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THE INFLUENCE OF FOREIGN DIRECT INVESTMENTS ON THE ECONOMIC DEVELOPMENT OF THE COUNTRY

Abstract:

In modern epoch the process of financial globalization requires the assessment of the economic consequences of regional integration and free movement of capital in the countries. The reason for this is the fact that the stable economic growth of the country directly depends on inflows and outflows of the capital. Georgia is a small transformational country with open economy heavily depending on the existing economic conditions of the region. The article has studied foreign demands and direct impacts of foreign investment on the economic development of the country. The goal of the research is to determine the priority areas and fields for direct foreign investment in Georgia, to reveal positive and negative influences attracting direct foreign investments as well as develop recommendations stimulating direct foreign investments in the country.

In the article comprehensively studied the reasons for the decrease in investment.The authors of the research have compiled and systematized information about the investment market of Georgia, revealed theoretical and practical, conceptual and organizational problems, existing in. One of the reasons for the reduction of direct foreign investments by authors is the low level of development and use of investment marketing, which determines the country's low level of competitiveness in the global investment market. Accordingly, Based on systematic analysis of the global investment market, have been worked out specific methodological recommendations, that are related to developing effective marketing strategies for increasing the improvement of the investment climate and investment image of Georgia and its competitiveness on the global investment market.

Keywords:

Foreign Direct Investments, Foreign Demand, Inflow of Investments, Stimulate Investments, Investment Marketing

JEL Classification: F00, F21, F63

Introduction

Many countries of the modern world face the big problem in foreign investments` attraction. The lack of investment amounts makes inevitable to allow the availability of foreign financial resources. During the capital`s attraction, not only own but foreign partners` interests should be foreseen together with the condition in the country, which is formed on the basis of different factors and consists of the following: ideology, policy, economic condition, culture, social and political stability and other issues, which is assessed by the investor during the decision related to capital investment and which allows him to make some particular conclusions regarding the expected risk.

The investment climate is significantly affected by the state policy about capital investments; the country`s participation in those international agreements, which regulate the investment relations and the traditions of maintenance of terms of the mentioned agreements; the level of state`s intervention into economy and its methods; the order (succession) of economy policy`s provision and other.

Investors interested to make investments are highly attracted by participation in those international agreements, which ensure the protection of their rights and decrease the risks associated in capital investment in the country.

Investment climate and factors affecting it

The investment climate is formed on the basis of processes interconnected on micro and macro levels, which causes the creation of sustainable investment motivations. The investment climate is impacted by inflation rate, the stability of currency rate, availability of bank credit, etc.

Investment is the process prolonged through time; it is characterized with some static condition and hardly adopts the rapid changes. Coming out of the said, it is necessary to choose the list of things affecting the investment climate, which are characterized with some sustainability and really influence the capital`s attraction in the country. The following should be mentioned among them: macroeconomic parameters, financial condition, inviolability of private property, state debt and its service, tax regime, the threat of occurrence of political risks and force majeure conditions, geopolitical location and many others.

The inflation processes emerge the serious threat towards the investments` attraction in many countries, especially in developing ones. That`s why the countries try to make inflation projectable and subject to regulation, which enable the foreign investors to be able to actually assess the future outcome of their capital investments and forms their positive attitude towards the country`s investment climate (BAKHTADZE, L. 2006).

