

## FOREIGN DIRECT INVESTMENTS (FDI) IN THE NEW ASSOCIATE MEMBER STATES (COMPARATIVE ANALYSIS)

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### Abstract

*There is analyzed in that work the dynamics of direct foreign investments in the new Associate Member States of the European Union in 1997-2017. Namely, the comparative analysis of FDI data from Georgia, Moldova and Ukraine is discussed. The economic indicators of these countries should be significantly improved to make a proposal for full membership in the EU. The former Soviet countries have many common characteristic problems (problem of territorial integrity, the relatively low GDP per capita per population, unemployment problem, excessive dependence on import, financial deficit problems, etc.). Investment deficit is particularly important - we consider both domestic and foreign investments. According to the conclusion of the survey: In Ukraine and Moldova FDI's share in GDP is lower than the corresponding data in Georgia. However, this indicator is not enough in Georgia, as the domestic investment is deficient.*

*It is obvious that without integrating the obligations under the Association Agreement and accelerating the reforms, integration processes will be complicated.*

**Keywords:** FDI, EU, Georgia, Moldova, Ukraine

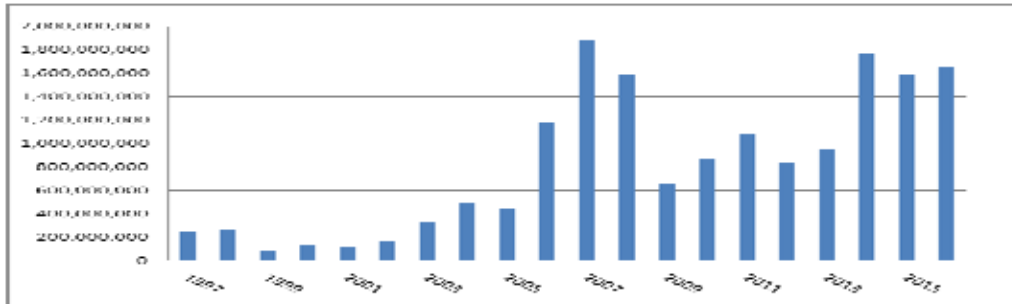
**JEL Classification:** F21, F23, O57 I.

### I. INTRODUCTION

The choice of European vector by post-Soviet countries, in particular, Georgia, Moldova and Ukraine, is not hard to explain: After the dissolution of the USSR, they can not maintain territorial integrity, without which the economy can not be fully implemented; Traditional economic ties have collapsed, tense relations with Russia grew into wars, violation of territorial integrity of sovereign states ... (Atanelishvili, T.: 2013,2011; Basilia,T., Silagadze,A., Chikvaidze, T.: 2001; It is not accidental that all three countries are looking to the EU. They have already become EU-associated members. This creates new commitments. How fast they will be able to deepen the reforms, and approach to the European integration indicators and competitiveness as well - the faster will be their integration into the European Union. (Zubiashvili,2017; Zubiashvili, T., Silagadze, Levani, 2016; Silagadze, A., Atanelishvili, T., 2010,2014; Silagadze, A., Zubiashvili, T., 2015. This is a difficult task that requires intensive work. Foreign investments can play an important role in this case. Aspects of the mentioned problem are discussed in different works of scientists. (Kopaleishvili, Chikviladze, M., 2011; Kuparadze, 2013; Mekvabishvili, Atanelishvili, 2017; Silagadze, A.: 2011 (1,2), 2012, 2013(1-4), 2014, 2016, 2017; Nedelea, Al., Nedelea, M.O., 2008; Silagadze, A., Atanelishvili, T., Silagadze, Nodari, 2010; Solomon, 2011; Силагадзе, А.Н., Сидоров, В.А., Ядгаров, Я.С.: 2016; Qoqiauri, L. ,2010; Silagadze,A., Gelashvili, S.,2009; Sichinava, A.,2010; Silagadze, A., Atanelishvili, T., Goshadze, G. , Demetrashvili, T., Zurabishvili,V.: 2005; Sharpe W.F., Alexander G. J. ,2001; Silagadze, A., Beridze T.,1996; Silagadze, Levani: 2015,2016, 2017(1,2); Tobin, 1956; Vernon, 1966; Tvalchrelidze, A., Silagadze, Keshelashvili,G., Gegia, D.: 2011).

II. DYNAMICS OF FDI

The dynamics of direct foreign investments (USD) are shown in the drawing 1-3.



