

The political economy of transnational crime and its implications for armed violence in Georgia

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Introduction

This paper looks at the phenomenon of transnational crime and its implications for the occurrence of armed violence in Georgia. Transnational crime has been the main benefactor of the two transitions in the post-Soviet space. These transitions include the economic transition from a planned to a market economy and the political transition from being a province of the Soviet Union to independent statehood. Transnational crime was able to profit from the rapid privatisation of state assets, the commercialisation of weapon stockpiles and the smuggling of consumer goods and natural resources. At present, transnational crime is seen as a threat to the Georgian state by way of corruption and sporadic violence. However, despite these concerns, there have been few analyses that scrutinise the propensity for armed violence of transnational crime.

This paper attempts to close this gap. It approaches the propensity for violence from the perspective of the political economy of conflict which emphasises the economic opportunities deriving from conflict and the economic functions of violence (Ballentine and Sherman 2003; Kaldor 1999; Keen 1998). The

paper argues that transnational crime is not *per se* related to armed violence because it creates unwanted attention and can disrupt smuggling chains. Nevertheless, violence can be used to maintain the conditions which frame the business environment of transnational crime groups and to fight competitors wanting to enter the market. Moreover, transnational crime could also revert to violence if state building would effectively undermine its operating environment. Given the commercial opportunities deriving from weak states and socio-economic destitution, transnational crime groups have a vested interest in perpetuating a status quo of poverty and corruption because it guarantees profits, power and protection. As long as the situation remains unchanged, they should have little incentive to engage in armed violence. However, any serious attempt towards state building, economic development and good governance could have the potential to trigger armed violence. This is because the establishment of a functioning state, an impartial legal system and a conscious civil society goes against the stakeholder interests of transnational crime in the status quo the protection of which could engender armed violence.

The paper first looks at some conceptual issues of transnational crime and its evolution in the former Soviet Union. The second part analyses the relationship between transnational crime and armed violence in Georgia. The third part considers possible policy responses against transnational crime in Georgia. This paper is part of a larger thesis project on the political economy of conflict and the economic aspects of the frozen conflicts in Georgia.

Transnational crime and its emergence in the former Soviet Union

Transnational crime is often considered to threaten the very existence of established democracies and world economic order. Their power is supposedly much in excess of that of some medium-sized states given the multi-billion dollar revenue that undermines legal systems, bureaucracies and other elements of public order. While this perception of organised crime makes for gripping movies and detective novels, it bears only a remote resemblance to reality. Transnational crime is rarely put in context of its conceptual dimension, its organisational structure and the

value of its business. Crime is a legal concept based on the legal system of a state, its legislation on prohibitions and its capacity for enforcement. These laws ultimately reflect the moral value system of the citizens of a state. They are based on definitions of “what is right” and thus reflect what is or is not morally accepted in a society. The functional significance of crime, however, is related to the relative strength and weakness of a state to enforce regulations on prohibitions (Serrano 2002: 15).

The business of crime is the supply of goods and services that are illegal or legal in themselves but brought onto the market illegally. Crime becomes organised because illicit markets need protection from enforcement agencies and competitors (Serrano 2002: 16). Organised crime becomes transnational when it involves smuggling, i.e. “bringing or taking out a commodity without state authorization” (Andreas 2002: 38). Transnational organised crime is therefore inherently related to the imposition of controls and taxation on cross-border trade and ultimately to the notion of a functioning state wanting to control its means of extraction.¹³² The notion that the state is losing control over ever expanding

132 Extraction is the central activity of a state to generate income. For the development of the state in Europe, it was essential to acquire the resources for state making (attacking and checking challengers within the state), war making (attacking and checking challengers outside the state), and protection (attacking and checking the rivals of the rulers’ principle allies inside or outside the state) (Tilly 1992: 74-76).

networks of organised crime “falsely presumes that there was a time when territorial controls were truly effective” (Andreas 2002: 38).