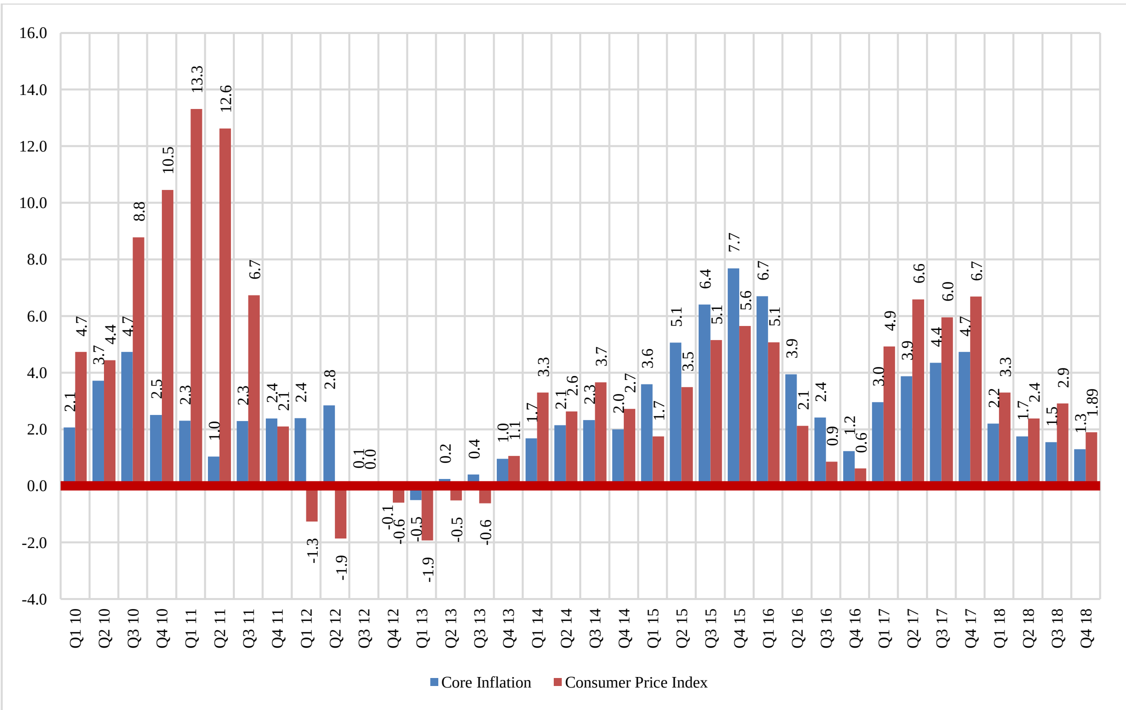
Stable financial condition and government`s anti-inflation policy certainly encourages the increase of foreign investors` trust towards any of the country, which positively impacts the foreign capital`s attraction. The investment climate is significantly influenced by stability of national currency of the country. It`s obvious, that the decreased local currency (during the fall of currency rates) rates in recipient country is profitable for the foreign investors, as the competitiveness of production produced under the foreign capital increases in the international market, but while the country`s currency acquires the devaluation tendency and the currency fall rates are quite high, the investor often refuses to invest in such country.

Though, with one glance, the positive event for the country – permanent increase of its local currency, negatively impacts on its investment climate, as it decreases the investments value for the receiver country and what is important – it decreases the competitiveness of the production manufactured.

The investment climate is especially negatively impacted by unforeseen, unordered rise and fall of currency rates, which often are typical to developing countries. The factors negatively affecting the investment climate cover the artificial effort to maintain the local currency rate (widely spread in the developing countries) by making investments on the currency market via national bank of the country (or by the central bank of the country). If the foreign investor has even the tiny doubt, that the country is unable to maintain the stable currency rate and it will catastrophically fall, the mentioned will became the basis for refusal to invest in the country.

Besides the above mentioned, in general, the unfavorable macroeconomic terms endanger the financial environment, unsustainable normative and legal base and governmental crisis, unordered tax, credit and insurance policies, insufficient investment resources of the regions, the alternation of liability norms of central bank of the country, unfair competition on the bank service market, unfavorable terms of crediting the economy`s real sector, etc.

Figure 1:Anmuai Change of Prices in 2010-2018: Quarterly Dynamics (%)



Source:National Statistics Office of Georgia (GeoStat) and calculations of authors

It should be mentioned, that indicator of average annual inflation in Georgia for 2010-2018 years was defined as 3.5 percent, but it decreased to 3 percent for 2018 year, thus equaled to target level of long-term annual inflation. During of 2018 year, inflation in average was equal to 2.6 percent, though like other countries with open economy, in Georgia as well is acceptable to temporarily incline the inflation from its target indicator.

The quality of sustainability of Georgian banking system was increased in the recent years, which was achieved by arranging the structural transformations in banking system, improving the liquidity and solvency. The said is reflected in the establishment of the following tendencies: commercial banks` assets, credit investments, attracted amounts, deposit values and increased net profit.

While we discuss the financial aspects of investment environment it is important to speak about the availability of bank credits. The essential improvement of credit market`s operation should be performed, which is necessary to increase the level of mobilization of credit resources and more completely fund the economy of financial resources. The credit mechanism should by all means encourage the increase in production efficiency, fastened scientific-technical progress, increase of labor capacity, etc. which finally brings success in the business subject`s activity.

It should be mentioned, that since 2004 year, in our country together with credit portfolio`s rise, the long-term crediting increased tendency was shaped. Notwithstanding the mentioned desirable tendency, the long-term funding of the business needs more support from the bank sector.

The risen competitiveness in the country with transitional economy and low income, essentially changes the economy`s structure and its development perspectives by using the economy`s restricting, diversification of the manufacture and efficiently using non-traditional policy methods. The stimulation of the foreign direct investments is affected by the labor capacity and salary costs; infrastructure and availability of the raw materials; communication and transport connections.

There exist such fields, which needs a highly qualified labor force. Thus, the companies and the countries invest in the countries, which possess such competent, highly qualified labor force. The investors target the income and profit tax rates established in the country.

