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FOREIGN DIRECT INVESTMENTS IN THE POST-SOVIET PERIOD: THE CASE OF GEORGIA

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Abstract
In the former Soviet system, economy was financed by state. In the new independent states formed after the collapse of the USSR at the beginning of the 1990's, traditional financing system was impossible to keep, because Post-Soviet countries began to build market economy, though their methods were different. Large volumes of foreign investments were attracted to those Post-Soviet countries which were richer in energy resources. In this view, Georgia faced problems. After restoration of independence, Georgia was in dire need of foreign investments which could be attracted only in case of successful implementation of reforms. And it happened only after the country adopted new currency, implemented nation-wide privatization, price liberalization, reorganization of enterprises and institutional reforms, in general. In the last years of development, foreign direct investment inflows increased significantly which was a result of tax system liberalization, removal of pressure on business from the state's side and relatively stable situation in the country. (Atanelishvili, 2011, 2013, 2016; Atanelishvili, Silagadze, N., 2016; Basilia, Silagadze, Chikvaidze, 2001; Zubiashvili, Silagadze, L., 2016; Silagadze, A., 2010-2014, 2016; Силагадзе, А. 2010, 2013, 2016).

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JEL Classification: *F21, F23, O57*

I. INTRODUCTION

The importance of foreign direct investments in modern globalized economy is immense. They are especially vital for the development of economy of developing and transitional countries. Doctrines and policies describe this issue differently. Some authors of economic doctrines emphasize maximum net profit of implemented investments while other doctrines imply maximum effectiveness of using foreign investments in national economy and welfare. (Vernon, 1966; Sharpe, 2001; Tobin, 1956; Silagadze, A., 1996, 2000-2001, 2005-2009). Another group of countries do not have big variety of options as they face deep financial deficit like it happened in Post-Soviet era. (Silagadze, A. 2010; Силагадзе, А. 2010, 2016; Силагадзе, А., Атанелишвили, 2010-2011; Silagadze, A. and Tokmazishvili, 2009).

After the collapse of the USSR in the early 1990's, all attempts of keeping traditional system of financing in newly-formed independent states were predestined for failure. Post-Soviet countries still began to build market economy, which contradicted all abovementioned attempts at their very beginning. Large volumes of foreign investments were attracted in those Post-Soviet countries which were richer in oil and natural gas resources. (Basilia, Silagadze and Chikvaidze, 2001).

After restoration of independence, Georgia did not have state financial resources, and its economy was in dire need of foreign investments which could be attracted only in case of successful implementation of reforms. All that required time. In the end, investors started to show their interest after the country adopted new currency, implemented nation-wide privatization, price liberalization, reorganization of enterprises and institutional reforms, in general.

Consequently, in the last years, volume of foreign direct investment inflows increased significantly which was a result of tax system liberalization, removal of pressure on business from the state's side and relatively stable situation in the country.

Attraction of foreign investments in Georgia is encouraged by existing liberal investment environment and equal conditions for local and foreign investments; removal of governmental pressure on business; liberal taxation regulations (only 6 types of taxes) – reduced tax rates; easiness of business registration, preferential trade regimes with numerous foreign countries, advantageous geographical location, etc. (http://www.economy.ge/uploads/ek_mimokhilva/fdi_investiciebi/investments_2015.09_geo.pdf). Reinvested money will be exempted from taxes in the nearest future.

In such conditions, attraction of foreign investments emphasizes economic and political stability of the country and furthers the development of economy. The important fact is that state's participation in gross investments made in the country is decreasing while total amount of gross investments remain unchanged. That means that private sector is increasing its investments in national economy. (http://forbes.ge/news/302/pirdapiriucxouri-investiciebi-saqarTveloSi).

In this article we will briefly analyze some global tendencies in foreign direct investments, including in Georgia. Different aspects of the issue are discussed in the works of various scientists. (See References).

II. GENERAL ANALYSIS

The importance of foreign direct investments in modern globalized economy has increased significantly. Economies of developing and transitional countries are impossible to have any progress without foreign investments. [Aleschenko, Nedelea,2008; Silagadze, L.: 2015-2016; Silagadze, Atanelishvili, 2014; Sichinava, 2010; Solomon, 2011; Комаров, Литвина, 2012]. It is not accidental that in the last years, foreign direct investments have increased to record-breaking volumes. Compared to 1990 (196.315 billion $ - 0.87 of GDP), FDI inflows in the world have increased 10-15 times and more. In this view, the year of 2007, period before the world financial crisis, was an apex. Total FDI volume composed 3.028 trillion $ (5.26 % of GDP) in that period, and 1.678 trillion $ in 2015 (2.9 % of GDP). (Chart 1).

