capacities.
4. Subjectivity is the encoding of desire. Desire for something—the fulfillment of a lack—is the outcome of this encoding and the

enablement of agency through bringing subject and object into relation. This is the sense in which Deleuze (2006, 177) means to substitute the "idea of assemblage" for the "idea of behavior." This is also the principle whereby assemblage theory elides macro- and micro- distinctions.

5. Assemblages mutate through the overflowing of desire. Such lines of flight escape coding by a state apparatus and other forms of stratification or system of oppression. Desire is the condition of continuous change that creates new human geographies.

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Appendix A: Interviews by Date

Small and Medium-Sized Enterprise Interviews				
NO.	**Location**	**Type of Enterprise**	**Position**	**Date**
1	Tbilisi	Bank of Georgia	Manager	April 14, 2007
2	Tbilisi	TBC Bank	Manager	April 20, 2007
3	Tbilisi	Newspaper	Owner	April 25, 2007
4	Guria	Supermarket and hardware store	Owner ("Guliko")	May 11, 2007
5	Guria	Supermarket, apothecary, restaurant	Owner ("Goga")	May 13, 2007
6	Guria	Tea factory (not producing)	Owner	May 14, 2007
7	Guria	Private clinic	Owner	May 15, 2007
8	Guria	Restaurant, farm	Owner	May 17, 2007
9	Guria	Café, bakery, 3 shops, farm	Owner	May 18, 2007
10	Guria	Supermarket, drug store	Owner ("Makha")	May 18, 2007
11	Guria	Veternary and human pharmacy	Owner	May 25, 2007
12	Guria	Hair salon, supermarket	Owner	May 25, 2007
13	Guria	Apothecary, supermarket, sawmill	Owner	May 27, 2007
14	Guria	Village newspaper	Owner	May 28, 2007
15	Guria	Tea factory	Manager	May 29, 2007
16	Guria	Ozurgeti farm	Owner	May 30, 2007
17	Guria	Scrap metal	Owner	May 31, 2007
18	Guria	Scrap metal	Owner ("Zaza")	May 31, 2007
19	Guria	Hotel/restaurant	Owner	June 1, 2007
20	Tbilisi	Hotel, landlord	Owner	June 27, 2007
21	Tbilisi	Tbilisi shoe factory	Manager	June 29, 2007
22	Tbilisi	Beverage maker	Manager	July 1, 2007
23	Tbilisi	Restaurant	Owner	July 1, 2007
24	Adjara	Souvenir shop	Owner	July 1, 2007
25	Adjara	Souvenir shop	Owner	July 1, 2007

26	Adjara	Clothing shop	Owner	July 1, 2007
27	Adjara	Video shop	Owner	July 1, 2007
28	Adjara	Supermarket	Owner	July 1, 2007
29	Adjara	Fixtures	Owner	July 1, 2007
30	Adjara	Shoe shop	Manager	July 1, 2007
31	Adjara	Dress shop	Owner	July 1, 2007
32	Adjara	Restaurant	Owner	July 1, 2007
33	Adjara	Clothing shop	Owner	July 1, 2007
34	Adjara	Jewelry ship	Owner	July 1, 2007
35	Adjara	Hotel	Manager	July 1, 2007
36	Adjara	Restaurant	Owner	July 1, 2007
37	Tbilisi	English school in Batumi	Owner	July 11, 2007
38	Guria	Bakery	Owner	July 14, 2007
39	Adjara	Batumi bazaar shoe seller	Owner	July 17, 2007
40	Adjara	Hotel, restaurant	Owner	July 18, 2007
41	Adjara	Restaurant, kiosk	Owner	July 19, 2007
42	Adjara	Hotel	Manager	July 19, 2007
43	Adjara	Supermarket	Owner	July 21, 2007
44	Adjara	Guesthouse	Owner	July 25, 2007
45	Adjara	Berry farmer	Owner	July 29, 2007
46	Adjara	Honey cooperative	Owner	July 30, 2007
47	Adjara	Clothing ship	Owner	July 30, 2007
48	Adjara	Toy shop	Owner	July 31, 2007
49	Adjara	Honey cooperative	Owner	August 2, 2007
50	Adjara	Electronics retailer	Manager	August 3, 2007
51	Adjara	Bridal shop	Owner	August 4, 2007
52	Adjara	Mussels farmer	Owner	August 5, 2007
53	Adjara	Clothing store	Owner	August 6, 2007
54	Adjara	Shoe factory	Owner	August 7, 2007
55	Adjara	Baby stroller shop	Owner	August 8, 2007
56	Adjara	Dairy farm director	Owner	August 9, 2007
57	Kakheti	Grape farmer	Owner	October 10, 2007

