The Impact of Foreign Direct Investment on the Sustainable Economic Development of Georgia's Regions

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Abstract

Foreign investment is one of the key factors determining the economic growth and regional progress of developing countries. Georgia represents a state with a relatively small economy; therefore, foreign direct investment not only accelerates economic growth but also promotes sustainable regional development.

This paper aims to define the impact of foreign direct investment on the sustainability of Georgia's economy and on the development of small and medium-sized enterprises. The study analyzes both secondary desk research and statistical data, as well as a survey conducted among representatives of small and medium-sized businesses operating in the Shida Kartli region.

The research findings revealed that foreign investment plays a significant role in employment growth and in the implementation of infrastructure projects; however, its effect varies across sectors and territorial units. In particular, in Shida Kartli, investment concentration is mainly observed in the industrial and agribusiness sectors, which contributes to the diversification of the economic structure. Nevertheless, particular challenges remain – part of the foreign capital is of a temporary nature and is less oriented towards long-term sustainable development.

Based on the results, it can be concluded that regional economic policy should be grounded in the targeted management of foreign investment to increase its positive impact on social and financial sustainability. Special attention should be given to maximizing the benefits of foreign direct investment, strengthening the potential of local production, and ensuring sustainable growth. The findings are significant for the academic field and decision-making bodies that aim to enhance the investment environment and promote regional economic development.

Keywords: *Foreign Direct Investment, Sustainable Economic Development, Regional Development, Shida Kartli, Georgia.*

Introduction

Foreign direct investment (FDI) constitutes one of the principal driving forces of economic growth, innovation, and technological progress in post-Soviet economies, including Georgia. Developing countries actively seek to attract investment to promote economic stability and sustainable development. Over the past two decades, Georgia has implemented economic reforms aimed at attracting investment and improving the business environment [1]. Nevertheless, regional disparities in development remain a significant challenge, further reinforcing the need to determine the actual impact of FDI on the sustainable economic development of regions [2].

As a developing economy, Georgia has, since regaining independence, deliberately pursued improvements in business liberalization and the attraction of foreign investment. The country has undertaken a series of reforms in taxation, banking, judicial, and regulatory systems, which have contributed to creating a more predictable and attractive environment for investors [3]. According to the OECD study Investment Policy Review of Georgia, in the 2020 FDI Regulatory Restrictiveness Index, Georgia ranked 8th among more than 80 countries, as one of the world's most open economies for foreign investment [4]. As a result, the dynamics of investment, including foreign direct investment, have shown an upward trend. Between 2022 and 2024, Georgia received more than 5 billion USD in foreign direct investment. The volume of FDI amounts to approximately 6 percent of GDP, which is among the highest indicators worldwide for economies comparable to Georgia [5]. Investments serve as a crucial channel for the inflow of capital, knowledge, and technology into the country, facilitating job creation and stimulating rapid economic growth [6].

Foreign investment is primarily concentrated in large-scale infrastructure projects and in the banking, energy, and real estate sectors. However, the small and medium-sized enterprise (SME) sector has been attracting increasing attention. At present, SMEs account for 99.7% of all operating enterprises in Georgia, clearly indicating their significance from both economic and social perspectives. In post-pandemic Georgia, SMEs play a decisive role in addressing employment challenges, underscoring their social impact [3]. Nonetheless, they continue to face pressing challenges, including limited access to financial resources, problems related to market diversification, technological lag, and shortages in professional qualifications.

Against this background, a significant issue arises: how does foreign investment affect the development of SMEs in Georgia? Can foreign capital contribute to strengthening this sector financially, improving its technological base, enhancing management practices, and expanding access to external markets?

For defining Georgia's investment opportunities, it is essential to assess the investment potential of individual regions. Each region and municipality of the country possesses unique characteristics that attract investors and provide a foundation for new economic activity [6].

Research Aim

This study aims to examine and evaluate the impact of foreign direct investment (FDI) on the development of small and medium-sized enterprises (SMEs) in Georgia's regions, with particular focus on the Shida Kartli region; to identify existing trends, challenges, and opportunities; and develop recommendations for improving the investment environment and supporting SMEs.

