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Impact of Institutions on Foreign Direct Investments toward developing Countries: The cases of Georgia and Armenia

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II Abstract

In the recent years, a lot of scholarly work has been conducted to observe the impact of domestic institutions of a country and their quality on economic growth, and logically on Foreign Direct Investment as one its main drivers, directly or indirectly through provoking diversification, know - how, etc. We have lived in an era of liberal economic thought which values constant growth, trade openness, and international moves of capital. Different countries, based on their resources, specialize on different economic courses. There is also a huge difference between institutional quality importance for the developed and developing nations. Not so much research though, has been made to see different aspects of institutional quality in relation with FDI. In my thesis I aim to investigate this in two spatial cases such are the South Caucasian countries of Georgia and Armenia. The work reveals that, other things being equal, institutional quality and governance mode affect the stability of FDI and its constant growth. Legislation and law enforcement are of utmost importance, because informal barriers and political factors play an important role in practice. Other fuzzy variables can easily intervene in the relation between the variables, but the differences between the cases observed show that decision makers´ acumen to turn political will into concrete regulatory policies, can overcome many other circumstances and put the economy of a country in a successful path.

Key Words: Georgia, Armenia, Foreign Direct Investment, Institutional Quality, Transition, Economic Development, Governance Quality, etc.

II.1 Abstract German

In den letzten Jahren wurden viele wissenschaftliche Arbeiten durchgeführt, um den Einfluss inländischer Institutionen eines Landes und ihrer Qualität der Wirtschaftswachstum und logischerweise auf ausländische Direktinvestitionen als einen seiner Haupttreiber zu beobachten, direkt oder indirekt durch die Provokation der Diversifizierung, Fachwissen, usw. Wir haben in einer Ära der liberalen Wirtschaftsdenkens gelebt, die konstantes Wachstum, Handelsoffenheit und internationale Kapitalbewegungen schätzt. Verschiedene Länder spezialisieren sich aufgrund ihrer Ressourcen auf unterschiedliche Wirtschaftskurse. Es gibt auch einen großen Unterschied zwischen der Bedeutung der institutionellen Qualität für die Industrie- und Entwicklungsländer. Es wurde jedoch nicht so viel Forschung betrieben, um verschiedene Aspekte der institutionellen Qualität in Bezug auf FDI zu sehen. In meiner Diplomarbeit möchte ich dies in zwei räumlichen Fällen untersuchen, beispielsweise in den südkaukasischen Ländern Georgien und Armenien. Die Arbeit zeigt, dass unter sonst gleichen Bedingungen die institutionelle Qualität und der Governance-Modus die Stabilität der FDI und ihr konstantes Wachstum beeinflussen. Gesetzgebung und Strafverfolgung sind von größter Bedeutung, da informelle Barrieren und politische Faktoren in der Praxis eine wichtige Rolle spielen. Andere Fuzzy-Variablen können leicht in die Beziehung zwischen den Variablen eingreifen, aber die Unterschiede zwischen den beobachteten Fällen zeigen, dass der Scharfsinn von Entscheidungsträgern, politischen Willen in konkrete Regulierungspolitik zu verwandeln, viele andere Umstände überwinden und stellt die Wirtschaft eines Landes in eine erfolgreiche weg.

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Abbreviations

CIS	Commonwealth of Independent States
CPI	Corruption Perception Index
EEU	Eurasian Economic Union
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IGM	Investment Grievance Mechanisms
IMF	International Monetary Fund
MNE	Multinational Enterprise
OECD	Organization for Economic Cooperation and Development
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
WTO	World Trade Organization

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1. INTRODUCTION

1.1 A Few Introductory Words About the Variables of this Study

FDI, a crucial factor of globalization, is a significant trigger of efficiency upgrade, innovative headway, and occupation creation. Accordingly, FDI quickens monetary development, assuming a crucial job in charge income, outside trade, and improvement holes in creating and change economies (Quazi, 2007; Smith, 1997). Furthermore, the normal pace of development of genuine total national output (GDP) in the period 2005–2012 was 1.2% for developed nations, 4.3% for economies in transition, and 6.1% for developing states; in 2013, the somewhat assessed outcomes were 1.0% for advanced economies, 2.0% for progress economies, and 4.6% for developing nations. What's more, the all-out exchange ofmerchandise and enterprises in the period 2002–2012 changed with high standard deviation trends (Mihaela Peres, Waqar Ameer & Helian Xu (2018) The impact of institutional quality on foreign direct investment inflows: evidence for developed and developing countries).

The economic emergency of 2008–2009 interrupted the upward GDP pattern in both advanced and developing nations. These patterns featured the helplessness of the latter nations, which were legitimately impacted by the monetary exercises in the advanced economies (UN, 2013). Money related emergencies uncover shortcomings in institutional quality that might have been covered up during a blast period. For example, in the eventual outcomes of the Asian budgetary emergencies in 1997, numerous nations recognized administration shortcomings and attempted to change institutional arrangements so as to draw in more FDI In addition, the Global Vulnerability Monitor gave a deterioration investigation to gauge the size of exchange stuns comparative with the GDP of the entire world. The effect of exchange stocks was 1.9% during the blast time prior to the crisis, the monetary emergency gave a negative stun of -2,7% in 2009, and the exchange of goods stun sway was 2.5% in 2010–2011 (UN, 2014). Additionally, the rising pattern of genuine FDI incomings was hindered as a result of the budgetary emergency, with a higher effect on the advanced economies.

The up to date research on the effect of institutional quality has portrayed various manners by which foundations influence foreign direct investment. Three significant elements have expanded the significance of the connection between FDI and organizations. In the first place, North (1990) features the significance of foundations in boosting speculation and financial turn of events. Secondly, with the solid development in FDI inflows during the most recent 20 years, progressing and advanced countries are keen on institutional changes so as to pull in more FDI. Last, investing parties from the outside are indicating more enthusiasm for institutional quality while deciding in which nation to contribute (Bevan, Estrin, and Meyer, 2004). Buchanan et al. (2012) clarified that poor establishments act like expenses, which, along with expanded vulnerability, related with Foreign Direct Investment. As a rule, solid organizations draw in FDI, and vaguely built institutions deflect FDI (Ali, Fiess, and MacDonald, 2010).

1.1.1. The Importance of Foreign Direct Investment and Where does It´s Size hang?

The present phase of world monetary improvement shows that remote direct venture (FDI) is one of the fundamental elements for feasible, high-caliber, and even financial turn of events. The appetite to pull in FDI is particularly huge for developing nations or economies in transition, as this kind of investment promotes auxiliary changes of the economy, permits to guarantee supportable financial development just as permits the beneficiary nation to effectively integrate into the procedure of globalization. Be that as it is, in the advanced states of globalization and the strengthening of capital streams on the planet economy, there is a furious rivalry for drawing in speculations from outside, especially remote direct investments. As for OECD (2008), FDI is defined as a category of cross-outskirt venture made by an inhabitant in one economy (the immediate speculator) with the target of setting up an enduring enthusiasm for any undertaking (the immediate speculation undertaking) that is an occupant in an economy other than that of the immediate financial specialist. The "enduring premium" proves when the immediate speculator claims at any rate 10% of the democratic intensity of the immediate venture undertaking (Benchmark Definition of Foreign Direct Investment fourth edition, OECD, 2008). A compelling voice in the administration, as prove by responsibility for least 10 percent, suggests that the immediate financial specialist can impact or take an interest in the administration of an undertaking; it doesn't require supreme control by the remote speculator.

Throughout the most recent decades, various investigations have been led concerning foreign direct venture, which are introducing unique (here and there opposing) points on the worldwide money related combination of the nation and the outcomes that can be picked up from that coordination. In this setting one fascinating examination is the investigation of de Mello (1999), where the creator distinguishes two channels through which FDI can add to the financial development of a nation. Initially, because of the capital-stream, FDI advances the adjustment of new innovations and technologies in the production mechanisms. Furthermore, outside direct speculations give an exchange of information, both regarding work preparation and aggregation of abilities, just as through the presentation of option, top-notch techniques for the managerial divisions, and progressively effective structures of undertakings.

