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THE ROLE OF FOREIGN DIRECT INVESTMENT IN THE NATIONAL ECONOMY AND CORRELATION ANALYSIS

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ABSTRACT

Objectives: *World trends point to the importance of FDI. It directly or indirectly affects the economy and all other industries. Foreign investment has a significant impact on the development of both economic and intangible values. The main goal the task of scientific work is to study the impact of foreign direct investment.*
Methods/Approach: *FDI statistics in the world and in Georgia, studies and correlations will allow us to analyze the pace of development of Georgia's investment environment, its advantages and disadvantages.*
Results: *A correlation has been established between foreign direct investment and employment, gross domestic product and export-import. The correlation between foreign direct investment and employment is strong, which is logical due to the strong impact on employment. The weakest connection is with imports and exports. In this regard, it is interesting to note that an increase in foreign direct investment also leads to an increase in the level of employment. We have studied the compatibility of Georgian business and foreign investment.*
Conclusions: *International experience and trends in Georgia show that FDI is one of the main drivers of solving socio-economic problems. The investment environment is connected with all important sectors and directions of the country. Despite the global pandemic and the difficult economic situation of Georgia, as a result of the implementation of important regulations, it will be possible to improve the economy through foreign direct investment.*

Keywords: foreign direct investment, employment, correlation, gross domestic product, export-import, pandemic impact and regulation.

JEL classification: E22; F36; F66; G11
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INTRODUCTION

The role and importance of foreign direct investment has been great for decades and only increases with time. The restoration and development of the country's economy largely depends on this.

Georgia's positions in international rankings are increasing every year. These main areas are low tax rates, low levels of corruption, simplified procedures for starting a business, benefits in the business sector, and many others.

Georgia's position on an international scale has a significant impact on attracting investors and the amount of their investments. Georgia has good ratings in several areas. However, there are areas in which Georgia is not in a very secure position. Despite the fact that Georgia manages to move up in the rankings every year, the amount of foreign direct investment has not increased significantly. In terms of ease of doing business, Georgia is in 7th place with 83.7 points. Georgia has been in the top ten countries in the Doing Business cycle for three cycles in a row. 7th place in doing business. Starting a business 2nd. 5th place in business registration and 14th place in paying taxes. According to the Global Competitiveness Index, Georgia ranks 41st with 60.6 points. According to the Human Development Index, it ranks 61st with an indicator of 0.812.

For Georgia, investments are the main guarantee of economic progress, because without financial resources it is impossible to develop production and services.

Table 1. Global ratings for Georgia

Ease of doing business (2020)	83.7 (7 place)
doing business (2020)	7
Starting a business (2020)	2
Enterprise registration (2020)	5
Payment of taxes (2020)	14
Global Competitiveness Index (2019)	60.6 (41/141 place)
Human Development Index (2019)	0.812 (61/189 place)

Source: World Bank data

In 2021, the average per capita income in Georgia was $15,182 PPP, ranking it 81st in the world (out of 192 countries) by this indicator. In 2020, Georgia's per capita income was $14,078 and we ranked 85th among countries in the world. Georgia's 10% economic growth led to a promotion in the rankings.

For Georgia, foreign capital is the main means of introducing new technologies, using modern management methods and implementing local innovative projects. Foreign investment can also be a motivating factor for local investment and promote healthy competition and the absence of monopoly. “For the investment environment, a stable, stable and predictable legislative process is important, therefore, all parties affected by the changes must be informed and involved in all reforms, it should be noted here that the process of reforming specific issues that are important for business entities should not be too long, so that they can easily overcome the transition period and adapt to the news in time” (Tsinaridze et al., 2021).

The covid pandemic has led to a serious financial crisis and has posed big problems for the Georgian economy. Due to the pandemic situation in the country, a crisis was created that increased the unemployment rate and caused a reduction in financial resources. A similar situation has developed throughout the world, and it is logical that this situation has also affected foreign direct investment. Priority areas where free financial resources are invested have also been identified. As a result of the reforms carried out over the past decade, Georgia's investment environment has become very attractive. Among the various reforms, an important one is the customs reform, which until 2007 was very complicated due to the number of tariffs. The Labor Code has also been improved and brought closer to the European standard, today the employee is more protected from illegal actions by the employer. Taxes have been reduced in Georgia, which makes starting a business easier and more affordable. A modernized system of licenses and permits has been created.

