



ONCE AGAIN ABOUT INVESTMENT

ABSTRACT. Attraction of foreign investments is of the great importance, as well as merger of local and foreign capitals and organization of their effective placement, which will assist greatly balancing of economic relations in Georgia, as well as growth and development of the industrial field, improvement of social conditions and economical growth. From the point of attracting investments, Georgia has particular priorities in regard with cheap prices on some factors of production and its strategic location. Nowadays it is possible to implement modernization of enterprises by means of existed funds and less investment expenditures and to transfer to the utilization of western technologies of average level. To our mind, special attention shall be paid to the innovative way of development in the investment policy. At the modern stage, driving role is given to the innovative type of development, which, at the same time, considers growth of the role of government in pursuing investment policy. High-developed counties undertake funding of such fields, as: fundamental science and high-risk applied studies, development of scientific-research infrastructure, distribution of new knowledge, education of population. Implementation of these functions, in general, shall be provided at the background of large investments, which doesn't make significant outcome for the investors, but create conditions for rapid growth of production, of course, on the basis of scientific innovations.

Key words: investments, investment environment, investment activity, reinvestment, direct foreign investments, financial crisis, investment policy.

Economy and policy is the integral unit, policy determines progress-regress of economy, and economy – conducting it correctly or incorrectly, reasonably or unreasonably – affect greatly upon political situation of any country. This is the axiom, taught by my great teacher, the academician Vasil Chantladze when I was a student.

Purpose of my present work is to analyze investments, dynamics of investments of investment environment, strategic directions of investments again in the perspective of brief historic, real and perspective development. At the background of financial crisis existed in Georgia, I want to rationale again that of not the only, but one of the most important drivers for economical growth, economical strength and also economical survival and, consequently for solving financial and social problems.

Important monographs and scientific articles having been written about above issues during past years

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and they are being published today [1, 2, 3, 4, 5, 6, 7, 8 and etc].

However complexity, variety of the problems, necessity and opportunities of solving them made me turn back to my theme of interest in the field of investment, innovative and intellectual fields, and particularly solving the tasks given below:

Brief geography and historical review for creation of real investment image of Georgia; stating role of main driving force of investments and investing in implementation of macroeconomic and institutional reforms; stating necessity of creating unified conditions for local and foreign investment activities in long-term perspective of economical development; directing foreign investments towards the projects of strategic importance, as well as the fields and infrastructure of public industry.

Purpose and tasks of the Work determined its architectonics and following sequence of the issues: I. Brief geographic and historical review; II. Economical reality before and after the War of 2008; III. Outcomes of economic reforms and investments; IV. New challenges in the field of investments.

Outcomes of economic reforms and investments. At absolutely every country of transitive economy multiple problems of theoretical and practical importance were formed, timely solution of which is too significant.

20-year-experience of economical and political reformation of post-socialist countries standing on the way of market economy proved that transfer to the market relations, as well as movement to the capitalist system is less effective without foreseeing elements of the modern market economical theory and often – ineffectual. Main task of Georgia today is creation of favorable conditions for development of industry [9,108].

It is necessary to improve investment environment in the country, in order to allow local and foreign investors extend their business in the fields of production and service without any risk. Active involvement of Georgia



into international economical relations was followed by activation of foreign countries at the investment market of the Country. If at the beginning foreign companies made investments only in the projects of strategic importance, now important solid investments were made in such fields of economy as industry, infrastructure, energy, real estate and etc.

Inflow of direct foreign investments was significantly decreased in Georgia from the second quarter of 2012 and at the end of the year it was less for 252 million US Dollars compared with the data of the year 2011 (Diagram 1). After stable improvement of last years, this decreasing turned into the subject of serious concern for the developers of economic policy. As internal capital market of Georgia is still undeveloped, economical growth greatly depends on external sources of financing and namely direct foreign investments. Direct foreign investments are of special importance for long-term growth of economy, as they are used for funding large infrastructure projects, which could not be implemented only with the funding of local banking sector.