Expert Interviews			
NO.	**Date**	**Org/Site**	**Informant**
1	June 22, 2005	Organization for Security and Cooperation in Europe	Economic Development Officer
2	June 25, 2005	Georgian Foundation for Strategic and International Studies	Foreign Policy Expert
3	June 25, 2005	Georgian Foundation for Strategic and International Studies	Economist
4	June 26, 2005	Georgian Foundation for Strategic and International Studies	Economist
5	June 27, 2005	Georgian Enterprise Growth Initiative - USAID	Economic Development Consultant
6	June 27, 2005	Transparency International	Political Reform Expert
7	July 1, 2005	Georgian Enterprise Growth Initiative - USAID	Legal Reform Consultant
8	July 1, 2005	Georgian Enterprise Growth Initiative - USAID	Economic Development Consultant (Tamuna)
9	July 6, 2005	Tbilisi State University	Economic Development Expert
10	July 21, 2005	Georgia Microfinance Stabilization and Enhancement - USAID	Chief of Party
11	July 22, 2005	World Bank	Head of Mission
12	July 23, 2005	FINCA International	Georgia Country Director
13	July 26, 2005	National Bank of Georgia	President
14	July 27, 2005	Caucasus Institute for Peace, Democracy and Development	Political Reform Expert

15	Nov 15, 2006	International Finance Corporation	Development Expert
16	April 1, 2007	Georgian Foundation for Strategic and International Studies	Political Reform Expert
17	April 1, 2007	Georgian Policy and Legal Advice Center	Economist
18	April 10, 2007	Georgian Policy and Legal Advice Center	Economist
19	April 18, 2007	Georgia Small and Medium-Sized Enterprise development project	Chief of Party
20	April 19, 2007	American Chamber of Commerce	President
21	April 23, 2007	Georgia Employment and Infrastructure Initiative - USAID	Chief of Party
22	May 29, 2007	Ozurgeti Agro Business Center	Director
23	June 26, 2007	USAID	Economic Development Officer
24	June 26, 2007	Procredit bank	Director
25	June 26, 2007	Georgia Business Climate Reform Project	Investment Promotion Consultant
26	July 3, 2007	European Union Georgia Mission	Economic Development Officer
27	July 5, 2007	Georgia Business Climate Reform Project	Customs Consultant
28	July 18, 2007	Georgian Business Development Center	Director
29	October 3, 2007	Sighnahi	Culture/Tourism Expert
30	April 2007	Millennium Challenge Corporation Georgia	Public Relations Consultant

Key Meetings, Georgia Business Climate Reform Project (GBCR)			
GBCR staff meetings		**SMRC meetings**	
no.	**date**	**no.**	**date**
1	4/17/2007	1	4/17/2007
2	4/23/2007	2	4/30/2007
3	4/30/2007	3	6/4/2007
4	5/7/2007	4	6/18/2007
5	5/22/2007	5	6/25/2007
6	6/4/2007	6	7/2/2007
7	6/18/2007	7	7/9/2007
8	7/2/2007		
9	7/9/2007		
10	9/17/2007		
11	10/1/2007		
12	10/29/2007		
13	11/19/2007		
14	3/24/2008		

Appendix B: Interview Questionnaire

ინფორმაციას რომელსაც თქვენ ეხლა მომცემთ იქნება კომფიდენციალური, თქვენი სახელი და გვარი არავისთვის არ იქნება ცნობილი.

