# FOREIGN DIRECT INVESTMENT IN TRANSITION ECONOMIES IN THE CONDITIONS OF COVID-DEPRESSION (COMPARATIVE ANALYSIS)

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**Abstract**
*The given article examines the impact of foreign direct investment on transition economies in the context of the Covid-Depression. The study concludes: The severe consequences of the Covid-Depression can only be overcome by strengthening the role of the state in the economy. The economic downturn of the last six decades has never been so painful. The level of employment, production volume, incomes have sharply decreased; unemployment, poverty, public debt, healthcare costs, etc. have sharply increased. Eeconomic indicators, including investment flow dynamics have deteriorated; around the world, during the Covid-19 pandemic, the volume of foreign direct investment (FDI) fell sharply in global and developed, emerging and transition economies. In transformational economies, foreign direct investment plays an important role in the development of economies - in the creation of gross domestic product (GDP). Consequently, the decline in investment in the Covid-Depression has had a negative impact on economies. In all transition economies (except Montenegro, Belarus and Kazakhstan), the volume of foreign direct investment has decreased everywhere, including in the EU post-Soviet associate countries, Moldova, Ukraine, Georgia, about 10 times, 7 times and 2 times. In addition, there was a decrease of about 14% in the countries of Southeast Europe, and a decrease of 75% in the CIS countries, including Russia (which accounted for more than half of the CIS FDI) decreased almost 3 times, which was reflected more in the sectors of the countries mining and tourism sectors, etc. Financial expenditures on health care, government debt, etc have increased on a large scale. New industrial enterprises and infrastructure projects in developing countries, the real sector of transition countries, tourism, etc. have been particularly severely damaged, which has a particularly negative impact on the development of poor countries. On a global scale, economic recovery problems that cannot be achieved without the growth of the FDI will take some time, as the Covid-Depression continues to rage. Given the slow recovery of the economies, it is unlikely that the FDI will grow rapidly until 2023.*

**Keywords:** *Transition economies; Foreign Direct Investment (FDI), South-East Europe; Commonwealth of Independent States (CIS); Georgia.*

**JEL Classification:** *F21, P20, P33*

## I. INTRODUCTION

Over the decades, different models of economic regulation have been tested, differing from each other in the role of the state in the economy as a whole. In different periods these models alternately played a certain role in economic progress. The famous "Great Depression" could not be stopped by the then prevailing liberal doctrines - seemingly reliable predictions of development. (Silagadze, A. and Zubiashvili, 2016; Silagadze, L., 2018; Charaia, V. and Papava, L., 2020; Mekvabishvili, E., 2020; Tvalchrelidze, A. and Silagadze, A., 2020; Silagadze, A., Atanelishvili, T. and Silagadze, N., 2019). The unexpected results turned out to be deplorable. Overcoming this depression became possible only by strengthening the role of the state in the economy. It was as if the modern global world, which largely favored liberal approaches, found itself in a similar situation. Suddenly we find ourselves in an "invisible war" that we can deal with only with the active intervention of the state, but in conditions of great human losses, not to mention the economy in a difficult situation. At least for the last 60 years, the economic downturn has not been so deep. The level of employment, production volume, and incomes have sharply decreased; unemployment, poverty, public debt, healthcare costs, etc. have sharply increased. Economic indicators have deteriorated, including the dynamics of investment flows. (Tvalchrelidze, A. and Silagadze, A., 2020; Shelia, M. and Tukhashvili, M., 2020; Tsartsidze, M., Tukhashvili, M., Latsabidze, N., Lobzhanidze, M. and Shelia, M., 2018). The latter is of interest to the present study and the research of various aspects of which has been devoted to the works of numerous scientists. (Silagadze, A. and Zubiashvili, 2016; Silagadze, L., 2018; Charaia, V. and Papava, L., 2020; Mekvabishvili, E., 2020; Tvalchrelidze, A. and Silagadze, A., 2020; Silagadze, A., Atanelishvili, T. and Silagadze, N., 2019).

## II. GENERAL ANALYSIS

Worldwide, during the Covid-19 pandemic period (Charaia, V. and Papava, L., 2020; Kharitonashvili, J., 2008; Magradze, M. and Sichinava, D., 2017). The volume of foreign direct investment (FDI) fell sharply (-35%), equaling the figure of approximately 2004-2005. Significant reduction of this figure also occurred in emerging economies (-58.3%), including the EU (-73%), while in emerging economies the decline was only -8.4%.

The present study focuses on the economies of transition countries, where by our calculations the volume of FDI also decreased sharply (-58.2%). While transition economies account for only 2.4% of the global inflow of foreign direct investment, they could potentially play a very important role in the global world. (Table 1).

**Table 1. FDI inflow, 2017-2020 (Millions of dollars)**

| | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| **Transition economies** | **50 496** | **36 604** | **57 844** | ***24 160*** |
| South-East Europe | 5 571 | 7 491 | 7 106 | 6 110 |
| Albania | 1 149 | 1 290 | 1 288 | 1 107 |
| Bosnia and Herzegovina | 492 | 574 | 400 | 371 |
| Montenegro | 559 | 490 | 417 | 529 |
| North Macedonia | 205 | 725 | 446 | 274 |
| Serbia | 2 878 | 4 091 | 4 270 | 3 440 |
| **CIS** | **42 946** | **27 806** | **49 427** | **17 433** |
| Armenia | 251 | 254 | 254 | 117 |
| Azerbaijan | 2 867 | 1 403 | 1 504 | 507 |
| Belarus | 1 279 | 1 421 | 1 293 | 1 397 |
| Kazakhstan | 4 669 | 3 628 | 2 874 | 3 877 |
| Kyrgyzstan | - 107 | 144 | 404 | -331 |
| Moldova | 152 | 292 | 503 | 55 |
| **Russia** | **25 954** | **13 228** | **32 076** | **9 676** |
| Tajikistan | 307 | 360 | 213c | 107c |
| Turkmenistan | 2 086**d** | 1 997**d** | 2 129**d** | 1 169**d** |
| Ukraine | 3 692 | 4 455 | 5 860 | -868 |
| Uzbekistan | 1 797 | 625**c** | 2 316**c** | 1 726**c** |
| Georgia | 1 978 | 1 306 | 1 311 | 617 |