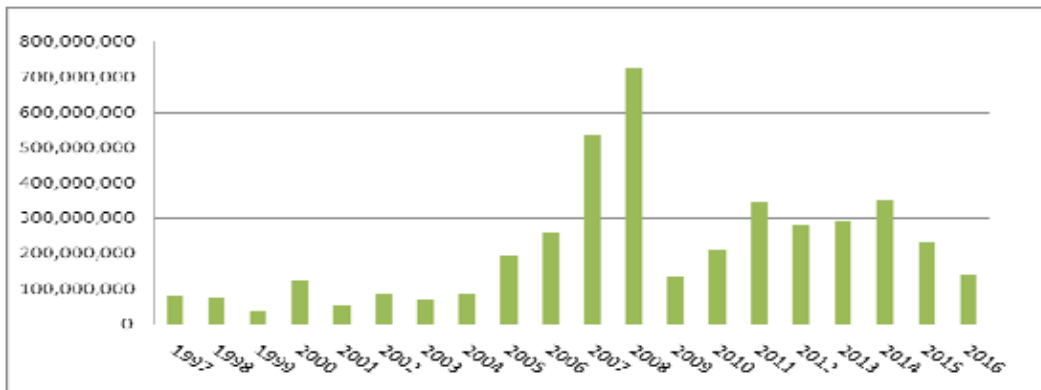
**Drawing 1. Foreign Direct Investment in Georgia, 1997-2016**

Composed: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD> 10.12.2017.

Based on the drawn 1, in Georgia:

1. Until 2005 FDI indicator till 2005 was too low;
2. 2007 is the year of boom (It was the period of boom of the world's overall index at that time);
3. In 2009, the FDI index has significantly fallen as linked to the global financial crisis and the 2008 war with Russia;
4. From 2014, the FDI volume is stable at a higher level.

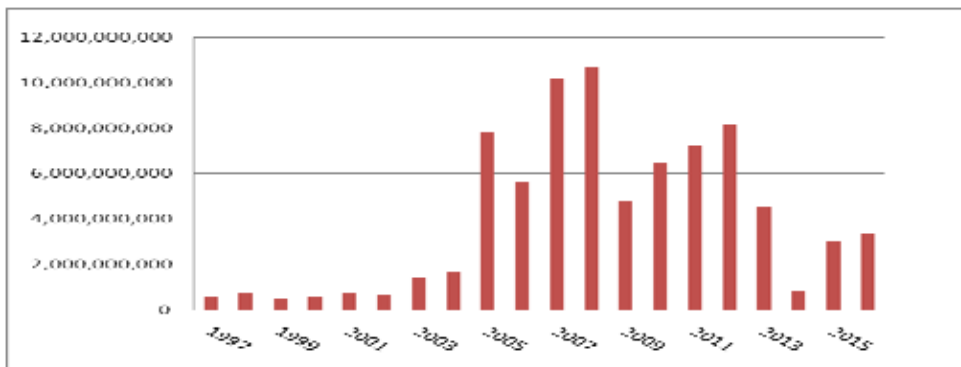
Unfortunately, during the years only a small part of the FDI was spent on developing the national real sector.



**Drawing 2. Foreign Direct Investment in Moldova, 1997-2016**

Composed: <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD> 10.12.2017.

In Moldova, the FDI year of boom is 2008, and in the following years the critically low rates are fixed.



**Drawing 3. Foreign Direct Investment in Ukraine, 1997-2016**

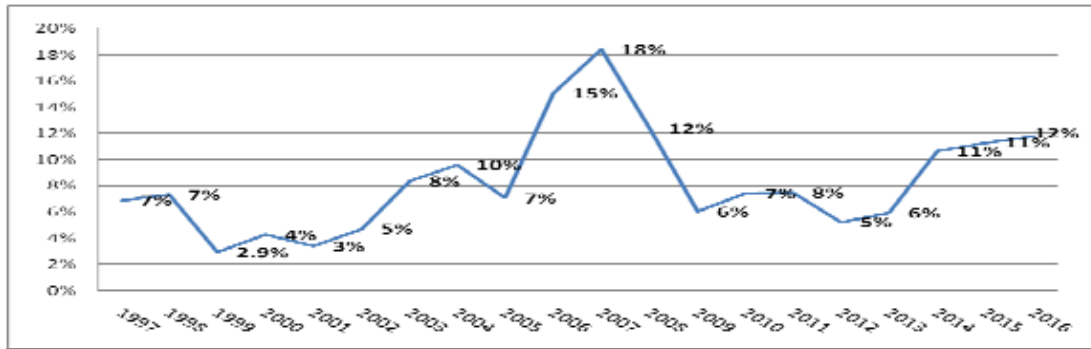
Composed: [worldbank.org/indicator/BX.KLT.DINV.CD.WD](https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD) 10.12.2017.