40% of credits issued in 2012 by the commercial banks of Georgia was consumer loans; remaining 60% were issued to such sectors, which lightly or support or do not support long term economical growth. As it is known, almost half of the issued credits (48%) fell on the trading sector, which is the index of insignificant deviation from the same trends of last years. Agriculture, considered to be the most important sector for economical development of the countries by the developers of economical policy, received only 1% of total credits issues, while most part of loans was directed to the sectors having limited opportunities for creating jobs. This especially touches upon the sector of commerce, which shall be considered to be consumer loan. At the same time import of production is being increased on which foreign credits are wasted. And the fields of economy, having the biggest potential for import replacement, are left without bank funding (as we can see in the example of agriculture).

To our mind, main reason for absence of large agricultural loans is the market of dysfunctional land. Agricultural land is seldom used for warranty and due to this it is not capitalized. Thus, great share of wealth is not used in production, moreover, term for repayment of loan is too restricted – duration of the term for repayment loans issued in Georgian Lari is 14.2 months, which limits opportunities for investment in long-term projects and initiatives. Georgia still lacks local mechanism of economical growth, with the help of which capital consumption and saving stimulation would be possible giving rise to the growth of local and foreign investments.

Since 2012 important growth in the sectors of trans-

port and communication (18%) and industry (59%) has been essential. Inflow of direct foreign investments into the industry was continued during post-crisis period as well; though these flow in the sector of transport and communication in 2012 made only 35% of the volume of the year 2008. The greatest fall took place in the sectors of mining, real estate and consulting services: compared with the respective data of 2011, direct foreign investments in 2012 were reduced in more than 50% in each of these sectors.

Investments entering the sector of real estate in 2012 made only 10% of the volume of 2008. Taking into account sensitiveness of direct foreign investments towards global shocks and economic downturn, it would be easy to say that reduction of direct foreign investments in Georgia is the result of global trends. According to UNCTAD, developed countries are focused on overcoming of their problems and transitive economies are damaged by means of weak foreign demands. Though, it shall be also taken into account that during post-crisis period, economic downwardness in post-crisis period influenced differently upon investments placed in the economies of developing, developed countries and those with transitive economy. Growth of 2011 was universal, but in 2012 reduction of direct foreign investments took place unequally. Global reduction of direct foreign investment mostly took place in the USA and such European countries, which were mostly affected by the crisis of European Zone. This reduction in total was too serious and it decreased global aggregated data. At the same time, and for the first time in the history, share of the developing world in the flows of direct foreign investments was more than that of the developed countries, and flows of direct foreign investments were consistently being increased in the neighboring country of Georgia – Turkey (which is one of the largest source of money transfers to Georgia).

Attraction of foreign investments is of the great importance, as well as merger of local and foreign capitals and organization of their effective placement, which will assist greatly balancing of economic relations in Georgia, as well as growth and development of the industrial field, improvement of social conditions and economical growth. Development of scientific and practical activities of attracting foreign investments, their placement and effective utilization, simplifying crediting, and long-term credits with low interest rate is too actual at the given background and it is of great economic importance.

At the given stage of market economy no strong layer of Georgian investors is actually formed, to be able to implement large investment policy in Georgia.

In terms of considering foreign investments, it is



necessary to determine which countries provided investment in Georgia, which year and in what quantity, and who is interested in capital investment in Georgia.

Direct foreign investments of Georgia greatly depend on single, large investments. As seen in the Diagram 2, main contributor of direct foreign investments in 2012 was Germany, though the image was different in previous years. In 2005-2011 annual investment of Germany in Georgian economy was 26 million US Dollars at average, which makes 18% of 142 million US Dollars invested by Germany in Georgian economy in 2012. 50% of direct foreign investments in Georgia in 2011 entered from five different sources; as for the year 2009, 56% of direct foreign investments entered from four different sources. In each of these cases, greater share of total volume of direct foreign investments entering the country was made by single large investment. For example, 22% of total volume of direct foreign investments in 2011, as well as in 2009, was made by one country – Holland (in 2011) and United Arab Emirates (in 2009). Holland, Azerbaijan, Turkey and the United Kingdom were relatively stable sources of direct foreign investments; at the same time, notwithstanding the fact that their share was seldom less than 5% of total amount of direct foreign investors, share of these states was significantly fluctuated from year to year. For example, direct foreign investments made from the United Kingdom followed general trend, which reached peak in 2006 with the investment of 187 million US Dollars, reducing sharply in 2009 and it was stabilized to 59 million US Dollars of average annual investments in 2010-2012. Direct foreign investments from Holland didn't follow such general trend – as in 2007, so -2011 these investments were more than 250 million US Dollars, and in each year since 2006 till today it fluctuated from 19 to 136 million US Dollars.

