DYNAMICS OF FOREIGN DIRECT INVESTMENTS IN POST-PANDEMIC GEORGIA

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Summary. Creating an attractive investment environment is the best opportunity for the sustainable development of the Georgian economy. After the end of the Covid-19 pandemic, Georgia developed a government policy to revive the economy and overcome the crisis. Although the first signs of overcoming the economic crisis are already visible, including increased economic growth and investment rate, there is still a long way to go before a full-fledged economic recovery. The paper presents the main trends of global investments, the investment environment of Georgia is studied, and the country’s investment opportunities are identified according to individual regions. The main directions of the investment policy, the problems of legal regulation of investments are analyzed, conclusions and recommendations are presented for the attraction of direct foreign investments and the further development of the Georgia economy.

Keywords: post-pandemic economy, investments, investment opportunities.

Introduction. For the economic growth of any country in the world, on the one hand, an attractive and transparent investment environment is significant, and on the other hand, macroeconomic stability, high quality of governance, correct economic policy, and reduction of geopolitical risks, which will contribute to the improvement of the investment environment. Like the rest of the world, investments are a crucial source of economic growth in Georgia. The need to attract investments is particularly high in order to overcome the post-pandemic crisis, increase exports and reduce unemployment in the medium and long term.

Georgia is a country with a small economy. In order to interest investors, we must first create an investment environment in which the main role belongs to the state. Business and community involvement is also significant. If we do not offer
significant export opportunities to investors, it will naturally be difficult to attract investments. We need to use the export opportunities properly and create a product or service that will have great export potential. That, in turn, ensures more interest from investors. In determining the overall investment opportunities of the country, it is essential to assess the potential of individual regions.

The purpose of the study is to study the dynamics of direct foreign investments in post-pandemic Georgia, to determine the investment opportunities of the regions of Georgia, to evaluate the Georgian investment policy, and to develop recommendations for improving the investment environment.

**Methodology.** In the research process, relevant scientific literature, statistical data, annual reports, and policy documents were analyzed using quantitative-statistical methods.

**Literature review.** Economic growth is the basis of investment growth. Although the global economy began to recover in 2021, the recovery of the pre-pandemic economy has not yet been achieved in many countries around the world. High inflation, supply chain disruptions, and the Russia-Ukraine war have further slowed global economic growth and reduced investments [1].

According to the forecast of the World Bank, global economic growth will be 1.7% in 2023 and -2.7% in 2024. The economic downturn is expected to be widespread, affecting 95% of advanced economies and about 70% of developing countries and markets [2]. In the second half of this year, the tightening of monetary policy to reduce inflation and the increase in borrowing costs in advanced economies may cause financial problems in vulnerable developing economies as well as in developed countries. Naturally, the weakening of economic activity lowers the mood of investors and weakens their confidence, which can reduce exports and suppress the movement of capital [3].

UNCTAD World Investment Report 2023 reveals a widening annual investment deficit that developing countries face as they work to achieve the Sustainable Development Goals (SDGs) by 2030. The gap is now about $4 trillion per year – up from $2.5 trillion in 2015 when the SDGs were adopted.

### Global Foreign Direct Investment (FDI) 2021 and 2022
(billions US dollars, per cent)

<table>
<thead>
<tr>
<th>Region</th>
<th>2021</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td>World, -12%</td>
<td>1,295</td>
<td>1,275</td>
</tr>
<tr>
<td>Developed economies, -37%</td>
<td>378</td>
<td>397</td>
</tr>
<tr>
<td>Europe</td>
<td>-107</td>
<td>31</td>
</tr>
<tr>
<td>North America, -26%</td>
<td>338</td>
<td>435</td>
</tr>
<tr>
<td>Developing economies, +4%</td>
<td>615</td>
<td>821</td>
</tr>
<tr>
<td>Africa, +44%</td>
<td>45</td>
<td>60</td>
</tr>
<tr>
<td>Latin America and the Caribbean, +51%</td>
<td>208</td>
<td>138</td>
</tr>
<tr>
<td>Asia, 0%</td>
<td>562</td>
<td>562</td>
</tr>
</tbody>
</table>

*Source: UNCTAD, FDI/MNE database ([https://unctad.org/fdistatistics](https://unctad.org/fdistatistics))
After a strong rebound in 2021, global FDI fell by 12% in 2022 to $1.3 trillion, due mainly to overlapping global crises – the war in Ukraine, high food and energy prices, and soaring public debt. The decline was felt mostly in developed economies, where FDI fell by 37% to $378 billion. The decline was mainly a result of lower volumes of financial flows and transactions in developed countries. Flows to developing countries grew by 4% – albeit unevenly, with a few large emerging countries attracting most of the investment while flows to the least developed countries declined [4].

