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Georgia's Perspectives for Investment Growth

Athina IMNAISHVILI
Tea KBILTSETSKHLASHVILI

Abstract
The article focuses on recent developments in the former Soviet republics, especially political tremors and hostilities in Caucasus area considerably hinder the development of American businesses in the region. The goal of this study is to investigate factors determining flow of FDI in Georgia, the key point of the analysis is the impact of stability of economic and legal environment on the pattern of FDI. This literary analysis describes the advantages for Georgia to become leader in attracting foreign direct investment (FDI), as well as which sphere are the most effective to develop, which spheres for investment should be given priority, who are the potential investors, how to attract them and what is the most important to which extent will this FDI influence Georgian economy in the long run? The article includes results of a different researches performed to express the progress of the investment and its impact on Georgian economy. The paper also includes results of survey conducted to find out changes of investment climate before and after "august conflict and world crisis".

Keywords: *foreign direct investment, political and economical stability, domestic market, economic growth*

Athina Imnaishvili *is a PhD candidate in General Management ,International Black Sea University*
Tea Kbiltsetskhlashvili *is an Assistant Professor of Finance at Department of Finance and Banking at International Black Sea University, Tbilisi, Georgia*

Introduction

Georgia is a developing country facing various problems in different areas, so investment climate is the opportunity and incentive for firms to invest productively, create jobs, expand and to have a positive influence on the country. The Black Sea is a region of vital interest to the foreign investor because Georgia is a country that has many opportunities (natural resources and agribusiness sectors, infrastructure development, telecommunications and energy) for attracting FDI. The long term effects of foreign investment will result in increased employment and increases in household income. It is very important how Georgia attracts foreign investors by its abundant tangible assets such as natural and mineral resources and the size of their large domestic, local market and how Georgia has generated the interest of international investors by improving its business environment and climate. FDI brings host countries capital, productive facilities and technology transfers as well as new jobs and management expertise, thus it is important understand why in many countries FDI inflow is lower than it would be expected. In particular I show that the variability of basic macroeconomic fundamentals decreases the flow of FDI high volatility of fiscal, business regulations makes FDI smaller, unstable economic environment does not attract long term investors but mainly speculative capital. Based on theoretical findings we formulate clear message to policy makers standing that in order to expert significant flow of long term and non-speculative foreign capital first of all a stable economic and legal environment is needed. As the practice shows, American, European and multinational companies currently express more interest in other regions, rather than the Caucasus and other former Soviet Union regions. However, there are definite grounds for world business circles to expand their activities in this direction and to view the Caucasus region, and Georgia in particular, as one of the strategic locations for establishing or expanding beneficial trade, economic and financial operations, as well as with a wide range of surrounding countries, including Russia and Central Asian republics.

Despite the world crisis and august conflict, Georgia has shown its firmness to stay on the surface of investment flows. It has high potential for investment attraction, development of many industrial spheres and new sources of business development. This research article focuses on effectiveness of Investment climate in Georgia after transition period and postwar crisis of August 2008.

There are numerous aspects to take into account when talking about investment growth and analyzing the investment climate of Georgia. The World Bank called Georgia "the world's fastest growing economy" and the 2009 report assigns Georgia 11th place in the list of the countries where doing business is the easiest after 18th place in 2008 (Investor.ge;2009:6).. In spite of all the positive sides about our investment climate, there are problems that need to be addressed and resolved – the infrastructure in rural areas needs improving, fairness in the legislative system has to be ensured, inflation has to be controlled more effectively, special tax incentives should be given to foreign investors, and other kinds of methods should be employed to directly address the problem of attracting FDI to Georgia. The proposed solutions for the best potential spheres of investment in Georgia as well as solutions to overcome the world economic crisis has brought me to serious arguments which we would like to present in this article.

Georgia's advantages

Georgia's geographic location is a key in this argument. Georgia is a bridge connecting several economic regions and is a particularly important transit country. Located at the crossroads of Europe and Central Asia, it serves as a natural transport corridor. Georgia is the shortest transit route between the West and Central Asia for transportation of oil and gas as well as dry cargo. Georgia is well endowed with natural resources such as forests, minerals, fertile agricultural lands, scenic beauty, and good climatic conditions. This strategic location is one of the country's foremost economic assets. While much of the country's physical capital base has depreciated, there are still equipment and facilities that can be used in export activities. Georgia also has significant transportation infrastructure facilities and is located close to important regional and high-income European markets. According to expert opinion, Georgia remains the only feasible country for the distribution of goods and commodities in Transcaucasia. Its largest seaports, Poti and Batumi, each with a 5-6 million metric ton per year capacity, handle all the sea cargo shipped through Transcaucasia. These ports are of vital importance not only for Transcaucasia countries, but also for Central Asian republics (Invest in

Georgia, 2009).