However, we must not lose sight of the following areas that need to be developed. The trend of fighting crime and corruption in Georgia is relatively weak. This process was actively improving a few years ago, but now this pace has slowed down. We also have a high level of poverty, we have a growing inflation dynamics, the national currency is constantly unstable, and we also do not have a developed stock market.

Opinions of scientist-economists about the role of direct foreign investments in Georgia.

For scientific work, manuals and scientific articles, official data of the National Statistical Service of Georgia, the Ministry of Economy and Sustainable Development of Georgia, reports posted on the World Bank website, studies and periodicals, as well as foreign publications on investments are used.

Barbakadze Victoria in her work "The Role of Investments in the Development of the Economy" examines the development and role of investment activities in raising the standard of living of society and in the economic growth of the country. Author's recommendation: Investment growth is crucial, as economic growth is unimaginable without the growth of manufacturing and service sectors, which, in turn, require significant financial resources. Georgia needs foreign capital, which will promote the introduction of new capital, advanced technologies and modern management methods for the country, and will also encourage domestic investments, (Barbakadze et al., 2019).

Macharashvili Salome, in his work “The Impact of Foreign Direct Investment on the Economic Growth of the Host Country”, discusses what steps the country should take to improve the investment climate and what areas need to be addressed. Author's recommendation: Georgia should pursue a more active investment promotion policy in order to receive quality investments as a result of ongoing reforms. Although investment policy is not determined by European directives, success in attracting investment will eventually become an important benchmark for a country's European integration, (Macharashvili et al., 2020).

Sima Gachechiladze in her work "Statistical Analysis of Foreign Direct Investments Made in Georgia from the Commonwealth of Independent States" considers foreign direct investments received from the CIS and their significance. Author's recommendation: In order for Georgia to have a high level of economic growth, which in turn implies an improvement in the living conditions of every citizen, it is necessary to attract as much foreign investment as possible. We can say that the amount of foreign investment invested in the country directly affects the financial well-being of every citizen. That is why one of the main goals of any government should be to create an enabling environment to attract more investment, (Gachechiladze et al., 2019).

Ramin Tsinaridze, David Beridze in their work "Challenges of the investment environment and foreign direct investment in Georgia" note that the level of investments incoming to the country answers many questions - how stable is the country, what is its economic policy, investment environment, prospects for economic and sectoral growth, etc. .d. then. Author's recommendation: Foreign investment affects the country's competitive environment. Therefore, the state must have a strategy for the use of investments, it must be predicted in advance what impact investments will have on the national economy, macroeconomic proportions and overall stability. Based on foreign investment practice and the realities of Georgia, it is still important to create the appropriate conditions for attracting foreign investment, and at the same time, it will be the wrong direction if we rely only on foreign capital. set up new production. But it is important to use foreign investment as a development factor in mobilizing natural, industrial and labor potential, (Tsinaridze et al., 2018).

Ramin Tsinaridze, Lasha Beridze in their work "The Impact of Foreign Direct Investment on Employment" consider what role the state should play in the economy, or vice versa, what role investment can have in the development of the country's economy, or how foreign direct investment affects the level of employment in the host country. Author's recommendation: In the modern dynamic open world, especially since after gaining independence, Georgia is gradually restoring its historical function and becoming a sphere of interests of developed countries, it should be assumed that the investment processes in our country will become more dynamic. Accordingly, significant changes may occur in the current rating scheme. It is expected that new groups will be formed according to the degree of investment activity, which will ultimately ensure the economic well-being of the entire country, (Tsinaridze et al., 2019).

Ramin Tsinaridze, Lasha Beridze, in their work "Public Debt and the Covid-19 Pandemic: Reality and Relationship", established the standard deviation and correlation between GDP, public external debt, PUI and the current account balance. Author's recommendation: public debt in Georgia plays an important role in the development of the country, but the debt management strategy in the context of the crisis needs to be adjusted and adapted to future scenarios. At the same time, it is necessary to regulate the exchange rate of the national currency by the demand for foreign currency caused by the debt service in times of crisis and the depreciation of the national currency, (Tsinaridze et al., 2021).

