

COST OF CONFLICT: THE ECONOMIC ASPECT

*Fatima Dzhioeva*¹

THE ECONOMY OF SOUTH OSSETIA BEFORE THE PERIOD OF WAR

Seven years ago, after claiming her independence and partial international recognition, South Ossetia was set on the path of development. During this period, the republic went through positive changes in terms of overcoming the consequences of the Georgian aggression, the economic rehabilitation and improvement of the quality of life. The process of 'revival' of the local population as well as the building of a new state has been slow and difficult. This can be justified by objective and subjective conditions, including demographic, economic, social and psychological factors.

Over the past 25 years, the state has gone through the process of "demographic aging": the population is dominated by elderly people as many youth were killed and many have left the country. Existing knowledge, including technical skills, which is the main instrument of economic development, has also become outdated. Continuity of generations, with respect to engineers and technical workers has been broken. In fact, the majority of engineers and technical workers are now gone.

During the years of stagnation, the economy was virtually paralyzed, as economic potential had been completely destroyed. This applies to both industrial and agricultural enterprises and infrastructure, including roads, railway, and power, water, and gas supplies.

Permanent war with Georgia negatively affected the entrepreneurial initiative of citizens. All forces and resources were directed at the protection of the local population from physical extermination.

The Economy of South Ossetia before the War

In the 1990s, before the beginning of the Georgian-Ossetian conflict, the industry of the Autonomous District of South Ossetia consisted of 27 small and medium sized enterprises, with the total annual turnover of commodity production amounting to 120 million rubles². Despite the relatively small volume of production, the economic structure of the district had been sufficiently diversified: the industry was represented by enterprises for the mining of non-ferrous metals, machinery production, wood processing and the production of construction materials as well as light and food industries.

Despite the controversial evaluations, the development of South Ossetia during the Soviet period was characterized by the general growth of the national economy, which, over time, went through profound quantitative and qualitative changes; in particular: an increase in production capacity, improvement of technical equipment of the national economy, increase in the number of production and social infrastructure enterprises, etc. The total volume of commodity production in 1982 increased 163 times compared with that of 1922, and by 362% from 1965. In addition, the growth in 1981 was estimated to be 9% while in 1982 it hit 13%³.

Over the course of four decades stretching from the 1940's to the 1980's, South Ossetia transformed from a predominantly agricultural region into an agro-industrial one. Yet, the agricultural sector continued

1 Fatima Dzhioeva is a Senior Lecturer at the Chair of Finance and Credit at South Ossetian State University. The views expressed in the article are those of the author alone and do not reflect on the views of her place of employment.

2 Chugayenko. Yu.A.. «Georgia – South Ossetia: Historical rootcauses of the conflict» Kiev, 2013 (in Russian)

3 Dzidzoev V.D., Dzugaev K.G. «South Ossetia in retrospect of the Georgian-Ossetian relations». - Tskhinval: Iriston; SOIGiSI, 2007.- 272 p. (in Russian)

to play a significant role in the economic development of the Autonomous District of South Ossetia. By early 1990, the agro-industrial complex of South Ossetia included 32 collective farms, 15 state farms and 3 farmers' unions. It also included a poultry factory in Tskhinval, a grain depository, a meat and dairy plant and a fruit processing factory located in the city of Tskhinval and Leningor region, as well as the Tskhinval Beer and Fruit Juice Factory. In 1989 the total cost of basic production assets was estimated 79.6 million rubles, the industry included 525 tractors, 52 combine harvesters, 570 trucks and more than 600 units of tractor trailers, plows, seeders, cultivators and other equipment⁴.

The agro-industrial complex produced about 50% of gross production, concentrated more than 15% of production capacity and employed more than 40% percent of labor involved in material production. In total, the agro-industrial complex produced more than 80% of food products⁵. From 1922 to 1982 the grain production increased from 9000 to 12800 tons and meat from 700 to 3500 tons. Total agricultural output increased by 65%⁶.

In addition, Kvaisinskoe Rudoupravlenie (Kvaisian Mine) was put into operation in the Autonomous District of South Ossetia for the mining of lead and zinc ores under Soviet jurisdiction. This particular mine was one of the first large enterprises that played a significant role in the development of the South Ossetian economy: it contributed to the increase in employment, which was of vital importance for the region with its excess labor resources while the construction of Tskhinval – Kvaisa road linked the remote mountainous collective farms with the district center.

