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**The Role of Foreign Direct Investments
in the Georgian Economy: Statistical Analyses**

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Abstract

The issue of foreign direct investment is quite actual nowadays. It is under the attention of international and national scientists and is well-reviewed in different types of literature. Foreign direct investments have a high importance in restoring, renewing and creating economy in the country. Of course, this is crucial for Georgia as well. The main aim of the work will be to cut out and analyse the factors that influence the inflow of investments and to determine their effects on the Georgian economy. In this paper, we will consider and analyse the effect of foreign direct investment on the major economic sectors of the country. Due to the great importance of foreign investment, it is necessary for the country to create the right conditions to attract foreign investors. The main goal of the paper will be to study the trends of attracting foreign investment in Georgia and to get a closer look at the current situation and challenges in this regard.

Keywords: foreign direct investment, pandemic, economic growth, economy of Georgia.

JEL Classification: E22, F31, F43, O52.

1. Introduction

The influence of foreign direct investments in the economy of receiver countries is quite significant. In most cases they impact positively the economic development. They are essential for transition and developing economies, because the majority of the population has low income and they cannot afford to save it and it cannot stimulate economic growth, therefore these types of countries need foreign capital that creates new opportunities and new products on the bases of additional foreign financial resources. Foreign direct investment has long been seen – and strongly recommended – as a key instrument in the process of transforming the former

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centrally planned economies and stimulates economic growth in the transition period. FDI are an important factor for the economic growth of the host-country, while according to research of Jalena Tast, there is a positive correlation between FDI and the economic growth (Tast, 2014). Foreign capital inflows have been of crucial importance for the initiation and acceleration of the transition processes in the countries of the South Caucasus (Penev, 2008).

The present analysis focuses on the importance and problems of attracting foreign direct investment and their impact on economic growth of Georgia, as well as the impact of the pandemic on these factors.

The authors of the article tried to answer the following questions:

How dynamic are the trends in the inflow of foreign investment in the South Caucasus region?

Which countries are actively investing in the Georgian economy?

Which is the most popular investment sector in the country?

How does the pandemic affect foreign direct investment in Georgia?

How is it possible to improve the inflow of foreign direct investment in Georgia?

Georgia's business development especially needs to attract foreign direct investment, which will solve significant problems within the country. It will help to develop modern technology and science in the Georgian economy.

2. Literature Review

The authors used articles of Georgian and foreign scientists. The following literature is used by the authors:

Dzhvarsheishvili, S. (2018). "Regional Peculiarities of Foreign Direct Investments". This paper attempts to examine regional peculiarities of foreign direct investments in Georgia using data for the period 2013-2017.

Dzhvarsheishvili, S., Gogrichiani, U. (2021). Economic policy of Georgia in the face of challenges related to the global pandemic. This paper examines the impact of the COVID-19 crisis on the current important social-economic processes of the country, to generalize them in order to form proper opinions.

Erkomaishvili, G., Kobalava, M., Lazariashvili, T., Damenia, N. (2018). Stimulating Policy for Attracting Foreign Direct Investment in Georgia. The current state of foreign direct investment (FDI) in Georgia is analysed and evaluated in the paper, and the existing legislative background for regulating investments and stimulating policies to attract investments is shown.

Jeffrey, D. S., Felipe, B. L. (1993). Prentice Hall; Macroeconomics in the global economy; pp 547-587. This book, particularly chapter 18, explains a relationship between FDI and economic growth.

Namchavadze, B. (2017). How Successful Is Georgia In Attracting Foreign Direct Investment? This article discusses investment climate of Georgia in period of time 1996-2017.

Penev, S. (2008). Investment Climate and Foreign Direct Investment Trends in the South Caucasus and Central Asia. This paper analyses and compares investment climates and trends in the South Caucasus and Central Asia.

Silagadze, A., Zubiashvili, T. (2016). Foreign direct investment in Georgia. This article considered foreign direct investment after the collapse of the Soviet Union in post-soviet countries.