Central Asia, being rich in oil, gas and other resources, is one of the biggest exporters of cotton in the world. It also represents massive market potential for American products and investments. These factors lend strategic importance to the creation of state-of-the-art transportation and communication systems in Georgia linking the international market with the Caspian Basin and Central Asia. Despite its valuable location as a link between the Europe and Asia, Georgia was far from fulfilling its potential as a prosperous, stable and democratic country in the transition period.

Table 1. Indicators of FDI in selected Caucasian countries in transition 2004-2008

FDI inflow (U.S. ml. $)					
	2004	2005	2006	2007	2008
Armenia	232	100	52	20	5.4
Azerbaijan	1023	700	133	91	24.8
Georgia	265	100	66	28	12.3

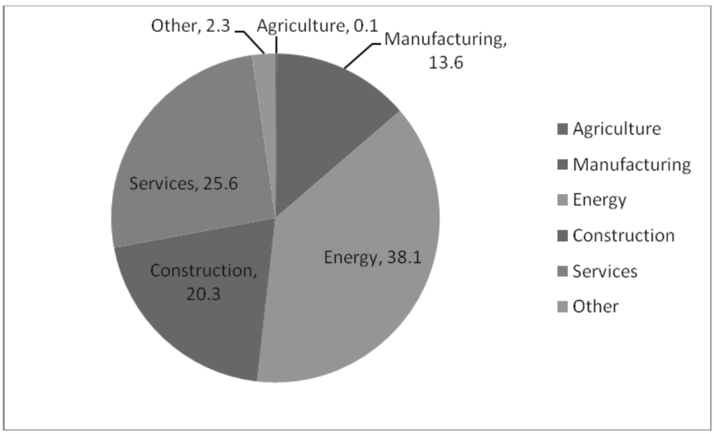
Source: Department of Statistics , 2008

Table identifies FDI inflow in three countries, these countries are: Armenai, Azerbaijan and Georgia. Most of the FDI flows to Georgia (2004 - 2008) can be attributed to pipeline construction and privatizations. There appear few Greenfield investments in Georgia and most of these are small and medium – sized projects, concentrated in services and agri – processing, with a mix of export – oriented and market – seeking investments. Data of The Department of Statistics show that foreign direct investment inflows have been rising significantly in the recent years with the main investor countries, Armenai and Azerbaijan invested a huge capital in Georgia, the level of FDI has remained quite low at the beginning of the year 2009, compare to the data when it began to rise due to the changing environment in Georgia after the Rose Revolution. Then we had another drop in FDI inflows in the late 2004 and in the first half of 2005, however since then we have had an unprecedented rise in FDI inflows (Schmidt, 2007).

Georgia has three international railway connections that go to Russia, Armenia and Azerbaijan (which is currently the only route for

Azerbaijan to international railways). Tbilisi's international airport, modernized under an EBRD project, links Georgia to more than 40 countries within four hours. Additionally, the Westinghouse Electric Corporation (recently merged with Northrop-Grumman) will help the country to upgrade its air traffic control system. According to the data of The Department of Statistics for 2008 ten existing highways converge on the capital, Tbilisi, linking it with all the major neighboring local and international locations. At present, the road network serves about 4,500 localities. The annual freight turnover of Georgian roads amounts to 15-20 million tons. However, provided proper reconstruction and modernization, their freight turnover could be increased to 100-200 million tons per year. Currently, a new project is under consideration that will provide for the construction of a new modern highway across the country, linking its western seaports to other major points.

Figure 1. FDI by Sectors



Source: Department of Statistics of Georgia.

According to the statistical data published by the journal "Invest in Georgia" in 2009, the following data per sectors have been revealed: the greatest part of foreign direct investments is flowing to the energy sector (38.1%), which is then followed by services (25.6%), construction (20.3%), manufacturing (13.6%), and agriculture (0.1). However, the latter sector receives far less amounts of funds in the form of FDI than others. If we look at total FDI, 10% of it goes into the banking sector, 63.0% is consumed by companies, and 26.2% represents the share of privatization. It has to be noted, that the share of BP investments has been continuously decreasing since 2004 (from 72.1% in 2004 to about 10% in 2007)

Georgia's energy sector has a huge potential for development and abounds with investment opportunities. This covers the utilization of hydropower, wind and solar resources as well as the development of energy transportation/transmission and distribution infrastructure. The priority of the country is also the utilization of ecologically pure energy resources - alternative, renewable, wind and solar energies, geothermal waters, biogases, etc. The communications system is also of vast importance to Georgia as a transit route, and has already attracted international businesses, including the Metromedia Corporation (a U.S. company), which has developed four telecommunications and cable TV joint ventures in Georgia. Generally, transportation and communications systems routed through the Transcaucasia are highly competitive with those of other countries, since it is ideally situated for the Trans- and Inter-Continental transportation of goods. A new Eurasian corridor would traverse the entire area from the Black Sea, crossing the Transcaucasia, the Caspian Sea, Kazakhstan and Central Asia into China, repeating the famous ancient “Silk Road.” In recent years, tens of thousands of trucks passed through Georgia from Turkey and other places, continuing their way east through the Eurasian corridor. The cost-efficiency of this corridor already is one of the many advantages that make Georgia economically attractive. For example, the rail route distance from Istanbul to Tashkent (considering the planned rail link between Turkey and Georgia) is 540 kilometers shorter than the traditional route through Iran and Turkmenistan; the export of cotton through Black Sea ports is 50% cheaper; and shipments of goods and commodities from Iranian ports to Georgian ports take 10-12 days less time. Oil export, and pipelines in particular, is a separate topic altogether. According to many feasibility studies and pilot experiments, the future of the Transcaucasia as a major transport route is undisputed.(Santis, et.al, 2008)

Georgia, being a choke point for transportation and communications, at the same time also has important resources of its own.