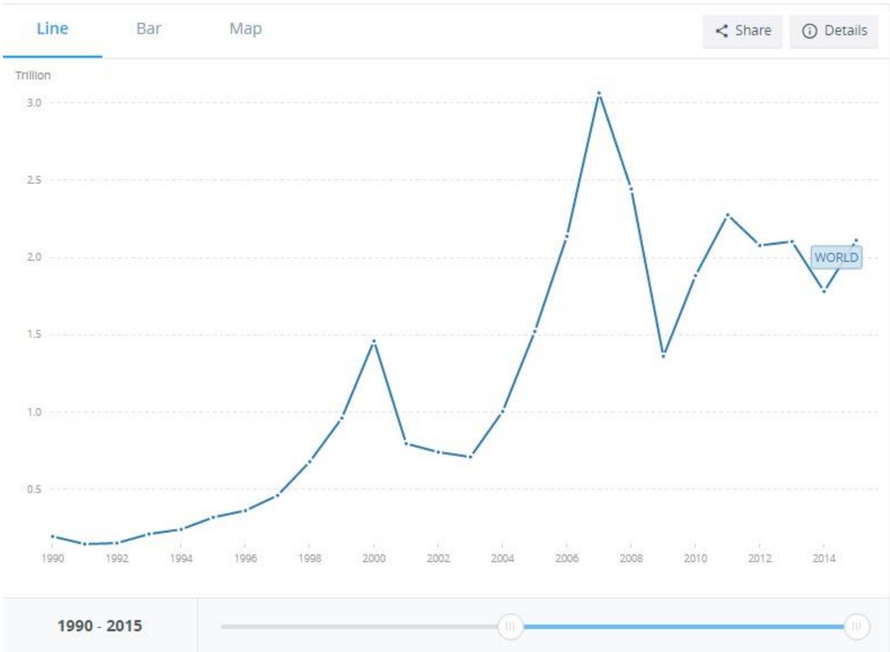

Chart 1. Foreign direct investments, 1990-2015

Source: http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2015&start=1990&view=chart

According to the latest data of 2015, top five countries receiving most foreign direct investments inflows are as follows: United States, China, Hong Kong, Ireland, Switzerland. According to calculations, FDI volume exceeds the half of GDP volume in Hong Cong and Ireland. FDI per capita are very high in Hong Cong, Ireland and Switzerland (Table 1).

Table 1. Countries by highest FDI inflows, 2015

N	Country	US dollars	Share in GDP	FDI per capita ($)
1	United States	409,874,000,000	2.3	1275
2	China	249,858,920,111	2.3	182
3	Hong Kong SAR,China	180,844,260,229	58.4	24754
4	Ireland	125,710,185,862	52.8	27089
5	Switzerland	119,713,934,409	18.0	14446

Calculation based on: http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?view=chart;
http://data.worldbank.org/ indicator/BX.KLT.DINV.CD.WD?view=chart;
http://data.worldbank.org/indicator/SP.POP.TOTL? view=chart 10.10.2016.

In the last years, the following FDI world-wide tendencies have been observed.

- Significant increase in FDI inflows;
  - Increase in percentage share of FDI in gross GDP;
  - Increase in FDI inflows in developed countries.

Table 2. Net FDI inflows in Post-Soviet countries, 2015 (US $)

N	Country	Total	% share in GDP	FDI per capita
1	Azerbaijan	4,047,630,000	17.6	419
2	Armenia	180,525,546	1.7	60
3	Belarus	1,568,300,000	2.9	165
4	Estonia	964, 588, 952*	4.3	735
5	Georgia	1,246,000,241	8.9	339
6	Kazakhstan	4,020,706,466	2.2	229
7	Kyrgiz Rep.	760,409,100	11.6	128
8	Latvia	719,042,911	2.7	384
9	Lithuania	627,349,108	1.5	216
10	Moldova	270,960,000	4.1	76
11	Russian Fed.	4,838,600,000	0.4	34
12	Tajikistan	391,248,980	5.0	46
13	Turkmenistan	4,258,767,000	11.4	793
14	Ukraine	3,050,000,000	3.4	68
15	Uzbekistan	1,068,393,000	1.6	34

*Data as of 2014

Calculation based on: http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?view=chart;
http://data.worldbank.org/ indicator/ BX.KLT.DINV.CD.WD?view=chart;
http://data.worldbank.org/indicator/SP.POP.TOTL? view=chart; 10.10.2016.

Outcomes of Russian-Ukrainian war have had severe impact on the economy of these countries and foreign direct investments made there. FDI volume decreased: 14.3 times in Russia in 2012-2015, and 9 times in Ukraine in 2012-2014. (Table 3).

Table 3. Countries by highest FDI inflows in the world, 2015 (%)

Country	2012	2013	2014	2015
Rusian Federation	100	136.8	43.6	9.6
Ukraine	100	55.2	10.4	37.3

Calculation based on: http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?view=chart 10.10.2016.