Tast, J. (2014). The Role of FDI in the Economic Development of Transition Countries. The paper considered the relationship between the FDI and the economic growth in transition countries.

In this article we used official statistical data for the 2013-2020 period, which were taken from the web sites of the National Statistics Office of Georgia; National Bank of Georgia; National tourism administration and the World Bank. Online periodicals were also used from the site agenda.ge.

3. Methodology

The following research methods have been used by the authors: statistical analysis, comparative, quantitative and qualitative analysis.

4. Results and their Interpretation

Foreign direct investment is quite relevant for the whole world. It also plays an important role in the Georgian economy. It is a cornerstone of economic growth and development of the country, as evidenced by many scientists, who see a positive correlation between the FDI and economic growth (Sachs, Larrain, 1993), but there are others who see its negative aspects as well. For example, foreign corporations that have competitive advantages can threaten national companies in the local markets, therefore the concerns should be to protect national interests (Erkomaishvili et al., 2018).

The South Caucasus region has strong development potential based on the availability of energy and natural resources, an educated work force, technological infrastructure and strategic geographic location. After the collapse of the former Soviet Union, foreign direct investment in South Caucasus region played a significant role in the development of a market economy in the countries. (Silagadze, Zubiashvili, 2016).

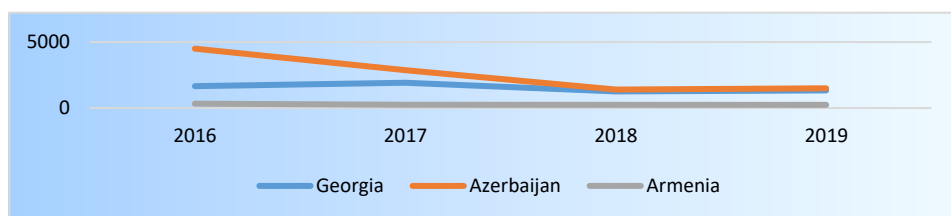


Figure 1. Foreign direct investment in the South Caucasus region, net inflows (Million US\$)

Source: Created by the authors based on data from World Bank www.worldbank.org.

As shown in Figure 1, in recent years FDI in South Caucasus region has decreased. According to this chart we could mention that, fuel and energy resources

of the rich country of Azerbaijan attracted much more FDI than other countries in region; on the second place is Georgia and on the third place is Armenia. Since February 2020, due to pandemic all the countries from this region have undergone extremely difficult conditions.

Georgia has a low level of saving and, therefore, for such type of countries foreign direct investment is the main factor that contributes to the recovery and development of economies (Namchavadze, 2017).

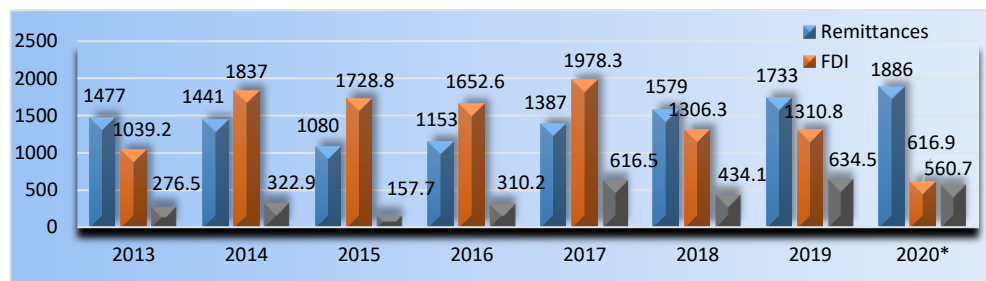


Figure 2. Dynamics of FDI, remittances and reinvestments in Georgia (Million US Dollars).

Source: Created by the authors based on data from the National Statistics Office of Georgia and from National Bank of Georgia www.nbg.gov.ge, www.geostat.ge.