So, many scientists and economists talk about the role of foreign direct investment (Uteubayev & Petrova, 2017; Kurmanov et al, 2018; Kurmanov & Petrova, 2019). Often studies, statistical analysis and correlation have the same result. For centuries, the economies of countries have been heavily dependent on investment, and this trend continues. In order for Georgia to improve its economic performance and reach a high level of development, additional foreign investment and an improved investment environment are needed.

METHODOLOGY

The methodological basis of the work is the works of Georgian and foreign scientists, statistical data, research and analysis. The work is based on scientific and intellectual works prepared by Georgian and foreign

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researchers in the field of foreign direct investment. Correlation analysis and statistical methods are used in the study of the work.

RESULTS

Analysis of statistical indicators of direct foreign investments

The position of foreign direct investment plays an important role in the development of the economies of countries, which makes it even more valuable and contributes to the revitalization of this area. The investments resulting from the latter are one of the main stimulating levers for improving the country's economic situation.

Foreign direct investment is actively linked to the gross domestic product. Global FDI flows have been hit hard by the COVID-19 pandemic. In 2020, they fell by one-third to $1 trillion, well below the level reached after the global financial crisis a decade ago. Investment in new projects was particularly hard hit. This is a complex issue, as international investment flows are vital to the sustainable development of the world's poorest regions.

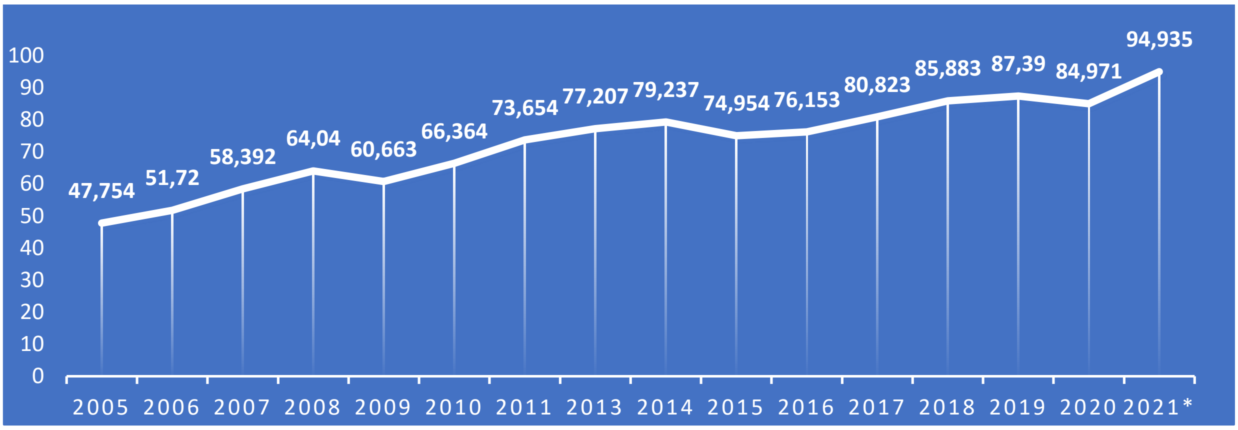

Figure 1. Total World Gross Domestic Product (current, trillion dollars)

Source: Graph compiled by us based on World Bank data

The overall world gross domestic product has been growing for many years, with little negative change due to crises. An example of this is the global crisis of 2013-2014. The decline in GDP in 2020 is related to the pandemic, but in 2021 this indicator has improved and continues to show growth rates.

Equally important is the global trend in the inflow of foreign direct investment. According to this indicator, the maximum numerical result falls on 2007, and since then it has been quite variable. In 2018, global net investment inflows fell to $0.931 trillion. It increased in 2019 and decreased again in 2020 by nearly $0.3 trillion.