The organisational structure of transnational crime is often considered to be a monolithic business entity seeking monopoly over an illicit market. However, the literature on organised crime emphasises that in most cases organised crime is not a grand, transnational or strategic alliance but rather a chain of individuals or small and medium-sized entities that are connected through arms-length transactions. In order to reduce the risk of persecution, operations take place over multiple layers of intermediation and specialisation with a great degree of decentralisation of control. This results in a large number of participants and also in competition between groups vying for control over business segments (Naylor 2002: 2-4, 21). Thus rather than establishing monopolies over criminal markets, transnational crime groups are cooperating with other groups in view of increasing their geographic reach, maximising the opportunities of globalisation and reducing operational risk (Williams 2002: 67-72).

The value of the transnational criminal economy has been estimated at between USD 800 billion and USD 1,500 billion (Conesa 2001: 20). However, these figures must be considered cautiously in light of the

constraints on data collection in the criminal world. A first estimate from the United Nations, for example, held that the profits from transnational organised crime were USD 500 billion. However, it is held that this number was rather an intelligent guess to catch public attention rather than the outcome of hard science (Naylor 2002:x). Even if estimations are derived from statistical methods, the working assumptions they are based on are highly variable and inexact. Moreover, estimates of total net earnings do not take into account the distribution of profits among the multiple layers of interaction with its large number of intermediaries (Naylor 2002: 6-8, 34).

There are several mechanisms connecting transnational organised crime networks to violence. Violence can be a result of inter-group competition over a segment of the criminal economy or used as a means of arbitration. As the “underworld” is outside a legal mechanism of dispute resolution, violence becomes a means of arbitration within and between groups (Serrano 2002: 16-20, 23). Rather than being caused by large transnational organised crime networks, this sort of violence either derives from unorganised groups wanting to break into a market or is a response of organised crime groups to competition (Naylor 2002: 31). The link between organised crime groups and violence is therefore not self-

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evident. In principle, crime networks shy away from violence as it attracts the attention of law enforcers and can interrupt established business channels. Marginalised criminal groups wanting to break into established markets are more likely to use violence. Violence to enforce contracts, settle accounts or intimidate customers may therefore be a sign of weakness rather than strength (Naylor 2002: 31-32). Thus, if violence is connected to transnational crime, it is used sporadically for specific and functional purposes rather than as part of a broader political agenda.

The rise of organised crime in the Soviet Union can be traced back to pre-revolutionary Russian and Soviet labour camps. The shadow economy provided parts of the Soviet leadership with an alternative source of revenue (Makarenko 2003: 26). In the Stalinist period, when the planning apparatus was relatively functional and leadership loyalty was high, criminal activity was symbiotic with the state. The black markets were used to supplement the shortcomings of production. After the Second World War, black market activities were more risky as banks were strictly monitored, private business not allowed and high punishments applied in case of apprehension. This rigour was undermined in the 1960s with a new generation of leaders whose commitment to ideological goals was less strong. Moreover, the formal

economy failed to produce sufficient capital goods and military hardware. In response, black market activity shifted to the misappropriation of resources in order to manufacture consumer goods for sale on parallel markets (Naylor 2002: 37-38).

In the 1970s and 1980s, the activities of the shadow economy became increasingly intertwined with the state apparatus by way of corruption and unofficial toleration of the growing black market. The leadership had an interest in the shadow economy as it provided employment opportunities for the officially non-existing unemployed and channelled the energies of minorities into commerce rather than political opposition. In the 1980s, the shadow economy shifted to predation. With the common aim of fighting the central government, regional power brokers and mafia bosses made an alliance exchanging political support for power and profits. Overall, the shadow economy contributed to the erosion of the planned economy by diverting resources away from formal production, undermining the central government and shifting the value system from collectivism to individualism (Naylor 2002: 37-39).