In general, according to the latest data, in the view of attraction of foreign direct investments, Post-Soviet countries are not distinguished with high rating; FDI have greatly contributed to the economies of countries rich in oil and gas resources; Russian-Ukrainian war has reduced FDI volume in these countries to critical level which adequately impacted their economies.

III. POST-SOVIET GEORGIA

After the collapse of the USSR and restoration of independence of Georgia, foreign direct investment inflows were practically absent in the early 1990's. The country's traditional Soviet ties were destroyed. Economy almost collapsed as its size reduced drastically. The situation was worsened by internal conflicts. Acceleration of reforms became a challenge. In the middle of the 1990's, the country overcame hyperinflation, and national currency – Lari was adopted. After privatization, private sector began to emerge, direct ties with other countries were established, institutional reforms became stronger, companies were reorganized, etc. Subsequently, the growth of economy in that period was expressed in two-digit figures. (Atanelishvili, 2006; Silagadze, N., 2011; Tvalchrelidze, Silagadze, Keshelashvili and Gegia, 2011; Silagadze and Zubiashvili, 2015; Qoqiauri, 2010; Silagadze, Tokmazishvili and Atanelishvili, 2014; Kuparadze, 2013; Silagadze and

Beridze,1996).

In 1996 first hence small volume of FDI was received by the country – mainly from Post-Soviet states. In the following years, FDI inflows increased, especially, in the process of Baku (Azerbaijan) – Supsa (Georgia) oil pipeline construction. From that time on, investments from Western countries have been received systematically and in larger volumes. In this view, record-breaking figure was registered in 2007 in Georgia (and in the world!), but in the following years, investment inflows decreased, namely, to one billion dollars in 2012, and exceeded 1.7 billion dollars in 2014. In overall, total FDI volume in Georgia received from 1996 to date amounts to 15.6 billion dollars which equals to GDP of one year. (Table 4).

Table 4. Foreign direct investments in Georgia, 1996-2016 ($)

Year	Investment
1996	3753450
1997	242586000
1998	265331770
1999	82207000
2000	131231878
2001	109839835
2002	167362483
2003	340070075
2004	499106509
2005	449784846
2006	1190374602
2007	2014841555
2008	1563962425
2009	658400593
2010	814496572
2011	1117244149
2012	911564257
2013	941902625
2014	1758422927
2015	1564499768
2016 (I-II quarter)	833915372
Total 1996-2016	15660898691

Source: http://pc-axis.geostat.ge/Table.aspx?rxid=c8ca81e9-2824-4c5b-a46a c80202913531&px_db=Database&px_type=PX&px _language=en&px_tableid=Database%5cFDI%5c1..px&layout=tableViewLayout1 10.10.2016.

In FDI inflows received in Georgia, investments received from the EU are much more than those received from Commonwealth of Independent States. Such tendency is natural because of strained relations with Russia and EU-oriented policy of Georgia. In particular, if in 1996 total volume of FDI was received from CIS only, in 2014 percentage correlation of EU/CIS investments was 55.97/44.03 (Table 5).

Table 5. EU and SIC percentage share in gross FDI, 1996-2015

	EU	CIS	SUM	EU%	CIS%
1996	0	3753450	3753450	0	100
1997	45793882	27726583	73520465	62.29	37.71
1998	49540404	37949761	87490165	56.62	43.38

1999	8561451	525240	9086691	94.22	5.78
2000	41550817	6088078	47638895	87.22	12.78
2001	71930038	5036347	76966385	93.46	6.54
2002	58445972	7771846	66217818	88.26	11.74
2003	95783235	74045217	169828452	56.4	43.6
2004	195542275	114452067	309994342	63.08	36.92
2005	243749019	107754271	351503290	69.34	30.66
2006	407189677	266414342	673604019	60.45	39.55
2007	1132726149	238388977	1371115126	82.61	17.39
2008	476655166	94695574	571350740	83.43	16.57
2009	224722213	1024450	225746663	99.55	0.45
2010	248211440	91155585	339367025	73.14	26.86
2011	554238980	193048341	747287321	74.17	25.83
2012	440348290	86736466	527084756	83.54	16.46
2013	390743504	131506870	522250374	74.82	25.18
2014	717692600	407746475	1125439075	63.77	36.23
2015	753719743	592866396	1346586139	55.97	44.03

Calculation based on: http://pc-axis.geostat.ge/Table.aspx?rxid=c8ca81e9-2824-4c5b-a46a-c80202913531&px_db=Database &px_type=PX&px_language=en&px_tableid=Database%5cFDI%5c4..px&layout=tableViewLayout1 ; http://pc-axis .geostat. ge/Table.aspx?rxid=c8ca81e9-2824-4c5b-a46a-c80202913531&px_db=Database&px_type=PX&px_ language= en&px_tableid = Database%5cFDI%5c6..px&layout=tableViewLayout1 10.10.2016.