There is a need to investigate which are the factors or the pushes that make investors decide to go in a specific country to invest. Dunning (1993) emphasizes some of the main factors in this realm:

- The size of the host country market is a crucial and important consideration. This figure is usually represented in the GDP or the size of the population. When the domestic markets are huge they present to the investor the advantage of the location. All the mainstream studies argue that organizations look for new thrilling opportunities, and size of the markets matter.
- Apart from the GDP figures in a hosting country, investors or speculators look for the growth numbers. Scholarly work confirms that states with a high rate of growth are considered first from the agents of Foreign Direct Investment (Culem, 1998).
- The amount of openness of the host country towards international trade. The way and the quality of trade liberalization politics in the host country is seen as a crucial indicator for attracting foreign investment.
- The situation in a big picture, macroeconomic mode of the recipient plays also a crucial role. Scholars argue that investor look at figures such as the ration between exports and imports of a potential investment host state. Inflation has huge importance as well as it indicates stability of the monetary system. Different countries offer different terms of trade for foreign investors and this is what attracts them. They compare different macroeconomic realities before entering a new market. In general, if the prices of the exports exceed those of the imports, present a good investment venue for the international speculators.
- Lastly, there is the factor which this thesis looks at. The quality of the institutions making policies in the host country of the investments. This is really an important factor. High quality institutions which set for the investors clear rules to follow and comprehensible

pathways are very attractive. This reduces the risks of the money investing parties, and the investor feels really secure and confident.

1.2 Theory Investigated and The Model of Capitalism´s Periphery in Transition

North(1990) defines institutions as human invented constraints consisting of structural, economic, political and social issues. In fact, institutions represent the formal and informal rules of the system in which several economic actors interact and perform actions to maximize their profits and returns (Sabir, S., Rafique, A. & Abbas, K. Institutions and FDI: evidence from developed and developing countries. Financ Innov 5, 8 (2019)). As per North (1990), great foundations influence financial exercises throughvarious channels, for example, by lessening the exchange, assembling and generation costs. Also, great quality institutions help lessen the expense of working together, which expands benefit. In any case, markets with poor establishments occupy additional time and assets for checking. At the point when property rights are inadequately secured and contract authorizationis troublesome, the hazard premium is high and financial movement is slower. Universal financial specialists dither to put resources into such a dangerous and unconducive condition. Paradoxically, a hazard free condition is a decent area for the source nation and great establishments likewise lead to better FDI use. Lucas (1993) recommends that in rising economies, institutional variables, when contrasted with absolutely monetary elements, assumea significant job in pulling in internal FDI.

In rundown, the host nation's institutional quality influences productivity, and institutionally solid nations can draw in outside financial specialists by offering exceptional yields. Dunning (1998) grows the idea of locational advantage by including institutional factors alongside monetary variables. He contends that outside speculators incline toward areas that offer the best financial and institutional offices. Thus, outside financial specialists' choices rely upon the pace of profit based for sound establishments and other macroeconomic markers. In light of Dunning's diverse worldview hypothesis and North's institutional hypothesis, internal FDI relies upon advertise size, regular and HR, proficiency chasing and the institutional nature of the host nation.

The so-called comparative frame of capitalist economic system, previously focused mostly on cases of countries or economies which were advanced and developed. But in the last two decades, as Lane and Wood (2012) argue, there has been a growing relevance and attention towards some emerging economies, outside the developed core. Previous scholarly work in the comparative capitalism had a unified assumption which said that institutional grounding for a stable economy, growth and systemic prosperity were to be found solely in the developed countries (Hall and Sosicke, 2003). With this assumption, other than developed economies face immense pressure to follow the model of liberal market ideals. Anyway, after the turn of the millennium, scientific communities gathered clear evidence that emerging economies were capable to affect growth, despite the fact that they failed to become representatives of the required institutional frameworks of stability and maturity. Growth could be found also in cases where countries became deadlocked with scenario of immature inquisitional design, without a hope to become better, institutionally (Lane and Wood, 2012).

This constellation of worldly different examples, pushed the research communities to look for modified capitalist systems, differing institutionally, to describe better the evidences of the examples in the real world. As said, the previous work on comparative institutions aimed to look upon the firm as a transitioning mechanism, where a certain combination of impacts from the institutions produced a certain outcome. But, what really was happening from within the firm was juxtaposed only in front some imaginary ideal types (Wood et al,. 2014). As a result, interest of the studies moved on to observe fluctuations from within the organizational moves, but also looking upon the impact of the new movers coming from abroad.

The run towards spotting some different types of capitalism, outside the classic box of coordinated or liberal market economic systems which were usually found in the advanced world, led to the establishment of some other types of capitalist organizing principles. For example, there were economies with patterns of stratification and composition of elites such are the economies of Latin America, where a hierarchy exists in the market; and economies with dispersed coverage from institutions, with large peasant and informality, such are the segmented economies of some African tropical states (Wood and Frynas, 2006). Also, some other researchers have found the economies of the Mediterranean countries of having highly distinct features as well. In these economies the sector where large firms operate are regulatedvery tightly, small businesses are barely regulated at all and also the family owners are a highly important aspect of the economies. There is a generally agreed opinion that attempts to be regulated according to the coordinated and liberal market rules were not correctly done in the Central and Eastern Europe, with only a few examples, such as Slovenia for instance. In fact, as found in Nolke and Vliegenthart (2009), these regions served the scholar and policy making communities to coin the region as “emerging markets”. Among the distinctive qualities of these economies were the recapturing of the corporate laws existing before the Soviet Union, continuing some specifics of Soviet rules pertaining to large scale firms. Anyway, we have some important concepts of the successful market economies, which were not to be found such as limited institutional alignment, etc.

But this new model had a defect. It simply did not mention or take into account numerous countries in the Caucasus or in Asia. Wood and Demirbag (2012), after accounting for this missing model, “invented” the term about the transitioning economies of the periphery. The states included in this model economy, had as a main feature vast networks of informality, which existed before Soviets and continued to prevail later on. These networks of informality were made stronger and stronger, their ties were more coherent and they became certain clans within these countries. Such clans are everywhere indeed, but nowhere one can find such as the ones in Central Asia, let’s say. When observing around the world, a crucial feature of such clans or support groups is the fact that they modernize and adapt to new scenarios of modernity, to fit new processes and economic reforms aiming for growth. They have another powerful capability. These support groups can overcome state boundaries and adapt in more complex international transactions (Michailova and Worm, 2003). Anyway, they have the tendency to attract themselves back to the zones where they have their origin from.

The countries in the “new” archetype of institutionalism and economic state of affairs, have usually undergone some pitfalls on their national resources, and continually aim to move away from the great valence of dependence on these resources. But, in this course, they did not attempt to use the weakening resources to diversify their economies. Instead, they put a lot of efforts to preserve what the remains of the resources in order to build national funds of wealth, empty projects, or finance the desires of a few hands of people (ruling elites). In fact, in the face of the pressure to preserve the industrial bases, these countries tend to return where they were and this is really disturbing, which makes them tolerate industrial decline and prefer the alternatives which are more lucrative such as mining activities.

Too much dependency on some minerals comes with a huge cost for these countries, a curse but also an inevitable desire to rely more and more on aspirations which expect the mineral to bloom on the future. A perfect example of this, also related with the cases chosen in my thesis, is the oil and gas industry. It is a need to have further access on capital for debt. This become a continuous process, a vicious cycle of hardships because of the trap of the resource curse in which a country runs after it without actually possessing the resource richness to follow this process (Frynas, 2016). But, as we know, with the advancement in technological spheres, oil industry and mining require less workforce than they used to employ in the past. Some states in the ex - Soviet zone have created the wealth funds based on the abundance of their minerals, because they want to save something for their descendants. But, a widespread characteristic inthe way these funds are dealt with, is the great opposition and conflicts (Cumming et al., 2017).As for the Armenian case, there is a huge oscillation of the foreign exchanges, because there isan immense diaspora which accounts for the most of inflows. During different periods, the domestic elites which rule and govern have had strange and changing relation with the diasporacommunities, but in any case, the economy remains highly dependent on the diaspora. Here again, too much reliance on the diaspora for the economic development means the same thing as we discussed above about resource cursing, because the quick and facile exchange money from abroad automatically weakens the potential for wise policy making in the field of economic development.

1.3 Objectives of the Study and Research Questions

On private grounds I aim to excel academically through marking the end of my academic endeavor in a well-managed way, with a quality research project such as this one. On an institutional level I aim to fulfill well established criteria by the epistemic community of which I part of. Moreover, in the field of management, an important venue of inquiry, I aim to add to existing knowledge some fruitful insights. I hope I will contribute to the theoretical shifts as much as I can, by researching upon two well-chosen cases regarding the topic of investigation. Also, the added insights in this body of knowledge will be used by decision makers in the analyzed countries, to boost the quality of the governance and institutions as a crucial step to increase the amounts of incoming foreign investments, a must go path for economic development in these critical years of transition, economic and political.

