

**ПРОБЛЕМЫ РАЗВИТИЯ ВНЕШНЕЭКОНОМИЧЕСКИХ СВЯЗЕЙ И ПРИВЛЕЧЕНИЯ ИНОСТРАННЫХ ИНВЕСТИЦИЙ:
РЕГИОНАЛЬНЫЙ АСПЕКТ**

ECONOMIC DEVELOPMENT TRENDS OF GEORGIA UNDER GLOBALIZATION

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After the collapse of the Soviet Union Georgia experienced a protracted crisis during which the country lost its territories as a result of conflicts and gross domestic product (GDP) has been cut by 2/3 since 1990 [1]. Since then Georgia has faced a serious problem with its development that was caused by the necessity of transition. Georgia possesses a similar index to that of the other poor and developing countries. According to the World Bank classification it is considered Georgia has less-than-average income. The total national income of average income countries fluctuates from 830 USD to 3300 USD per person. This group includes CIS countries and also Albania, Bulgaria, Romania, many countries of the Middle East and the countries of North Africa. As for the social environment, life expectancy in Georgia according to birth-rate is high, but at the same time, the infant mortality rate in Georgia is higher than in China. Georgia lags behind the European Union countries in its level of development.

Since 2003, Georgia has intensively renewed the process of transition by implementing structural reforms. Correspondingly, the country's economy experienced a revival expressed in decreasing the level of corruption and crime that in its turn caused a sharp increase in the inflow of foreign direct investments.

Reforming processes were mainly based on WTO norms and European Union standards. The reforms aimed to improve business environment. Global privatization programs were introduced, service of customs and tax bodies became more organized and significant progress was achieved in the fight against corruption. Georgia's rating index in tax payment and international trading was improved as a result of the reforms carried out in these spheres. Georgia's position also improved according to the Transparency International Corruption Perception's Index and in 2011 Georgia reached sixty-third place in the world[2]. As a result of the reforms the tax payment system was simplified. In 2011 small businesses were released from particular taxes. Georgian legislation was overlooked in order to harmonize it with the European Union's legislation. The Georgian government decided to review its economic policy in order to eradicate all barriers connected to the establishment of businesses in Georgia. Important progress has been made in the banking sector, telecommunications, the field of international trade, as well as in some of the regulating spheres.

The government carries out liberal trading policy that resulted in opening markets. Correspondingly, at the first stage competitiveness of import grows and local production decreases in the market. In the short-term this causes a trade deficit and increase in unemployment. In the long-term it encourages quality of competitiveness in the local market and development of efficient production that in its turn ensures an increase in export and employment. However, only liberalization of trade is not enough for developing competitive local production. Georgia still has a growing trade deficit. (see table 1) Theoretically, from a monetary point of view, deficit can be considered as an influence on exchange rate, which is a self-correcting phenomenon.

Excess of import raises demand for foreign currency and devaluates national currency that increases product competitiveness in terms of the exchange rate and improves the balance of trade. Capital inflows in Georgia compensate the trading deficit influence on exchange rate and preserve the high rate of national currency. Besides, growing trade deficit reflects non-competitiveness of national economy.

At the same time, difficulties in improving the business environment remain a significant problem in Georgia. In that way, Georgia's growing deficit emphasizes that economic openness will not automatically bring advantages if the investment environment does not create profitable conditions and stimuli for businessmen to respond to new challenges. In spite of some progress resulting from reforms that have been carried out businessmen still complain about problems caused by an inefficient business environment. A non-competitive environment and unequal regulating approaches cause damage to business involved in the state procurement and privatization process.

