World Academy of Science, Engineering and Technology
International Journal of Industrial and Systems Engineering
Vol:11, No:5, 2017

Modern Trends in Foreign Direct Investments in Georgia

Rusudan Kinkladze, Guguli Kurashvili, Ketevan Chitaladze

Open Science Index, Industrial and Systems Engineering Vol:11, No:5, 2017 publications.waset.org/10007515/pdf

***Abstract*—**Foreign direct investment is a driving force in the development of the interdependent national economies, and the study and analysis of investments is an urgent problem. It is particularly important for transitional economies, such as Georgia, and the study and analysis of investments is an urgent problem. Consequently, the goal of the research is the study and analysis of direct foreign investments in Georgia, and identification and forecasting of modern trends, and covers the period of 2006-2015. The study uses the methods of statistical observation, grouping and analysis, the methods of analytical indicators of time series, trend identification and the predicted values are calculated, as well as various literary and Internet sources relevant to the research. The findings showed that modern investment policy In Georgia is favorable for domestic as well as foreign investors. Georgia is still a net importer of investments. In 2015, the top 10 investing countries was led by Azerbaijan, United Kingdom and Netherlands, and the largest share of FDIs were allocated in the transport and communication sector; the financial sector was the second, followed by the health and social work sector, and the same trend will continue in the future.

***Keywords*—**Foreign Direct Investments, methods, statistics, analysis.

***Jel Classification*—**O1.

I. Introduction

FDI is one of the ways for achieving the economic growth of a country. FDI increases the supply of capital in a country by driving up productivity and employment levels. FDI also enables developing states to get exposure to and apply high technologies used in developed countries.

Following their economic importance, the main function of the investments is to support the acceleration of the economic growth of the national economy; this, in turn, will result in the involvement in the integration process and the enhancement of qualification of the local staff, will invigorate and promote faltering enterprises, and will secure necessary funds for domestic production.

Investment is a driving force behind the interdependent national economies, and the study and analysis of investments is important. Foreign investment activity is an important type of global business, involving the investment of capital by foreign companies in various countries. FDIs represent an integral part of a liberal, open economic system and are a catalyst for its development. According to the recent trend, the national economic system of the countries across the world, especially in the developing states, is directed at increasing the flow of investments [4].

Rusudan Kinkladze is with the Georgian Technical University, Georgia (e-mail: rusudan1103@yahoo.com).

Investments in the countries in transition, first of all, should be directed towards supporting the economic growth; therefore, the investments should support the development of high-level production and social infrastructure, establishing export-oriented and import-substitution enterprises and development, achieving high level of processing of products in the industry, introduction of innovations and acquisition of intellectual property [1].

Georgia is located at the crossroads of several economic regions. It is an important transit country situated at the junction of Europe and Asia and effectively serves as a natural transport corridor. It is the shortest transit route between the West and the Central Asia to ship oil and gas, as well as dry cargo [3].

Modern investment policy in Georgia is favorable for domestic, as well as foreign investors. Specifically, the country has a liberal investment environment, equal conditions for domestic and foreign investments, free market economy policy, reduced tax rates; the country has a favorable geographical location; the investment potential of Georgia is increasing and it is becoming more and more attractive for foreign investors [5]. This process is intensified by favorable conditions for starting business and its successful development in Georgia, specifically, the liberalized system of business licensing and permits, streamlined administrative procedures, preferential trade regimes with many countries of the world, well-developed and integrated transport system, competitive, educated qualified workforce, etc. [6]

As a result, it is becoming easier for the Georgian products to enter foreign markets. This is especially important, since some types of end-use imported products are imported to the country at cheap, dumping prices. Dumping prices for import products can be useful for the economy of the country only when certain commodities are not produced domestically and commencement of their production is not feasible because of high costs. Otherwise, dumping prices will result in limiting the investment activity. It has to be taken into account that in the food industry, natural raw materials are replaced by cheaper imported vegetable products (e.g., dairy products by cheap palm and other tropical oils, meat products – by soy and other surrogates). As a result, the profits of businesses and importers engaged in the processing industry are rising, but the production in villages falls sharply, especially, in the cattle-breeding sector.