The impact of the Covid pandemic on the level of foreign direct investment from developed countries is clear. It is not difficult to see how the pandemic has affected the economic situation of countries. Europe has been particularly hard hit, as the rate stood at 51.3% in 2018, dropped to 31.7% in 2019, and hit a ten-year low of 10.9% in 2020. America is not following the latest trend as it was negative in 2018, 14.1% in 2019 and

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increased further to 19.2% in 2020. The Asia-Oceania indicator fluctuates, one year we have a small increase, the next year a small decrease. However, there will be significant growth in 2018. In 2020, the indicator decreased by 2.2% compared to the previous year and amounted to 17.2%.

2020-2021 has become a test for the economies of many countries. The latest pandemic has put many countries in a difficult position, and most developed countries have taken this blow lightly. As for developing countries, including Georgia, it has suffered significantly. In such countries, the economic situation is not strong enough to easily deal with a global pandemic and, consequently, a financial crisis.

Since the end of 2019 until today, the whole world is fighting a pandemic, and most of the available resources are directed to healthcare, so funding has been reduced to other economically important areas. The reduction in foreign direct investment was caused by the temporary closure of borders and the reduction of financial resources. as well as a less attractive investment environment and a difficult economic situation for both the investor and the recipient countries.

In 2022, greenfield foreign direct investment in new projects is expected to grow by 6%, which will return to the level of the quantitative indicator by 2021. This forecasting model has been defined by Global Data. The volume of this type of investment in 2021 was identical to that of 2019; compared to 2020, it shows an increase of 20%. Investors have more or less adapted to the chaos caused by the pandemic. It is logical that the speed of recovery will be different depending on the differences between countries.

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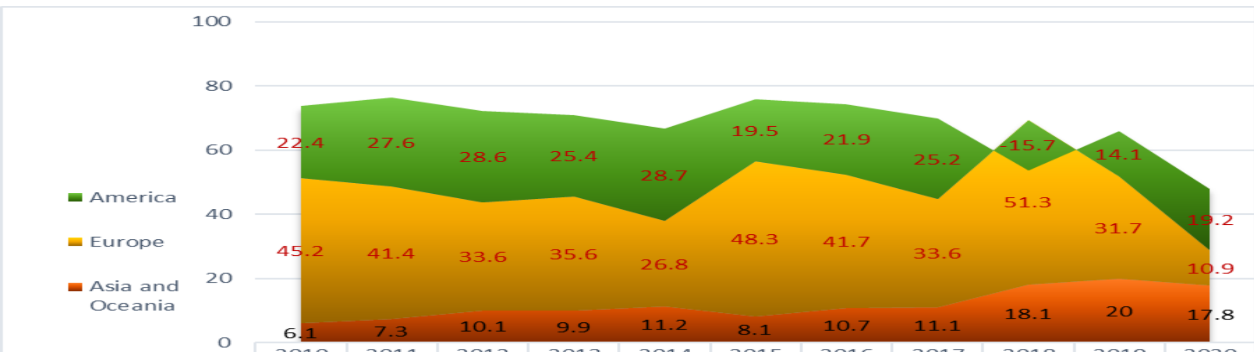

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
America	22.4	27.6	28.6	25.4	28.7	19.5	21.9	25.2	-15.7	14.1	19.2
Europe	45.2	41.4	33.6	35.6	26.8	48.3	41.7	33.6	51.3	31.7	10.9
Asia and Oceania	6.1	7.3	10.1	9.9	11.2	8.1	10.7	11.1	18.1	20	17.8

Figure 2. Outflow from developed countries (in percent)

Source: Chart based on World Bank data

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The share of developed countries in global foreign direct investment fell to a record low of 48 percent in 2020. Europe accounted for 11 percent, North America for 19 percent, and developed Asia for 16 percent. On the host side, emerging markets accounted for 67 percent of global FDI inflows, compared with 48 percent in 2019, driven by strong inflows to Asia. Developing Asia is the only region reporting growth, accounting for 54 percent. Developing America, 9 percent, and Africa, 4 percent.

It is visible and logical that in 2020 quantitative indicators decreased both in value terms and in relation to GDP. Among emerging economies, the indicator of Asia-Oceania is quite high, which cannot be said about America. In 2020, the emerging rate of US FDI outflow will be negative. The decline in foreign direct investment was concentrated in developed countries, where flows decreased by 69% and amounted to about $229 billion.