c - asset/liability basis, d - estimates

Source: https://unctad.org/system/files/official-document/wir2021_en.pdf 05.11.2021.
https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD 05.11.2021.

Thus, in all countries of the transition economy (except Montenegro, Belarus and Kazakhstan) the volume of foreign direct investment has 1345-4116-1-SMeverywhere, including in the EU post-Soviet associate countries, Moldova, Ukraine, Georgia, about 10 times, 7 times and 2 times. In addition, in Southeast European countries there was a decline of about 14% and in the CIS a 75% decline, and in Russia (where in the CIS it accounted for more than half of the FDI) it decreased almost 3 times, which reflected most of all on the mining industries of these countries.

At the same time, new industrial enterprises and infrastructure projects in developing countries, the real sector of transition countries, tourism, etc. have been particularly severely damaged during the Covid-Depression, which has a particularly negative impact on the development of poor countries. On a global scale, economic recovery problems can not be achieved without the FDI, and it will take some time as the Covid-Depression rages again. Given these and the slow recovery of economies, it is unlikely that the FDI will start growing rapidly until 2023.

In transformational economies, foreign direct investment plays an important role in the development of economies and the creation of gross domestic product. Consequently, the decline in investment in the Covid-Depression has had a negative impact on economies (oil and gas, tourism, etc.). (Table 2).

**Table 2. FDI inflow (% in GDP)**

| | 2007 | 2010 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Georgia | 18.6 | 7.5 | 11.8 | 7.2 | 7.7 | 3.9 |
| Azerbaijan 1 | 13.9 | 6.3 | 7.0 | 3.0 | 3.1 | 0.03 |
| Armenia 2 | 7.2 | 5.7 | 2.2 | 0.7 | 2.1 | 0.9 |
| Moldova | 12.2 | 4.2 | 1.6 | 2.5 | 4.2 | 0.5 |
| Ukraine 3 | 7.2 | 4.7 | 3.5 | 3.5 | 3.8 | - |

1 2003 = 55.1 2004 = 54.4%; 2 1998 = 12.3%; 3 2005 = 9.1%
Computed: https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS 04.11.2021; https://unctad.org/system/files/official-document/wir2021_en.pdf 04.11.2021.

The data in Table 2 clearly show that the sharp decline in foreign direct investment inflows during the Covid-Depression has had an adequate impact on the economies of Georgia and its South Caucasus countries, as well as Georgia and other post-Soviet countries. The recovery process will be difficult in the near future.

## III. CONCLUSION:

- For decades, different models of economic regulation have played a certain role in economic progress at different stages. The famous "Great Depression" could not be stopped by the then prevailing liberal doctrines - seemingly reliable predictions of development. The unexpected results turned out to be deplorable. Overcoming this depression became possible only by strengthening the role of the state in the economy. It was as if the modern global world, which largely favored liberal approaches, found itself in a similar situation. The new depression and the "invisible war" can be dealt with only with the active intervention of the states, but unfortunately in the conditions of great human, material losses;
- At least for the last 60 years, the economic downturn has never been so deep and painful. The level of employment, production volume, incomes have sharply decreased; unemployment, poverty, public debt, healthcare costs, etc. have sharply increased. Deteriorated economic indicators, including investment flow dynamics;
- In the world, during the Covid-19 pandemic: the volume of foreign direct investment (FDI) fell sharply (-35%), which was approximately equal to the rate of 2004-2005. Significant reductions in this figure occurred in developed economies (-58.3%), including the EU (-73%) and emerging economies;
- In all countries of the transition economy (except Montenegro, Belarus and Kazakhstan) the volume of foreign direct investment has decreased everywhere, including in the EU post-Soviet associate member states, Moldova, Ukraine, Georgia, about 10 times, 7 times and 2 times. In addition, there was a decrease of about 14% in the countries of Southeastern Europe and a decrease of 75% in the GIS countries, including Russia (which accounted for more than half of the CIS FDI) decreased almost - 3 times, which is more than this Reflected in the mining industries of the countries;
- New industrial enterprises and infrastructure projects in developing countries, the real sector of transition countries, tourism, etc. have been particularly severely damaged during the Covid-Depression, which has a particularly negative impact on the development of poor countries. On a global scale, economic recovery problems that cannot be achieved without FDI growth will take some time, as the Covid-Depression continues to rage. Given the slow recovery of the economies, it is unlikely that the FDI will grow rapidly by 2023.
- Foreign direct investment in transformational economies plays an important role in the development of economies and the creation of gross domestic product. Consequently, the decline in investment in the Covid-Depression has had a negative impact on economies (oil and gas, tourism, etc.);
- In the context of the Covid-Depression, the sharp decline in foreign direct investment inflows had an adequate impact on the economies of Georgia and its South Caucasus countries economies, as well as the associated post-Soviet countries. The process of recovery of economies requires time and will be quite difficult in the near future.

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