External Trade

Table 1

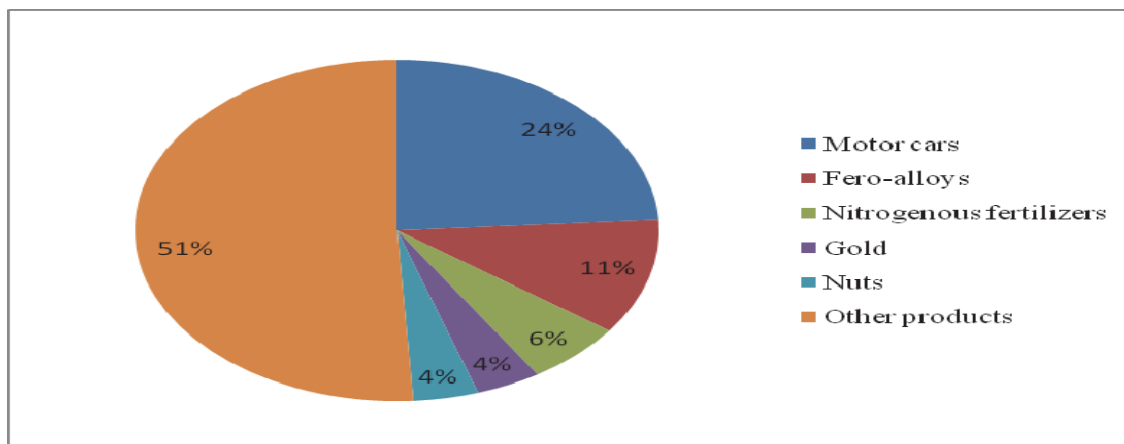
	2007	2008	2009	2010	2012
External Trade Turnover	6444	7797	5634	6935	9247
Export (FOB)	1232	1495	1134	1677	2189
Import (CIF)	5212	6302	4500	5257	7058
Balance	-3980	-4806	-3367	-3580	-4869

National Statistic Office of Georgia. <http://www.geostat.ge>

Major commodity position by export and geographical diversification shows low competitiveness of Georgian economy. In 2012 according to the indicators of October - January Motor cars was the largest category in commodity position by 24%, which represents the re-export of imported cars (See diagram 1).

Share of major commodity positions by exports January-October 2012

Diagram 1



National Statistic Office of Georgia. <http://www.geostat.ge>

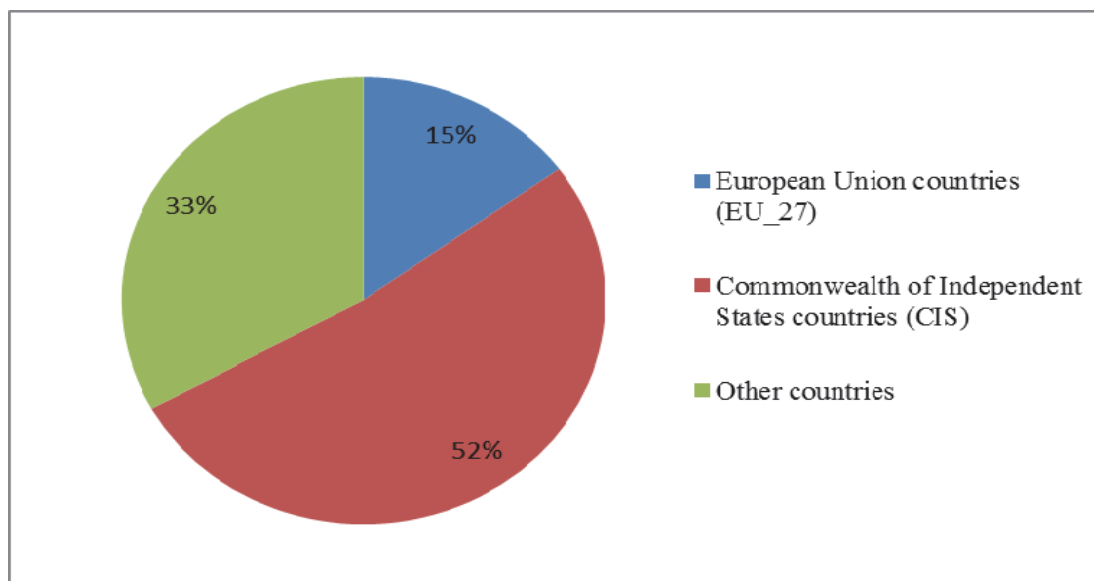
As for geographic diversification of export, CIS countries accounted for 52% and EU only - 15%, which means that producing competitive

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product is one of the most important problem in Georgia (See diagram 2).

Georgian Exports by Country Groups

Diagram 2



National Statistic Office of Georgia. <http://www.geostat.ge>

In spite of some progress resulting from the reforms that have been carried out, businessmen still complain about problems caused by an inefficient business environment. A non-competitive environment and unequal regulating approaches cause damage to business involved in the state procurement and privatization process.

