

The Current Trends of Globalization in Georgia

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Abstract

The work is devoted to a very important and topical issue at present – integration of Georgia in the conditions of globalization and the role of foreign investment in the economic development of the country.

The development of the processes of globalization and the international movement of capital produced the largest volume of foreign investments, especially in developing countries. Like all events, foreign investments has advantages and disadvantages, which are shown in this paper. Also there is analyzed globalization and the index of economic freedom of Georgia and the implementation scales of foreign investments on the example of 2015.

Today the issue of globalization has been entered more in our lives which in itself means to search for the joint ways to solve the problems which are raised in front of the countries of the world. Modern globalization has embraced all spheres of the existence of the society. For globalization it is characteristic exchange of national and international relations which caused the integration of the countries of the world under the overall economic, political and social systems. The long-term result of globalization is the formation of the global economy, which is based on the relations without barriers between the national economies. The role of economic relations of the country grows in the process of globalization.

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1. Contents

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Like all events, globalization has its positive and negative events. In the modern sense the level of globalization shows how the country is integrated in the world economic, political and social fields. The resistance between the national interests is increasing in the process of globalization, parallelly the quality of interdependence of the country increases too. This in itself is containing the risks and danger, especially during the economic crisis. The economic crisis badly reflects on the foreign trade and on the

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money and credit spheres, on the investments, on the markets of the goods and services and etc. The world financial crisis of 2008 has shown that the progress of the national economy is impossible without taking into account the overall global processes of the world.

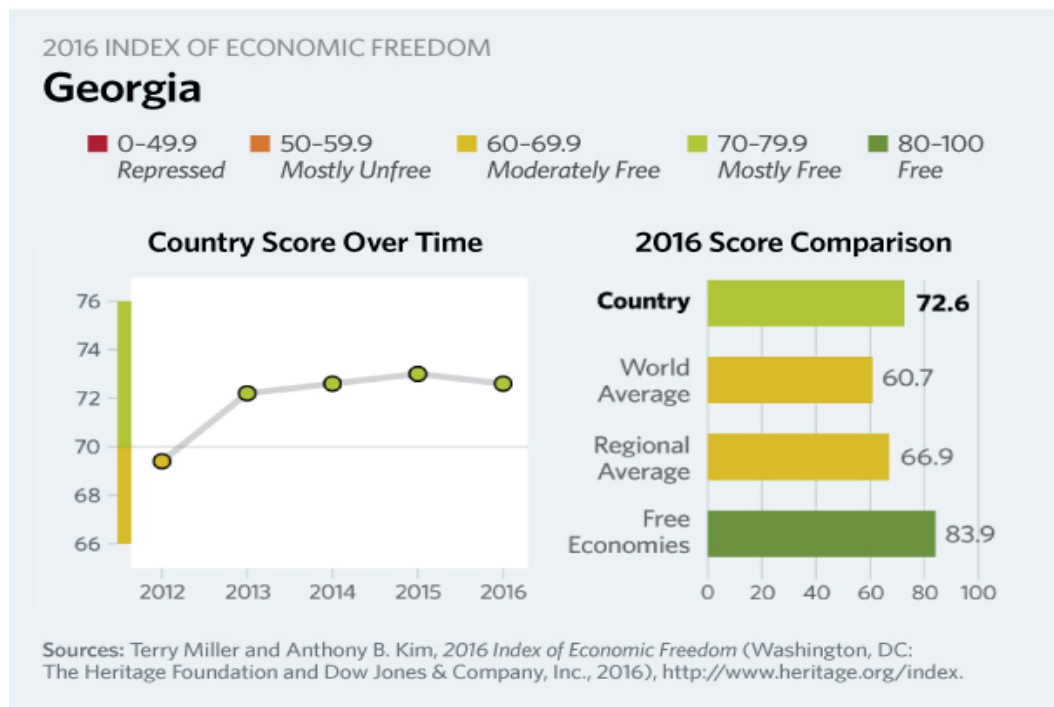
Taking into account the globalization processes for the country's economic development is particularly important for those states such as Georgia. Georgia is obliged to take into account the general regularities of the globalization of the world and to engage in the processes of the international integration.