Investment policymaking activity surged in 2022 as many countries adopted measures to counter an expected economic downturn. The number of measures favorable to investment is almost doubling from the previous year and regaining their pre-pandemic share of total measures. The global environment for international investment is still challenging in 2023. Geopolitical tensions remain high, adding to investor uncertainty. The necessity of perfecting the investment promotion policy in developed and developing countries was highlighted. Most measures adopted by developing countries focused on facilitation and opening new sectors or activities to FDI. In developed countries, measures included investment facilitation initiatives and the introduction of incentives to promote renewable energy and other climate-related investments [5].

In the post-pandemic period, investments in renewable energies are especially increasing. In 2022, the top 100 sovereign wealth and public pension funds monitored by UNCTAD improved their disclosure of climate actions, including investment in sustainable energy and divestment from fossil fuels. Two-thirds of reporting funds have committed to achieving net zero in their investment portfolios by 2050.

The top 10 developing economies by international investment in renewable energy look like this:

<table>
<thead>
<tr>
<th>Top 10 developing economies by international investment in renewable energy, 2015–2022</th>
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<tbody>
<tr>
<td>Brazil</td>
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<tr>
<td>114.8</td>
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<td>32%</td>
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*Source: UNCTAD, based on information from The Financial Times, fDi Markets (www.fdimarkets.com), and Refinitiv SA.*

Investments in the energy sector are increasing even in post-pandemic Georgia. In 2022, its share in direct foreign investments amounted to 7.5%, and by the beginning of 2023 - 7.9% [6].

The Black Sea underwater electric cable project, which connects Georgia and Azerbaijan on the one hand, and Romania and Hungary on the other, deserves
special attention. That is a massive investment, the implementation of which will contribute to the strengthening of energy security of Europe and the South Caucasus region, the development of the renewable energy sector, and the increase of transit opportunities between these regions.

**Discussion/Results.** Investments are a significant means of inflow of capital, knowledge, and technology in our country, helping to create jobs and stimulate rapid economic growth. Despite the fact that the volume of direct foreign investments in Georgia has been high over the years, export-oriented investments are still a priority for the country, which will contribute to the transfer of knowledge at the local level and the development of new directions. Qualitative improvement of foreign direct investment will help increase the impact of foreign direct investment on gross domestic product, productivity, and net exports.

Like the rest of the world, the inflow of foreign investments in Georgia decreased significantly during the initial stage of the pandemic. In 2020, foreign direct investments amounted to 572.0 million US dollars, which was 57.2% less compared to the figure of the same period of the previous year [7].

The situation has relatively improved since 2021. In 2021, the volume of foreign direct investments amounted to 1,241.8 million US dollars, which was 110.6% more than in 2020. In 2022, the volume of foreign direct investment amounted to 2.0 billion USD, which was 61.1% more than in 2021. According to Saxstat, the increase is due to the increase of two components of direct foreign investments – share capital and reinvestment rate [8].

According to the information of the National Statistical Service of Georgia, the growth trend of direct foreign investments continues in 2023. In the first quarter, compared to the corresponding period of the previous year, the share capital increased by 17% and was 300.2 million dollars, which is 60.5% of the total foreign direct investments. The reinvestment rate decreased annually and amounted to 189.6 million dollars, and its share was determined by 38.2%.

### Foreign Direct Investments in Georgia 2013-2023 (Million USD)

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<tbody>
<tr>
<td>Total</td>
<td>1 039.2</td>
<td>1 837.0</td>
<td>1 728.8</td>
<td>1 654.0</td>
<td>1 990.5</td>
<td>1 351.5</td>
<td>1 352.2</td>
<td>589.8</td>
<td>1 241.8</td>
<td>2 000.0</td>
<td>496.6</td>
</tr>
</tbody>
</table>

*Source: https://www.geostat.ge/

In 2022, in terms of investments made in the country, the United Kingdom topped the list with 428.3 million US dollars. Then come Spain - with 367 million US dollars; USA – with 163.9 million USD; The Netherlands – with 145.7 million US dollars; Ireland – with 120.9 million US dollars; China – with 108.5 million US dollars; Turkey - with 106.5 million US dollars; Czech Republic – with 86.4 million US dollars; Russia - with 71 million US dollars; Japan – with 68.7 million US dollars; The rest of the countries - with 333.1 million US dollars. Last year, the largest share of direct foreign investments – 526.4 million USD came from financial and insurance activities. It is as follows: real estate - with 406.9 million US dollars; Water supply and waste management - 197 million US dollars; Art, entertainment and recreation – with 173.1 million US dollars; Energy - with 149.1 million US dollars and others.