The highest rate in Ukraine and also the maximum amount of direct foreign investments were fixed in 2008. In recent years, these indicators have been reduced to critical levels, which are also largely related to the failure of war and territorial integrity.

**III. SHARE OF FDI IN GDP (%)**

What are the percentages of foreign direct investments in GDP for different countries?

This indicator is much higher in Georgia than in Moldova and Ukraine. (see drawings 4-6).

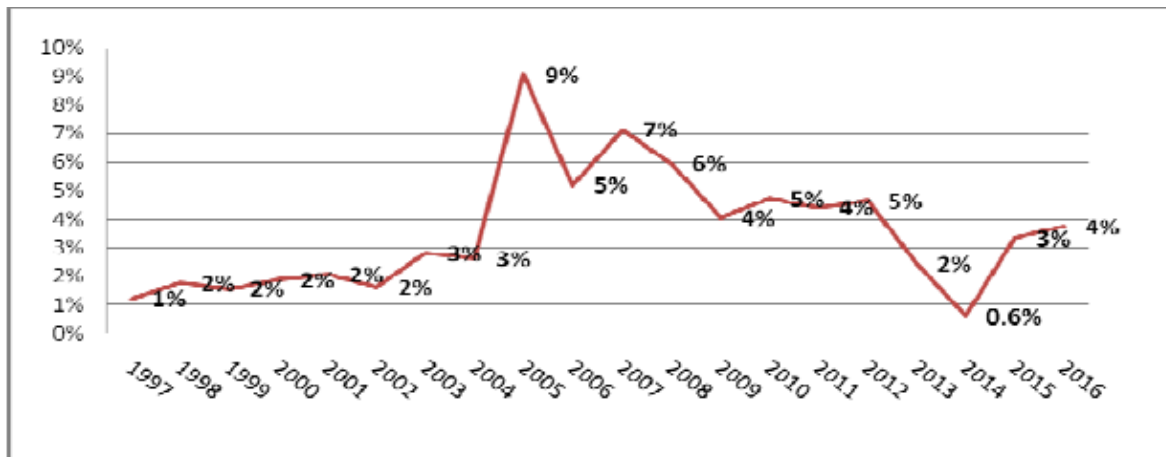


**Drawing 4. Georgia’s FDI percentage in GDP, 1997-2016**

Calculated: worldbank.org/indicator/NY.GDP.MKTP.CD; worldbank.org/indicator/BX.KLT.DINV.CD.WD 10.12.2017.

In 2007, the share of FDI in Georgia (%) was a maxim - 18% of GDP, then fell down, and since 2014 growth has been observed. Initially, the situation was improved by the previous government's reformist image. Subsequently, the strengthening of administrative interventions of the government has caused deterioration of the situation.

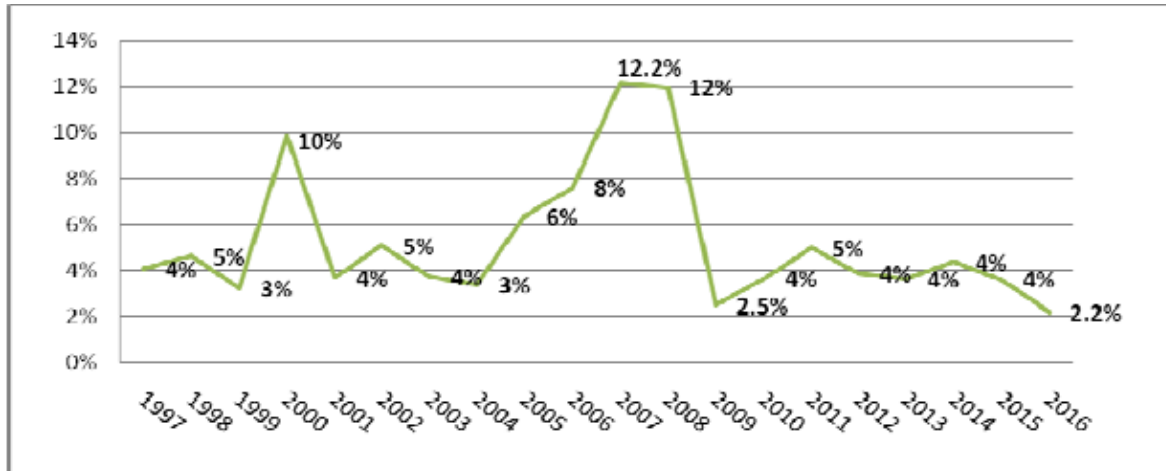
As a result of coming new forces into power, the situation is steadily improving, but it is not enough; The scale of dependence on import has not been reduced yet.