As the low rate of the mentioned taxes significantly increases the investor`s profit. One of the important factors attracting the foreign direct investments is the transport costs and infrastructure. If the country has low labor costs and has the labor force, but there are high transportation costs, the company won`t invest in that country. Also, the country`s geographical location also plays the big role during the making the decision to invest.

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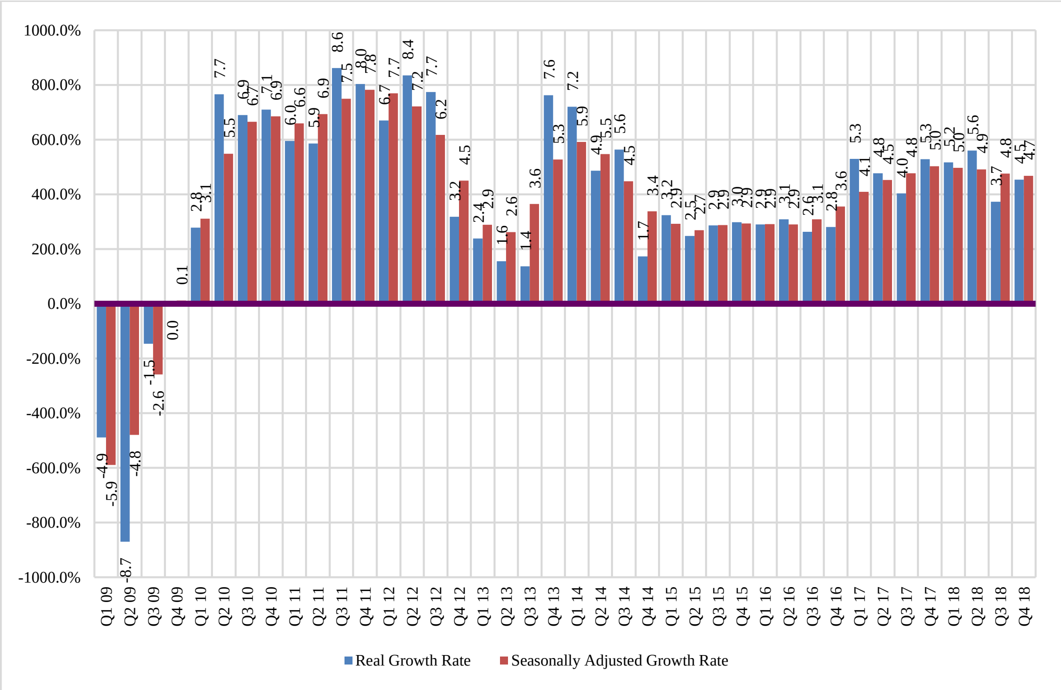
Figure 2: Quarterly Dynamics of GDP Real Growth Rates Compared to the Respective Period of the Previous Year



Source: National Statistics Office of Georgia (GeoStat) and calculations of authors

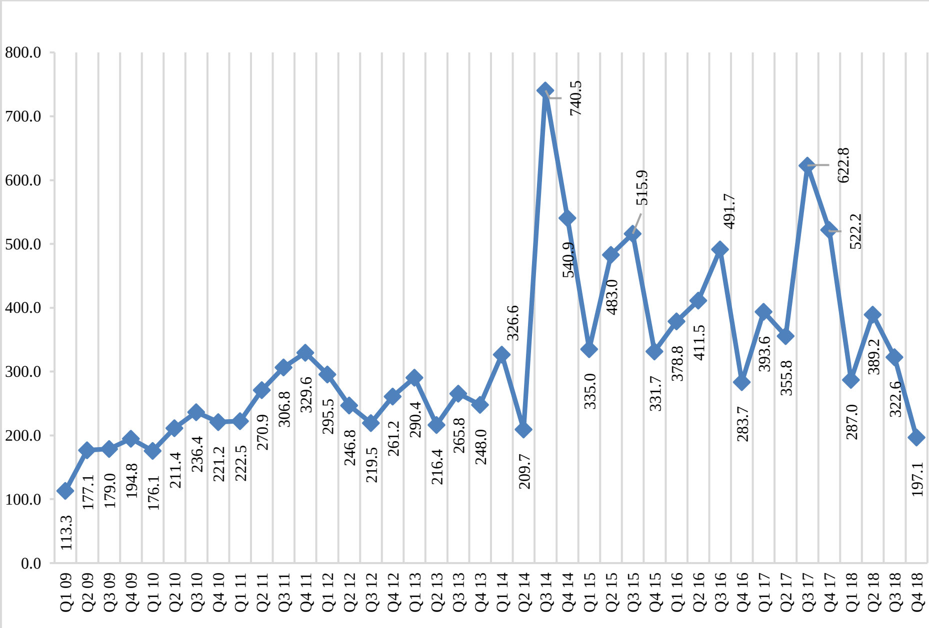
The average increase rate of GDP in Georgia during of 2009-2018 years was defined by 3.9 percent. For the mentioned period, the lowest increase rate of GDP was revealed in 2009 year (3.7 percent), which was caused by Russia-Georgia war and sharp decrease of investments on the background of global financial crisis. The increase of GDP in 2009-2018 years had reached its peak in 2011 year (7.2 percent).