Inefficient market structure impedes development of small and medium-size businesses. Markets are essentially monopolized by businessmen with close ties to the government. Authoritarian actions made by the government harm business and reduce the chance of competitive growth within Georgian firms. Interventions are carried out by self-motivated actions of tax inspection and in form of court resolutions. The Arbitration Institute stopped functioning due to the government control. Informal bureaucratic barriers hinder introduction of new players in small and medium sized business markets. There are no state financing programs for small and medium-sized businesses. Unfortunately, Georgian businessmen lack new ideas and their business initiatives mainly represent a copies of strategies adopted by those in foreign countries. These kinds of initiatives are mostly unable to meet socio-cultural standards of the local market and fail to succeed from the very first start. In the transitional period income was unfairly distributed, financial resources were acquired by those people who lacked creative potential and intellectual abilities, while people with creative ideas and no financial resources have no chance to commercialize innovative ideas.

The growth of Multinational Enterprises (MNEs) activities through Foreign Direct Investments (FDI) in developed and developing countries have largely attracted the attention of policy makers because of the expected positive impacts they may have on receiving countries. In particular, studies focused on developing countries point to the need of reaching a threshold level of absorptive capacity to grasp FDI benefits.[3] Indeed, MNEs own superior technological and managerial capabilities that may spill over affecting the production function of local firms.

Distribution of FDI flows among economies, by range2011

Table 2

Range	Inflows	Outflows
Above \$5.0 billion	Russian Federation, Kazakhstan, Ukraine	Russian Federation
\$1.0 to \$4.9 billion	Belarus, Turkmenistan, Serbia, Croatia, Azerbaijan, Uzbekistan, Albania, Georgia	Kazakhstan
\$0.5 to \$0.9 billion	Kyrgyzstan, Montenegro, Armenia	Azerbaijan
Below \$0.5 billion	Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Republic of Moldova, Tajikistan	Ukraine, Serbia, Georgia, Armenia, Belarus, Croatia, Albania, Republic of Moldova, Bosnia and Herzegovina, Montenegro, the former Yugoslav Republic of Macedonia, Kyrgyzstan

UNCTAD. World Investment Report. Towards a new generation of investment policies. 2012. pp. 56-60

It is generally assumed that Georgia is becoming an attractive location for investments based on the increased volume of investments over the last years. Service sector by far has been the dominant choice of investment from within the broad composition of foreign investments. It is important to note, for example, that most of the investment since 2003 can be attributed to the exceptional influence of the construction of the BTC pipeline and, more recently, the construction of the gas pipeline. The international consortia involved estimate that they contributed 75 percent to these inflows in 2005 with the prospect of a 60 percent share in 2006 and 50 percent in 2007. This is also reflected in Table 3 which illustrates that the pipeline investments are a key determinant in the ranking of source countries over the period from 2000 to 2006.

Moreover the analysis of investment structure shows us that rapid privatization in network industry (telecom, energy generation and distribution, ports, oil terminal, media), real estate (hotels) and basic industries or resource extraction (ferrous metals, magnetite, fertilizers, copper, cement) encouraged the attraction of foreign investments in Georgia. Investment inflows from privatization are by nature a one-off occurrence except when they lead to substantial follow-up investments. Real estate, basic industries and resource extractions contribute relatively little to the economy as they do not increase productive capacities and, especially in the case of resource extraction, have limited employment and spill-over effects in the economy as a whole. Investment in real estate and network industries positively impact on the infrastructure of the country but contribute little in terms of production and exports. [5]

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FDI can strengthen Georgia's economic growth particularly in such sectors as infrastructure, tourism, agriculture and food production. Successful development of Hong Kong, South Korea and Singapore in the eighties and nineties was based on export substitutes, where export-oriented industries have been built up with significant involvement of foreign affiliates of TNCs. The main successful factor of these countries was considered to be government policy that guaranteed a stable and attractive investment environment.