On the one hand, these large investments make statistics unsafe against the changes, which may be caused by losing one large investment. On the other hand, these large investments prevented significantly downward trend, stipulating at the fact that Georgia could not attract relatively less and more stable investments during current and last years.

One of the main positive evens emphasized by foreign experts in evaluation of investment environment of Georgia is the fact that reforms were carried out more rapidly in Georgia in 2003-2012 than other countries of respective economical development.

New challenges in the field of investments .From the point of attracting investments, Georgia has particular priorities in regard with cheap prices on some factors of production. It is possible to implement modernization of enterprises by means of existed funds and less investment expenditures and to transfer to the utilization

of western technologies of average level.

There is cheap labor force in Georgia, which is of special importance for attraction of investments as they provide approximation of prices of other factors of production. For example, energy resources become expensive, internal prices are being approximated to the global ones, giving rise to the growth of industrial costs and, relatively, bringing necessity of using other cheap factors to front.

Though, it shall be also noted that cheap labor force is not the only factor making crucial influence upon promotion of investment processes and their success. Development of new technologies and innovations, which is main condition for reducing industrial costs, requires involvement of qualified work force into the production.

When speaking about double advantage made by investor and, at the same time – by the country (where investments are placed to) in terms of implementation of investments, we shall remember that the profit made by the investor is much higher than that made by the country. Existence of the favorable conditions for development of such fields (mostly restricted territorially), as oil industry, ferrous and nonferrous-metals industry, fresh and mineral water bottling, viticulture, tea, citrus, tobacco and other industries forms quite positive environment for attraction of foreign investments to Georgia.

Great interest of energy markets of the world is attracted by strategic location of Georgia providing too effective and the shortest way for transportation of oil in pipelines through Caspian littoral states, those of Central Asia and Azerbaijan to the Black Sea. Georgia is bordered by the countries holding huge reserves of oil and gas, particularly Russia and Caspian littoral states. From another side Georgia is bordered by Turkey being important consumer of energy resources. Consequently, Georgia is of special interest from the side of oil and gas producing countries, as well purchasers of the said products.

Supsa Terminal and Azerbaijan Pipeline construction process is noteworthy, which identified quite high rates of inflow of foreign investments to Georgia.

Alongside with reduction of the volume of direct foreign investments at the global market, uncertainty in political future of Georgia formed with the elections of 2012 and strained relations with Russia, frightened potential investors. This assumption is supported by the fact that inflow of direct foreign investments especially reduced in the third and fourth quarters of 2012. According to UNCTAD, international investors hold great reserves of money. Inflow of direct foreign investments should be increased after Presidential Elections of October 2013 if not political instability and doubt of investors in competence of the new regime and, consequently, future strength of Georgian currency in the future.



Though, international investors will not hurry to transfer their available cash resources into new and long-term direct foreign investments until instability of international financial markets and uncertainty of Georgian future. Inflow of direct future investments will be significantly depend on how fast global economy comes out of recession and how successfully Georgian government continues and strengthens effective investment policy existed till today. Fortunately, new government elected at the end of 2012 recognized importance of direct foreign investments for development of economy of the country and expressed readiness for assistance of their attraction by carrying out the measures for protection of investments and creation of stabile and predictable business environment.

To my mind, economical perspective of Georgia and the region in total remains to be favorable and it conforms to the process of slow coming out of the global financial crisis.

It has been mentioned that growth of direct foreign investments in Georgia in 2014-2015 may not be considered to be positive event, as its greater share is reinvested capital not entered from abroad but being financial resources circulated in local economy.

We will appeal to the arguments of another group of economists, according to which “reinvestment” was integral part of direct foreign investment of last years (Table 1).

In 2014, direct foreign investments, excluding reinvestment rate, compared with the similar index of last year, is increased almost in 50 percents. Moreover, if not reinvestments, given resources would leave the country, that would have much more negative effect than reinvestment [10, 33].

Total index of investments of 2014 disappointed many skeptics. Particularly, according to preliminary data of Georgian Statistics, volume of direct foreign investments carried out in Georgia in 2014 made 1272 million US Dollars which is more than preliminary data of 2013 in 39 percents and it is more than specified data of the same year in 35 percents.

