



KONRAD-ADENAUER-STIFTUNG (KAS) AND THE ECONOMIC POLICY RESEARCH CENTER (EPRC)

COVID-19 Era and

INVESTMENT PERSPECTIVES

OVERVIEW OF THE PROJECT AND THE POLICY PAPER

In 2019 **Konrad Adenauer Stiftung (KAS)** and **Economic Policy Research Center (EPRC)** established a platform for economic policy discussions – **Eagle Eye Talks - KAS EPRC Economic Area**. The platform is a long term initiative aimed at creating research based discussions on social and economic issues. KAS EPRC Economic Area aims to engage interested parties and experts to present argumentative positions on important issues of economic policy and share expert opinions.

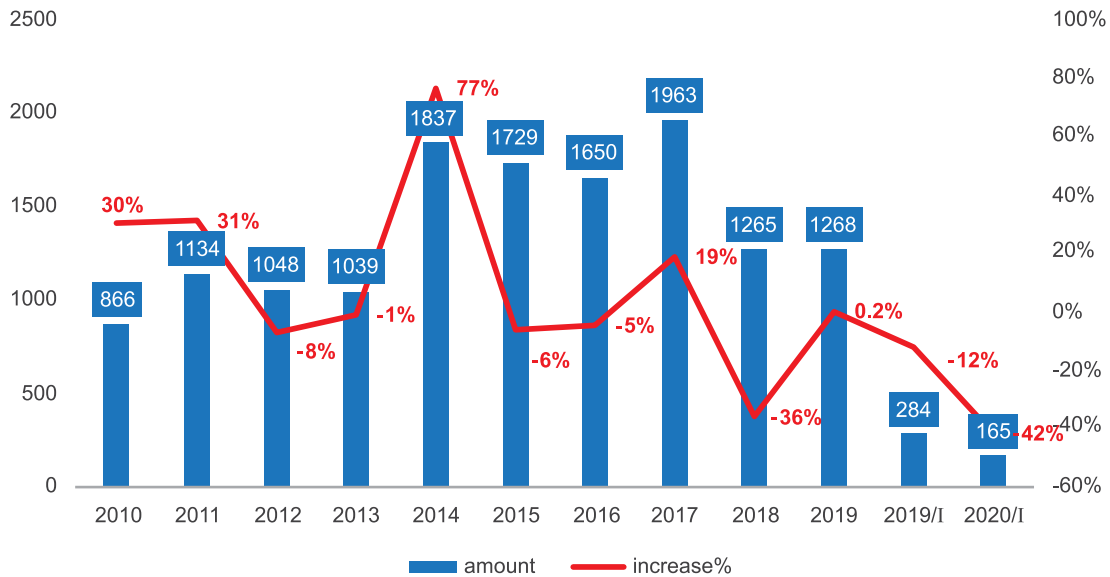
One of the key components of this initiative is to elaborate a policy paper, based on the discussions, which will unify various positions and arguments raised during the discourse and elaborate recommendations for decision makers.

On June 30, 2020, in the frames of the platform, the 4th round of discussions was organized on the topic - “Coronavirus Era and Investment Perspectives”. The moderator of the discussion was Nino Evgenidze – Executive Director of Economic Policy Research Center. Panelists of the discussion were: Giorgi Cherkezishvili – Head of Secretariat of the Investors Council of Georgia, Giorgi Pertaia – President of the Georgian Chamber of Commerce and Industry and Lekso Aleksishvili – General Director of PMCG.

INTRODUCTION

In recent years, the Foreign Direct Investments (FDI) in Georgia have been characterized by unstable flows. In 2017 FDI reached its historic maximum and amounted to almost 2 billion USD, which was followed by drastic decline in 2018 and 2019. Thus, decrease of investments to Georgia has started long before Covid-19 pandemic, followed by the economic challenges and implications resulted by the coronavirus outbreak.

FOREIGN DIRECT INVESTMENT FLOWS TO GEORGIA
(MLN. USD)



According to the international organizations, the damage caused to the world economy by the spread of Covid-19 will have a severe negative impact on foreign direct investments. For instance, the Organization for Economic Cooperation and Development (OECD) forecasts world FDI reduction of at least 30% in 2020 and the decline will be much higher in developing countries. Based on the data of the first half of

2020, in the most optimistic scenario, the pre-pandemic investment rate will only be reached by 2021. While United Nations has a more pessimistic forecast of 30 to 40% FDI decrease, mostly affecting energy and raw material production sectors (208% decline), aviation (116% decline) and automobile industry (47% decline).

