

# TRANSNATIONALIZATION OF GEORGIAN ECONOMY IN A CURRENT STAGE: PROBLEMS AND CAUSES

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## ARTICLE INFO

Received 08 April 2018  
Accepted 23 April 2018  
Published 01 May 2018

## KEYWORDS

Transnationalization,  
Internationalization,  
Economics,  
Transnational Corporations,  
Foreign Investments,  
Foreign Trade

## ABSTRACT

In a modern stage of national economic unit-intertwine conditions the process of transnationalization and internationalizations concern to every country, including Georgia. Transnationalization, as a process the important subjects are transnational companies, their business in different countries supports to develop national economy and to integrate faster in international economic system. Transnational corporations are determined as an important resource flow of foreign direct investments.

Transnational corporations play important role within the current global economy. They have larger budget than small countries. Transnational corporations also contribute significantly to individual nations through foreign direct investment, creating thousands of jobs and investing in the companies' infrastructure.

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**Introduction.** Transnationalization is one of the leader tendency in a modern world's economy. Its determined with a capital flow and with opportunities from those countries, where is capital surplus to the countries where factors of productions, such as resources, labor and capital are unused or deficit. Regards all above mentioned transnationalization leads to the equalization of economics. It is profitable for those countries who's corporations implement direct investments, as well for the investment receiving country.

The Transnationality Index, developed by the United Nation Organization (UNO), units part of foreign assets of company with a whole capital value, foreign sales and the foreign employ. The Transnationality Index is distinguished with a high level in the EU, the USA and Japan [World investment report, transnational corporations, Agricultural Production and development, 2009, annex table I,9, p.19]. Transnationalization, as a process the important subjects are transnational companies, their business in different countries supports to develop national economy and to integrate faster in international economic system. Transnational corporations are determined as an important resource flow of foreign direct investments.

Transnational corporation is a corporation that has a home base, but is registered, operates and has assets or other facilities in at least one other country at one time. These corporations have a headquarters in one country, bus also have offices or factories in various other countries. Nowadays transnational corporations are one of the most important subjects of international economics. A rough estimate suggests that the 300 largest TNCs own or control at least one quarter of the entire world's productive assets, worth about 5\$ trillion. They are directly affecting new trends in international business, global competitiveness or international markets as well as economies states.

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At the beginning of the 1990s there were about 37 000 TNCs in the world and they controlled about 170 00 foreign affiliates. 90 %of these TNCs are headquartered in developed countries; The five major home countries being France, Japan, the United Kingdom, Germany and the United States about 60 % of all parent TNCs are in manufacturing, 37 % are in service and 3 % - in primary production such as forestry and mining. Some of the TNCs with names we surly recognize include Wal-Mart, General Motors, Exxon, Royal Dutch Shell, Toyota, Mitsubishi and General Electric.

There are many reasons for a company to transfer some of its production beyond its home base, rather than producing everything at home and then exporting the output. first, products become more sophisticated and differentiated; The main way in which firms used to develop foreign

operations was foreign direct investments (FDI), which means acquiring the controlling interest in foreign production facilities either by purchasing existing facilities or by building new ones.

**Results of the study.** In a modern stage of national economic unit-intertwine conditions the process of transnationalization and internationalizations concern to every country, including Georgia.

After recovery of independency Georgia started to involve in a globalization process and implemented important economic reforms. Reforms aimed to create attractive investment environment in Georgia, through inflow of foreign direct investments and created new working places. Investment environment, is the united factors, which determines opportunities and stimulus in order to expand business dimension, implement investments, create new working places and take part into global competition. At the same time investment environment is that system of socio-economic relationship, which formulated through influence of micro and macro economics interconnection processes. Also cause creation of stable investment motivations.

The foreign direct investments flows and intensification process of trade economic relationships are an important factors for transnationalization of economics in Georgia.

For improvement of investment environment and for attraction of private investment reforms started by Georgian government in 2004 is very important. A wide scale privatization process aims to grow and develop private sector, to attract local and foreign investments, to assimilate resources totally and so on.

After conflict with Russia in South Ossetia foreign direct investments has been grown. Foreign direct investment in Georgia increased by 346.60 USD million in the second quarter of 2017.



Fig. 1. Foreign Direct Investments Dynamics In Georgia 2017

Source: Ministry of Finance of Georgia, Georgia-The Outlook, 2017, p.16

To attract investor, the Georgia offer many tax and legislative benefits. The Georgian economy has been almost fully liberalized and now offers one of the most attractive investment climates in the region. Corruption has been eradicated. According to the Transparency International rating, in Georgia is the 44 least corrupt nation out on 175 countries and country ranked better than Italy and Brazil [www.transparency.org].