Starting time of interview: **Date:**

Interviewee Code: **Region:**

1. **Interviewee's gender:**

	V1
Male	1
Female	2

2. **რა არის თქკენი თანამდებობა ფირმაში?**

What is your position in the firm? / ONE ANSWER/

	V2
Owner (proprietor)	1
Director/ General Director	2
Deputy Director/General Director	3
Finance Director	4
Executive Director	5
Commercial Director	6
Chief Accountant	7
Other (SPECIFY):	8

3. **რომელ წელს დაიბადეთ?**

What year were you born?

_________ **V3**

4. **როგორ განათლება გაქვთ?**

What is the highest level of education you have completed?

	V4
საშუალო Secondary school	1
უმაღლესი College/ Liceum	2
Technical training school/Vocational school	3
Institute/University	4
Post-Graduate Course /Doctorate	5
Other (SPECIFY)	6

DK	999

5. საზღვარგარეთ გაქვთ მიღებული განათლება?

Have you received any training or education outside Georgia? ***<<If no skip to question 6>>***

	V5
Yes	1
No	2
DK	999

5a. რომელ ქვეყანაში მიიღეთ განათლება?

Where did you receive your education abroad?

<<probe for name, type of institution, scholarship if any>>

	V6
Russia/FSU/Eastern Europe:	1
Western Europe:	2
USA:	3
Other:	4
DK	999

5b. რომელ წლებში სწავლობდით?

When did you receive your education abroad, what year?

YEAR:	V7
	V8
Before 1991	1
After 1991	2
DK	999

6. როგორ გამოგადგათ თქვენი განათლება ამ ბისნეზში?

How did your education impact your future as an entrepreneur?

7. სად მუშაობდით სანამ ბიზნესში მოხვიდოდით?

What did you do before becoming an entrepreneur?

8. საბჭოთა კავშირის დროს სად მუშაობდით?

<<PROBE FOR POSITION IN SOVIET SYSTEM, several answers possible>>

9. კომუნისტური პარტიის წევრი იყავით? <if so> კომუნისტური პარტიის წევრობამ მოგცათ რამე უპირატესობა თქვენს დღევანდელ საქმეში?

Were you a member of the Communist Party? <if so> Did your party membership give you any advantages for your future business?

	V9
Was a member of the communist party	1
Was not a member of the communist party	2
Was active in Konsomol organization	3
Held political office	4
Was a manager in a Soviet firm	5
Was a worker in a Soviet firm	6
Was other type of professional	7
Had an academic appointment	8
Was in school/not working during Soviet period	9
Other:	10
DK	999

10. რატომ გახდით ბიზნესმენი? / რატომ დაიწყეთ ეს საქმე?
Why did you become an entrepreneur?

11. რა სიძნელეები გადაგხდათ ამ საქმის დასაწყებად?
What challenges did you face in becoming an entrepreneur?

12. რა არის საჭირო ადამიანისთვის რომ წარმატებული ბიზნესი ჰქონდეს?
What is necessary for a person to have a successful business?

13. რა პრობლემები გაქვთ თქვენ ბისნეზთან დაკავშირებით?
What types of obstacles do you face in running your business?

13a. როგორ უვლით ამ პრობლემებს?
How do you overcome these obstacles?

14. რა ნიშნით შეიძლება გახდე წარმატებული ბიზნესმენი?
What qualities make entrepreneurs successful?

15. რატომ არის ზოგიერთი უფრო წარმატებული ბიზნესმენი?
Why are some entrepreneurs more successful than others?

16. ცდილობთ თქვენი ბიზნესის გაფართოვებას?
Do you try to expand your business?