The country has significant reserves of mining and chemical raw materials, such as andesine, barite, betonies clays, diatomite, talc, serpentines, elite, etc. The non-metallic mineral resources include agate (for precision instrument making and jewelry) and silica sands (for glass manufacturing and steel industry). Georgia is rich in finishing materials, such as basalt, granite, limestone, marble, taconite, phosphate, and tuffs. Diatomite, fireproof clays, fluxing limestone and chalcedony are mined for the metallurgical industry's needs. From among the deposits of brown coal, the mines of Tkibuli-Shaori and Akhaltsikhe have a prospected reserve of coal amounting to 400 million tons, but have low caloric coal deposits.

The manganese ores of Chiatura (Western Georgia) are historically well known to the West, with reserves exceeding 200 million tons. Out of three copper deposits in the country, the Madneuli copper-lead-zinc deposit, where a mining and dressing plant is in operation, is the most significant, with the amount of gold in quartzite's reaching 1.5 percent. The Tsani and Lukhumi arsenic deposits are also very prolific ("Business", 2008: 27).

Because of the energy crisis facing Georgia lately, much importance has been attached to the optimal utilization of resources. The predicted oil resources of Georgia amount to 560 million tons: 200 million tons on the Black Sea shelf, and 360 million tons on land; and the predicted gas resources are 98 billion cubic meters. Currently, Georgia is extracting limited quantities of oil from wells located throughout the region. The maximum oil output to date was achieved in the 1980s, at a rate of 3.5 million tons per year (Official report Ministry of Economic Development of Georgia, 2008). From 2000, the oil output steadily declined. Several international oil firms at present have been contracted to do geological surveys and to rework the country's oil facilities.

Although Georgia has continued to be dependent on imported oil, gas and electricity, it has an enormous hydroelectric potential that, so far, has been minimally and sporadically utilized. The country currently only uses 10 percent of the 100 billion kilowatts of electric energy it disposes of in water resources. The total annual yield of more than 25,000 rivers and 850 lakes constitutes 66.3 cubic kilometers. Nine thousand of the rivers are fast enough to provide the necessary potential for operating smaller capacity power plants for local customers, as well as for export needs.(Santis, 2008)

The existing power system of the country interlinks 64 hydroelectric and 8 thermoelectric power stations. The capacity of the largest thermoelectric power station in Tbilisi equals 1,250,000 kilowatt hours, while the capacity of the Inguri hydroelectric power station is 1,640,000 kilowatt hours (Official report of Department of Energy Resources of Georgia, 2008).

The materials industry has always been one of the major parts of the country's economy, and has played a great part in shaping the industrial-territorial complex. The Rustavi Metallurgical Plant, Zestaponi Ferro-Alloy Plant and the Chiatura Manganese Plant, now united under the Saksamtometallurgia Holding Company, are the main metallurgical plants in Georgia. The Rustavi plant produces cast and sheet iron, pipe products, concrete-reinforcing steel, construction steel, hot-rolled seamless pipes for drilling, as well as shape and square pipes. The Zestaponi plant produces ferromanganese, silicon manganese, and metal electrolytic manganese; the non-ferrous industry produces copper, zinc and lead concentrates (Invest in Georgia, 2009).

The chemical complex comprises the chemical, mining-and-chemical, petrochemical, pharmaceutical and microbiological industries, which use local raw materials, such as barite and calcite, in their production. The leaders in the Georgian chemical industry are Azot and Chimbochko, which produce mineral fertilizers, liquid ammonia, caprolactam, cyanide, cyclohexanon and chemical fibers.

Before the disintegration of the Soviet Union, Georgia had a relatively developed and prosperous economy, based partially on production. Its industrial products included the manufacture and assembly of a range of industrial products, some of them involving advanced technology. Other large industrial units included the Tbilisi Aviation Factory, which was involved in the assembly of Soviet military airplanes, trucks and small agricultural machinery; production and assembly factories in Kutaisi; the Poti shipyard, which produced hydrofoil vessels; and lathe production factories in Tbilisi.