Top ten countries by highest FDI inflows in Georgia in 2015 include only two Post-Soviet states. In this view, Azerbaijan and Turkey have held leadership positions in the last years. In the same period, FDI volume received from Russia decreased by half compared to the pre-war period (2007). (Table 6).

Table 6. Top ten countries by highest FDI inflow in Georgia, 2015 (US $)

№	Country	FDI
1	Azerbaijan	549575080
2	United Kingdom	386013749
3	Netherlands	155351831
4	Luxembourg	105958997
5	Turkey	72546914
6	China	66947634
7	Russia	46328807
8	Korea	29869763
9	Malta	28115025
10	British Virgin Islands	24298141

Computed: http://pc-axis.geostat.ge/Table.aspx?rxid=c8ca81e9-2824-4c5ba46ac80202913531&px_db=Database&px_type= PX&px_language=en&px_tableid=Database%5cFDI%5c2. px&layout=tableViewLayout1 10.10.2016.

Effective use of investments in order to ensure effectiveness of economy is as important as investment inflow itself. This issue has been challenging for the country for years. Often investments were not directed to real sector which has big potential of creating new jobs. For example, in 2007, when the volume of investments reached maximum during the period concerned, only 0.77 % of gross FDI was used in agriculture. Subsequently, real employment in this branch decreased and its percentage share in GDP was reduced by 9 %. The fact is that significant part of national demand on agricultural products is satisfied with imported goods. (Table 7).

Table 7. FDI in Georgia per sectors, percentage share in gross investments 2007-2015 (gross investments =100%)

Total	100	100	100	100	100	100	100	100	100
Agriculture, fishing	0.77	0.5	3.39	1.06	1.33	1.77	1.26	0.7	0.93
Mining	4.28	1.16	2.28	6.56	3.6	0.53	4.64	2.43	5.63
Manufacturing	15.49	12.04	18.95	21.53	10.77	18.42	10.59	11.68	4.29
Energy sector	18	18.85	-0.32	2.69	18.25	19.68	25.98	10.8	7.9
Construction	8.53	3.63	15.98	0.58	4.31	4.59	5.29	18	7.07
Hotels and restaurants	12.01	11.63	5.7	2.1	2.03	1.94	-1.42	7.1	8.87
Transports and communications	20.68	27.03	14.95	26.41	11.32	7.99	14.87	24.66	37.37
Health and social work	0.02	0.04	0.04	0.15	1.51	1.93	0.08	-0.54	8.97
Real Estate	1.52	17.76	22.39	14.64	20.12	5.79	4.49	7.89	5.75
Financial sector	7.83	0.7	7.54	13.19	15.01	17.83	17.66	6.56	11.41
Other sectors	10.87	6.66	9.09	11.1	11.74	19.53	16.54	10.72	1.8

Calculation based on: http://pc-axis.geostat.ge/Table.aspx?rxid=c8ca81e9-2824-4c5b-a46a-c80202913531&px_db=Database&px_type=PX&px_language=en&px_tableid=Database%5cFDI%5c8..px&layout=tableViewLayout1 11.10.2016.

As per the latest data of 2015, compared to the nearest Post-Soviet neighboring countries, Georgia has quite high FDI share in GDP and FDI per capita, but significantly lags behind Estonia, Turkmenistan, Azerbaijan, etc. (by FDI per capita). (Table 8).

Table 8. FDI share in GDP and per capita in Georgia and its closest neighboring Post-Soviet states (current $)

№	Country	FDI share in GDP	FDI per capita
1	Georgia	8.9	339
2	Azerbaijan	7.6	429
3	Armenia	1.7	60
4	Russian Fed.	0.4	34

Calculation based on:
http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?name_desc=false&view=chart;http://data.worldbank.org/indicator/SP.POP.TOTL?view=chart;

IV. CONCLUSION

Thus, increasing foreign direct investments received from Western countries play important role in the economic development of Georgia, but they are used in real sector of economy in insignificant volumes. Direct foreign investment inflows and their share in gross GDP have increased significantly during the last years; Among Post-Soviet countries, the largest volumes of foreign investments are attracted in Turkmenistan, Kazakhstan and Azerbaijan because they are rich in oil and gas resources; Kirgizstan and Turkmenistan have the highest FDI percentage share in GDP, while Turkmenistan and Estonia have the highest FDI per capita; Russian-Ukrainian war has reduced FDI volume in these countries to critical level which adequately impacted their economies; Compared to the nearest neighboring Post-Soviet countries, Georgia has quite high FDI share in GDP and FDI per capita, but significantly lags behind Estonia, Turkmenistan, Azerbaijan (by FDI per capita). In general, investments received from Western countries have played important role in the economic development of Georgia, but they are used in real sector of economy in insignificant volumes.

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