The Figure 2 shows that foreign direct investment in Georgia in 2014 in comparison with 2013 raised significantly by 77 percent. The main reason for an increase of the FDI is preparations for the European youth summer Olympic festival, which was held in Tbilisi, between 26 July and 1 August 2015 (Agenda.ge, 2014). At the same time, the share of reinvestment amounted to 18 % of the total FDI and the share of remittances was 8.2 % of Georgia’s GDP with half of these remittances in 2014 coming from Russia (National Bank of Georgia; 2014). Georgia attracted a historical amount of FDI in 2017 – 1978.3 million USD, and the increase in investment was largely related to the construction of the new Shah Deniz 2 gas pipeline (Policy brief, 2017). The top three direct investor countries in 2017 were Azerbaijan – 23.3 %, the Netherlands – 17.9 % and United Kingdom – 12.6 % (National Statistics Office of Georgia, 2017). The share of reinvestment also raised in 2017 and it amounted to 31% of the total FDI. Increasing the share of reinvestment indicates investors’ trust. The share of remittances increased, and in 2017 it was 8.5 % of Georgia’s GDP with most of the remittances in this year coming from Russia, Italy and USA (National Bank of Georgia, 2017). Foreign direct investment in Georgia decreased by 35% in 2018 compared to the same period in 2017. We can see that the main investment comes to pipelines and infrastructural project developments, but such type of projects were not envisaged in this year and, therefore, foreign direct investments decreased. The share of FDI in 2018 by major foreign direct investor countries is as follows: Azerbaijan - 19.5 %; United Kingdom -16.5 % and the Netherlands -13.6 % (National Statistics Office of Georgia, 2018). In February 2020 the pandemic started in Georgia. The pandemic was the main factor of the decline in FDI, which has decreased in comparison with the year 2019. Despite

this fact, we could see that reinvestments in 2020 amounted to 91 % of the total FDI. Since 2015 remittances have been increasing, and in 2020 they reached a record level. It indicates that emigrants from Georgia have overcome the crisis stage and continue to transfer much more money to their families in Georgia; the share of remittances was 1 % of Georgia’s GDP and most of these remittances in 2020 come from Russia – 23.4 %, Italy – 19.1 % and Greece – 14 % (National Bank of Georgia, 2017).

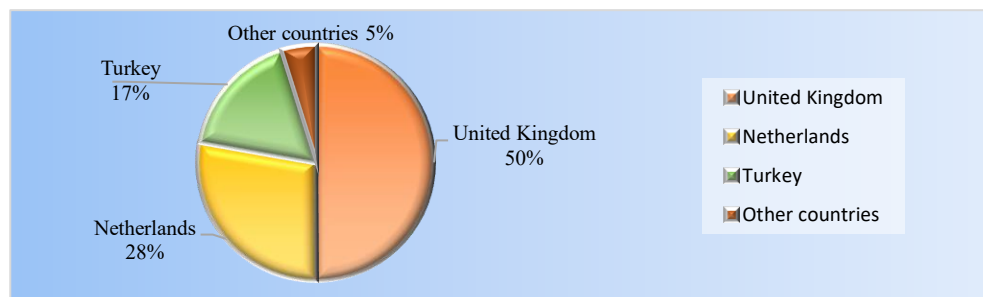


Figure 3. Top direct investor countries in 2020, preliminary data (%)

Source: Created by the authors based on data from the National Statistics Office of Georgia www.geostat.ge.

As shown in Figure 3, foreign direct investments (FDI) in Georgia in 2020 amounted to USD 616.9 million, of which more than 50 % came from the Europe. The largest amount of FDI came from the United Kingdom – USD 307.8 million, followed by the Netherlands – USD 172.1 million and on the third place is Turkey – USD 108.1 million. Nowadays the United Kingdom is a leading investor nation in Georgia. For example, one representative British company is “Schroders”, which is operating in 27 countries across Europe, the Americas, Asia and the Middle East (Agenda.ge, 2017).