After the Cold War, organised crime groups greatly benefited from the lack of an overarching political authority in the post-Soviet space, competing regional elites, and the existence of a cross boundary infrastructure,

personal networks and a common language. In addition, weak law enforcement and extremely low salaries of public civil servants and border guards with little equipment and training led to increasing levels of corruption in the public sector. In the mid-1990s, the Russian Mafia was said to include about 4,000 to 5,000 groups of which approximately 100 operated internationally. They involved more than 3 million people in all 15 former Soviet republics and maintained their proper land, sea and air capabilities (Shelley 1995: 484; Williams 1999). The growth of organised crime in the post-Soviet space was particularly related to the commercialisation of the arms stockpiles of the Soviet military (Makarenko 2003: 26-27).

This brief discussion of transnational crime and its evolution in the former Soviet Union highlights a number of characteristics of transnational crime. First, crime is dependent on the legal system on prohibitions and the capacity of enforcement of a state. It is thus a relative not an absolute concept. Second, transnational crime is operated by a great number of intermediaries rather than monopolistic cartels. Third, the use of violence of transnational crime groups is specific, sporadic and functional and thus may not be expected to develop on its own into armed conflict. And fourth, transnational crime is interwoven with the state. It is conducted partly against a state's

law enforcement agencies and partly in complicity with the state by means of corruption.

Georgia: Regional autonomy and the political economy of smuggling

Already in Soviet times, Georgia was infamous for its ability to bend the rules and its healthy parallel economy based on strong clan and kinship relations and protectors in Moscow. After the collapse of the Soviet Union, the clan structures became de-linked from Moscow and concentrated in Georgia itself. Since most of the groups held their fortunes in roubles, the power of the informal economy declined with the devaluation of the rouble and Russia's economic crises, except for those few who had invested in foreign currency. With the legalisation of private business and the near absence of formal state structures, mafia networks found the ideal operating environment culminating in the exploitation of Georgia's privatisation of state assets. Over time, criminal networks became increasingly specialised in different import and export sectors such as the commercialisation of scrap metal or the smuggling of cigarettes (UNDP 2000: 68-71).

The strengthening of the informal economy occurred in parallel to the increasing regionalisation of power in

Georgia. At present, Georgia rather resembles a collection of fiefdoms than a unified territorial entity. Abkhazia is de-facto independent, South Ossetia an autonomous business entity and Ajaria a quasi-state. This regional autonomy is to a great extent based on the control of economic opportunities in the regions. In South Ossetia, local clans base their power on the control of the Tskhinvali market. This market is responsible for a great part of transit trade coming through the Roki Tunnel from the Russian province of North Ossetia into Georgia. The autonomous province of Ajaria on the Black Sea coast bordering Turkey is the "kingdom" of Aslan Abashidze, as most Georgians refer to the region. Abashidze established his power on the exploitation of the transborder trade from Turkey. All regions maintain their own police forces, in the case of Ajaria even military forces, which answer to a local fief rather than the regional or central government. The power of Shevardnadze derived from the control of state institutions, giving the leadership the capacity to negotiate with international donors and investors that are highly represented in Tbilisi. In addition, control of formal state institutions gives the government the opportunity to control markets through quasi-monopolies. Examples include the strategic sectors such as official petroleum imports or the aviation business, both of which were controlled by individuals close to the leadership.

However, the clan structures are far from unified and their economic activities are characterised by sectorial specialisation. This is evidenced in the "frozen" conflict economy in Abkhazia. The Abkhazian de-facto government controls the export of timber and scrap metal, which goes mainly to Turkey and Russia. The magnitude of this trade cannot be exactly determined but the total value of timber exports from Abkhazia was estimated at 1.7 billion US Dollars in 2002. Timber is alleged to account for 80% of the revenue of the Abkhazian government (Kukhianidze 2003: 5). A Western Abkhaz group is alleged to control the shipments of oil, food and tobacco and participates in the smuggling of drugs. In the Gali sector, some smaller groups are competing for control over the smuggling of mandarins, hazelnuts, cigarettes and petrol. The value of cigarette smuggling from Abkhazia is about 16 million US Dollars (Gotsiridze 2003: 8). A variety of Chechen groups are said to control the Eastern part of Abkhazia, including major transport routes to Russia and the Sukhumi railway station, giving them control over much of the cargo movement along the Abkhazian border with Russia. Other groups are involved in the production and export of drugs (Gotsiridze 2003: 17-19). Much of the smuggling takes place in a corridor between the first and second line of defence established