My research has aimed to investigate at certain extent economic and social transition and transformation in the countries of Georgia and Armenia, a directly connected derivation of the relation between the variables of institutional quality and foreign direct investment. Through this work I aim to spot where does institutional quality has more importance for the foreign direct investment, and how are the prospects of change for these countries based on the current situations. Moreover, in general I will also reveal somehow where does the quality of institutions ranks among the most important factors affecting FDI.

The conventional neoclassical development model cases that distinctions in nations' per capita income are because of contrasts in their capital aggregation, which happen to be as such because of their varying sparing rates. In addition to that, in the cases of developing countries (from where my cases selection comes from) per capita income is relatively low, unemployment andpoverty are imminent problematic features of the system, and savings rates are not as much asthey should. low levels of savings and investments create savings-investment gaps that have negative impacts on economic growth and development. Having such systemic features countries like Georgia and Armenia must value and try to positively affect any inflow or processthat fills the above-mentioned gap between not sufficient savings and further investment for development as Sabir and Khan (2018) argue. A crucial channel to do that is Foreign Direct Investment flows coming to these countries. It is thus of utmost importance to find ways how to increase its inflow for the countries, but also theoretically is challenging to find the variablesthat affect FDI and how those variables affect it. Globalization expanded the significance of FDI worldwide and endogenous development speculations stress that FDI is a key determinantof financial development since it is a wellspring of innovative exchange from developed nationstowards developing ones (Chenaf-Nicet and Rougier, 2016). FDI can, straightforwardly and ina roundabout way, decrease joblessness (Lipsey, 2001) and expands efficiency by improving the aptitudes and information on laborers in the host nation. In this way many developing countries apply campaigns and policies to attract and affect FDI.To attract FDI, host country should have certain features in play. Also, foreign investors may be more concerned about risk and return when they enter the foreign markets (Sabir, S., Rafique, A. & Abbas, K. Institutions and FDI: evidence from developed and developing countries. Financ Innov 5, 8 (2019)).Georgia and Armenia, two ex - Soviet countries experiencing a long transition have also striven for FDI boosting mechanism. There is a lot of similarity between the countriesin terms of economics politics, culture, etc., but evidently the results of the economic performance differ and resemble, so does the FDI figures as well. I aim to investigate on the quality of institutions and how does it affect FDI. I think that this perspective will give me powerful analytical results in terms of determining the relation between the variables, since similarities of the two countries will reinforce the pattern of the relation between the variables,but also the differences will find corresponding differences in the results of the cases, thus, further explaining how the institutional quality, structure and governance affect FDI.

Some hypotheses will be laid out for this study:

Hypotheses 1: Strong institutions attract FDI and poor institutions deter FDI

Hypotheses 2: With the sharp increase in the FDI, developing countries are engaged on institutional reform.

Hypotheses 3: Institutions are equally important for the inflow of FDI, in both cases (Georgia and Armenia).

Hypotheses 4: Institutions and their quality is one of many factors that affect FDI.

Actually, to be fully professional in qualitative studies in this epistemic community of gaining knowledge, instead of Hypotheses, one must make use of Research Questions. But since they are the same thing and serve the same purpose, I will stick to the term Hypotheses as used in our classes and preparatory work for the thesis.

Limitations: I would like to mention a limitation of the study in terms of reliability. The data for both variables (quality of the institutions; Foreign Direct Investment Inflows) are pretty much a derivation of the work or interpretation of the same institutions. After the Second World War, we entered into the era of Breton Woods economic institutions and the United Nations agencies. What I want to say is that the same Institutions which direct the economic path of the developing nations, also produce the indexes of quality of governance and institutions. At least in the same theoretical grounding, with certain default assumptions. This can somehow increase the risk affecting results, making the variables a bit more positively correlated than in real practice.

1.4 Methodology

This is classical example of a comparative case study, which requires an in-depth analysis of the international business practices in Georgia and Armenia, and the local business or political culture shaping the environment of giant firms and the bilateral on-going relations between the local governments and international actors. Obviously, the research design is a qualitative one. For my research I am going to make use of secondary data. I will scan any possible and reachable material, books or articles that put the theory of the linkage between institutions and Foreign Direct Investment in different angles and perspectives. Reports of well-established international organizations and sites will be checked for the data trends about economical and political indicators. Coming from Georgia will allow me to be a direct observer, but in any time during my work I will strive to omit confirmation biases, taking into account different perspectives and credible processing of data. This is a qualitative research project. An examination of the governmental efforts and the laws pertaining international business will be analyzed as well.

In the process of making sound conclusions for the Georgian and Armenian market and their business culture, references could be made to the entire region and look alike neighboring ex - Soviet Union countries. Similarities of the countries will allow me to draw parallels and by finding even slight differences on institutional and governance quality, I will predict the behavior of my variables. I will perform a SWOT analyses on both spatial deviations of my thesis, because it is a powerful method in elaborating the conditions for my variables, and putslight to the similarities and differences of my cases. By generalizing in two strong cases of transition economies, new knowledge will be provided about the insightful differences regarding the inflows of FDI, and its impacts among developed nations and developing ones. After presenting the relevance, theory, literature, etc., I will approach cases one by ones by diving them on the main lines according to the two variables being investigated. In this way I will see for each of them if the trends on both variables correlate or not as strongly as needed to argue about a casual relation. In the conclusion, differences and parallels will be mentionedabout the cases chosen.

1.5 Literature Review

Economic theory suggests that free capital flows increase the efficiency of the resource allocation, and stimulate economic growth. Foreign direct investment (FDI) is seen as a kind of cure for all economic problems in countries that do not have a sufficient level of accumulation for starting economic growth (Gligoric, Borovic and Vujanic, 2015). They have investigated the impact of FDI on economic growth in Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan and Ukraine) for the 2000-2015 period, and their insights will be very useful to state the importance of FDI for the cases I have selected (Vertical and Horizontal Foreign Direct Investments in Transition Countries, Alexander Protsenko 2003).

Forrestal (1995) examines in his article the most important barriers of free trade and international business development in emerging markets. This literature entry will be useful to see international business barriers and the role of transitional economies in its success. Writtenin a time during which Georgia was opening its doors to economy giants, allow me to observehow the harsh economic transition affects the business climate. Gevorkian (2015) analyzed in a comparative case study Georgian and Armenian markets. Considered peripheral in economicterms the structurally fragile Armenia and Georgia with obvious limitations are open to international business. This article constructs a compact analytical synthesis of the duo's potential across macroeconomic, industrial, external exposure risk, institutional, and the diaspora effects within the five forces model of the social and economic transformation (Gevorkyan, A. V. (2014). The legends of the Caucasus: Economic transformation of Armenia and Georgia. International Business Review).

In a very informative research initiative (Lensink et al., 2000) looks at some different possibilities of economic advancement resulting from the amounts of FDI incoming in a certainstate. FDI brings competition and through the rise of the competition in an economy, efficiencyof the market also increases along with productivity. This brings more dedication of investment to the human capital. Moreover, these scenarios generate more industrial output in the economic sectors which are oriented for exports. Another very favorable channel is the know - how whichthe local employment forces get, because through investments they need more training to pickup with the discrepancies between them and the generally used international practices of the investor. Also, a very fruitful venue of economic advancement is the transfer of innovative technology into the hosting countries. Through the daily interactions with internationals, this isunavoidable. Another way in which FDI contributes to the development of the recipient countries is according to Lensink et al. (2000) is the demonstrative way through which international companies are seen by the local ones. Feeling pressure and being lured by the innovative management practices of the top - notch control systems, etc., locals try to advanceand copy what the international do. In the examination directed by Borensztein (1998), which plans to contemplate the connection between FDI-inflow and the spread of new advancementsin the nation, the writer utilizes information on FDI streams from OECD nations to the developing economies. The selection of informational collection isn't an incident: with this methodology there is a critical innovative hole between the contributor and beneficiary nations.The consequences of this logical research show that FDI from the created world can be a compelling channel for the dispersal of new innovations in those creating nations, which have the fitting degree of human capital.

A significant issue is additionally the need to recognize the components that permit acquiring numerous advantages from the inflow of remote direct speculation. Specifically, Blomström (1994) in his investigation contends that FDI positively affects development just in nations with high salary per capita. While Balasubramanyam (1996) underlines the receptiveness of global exchange as a key factor for acquiring a beneficial outcome from FDI inflow. Because of logical investigation, (Borenztein et al., 1998) reveals that FDI inflows correspond decidedly with financial development only in nations with a profoundly talented workforce. In its turn, in the examination by Alfaro (2004) the creator uncovers that FDI inflow advances monetary improvement just in nations with adequately advancement markets.