Research Objectives:

- To analyze global trends in foreign direct investment and the mechanisms through which they affect SMEs,
- To study the role of SMEs in Georgia's economy, with particular emphasis on the Shida Kartli region,
- To assess the investment environment of Shida Kartli and the dynamics of foreign investment in the region,
- To describe and analyze the views and experiences of SME representatives in Shida Kartli regarding the impact of FDI,
- To present conclusions and develop recommendations for promoting SME development under conditions of foreign investment.

Research Methodology

The study is based on a mixed-methods approach, involving both quantitative and qualitative data collection and analysis. The quantitative component relied on a structured questionnaire designed to explore the views and experiences of SME representatives in the Shida Kartli region regarding the impact of foreign direct investment.

The study employed non-random sampling, specifically convenience sampling, with respondents selected from companies operating in the municipalities of Shida Kartli (Gori, Kaspi, Kareli, and Khashuri). A total of more than 40 SME representatives participated. The survey questions covered issues such as the company's legal status, business duration, experience with foreign investment, perceived impact of FDI, and existing barriers. Data processing was carried out using descriptive statistical analysis (percentage distribution, comparative evaluation), while open-ended responses were analyzed through content coding. The qualitative component drew upon the opinions and recommendations collected from open-ended questions, which helped to identify and interpret key trends. Overall, the chosen methodology integrates both theoretical and practical dimensions, enabling a multifaceted assessment of the impact of FDI on SME development in Shida Kartli.

Hypothesis: Foreign direct investment represents a significant opportunity for the economic development of Shida Kartli. With the right strategy, the region can serve as a model for other areas, where investment can stimulate job creation, product exports, economic diversification, and an overall improvement in the well-being of the population.

Literature Review

Foreign direct investment (FDI) plays a significant role in the sustainable development of the global economy. In their study, Bao-Chau Xuan Nguyen & Thi Lam Ho (2025) empirically examine how FDI influences economic growth and how this effect depends on institutional quality. Their research confirms that when the institutional quality falls below the threshold value, foreign direct investment has a negative influence on growth. However, when institutional quality exceeds this value, foreign direct investment contributes positively to economic growth [7].

The inflow of FDI into a country ensures the growth of financial resources, technological advancement, job creation, efficiency improvements, competitiveness, stimulation of business activity, and integration into the global economy. Most studies confirm the positive impact of FDI on economic growth [7, 8, 9, 10, 11, 12, 13].

The impact of FDI is particularly evident in developing countries. For Georgia, as a small economy, FDI plays a special role in stimulating economic growth and infrastructure development. However, it is noteworthy that the benefits of FDI are not evenly distributed across different segments of society. This trend is also characteristic of Georgia, where economic inequality among regions represents a significant challenge.

Georgia, with its open policy toward foreign investment flows, was one of the first countries in the post-Soviet space to embrace FDI. Since gaining independence, FDI has become one of the most significant indicators for the country, and the assessment of foreign investment flows, whether statistically or dynamically, remains relevant to this day [14]. It is also noteworthy that in recent years, despite increased domestic and geopolitical uncertainty, Georgia’s economy has demonstrated remarkable resilience. Since 2021, real GDP growth has averaged over 9 percent annually, driven by strong post-pandemic recovery and the sustainable expansion of the information and communication technology (ICT) and transport services sectors, supported by immigration, financial inflows, and transit trade related to the war in Ukraine. These trends have raised per capita income and reduced unemployment and poverty. Nevertheless, challenges remain due to high structural unemployment, income inequality, and external migration. According to the International Monetary Fund (IMF), Georgia’s real GDP growth in 2025 is projected to reach 7.2 percent, inflation is expected to remain at the 3 percent target, and FDI inflows are forecast to increase [15].

Discussion / Results

Foreign direct investment (FDI) is a significant mechanism for the development of Georgia’s economy, particularly at the regional level. Although economic inequality among the country’s regions remains high, hindering sustainable and long-term growth, FDI can serve as a key factor in strengthening regional economies, creating new jobs, and improving infrastructure.

Georgia’s economic activity grew by 6.5% year-on-year in July 2025, following a 6.3% rise in the previous month. The main contributors to the expansion were transport and storage, information and communication, arts, entertainment and recreation, and trade sectors [16].

