

The Role Of Investment in Neighboring Countries in the Formation of GDP of Georgia

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Abstract

For the economic well-being of our country (also neighboring countries), it is necessary to improve macroeconomic parameters such as: positive balance of net export, GDP and direct investment growth, stability of national currency, unemployment reduction and other indicators. However, we are well aware, that avoid macroeconomic risks is very difficult, because they are linked to global tendencies and their prediction is most likely impossible, but there is an indicator which, unlike all other indicators, is more or less subject to foresight and GDP is exactly this indicator that most accurately reflects the economic prosperity of each person in the country. From the components included in it, the most important thing are the positive balance of net export and the growth of investments, however, it's very difficult to achieve and maintain a positive balance of net export (Improvement is possible), because it's almost unimaginable in the conditions of market economy. Consequently, there remain only investments, which growth is paramount for improvement of economic prosperity.

It is vitally important for Georgia to attract investments from neighboring countries, because these countries are one of the largest donors for our country. It should be taken into consideration the reality that one of the key components of GDP, net export in relation to neighboring countries is with negative balance and therefore the best way to balance it is to attract foreign investments.

Keywords: GDP, Economic Growth, Investments, Net Exports, Foreign Trade Balance, Neighboring Countries.

As the world practice has shown, one of the best indicator of economic condition (Welfare) in the country is Gross Domestic Product. Its growth rate reflects the real picture of economic development. It is a well-studied economic-statistical indicator, in view the fact, that it is considered the best measure of society's economic well-being.

Investments, as one component of GDP, play an important role in the development of the country's economy and accordingly for develop of well-being of the country. Special importance for Georgia is to attract investments from neighboring countries, because these countries are one of the largest investors for our country. It should be taken into consideration the reality, that one of the key

components of GDP is net export towards neighboring countries is with negative balance, and therefore the best way to balance it is to attract foreign investments.

It is important, that Georgia is one of the most attractive countries for investment. Why is it easy and convenient to implement the investments in Georgia? Because the Grace Tax System in the country makes it attractive for foreign investors. Stable economic development, free and liberal economic policy, only six tax and reduced tax rates, small amount of licenses and permits, simplicity administrative procedures, trade agreements with many countries around the world, a favorable geographical location and many other factors are the solid foundation for starting and developing a business in Georgia.

Foreign direct investments made in Georgia from 2003 to 2018 including amounted to 18 631 927,6 thousand USD (Data included 2018 preliminary forecast 1 232 447,9 thousand USD and transfers of international organizations 326 961,5 thousand USD), from this, the transfer of neighboring countries amounts to 5 033 partially it is 27% (Diagram 1).430,7 thousand dollars, whereas partially it is 27% (Diagram 1).

The share index of investments made in Georgia (2003-2018)

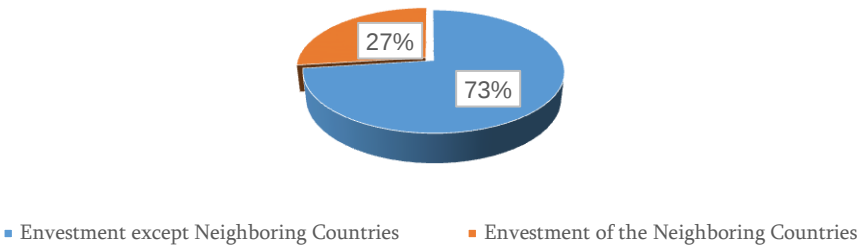
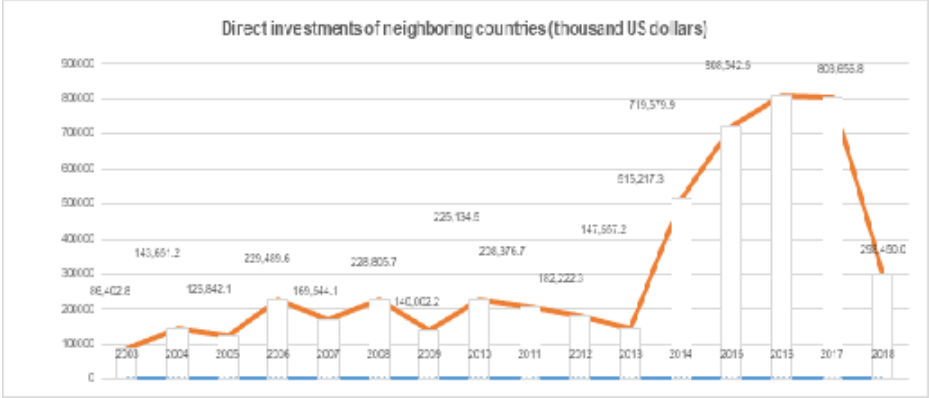


Diagram 1. Source is retrieved on www.geostat.ge on 22.05.2019.