The economic activity in the country was mainly caused by increased output in trade, construction, transport, processing industry, financial mediation, hotels and restaurants, also the increase of income gained from export.

Coming out of the diversified trade relations of the countries, the competitiveness of economy is influenced by efficient real exchange rate. On the high dollarization background of financial system in Georgia, the main interest of society was caused by short-term fluctuation of Lari`s nominal exchange rate towards USD.

Though, the mentioned has no significant impact on the economy, in particular – on investments, trade competitiveness and long-term investments. In such terms, the medium and long-term dynamics of exchange rate has acquired an essential meaning for the economy. Coming out of the mentioned, the priority of the National Bank of Georgia is exactly the increase of Larization, which isconsidered as precondition to decreased macroeconomic and financial risks, also the increase of sustainability against the foreign vulnerability in the country.

Figure 3: Total Foreign Direct Investment (mln. USD)



Source: National Statistics Office of Georgia (GeoStat) and calculations of authors

The foreign direct investments in Georgia of 2018 year comparing to respective period of previous years was greatly (by 33.8 percent) decreased. It was negatively affected by significant fall of investments from EU countries (22.3 percent), CIS countries (44.9 percent) and the rest of countries (38.1 percent), also the finish of construction of main gas pipeline project, the transfer of some enterprises in the ownership of residents of Georgia and decrease of liabilities of non-resident investors.

In order to reach the economic growth and ascending dynamics in production during the middle and long-term period in Georgia it is necessary to fully load the production resources, renew the main capital and increase the capital`s reserves. In order to ensure the economic growth`s high temp the local and the foreign investments should be used also. It is important, that current account`s deficit mainly should be funded by foreign direct investments, which will be directed to the high-capacity economic sectors, that from one side will limit the increase of foreign liabilities, and from another side – will create more opportunities in local production to increase its capacity. In order to reach the sustainable growth in the country, it is needed the reinvestment from one side, and from another – the stimulation of the savings, which needs the local capital market`s development.

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The insufficiency of investments value in Georgia, irrational structure of investments` funding sources, significantly backward position in investments per one man – these are undesirable reality, which is typical to Georgia. Besides, as the statistical data given above expresses, the country`s investment activity is not increasing but it is decreasing somehow. One of the powerful instrument to overcome the above mentioned situation presents the investment marketing, which implies the investment activity management by operating (activating) such mechanism, which ensures the increase of country`s image, attraction and prestige on international level (Silagadze, A. 2013).

One of important stages to work out the marketing strategies to attract the investments in the country is investors` revelation and adjustment the perspective ones out of them. Then work out the efficient strategy of country`s positioning and supply the potential customer with positioning outcomes, these will be ensured with application of investment marketing complex.

The marketing complex of investment flow`s attraction is presented as the set of variable marketing factors subject to control, which unity are used by proper bodies with subject-customer, potential investor to achieve the desirable responsive reaction, also it is applied during the provision of state strategic marketing as the country`s image, infrastructure and staff`s marketing, on the basis of which the country`s investment attractiveness is being formed (Okruashvili N., Metonidze L.2018).

Government authorities and the unities of the citizens and connections of the citizens should perform each specific trend of investment marketing as well. The efficient strategy of investment marketing ensures the economy`s structural optimization and creation of country`s recognizable system of unique originalities in the international market. Besides, it is necessary to work out the modern organizational and economic mechanism of investments and management, which aim will be increase of country`s investment attractiveness by investment field`s complex study, which should be based on complete analysis of the value of global investment markets, their dynamics and the tendencies.

Conclusion

The investment climate is especially negatively impacted by unforeseen, unordered rise and fall of currency rates, which often are typical to developing countries. The factors negatively affecting the investment climate cover the artificial effort to maintain the local currency rate (widely spread in the developing countries) by making investments on the currency market via national bank of the country (or by the central bank of the country). If the foreign investor has even the tiny doubt, that the country is unable to maintain the stable currency rate and it will catastrophically fall, the mentioned will became the basis for refusal to invest in the country.

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