According to the direct foreign investments carried out in Georgia in 2014, top three largest investor countries are the Netherlands, Azerbaijan and China. According to the preliminary data of 2014, their share in total direct foreign investments is 65 percents. Percentage structure of the countries according to the implemented direct foreign investments is given in the sectorial Diagram 3, according to which the Netherlands occupies the first position with 26 percents, Azerbaijan comes second – 24 percents, and China is the third with 15 percents.

After the Top Three, the most investments were brought from the United Kingdom (114 million US Dollars), then Luxemburg (85 million US Dollars), volume of investments from the USA and Russia is also being increased.

Share of three largest sectors according to the implemented direct foreign investments made 64 percents in 2014. The most of direct foreign investments were implemented in transport and communication and made 343 million US Dollars, which is 27 percents of total direct foreign investments. Construction comes next with 295 million US Dollars and processing industry is the third with 174 million US Dollars. See the Diagram 4.

Most of investments entered Georgia in the second half of last 2014 in the amount of 508 million US Dollars, and in the fourth quarter it was 349 million US Dollars, which was more than the data of the 4th quarter

Table 1. Reinvestment place in direct foreign investment

	2010		2011		2012		2013		2014	
	%	Million USD	%	Million USD	%	Million USD	%	Million USD	%	Million USD
Share of reinvestments in foreign investment	28%	229	30	336	13	120	28	268	21	266
Direct foreign investments excluding reinvestment rate	-	585	-	781	-	792	-	674	-	1006



of previous year in 54%.

According to the preliminary data, volume of direct foreign investments implemented in Georgia made 175 million US Dollars in the 1st quarter of 2015, which is less for 34% than preliminary data of the 1st quarter of the year 2014.

According to the direct foreign investments Azerbaijan (34%), Turkey (15%) and Russia (13%) are in the top three. Following positions are occupied by the Netherlands, Denmark and the USA, relatively – with 22, 21 and 19%.

China is not seen in the leading lines of the data, which occupied leading position in the last quarter of 2014 and, consequently, Georgia is left relying on its traditional investors.

Share of the largest sectors (per implemented direct foreign investments) in the 1st quarter of 2014 made 97%. The most part of the direct foreign investments were made in the fields of transport and communication and equaled to 146 million US Dollars, which is 83% of total direct foreign investments. Second position is occupied by the construction sector with 24 million US Dollars, and mining sector comes third with 18 million US Dollars. Direct foreign investments carried out in banking sector in the 1st quarter of 2015 were stipulated to be negative and made 18 million US Dollars.

Instable legislative environment and deferred amendments, new migration policy, delayed process of the reforms of labor code, prohibition of selling land to foreign citizens, new regulations of labor migration – these incomplete and not detailed list of the problems, named to be the factors worsening investment environment in the final report of two-year work of non-governmental organizations [11, 173]. Unfortunately, reduction of investment activity, as well as money transfers, is one of the reasons for currency problems, faced by the country in the 1st quarter of 2015.

Reduction of investment activity in 34% is the hardest message for the Country. Unfortunately, there are no signs for its adequate perception.

Inflow of direct foreign investments in the future will greatly depend on the fact how fast global economy comes out of the recession and how successfully Government of Georgia continues and strengthens effective investment policy existed till today. Notwithstanding achieved particular success, Georgia shall sharply diversify and extend export in order to continue impressive economical growth, which took place in the Country during last decade [12,60].

Summing up what has been said, Georgia will have to pursue more aggressive policy for attraction of investments and even in such case there is no guaranty for increasing direct foreign investments, until the West is in

recession process. At the same time, low level of direct foreign investments may promote growth of local savings, which will be added to formation of total capital; formation of total capital is in positive correlation with the volume of direct foreign investments in the economy and when inflow of capital is decreased and total demand on money is maintained or increased, the price is risen, which, in its turn, promotes stimulation of savings.