Zurich University of Technology annually publishes an index of globalization, which includes 191 countries. Index indicators are divided into the three main categories which are based on the various criteria of the assessment. Georgia according to the economic globalization, with the data of 2015 is on the 19th place in the world and generally with the level of globalization on the 63rd place. On the first place of the level of globalization is Singapore with 95.7 points with the 100 point assessment system. On the second place is Ireland with 92.6 points and on the third place Luxembourg with 91.1 points. The other developed countries continue the listing. The 19th place (81 points) of Georgia is in fact paradoxical. In the index of economic globalization from the countries of having the big economies (for example, countries of big Seven) are not on the high positions, which can be explained by the fact, that the high level of economic globalization is not necessary for their economic development, because they have a large domestic market and a significant amount of domestic capital, consequently in such countries, the income is high on per capita. In the list of the index of economic globalization you will not see the country, which has a high income on per capita and occupies a leading position, such countries have spent quite a long time on the development of their country's economy. Our duty is to develop our economy in a short time by sharing their experience, considering the integration in international systems.

The 19th place of Georgia is conditioned with the reforms released in Georgia in the last period, with the liberal policy of international trade, with the free income opportunities of the foreign capital, with the improving the business environment, with the liberalization of tax legislation. The high position of Georgia, which becomes often the subject of dispute from the side of non-governmental organizations, is more reflecting the prospect of economic development, than the achieved level of development.

The data of 2016 indicators of the Index of Economic Freedom according to the international ratings published by the Heritage Foundation is important to assess our country's economic development and the business environment. The Index of Economic Freedom calculated by the Heritage Foundation is based on the determination of the 10 indicators: Business Freedom; Trade Freedom; Fiscal Freedom; Freedom from the State; Monetary Freedom; Investment Freedom; Financial freedom; Property Right; Exemption from Corruption; Labor Freedom. In the noted ranking Georgia is on the 23rd place among the world's 178 countries, and with the same indicators is on the 12th place in the region of Europe. According to the 2016 report of the

Economic Freedom Georgia maintains the status of a free state, which is conditioned by the improved management of the public finances, by the development of an open market and by the regulation of the effectiveness.



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Improvement and simplification of the business environment also played an important role in the country's economic development. This fact is clearly shown in the database of „Doing Business” of the World Bank, according to it in the ranking list of 189 countries, Georgia is on the 24th place. According the simplicity of doing business the moving from the 112th place in 2006 to 24th place in 2016 is the really good result for such a small country like Georgia, but there is a problem of its maintaining, it is very easy to loss the business in the conditions of the strong political risks.

For this time the formed level of external economic relations confirms, that the process of enhancing the effectiveness of the national economy directly relates to the enhactment of the objectively unformed economic organizational factors of integrative ties. In this regard, it is reasonable an objective assessment of the role and place of Georgian economy in the current processes of globalization and regionalization and determination of the strategic directions of the economic development correspondingly from the country's interests.

Georgia, proceeding from its geopolitical location is in the spheres of strategic interests of the world importance. Our country's geopolitical location is the most important factor in the process of deepening the economic integration of Europe and Asia states.

When we talk about the possible participation of Georgia in the process of globalization, we must take into account, that the process of globalization has both positive and negative effect on any state. Its quality depends on the policy pursuing by the state.

The positive effect first of all is in the expansion of markets. The number of our country's population is not so large (3.7 million. According to the data of 2015), if we

add to that the fact, that the gross domestic product (GDP) on per capita is quite low (3.7 thousand US dollars), it becomes clear, that the market of the limited capacity reduces, narrows more. The market can be expanded by the various means, but if we extend it only with the help of the domestic market the results will be quite modest. The globalization process gives the great opportunities to our country to expand domestic and foreign markets, by using bilateral and multilateral agreements. Market expansion plays the great role in the growth of investments volume.