For quite a while, the monetary hypothesis was thinking little of the job of establishments as a factor for expanding potential advantages from the collaboration between financial specialists. Down to ongoing occasions, Ronald Coase's (1960) acclaimed article "Issue of Social Cost", didn't locate its own level in monetary science. In his work Coase has proposed the possibility of central significance, which requires a survey of financial hypothesis. The creator indicated that monetary development and improvement in the nation generally relies upon the kind of its present government if the expenses of exchanges in the financial and political circles are zero. Be that as it may, when exchange costs are certain, the conveyance of intensity inside the nation and the institutional structure of its standard creation organizations become significant variables for the nation's turn of events.

Sikharulidze, Tordinava & Kurdadze (2015) approach the topic in a different prism and look and the changing trends in the political culture as a result of Foreign Direct Investment. The growth of Multinational Enterprises (MNEs) activities through Foreign Direct Investments (FDI) in developed and developing countries have largely attracted the attention of policy makers because of the expected positive impacts they may have on receiving countries. But the relationship between foreign direct investment (FDI) and domestic investment is a controversial issue in the economic literature, that also makes sense to be examined in the case of Georgia (Sikharulidze, D., Tordinava, T., & Kurdadze, S. (2015). The Impacts of FDI on Domestic Investment (In Case of Georgia). Social & Economic Revue, 13(1), 35–40).

Dunning (1998) grows the idea of locational advantage by including institutional factors alongside monetary variables. He contends that outside speculators incline toward areas that offer the best financial and institutional offices. Thus, outside financial specialists' choices rely upon the pace of profit based for sound establishments and other macroeconomic markers. In light of Dunning's diverse worldview hypothesis and North's institutional hypothesis, internal FDI relies upon advertise size, regular and HR, proficiency chasing and the institutional nature of the host nation.(Sabir, S., Rafique, A. & Abbas, K. Institutions and FDI: evidence from developed and developing countries. Financ Innov 5, 8 (2019)) According to the theoretical literature, institutional quality positively impacts economic growth (North 1990; King and Levine 1993; Knack and Keefer 1995; Mauro 1995; Acemoglu and Verdier 1998; Ali et al. 2010). However, some studies examine the effects of institutional quality on FDI with a focus on the rule of law, property rights enforcement, controlof corruption, voice and accountability, and government effectiveness. These studies find that weak institutions are negatively associated with FDI (Bénassy-Quéré et al. 2007; Buchanan et al. 2012).

An expanding assortment of writing evaluates the socio-political variables that impact speculation choices, including the idea of residential establishments, cultural rights, and investment in worldwide organizations and understandings. Strangely, these have developed to a great extent as discrete lines of research and little exertion has been made to look at the general significance of these socio-political factors in settling on venture choices. Besides, however the different idea of FDI is generally noted, surviving exploration depends only upon the assessment of total FDI. Accordingly, researchers have little knowledge into the manners in which that financial specialists organize these variables, or how they fluctuate across various businesses. With an end goal to integrate these strands of research and further extend their comprehension of the determinants of investment choices, this examination models the imminent effect of a few factors that have been found to essentially impact FDI - human rights, fair administration, and duty to global exchange understandings and speculation settlements - over different speculation parts (Blanton and Blanton, 2011).

In their paper, Ibrahim and Amos (2015) analyze the effect of institutions on pulling in FDI in the asset rich developing economies and contrast with the non-asset rich nations. They followed the exact methodology on information from 104 nations covering the period 1995–2010. In this investigation the organizations are estimated by utilizing the records of vote-based system and the standard of law. When these files are tried all the while the authors found that the improvement in the nature of vote-based system elevates FDI to both asset rich and non-asset rich nations. Be that as it may, improvement of the standard of law advances FDI just if the portion of nonrenewable assets in all out fares is beneath a specific basic worth. Additionally, their discoveries propose that asset rich nations continue drawing in FDI paying little heed to the nature of their establishments. This may clarify why some asset rich nations stay non-law based and delay in improving the quality in the standard of law.

Considered fringe in economic terminology the basically delicate Armenia and Georgia with clear impediments are available to worldwide business. Gevorkyan (2015) builds a minimal diagnostic blend of the dichotomy potential across macroeconomic, modern, outer introduction hazard, institutional, and the Diaspora (scattering) impacts inside the five powers model of the social and monetary change. Post-Great recession dynamic examination, outlining sectoral and business patterns, handles issues of market passage and outside speculator technique. Armenia's great pre-emergency design still can't seem to be recuperated, while Georgia's post-emergency record has been progressively predictable with before years. Armenia's pioneering and imaginative limit, essential to new business settlement, positions above Georgia's, the place conventional areas are prevailing. All things considered there is a requirement for an individual, not "mass", investigation of the post-communist fringe. Remote firms' administrators are fit to pick up on the off chance that they obtain nearby setting and neighborhood (or Diaspora) based accomplice (open or private) preceding territorial or independent passage. In spite of various headwinds, the two economies hold solid worldwide business potential and trust in a financial and social restoration (Gevorkyan, A. V. (2014). The legends of the Caucasus: Economic transformation of Armenia and Georgia. International Business Review).

2. THE CASE OF GEORGIA

2.1. Foreign Direct Investment in Georgia

2.1.1. Foreign Direct Investment and Macroeconomic Situation in Post-Soviet Georgia

When Soviet Union dismantled, it produced a lot of new born states and obviously the economic development in each of them went in different paths. A basic paradigm that proved true is that the countries which are really rich in resources of energy, developed more. Being depended in this, countries put a great importance to energy sectors for growth, diminishing the relative valence that could have come from innovative changes. Recent years the world experienced some troublesome figures in the price of oil for example, a fact that affected the economic performances of some post-soviet states.

In the beginning of the last decade of the previous century, investments from foreign actors were something not yet proven in Georgia. Things began to change in the middle of the decade when the country introduced some monopolization protection policies, privatization, liberalization of the prices, set up its own currency, etc. Foreign Direct Investment immediately jumped again reaching ceiling highs in 1997 due to the construction of an International Pipeline, Baku - Supsa (Papava, 2013). At the turn of the millennium studies find evidence that the FDI amounts increased insignificantly because the government failed with the reforms and they were delayed, as it happens often in the transition economies. As for the 21st century numbers, Foreign Direct Investment in Georgia reached record peaks during 2007 (Papava, 2013). We all know what happened after that. The entire world fell in a deep financial crisis affecting all states. Previous to the financial crisis, Georgia fought a war with Russia about its separatist territories of Abkhazia and South Ossetia. These scenarios contributed actually to a decline in FDI. In the years after the crisis, FDI fluctuated around the figure of 1 billion dollars, without significant changes. When inflows of foreign investments began, in Georgia the only country investing was Ukraine. After that many countries added investments such as Turkey, Russia, Azerbaijan, Germany, etc (Silagadze, 2013). With the economic consolidation of Georgia in the new millennium, the most important role in the field of FDI was played by the countries of the Commonwealth of Independent States (Silagadze, 2013). But recently, this prevalence of CIS countries has changed to leave the major cut to the European Union, as Georgia further increases the ladder of Euro - Atlantic integration.

2.1.2. Foreign Direct Investment in the Recent Years

Year	2013	2014	2015	2016	2017	2018	2019[1]
Total FDI	1 039.2	18137.0	1 729.1	1 650.3	1 962.6	1 265.2	1 267.7

Figure 1. Foreign Direct Investment in Georgia in the last years[2]

Georgia has a low degree of sparing. This is to a great extent in light of the fact that most of the populace is low-salary and can't bear to spare. This situation raises the requirement for drawing in outside reserve funds. Besides, remote investments are made in outside monetary forms that thus energize conversion scale steadiness of the lari, Georgia's national cash (Samchkuashvili and Darchiashvili, 2016). By and large, outside venture brings information, new advances on technology, and brings issues to light. Today a great deal of nations contends in drawing in outside speculation by offering a favorable business condition. Political soundness, low duties and guidelines, a modest or qualified workforce, a stable micro - economic condition, financial transparency, characteristic assets, vital area, unhindered commerce, and defilement free principle, are altogether factors that support venture inflows.