Thus, It will be impossible to speak about improvement of economical growth rate if no important investment boom takes place in Georgia. For this purpose, investment environment needs to be improved;

- Though in recent years business was released from governmental pressure, new legislation regulating competition was adopted, but investment attractiveness of the country is greatly prevented by instable legislative environment and delayed and endless changes;

- Migration policy shall be changed in timely manner; prohibition of selling land to the foreigners, conflict of interests shall not take place. These factors prevent greatly entering of reliable and qualified investors;

- Adoption of laws restricting competition at the markets and giving priorities to separate companies shall be maximally restricted;

- Harmonization of Georgian legislation with the laws of European Commission and regulations of international financial institutions shall be continued, especially in direction to environmental protection, rights related with land ownership of local population, energy, housing and compensation of local population;

- Activation of investment policy of the government under modern conditions is the most important condition for transferring Georgia to the sustainable economical development. Particularly, the most important lines of state investment policy are: strengthening assistance of prior directions of economical development, creation of legislative and economical environment of the institutions promoting investments in real sector of economy, agreement of investment policy of the center and regions.

- To our mind, special attention shall be paid to the innovative way of development in the investment policy. At the modern stage, driving role is given to the innovative type of development, which, at the same time, considers growth of the role of government in pursuing investment policy. High-developed countries undertake funding of such fields, as: fundamental science and high-risk applied studies, development of scientific-research infrastructure, distribution of new knowledge, education of population. Implementation of these functions, in general, shall be provided at the background of large investments, which doesn't make significant outcome for the investors, but create conditions for rapid growth of production, of course, on the basis of scientific innovations.

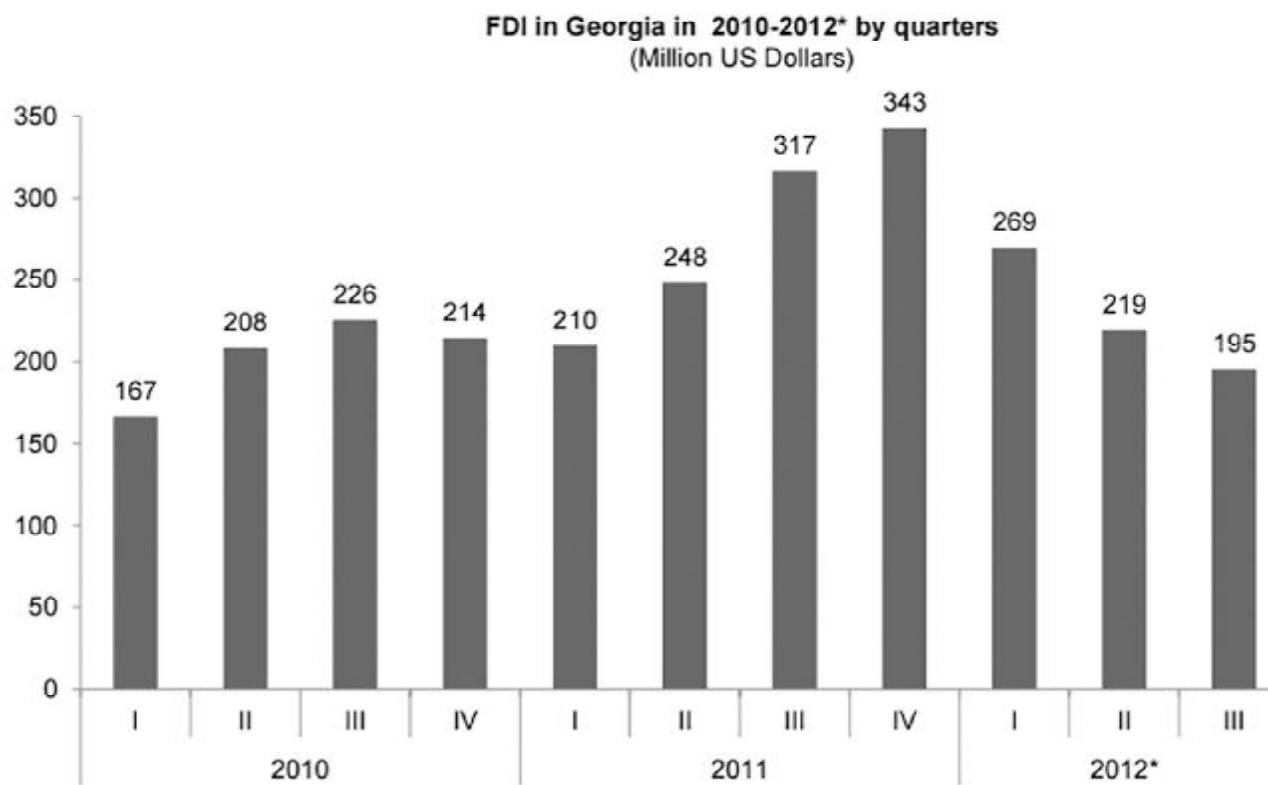


Diagram1.http://www.geostat.ge/cms/site_images/_files/english/bop/FDI_2012Q3-Eng.pdf