There are numerous aspects to take into account when analyzing the investment climate in Georgia. The World Bank called Georgia “the world’s fastest growing economy” [www.doingbusiness.org] in 2007 and the 2008 report assigns Georgia the 18<sup>th</sup> place in the list of the countries where doing business is the easiest. In spite of all the positive sides about our investment climate, there are problems that need to be addressed and resolved – the ideology and the technology used in a regulation of macroeconomics can’t secure investment growth, that’s why it is important to specify and to determine more correctly special purposes of investment rate in a transitional period.

Since 2004 a various TNCs invested in Georgia. The company of Great Brittan purchased magnum deposit and metallurgical factory in Rustavi. The English company «Themes Steel» which for ones part owes 99 % of share Georgian company Energy Industry Complex, at the same time owes 100 % of Georgian steel industry.

The Czech Republic invested in hydroelectric energy. this is one of the largest players among electric energy producers and distributors. Energo-Pro purchased two distribution company and six hydroelectric power station in 132 million dollar, but beside this they are planning to invest more 285 million dollar in this sphere. Through this Energo-Pro will be able to control 62,5 % of total country

energy market. According the agreement Energo-Pro purchased united distribution company of energy and Ajarian distribution companies of energy, which has 780 000 and 95 000 customer and those six hydroelectric power stations are: DzevrulHesi, LajanurHesi, GumbatHesi, ShaorHesi, RionHesi and AtsHesi. A generational power of six hydroelectric power station is more than 350 megawatt. According agreement The Czech Republic will invest 100 million dollar in distribution of energy and in a modernization of electricity grid. Beside this its already planned added 85 million dollar investment in rehabilitation of hydroelectric power stations. The Czech company is planning to build hydroelectric power station with a 100 megawatt generational power. Nowadays, the group's assets are estimated to total over 650 million Euros [ht://www.civil.ge/geo/article.php?id=14736]. The group mainly specializes in hydroelectric energy, owning 12 plants in Czech Republic, 14 in Bulgaria, 15 in Georgia and 5 in Turkey.

In 2017 FDI by sectors in Georgia looks like Transports and Communication 35 %; Real estate 20 %; Financial sector 20 %; Construction 14 %; Hotels and restaurants 2 %; Energy 1 %; Mining 2 % and other sector 4 % [Ministry of Finance of Georgia, Georgia-The Outlook, 2017, p.16]. In spite of there are some competitive advantages in order to investigate in Georgia: such as geographical location, which gives it an important geostrategic position since the oil pipelines transporting Caucasian oil to Europe all pass through its territory, a low corporate tax rate, simplified company registration procedures, the highest literacy rate in the world and so on the infrastructure in rural areas needs improving, fairness in the legislative system has to be ensured, inflation has to be controlled more effectively, special tax incentives should be given to foreign investors, and other kinds of methods should be employed to directly address the problem of attracting FDI to Georgia

Beside creation attractive investment environment and growth of FDI in Georgia, trade plays the most important role in a globalization. Georgia is a country that, because of its geographical position, has always engaged in important import and export activities. Located at the crossroad of Western Asia and Eastern Europe the country has access to important terrestrial and maritime transport routes.

External trade balance is the main index to show an effective external trade. In this direction the main goal of Georgia's external trade is to grow export firstly at the level of import and then to outrun it. Effective export potential in Georgia is various. Georgia is a country that bases a large portion of its internal production on the cultivation of agricultural products like various fruits (grapes, citrus fruits, hazelnuts), the production of alcoholic and non-alcoholic beverages and in mining activities. Nuts are one of the main products exported by Georgia, alongside scrap metal, copper ore, vehicles, fruits and wine. Totally Georgia exports 103 products with revealed comparative advantage.

In January-November 2017 the external trade turnover of Georgia with the EU countries amounted to USD 2565.8 million, grew by 3.0 percent compared to the corresponding indicator of the previous year and the external trade turnover of Georgia with the CIS countries totaled USD 3130.6 million (higher by 30.6 percent compared to January-November 2016).

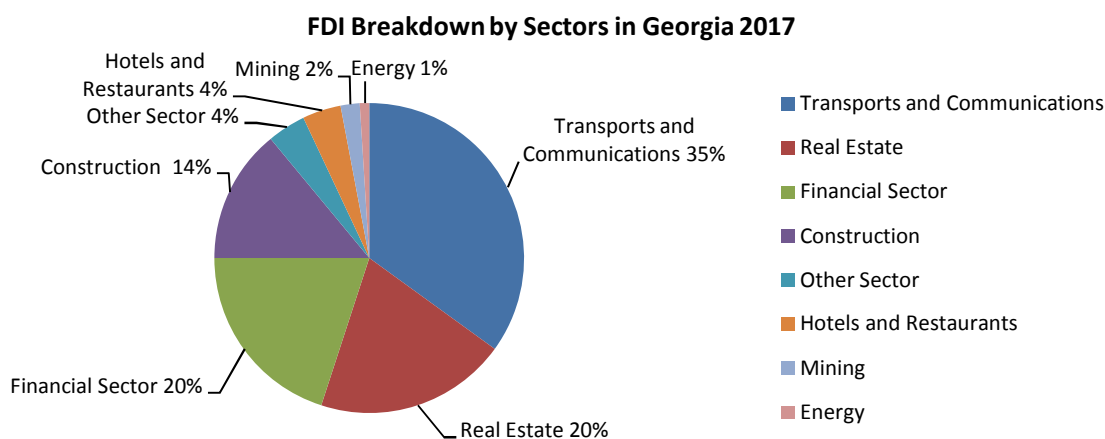


Fig. 2.