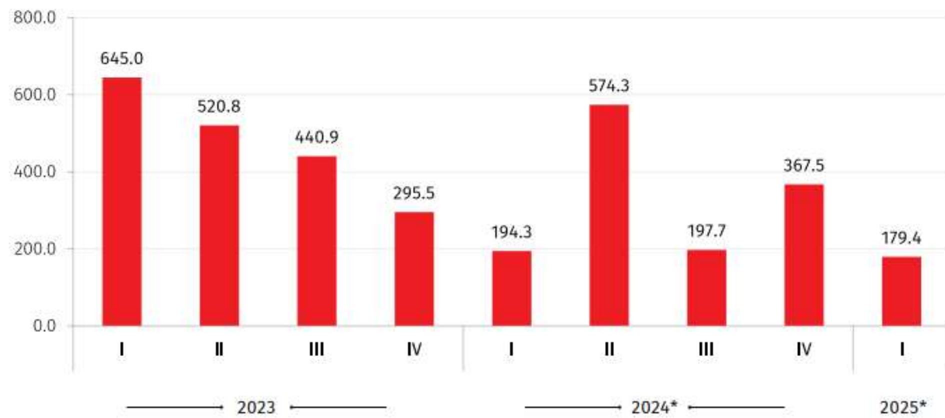
Georgia’s foreign direct investment (FDI) in 2024 totaled USD 1,569.3 million, representing an 18.6 percent decrease compared to 2023, but a 17.7 percent rise from the initial estimates for 2024, according to revised data from the National Statistics Service of Georgia (Geostat) [17].

The revised data show that the three largest investor countries accounted for 54.4% of total FDI. The United Kingdom remained the leading source, contributing 27.5% (USD 431.1 million), followed by the Netherlands with 14.7% (USD 230.9 million), and Malta with 12.2% (USD 191.7 million).

Foreign Direct Investment in Georgia increased by 179.40 million USD in the first quarter of 2025. Of this amount, 150 million USD (83.6%) represented reinvestment, while the remaining 62.1 million USD, accounting for 34.6% of the total investment, was presented in the form of equity capital [18]. The chart below illustrates the dynamics of FDI from 2023 to 2025.

Figure 1

FDI IN GEORGIA IN 2023-2025 (MILLION US DOLLARS)



Source: National Statistics Office of Georgia

Table 1

FDI IN GEORGIA BY COMPONENTS IN 2023-2025 (MILLION US DOLLARS)

	2023				TOTAL	2024*				TOTAL	2025*
	I	II	III	IV		I	II	III	IV		I
TOTAL	**645.0**	**520.8**	**440.9**	**295.5**	**1 902.2**	**194.3**	**574.3**	**197.7**	**367.5**	**1 333.8**	**179.4**
of which:											
Equity	344.3	74.3	599.6	193.0	**1 211.2**	87.2	101.0	131.2	164.2	**483.7**	62.1
Reinvestment of earnings^	276.0	495.4	414.7	405.6	**1 591.6**	69.3	451.3	358.4	291.7	**1 170.6**	150.0
Debt instruments^^	24.7	-48.8	-573.4	-303.2	**-900.6**	37.9	21.9	-291.9	-88.4	**-320.5**	-32.8

Source: National Statistics Office of Georgia

In the first quarter of 2025, the volume of foreign direct investment (FDI) in Georgia from European Union member states decreased by approximately 3%, amounting to 116.3 million USD.

The United States plays a significant role in Georgia's foreign direct investment structure. In the first quarter of 2025, investments from the U.S. totaled 39.6 million USD, which accounted for 22.1% of total FDI. With this figure, the United States ranks second, after the Czech Republic, among Georgia's largest investor countries [19]. FDI by major investor countries in 2024 is presented in Table 2.