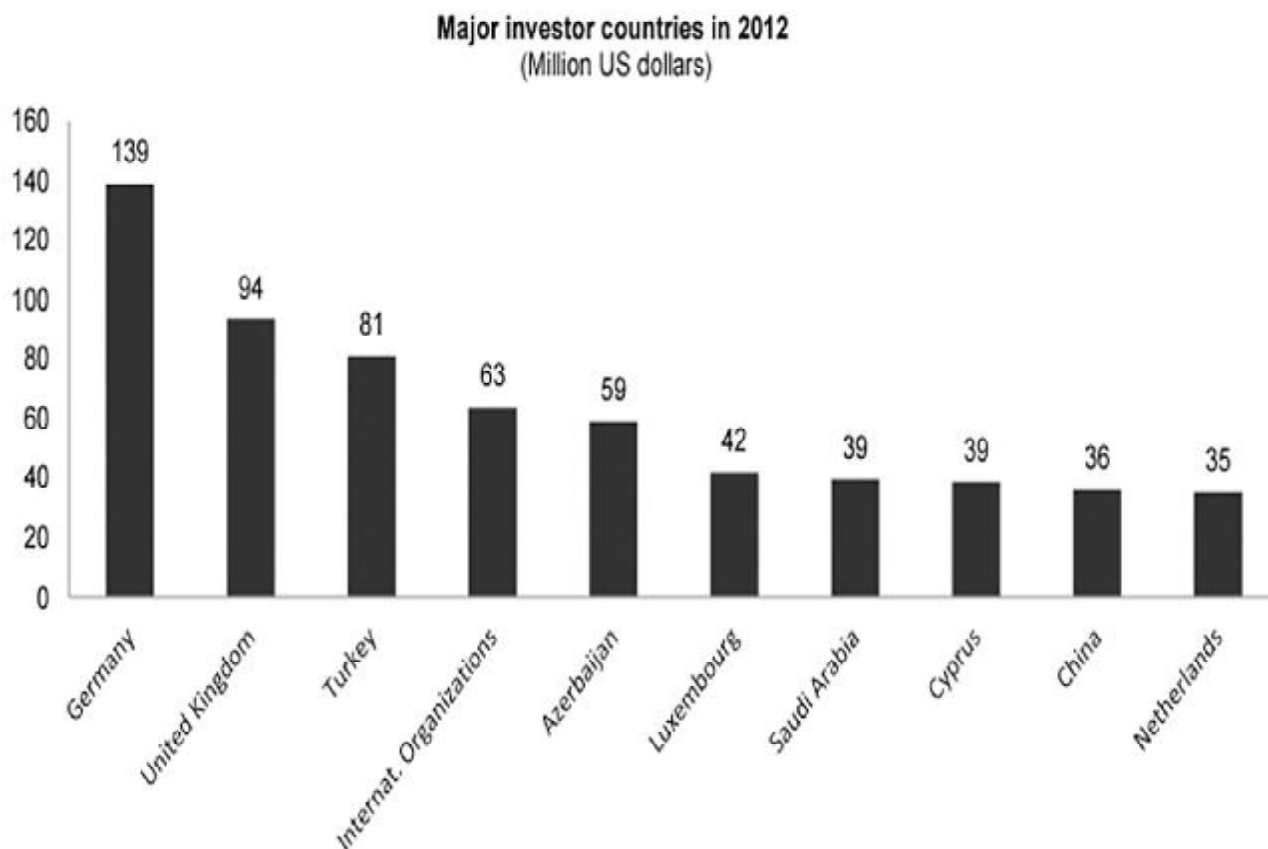


Diagram 2. Major investor countries in 2012



FDI by major investor countries in 2014

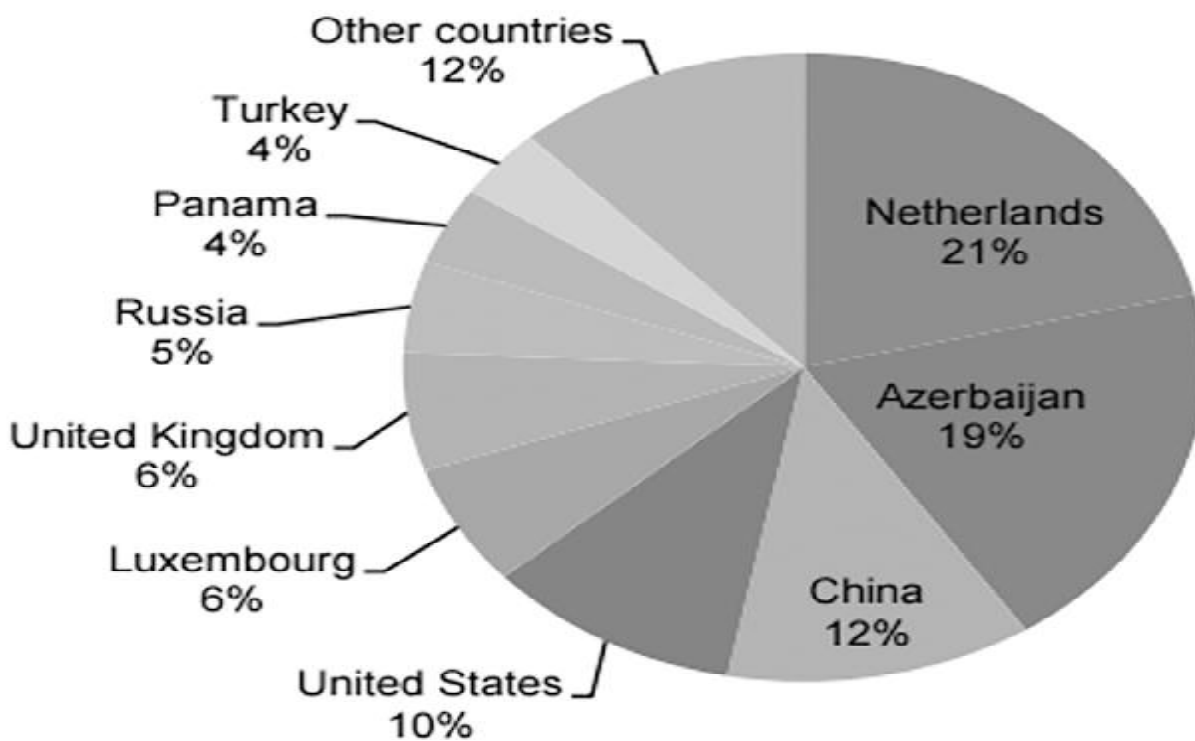


Diagram 3 FDI by major investor countries in 2014

FDI by major economic sectors in 2014

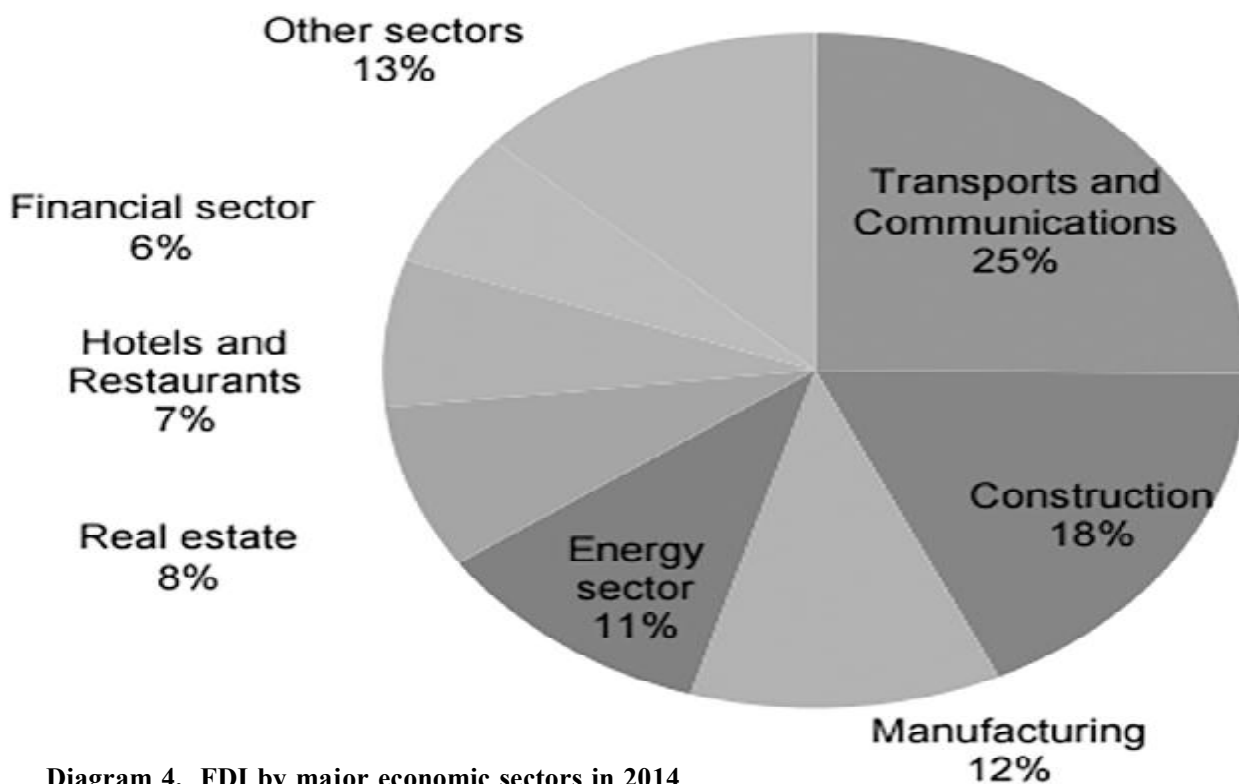


Diagram 4. FDI by major economic sectors in 2014



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საქართველოსათვის ძალიან მნიშვნელოვანია უცხოური ინვესტიციების მოზიდვა, ადგილობრივი და უცხოური კაპიტალის შერწყმა და მათი ეფექტიანი განთავსების ორგანიზაცია, რაც ღიდად შეუწყობს ხელს საქართველოში ეკონომიკური ურთიერთობების