Georgia had always been one of the most powerful textile and shoe and leather industry centers in the former Soviet Union, and had 64 industries in the production of silk, wool, cotton, knitted wear, clothes and footwear. The Russian and Central Asian markets, which are still accessible and operative today, have always traditionally welcomed Georgian textile products. The factories are equipped with the best western equipment; the workers are skillful and combine low payroll cost with high quality and efficient productivity. In addition, Georgia is free of export quotas to the European Union, which encourages the development and revival of this business in the country (Salacuse, et al., 2007).

The construction materials industry is concentrated around the Kaspi and Rustavi cement plants, and brick, slate, ferroconcrete, stone and marble dressing enterprises. In general, the Georgian construction industry is almost completely provided with local principal construction materials.

One of Georgia's main economic activities is agriculture and food processing, and mainly exports citrus fruit, tea, grapes, wine and spirits.(Serbu, 2007) Georgia used to produce almost the entire citrus fruit and tea crops of the former Soviet Union, and considerably large shares of grapes, tobacco and vegetables. Georgia's variety of climates allows almost every crop to be grown, which gives it one of the most diverse agricultural bases in the former Soviet Union. By applying modern agro-biological technologies, the production of ecologically safe fruit and vegetables would be insured. Of the 6.9 million hectares of land in Georgia, 3.2 million are arable. Of the 800,000 hectares available for plowing, 320,000 are used for perennial crops, primarily fruit trees, vineyards and tea plants. There are also certain places held for silkworm breeding and bee keeping.

According to the Official report of Ministry of Economic Development of Georgia in 2008, the privatization of farmland and the agro-business sector has been successfully carried out, with more than 50 percent of the farmlands granted to private farmers. It is anticipated that many State farm employees will retain a significant portion of ownership rights. Many of the newly privatized small farms are being intensively cultivated, like giant family gardens, and have a diversity of crops. Some new owners are pooling their allotments (about 1 hectare per person) to create moderate-sized farms to increase production capabilities. Georgia also has an animal stock breeding sector that includes cattle, pigs, chickens and sheep.

Table 2. Main Indicators of Agriculture Development

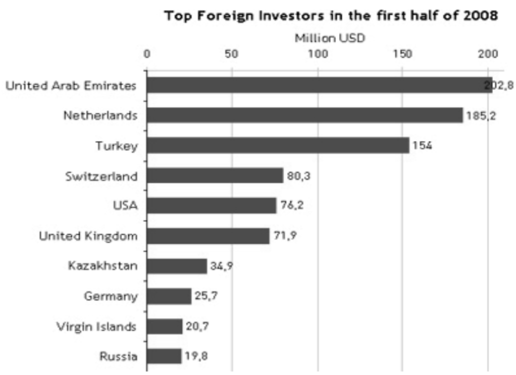
	2004	2005	2006	2007	2008
Output of Agricultural Production, million GEL	2101.8	2155.4	2483.4	2422.7	2586.1
Volume Indices of Output of Agriculture (as percentage of the previous year)	108.2	99.0	1108	94.1	112.2
Sown Area of Temporary Crops, thousand ha	564.5	577.0	561.7	534.0	539.6
Out of Which Cereals and Pulses, thousand ha	380.1	398.9	371.0	355.8	354.9
Cattle Numbers (as of end of the year), thousand heads	1180,2	1216,0	1242,5	1250,7	1260,4

Source: Department of Statistics , 2008

The country's comparatively small area represents a fortunate combination of resources, fertile soils and climate conditions favorable to recreation and health resort development. Spas, recreation and tourism comprise one of the most promising sectors of the Georgian economy. Georgia has at least 500 thermal mineral water springs, many of which remain famous throughout former Soviet countries and Eastern Europe.

According to the Official report of Ministry of Economic Development of Georgia in 2008, the amount of foreign direct investment in Georgia in the first half of 2008 made 955.4 million USD, which is 16.1% more than in the first half of 2007. The largest investments in the Georgian economy in the first half of 2008 came from the United Arab Emirates (202.8 million USD).

Figure 2. Top foreign Investors in the first half of 2008.



Source: Department of Statistics of Georgia.

The largest share of foreign direct investments made in Georgia in the first half of 2008 were made in the industrial sector (620.7 million USD, which is 65% of total investments). 260.9 million USD was invested in privatization (27.3% of total FDI) and 73.7 million USD in the banking sector (7.7% of total FDI) (26.08.2008). (Invest in Georgia, 2007) .

Tourism development perspective

The country has a remarkable combination of seaside (with a bathing season that lasts as long as six months) and mountain areas with breathtaking landscapes. The possibilities of tourism development include extremely favorable geographic and climate conditions, interesting cultural monuments and the hospitable nature of Georgian people. The Black Sea coast and alpine, sub-alpine and mountain areas, are the most convenient for developing a recreational service sector. A mixed mountain and seashore vacation during the summertime would attract holidaymakers and tourists, while skiers would be attracted to the Bakuriani and Gudauri mountain-skiing centers, which have stable snow coverage from November to April. Many opportunities also exist for hunters, fishers and equestrian enthusiasts.