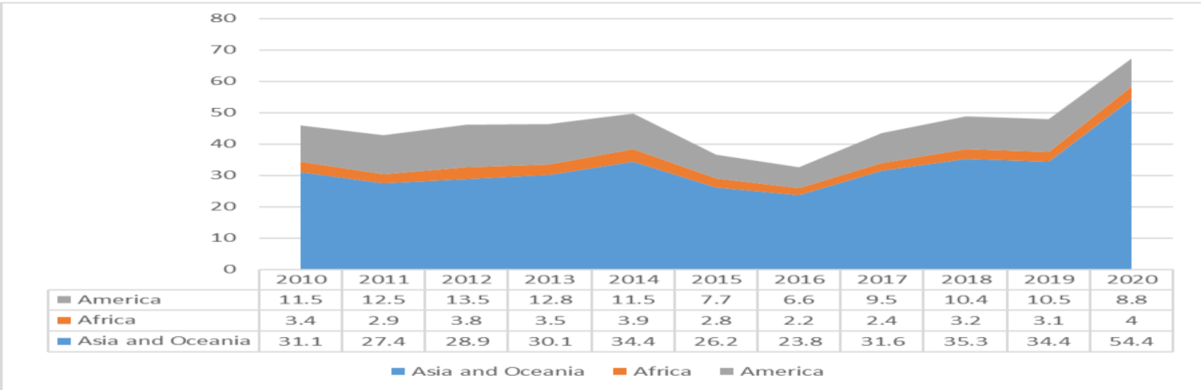

Figure 3. Inflows to developing countries (Percentage)

Source: Chart based on World Bank data

Flows to North America fell 46% to $166 billion, with cross-border mergers and acquisitions (M&A) down 43%. Announced new investment projects also fell 29%, while project finance deals fell 2%. Although FDI in developing countries fell by 12% (about $616 billion), it accounted for 72% of global FDI. Foreign direct investment in Southeast Asia fell 25% to about $136 billion. Singapore (-21%), Indonesia (-22%) and Vietnam (-2%) distinguished themselves by the reduction in investments.

2020 began with a new universal challenge for the world associated with the coronavirus pandemic and engulfing the whole world. The scale of the pandemic and the rapid pace of the spread of the infection at the beginning of the year led to a change in the usual rhythm of life, which caused unprecedented damage to the global economy. Although the exact economic losses caused by the pandemic have not yet been calculated, and the epidemic itself has not been defeated, there is no doubt that the world's economic growth will slow down significantly in 2020. This will be especially painful for developing and less developed countries.

The closing of borders by countries, the suspension of economic activity and the disruption or postponement of important international or local events will slightly reduce the rate of economic growth. In this regard, Georgia is no exception, and the initial negative economic consequences caused by the pandemic have already been published. Among them, according to the preliminary investment data of the first quarter of 2020 of the Statistical Service, there has been a sharp drop in the volume of foreign direct investment carried out in Georgia. In particular, in the first quarter of 2020, investments amounted to $165.4 million, which is 41.7% less than in the first quarter of 2019. The main reasons for the decrease in the report include the completion of the gas pipeline construction project and the transfer of a number of enterprises to the ownership of Georgian residents. No mention is made of the damage caused by the economic stagnation caused by the coronavirus pandemic.

Investments in the tourism sector have especially declined, where, compared to the first quarter of the previous year, the decline is 76%. Investments in the transport sector also decreased significantly - by 76%, slightly, although it is logical that investments in the healthcare and social protection sector increased (growth by 3%). The above two sectors - tourism and transport - are among the sectors with the highest investment potential for Georgia, although these sectors have been affected the most by the negative impact of the pandemic.

At the same time, the Chinese factor will definitely be overestimated on the world stage, it will most likely lose its attractiveness in terms of transferring production capacities, since investors, in addition to cheap labor and other economic characteristics, given the new reality, will appreciate the transparency of countries and the skills of anti-crisis management when making decisions.