In the first three months of 2023, the distribution of the largest direct foreign
investments by economic sectors looks like this:

- Manufacturing industry sector - 226.3 million dollars (45.6% of total foreign direct investments);
- Trade sector - 90.7 million dollars (18.3%);
- Transport sector - 43.3 million dollars (8.7%).

FDI by major economic sectors in Q1 2023(%), preliminary data (Georgia)

According to the foreign direct investments made in Georgia in the first quarter of 2023, the top three investor countries were determined. The Netherlands was in first place - with 239.6 million dollars, which is 48.2% of the total foreign direct investments. Japan was in second place - with 63.2 million dollars (12.7%), and in third position was the USA - with 54.7 million dollars (11%).

In order to promote investment activities, the Government of Georgia has developed "Vision 2030 - Development Strategy of Georgia", according to which by
2024, the Government of Georgia will ensure the achievement of 6% of direct foreign investments in relation to GDP, and in the long term, parallel to the reduction of the current account, the stabilization of direct foreign investments and maintaining it at the level of 5% by 2030 [9].

In response to the increased competition between countries to attract investments due to the COVID-19 pandemic, the government of Georgia plans to offer investors new and more favorable investment proposals. An important task is to promote Georgia’s investment opportunities and bring the leading companies of the global industry to the country. Until 2030, it is planned to study 20 000 companies from priority sectors and identify prospective investors with whom proactive communication will take place. Significant attention will be paid to cooperation with companies that advise international companies and help them select countries for new investment projects. In order to popularize the country’s investment environment and priority sectors, the active use of international media channels will continue, as well as bringing business media and business associations to Georgia according to priority sectors. The country has already introduced a new state program for foreign investment promotion - the FDI grant, which involves the qualified expense reimbursement for companies after fulfilling the investment obligation. The development of new mechanisms, such as tax benefits, preliminary training of the workforce, and other initiatives are also being considered.

To improve access to finance, the Government of Georgia implements programs in the direction of loan/lease interest co-financing, guarantee provision, and grants. The management and disposal of state property and the privatization process will continue, which will help attract local and foreign investments. It is essential to prepare/offer investment packages for potential investors. In this direction, the state project "The 100 Investment Offers for Business", which has been implemented since 2019, is significant. Offers are intended for local and international investors, both large and small businesses. The project envisages the simultaneous holding of 100 parallel auctions and the privatization of state property with simplified procedures within the framework of which new enterprises, hotels, and institutions with other types of economic activity will be opened in currently inactive buildings. The total initial value of the property to be sold at the auction is 150 million GEL. As a result of the implementation of the project, 2 500 new jobs will be created, and the expected investment volume will be approximately 200 million GEL. The list of privatized objects includes real estate owned by the state throughout the country and includes Tbilisi and about 45 cities and municipalities of Georgia. The list for privatization includes industrial facilities, warehouses and farms, medical facilities, sports infrastructure, hotels, and other state property of interest to developers [10].

Since February 2020, the state program - "The 100 Investment Offers for Business" has added a mineral extraction license component, within the framework of which a hundred commercially attractive deposits were selected and placed on auction in different regions of Georgia. Deposits include minerals that have export or import substitution potential, including various types of metals, mining chemical raw materials, building materials, polymetals, underground water, etc. The 100 mineral licenses offered to the business are an initial value package of at least 82 million GEL, and the expected investment volume is at least 120 million GEL [11].
For determining the investment opportunities of Georgia, it is significant to assess the investment potential of individual regions. Each region and municipality of our country has unique characteristics that attract investors and create the basis for new economic activity. With the support of the local authorities and the initiative of the International Organization for Migration (IOM), the search for information on investment opportunities in the Imereti and Kakheti regions, systematization, and provision of access to the Georgian diaspora began and is ongoing [12].