This downward trend increases the competition on the international investment market and the Georgian Government will have to make additional efforts in order to attract already limited foreign investment resources to the country.

WHAT FACTORS CREATE FAVORABLE ENVIRONMENT FOR INVESTMENT? – First and foremost stable political situation, protection of private property, fair juridical system, favorable tax regulations, cheap and qualified labor force, predictable economic environment and economic openness of the country, natural resources, strategic geographic location, free trade regimes, low level of corruption and country specific attractive features.

COVID-19 PANDEMICS AND INVESTMENT PERSPECTIVES FOR GEORGIA

The world welcomed 2020 with the universal challenges related to the outbreak of the novel coronavirus, which has affected every country. The scale of pandemic and the rapid spread of the infection from the beginning of the year led to changing the ordinary lifestyle, which caused unprecedented damage to the world economy. Although the exact economic damage resulted by the pandemic has not yet been calculated, nor has the epidemic itself been defeated, there is no doubt that in 2020 the rate of economic growth in the world will be significantly reduces, which will be especially painful for developing and less developed countries.

Closing borders by countries, suspending economic activities and disrupting or postponing important international or local events will definitely reduce the rate of economic growth and Georgia is not an exception, while preliminary negative economic consequences caused by the pandemic have already been published. Including the statistical data of investment flow of the first quarter of 2020, which indicates that compared to the same period of the previous year FDI decreased by 42% (amounted to \$165 mln.). Most severely affecting tourism and transportation sectors, which represent the major contributing sectors to the Georgian economy.

MAJOR FINDINGS AND RECOMMENDATIONS

Based on all the above and in the light of the assessment of the economic damages caused by the coronavirus pandemic, the following recommendations were made during the discussion held in the frames of the Eagle Eye Talks - KAS EPRC Economic Area:

- Reforms addressed to improve economic and investment climate in Georgia should continue. In addition to the implications caused by the Covid-19, the factor of the 2020 parliamentary elections should also be taken into account. Generally, elections are crucial in terms of initiating new reforms or proceeding with the already initiated ones. In this regards, special emphasis should be given to the development and reforming capital market in Georgia.
- Comprehensive legal framework, which includes entry into force of the Law on Investment Funds, and elaboration of draft Law on Insolvency, which will increase access to finances of local and foreign enterprises;
- Strengthening small and medium size enterprises, which creates additional incentives while promoting Georgia's investment opportunities;

- In order to attract investors in the services sectors, the country has to support technological developments, including introduction of 5 G, which will stimulate local and regional startups to set up innovative business projects in Georgia;
- Fair and unbiased judicial system is the key to protecting private property and ensuring the rule of law in the country, strategic partners of Georgia have numerous times stressed out the importance of the fair court, as investors have to be ensured that in case of legal dispute, they will be treated justly, under the supreme execution of the law;
- Georgia's investment potential is especially attractive due to its strategic geopolitical location on the crossroads of Europe and Asia, this advantage has to be rightfully utilized, however without proper core infrastructure and logistical centers, it will be hard to persuade investors. Thus, construction of logistical centers and building soft and hard infrastructure, including ports, roads and modernizing railway is an important recommendation to be considered;
- Even though education system has the long-term outcomes, Government of Georgia should be oriented systematically improve and address challenges of the education system based on the needs of the international labor market, oriented on raising generations of qualified workforce.

Even though the spread of coronavirus has brought many changes and implications, resulted in the “new normal”, which is the notion still not well defined, some experts argue, that countries can turn it into really appealing opportunity to increase economy and attract investments. In this regard, scholars claim that China will lose its advantage as an attractive investment destination, which was primarily the result of the low cost labor force, and investors will consider other factors as well, such as country's ability to address human and healthcare implications caused by the pandemic and the Government's skills of crisis management. In this regard Georgia can be considered a real success on international arena, based on the results in terms of fight against pandemic and crisis management.