by Abkhazian paramilitaries who use it to generate revenue through taxation (Billingsley 2001: 19). The sporadic occurrence of violence in this sector is reminiscent of what is called in the political economy of conflict literature a “zone of insecurity”. Conflict economies can contribute to the emergence of peace spoilers who have the incentive and means to use violence to protect their business. These actors create “zones of insecurity”, in which commerce continues to the benefit of the stakeholders of violence. The existence of “zones of insecurity” underlines the importance of the economic function of violence (Cooper 2002: 941-942).

Some of these groups are part of a greater smuggling network that transcends regional and national dimensions. Due to its geographical location, Georgia has come to be at the crossroads of two major drug smuggling routes from Afghanistan to Europe and is a transit point for arms smuggling for Chechnya and from Russia to the Middle East. Weapons seizures ranged from small arms to enriched uranium. For drug trafficking, Georgia is a transit area for the “Balkan Route” which brings heroin from the Afghan provinces of Helmand and Nangarhar via Iran, Azerbaijan or Nagorno Kharabakh into Georgia for further shipment to

Russia or Europe. Moreover, it is the Southern flank of the “Northern Route” trafficking heroine from Afghanistan via Turkmenistan, the Caspian Sea and Azerbaijan to Georgia (Cornell 2003: 28-34: 37). The Russian air force is allegedly involved in smuggling drugs and arms over its airbase in Gudauta for onward shipment to Europe. This is facilitated by the fact that neither Abkhazian nor Georgian customs officials have the right to inspect Russian military cargo (Kukhianidze 2003: 4). Moreover, as one source pointed out, both Sukhumi airport and the Gudauta military base are conveniently located just a hundred metres or so away from the Black Sea, facilitating a rapid transfer of goods onto ships.¹³³

Georgia is important for transnational crime as a transit space. This is why the clans in the regions of Georgia and their complicit counterparts in the public sector derive their power from their strategic location at the borders and control over transit routes. The fact that most of the smuggling is transit trade, even if some part is for local consumption, suggests that local clans should in theory not necessarily be opposed to each other. Since smuggling is based on transit, it is reliant on the cooperation of others. To make the shadow economy work, therefore, requires collaborators

133 Despite the existence of drugs and weapons smuggling in Georgia, there is little independent research at present to assess its value, volume and impact on state building and regional security.

on all levels of government and society, hence, the emergence of tacit arrangements between the regions and the central government in which the protection of profits at the regional level is exchanged for political support at the national level.

These characteristics of smuggling in Georgia leads to suggest that there is little reason to believe that violence would be a defining principle of interaction except if it is an expression of competition for illicit markets. However, a potential mechanism linking transnational crime to armed violence may become apparent in the context of state building. The shadow economy and the inability of the central government to control the entire territory are formidable challenges to Georgia's state building process. The current situation leads to substantial losses of tax revenues needed for the consolidation of state finances. At present, Georgia's shadow economy is officially estimated at 30 percent but unofficially between 60 and 70 percent. The loss of revenue from petrol smuggling alone is estimated at 250 million US dollars annually, which would represent a 30 percent increase in tax revenues if it could be collected (Gotsiridze 2003: 9, 22). However, a change in this situation is not really in sight, even after the election of Mikheil Saakashvili. Incentives to smuggling remain numerous: Georgia has the highest tax rates in the region, state

officials are susceptible to bribes given their meagre salaries, dire economic conditions make the income earning opportunities of the shadow economy an attractive means of subsistence and a general feeling of impunity prevails over confidence in the state (Kukhianidze 2003: 4-5, 8-9).

In addition, with the de-facto autonomy of the regions, the government faces a dilemma. If it were to establish customs points behind the lines of control, it would come close to recognising them as a border – something that is politically unacceptable at present. However, if it does not do this, goods would continue to enter free of import duties into Georgia. The profits of these trade flows accrue to organised crime groups and corrupted state officials, which have little interest in a properly functioning state. They may therefore resort to undermining state building and the central government if the latter is no longer supportive of the status quo. The complicity of state officials in this process makes it very difficult to determine if the state is a victim or an accomplice in the weakening of its institutions and capacity.