FDI in Georgia by Economic Sectors (1000 USD)

Table 3

sectors	2007	2008	2009	2010	2011
Total	2 014 841,6	1 563 962,4	658 400,6	814 496,6	1 117 244,1
of which:					
Agriculture, fishing	15 527,9	7 844,3	22 326,9	8 631,9	14 907,6
Mining	86 170,0	18 105,2	15 023,4	53 435,9	40 219,6
Manufacturing	312 070,9	188 287,8	124 781,7	175 334,5	120 339,7
Energy sector	362 581,1	294 864,8	-2 130,6	21 877,9	203 951,6
Construction	171 891,8	56 725,3	105 218,8	4 705,9	48 112,2
Hotels and restaurants	242 075,9	181 939,2	37 542,3	17 121,8	22 705,6
Transports and communications	416 694,7	422 690,0	98 432,0	215 116,2	126 517,2
Real estate	30 543,9	277 837,7	147 410,3	74 667,6	89 176,9
Consultancy	44 585,3	135 599,4
Health and social work	458,3	550,6	289,1	1 182,4	16 827,0
Other sectors	219 104,1	104 225,8	59 843,3	90 430,7	131 185,5
Financial sector	157 723,1	10 891,7	49 663,4	107 406,4	167 701,8

National Statistic Office of Georgia. <http://www.geostat.ge>

The main motives for investing in Georgia have been resources that look less sustainable in a long-term period. In the medium and long-term period capital investments should be implemented in sectors, which will promote growth in employment and increase of export. The sharp rise of investment flows in Georgia began in 2004. The latest trends can be explained by fiscal stability, liberal economic policy and massive Public Relations campaigns at the international level. Predominant motives for investing in Georgia has been resource-seeking that look less sustainable in a long-term period. In the medium and long-term period capital investments should be implemented in sectors, which will promote growth in employment and increase of export.

It is impossible for the modern state to develop without activating main functions such as stable business, education, infrastructure and social balance. Regarding the country's economic modernization, it is vital to carry out reforms that can be oriented to develop the market infrastructure. This will enable a businessman to make desirable investments. Appropriate terms and conditions should be created for the efficient interaction of enterprise and labor. This means gaining unique business and managerial education experience by companies and achieving agreement between the employer and employee that will ensure a high level of discipline and performance at work. Furthermore, a country should effectively utilize traditional resources like strategic geographic locations, fertile agricultural plots and potential ideas for tourism. Apart from this, the country should attempt to increase its competitive advantage by setting the securities market in motion and developing the insurance market that will guarantee risk reduction and cheaper bank loans. Highly qualified staff should be prepared to respond to market requirements and demands. Transport and communication infrastructure should be improved to ensure involvement of business in the international network. Finally, when the market starts to function proficiently the competitive environment will reveal preferential fields.

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РЕЗЮМЕ

Реформи в Грузії проводилися на основі норм СОТ і стандартів Європейського Союзу. Вони були спрямовані на поліпшення бізнес-середовища Грузії. Були проведені масштабні програми приватизації, обслуговування митних та податкових органів стала більш організованою і значний прогрес був досягнутий в боротьбі з корупцією. Істотний прогрес був досягнутий в банківському секторі, телекомунікаціях, сфері міжнародної торгівлі, а також у деяких регулюючих сферах.

Ключові слова: глобалізація, реформи, бізнес-середина, митна справа, торгівля, економічний розвиток

РЕЗЮМЕ

Реформи в Грузии проводились на основе норм ВТО и стандартов Европейского Союза. Они были направлены на улучшение бизнес-среды Грузии. Были проведены масштабные программы приватизации, обслуживание таможенных и налоговых органов стала более организованной и значительный прогресс был достигнут в борьбе с коррупцией. Существенный прогресс был достигнут в банковском секторе, телекоммуникациях, сфере международной торговли, а также в некоторых регулирующих сферах.

Ключевые слова: глобализация, реформы, бизнес-среда, таможенное дело, торговля, экономическое развитие

SUMMARY

Reforming processes in Georgia were mainly based on WTO norms and European Union standards. The reforms aimed to improve business environment. Global privatization programs were introduced, service of customs and tax bodies became more organized and significant progress was achieved in the fight against corruption. Important progress has been made in the banking sector, telecommunications, the field of international trade, as well as in some of the regulating spheres.

Keywords: globalization, reform, business environment, customs, trade, economic development