17. როგორ გგონია რამდენად მნიშვნელოვანია ახალი საშუალებების მოძიება თქვენი ბიზნესის გაფართოვებისთვის?
How important do you think it is to find new means of expanding your business?

18. რამ დახია უკან თქვენი ბისნესისის განვითარება?

What factors impede the development of your business? <<probe for reasons why, official bodies that create these difficulties>>

NOW I WOULD LIKE TO ASK SEVERAL QUESTIONS ABOUT YOUR FIRM

19. როგორი ფორმით არის დარეგისტრებული თქვენი ბიზნესი?
What is the registered organizational-legal form of your enterprise?

	V10
Limited Liability Company	1
General Partnership (Joint Liability Company)	2
Limited Partnership (Commandite Company)	3
Cooperative	4
Joint Stock Company	5
Sole proprietorship	6

20a. სულ რამდენი კაცი ხართ საქმეში? რამდენია კაცი და რამდენია ქალი?
How many shareholders belong to your firm? How many men and women are represented among the shareholders of your enterprise?

	V11
Women	
Men	
Don't know/Difficult to answer	999

20b. თქვენი ნათესავები ან მეგობრები თუ არიან თქვენთან ერთად საქმეში?
How many of the shareholders of your firm are members of your family or friends?

21. რამდენი ხალხი მუშაობს თქვენს ბიზნესზე?... რამდენი არიან თქვენი ნაცნობი?
How many people work for your enterprise?... how many of them are your relatives?

22. რომელ წელს გაიხსნა თქვენი ბიზნესი?
What year did your business begin?

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
V12	1	2	3	4	5	6	7	8	9	10	11	12	13

23. საიდან გქონდათ ფული ბიზნესის დასაწყებად?
How did you raise the initial capital for starting your firm?

24. როგორია თქვენი ურთიერთობა ხალხთან რომელიც აკონტროლებს თქვენს ბისნეს? ... მე ვგულისხმობ მთავრობის წარმომადგენლებს?

How are your relations with the people who regulate your business? … I mean, representatives of the government?

25. საერთოდ, რას აკეთებენ ბიზნესმენები კარგი ურთიერთობისათვის მთავრობასთან?
In general, what do businessmen do to maintain good relations with government?

26. ახლობები გყავთ მთავრობაში?
Do you have close relations with people in the government?

27. ნაციონალური მოძრაობის წევრი ხართ? … თუ სხვა რომელიმე პოლიტიკური პარტიის წევრი ხართ? … რომელი პარტიის?
Are you a member of the national movement or any other political party?

	V13		
Yes - National Movement	1	Yes - other party (name):	3
No Party	2		
DK	999		

28. ფული მიგიციათ რამელიმე პოლიტიკური პარტიისთვის? … რომელი პარტია იყო?
Have you given money to a political party? Which party was it? **<<PROBE for National Movement >>**

	V14
It was the national movement	1
Yes – other (name):	2
No	3
DK	999

29. მთავრობისთან პრობლემები ხომ არ გქონიათ თქვენს ბიზნესთან დაკავშირებით?
Have you had problems in your relations with government officials?

29a. როგორ უვლით ამ პრობლემებს?
How did you overcome the difficulties that you mentioned?

30. რა შეიცვალა ვარდების რევოლუციის შემდეგ ბიზნესში?
What changed after the Rose Revolution for business?

31. ბისნესის წარმოება ეხლა უფრო ადვილია თუ შევარდნაძეს პერიოდში?

Is it easier to run a business now or in Shevardnadze's period?

32. ოფიციალური ნებართვა სჭირდება თქვენს ბიზნესს?

Is it necessary to have official permission for your business?

33. რა სიძნელეები გქონდათ თქვენი ბიზნესის გაფორმების დროს?