The production of building materials increased substantially. This development was characterized not only by the positive dynamics of limestone and ground talc production, but also by transition to the advanced form of production, in particular the production of building blocks, precast concrete structures and details as well as flooring materials. Capital construction also developed rapidly, which increased the number of people employed in material production.

As a result of industrialization, South Ossetia became a region of advanced machinery production. Construction of such plants as *Elektro Vibro Mashina* and *Emal Provod*, which produced unique equipment for mining and mineral processing, vibration machines, enameled wires, lead and zinc concentrates and ground talc for the entire country suggested the formation of an advanced electric engineering sub-sector. Considering the fact that mechanical engineering is quite a labor-intensive field of industry, this particular direction of industrialization had become a key source for employing the excess labor force and building the capacity of the South Ossetian workforce.

Thus, South Ossetia transformed into a region with sufficient potential for creating preconditions for the development of new sectors of industry. In the 1970-80's the total volume of machinery production and metal processing amounted to 24-25% of South Ossetian industrial production.

In addition heavy industry sectors in South Ossetia, food and light industries, the respective share of which amounted to 27.0% and 24.4%, also played an important role. Food industry rapidly developed due to a favorable raw materials base including meat and dairy processing, winemaking, and a cannery⁷.

The opening of a garment factory was quite significant for the Autonomous District of South Ossetia in terms of providing the population with the goods produced there and increasing the employment and civic engagement of women⁸.

The industrialization of South Ossetia led to the redistribution of the population employed in the national economy to different sectors of industry. As mentioned above, if previously South Ossetia was considered an agricultural region, from 1970 16% of the population was already employed in agriculture

4 The national economy of South Ossetia in 1989. Tskhinvali, 1990 (in Russian)

5 Soviet South Ossetia. Tskhinvali. 1975. (in Russian)

6 The national economy of the South - Ossetian AO.1922-1982. Jubilee statistical compilation. Tskhinvali, 1983 (in Russian)

7 The national economy of the South - Ossetian AO.1922-1982. Jubilee statistical compilation. Tskhinvali, 1983 (in Russian)

8 Dzagoev Z. L. Question on the strategy of socio-economic development of South Ossetia [electronic resource]. – [http:// www.vestnik-vnc.mwport.ru](http://www.vestnik-vnc.mwport.ru) (in Russian)

and 3% was employed in construction. In 1985 the share of these two sub-sectors increased by 26%. The share of transport and communication also increased sharply. In 1985, it amounted to 11%, while in 1970 it was as low as 5%.

Industrial development, diversification of industrial activities, and a rise in the volume of freight transportation all supported an increase in the number of people employed in the industrial sector. If in 1960 the average annual number of employed workers amounted to 15.8 thousand people, in 1985 it increased to 43.7 thousand or 2.7 times. From 1970 to 1985 this index increased 1.5 times⁹.

This period saw considerable attention paid to the training and preparation of highly qualified specialists. Thus, the number of engineers and economists with higher education increased 22 and 17 times respectively. In addition, the number of specialists with secondary vocational education increased as well. The numbers of inventors and rationalization proposals also rose, leading to positive economic effects. From 1971 to 1985 the positive effect caused by rationalization proposals amounted to 2,385,000 rubles (in 1985 prices)¹⁰.

Automatization supported increased production, as did automatic and mechanical flow lines with automatization tools. From 1971 – 1985 the number of mechanical flow lines was tripled while that of automatic flow lines increased from 4 to 9 units. The

The 1990s was a very difficult period. There was constant fear, because there was uncertainty, as soon as it gets dark, the rockets started flying every night. But over time, it is also became usual! Even my child, who was two and a half years old, would sit at the window all the time, and when these "Alazan" flew in our direction, he would count them—this night this many shells were fired, yesterday that many. There was no light, gas, it was hard with food, but somehow we survived. Perhaps, we lived in the village, we grew some things and had cattle at least. We cooked food on a wood-burning stove. Not everything was good with the firewood as well, because it was scary go into the forest: you never knew what could happen. All these years we waited for that torment to end, the truth to prevail, and to begin to live like human beings. To live 18 years in tension and fear is very difficult. Uncertainty - what will happen tomorrow? How will we be? The best years of my life were spent in this uncertainty, this fear. Human life, it is short. I would have done a lot during those 18 years, but I have fallen behind in everything - both materially, morally, and spiritually. Yes, and raising three children in a destroyed country, it is not so easy. Today, I am hurt and sad that there is nobody to hold accountable.