**Drawing 5. Ukraine’s FDI percentage in GDP, 1997-2016**

Calculated: worldbank.org/indicator/NY.GDP.MKTP.CD; worldbank.org/indicator/BX.KLT.DINV.CD.WD 10.12.2017.

In Ukraine, the index has dropped significantly to critical levels in the last decade. Without radical transformation, in the nearest future the country won't be able to meet criteria of EU convergence.

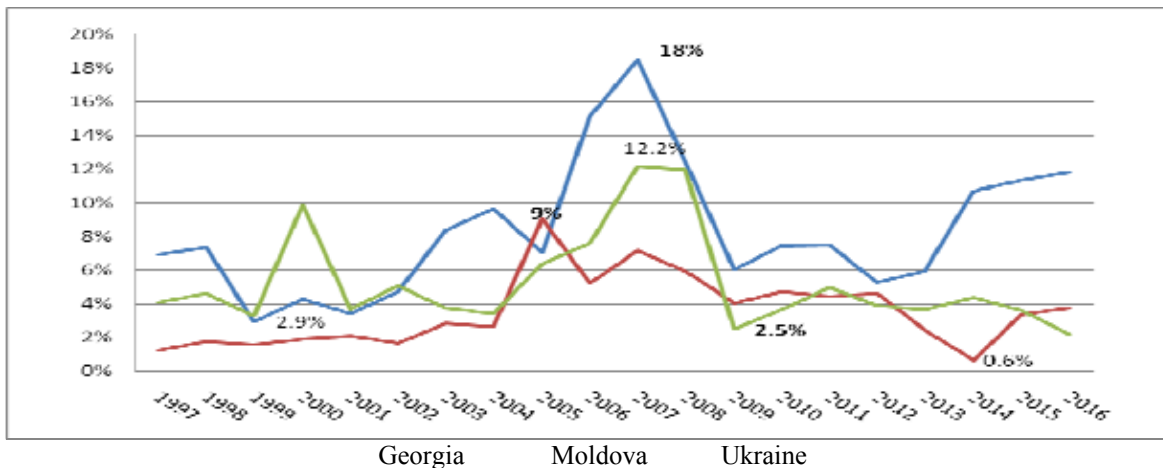


**Drawing 6. Moldova’s FDI percentage in GDP, 1997-2016**

Calculated: [worldbank.org/indicator/NY.GDP.MKTP.CD](http://worldbank.org/indicator/NY.GDP.MKTP.CD); [worldbank.org/indicator/BX.KLT.DINV.CD](http://worldbank.org/indicator/BX.KLT.DINV.CD). WD 10.12.2017.

Unfortunately, Moldova is also characterized by the worst indicators over the past seven years.

Indicators of Georgia, Moldova and Ukraine are shown in drawing 7.



**Drawing 7. Comparable FDI percentage in GDP, 1997-2016**

Calculated: [worldbank.org/indicator/NY.GDP.MKTP.CD](http://worldbank.org/indicator/NY.GDP.MKTP.CD); [worldbank.org/indicator/BX.KLT.DINV.CD](http://worldbank.org/indicator/BX.KLT.DINV.CD). 10.12.2017.

**IV. CONCLUSION**

*FDI volume:*

- In Georgia - the FDI volume was very low until 2005, in 2007 reached the highest level, in 2009 it was in a critic situation, (The main reason: The global financial crisis and the war with Russia inn 2008), since 2014, the FDI volume is stable at a high level. In addition, unfortunately, only a small part of the FDI was used to develop real sector;
- In Moldova – The year of boom of FDI is 2008 year, in the following years critical leves of this indicator are fixed;
- In Ukraine – The highest indicator of FDI is fixed in2008 year, During the last years thi indicator is reduced to the critical level, that is mainly couosed by the war in the country and violation of territorial integrity;

*Share of FDI- (%) in GDP:*

- In 2007, the indicator was maximum 18% in Georgia, then it fell down, but since 2014 growth is fixed out. Initially, the situation was improved by reformist image of the previous government. Than

strengthening of administrative interventions of the government has caused deterioration of the situation. As the new forces have come into power, the situation is steadily improving, but it is not enough; The scale of dependence on import has not been reduced yet.

- In the last decade, the analytical ratings in Ukraine have fallen to critical levels. Without radical reform of the economy and stabilizing the political situation, the country won't be able to meet criteria of EU convergent in the coming years;
- In this regard, unfortunately, Moldova also does not seem to be in a good situation, especially during the last 7 years.

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