According to the Department of Statistics report 2002, All the above possibilities may raise slight confusion among some American businessmen, as they still have in mind that just a few years ago, due to ethnic conflicts, civil war, paralysis of foreign trade, delayed reform, crime and corruption, Georgia's economy was almost in a catastrophic state. The decline of the country's economy was the most severe of the entire post-communist territory. Accordingly, the living standards, in what should have been the most prosperous former Soviet republic, drastically dropped

But today things are radically different. Visitors to Georgia are amazed by the obvious changes and improvements.

Positive reforms

Georgia adopted a new constitution, which fully responded to international standards. Free and fair elections of the President and a new Parliament already made big impacts and changes in the country. The political stability contributed to the remarkable success of the Lari, Georgia's currency. Inflation in 1996 was about 1% per month, and the mass privatization process was finalized – the state having given citizens vouchers, the real estate value of which totaled $154 million. The land reform was also completed, and more than one million people and their families became landowners. The rate of industrial production reached 110% and the country's GDP increased 14% (Ministry of Economic Development, report 2007). Parliament passed, and the President signed, laws on commercial banking, land and tax reform, and the promotion of investment activity; and the Parliament enacted anti-monopoly and bankruptcy legislation.

Although foreign investment in Georgia is still modest, investors are showing increased interest due to sharp gains in security and stability, and the development of democratic and economic reforms. (Singh, 2007). Together, these factors are spurring vigorous economic recovery, especially in agriculture, trade and transport.

The law on promotion and guarantees of investment activity and the law on entrepreneurship are the two most important pieces of legislation that apply to foreign investment. Both are major steps forward form previous legislation. The new legislation eliminated the licensing of foreign investments and replaced it with a more automatic registration procedure. The privatization program offers opportunities for foreign investors; and Georgia and the U.S. signed and ratified a bilateral investment agreement.

Under existing law, the government must retain a majority interest in several important infrastructure sectors, such as electric power transmission, roads, railways, ports and airports. The legislation, along with the government's economic strategy, aims to establish favorable conditions for foreign investors. In general, laws do not discriminate between foreign and local investors, with the exception of agricultural land ownership. The law does not allow foreigners to own agricultural land, but permits a maximum 49-year lease. The law allows unlimited foreign ownership in some sectors, but sharply limits foreign investment in infrastructure, and bans foreign ownership of agricultural land. No law permits private ownership of non-agricultural land. Ownership of property can be gained through acquisitions, mergers, takeovers and Greenfield investments. The law on entrepreneurship, based on a German model, provides a good framework for economic activity. The state tax service is the only body legally empowered to inspect the tax payment status of an enterprise. The tax service's regulations do not discriminate between foreign and local enterprises.

Foreign investors may convert or transfer any amount of funds associated with an investment into hard currency. Foreign investors have a right to hold foreign currency accounts with authorized local banks. The Lari is the sole legal currency in Georgia. Any amount of Lari generated by foreign investors can be sold for hard currency through interbank auctions at a legal market-clearing rate, or converted in banks that have a hard currency operation license. Foreign exchange is also available on the local market. The law on guarantees and promotion of investment activity does not impose any duties for profit or capital repatriation from Georgia (the previous legislation stipulated a 10% tax on capital and profit repatriation). No change in the remittance policy is currently planned (Ministry of Economic Development of Georgia,2009).

Also, several Georgian banks are obtaining access to Swift and Western Union interbank communication networks, which eliminates transfer delays and guarantees immediate withdrawals.

Foreign investors cannot legally use the parallel market (foreign currency exchange booths) to conduct transactions in convertible negotiable instruments, such as dollar-denominated government bonds, in lieu of immediate payments in dollars. Such instruments are not traded. After paying all applicable taxes, there is no limit on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs. The GEL has no informal or parallel exchange rates, and is not freely convertible outside the country. The Georgian National Bank predicts that the GEL will remain stable against the dollar for years to come. Georgian law prohibits the expropriation of foreign investments, except for cases involving natural disasters, acts of god and epidemic emergencies. The corporate tax is 20% for all types of businesses, as opposed to previous legislation that provided for a 20% corporate tax for manufacturing enterprises, 10% for commercial entities, and 35% for banking institutions. The entrepreneurship law provides for tax incentives to encourage new investment. The principal incentive is an initial tax holiday, followed by payments at 50% the normal rate for an additional period, and duty exemption on capital equipment. Georgian legislation does not require foreign investors to re-invest profits locally (Tobin, 2008).

Apart from economic and legal advantages, other important assets of the country should also be considered. Georgia is one of the leaders in the region in intellectual resources. The level and range of education is significant. The country's lifestyle and outlook are already of an European (Judea-Christian) orientation. At the same time, centuries-old traditions of religious and ethnic tolerance create the basis for a stable multi-ethnic state. Despite very difficult socio-economic conditions, Georgian people continue to believe in a better future. According to Gallup polls, the optimism of Georgian people toward the success of reforms rates in the top five out of fifty countries. Additionally, despite seventy years of a centralized economy and totalitarianism, which suppressed personal initiative, Georgians never lost their individualism or entrepreneurial skills. All of this was the reason for Georgia's above-average standard of living during the Soviet period (G.Meladze, 2007).