დაბალანსებას, ეკონომიკის რეალური სექტორის დარგების აღორძინებასა და განვითარებას, სოციალური მდგომარეობის გაუმჯობესებასა და ეკონომიკურ ზრდას. ინვესტიციების მოზიდვის თვალსაზრისით საქართველოს გააჩნია მიმზიდველი საინვესტიციო გარემო და გარკვეული უპირატესობანი წარმოების ზოგიერთი ფაქტორის სიააფის და მისი სტრატეგიული მდებარეობის მხრივ. დღეისათვის არსებული ფონდების საშუალებებით და ნაკლები საინვესტიციო ხარჯებით შესაძლებელია განხორციელდეს საწარმოთა მოდერნიზაცია და გადასვლა საშუალო დონის დასავლურ ტექნოლოგიათა გამოყენებაზე. ჩვენი აზრით, თანამედროვე ეტაპზე ინვესტიციურ პოლიტიკაში განსაკუთრებული ყურადღება უნდა მიექცეს და წარმმართველი როლი დაეკისროს განვითარების ინოვაციურ ტიპს, რომელიც ამავე დროს გულისხმობს სახელმწიფოს როლის ზრდას ინვესტიციური პოლიტიკის გატარებაში. მაღალგანვითარებული ქვეყნები თავის თავზე იღებენ ისეთი დარგების დაფინანსებას, როგორიცაა: ფუნდამენტური მეცნიერება და მაღალრისკიანი გამოყენებითი კვლევები, სამეცნიერო-კვლევითი ინფრასტრუქტურის განვითარება, ახალი ცოდნის გავრცელება, მოსახლეობის განათლება. ამ ფუნქციების განხორციელება მთლიანობაში უნდა განხორციელდეს მსხვილმასშტაბიანი ინვესტიციების ფონზე, რომელიც ინვესტორისათვის თვალშისაცემ კომერციულ უკუგებას არ იძლევა, მაგრამ შექმნის პირობებს წარმოების სწრაფი ზრდისათვის, ცხადია, მეცნიერულ სიახლეთა საფუძველზე.