What difficulties, if any, did you encounter in official procedures for opening your business? << probe for examples including the following possible sources of difficulty, several answers possible>>

	V15	Order	Local?
Inaccessibility of information on registration	1		
Vagueness / lack of clarity concerning the requirements	2		
Lack of professionalism of officers issuing permits	3		
Lack of co-ordination among activities of officers of state agencies	4		
Large number of the documents required	5		
Long period of registration	6		
Need to make informal payments	7		
High formal payment	8		
High costs	9		
Necessity to have personal relations	10		
Necessity to travel to Tbilisi	11		
Other (specify)	12		
No difficulties / I did not encounter difficulties	13		
Don't know/ Difficult to answer	999		

34. ყოფილა ისეთი მომენტი როცა თქვენ გააჩერეთ თქვენი ბიზნესი? ... რა იყო მიზეზი?

Was there a time when you had to stop your business?... what was the reason?

	V16
Yes	1
No	2
DK	999

35. როდისმე ჩამოურთმევიათ თქვენთვის ოფიციალური ნებართვა ბიზნესის ქონებაზე?...

Was there a time when your official permission was taken away?

	V17
Suspended	1
Revoked	2
No	3
Don't know/ Difficult to answer	999

35a. **რა მიზეზით ჩამოგართვეს?**
Why was the permission withdrawn?

	V18
On the basis of inspection conducted by the controlling body	1
Pursuant to court decision	2
License withdrawn according to the Law – this activity is not licensed anymore	3
Don’t know/ Difficult to answer	999

36. **ბოლო პერიოდში შეგამოწმათ ვინმემ?... რამდენი შემოწმება იყო? რამდენი გაუთვალისწინებელი შემოწმება იყო?**
Was any inspection conducted in your enterprise/organization in 2005? If yes indicated how many were carried out (routine, unscheduled)?

	V19	Number, type of inspection
Yes	1	
No	2	
DK	999	

37. **რომელი მაკონტროლებულ ორგანოდან იყო შემოწმებული?**
From which regulatory body did the inspection come?

38. **საგადასახადოდან იყო შემოწმება?**
Was there an inspection from the tax police?

38a. **რა მოხდა საგადასახადო ინსპექციის შემოწმების დროს?**
What happened during the tax inspection?

38b. **რა იყო საგადასახადო ინსპექციის შემოწმების შედეგები?**
What were the consequences of the inspection from the tax police?

39. **საერთოდ როგორი გავლენა მოახდინა თქვენს ბიზნესზე საგადასახადო სისტემებში მომხდარმა ცვლილებებმა?**
In general, how did the change in the tax system affect your business?

	V20	**Order**
Tax burden went down (or tax rate %)	1	
Tax burden increased (or tax rate %)	2	
Number of taxes went down	3	
Number of taxes increased	4	
Calculation of taxes became complicated	5	
Calculation of taxes got simplified	6	

New tax code is vague	7	
New tax code is more understandable	8	
Penalties increased	9	
Penalties decreased	10	
No impact	11	
Other (SPECIFY)	12	
Don’t know/ Difficult to answer /	999	

40. როდისმე გაგიწევიათ წინააღმდეგობა მაკონტროლებული ორგანოებისთვის?
Have you ever challenged the actions of regulatory officials?

	V21
Yes	1
No	2
DK	999

40a. როგორ გაუწიეთ წინააღმდეგობა მაკონთროლებელ ორგანოებს?
How did you challenge the actions of regulatory officials?

40b. წარმატებული იყო თქვენი წინააღმდეგობა?
Was your challenge successful?

41. თქვენი აზრით საჭიროა ქრთამის მიცემა ოფიციალური ნებართვის მისაღებად?
In your opinion, did companies similar to your enterprise have to make informal payments or gifts in the process of obtaining permits/approvals?

42. როგორ გგონიათ აუცილებელია ქრთამის მიცემა ვინმესთვის რომ ბიზნესმა უპრობლემოდ იმუშაოს?
Do you think that its necessary for businessmen to give bribes in order that business runs without problems?

42a. if so… როგორ გგონიათ რომელ ეტაპზეა საჭირო ქრთამის მიცემა?
At which level is it necessary to give bribes?