“In general, FDI goes to open economies that have a skilled workforce and growth potential. Foreign direct investment occurs when an investor establishes foreign business operations or acquires foreign assets, including the creation of ownership or controlling interests in a foreign company”, (Researchfdi, 2021).

Correlational analysis of foreign direct investment, employment, import-export

The impact of foreign direct investment is great not only on economic indicators, but also on the standard of living of citizens in general. The impact on employment, GDP, and the trade balance is particularly large. It would be logical to show the level of influence on the latter in the form of a correlation. Since and since we want to conduct research based on statistical indicators, the best opportunity for this is to establish a correlation between two or more variables. It would also be useful to calculate and display the standard deviation in order to better understand how closely FDI is related to the development of other industries and sectors of the economy. The data is taken from 2010 to 2021 preliminary data.

“It is important to note that Georgia is attractive for foreign investment due to its geographical location, at the same time, liberal tax laws and simplified entrepreneurship make it attractive to foreign companies, so PUI in Georgia is increasing year by year, but how much does this affect the growth in employment in Georgia and does it affect at all?” To determine the above, various methods are often used, which have received many developments. It is also clear that it will not be correct to connect only one variable. Often, dependence on the level of GDP, GDP, economic growth and employment is determined, that is, what can have a greater impact on employment” (Tsinaridze et al., 2018).

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First of all, let's look at employment rates. The upward trend until 2015, and in the subsequent period, there is a downward trend, which intensified in 2020-2021. The pandemic caused a decline in employment and exacerbated a rather difficult economic situation. FDI is often directly linked to employment and GDP growth, although it is also closely linked to exports and imports. All of the above indicators in 2020 decreased compared to the previous year, and in 2021 they recorded an increase. It is worth noting the fact that imports increased significantly in 2021.

Correlation This is a statistical measure of the relationship between two variables. Best of all shows a linear relationship with each other. The correlation coefficient is a value that indicates the strength of the relationship between variables.

Table 2. Correlation analysis between FDI and other data

	Correlation	**standard deviation**
Employment	0.655715	49.94295
GDP	0.17248847	4630.864
export	0.148666006	760.3742
import	-0.112398484	1291.036

Source: Table compiled by us

The correlation between FDI and employment is quite high at 0.655715. This is not unusual, because more financial resources and more investments allow us to increase the number of employees and help reduce unemployment. For many years, investment was associated only with employment, but this is definitely not the case. Investments are closely related to many other areas. Therefore, we will also check the ratio of GDP, exports and imports (The calculation progress of the correlation analysis of employment and foreign investment is given in the appendix, table 3).

Table 3. Calculating the correlation between foreign direct investment and employment

			STEP 3		**STEP 4**	**STEP 5**	
	FDI	**employment**	**a**	**b**	**a*b**	**a*a**	**b*b**
2010	865.6	1167.6	-439.8	-78.8	34656.24	193424	6209.44
2011	1134.0	1183.0	-171.4	-63.4	10866.76	29377.96	4019.56
2012	1048.2	1212.2	-257.2	-34.2	8796.24	66151.84	1169.64
2013	1039.2	1197.8	-266.2	-48.6	12937.32	70862.44	2361.96
2014	1837.0	1255.0	531.6	8.6	4571.76	282598.6	73.96
2015	1728.8	1308.5	423.4	62.1	26293.14	179267.6	3856.41
2016	1653.4	1294.5	348	48.1	16738.8	121104	2313.61

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2017	1980.8	1286.9	675.4	40.5	27353.7	456165.2	1640.25
2018	1317.1	1296.2	11.7	49.8	582.66	136.89	2480.04
2019	1335.9	1295.9	30.5	49.5	1509.75	930.25	2450.25
2020	572.0	1241.8	-733.4	-4.6	3373.64	537875.6	21.16
2021	1152.8	1217.4	-152.6	-29	4425.4	23286.76	841
					152105.41	1961181	27437.28
			rxy	∑a*b/√(∑a*a*∑b*b)			
				53809472776		**correlation**	
				231968.6892		**0.655715**	

Source: The table is compiled based on our calculations

There is a correlation between FDI and GDP, but it is much smaller than the employment correlation. 0.17248847 is the strength of the correlation. FDI certainly affects GDP, but only marginally. There is also a relationship between FDI and exports, which was 0.148666006.