The experience of the last few years shows that the personality of a political leader during times of crisis and transition plays a decisive role. Today the international status and political wisdom of the President of Georgia, Mr. Mikheil Saakashvili, is another competitive advantage and necessary ingredient for the stabilization and sustainable development of Georgia, as well as the entire region.

Spheres of investment

The Caucasus region, with its abundant natural and human resources, is one of the richest regions in the planet. Benefits derived from its favorable location, and the full realization of its existing potential, could totally determine the wealth of not only the Caucasian countries, but also foreign involvement there.

The vast expanses of oil and gas are one of the most crucial elements for the region. The huge oil reserves, estimated at over 25 billion barrels, under the Caspian Sea and in the Central Asian republics of Kazakhstan, Turkmenistan and Uzbekistan, are similar to those in Kuwait and larger than those in Alaska's Northern Slope and the North Sea combined (Official report on Caucasian natural resources sector, 2007).

Analysts indicate that the world needs to ensure free and fair access for all interested parties to the oil fields of the Caucasus and Central Asia. These resources are crucial to ensuring prosperity in the first half of the 21st century and beyond. Access to Eurasian energy reserves could reduce the West's dependence on oil from the Middle East and ensure lower oil and gas prices for decades to come. Eurasian oil resources are critical for economic development in the early 21st century. The supply of Middle Eastern oil would become precarious if Saudi Arabia became unstable, or if Iran or Iraq provoked another military conflict in the area. Moreover, when these vast oil reserves are tapped and developed, tens of thousands of U.S. and Western jobs will be created (UNCTAD, 2008). Therefore, the world will presumably ensure free access to these reserves for the benefit of both Western and local economies.

According to the Transition Report prepared by The European Bank of Reconstruction and Development in 2007-2008, oil revenues will boost the independence and prosperity of Azerbaijan and Georgia. For example, through production royalties, Azerbaijan could generate over $2 billion a year in revenue from its oil fields, while Georgia could receive over $500 million annually from transit fees.

Two pipeline routes in Central Asia were under consideration. The first, which has been built, allows oil to flow from the Azerbaijani Caspian Sea shelf to the Black Sea coast. The second would transport oil from the giant Tengiz oil field, developed by the U.S.-based Chevron Corporation in Kazakhstan, in a westerly direction toward Europe and the Mediterranean (Official report on Caucasian natural resources sector, 2008).

The West has a paramount interest in assuring that the Caucasian and Central Asian states remain open to the West. The U.S. is the main supporter of the Western oil route through Turkey, to reduce oil transportation hazards in the Bosphorus Straits. Without this new oil pipeline, more potentially hazardous oil shipments will pass through the already clogged Bosphorus Straits. Oil tanker fires, like the one in 1994, can block international shipping through the Boshporus for days, causing tens of millions of dollars in damage. The U.S. supported a pipeline route through the territory of Georgia and Turkey that transports oil from Eurasia to a Mediterranean port in Turkey, Ceyhan.

Today, the Caucasus is a key oil region, mainly due to Azerbaijani deposits. Since the late 19th century, the oil in Azerbaijan has played a key role in the economies of the Russian Empire and the Soviet Union, as well as in the global energy market. International business interests, such as the Nobel and Rothschild families, have all vied, at different times, for control of Azerbaijan's oil (Walkenhorst, 2008) Even after 100 years of Russian imperialism and Soviet exploitation, Azerbaijan still has some of the largest reserves in the world.

Table 3. Sources of foreign investment in Georgia (% of total by year)

	2004	**2005**	**2006**	**2007**	**2008**
UK	3.8	12.5	13.0	18.9	58.2
Turkey	5.4	5.7	6.6	9.8	28.3
EBRD	1.2	-----	2.9	----	16.5
World Bank	2.5	9.3	11.3	15.9	22.5
USA	1.2	16.1	19.5	30.7	32.7

Source: Department of Statistics (April, 2009)

All of the above gives grounds to predict the growth of world interest in the Caucasus region and shows the practical steps in intensifying other countries' activities there. So far, many Georgian places “under the sun” remain vacant, waiting for more foreign visitors and investors.

Post war investment to Georgia

Due to war crisis between Georgia & Russian Federation on August 8th 2008, Georgia has suffered severe damages including commercial and private sectors, as well human losses and totally of half destroyed cities and regions. Despite the crisis, Georgia's economy grew by 12 percent in the first half of 2008, as a result of solid macroeconomic management, openness to trade and investment, and business-friendly economic policies. The Government of Georgia has reiterated its commitment to the sound policies that have led to this success. The United States is committed to assisting Georgia to remain on this path and will help Georgia's economy recover from conflict. The United States has made a multiyear commitment of $1 billion in support of Georgia's economic recovery and humanitarian needs. Approximately half of the total will be made available to meet immediate requirements using existing FY 2008 and FY 2009 resources, and the balance of funding will be budgeted for next year to address longer-term requirements. This assistance will be used for budget support to the Government of Georgia, infrastructure rehabilitation, private sector financing, humanitarian assistance, and other development activities. As part of this package, the Overseas Private Investment Corporation will be providing $150 million in investment of private sector investment projects in Georgia.