The dilemma for state building is that the profits derived from the shadow economy foster an interest in maintaining the status quo of the frozen conflicts and high levels of regional autonomy. The current situation represents a favourable business climate for transnational

crime: Peaceful enough for smuggling to take place, but not too insecure to undermine it. It can therefore be expected that attempts by Georgia's tax authority to regain control over trade in the name of state building will be resisted by those controlling the shadow economy. This highlights that Georgia's state building takes place in a competitive environment between those benefiting from the current situation and those who would like to increase the sustainability, legitimacy and transparency of the state. However, key stakeholders benefiting from the current situation may not appreciate interference by domestic or foreign challengers in what they consider as "their" business. The potential for armed violence should not be excluded, in particular once the enthusiasm of the political change of the end of 2003 fades away.

Transnational crime, armed violence and its implication for policy

The case study above has shown that transnational crime is an important factor in the state building process in Georgia. Armed violence can become organised as part of a struggle between existing stakeholders controlling criminal markets and state building efforts seeking to convert criminal markets into legitimate market activities. From the point of view

of transnational crime, the state is a competitor that wants to capture profits and reduce the attractiveness of the business environment of the shadow economy by working towards an effective taxation system, an impartial legal system and a conscious civil society. This struggle has the potential to go beyond sporadic violence and develop into low intensity conflict over the control of the economy. The potentiality of this scenario should not seem too far-fetched if considered in the context of the potential volunteers that political entrepreneurs could mobilise (in particular one may think of radicalised Internally Displaced People from Abkhazia), the availability of weapons and the ease of conflict financing. Low intensity conflict could be initiated and perpetuated on the cheap by mobilising existing domestic resources.

The challenge for policy is to identify how to approach the phenomenon of organised crime in the context of conflict prevention. The following suggests approaching policy from the different types of activities involved. The case study identified four categories of transnational crime groups, namely

- (1) The East-West drug trading from Afghanistan to Europe.
- (2) The North-South trafficking of arms from Russia to the Middle East.
- (3) The smuggling of timber, scrap metal, human beings and other resources out of Georgia.

(4) Consumer goods, cigarettes and petrol into Georgia.

These activities suggest that Georgia is embedded in a global world economy - alas that of transnational organised crime - and is thus vulnerable to political and economic developments elsewhere. In particular with regard to the first and the second activity, the weakening of warlords in Afghanistan, concerted demand-side approaches to drug policy, a reform of the Russian military sector and conflict resolution in the Middle East may have an effect comparable to that of the domestic transitions of power witnessed in Georgia in November 2003. However, all of these factors are not controllable and far outstrip the capacities and resources of any individual state, particularly those in the South Caucasus.

This underlines a general problem fighting transnational crime, which is the cost of legal proceedings against those actors involved in smuggling drugs or weapons. A Swiss public prosecutor suggested limiting investigations to one or at most two cases per year to avoid overstressing the capacities of public law enforcement agencies.¹³⁴ If these are the problems of a developed democracy such as Switzerland, how can it be expected that a country

with far more elementary problems could enforce an effective policy against transnational crime? While this may give multilateral donors an impression of the resources required for an effective capacity building of the Georgian enforcement agencies, it may also suggest a direction of policy to start tackling transnational crime. With these constraints of national governments as well as bilateral or multilateral donors, it is suggested to start policy with the third and fourth activity above. The overall approach to counter the smuggling of resources out of and consumer goods into Georgia would be to gradually increase the attractiveness of the legitimate economy and the level of trust into the state in view of transforming part of the parallel economy into legitimate economic activities that can be used as a resource base for Georgia's state building. This process could include, for example, to reduce or cut import duties on legitimate products that are smuggled into the country illegally; to increase the stakes of provincial clans in the state by way of reforming the transfer system between the central government and the provinces; and to increase the trust of the public in the state by way of systematically exposing and sanctioning corrupt behaviour of state officials, companies and citizens. In this way the smaller,