Table 2

MAJOR INVESTOR COUNTRIES BY 2024 (MILLION US DOLLARS)

	2019	2020	2021	2022	2023	2024*
TOTAL	**1 367.8**	**583.1**	**1 245.9**	**2 253.4**	**1 902.2**	**1 333.8**
of which:						
United Kingdom	371.5	281.9	582.2	650.7	364.3	448.2
Malta	6.3	49.5	-2.8	39.3	97.4	175.8
Netherlands	88.2	203.8	146.9	197.0	386.3	151.7
United States	115.7	99.0	21.2	178.7	182.2	98.3
Türkiye	172.1	80.3	101.4	102.7	109.5	93.3
Azerbaijan	39.7	-16.3	3.4	3.4	90.3	70.7
Czech Republic	18.3	-6.3	80.8	84.9	14.7	55.9
Japan	39.5	6.5	4.3	58.7	69.4	51.1
Marshall Islands	34.1	6.9	19.5	37.8	35.6	41.3
Germany	23.9	36.6	38.5	34.1	24.9	38.9
Other countries	458.5	-158.7	250.6	866.1	527.6	108.6

Source: National Statistics Office of Georgia

The share of three major economic sectors in FDI reached 63.9 percent in 2024. The largest share of FDI was registered in the financial and insurance activities sector, totaling USD 526.5 million (39.5 percent). Manufacturing took the second place with USD 170.2 million (12.8 percent), followed by the real estate activities sector with USD 155.3 million (11.6 percent) [18].

Table 3

FDI BY ECONOMIC SECTORS IN 2023-2025 (MILLION US DOLLARS)

	2023				TOTAL	2024*				TOTAL	2025*
	I	II	III	IV		I	II	III	IV		I
TOTAL	**645.0**	**520.8**	**440.9**	**295.5**	**1 902.2**	**194.3**	**574.3**	**197.7**	**367.5**	**1 333.8**	**179.4**
of which:											
Energy	59.6	81.2	26.8	-123.3	**44.3**	78.7	28.6	43.0	-23.8	**126.5**	70.2
Information and communication	49.4	20.0	50.0	0.1	**119.6**	18.1	9.9	10.0	18.8	**56.7**	52.3
Manufacturing	227.5	40.7	25.7	7.5	**301.5**	27.9	55.5	63.6	23.1	**170.2**	27.5
Construction	35.9	5.8	25.9	18.2	**85.9**	-4.0	-2.6	10.5	9.5	**13.4**	20.5
Transport	57.4	15.6	66.9	25.4	**165.4**	38.6	21.7	21.4	15.6	**97.4**	18.3
Arts, entertainment and recreation	3.9	14.8	26.2	-9.7	**35.2**	10.0	24.2	3.0	-10.3	**27.0**	17.1
Hotels and restaurants	25.5	-5.0	15.8	-19.7	**16.6**	20.0	4.5	2.3	-5.6	**21.1**	15.6
Professional, scientific and technical activities	14.4	9.3	9.7	16.6	**50.0**	6.6	-6.1	2.1	-13.3	**-10.7**	6.7
Real estate activities	19.9	19.4	43.1	28.7	**111.2**	19.3	47.2	22.9	65.8	**155.3**	5.9
Education	3.9	6.4	3.2	6.5	**20.1**	2.4	3.2	5.2	4.5	**15.3**	2.2
Other sectors	147.6	312.6	147.3	345.0	**952.5**	-23.2	388.1	13.6	283.2	**661.7**	-57.0

Source: National Statistics Office of Georgia

Examining the impact of foreign direct investment on the regions of Georgia is significant, particularly the Shida Kartli region, which is considered one of the most influential regions due to its strategic location and agricultural potential.

Table 4

FDI in Georgia by Regions (Georgia, Thsd. USD)

Regions		2023	2024	2025* Q I
Total		**1,928,462.4**	**1,569,271.7**	**183,626.0**
1.	Tbilisi	1,510,711.7	1,268,779.0	120,596.5
2.	Adjara	69,418.2	90,309.5	25,017.5
3.	Kakheti	8,549.8	5,253.5	297.0
4.	Samtskhe-Javakheti	-39,357.1	43,676.2	13,126.8
5.	Kvemo Kartli	200,952.5	37,481.8	2,598.8
6.	Samegrelo-Zemo Svaneti	58,282.8	37,313.0	10,723.4
7.	Guria	2,230.5	2,569.6	-23.4
8.	Imereti	53,873.3	-35,707.2	-3,465.6
9.	Racha-Lechkhumi and Kvemo Svaneti	3,858.2	-13,504.0	-3.8
10.	**Shida Kartli**	**35,609.5**	**34,251.8**	**-2,953.3**
11.	Mtskheta-Mtianeti	24,333.0	98,848.5	17,711.9