Humanitarian assistance will continue to help Georgians displaced by invasion. The United States began providing humanitarian assistance to meet the immediate needs of the Georgian people at the onset of the conflict. To date, the United States has provided nearly $30 million in humanitarian assistance by sea, land, and air. The United States military, in partnership with the State Department and the U.S. Agency for International Development, has led this effort with 61 trips and two maritime shipments to Georgia, delivering more than 1,200 tons of food and medical supplies (Invetor.ge; 2008: 26).

The United States is working closely with our multilateral development bank partners as they formulate their plans to help Georgia meet its reconstruction needs and leverage the private investment needed for future growth. Georgia has an impressive track record of reform, and its economic fundamentals have increasingly strengthened. The United States strongly supports Georgia's engagement strategy with the International Monetary Fund to bolster market confidence and support the Georgian government as it addresses economic challenges resulting from the conflict (Wooldridge, 2008).

The United States will deepen its trade and investment ties with Georgia. The United States will broaden its Trade and Investment Framework Agreement with Georgia, explore negotiating an enhanced bilateral investment treaty, propose new legislation to expand preferential access to the U.S. market for Georgian exports, and provide trade-related technical assistance, including by helping Georgia take full advantage of the Generalized System of Preferences. The United States will assist American firms to invest in Georgia and sponsor exchanges to enhance ties between the U.S. and Georgian business communities.

Marine war risk insurance will support maritime commerce with Georgia. The President will exercise his authority to make sure that insurance against loss or damage caused by acts of war relating to the conflict in Georgia will be available if commercial insurance is not available on reasonable terms (Maritime Department of Georgia, report 2009). The United States will work with the European Union to assist Georgia with its reconstruction and will participate in the international conference on Georgia's reconstruction. The United States has joined the EU in condemning Russia's decision to recognize the independence of Abkhazia and South Ossetia and in calling on other states not to recognize these Georgian separatist regions ("Georgian Times", 2008; 34). Provided by official resources of Ministry of Economy of Georgia, the post war crisis analysis has been listed in following numbers:

Despite the August 2008 crisis, the Georgian Financial Banks continued their operation in normal regime. So not to put the commercial banks operations under risk, The National Bank of Georgia & Financial Insurance Department has held several important occassions, which guaranteed the commercial banks normal operation without threat of crisis. The Georgian Bank system continues to expand. In September 2008, "TBC" Bank &" Procredit Bank" opened their new branches in Tbilisi. At the same time"TBC" Bank has issued new"TBC Platinum" plastic cards & 'Status" Cards. Apart from this"Procredit Banks" plans to new branches by the end of January 2009.

The Foreign Direct Investment continues to Georgia. Within 5 months in Batumi will be opened medium sized enterprise, "Geofibre" which will introduce 16 brands of fibers , and will recruited about 300 employees .The total investment is 2 mln US$.

Despite the recent events, company `Heidelberg Cement Georgia' continues its investment operations in Georgia where its annual investment consists of 20 mln GEL.As for additional investments; it depends on the sales & profit of `Heidelberg Cement Georgia'. (Investor.ge; 2008:5)

Despite the war crisis, based on resources of Georgian Ministry of Energy, the Indian company will pay 37.1 mln US$ for 5 oil blocks licenses .The Oil & Gas National Agency has already received bank guarantees from Indian company on `ENSearch Petroleum LTD~ & `JSPL

Oil and Natural Gas LTD '.

The `MagtiComi~ ltd expands its spheres. On 10 of September 2008, a new service office has been opened. The new branch is considered as secpnd stationary campus of"MagtiCom"llt .Apart from that company owes 4 conveyance"magtimobile" offices. 'Magticom" llt employees approximately 1 000 persons (Investor.ge; 2008:5)

International Monetary Fund(IMF) has approved & issued 18-month credit line (Stand-By Arrangement), whose total amount consists of 750 mln US$. This amount is considered to support Georgian macroeconomic sectors development as well as regulation of fiscal borders increase.

This foundation line is important because it will overcome IMF-Georgia's 100% quotas annually and quotas 300% in total. Based on existed agreement, 250 mln US$ will be issued, while the rest of the amount will be cover within the following 18 months.

The august war had its negative impact on countries FDI net, such as in 2007 , net FDI as percentage of GDP rose to 19.8% from previously estimated 15.3%, but declined by 10% after august events. (Georgian Statiscs Department,2009). The above mentioned events shattered Georgia's investment image, foreign direct capital inflow slowed dramatically. The statistic department says FDI in the 1/3 quarter of 2008 was USD 1.105 billion a decline of 15.7% from a year earlier. (Investor.ge; 2008:5)

According to official report of Ministry of Economic Development of Georgia,the largest share of FDI comes from the transportation and communications sectors reaching USD 312.8 million which equals to 28.3 % of total FDI.