[1] Data about last year are still preliminary but not far from the real numbers

[2] Source Geostat.ge https://www.geostat.ge/en/modules/categories/191/foreign-direct-investments

Notwithstanding the local business condition, the level of FDI relies upon the monetary condition the world over, especially in the contributing nations. For example, before 2007, FDI was developing quick around the globe outperforming 3 trillion dollars in 2007 (Samchkuashvili and Darchiashvili, 2016). During the world monetary emergency in 2008-2009, Foreign Direct Investment diminished by 56%. In 2010-2011, FDI started expanding once more, however by 2012, it tended to decrease (Circle, 2020). During 2007, Georgia pursued the venture inclines far and wide by arriving at a record volume of investment totaling2 billion dollars (Silagadze and Zubiashvili, 2016). Starting in 2008, because of Georgia's war with Russia and the world money related emergency, speculation began to decline and in 2009all out FDI reached the amount of 658 million dollars (Saksonova and Papiashvili, 2017). After2010 in any case, investment figures demonstrated a propensity for development and in 2014, FDI arrived at a record of 1.8 billion dollars (Saksonova and Papiashvili, 2017). After 2014, the expansion in speculation was to a great extent identified with the development of the project “Shah Deniz 2”, a gas pipeline. Inside the system of this task, FDI in Georgia surpassed the amount of 1 billion dollars (Silagadze, 2016). In any case, foreign venture began to decrease in the primary portion of 2017, contrasted with a similar period in the previous year (Circle, 2020).

The amount of FDI communicated in ostensible figures doesn't show whether the funds being invested in Georgia are enormous or little. For instance, while a 3 billion dollars annual venture is viewed as huge for Georgia, it is basically nothing for some other powerful countries. Consequently, the volume of FDI must be estimated in ratios juxtaposed to the volume of the economy, such as the GDP figure of a certain nation. 2007 was very fruitful in such manner since the investments as a piece of GDP arrived at its 19.8% level (Silagadze, 2016). In the course of recent years, the most exceedingly terrible marker was in 2012-2014, a period during which FDI figures were a tiny ration of the Gross Domestic Product (Circle, 2020). After 2014, the investment as percentages GDP began to increment, but in any case, one must consider the way that because of the swelling of the Georgian lari, the GDP communicated in dollars diminished between the years 2015 and 2016 Circle, 2020). This phenomenon added to the expansion in the venture to GDP proportion. In the principal half of the year 2017, the proportion of the foreign investments to GDP, diminished because of a decrease in investments, but also because the national product was higher (Georgia Foreign Direct Investment, 2020) .

The numbers recorder by statistics tell us that the amount of FDI put into the Georgian Republic in the last 24 years since it began in 1996, is about 19.7 billion dollars (Silagadze, 2016). This makes an average year at the sum of about 900 million dollars. During this entire period of foreign direct investments inflow, the key contributors were Azerbaijan and England. Their money was invested heavily in the projects of gas and oil pipelines. This pipelines actually go through the territory of Georgia, to stream the passage of the resources from Azerbaijan to Turkey.

A lot of insights can be gathered if we look in the information about the share of FDI according to the sector of the economy in which they were plugged into. The statistical keepers began to show this sectorial share of FDI since the year 2007 (Silagadze, 2016). From that period until late one can notice that the major share of the FDI was put into the communications and transportation. A lot of money went for the pipelines. Energy sector was also of immense importance and data indicate that hydro power projects attracted a lot of investments (Saksonova and Papiashvili, 2017). Although the energy sector still remains important, the data from the previous year show that a lot has changed. Communication and the transport are in decline as sharers of FDI. What we notice is the fact that the most key sectors are those in the service industry like hotels and gastronomy, or finance sector which is the first, this speaks for a modernization and diversification in Georgian economy. Attention is spread to keep up with other than resource abundant sectors, which history has proven it to be a dangerous trap for the countries which desperately rel on them. Agriculture and health care related investments were really low and continue to be like that even now, and this is obvious for a country like Georgia. What is something to mention as a important fact in the recent years, is the fact that companies and states due to the success of the investments, allocate bigger and bigger parts of their profits in the form of FDI for the next financial year.

I will mention later the business climate and institutional behavior, but Georgia's FDI allure is additionally polluted by the way that the nation has lacking natural assets, despite the fact that it is the geographic area of the country that draws in the most money. This most likely clarifies why perhaps one of the biggest portions of money go in the transportation segment. One more reason that badly affects Georgia's investments´ engaging quality is the nation's low by and large degree of instruction and education, which brings about an absence of qualified specialists (saksonova and Papiashvili, 2017). Then again, the quantity of inadequate specialists isn't sufficiently enormous to rival Asian nations with tremendous populaces. Furthermore, there is a stamped lack of English language abilities in the nation's working population. The pros of the Foreign Direct Investments in Georgia lie in the policies towards trade which have been very liberal. The country has joined a lot of agreements in free trade agenda, has imposed no policiesto restrict the moves of the capital, but also any country´s citizen can go in Georgia and stay fora certain amount of time without documentation requirements and hassles. Fast financial development is fundamental for Georgia. Be that as it may, this requires progressively Foreign Direct Investment amounts consistently contrasting the earlier year. Theamount of FDI as of late can be considered as the normal volume. Despite the fact that today the world isn't seeing the sort of venture blast that was knowledgeable before the financial crisisof 2008, it is as yet conceivable to draw in greater speculation in the event that a country guarantees a superior business atmosphere.

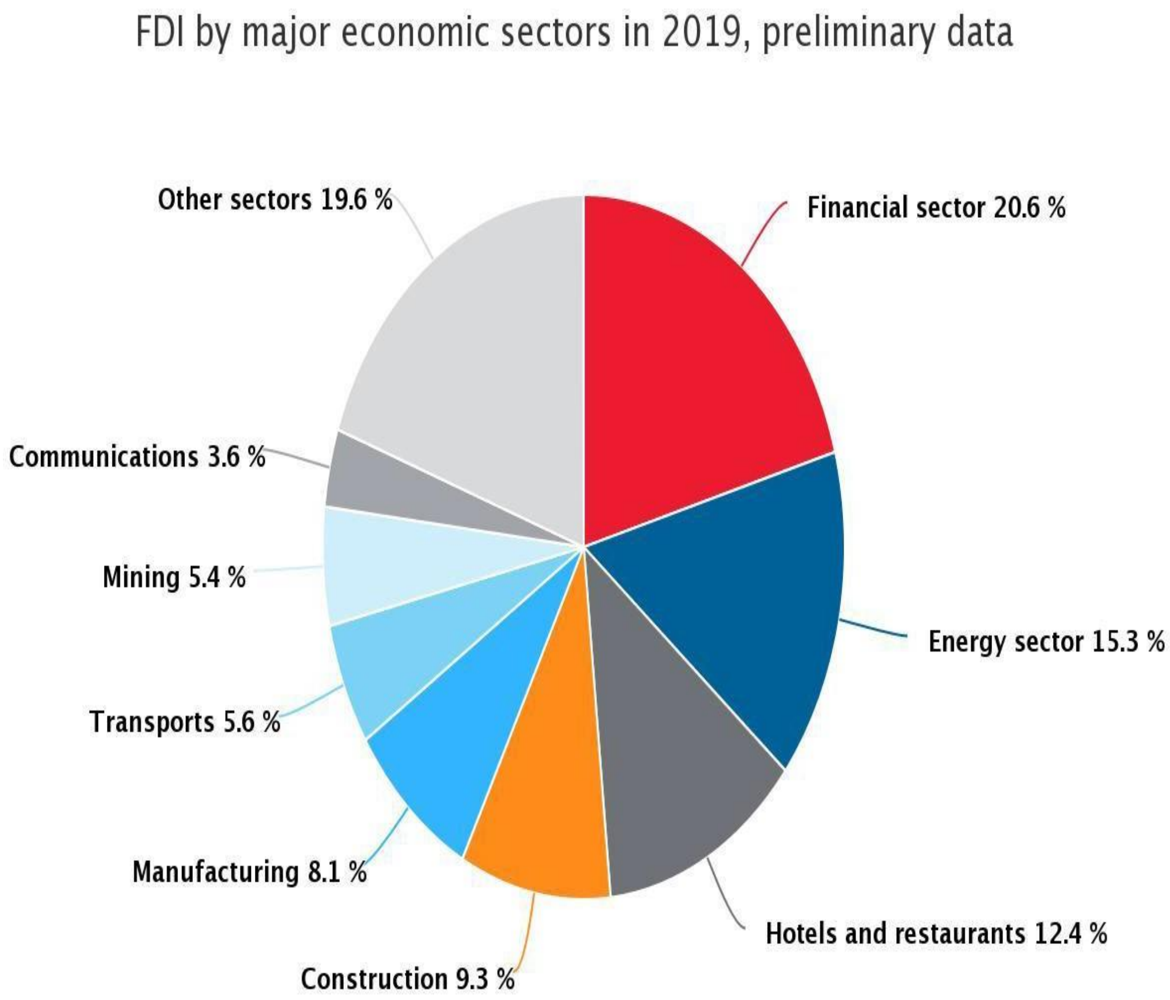


Figure 2. Foreign Direct Investment in Georgia in the Last Year by Sector[3]

[3] Source: Geostat.ge https://www.geostat.ge/en/modules/categories/191/foreign-direct-investments

2.2 Institutions and the Quality of Governance in Georgia, their Linkage to FDI

2.2.1. The importance and the meaning of the variable of Institutions

This exploration depends on the explanation that proficient markets rely upon supporting establishments that can give the formal and informal principles of the round of a market economy, permitting a lower exchange and data expenses and decreasing vulnerability. Also, it must be expressed that the lawful and governance plans just as casual foundations supporting an economy impact corporate systems, in this way significantly impact the activity and execution of business organizations. Institutional governance and its quality, and level of advancement assume an urgent job inside on a country's capacity to create, develop, and advance a financially steady condition. Along this thesis the notion of an institution is utilized by the meaning of Douglas (1991), characterizing institutions as humanly developed requirements that construe political, economic, and social association or basically as rules of a game.