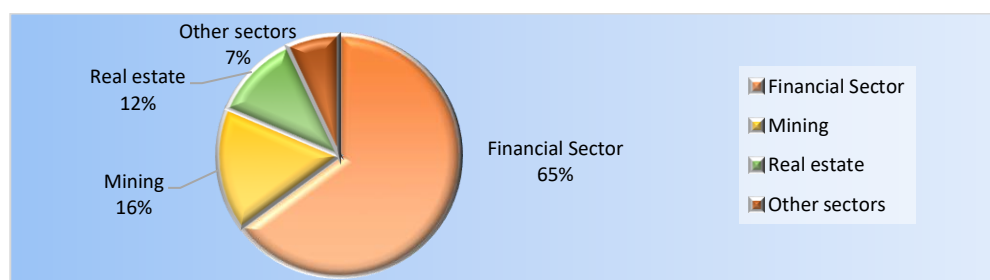


Figure 4. Foreign direct investment by major economic sectors in 2020, preliminary data

Source: Created by the authors based on data from the National Statistics Office of Georgia www.geostat.ge.

According to the data from the National Statistics Office of Georgia, we can see in Figure 4 that the financial sector received the largest share of FDI – USD

400.3 million, followed by mining – USD 101.5 million and real estate – USD 71.8 million;

Let us consider regional peculiarities of foreign direct investment in Georgia. As evidence from Figure 5 below, a significant amount of foreign direct investment in 2020 came in Tbilisi and Adjara. The share of Tbilisi in total investment is still high, of about 44.2 %, while in Adjara it is 21.2 % and in Qvemo Qartli 13.4 %. Small amounts of foreign direct investment feature in the following regions: Guria, Racha-Lechkhumi and Kvemo Svaneti. This shows that the capital of Georgia and Adjara are the most attractive regions for foreign investors, compared to other regions (Dzhvarsheishvili, Gogrichiani, 2021).

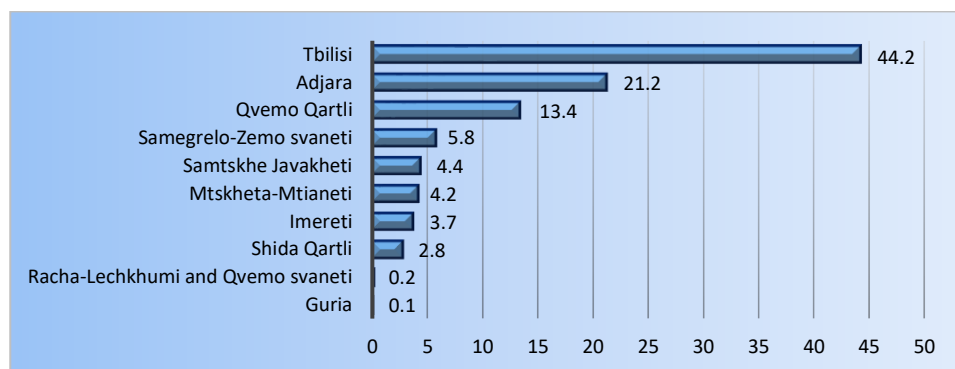


Figure 5. Foreign Direct Investment by Regions in 2020 (%)

Source: Created by the authors based on data from the National Statistics Office of Georgia, www.geostat.ge.

As we have already mentioned, the volume of FDI in 2020 is relatively low, therefore, the state should pay more attention to this problem and should try to attract foreign investors to invest more, not only in Tbilisi and Adjara, but in other regions of Georgia as well, which in turn will create new jobs and reduce unemployment (Dzhvarsheishvili, 2018).

Table 1. Gross Domestic product of Georgia

| Indicators | 2017 | 2018 | 2019 | 2020 |
|---|---------|---------|---------|--------|
| GDP at current prices (mil. US Dollars) | 16.2 | 17.6 | 17.5 | 15.9 |
| GDP per capita (US Dollars) | 4 358.5 | 4 722.0 | 4 696.2 | 4274.6 |
| Real GDP growth rate (%) | 4.8 | 4.8 | 5.0 | -6.2 |

Source: Created by the authors based on data from the National Statistics Office of Georgia, www.geostat.ge.