Resident of Znaur region

number of complex mechanized and automated stations increased from 20 to 35 units, although the fully automated workshops/plants did not appear until 1987. The branches of machinery production and food and light industries were automated to the greatest extent¹¹. Thus, despite the fact that according to the volume of capital investments the Autonomous Republic of South Ossetia was the most underdeveloped region of the Georgian Soviet Socialist Republic, the district was still developing dynamically.

THE ECONOMY OF SOUTH OSSETIA DURING THE WAR

‘Perestroika,’ acclaimed by the president of the USSR, Mikhail Gorbachev, led to the growth of nationalist sentiments in Georgia. Ossetians living in the Autonomous Republic of South Ossetia were

9 Dzhioeva I.K. The transformation of the socio-economic processes in the border region (on the example of South Ossetia) [electronic resource]. – http://dibase.ru/article/28122009_dzhioevaik/5 (in Russian)

10 Chugayenko. Yu.A.. «Georgia – South Ossetia: Historical rootcauses of the conflict» Kiev, 2013 (in Russian)

11 Dzhioeva I.K. The transformation of the socio-economic processes in the border region (on the example of South Ossetia) [electronic resource]. – http://dibase.ru/article/28122009_dzhioevaik/5 (in Russian)

declared “aliens” illegally occupying the territory, and so on. Provocations were started from the Georgian side; cattle were stolen and men were detained. Ossetians and their opinions were completely excluded and ignored at the state level. South Ossetia effectively separated from Georgia in the 1980s. From 1991, the conflict became militarized.

The damage inflicted upon South Ossetia by the Republic of Georgia as a result of the aggression in the beginning of the 1990s is colossal. 117 Ossetian villages were completely plundered and burnt, and 15% of the housing stock of Tskhinval was affected. During the conflict, roads and bridges were destroyed, cattle was stolen, private and state property, including machinery, equipment, materials, vehicles and construction materials were taken out of the borders of the district. The total damage amounted to 1.4 million rubles (in 1992 prices)¹².

But the greatest damage was caused to the population of South Ossetia and its labor resources. From 1989 to 1992 up to 1000 people were killed, most of whom were children, women and elderly. More than two thousand people were wounded or maimed. Dozens of people are still unaccounted for.

The Georgian armed aggression on August 8, 2008 was the harshest and the most bloody in the history of the Georgian-Ossetian conflict. As a result of shootings 26 multi-apartment municipal buildings were burned and destroyed only in Tskhinval, while 226 were partially demolished. 231 private houses were destroyed while 442 were damaged to the extent that they were written off. More 674 houses were damaged to an average extent. Overall costs incurred as a result of these losses were estimated at 10 billion rubles¹³.

The economy of the Republic of South Ossetia has been affected gravely. The factories of “Elektro Vibro Mashina” and “Emalrovod” were damaged significantly. The buildings of the Parliament, Ministry of Foreign Affairs, the main campus of the state university and a central department store were burned down. The buildings of the Ministry of Internal Affairs and of the state television were also partially destroyed. Three out of nine schools of general education were burned to ashes. The

How did we live in the 1990s? For example, someone had a birthday. We took food to each other, shared a piece of bread. For example, there was a time when butter was distributed by stamps. If someone from my friends had a child, for example, I could never imagine that I could eat the butter myself ... I shared the butter with friends who had children. How could I eat that butter, when my friends had two and three kids?! At that time there also was not heating. We stoked with wood. Let's say you go to visit someone, you would take them a pack of firewood. People survived somehow, as they could.

Resident of Tskhinval

premises of pre-school education institutions were also damaged. The republican hospital, city out-patient care facilities, republican and local libraries were also exposed to shooting. The five-day war claimed the city's infrastructure, communications, plumbing system, gas pipes and electric networks. The private sector was inflicted gravely with most production and trade entities burned down as a result of the attack.

Serious damage was caused to the rural areas of the Republic, especially in the Tskhinval region, including the most densely populated villages of Pris, Tbet, Khetagurovo, Dmenis, Satikar and Sarabuk. Most of the houses in these villages were ruined. Grain crops were destroyed, and 80% of the cattle was stolen or killed. Before 2008, the public economy included more than 300 heads of cattle, as of today there are only 90 left; 66 of whom are reared in Artseu farm, 15 in Dmenis and 9 in Khetagurov¹⁴.