Investment opportunities include material resources (land, buildings, minerals, etc.), traditional production and innovative technology development, integration with existing businesses, human resources development, and investment in social projects. Persons interested in investing in Georgia, on the basis of the "Single Window" principle, can obtain the necessary information about investment resources that are sold, leased, or provide the opportunity for co-investment in a specific settlement.

The investment profile of each municipality is based on its geographic and economic advantages. For example, Chokhatauri municipality uses proximity to Poti and Batumi ports and Kutaisi airport, agricultural potential, and availability of qualified human resources to attract investors. The municipality of Lanchkhuti pays special attention to the direct access to the Black Sea, the Supsa oil well, the potential for tourism development, and natural resources, among which is the Kolkheti National Park. And Ozurgeti Municipality sees the way of fascinating investors in the recreational and medical tourism development. Accordingly, its investment profile reflects sea and mountain resorts, well-developed infrastructure, and local opportunities for training and retraining a skilled workforce. A small number of investments are coming into the Imereti region, which is explained by the lack of communication and connections with potential investors, among other factors. It is worth noting that among the products manufactured in Kutaisi, local products of 17 kinds correspond to international quality (dry fruits, laurel, nuts, herbs, tea, honey, spices, textiles, plastic, rubber and cast iron products, brushes, and household items, wooden products and furniture, medicinal plants, porridge, cereals and cornmeal, wine, canned goods, granite stone). All this is exported to 15 countries in the world [13].

The investment attractiveness of regions is determined by the state of investment potential and the level of investment risk. The main characteristic of investment activity in the region is the intensity of investments. In its way, it is determined by past, current, and future investment activity [14]. Past investment activity characterizes the intensity of previously invested investments in systems and allows one to determine their future profitability, the number of probable competitors, and the most profitable area for capital investment. The current investment activity determines the level of system economic development and gives the opportunity to forecast the volumes of additional investments and the expected return on investments to determine the position occupied by the investor in the market in the future. Future investment activity is a guideline for planning the entire investment process: from determining the future volumes of investments to managing the investment environment of the socio-economic system - in order to achieve the desired return on the flow of capital. The analysis of these three
components of investment activity provides the investor with information about the level of competition in the investment market of the socio-economic system, its development trends, and market reduction measures.

**Conclusion and recommendations.** International and free trade agreements provide significant incentives to both potential investors and local producers to actively carry out investment activities in Georgia. The coordinated action of local self-government, business, civil society, and population helps to improve the investment environment. The dynamics of direct foreign investments in post-pandemic Georgia are increasing. However, along with the positive trends, a number of challenges are visible, which hinder the inflow of investments. Among the main challenges are the judicial system, economic and political instability, legislative changes adopted without communication with the relevant sector, bureaucratic barriers, failed investment projects, etc. In addition, direct foreign investments in Georgia are characterized by cyclicality, which is mostly, but not always, connected with large transit infrastructure projects (Baku-Tbilisi-Ceyhan oil pipeline, Shah-Deniz gas pipeline, or Karsi-Akhalkalaki railway). In order to overcome the existing problems, there is a need to relax government regulations, improve infrastructure, increase export potential, improve workforce quality, and develop financial markets.

The investment legislation needs to be updated urgently. Currently, the Law of Georgia on Promotion and Guarantees of Investment Activity, which was adopted in 1996, and the Law of Georgia on State Support for Investments, which dates back to 2006, are in force in the country. We welcome the fact that with the support of the International Finance Corporation (IFC), work is underway on the draft law "Law of Georgia on Promotion and Guarantees of Investment Activity". The new law will revise the existing investment policy, increase the area of protection of investors’ rights and offer guarantees provided by international investment law.

The dynamics of regional development in Georgia depend on which of the existing alternatives the state considers effective and a priority at this particular stage of its development. The implementation of regional development state policy goals can be financed by the state budgets, self-governing entities, and the private sector, which currently has no alternative.

Along with foreign investments, it is significant to improve the efficiency of state programs, state capital expenditures, and investments focused on the development of the private sector, as a result of which the volume of investments will increase in relation to GDP.

It is also noteworthy to actively engage Georgia in the New Silk Road project to use the potential of turning the Caucasus and Central Asia into the main transport and logistics hub, which will add additional investment attractiveness to the country.

**References:**


[12] Investment resources according to the regions of Georgia. URL: https://gda.ge/pages/sainvestitsioshesadzeblobi#.