43. თქვენს მიერ წარმოებულ პროდუქციას თუ ყიდით საზღვარგარეთ?
Did your enterprise carry out export operations in 2005?

	V22

Yes, we had export operation	1
We planned to export, but we did not	2
We did not plan to export, we did not export.	3
Don't know/ Difficult to answer /	999

43a. რა სიძნელეებს აწყდებით პროდუქტის საზღვარგარეთ გატანისას?

What difficulties do you encounter with exporting?

	V23	Order
Inaccessibility / lack of information on export procedures	1	
Complexity of procedures, lack of clarity concerning the requirements laid down	2	
Lack of professionalism of customs officers	3	
Lack of co-ordination among of officers of state agencies	4	
Large number of documents required	5	
Frequent changes in procedures	6	
Long time needed for export procedures	7	
Need to make informal payments	8	
No difficulties encountered	9	
Other (Specify)	10	
Don't know/ Difficult to answer /	999	

44. ადგილზე ყიდულობთ საქონელს თუ ჩამოგაქვთ საზღვარგარეთიდან?

Did your enterprise carry out import operations in 2005?

	V24
Yes	1
We tried but could not carry out because of various difficulties	2
No, did not try	3
DK	999

44a. **რა სიძნელეები გაქვთ საქონლის შემოტანასთან დაკავშირებით?**
What causes the biggest difficulties with importing?

	V25	Order
Certification/standardization requirements	1	
Determination of customs value of goods	2	
Limitation / ban on import of some goods	3	
Complexity of customs procedures	4	
Need to make informal payments	5	
High customs payments / duties	6	
Request for permit and for license	7	
Lack of professionalism of customs officers	8	
Lack of co-ordination among of officers of state agencies	9	
No difficulties encountered	10	
Other (SPECIFY)	11	
Don’t know/ Difficult to answer	999	

NOW I WOULD LIKE TO ASK YOU SOME QUESTIONS ABOUT YOUR ACCESS TO CREDIT

45. **როგორ ახერხებ ფულის მოძიებას ბიზნესისთვის საჭიროების შემთხვევაში? ?**
What is your preferred means of obtaining financing for your firm?

	V26	Order
ბანკის აიღეთ სესხი /Bank loans	1	
Loans from micro credit agencies	2	
ფირადი დანაზოგი გკონდათ /Reinvestment of earned income	3	
ისესხეთ ნაცნობებისგან თუ მეგობრებისგან /Borrowing from other sources (SPECIFY)	4	
Other (SPECIFY)	5	
Don’t know/ Difficult to answer	999	

46. **თქვენი აზრით როგორ მუშაობენ ბანკები საქართველოში?... კმაყოფილი ხართ ბანკების მომსახურეობით?**
What is your opinion of the Georgian banking system? …Are you satisfied with their service?

	V27	Order
Very good – banking system completely satisfies requirements of my business	1	
Good – Banking system satisfies requirements but with certain difficulties	2	
Poor - banking system functions poorly and does not satisfy requirements	3	
I wish there were more foreign banks operating in Georgia – I trust them more	4	
Other (SPECIFY)	5	
Don’t know/ Difficult to answer /	999	

47. **რამდენად გჯერათ ბანკების საქართველოში?**
To what extent do you trust Georgian banking system? /Several answers are possible/

	V28	Order
I trust them completely	1	
Don't trust – I think that information on my transactions are given to third persons	2	
Don't trust – I think that they can not keep my funds securely	3	
Don't trust – They make mistakes and delay operations	4	
Don't trust – I think that I can not take loan from our banks	5	
Other (SPECIFY)	6	
Don't know/ Difficult to answer /	999	

48. ბოლო პერიოდში თუ დააბანდეთ დამატებით ფული თქვენ ბიზნესში?

Did your enterprise make any fixed assets investment in 2005?