Source: National Statistics Office of Georgia

The study confirms that in Georgia, FDI is primarily concentrated on capital: in 2024, Tbilisi accounted for 86% of the country's total investment. Meanwhile, in regions such as Shida Kartli, investment remains limited. Although state policy aims to promote regional development, in practice, these objectives are often not fully achieved due to various factors. FDI could contribute to sustainable development in the regions if directed towards sectors such as renewable energy, agriculture, and small and medium-sized enterprises. For example, in 2024, the renewable energy sector was the most attractive area for FDI, while investment in other sectors declined.

Regional development programs elaborated by the Government of Georgia are designed to attract FDI into the regions. For instance, the regional development strategy of Shida Kartli includes regional integration, support for agriculture, and the development of small and medium-sized enterprises.

From this, it can be concluded that the effective use of FDI is possible only if regions possess appropriate infrastructure, education, and a production base. In the case of Shida Kartli, active involvement of both state policy and international partners is necessary for the region to become attractive to investors and ensure sustainable economic development.

Analysis of the Investment Environment in Shida Kartli

Shida Kartli is located in eastern Georgia and is one of the most promising regions for investment, particularly in agribusiness, manufacturing, and logistics. However, foreign investment in Shida Kartli still lacks sufficient scale. The main challenges are:

- Imbalanced investment policy (concentrated mainly in a few municipalities);
- Insufficient awareness among the local population;
- Bureaucratic barriers and weak financial support for small projects.

It is noteworthy that the Shida Kartli region possesses diverse sectoral potential, in particular:

- **Agriculture**: fertile soils support high-quality production of vegetables, grains, vineyards, and fruits; there is significant potential for the development of processing industries – for example, the production of dried fruit, juice, and canned goods.
- **Livestock and poultry farming**: livestock and poultry farms operate in the Gori and Kaspi districts, with potential for expanding meat and egg production.
- **Industry**: large industrial facilities are active in Gori and Kaspi (cement, chemical products, and construction materials production). There are opportunities for developing industrial zones aimed at small and medium-sized enterprises.
- **Energy**: the resources of rivers (Tana, Liakhvi) provide opportunities for energy projects, particularly in the area of small hydropower plants. Wind power generation and the use of solar collectors are also actively being developed.
- **Tourism**: historical and cultural heritage (such as the rock-hewn city of Uplistsikhe, churches, and museums) creates considerable potential for tourism development.

As for the labor force, the region has an available workforce; however, professional retraining and the strengthening of technical education are necessary for their employment. While low wages and unemployment can serve as additional motivation for investors, the shortage of qualified personnel remains a challenge.

Investment incentives and state support

Shida Kartli is registered as a priority region for industrial and agricultural projects. Within the framework of the Enterprise Georgia program, the Ministry of Economy of Georgia offers investors tax benefits, co-financing, transfer of land at symbolic prices, and other incentives [20].

To improve the investment environment of the region, it is recommended to:

- Modernize infrastructure (roads, irrigation channels),
- Strengthen partnerships with the education system to train technical personnel,
- Enhance the involvement of local self-government in supporting investors,
- Promote tourism potential through marketing campaigns.

Research findings indicate that:

1. In 2025, the construction of another wind power plant in Shida Kartli is planned. The installed capacity of the plant will be 206 MW, with an annual output of 800 million kWh. The investment value of the project is approximately 260 million USD.

2. Development of storage infrastructure is a key link in the integrated agricultural value chain. For this purpose, a new refrigeration facility was established in Gori Municipality with the Rural Development Agency and the USAID Agriculture Program's financial support.

3. A new glass-melting furnace was launched in Shida Kartli by the major Turkish company Şişecam Holding. The plant, focused on manufacturing containers, received an investment of 19.4 million EUR.

Research Section

This study is grounded in a quantitative method, aiming to examine the opinions and experiences of small and medium-sized enterprises' (SMEs) representatives operating in the Shida Kartli region regarding foreign direct investment (FDI). To collect information, a structured questionnaire was used, which included both closed and open-ended questions.