Source: National Statistics of Georgia, External Merchandise Trade In Georgia, 2017, p.5

Liberalization of service market, transnationalization of service companies and growing foreign direct investments in service are remarkable changes in the structure of service sector. Services, which developed in the past 30 years into the largest economic sector in many countries, are increasingly transcending national borders.

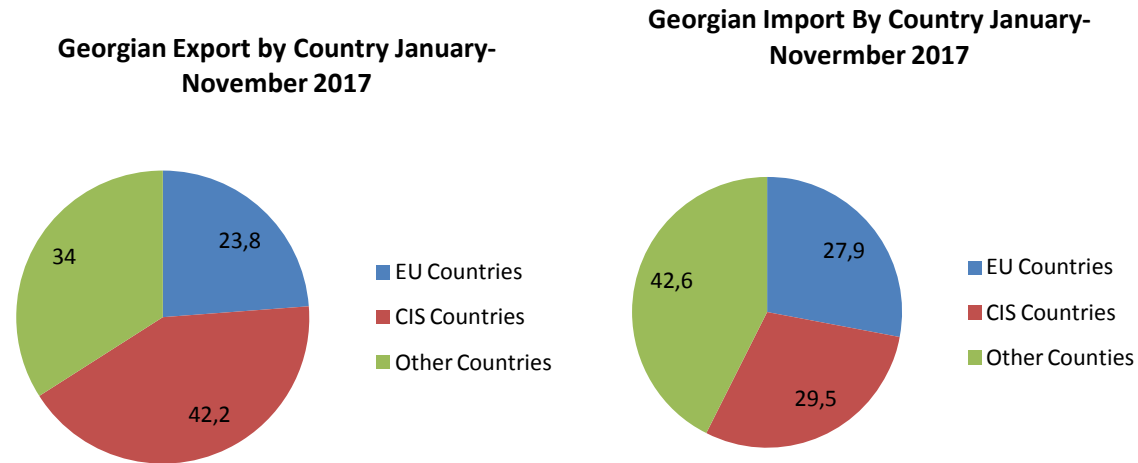


Fig. 3.

Source: The gross domestic product (GDP) measures of national income and output for a given country's economy. [www.tradingeconomics.com](http://www.tradingeconomics.com)

The General Agreement of Trade in Services (GATS), the World Trade Organization's (WTO) set of the multilateral rules governing international trade in service developed during the Uruguay Round, aims to break down the national barriers.

Georgia has been a member of the WTO since July 14, 2000. Like all the countries with economies in transition that joined the WTO at the time, it followed the strategy of liberal trade policies in the accession process to the WTO. This strategy includes: 1) binding of the majority of tariffs at a low current level, or the agreement to the reduction and binding of tariffs at a low level in the negotiation process; 2) the agreement to liberalize the trade regime in agriculture and the service sector, and 3) shortly after acceding to the WTO, signing agreements, such as the Agreement on Government Procurement, which increase competition and transparency in the functioning of national markets. In this case, countries receive the benefits of the liberal trade and investment regime.

In addition, this strategy simplifies negotiations on market access, provides governments with political cover against lobbying of interest groups in favor of raising the level of protection. Before 2004, the growth rate of exports and imports had remained at the same level. There was no sharp inflow of foreign investment during the first years of membership in the WTO. However, starting from 2005, the annual trade growth increased rapidly to 17 % for export and 19 % for import. At the same time, the ratio of trade to GDP in 2011 reached only 59.3 % under the conditions of virtually duty-free trade. This means that these high rates were due primarily to a low base, while the economic activity in the country remained at a relatively low level. The analysis of the dynamics of foreign trade in Georgia shows that the growth of trade comes amid a growing negative trade balance, which implies an increase in import dependence of the country.

**Conclusions.** So important positive effect, which have to come out after transnationalization processes in Georgia is their role in growth of economics.

The main goal policy of economics is to develop private business and to create profitable environment for it. Reforms should be led to liberalization and development of private sector. In spite of Georgian government had attempts through some reforms, some business areas are still less attractive. There are too many reasons, which needs to study, to establish the ways of exploring and to rise an importance of the investment effectiveness.