Based on the above-mentioned, an appropriate and effective investment policy is necessary that would be directed towards the development and expansion of production to produce commodities for export and at the same time, to ensure the

Open Science Index, Industrial and Systems Engineering Vol:11, No:5, 2017 publications.waset.org/10007515/pdf

substitution of import.

II. Scientific Aim

For the development and modernization of the economy of Georgia, it is necessary to use the opportunities of the foreign direct investments in the best way possible and to establish the environment ensuring the efficiency of this process. Consequently, its study and analysis is an urgent problem, and qualitative, as well as quantitative study of FDIs, characterizing their trends and future development is important.

III. Methodology/Methods

The study uses the methods of statistical observation, grouping and analysis, as well as the methods of analytical indicators of time series and trend identification. In addition, the predicted values are calculated.

IV. Results

Investment activities in Georgia are regulated by the Law on State Support of Investments, which aims at supporting investments and improving the procedures necessary for investments and business activities [2].

The reforms and initiatives directed towards the improvement of investment climate, implemented since 2003, have had positive outcomes.

Retrospective analysis of FDI shows different trends in investment. Since 2004, a sharp increase in the investment flows has been observed in Georgia, mainly caused by a relatively stable fiscal policy, liberal economic course and mass PR-campaigns by the country's authority to improve the image and reputation of the country at the international level. In 2005, FDI in Georgia amounted to 449.8 million USD (499 million USD in 2004). The recorded fall as compared to past years was due to the completion of the Baku-Tbilisi-Ceyhan oil pipeline construction project, although the volume of other investments (unrelated to the oil pipeline) increased as compared to 2004, by 44 million USD, and amounted to 183 million USD. Relative to 2005, in 2006, FDI in Georgia increased by USD 740.2 million and amounted to 1.190 million USD, and in 2007, it was 2,014.8 million USD (the growth rate was 69.3% as compared to 2006). In 2008, FDI volume fell by 450 million USD (23%), and totaled 1,564 million USD. In 2009, it declined further, by 905.6 million USD, i.e. 58% and amounted to 658.4 million USD (See Table I).

The highest indicator of FDI of 2,015 million USD was in 2007, which is 69.3% higher as compared to the previous year. A high investment rate was retained until August, 2008. After a sharp reduction since 2010, an FDI growth rate can be observed, and in 2011, as compared to the previous year, this indicator increased by 37% and amounted to 1,117.2 million USD again; in 2012, 18% less investment was made in Georgia (912 million USD).

According to United Nations Conference on Trade and Development (UNCTAD), Global FDI inflows declined in 2014. The total volume of Global FDI inflows fell by 16% to $1.23 trillion in 2014, mostly because of the fragility of the global economy, policy uncertainty for investors and increased geopolitical risks. New investments were also offset by some large divestments [8]. Recovery in FDI was intense in 2015. Global FDI flows jumped by 38% to $1.76 trillion, to their highest level since the global economic and financial crisis of 2008–2009. A surge in cross-border mergers and acquisitions (M&A) to $721 billion, from $432 billion in 2014, was the principal factor behind the global rebound. The value of announced Greenfield investment remained at a high level, at $766 billion [9].

Based on the available data, the volume of FDIs in Georgia in 2014 amounted to 1,758 million USD, which is 35% higher than the data of previous year. In 2015, 1,564 million USD, which is 10.9% less than in the previous year, and 41.1% higher than in the previous 5-year period (2010-2014), was 1,108.72 million USD on average.