The study involved 40 SME representatives from the municipalities of Shida Kartli: Gori, Kaspi, Kareli, and Khashuri. Respondents were selected through purposive sampling, involved businesses that physically operate in Shida Kartli and have been actively engaged in business activities over the past three years.

- 45% represented small businesses (1–10 employees)
- 55% represented medium-sized businesses (11–100 employees)

The main sectors of activity identified were:

- Services – 40%
- Trade – 30%
- Agriculture – 20%
- Manufacturing – 10%

The survey was conducted using a pre-designed questionnaire consisting of 12 questions. These questions covered the following areas:

- Type of company and business experience
- Experience in cooperation with foreign investors
- Perceived impact of FDI on business
- Assessment of the investment environment
- Recommendations and opinions

The analysis of the study results highlighted the following main directions:

- **Experience in cooperation with foreign investors:**

32% indicated that direct investors were involved in their business activities (co-financing, infrastructure improvement, or market expansion);

68% assessed the impact of investment through indirect mechanisms (road construction, access to technologies, etc.).

- **Assessment of FDI Impact:**

60% believe that foreign investments have a positive effect on small and medium-sized businesses;
25% consider the impact to be weak;
15% do not consider the impact significant.

- **Difficulties and Barriers:**

Respondents identified the following barriers:
Lack of information – 40%
Low interest of investors in the region – 35%
Complicated regulations and bureaucracy – 25%

- **Assessment of the Investment Environment in Shida Kartli:**

Only 20% believe that the region is ready for investment.
55% state that some prerequisites exist, but additional support is needed.
25% think that the region requires further development and structural support.

Based on the analyzed data, it can be concluded that SMEs in Shida Kartli demonstrate growing interest in foreign investment, although the actual impact remains limited.

The following main advantages were identified:

- Contribution of foreign capital to infrastructure development;
- Opportunity for market expansion;
- Technological support.

The main challenges revealed were:

- Lack of connection with investors;
- Insufficient informational support;
- Low perception of the region's investment attractiveness.

Thus, the study examined the impact of foreign direct investment (FDI) on the development of small and medium-sized enterprises (SMEs) in the Shida Kartli region. Both theoretical analysis and empirical data clearly indicate that FDI plays a significant role not only in infrastructure improvement but also in enhancing access to technology, management, and financial resources for SMEs.

The data collected within the framework of the study show that the level of direct support for SMEs remains limited. A considerable share of respondents emphasize barriers such as a lack of information, insufficient state support, and a deficit in connections with investors.

The research results confirm that FDI has a positive impact on the economic development of Georgia's regions, although its effects vary across sectors and regions. To ensure sustainable development, it is essential to manage investments strategically and implement targeted policies, including promoting long-term projects, enhancing the involvement of local businesses, and integrating regional development policies with modern strategies.

Conclusion and Recommendations

The impact of foreign investments on the sustainable development of the Shida Kartli region depends on the policies pursued by the state and local self-government authorities. Sustainable development requires the promotion of long-term and strategic investments.

Recommendations:

1. State institutions should strengthen regulations that ensure the long-term nature of investments and their integration into the local economy.
2. It is significant to increase SME participation in foreign investment projects.
3. The tax and legal environment should be improved to reduce bureaucratic barriers.
4. Regional policy should focus on diversification and the development of innovative sectors.
5. Enhancing the education and qualifications of the local population will contribute to the effective utilization of investments.

For the effective integration of FDI into the strategic development of SMEs in Shida Kartli, the following measures are required:

- **Increasing access to information** – the creation of specialized information platforms where local entrepreneurs and investors can engage in two-way communication and explore opportunities.

- **Promoting public-private partnerships** – state institutions should develop mechanisms that facilitate cooperation between local businesses and foreign investors.
- **Promoting the region's investment potential** – the economic opportunities of Shida Kartli need greater visibility both on the international market and at the local level.
- **Strengthening entrepreneurial education and training** – SME representatives require qualified training in investor relations, project management, and financial planning.
- **Reducing bureaucratic barriers** – it is necessary to simplify procedures related to business registration, tax incentives, and interactions with foreign investments at the regional level.

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