Moreover, the institutional structure comprises of formal (strategies, changes, property rights, and so on.) and casual regulations (standards of conduct, willful set of accepted rules, or in one term – social culture) and systems of enforcement for those rules. Having at the top of the priority list that organizations are commonly quick to put resources into nations that secure property rights, have a created lawful system and upheld rules of law, give all around created open administrations without difficult organization and repetitive regulations or worrying levels of corruption, I chose to examine these two specific cases as the transition economies rely heavily on foreign direct investment as a core part of the development agenda. Besides, it increases the level of know-how, expertise, employment, etc. To continue the theory, for example the scholarly work of North (1991), I must say that economically related institutions provide the rules and the allure for both national and international economic agents operating or considering to operate in a country. Considering these premises, the variable Institutions can be derived in some important aspects or nuances such are the protection of property rights (intellectual), government direct policies, political risk, etc., are of utmost importance in explaining the FDI agenda in a state.

2.2.2. Quality of Democracy and the Business Climate in Georgia

As referenced above, so as to pull in venture, Georgia needs to make a business atmosphere that is more appealing than different nations. There are various compelling associations that review business atmospheres and dependent on this list they distribute individual evaluations. Nonetheless, I might want to feature the Ease of Doing Business rankings and the Index of Economic Freedom. Georgia holds the sixteenth position (third in the district) in the former ranking and thirteenth (fifth in the district) in the subsequent rating. Standing in the best 20 countries is now a decent accomplishment. Be that as it may, these appraisals don't reflect political solidness and the danger of war. Nor do they show that a huge bit of the Georgian physical area stays involved, or that Georgia battled a war with Russia only 9 years prior. Russia is the most harming factor for the economic atmosphere of Georgia.

I can likewise examine the condition of democracy quality in the nation and its correlated issues. As per the Democracy Index distributed by the Economist, Georgia is positioned 78th on the planet and the Georgian government is ordered as a crossbreed system. Georgia got the most minimal scores in the working of government and political culture classes that are utilized in ascertaining the Democracy Index. And keeping in mind that as indicated by the Index of Economic Freedom Georgia holds the thirteenth position, it is positioned the 77th nation on the planet from the purpose of security of property rights. Truth be told, Georgia got its most minimal score (55 out of 100) in the insurance of the property rights classification.

The United Nations Conference on Trade and Development (UNCTAD, 2019) calculations say that the level of Foreign Direct Investments in Georgia will be steady and grow bit by bit in the next few years. This argument of FDI growth is basically based on the price rising of the commodities in the country and a more stable economic growth. In order to lure the investors, Georgia is offering many plus points in terms of legislative and taxing advantages. In the recent years the economy of the country has been successfully liberalized maximally and is considered lately to offer for investors one of the best climates, in comparison with itself´s history, but also relative to other developing nations. Corruption, proving to be a major obstacle for investments in the entire transition period of the country, recently has been demolished at large very successfully. As per calculations presented by Transparency International, the country of Georgia is listed in the 44th place, which is a major success for the Corruption Index figures (Transparency International, 2019). Recently the World Bank reports on the Ease of Doing Business list Georgia very high (7th) in the easiness of business conduct atmosphere (Doing Business, 2020). Some steps by the governmental institutions facilitated the enhanced perception for the quality of governance in business related aspects. Georgia recently started to provide much cheaper electricity. Also, Tbilisi reformed the protecting policies of investors coming from minorities, something which has huge potential in the region, regarding its political and historical backgrounds. Tax payments were made less bureaucratic. Execution of contracts was facilitated at great extent, and the problematic coming from the insolvency resolutions was eased as well.

President Salome Zurabishvili, the first lady to hold the workplace, started her administration restating Georgia's EU desires. Georgia tries additionally to adhere in NATO, which has incited geopolitical strains with Russia, especially since the 2008 clash. During 2019, fierce enemy of Russian fights occurred in the capital Tbilisi and in July Russia responded by restricting trips between the two nations, which influenced genuinely the Georgian's travel industry. Executive Mamuka Bakhtadze surrendered, following a year in the workplace, and the Georgian parliament affirmed another administration drove by previous inside clergyman Giorgi Gakharia.

The chief of the executive power in the country, being the President, has a 5 years mandate and is chosen from the populace. President serves as the commander of the armed forces, but also heads the ministries of Energy and Security. Other ministerial portfolios are held by the Prime Minister. In general, in political terms the country of Georgia has a high degree of centralization (not including the regions of South Ossetia and Abkhazia, behaving as autonomous under the Russian linkages). The branch of Legislature in Tbilisi is with one room only, which is the Parliament and it directly or indirectly can support the being or not of the government. The parliament often is included in votes of confidence for the President. But in general, the normal people of the Country have unsatisfactory political freedoms. Unfortunately, in Georgia, the judicial branch is not independent in the required scale. There is a huge pressure on the jurisdiction system by the executive power holders, and this, as in many transition economies and democracies, continues to hold back the justice reforms. Foreigners do not receive just trial cases in the system, and this impacts the FDI realms, despite the improved macroeconomic environment and ease of doing business. In my opinion, there is a huge need for the reformation in the justice system and for the vetting of the judicial key positions. But also, in paper related legislation there is a need for new adoptions, since the Constitution still in power is that of 1995. In common, other transition economies have changed the constitution more often than Georgia.

Not only the reports of business conduct affect the amounts of FDI, but the latter also has an effect on indexes of ease of business conduct. So, there is bidirectional connection between the quality of governance and the foreign direct investments in a country. Two countries among the developing world have been largely mentioned as countries which have put a lot of efforts on the reforms in business practices. These countries are Georgia and Macedonia. While their reforms and efforts have secured for them huge improvements in the rankings of different indexes of doing business, the amounts of Foreign Direct Investment have not responded in a positive relation. In some years, FDI has even decreases while the indexes improved by a big deal. Georgia was in fact a typical case during the last decade used by scholars to mention the disproportional relation of the positive rankings in the business conduct reports with the amounts of FDI inflows. Apart from the quality of institutions, Georgia is a special case which has many other variables fuzzed in the effects of foreign investments.

To set up a new business in Georgia is currently needed on average two days of time and the number of procedures is just one (Nordea, 2020). This is huge indicator for institutional quality and impact on the steady grow on FDI, because the average figures for the Eastern Europe and Central Asia are respectively 10.2 days and 4.9 procedures (Nordea, 2020). Different countries have in place so called IGM[4] legal dispositions. These are mechanisms which guarantee fair and quick responses towards the insecurities and problems faced by the investors. In different countries this mechanism or notion takes several different forms. In Georgia, recently there is no IGM law disposition, but there is established a separate institution fulfilling the same purpose, called Georgia Business Ombudsman (Digitaldesign.ge., n.d.). This Institution treats the complaints of the businesses about issues related to taxes and certain procedures. This Institution was established in 2015, and it replaced the so - called Tax Ombudsman (Digitaldesign.ge., n.d.). This replacement in protection of investment practices has improved the Institutional quality as it serves more aims than merely behavior as tax advocate of the previous counterpart. It also clarifies a lot of procedural issues for the business conductors.