TABLE I
Dynamics of FDI in Georgia (Thousand USD) [11]

Year	Q1	Q2	Q3	Q4	Total
2006	146 012	306 907	280 748	456 708	1 190 375
2007	421 370	401 452	489 112	702 908	2 014 842
2008	537 674	605 357	134 709	286 222	1 563 962
2009	113 974	177 229	173 223	193 974	658 401
2010	166 544	208 298	225 558	214 097	814 497
2011	209 720	248 335	316 595	342 594	1 117 244
2012	261 194	217 671	199 000	233 699	911 564
2013	252 316	207 893	254 825	226 868	941 903
2014	309 463	196 245	725 993	526 722	1 758 423
2015	291 472	462 725	483 199	327 104	1 564 500

If we analyze the statistics of FDI by quarters, a high growth rate of FDI in Quarter 4, 2014, is prominent. The volume of FDI in Georgia in Quarter 4 of 2014 amounted to 349.2 Million USD what is 53.9% higher relative to the data specified for Quarter 4 of 2013, while it was 49.9% higher than Quarter 4 of 2012 (in Quarter 4 of 2012, it was 233 Million USD) indicator (See Fig. 1).

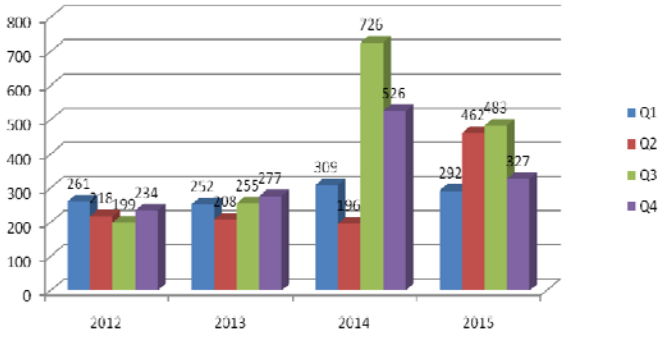


Fig. 1 FDI 2012-2016 by Quarter (mln.USD) Source: The chart is based on the data of National Statistics Office of Georgia [11]

The volume of reinvestment in the same period was 19 percent of total FDI. Table II provided the data on the share of reinvested funds as part of total FDI, for 2010-2014.

Open Science Index, Industrial and Systems Engineering Vol:11, No:5, 2017 publications.waset.org/10007515/pdf

Table II shows the share of reinvestments in total FDI during 2011-2015. As it can be seen, lately, the share of reinvestment of funds received from initial investments as part of foreign investment was lowest in 2012, which indicates that just 13% of the proceeds from investment was reinvested, which was due to unfavorable investment and business environment for investors. In 2013, the indicator almost doubled what is a positive fact, but in 2014, it fell by 10%, to 19% [13].

TABLE II
REINVESTMENTS IN TOTAL FDI (%) [12]

	2010	2011	2012	2013	2014
Share of reinvestments in total FDI (%)	28	30	13	29	19

According to 2009-2012 data, the share of state investments relative to total investments was declining. For example, if in 2009, this indicator was 37.6%, in 2010 it was 34.9%, and in 2011, it was 22.9% and in 2012, it was 24.2%. Since 2012, it has started to increase and the share of state investments as part of total investments is 31.5%, according to the latest data.

Looking at the dynamics of FDI in Georgia (see Table III) in 2011-2015, in 2014, by the largest investment countries, certain leading investor countries can be identified, with various countries leading in different years. According to the 2014 data, the Netherlands was a leading country among the 10 largest investor countries (Netherlands was a leader in 2013 as well), with 374 million USD investment, and Azerbaijan and China ranked second and third, with 341 million USD and 218 million USD, respectively; while in 2012, the UK was leading the top 10 (with 94 million USD), and Netherlands (with 94 million USD) in 2011 [13].

TABLE III
MAJOR INVESTOR COUNTRIES BY 2011-2015 (MILLION USD) [11]

	2011	2012	2013	2014	2015
Total	1,117	912	942	1,758	1,564
of which:					
Azerbaijan	138	59	82	341	550
United Kingdom	55	94	55	108	386
Netherlands	242	35	153	374	155
Luxembourg	43	42	143	110	106
Turkey	76	81	43	63	73
China	10	36	90	218	67
Russia	55	20	2	82	46
International Organizations	95	63	55	-106	40
Other countries	404	480	320	569	142

The foreign investments observed in Georgia since 2015 can be categorized by three kinds of flows depending on their origin – the EU countries, CIS countries and other countries (See Table IV).