The given data represent only a small fraction of the damage inflicted on South Ossetia. As a result of an aggressive policy of the Georgian leadership, the economy of South Ossetia was set back by decades. The

12 Kharebov B. The economic rehabilitation of South Ossetia: Current challenges and development strategy. Georgian-Ossetian conflict: Researching peace. Collection of articles of the South Ossetian authors. 2011. http://www.gfsis.org/media/download/library/articles/Georgian-South_Ossetian_Conflict_OSS_Ru.pdf (in Russian)

13 Ibid.

14 Ibid.

processes of development of the region were replaced by the processes of economic recovery from square one. The situation was further worsened by the fact that the conflict coincided with a) the disintegration of the USSR, making it hard for the economy to return to its traditional tracks of development and b) the collapse of the old economic system and its transition to a market economy.

As another occurrence, the Georgian-Ossetian conflict has both negative and, to some extent, positive consequences, and in economic terms, it brought both losses and gains.

LOSSES

- 1) Destroyed infrastructure, including the gas supply, electricity networks and railway communications, leading to predatory deforestation to collect firewood;
- 2) Disrupted economic and industrial ties with Georgia, which caused serious loss of markets and a decrease in production volume, including the “brand” products (Ossetian beer, cheese, etc.);
- 3) Destroyed agricultural production associated with the loss of cattle. There is a reason to believe that in August 2008 the Georgian side used uranium-tipped bombs. Unfortunately, no relevant research was conducted, although the growing number of people with oncological diseases presents indirect evidence of the contamination of the agricultural land, soil and ground with shell remains;
- 4) Massive outflow of the South Ossetian population, negatively affecting the number and quality of the workforce (many educated, young, experienced and capable people with entrepreneurial skills left South Ossetia);
- 5) The economy was set back by decades and instead of development the population is fighting for survival;
- 6) Many of those killed during and after the conflict were potential entrepreneurs, managers, patriots and leaders;
- 7) The absence of economic relations leads to increased prices of agricultural products, mainly imported from the Russian Federation.

BENEFITS

1. The independence of the Republic of South Ossetia and its partial recognition offers opportunities for defining its national development strategy;
2. Strategic partnership with the Russian Federation offers new opportunities for economic development, education, training and retraining of personnel;
3. Alternative sources of gas and electricity supply from Russian Federation have been made accessible (construction of a unique gas pipeline between Dzuarikau and Tskhinval);
4. From a long term perspective, the construction of the rail link with Alagir (North Ossetia - Alania) will support revitalization of traditional industries, in particular, mining of lead and zinc ores in Kvaisa, cannery, juice, winemaking and other plants; it will also encourage the revival of machinery production and the development of new industries;
5. In the future, after the signing of a Peace Treaty with Georgia, the South Ossetian Republic can use its advantageous geopolitical position and become a transit country for commodity products from Asia Minor and the trans-Caucasus to the Russian Federation.

CONCLUSION

The signing of the Treaty of Friendship, Cooperation and Mutual Assistance between the Russian Federation and the Republic of South Ossetia on September 17, 2008 and the subsequent placement of Russian military bases and border services on the territory of South Ossetia has been a guarantee of

security that has led to a definite positive effect¹⁵. The demographic situation is being equalized. There is a growing birth rate, and young people who have been educated in Russian universities are returning to South Ossetia with the up-to date knowledge and a desire to cultivate their creativity. Each year, within the set limit, 80 people are sent to target locations to study at the best Russian universities. This contributes to renovating the pool of specialists, including those with technical education. The moral and psychological social environment is improving. National values and traditions are being revived. Some educational and medical services have achieved a certain level of development. In addition, security guarantees are attracting investments, including those of ethnic Ossetians operating business enterprises in Russia. During the past years, most Russian financial assistance was directed at rebuilding infrastructure, as its development is the main foundation of economic growth.

After partial redevelopment, the "Elektro vibro mashina" and "Emal Provod" plants were put into operation again; the garment factory *VTK-4* was reopened. In 2016 funds allocated within the framework of the investment program for state co-funding of development projects of the real economy amounts to almost 533 million rubles. For these purposes the Russian Federation created an investment agency, which will provide loans to interested investors at an annual rate of 10%. There are plans to construct a meat processing complex in Tskhinval as per agreement with *Eurodon* Company, Europe's largest producer of turkey meat. Dairy farms are being built and gardens planted. The population is taking an interest in entrepreneurship. In the end, all this should ultimately lead to a multiplicative effect.

15 Treaty of Friendship, Cooperation and Mutual Assistance between the Russian Federation and the Republic of South Ossetia of 17 September 2008