The legal framework for investments consists of two laws which are: a) The Law on State Promotion and Guarantees for Investments dated 12 November 1996; b) Law on State

[4] Investment Grievance Mechanisms - https://businessombudsman.ge/en/about-us/the-office-of-the-business-ombudsman-of-georgia

Promotion and Incentives dated June 30, 2006 (FindLaw, 2020). "Invest in Georgia", Georgian National Investment Agency is a Government Agency which promotes investment opportunities in Georgia and serves as a mediator or facilitator of investors' communication with administrative institutions (FindLaw, 2020). The agency is different from “Georgia Business Ombudsman”. Georgia Business Ombudsman is a specially created institution and not an IGM, but a foundation available to businesses in general and with a focus mainly on tax issues. The Business Ombudsman is appointed by the Prime Minister with the approval of the Speaker of Parliament. Business Ombudsman oversees the protection of the rights and legitimacy associated with entrepreneurial activities (although there is no clear definition of which ones are included in these activities) from violations by an administrative body (Investments Laws Navigator, n.d.). Business Ombudsman´s scope activities basically include: a) Reviews special or group complaints submitted for violations by administrative bodies during entrepreneurial activity; b) detects and identifies errors in legislation and practice; c) handles activities with consultative and informative nature. Business Ombudsman prepares recommendations for the administrative governance bodies to put the rights of the complaining subjects in place, in cases of verification of violations (Investments Laws Navigator, n.d.). The field of competencies of the Business Ombudsman is not exactly specified by law, but by looking at the spirit of the law, it seems like the frames of operations are is connected with fiscal and tax cases. Its reports are given to the government, and to two Committees of the parliament: Financial Budgetary Committee, Sectoral Economy and Economic Policy Committee (Investment Laws Navigator, n.d.). In the same way about the cases that can be filled in this institution, there is also missing information or no indication about the issues it does not treat. Basically, any issue could be enacted.

2.3. An Implied Summary of Advantages, Disadvantages, and Opportunities about Investing in Georgia.

Some favorable or strong points for the situations about investing in Georgia are:

- When looking at different reports and at the statistics of national institutes of Georgia, it seems that the country has a competitive advantage because it had a very good resistance to the regional crisis of 2014 - 2016.
- The potential in the fields of agriculture, tourism, mineral extraction, and hydroelectricity has increased immensely.
- The international support towards Tbilisi is also being received with an exponential growth year after year. This helps increase bot the quality of institutions and the FDI. This support comes from the EU and also the World Bank institutions such as IMF. Being in the network of western security regimes will further stabilize the FDI in Georgia, and even increase it in a great deal.
- Georgia has a strategic position with a huge importance. It possesses the oil from the Caspian Sea but also is a crossing point in the routes of gas resources.
- What has stabilized the country more than anything else is the aftermath of the conflict with Russia and the influence of the latter. Inclination towards western political and economic institutions has made Tbilisi accomplish reform and raise the level of democracy in the country. The government recently offers a very friendly business environment, with concrete measures such as low corporate taxes, and unique simplification in the procedures of registration.

There are also several weaknesses when it comes to the attracting level of Georgia as a FDI destination:

- The society lives still in relatively high levels of poverty. There is a big percentage of unemployment and many people are also under employed. Sufficient and adequate training of the working force or the potential working force is missing, and this a huge importance for providing an attractive terrain for foreign direct investment.
- Georgia has a trade deficit in its structure of trade. It has a low attention to diversification and it values a lot the exports. Here there is a lack of institutional quality of policies as

well, meaning that the rising quality of institutions not directly related to FDI, also helps the increase of FDI inflows. Domestic diversification creates new potentials and involves more people, but also indirectly by identifying and investing energy and resource in new opportunities, indirectly it has an impact of FDI. International investors arrive as soon as they see something moving for the better. They are experienced and nuzzle profit driving moves really quickly.

- The productivity in the field of agriculture is not yet in the desirable conditions. It is interesting to view that this phenomenon is spread in many post - socialist Republics and transition economies. They have potential in there, but do not utilize it. Georgia uses a lot of assets actually in the agriculture, but it has failed to be add the proportionate value to it. The collaboration with the EU is a good sign in improving efficiency in this field.
- Infrastructure in Georgia is in a bad condition. I mentioned earlier that in the beginning of the last decade something moved for the better, but now many projects have failed to deliver results. Infrastructure network is of utmost importance to lure foreign investment. Not only is the infrastructure old in many areas, but it is also missing in other areas which have potential for development.
- Education policies of the country should be reformed and there the institutions hasve failed so far. Also, the policies towards innovation are not sufficient, something directly connected to the quality of governance. That is why even with other good factors in place, FDI has stuck in an insufficient growth.
- Last, but really important is the blockage with Russia which seems as a deadlock, because Georgia stands in between two security regimes. In normal relations with mother Russia, FDI could have been much higher. The South Ossetia and Abkhazia regions remain unsolved issues with no clear future path.

The government in Tbilisi has since the first years of the new millennium undertaken several measures to enhance the economic development. It started the privatization of the companies which were owned by the state, a campaign to fight corruption was launched, but also, very importantly it included in policies the principle of non - discrimination between foreign and local investors, part of the package of State support for the investment inflows (Investment Laws Navigator, n.d.). Since then the procedural length to open a business was shortened massively. Labour market was also made more liberal, many barriers for operations were removed, and more critically corporate tax was devalued. All these actually worked since before the crisis of 2008, Georgia was increasing FDI inflows with huge lumps. This means that institutional quality in normal conditions works a lot and it has a meaningful positive correlation with the amounts of FDI attracted.

During the second decade of the new century, the relations with Russia and the aftermath of the financial crisis played as fuzzy variables. In the recent years, FDI is stabilized and it is in continuous slight growth as the reforms continue and behavior of institutions is responsible. Still, the middle way in the realm of security regimes and the missing territorial integrity diminish the proper development of Georgia. Georgia has so far ratified deals on Foreign Direct Investment with 33 nations (Global Trade, n.d.). This is a positive thing, but more needs to be done.

3. THE CASE OF ARMENIA

Republic of Armenia is the smallest state in the region of South Caucasus. Thus, it has a relatively small national market, with a population around 3 million inhabitants. This and the fact that it was landlocked by economic blockaded of two neighbor states, Turkey and Azerbaijan, has made difficult for Yerevan to attract appropriate amounts of Foreign Direct Investment. The scenario for investing parties who are specifically interested in exporting products, has been difficult as trade blockages prevent them to sell in e regional market which is really huge. These facts added water to another component which affects FDI inflows. The quality of Armenian Institutions is a variable with an utmost importance for the prosperity of the national economy, and for the competitive position of the country regionally (Bayar, Remeikiene, Androniceanu, Gaspareniene, & Jucevicius, 2020).

3.1. Foreign Direct Investment in Armenia

South Caucasus has always been a very important and strategic region in terms of geopolitical interplay of big actors wanting to affect the region, but also as a natural connecting area between two continents, Europe and Asia. Three big international players surround the region (Russia, Turkey, Iran), which are often in conflict with themselves but also with western security spheres. Thus, in the region have always been territorial integrity problems for the countries, lasting in enduring conflicts and clashes without a clear prospective to be solved. This has affected a lot the political and economic developments in the states of South Caucasus. Also the political developments inside Russia have played a crucial role, especially for Armenia in which Moscow finds an ally, and the former relies too much on the latter economically. Unfavorable geopolitical positions and blockades (also the tendency of the conflicts being renewed) made the country somehow vulnerable in front of the eyes of foreign investors. In the middle of the 90s though, Armenia did a lot of economic reforms and restructuring, allow the national economy to take off (Odling, 2001).

As for the World Reports on Investment (UNCTAD, 2019), FDI figures in Armenia in 2018 were 254 million US dollars. The country experienced a relatively small growth compared to the previous year. Statistics about the same period show a stock of Foreign Direct Investment being 5.5 billion US dollars, which in relation with the Gross Domestic Product of the country stands at 44.4 % (UNCTAD, 2019). Germany, Greece, Cyprus and Russia are the most important investors in the economy of Armenia. But Armenia is a special case regarding FDI because it has a huge diaspora, which is crucial in the figures of FDI, supplying the country with vast amounts of investments. As for the sector divisions of FDI, the most crucial ones are telecommunications, energy, services such as air travel and hotels, metallurgy, etc.

Figure 3. Foreign Direct Investment Net Inflows in Armenia 1992 - 2019[5] (in US $)

Armenia also lacks the favorable advantage of natural resources to attract investors from outside. In a difficult position, also being a small market with closed doors, it was really difficult for the country. By about 2008 Yerevan managed to grow its Gross Domestic Product at its peak, and it also balanced the budget against debts it had. But, the world financial crises affected Armenia more than the other countries in the region. Since reforming its economy in the 90s, Armenia had always managed to increase its GDP with double figures. After the crisis, in 2009, GDP of Armenia showed the highest numerical decline among the regional countries (Ananicz,

[5] Source: World Bank
https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2019&locations=AM&page=6&start=1992

2014). This decrease had several causes, which were severe. Foreign trade of the country had bad balances since exports experienced a really severe crash. Foreign Direct Investments in comparison with the figures prior to crises showed a decline of 40% (Kaczmarek, 2016). Also transfers from abroad (private), in which the country relies too much, affected by the entire systemic crisis, dropped from 2.2 billion US dollars into 1.5 billion (Kaczmarek, 2016).