¹³⁴ Speaker at *Etats, Banques, Entreprises: Tournez Vous vers les Menaces Criminelles d'Aujourd'hui*, organised by Academy & Finance and l'Observatoire du Crime Organisé, 28-30 October 2003, Geneva.

more opportunistic and less organised transnational crime groups could be captured by the state for state building. At the same time, however, the state has to change, too. If the public is to increase its trust in the state, the state must perform its basic function of providing security, representation and welfare.

This process of transformation, however, still remains a competitive endeavour. Key stakeholders benefiting from the existing status quo may not appreciate interference by outsiders in their business and may thus resort to violence to protect it. However, when confronted with the opportunity to make business within the framework of the state, their cost-benefit calculation may shift towards advocating legitimate markets and not violence to perpetuate the status quo.

Nevertheless, an underlying problem will remain the territories outside the control of the central government. Territorial entities, such as Abkhazia, that are controlled by non-state actors and are excluded from notions of domestic and international law are particularly important. These entities do not regress into 'chaos' but rather reflect their functional utility to transnational crime as an operational base in which they can act with impunity and in which violence is an expression of the economic interest in the status quo. However, one should be careful when assessing these entities'

propensity for armed violence and their impact on international security, particularly if analysed in terms of whether they represent a threat and whether this threat is genuine. Overall, if these entities, transnational crime groups and their accomplices in the public sector are able to hold a whole country hostage to socio-economic destitution, one may question if development cooperation can be sustainable if it only deals with state agencies. If non-state actors can influence economic development or decline, development agencies should find ways how to engage with these groups and mobilise them for development and conflict prevention.

Conclusion

This paper looked at the political economy of transnational crime and its implication for the occurrence of armed violence in Georgia. It was argued that transnational crime is not *per se* related to violence as it creates unwanted attention and may disrupt business chains. However, violence is used to deter market entrants or as a means of arbitration between criminal groups. Nevertheless, the character of violence is likely to be sporadic and functional. Violence may become part of a broader process of low intensity conflict if considered in the context of state building. The establishment of a functioning state, an impartial legal

system and a conscious civil society goes against the stakeholder interests of transnational crime groups in the status quo. In order to protect their stakes, violence may become an attractive means to perpetuate the status quo and destabilise the new government, particularly if sufficient volunteers, weapons and money are available.

With regard to policy, it was argued that measures against transnational crime should be approached from the different categories of transnational crime in Georgia: the East-West drug trading, the North-South trafficking of arms, the smuggling of resources out of Georgia, and the smuggling of consumer goods and resources into Georgia. While the policy for category one and two are embedded in uncontrollable processes outside

Georgia, it is suggested that policy against transnational crime should start dealing with category three and four, making the formal economy more attractive for business and increasing the level of trust into the state. This could be achieved through cutting import duties, reforming the transfer system between the centre and the provinces, and systematically exposing corrupt behaviour. On the other hand, the capacity of the state must be increased so that it can deliver its main functions of providing security, representation and welfare. However, ultimately the success will depend on how the government of Georgia and the international community deal with the territorial entities and actors outside the control of the Georgian government.

Achim Wennmann is a doctoral candidate at the Graduate Institute of International Studies in Geneva researching the political economy of financing conflict. He is also the coordinator of a diplomatic training project in the South Caucasus. The case study on Georgia is based on conversations with representatives of governments, international organizations, universities and civil society conducted during ten visits to the Georgia since 2001. Most of the information has been provided to the author as personal comment. He is grateful to all of his interlocutors and remains observant of his pledge of confidentiality. In addition, the author is extremely grateful to Mohammad-Reza Djalili, Barbara Gimelli, Oliver Jütersonke, Ekatrine Metreveli, Natalie Sabanadze and Daniel Warner for their comments and encouragement. All the views expressed in this article are the author's own and unrelated to any organisation he represents.

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