The spread of the coronavirus disease had a considerable negative impact on the economy of Georgia and increased the poverty level and economic imbalance. During the pandemic, Georgia got not only a low volume of FDI, but it also experienced a high unemployment rate – 18.5 %, with the pandemic playing the main role in the declining of the GDP, which has fallen up to 11 %, as can be seen in Table 1.

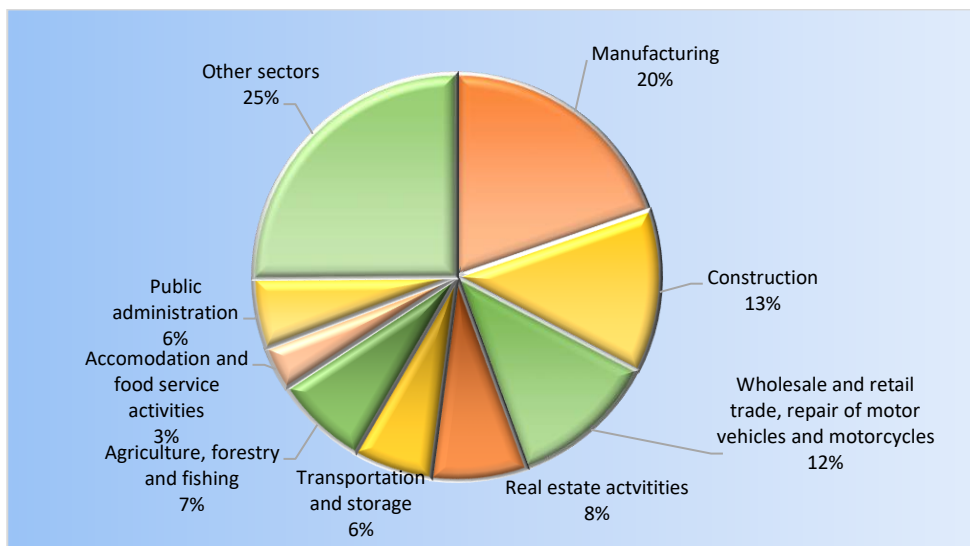


Figure 6. Structure of gross output in 2020, preliminary data (%).

Source: Created by the authors based on data from the National Statistics Office of Georgia, www.geostat.ge.

According to the preliminary data from the National Statistics Office of Georgia, Figure 6, we can see that the manufacturing sector, construction and wholesale and retail trade, repair of motor vehicles and motorcycles in 2020 have the largest share of gross output.

Let us consider the tourism sector, which is very important for the Georgian economy. Previous years' tourism sector was the main source of inflow of foreign currency in Georgia. But since 26 February 2020, tourism in the region has almost come to a temporary standstill as a result of the coronavirus pandemic, as can be seen in the Table 2 below.

Table 2. International Travel Receipts (Thousands of USD)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------|---------|---------|---------|---------|---------|---------|---------|---------|--------|
| Total | 1410902 | 1719700 | 1787140 | 1868479 | 2110709 | 2704340 | 3222074 | 3268654 | 427699 |
| I.Q | 235930 | 302818 | 315461 | 305180 | 342590 | 425673 | 550730 | 578442 | 427699 |
| II.Q | 330827 | 426525 | 429690 | 409470 | 497441 | 629854 | 809969 | 877626 | - |
| III.Q | 487721 | 604202 | 649775 | 742849 | 813161 | 1078274 | 1210561 | 1126771 | - |
| IV. Q | 356423 | 386156 | 392215 | 410979 | 457517 | 570538 | 650814 | 685814 | - |

Source: Created by the authors based on data from the Georgian National Tourism Administration www.gnta.ge (updated 23.12.2020).