As the table shows, the share of foreign direct investments for the EU countries was 48.2% (754 million USD); approximately 3/5 of these flows were for the United Kingdom and Netherlands; consequently, 37.9% (582.9 million USD) was for CIS countries. A prominent leader in this group is Azerbaijan with 549.6 million USD of direct foreign investments in Georgia in 2015 (accounting for 35.2%), while 10.9% (171.4 million USD) was for other countries. Almost 80% of these flows are for the United States, Turkey and China [10].

TABLE IV
MAJOR INVESTOR COUNTRIES BY (THOUSAND USD)

	2015
Total	1,564,499.
of which:	
EU countries	753, 719.7
United Kingdom	386, 013.7
Netherlands	155, 351.8
CIS countries	592, 866.4
Azerbaijan	549, 575.1
Other countries	171, 391.1
United states	18, 449.4
Turkey	72, 546.9
China	66, 947.6

Source: The table is based on the data of National Statistics Office of Georgia [11]

The percentage structure of the same indicator in 2015 is shown in Fig. 2.

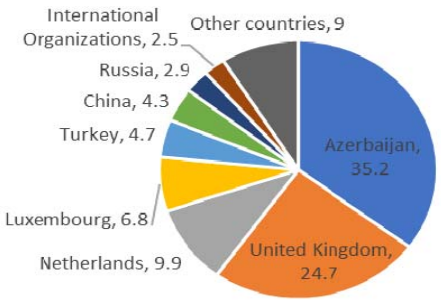


Fig. 2 FDI by major investing countries in 2015 (%) Source: chart is based on a data of National Statistics Office of Georgia [11]

In 2015, the share of FDI by three major foreign direct investor countries was distributed as follows: Azerbaijan with 550 million USD investments (35.2%), United Kingdom with 386 million USD (24.7%) and Netherlands with 155 million USD (9.9%) [7].

The share of FDI by five major economic sectors reached 74.4% in 2015. The largest share of FDI was allocated in the Transport and Communication sector, totaling to 585 million USD (37.4%). The Financial sector was the second with 179 million USD (11.4%), followed by the Health Social Work sector with 140 million USD (8.9%), Hotels and Restaurants with 139 million USD (8.8%) and the Energy sector with 124 million USD (7.9%). FDI by major economic sectors in 2011-2015, is shown in Table V.

In 2014, the largest FDI was made in Transport and Communications in the amount of 434 million USD, which is 25% of the total FDI. Construction ranks second with 391 million USD (22.2%) and Manufacturing ranks third with 174 million USD (11.2%).

As for 2013, the Energy sector accounted for the highest share of FDI – 21.7% of total FDI. Investments into the Finance sector amounted to 18.6% of total investments, Transport and Communications – to 15.1%, and in Processing Industry – to 14.7%.

The flows of FDI are unevenly distributed across countries and regions. As expected, Tbilisi and Adjara accounted for a

considerable share of FDI, followed by Kakheti and Samegrelo.

TABLE V
BREAKDOWN OF FDI BY ECONOMIC SECTORS IN 2011-2015 (MILLION USD) [11]

	2011	2012	2013	2014	2015
Total	1,117	912	942	1,758	1,564
of which:					
Transports and Communications	127	73	140	434	585
Financial	168	163	166	115	179
Health and Social Work	17	18	1	-10	140
Hotels and Restaurants	23	18	-13	125	139
Energy	204	179	245	190	124
Construction	48	42	50	317	111
Real Estate	225	53	42	139	90
Mining	40	5	44	43	88
Manufacturing	120	168	100	205	67
Other sectors	146	194	168	201	43

The analysis of the data of the National Statistics Office of Georgia of 2006-2015 (See Table I) and average annual growth rate making 103.4%; the growth rate of FDI was identified to last for the coming five years. In particular, by 2016-2020, the volume of FDI will increase making 1.663 million USD in 2016; 1,719.6 million USD in 2017; 1,772 million USD in 2018; 1,838.5 million USD in 2019, 1,900.9 million USD in 2020. Recently, the National Statistics Office of Georgia has published the preliminary data of FDI for 2016, which are very close to the datum obtained and presented in the current study. In particular, the datum calculated by us is 1.663 million USD, while that of the Statistics Office of Georgia was 1.645 million USD [14].