The question at issue is not the connection between the latter two, and this correlation has been confirmed. However, the same cannot be said for imports, as calculations show that the correlation between FDI and imports is weak.

Since we have calculated the correlation, we will not neglect the standard deviation. Standard Deviation This standard deviation is a statistical measure of the diversity or variability of a set of data. A low standard deviation indicates that the data points are usually close to the mean or mean. A high standard deviation indicates more variability in the data points.

The standard deviation of employment is 49.94, which is quite small and therefore does not show a large range of changes.

We also calculated exports, imports and GDP in this way and found that the standard deviation of the employment rate is much less variable than that of exports and imports. Gross domestic product is also the most volatile, with a standard deviation of 4630.864.

A high correlation between FDI and employment in the host country increases the number of people employed, thereby causing a change in the poverty rate. Ultimately, all this helps to strengthen the economy of the host country and, over time, will allow it to take a leading position in the international arena.

Foreign direct investment has a great impact on the Georgian economy, and conversely, the Georgian economy has a significant impact on attracting them. To make the economy more active and healthy, it is necessary to create an investment environment that will increase the amount of investment and allow the country to have more resources and opportunities.

The rate of investment inflow is often changeable due to various crisis situations, so the main goal is to overcome financial crises, correct and strengthen the negative investment environment. The main constraining factors of the investment situation in Georgia are characteristic of almost all countries with economies in transition. This is a trend of rising inflation, reducing investment while reducing accumulation, focusing on short-term investments, insufficient technical level, insufficient money in circulation, etc.

DISCUSSION

As can be seen from the analysis of the data presented here, Georgia has the potential to increase foreign direct investment. It should be noted that Georgia is recording a growth trend. Georgia has all the opportunities and resources to improve the investment environment and be more focused on development. The results of the study of the article are reflected in the following recommendations:

1. Georgia should carry out reforms that will help to get investments beneficial for Georgia.
2. Georgia must improve the investment environment and move closer to international standards.
3. It is also necessary to establish rules by which income received on the territory of Georgia will not flow abroad, and the money will remain in the country. The latter can be used for reinvestment.

CONCLUSION

Foreign direct investment correlates with employment, GDP and export-import. However, the strength of the connection and the degree of dependence are different. The correlation between FDI and employment is strong, which is logical due to the strong impact on employment. The weakest connection is with imports and exports. From the ratio, it is easy to determine that an increase in foreign direct investment also leads to an increase in the level of employment.

Foreign investment trends in the world and in Georgia in 2019-2021 are declining, which is caused by the pandemic and the financial crisis. According to the legislation in force in Georgia, it can be said that Georgia is one of the successful reforming countries that has carried out many reforms since independence. It can be said that Georgia is improving its international position every year, which has a positive effect on the growth of foreign direct investment and, accordingly, the country's economic growth will proceed at a rapid pace.

For Georgia, foreign capital is the main means of introducing new technologies, using modern management methods and implementing local innovative projects. Foreign investment can also be a motivating factor for local investment. The growth of investments is of decisive importance for our country, because economic growth is unthinkable without the growth of production and services, which, in turn, require significant financial resources.

In conclusion, it should be noted that it is necessary not only to promote the attraction of investments and increase their volume, but also to more specifically define priority areas in the general strategy of Georgia's economic policy, in which area and in which region investments are most needed. It is also important to improve the level of investor service, promote the use of information technology, economic and political stability of the country.

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Georgia is implementing many reforms to improve the investment environment, which is also reflected in the statistical indicators. However, this area is very sensitive, and minor crises and political instability have a significant impact. That is why we need to promote local investment more so that we become less dependent on other countries.

The trend of increasing foreign investment in Georgia is primarily aimed at addressing national security concerns. However, some countries appear to be using foreign investment screening to minimize the scope of the wider economic and social problems caused by COVID-19. Despite the global pandemic and the difficult economic situation of Georgia, as a result of the implementation of important regulations, it will be possible to improve the economy through foreign direct investment. The main task of the country at this stage is to get out of the crisis and record the maximum growth rates.

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Author Contributions:

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