Tourism represented significant shares of gross domestic product (GDP) and employment of Georgia. The Coronavirus pandemic hit tourism industry the most. (Dzhvarsheishvili, Gogrichiani, 2021). Therefore, when demand decreases in the services industry, other sectors also decrease their production, since their product is now less needed as an intermediate good. However, there is also a huge opportunity for the government to refresh the Georgian economy in the future. On 19th November 2020, the Government of Georgia approved the state program to support foreign investment projects in economic sectors such as: production of electrical and electronic engineering products, manufacture of aircraft parts and components, manufacture of vehicles and equipment, as well as their parts, export of business services, developing warehouses and logistic centres, aircraft repair and maintenance. The goal of the program is to promote the growth of foreign direct investments in the country, the inflow of technology and the creation of new jobs (The state program–FDI grant, 2020). According to “Doing Business 2020” report of the World Bank, ease of doing business ranks Georgia on the 7th position (Economy profile Georgia, Doing Business, 2020), as can be seen in Figure 7 below.

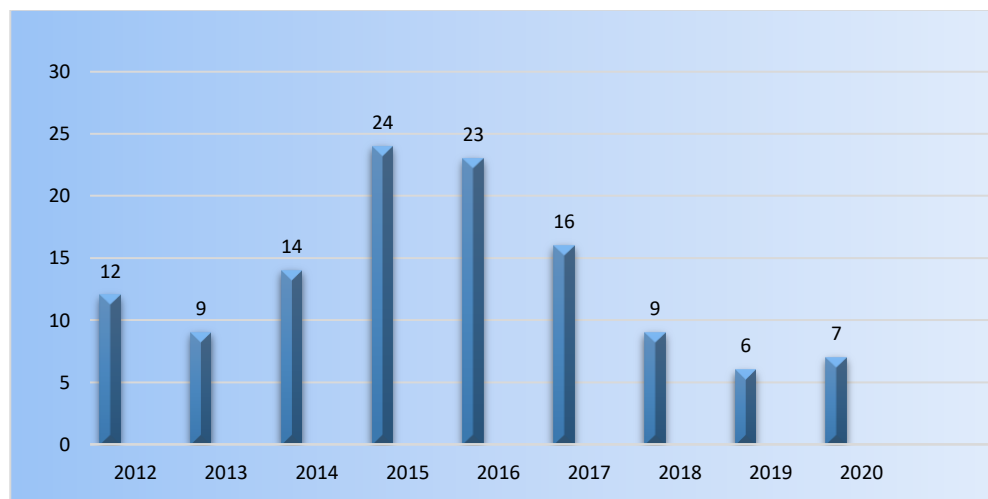


Figure 7. Position of Georgia in the doing business ranking

Source: Created by the authors based on data from World Bank www.worldbank.org.

The Georgian government strives to make the country’s business environment favourable for foreign investors and entrepreneurs. It is important to attract more foreign investors to invest in the country’s economy, to pay more attention to promote local production, which will enable the government to reduce the unemployment rate.

The light at the end of the dark virus tunnel is now shining and Georgia starts COVID-19 Vaccine rollout, which will help to start a new life and create new economy not only in Georgia, but in the whole world.

Conclusion

Georgia has a suitable geographical location. Investments in Georgia were mostly made due to its location as a transit country for energy transportation, therefore since 2013, investments rose and reached their maximum point in 2017. During the pandemic in 2020, the amount of FDI significantly decreased. It was practically impossible to attract more investors to Georgia during this difficult time. Last year, countries from Europe: United Kingdom and the Netherlands actively invested in Georgia. The most popular investment sectors during the pandemic were the financial and mining sectors. Based on the above mentioned facts, we may conclude that Georgia has had a very difficult time. The pandemic has had a big negative influence on Georgia's economy: people lost their jobs, the unemployment rate has increased, FDI and GDP have significantly decreased. But in spite of negative facts, one can also notice positive things, like increase of remittances in 2020, when they reached their maximum level. Remittances are also a vital source for the Georgian economy. The share of reinvestments in the total FDI has also increased. It is also crucial that the Georgian government tries to attract foreign investors, through carrying out some interesting programs that will contribute to attract foreign capital, which is very necessary and essential to create more new jobs at the highest pay and perspective level. Attracting investors is just the first step that is necessary to create successful FDI strategy, but convincing investors to stay in Georgia and persuading them to expand their operations are not less important. Everything that we have mentioned above is the key factor of achieving goals for economic development of our country.

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