As many of the small countries, so Georgia does not have enough of its own funds to make a large number of investing in the spheres of the production and services, the process of globalization is a unique opportunity of it. The direct foreign investments represent the precondition of the growth of stability of Georgian economic. The level of investments incoming in the country determines how stable is the country, what is its economic policy, investment climate, prospects economic and sectoral growth and so on. In addition, the significant factor is the reduction of the state's participation in the whole investment implemented inside the state, while the total amount of the whole investment is not reducing. The mentioned directly indicates the growth of investments implemented by the private sector.

As the international practice shows, the income of foreign capital has the positive moments. It promotes the flow of new knowledge and technologies, which growth the export and it is the precondition of making the new jobs. In the recent period the trend formed in the world indicates, that there is a severe competition in the world in terms of direct investments. Unfortunately, Georgia is one of that countries, which can not maintain stability of economy without foreign investments. Georgian government pursues economic reforms systematically to create a favorable investment environment. All conditions are being created for attracting the investments in that fields of the economy, which will contribute the country's economic development and taking the suitable place in the international economy. In this regard, most promising branches in Georgia are the tourism, construction, agriculture, transport and communications. These branches need the support from the state, which must be expressed with the creation of the flexible legislative base and tax system, in the establishment of the certain system of benefits, for the purpose to occur the expansion of investments in these sectors.

Investment activities in Georgia are regulated by law „State Support of Investments“, the aim of it is the promotion of implementation of investments , investing investments and improving the necessary procedures for entrepreneur activities. This law extends on any investment implemented in the territory of Georgia. In addition, the partnership fund was set up in 2011, which was granted with the international rating agency Fitch's rating - BB.

With the datas of 2015 of National Statistics Office investments attracting of 1.3 billion US dollars has implemented in Georgia, which is less with 23% comparing with the datas of 2014. It should be noted, that in the sectoral term until 2015 in the terms of attracting investments led the energy sector, which has reduced with 55%. One of the main reason for the reduction of the investments is named devaluation of the national currency together with the reduction of export and remittances.

Direct Foreign Investments Implemented in Georgia

Million US dollars

Year	Total	I Quarter	II Quarter	III Quarter	IV Quarter
2010	814.5	166.5	208.3	225.6	214.1
2011	1,117.2	209.7	248.3	316.6	342.6
2012	911.6	261.2	217.7	199.0	233.7
2013	941.9	252.3	207.9	254.8	226.9
2014	1,758.4	309.5	196.2	726.0	526.7
2015	1,351.1	185.2	370.1	527.9	267.9

In 2015, the reduction of investments occurred in 5 branches from 10 largest branches of Georgia. These are:

- Energetics - 100 million. \$ - 52% decrease;
- Processing Industry - 91 million. \$ - 55% decrease;
- Construction - 129 million. \$ - 59% decrease;
- Real Estate - 48 million. \$ - 65% decrease;
- Hotels and Restaurants - 61 million. \$ - 51% decrease;

However, investments growth of 27% is seen in the transport and communications sector, 59% growth in agriculture; 40% growth in the financial sector and 8% growth in the health sector.

As for investments implementation according to the countries on the first place is Azerbaijan with 542 million dollars, And on the second place is the United Kingdom with 198 million dollars. In the recent period especially increased Asian investments in Georgia, which unlike from Western Europe are not afraid to put investments in post-conflict countries. The organized infrastructure and the country's geographical position attracts foreign investors, mainly the cheap workers, in Georgia.

However, it must be noted the disadvantages of direct foreign investments, and it may be increased the impact of the investor country on that country, where it has implemented the investent. This factor is particularly important for Georgia.

If you look over the statistics of the recent years in Georgia are incoming investments of about 1 billion dollars in a year. Though, it is not enough for the economy of our country and it can be said, that there is a deficit of investments in the country. The main reason of attracting investments is to promote the tempos of growth of national economy, revive and encourage enterprises, which are in the crisis, provide domestic production with financial resources, support the country's involvement in the integration process. Institutional reforms ongoing in Georgia and its results do not coincide in time, because the reforms are focused on long-term prospects, therefore thoughtful, consistent policy of the government in the field of institutional reforms can become the prerequisite of the further development and economic advancement.

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