V. CONCLUSIONS

Thus, the following has to be noted:

- The domestic capital market in Georgia is still underdeveloped. Therefore, the economic growth depends greatly on the external source of financing, the foreign direct investments having a particular importance for the long-term economic growth, for financing large infrastructural projects in particular. Without them, only through the local financing, no such projects can be implemented.
- Modern investment policy in Georgia is favorable for domestic as well as for foreign investors.
- Georgia is still a net importer of investments.
- Georgia still relies on attracting more investments by means of maintaining liberal economic course, regulations and diminishing taxes and corruption what cannot be sufficient to reach the aim.
- The volume of FDIs in Georgia in 2014 amounted to 1,758 million USD, which is 35% higher than the specified data for previous year, in particular, 1,564 million USD in 2015, which is 10.9% less than it was in the previous year, and 41.1% higher than in the previous 5-year period (2010-2014) of 1,108.72 million USD on average.
- In 2006-2015, the highest FDI of 2,015 million USD was in 2007, which is 69.3% higher as compared to previous year data.
- In 2015, the share of FDI by three major foreign direct investor countries was distributed as follows: Azerbaijan (35.2%), United Kingdom (24.7%) and Netherlands (9.9%).
- In 2015, the share of FDI by five major economic sectors reached 74.4%. The largest share of FDI was allocated in the Transport and Communication sector, the Financial sector was the second, followed by the Health and Social Work sector and the Energy sector.
- In 2006-2015, FDI was characterized by a growth trend.
- In 2016-2020, FDI is still characterized by a growth trend.

REFERENCES

[1] Abesadze R., Burduli V. "Innovative Activities and their Coordination under Advancing Globalization". The Caucasus & Globalization. CA&CCPress. Sweden. Vol. 3, Issue 4, 2009, pp. 93-94.
[2] The Georgian law "On State promotion of investments". https://matsne.gov.ge/ka/document/view/24472 Accessed on 28/01/2017.
[3] Sikharulidze D. "Location advantage and Georgia's potential to attract FDI". 2013.
[4] Sikharulidze D. "The Motivation of FDI and Host Economy Productivity Effect". 2012.
[5] Shaburishvili Sh. "Foreign Direct Investments in Georgia". *Materials of III International Scientific and Practikal Conference.* T.2, 2010, pp.451-459.
[6] http://www.geostat.ge/cms/site_images/_files/english/bop/FDI_2015-ENG%20-%20with%20cover.pdf Accessed on 25/01/2017.
[7] http://cbw.ge/economy/investment-1564-bln-made-georgia-previous-year/ Accessed on 28/01/2017.
[8] ttp://unctad.org/en/PublicationsLibrary/wir2015_en.pdf Accessed on 25/01/2017.
[9] http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf. Accessed on 28/01/2017.
[10] https://www.eprc.ge/admin/editor/uploads/files/Report_200x255mm_GEO_WEB.pdf Accessed on 28/01/2017.
[11] http://geostat.ge/index.php?action=page&p_id=2231&lang=eng Accessed on 25/01/2017.
[12] https://www.nbg.gov.ge/index.php?m=306&lng=eng#external Accessed on 25/01/2017.
[13] http://evergreen.tsu.ge/eg/opac/record/84374 Accessed on 25/01/2017
[14] http://geostat.ge/cms/site_images/_files/english/bop/FDI_2016Q4-2016-ENG-with%20cover.pdf . Accessed on 10/03/2017.

Open Science Index, Industrial and Systems Engineering Vol:11, No:5, 2017 publications.waset.org/10007515/pdf