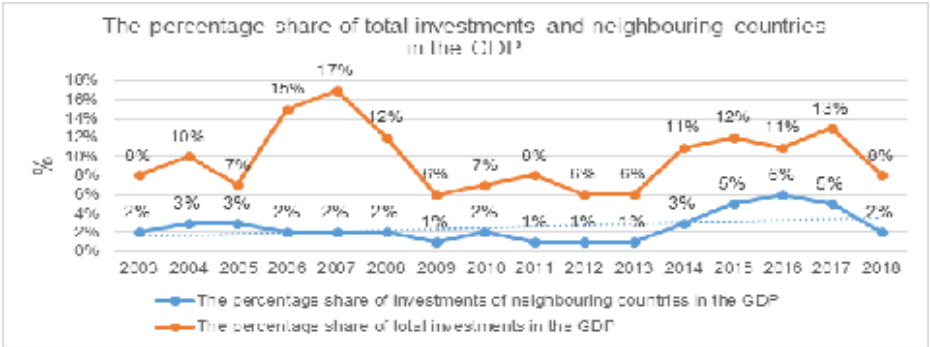
Diagram 1 clearly shows, that direct investment of the neighboring countries is important for the formation of the country's GDP and if we consider by the years we have seen a radical growth trend, especially in 2014-2017 years (Schedule 1).

We can see percentage share of total investments and neighboring countries in the GDP and if we conform these data to fitting of country's Gross Domestic Product,



Tab.1. Source is retrieved on www.geostat.ge on 22.05.2019.

this will be even more clear, how much role cooperation plays with neighboring countries in terms of inflow of investments. Especially in 2014 -2017 years. (Schedule 2).



Tab. 2. Source is retrieved on www.geostat.ge and www.worldbank.org on 22.05.2019

Also one of the main factor is it important to attract foreign investments to Georgia and why does the government granting it a big role in the development of the country's economy, is that through foreign direct investments the Foreign Currency enters the country, which positively affects the lari's rate strengthening. From 2003 to 2018 including, Georgia's export to neighboring countries amounted to 29 190 435.4 thousand US. Dollar, but import – 93 784 006.8 thousand USD.

Diagram 2. Source is retrieved on www.geostat.ge on 22.05.2019.

Foreign trade balance during this period is -64 593 571.4 thousand US. Dollar, which means outflow from the country (Diagram 2). Direct foreign investment has played a major role in balancing this indicator and thus in increase GDP, the total sum of which amounted to 18 631 927,6 thousand dollars from 2003 to 2018 including.