The biggest investors in Georgia last year were the Czech Republic, Netherlands , Brittish Virgin Islands, Cyprus and Turkey. The 2008 and first half of 2009, the top five investors are:

1. United Arab Emirates – USD 221 mln (20% of FDI)
2. Netherlands – USD 188.8 mln (15.9%)
3. Turkey – USD 175.8 mln (14.9%)
4. Great Britain- USD 96.8 mln (8.8%)
5. USA- USD 86.3 mln (7.8%)

Despite that ,the world economic crisis led to decrease from 12 % in 2007 to 2 % in 2008 (D.Narmania,Independent expert analysis, 2009). Preliminary findings of a survey, conducted by the National Bank of Georgia (NBG) in a bid to forecast FDI volume of 2009, say Georgia will receive approximately USD 815 mln in gross foreign direct investment and USD 33 mln in portfolio investment. As for gross loans and other funds , around USD 1 billion is expected.(Ministry of Economic Development of Georgia, 2009)

Mari Caltinder (Head of PR & International Cooporation Division of NBG) , presumes that in total 110 businesess companies from 19 regions participated in the survey. In terms of foreign capital inflow UAE, US, China,Great Britain, Czech Republic and Azerbaijan will be leaders by the end of 2009.

However, the survey conclude that the total volume of FDI will largely count on the success of seperate large scale project which was the lase in the after war developments.

Despite september invassions, Kazakhstan's state-owned oil & gas company KAZMUNAIGAS , abondened its oil refinary plans in Georgia, a project estimated at USD 1 million. Although the flow of new foreign investment is being delayed since then, a majority of the investorss operating business in Georgia have not pulled out(Statistics Department,2009). MAXIMADI, a trademark of VITEL Georgia , an affiliated company of Dubai-based VTEL Holding is proceeding with its USD 30 mln project to provide Georgia with wireless internet service in two years time. Neighbouring Azerbaijan does not seem scared by the August war either. On December 27,2008 , Azerbaijan state oil company SOCAR purchased 22 small companies which are distributing gas in Georgia's provincial regions. The Azeri company plans to invest USD 40 mln within 3 years in gas network infrastructure in the regions. UAE's RAK Investment Authority (RAK-IA) despite slowing its real easte projects concentrated on investment in Poti free industrial zone and its port. Owing 51% of Poti port shares , it plans to convert the region in one of the main financial centers in the Caucasus and therefor invest additional USD 200 million . .(report on Georgian investment climate,2009)

In expectation of that much-needed foreign capital to keep the economy affload, Georgia will rely on the donors' financial aid. As a provisional measure to compensate the plummet in foreign investment in most crucial areas, including transportation, energy and municipal infrastructure , the donors have pledged a total of USD 2.65 mln.

Conclusion

Foreign Direct Investment (FDI) is a huge perspective to bring capital, productive facilities and technology transfers as well as new jobs and management expertise to Georgia. The goal of this article was to explain and show the perspectives of Georgia in the field of FDI. To show that Georgia as a transit country on crossroads of Europe and Asia can achieve and give big opportunities for international trade development. Despite unstable economic environment and territorial conflict Georgia has a high potential for long term relations with foreign investors and developing different spheres of industries, positive environment and stable economy within short time.

Its important to stress that that there are no single solutions to this problem, effective reform must be directed to change the system in the following directions:

a) introduction of independent oversight of agencies
b) clarifying and making transparent how much official discretion can be exercised
c) rewards for conduct

To summarize, to be on the top of the list of countries for extended FDI and multinational production Georgian authorities have to take into account the following list of factors driving FDI inflow:

- Political and economic stability (to reduce investment risk and provide reasonable predictability for making business decisions).

- Government behavior that facilitates doing business.

- An FDI legal framework in line with the best international practice (with security of property and persons and enforceability of contracts).

- An enabling environment for domestic market growth including adequately developed infrastructure and human capital.

-The availability of all these conditions to all companies automatically and by law (without a need for a special treatment and discretionary decisions by officials or civil servants) (Invest in Georgia, 2007).

The most serious challenge Georgia faces at the moment is to switch from an obsolete approach towards attracting foreign investment to modern one. The former in case of Georgia, involves relatively high tariff protection of domestic market and on top of that specific privileges offered to FDI , the latter approach would require getting rid of both sticks and carrots and providing foreign investors with a stable business environment and generic climate conductive for attracting capital investment (Spess, 2007).

The Georgian government has committed much energy and effort to ameliorating the investment climate in the country and FDI inflows are increasing year in year out; however, there are specific problems concerned with attracting more foreign capital and these issues need to be addressed as soon as possible to ensure further rapid economic development of Georgia. Recently Georgia has been hindered by political, financial and economic crises and in the country by slow growth and persistent dependence on the production and export of primary commodities.

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