Yes	**V29**	**Order of size**
Rebuilding of premises	1	
Capital repairs of equipment	2	
New equipment	3	
New construction	4	
Transport means	5	
Other (SPECIFY)	6	
NO, no investments made	7	
DK	999	

48a. საიდან გაქვთ ფინანსები კაპიტალური ინვესტიციისთვის?

Please indicate the financing source of capital investments?

	V30	Order of size
Internal sources of enterprise / firm	1	
Bank loans	2	
Non-bank loans (friends, relatives, acquaintances)	3	
Personal savings	4	
Leasing	5	
Local investor	6	
Foreign investor	7	
Public funds	8	
Other (SPECIFY)	9	
Don't know/ Difficult to answer /	999	

49. მიმართეთ თხოვნით ბანკს ან მიკრო კრედიტის ფირმიდან კრედიტის გამოტანაზე?

Have you approached a bank or a credit union (microfinance fund/institution) for credits?

	V31	
Yes, I approached the bank	1	**Move to 50a**
Yes, I approached **credit union (microfinance fund/institution)**	2	**Move to 50b**
No	3	**Move to 49a**

49a. If NO… რატომ არ თხოვეთ ქრედიტი ბანკს ან მიქრო ქრედიტის ფირმას?

Why did not you apply to a bank or credit union?

	V32	Order
There was no need	1	
High interest rates	2	
High security requirements	3	
Bank bureaucracy	4	
Non-availability of long-term credits	5	
Limitations in obtaining credit in cash	6	
Long process of security notarization	7	
Not sure of my ability to pay tax for micro credit	8	
Problem of conversion on current transactions	9	
Terms of micro loan are not attractive compared to those of credit	10	
Small volume of micro loan	11	
Unavailability of long-term resources	12	
Other (SPECIFY)	13	
Don’t know/ Difficult to answer /	999	

50. თუ მიიღეთ კრედიტი თუ არა?

Did you receive credit or not?

	V33	V34
	50a. From bank	**50b. micro credit**
Yes	1	1
No **Move to 51a/b**	2	2

51a/b. რატომ ვერ მიიღეთ კრედიტი?

Why was your application for bank/credit union financing rejected?

	V35	V36	Order
Reasons	**51a Bank**	**51b Micro credit**	
Inadequate security for credit (pledge, surety, credit guarantee)	1	1	
Lack of funds/ insufficient funds for co-financing project	2	2	
Lack of documents for obtaining the credit	3	3	
Unavailability of documents to confirm the possibility of marketing goods/ services/works envisaged by the project	4	4	
Lack of adequate qualification to prepare a business plan	5	5	
Reluctance to make informal payments	6	6	
Refusal by applicant to obtain credit	7	7	
Project to be financed was considered as non-recoupable by bank	8	8	
Presented project was considered by bank as non-priority for financing	9	9	
The sector (kind of activity) envisaged by the project does not meet the financing criteria of the bank	10	10	

Lack of credit history	11	11	
Refusal of the bank/credit union to finance the project because of non-compliance with respective criteria	12	12	
Other (SPECIFY)	13	13	
Don't know/ Difficult to answer /	999	999	

NOW I WOULD LIKE TO ASK SOME QUESTIONS ABOUT CONTRACTS AND THE PROTECTION OF YOUR RIGHTS

52. რამდენად დაცულად გრძნობთ თავს საქმეში?
How safe from expropriation do you feel in your business?

	V36
Very safe 1 2 3 4 Not safe at all	
Don't know/ Difficult to answer /	999

53. როგორ გგონიათ პოლიცია და მართლმსაჯულება დაგიცავთ რამე რომ მოხდეს სახმეში?
Do you think that the court system will protect your business?

54. ქურდებს ან სხვა კრიმინალებს თუ მოუთხოვიათ გარკვეული თანხა?
How much did you lose as a percent of annual profit because of crime directed against your property interests in the past year (theft, robbery, fire, vandalism etc.)

	V37
None	1
Amount of loss %	
Don't know/ Difficult to answer /	999