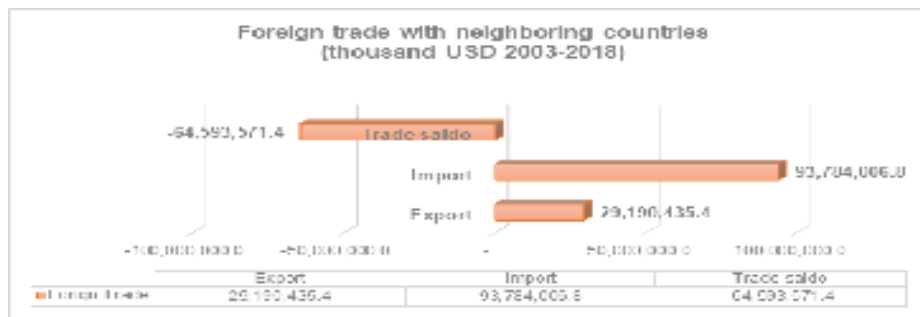
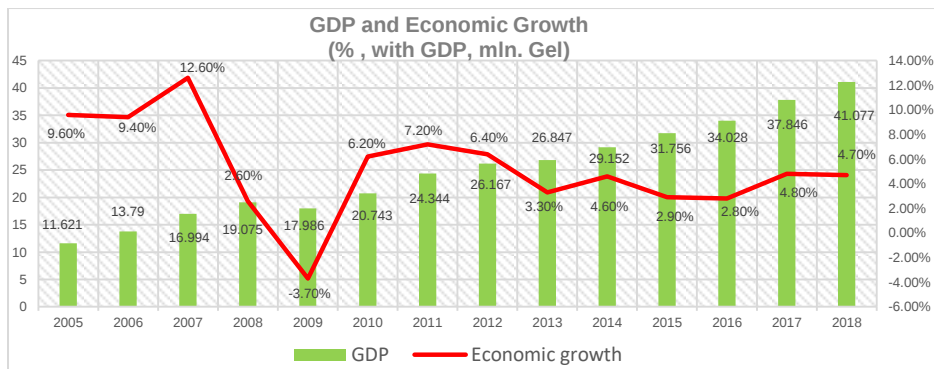


Diagram 2. Source is retrieved on www.geostat.ge on 22.05.2019.

One of the main concepts of macroeconomic theory, which is used to express the positive changes in the economic condition of the country, is economic growth. The annual growth rate of GDP real growth is used as one of its growth indicators. The concept of economic growth is also important because it reflects the nature of economic development. The main thing is its connection with the living standards of the population. Economic growth should ensure raising people's welfare, which is expressed with enhance the volume of the country's wealth per capita.

From 2005 to 2018, if you look at the trend of development of GDP, we obviously determine the correlation connection between it and the economic growth and if we proportionally distribute the impact of GDP growth on economic growth caused by direct investment growth of neighboring countries (It was especially rising from 2014 to 2017 years, when it's the sum in direct investments had a share of 20%. (Schedule1.)) It will be clear how great positive economic influence have the inflow of foreign investments for the country's well-being. (Schedule 3).



Tab. 3. Source is retrieved on www.mof.ge on 22.05.2019.

To become clear, we should represent the funds invested by neighboring countries of Georgia, such as Azerbaijan, Russia, Turkey and Armenia, where the unconditional leaders are Azerbaijan and Turkey (Diagram 3).

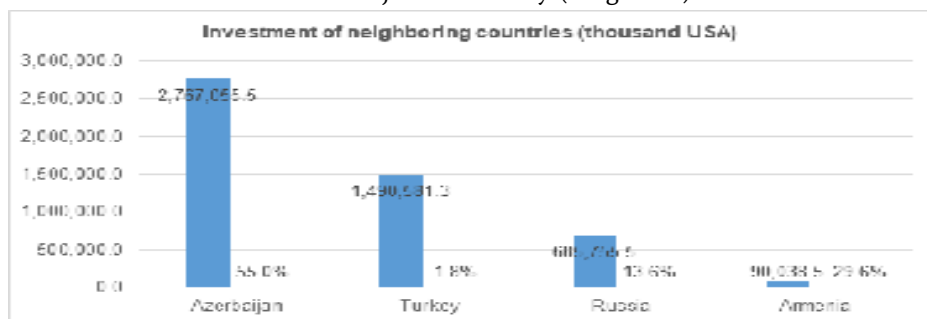


Diagram 3. Source is retrieved on www.geostat.ge on 22.05.2019.

For the economic well-being of our country (also neighboring countries), it is necessary to improve macroeconomic parameters such as: positive balance of net export, GDP and direct investment growth, stability of national currency, inflation and unemployment reduction, price stability and other indicators. However, we are well aware, that avoid macroeconomic risks is very difficult, because they are linked to global tendencies and their prediction is most likely impossible, but there is an indicator which, unlike all other indicators, is more or less subject to foresight and GDP is exactly this indicator that most accurately reflects the economic prosperity of each person in the country. From the four components included in it, the most important is the positive balance of net export and the growth of investments, however, it's very difficult to achieve and maintain a positive balance of net export (Improvement is possible), because it's almost unimaginable in the

conditions of market economy. Consequently, there remain only investments, which growth is paramount for improvement of economic prosperity.

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