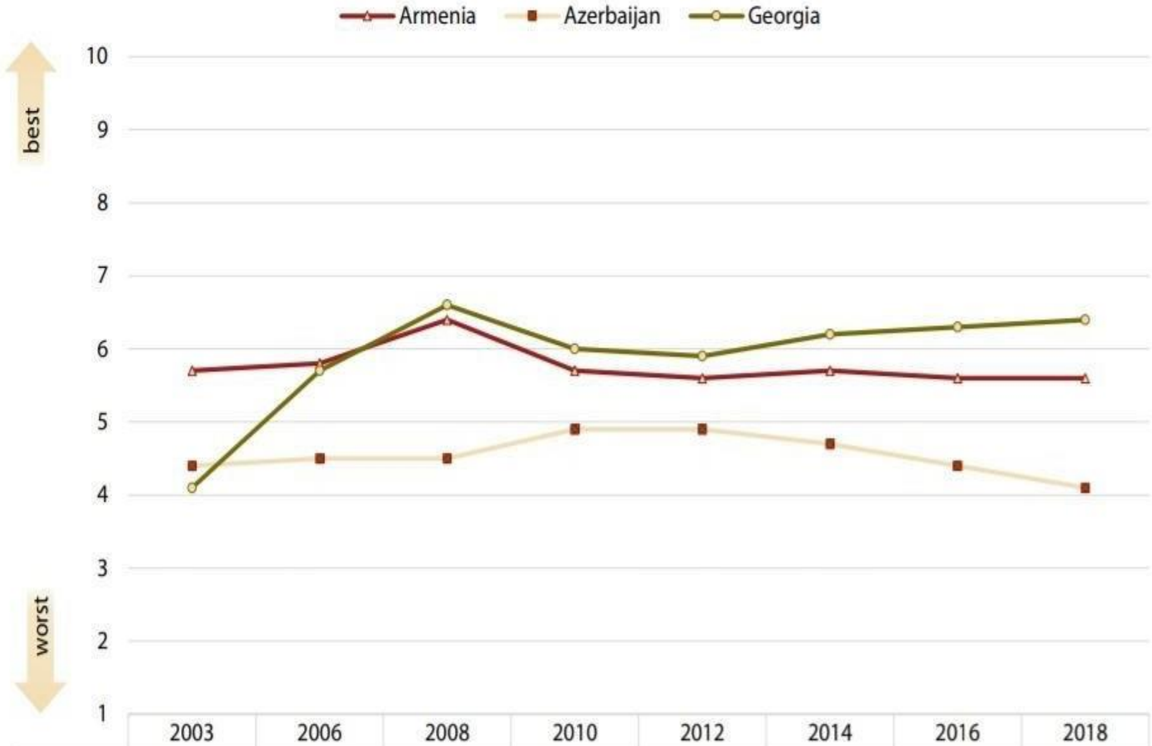
By and by, after a tremendous decline after the crisis, Armenian economy began to recoup, enrolling 3,4 percent development in ostensible GDP esteem of 10,8 billion US dollars (Ananicz, 2014). The essential driver of monetary development was the agrarian division, which enrolled a twofold number of developments of 15,5% (Ananicz, 2014). Anyway the financial development the elevated level of joblessness in the nation has not been satisfactory. Consistently contracting workforce (came about because of expanding migration), antiquated work abilities, and the nearness of a major shadow economy fundamentally upset further monetary development in Armenia. This issue, thus, needs a mind-boggling approach, multidimensional. As of now, most of jobless specialists are flourishing in antiquated work aptitudes, better – directed instructive projects and preparing (changes in the instructive system) are required for guaranteeing that scholarly and instructional classes are coordinating the necessities of the work advertise. The legislature ought to advance the improvement of the private area for making top notch occupations and lessening the joblessness rate. Anyway, one of the most basic components for boosting work in Armenia is the improvement in investments and business atmosphere for expanding internal FDI streams, which, among other positive advantages, will make numerous new openings in jobs.

After gaining autonomy, Armenia turned into a player in the worldwide economy opening its entryways for universal exchange and capital streams. At the present phase of transitional improvement Armenia is confronting a hard duty of entering in other degree of serious turn of events, driven by worldwide monetary patterns and, specifically, by escalation of worldwide capital streams. In this situation, the velocity and effectiveness of further financial change in Armenia is primarily relying upon the nation's capacity to pull in increasingly remote capital in serious parts of national economy. Remote direct speculation, thus, is the top need wellspring of such capital, because of the positive advantages of FDI on a beneficiary nation's domestic economy. Foreign Investment is not just money related inflow as it additionally advances the introduction of new innovations in the creation procedures of the economy. Remote direct speculations give the exchange of information, know-how, both as far as instructions and collection of abilities, just as through the presentation of optional, excellent strategies for the executives and progressively proficient authoritative structures.

Heightening of internal FDI streams into the country, would suppose better access to new markets, creation of interesting of products and services which sell, making of new employment openings, just as increments in different voices of government incomes. Besides, Foreign Direct Investments inflow positively impacts rivalry and meritocracy: the anticipation of new remote organizations in the domestic market breaks the current parity conditions. Therefore, residential firms need to expand their proficiency and efficiency so as to have the option to catch up with the expanded rivalry and don't lose their piece of the overall industry. In the late 90s, big privatizations helped the economy of Armenia and the FDI figures reached new heights, affecting the turn of the century as well. Telecommunications sector in the economy has been attractive for FDI inflows in the country (Kaczmarek, 2017).

In the beginning of new millennium Armenia joined WTO, a major step to facilitate the financial development environment (Kaczmarek, 2017). Privatization still needs more acceleration, and has not fully happened because the old-fashioned assets in the country have been seen as unattractive by the investing parties. By the middle of the last decade, the trends of Foreign Direct Investment showed a decline. Again, and again the only sectors which received attention were monopolies, or oligopolies (natural resources or telecommunications, etc.), which is a major problem for the developing economies, and blocks innovation and openness towards structural change (Gligorić, Borović & Vujanić, 2017). Thus, for this country the policies of the government to balance the trade and the situation of the economy, remains of utmost importance.

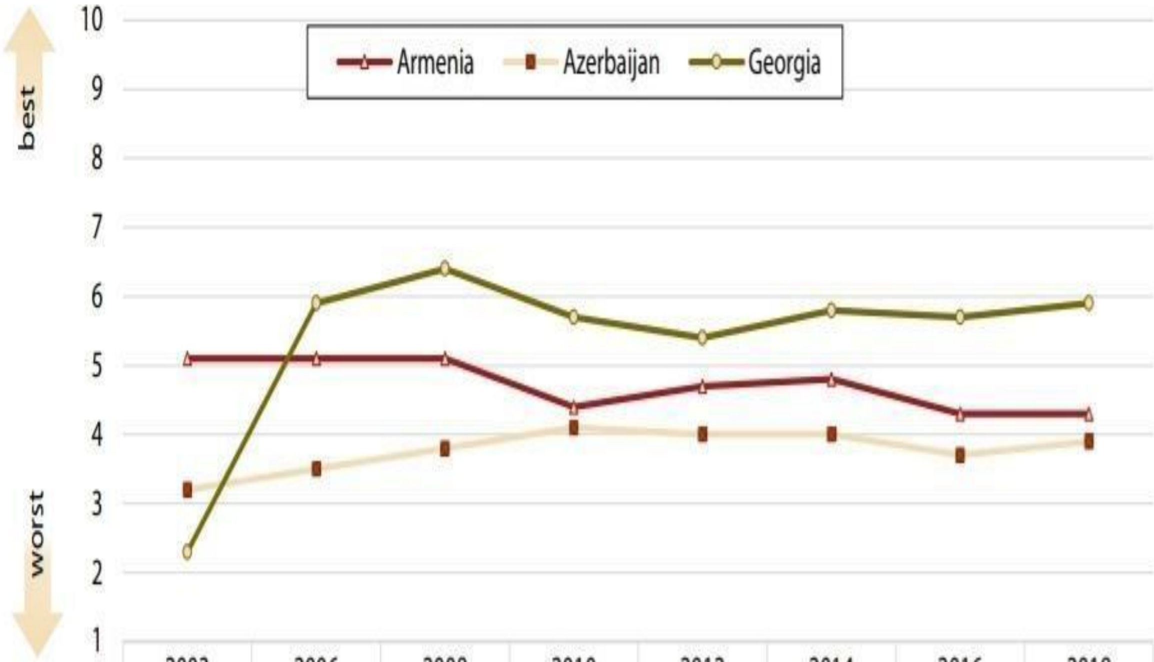
3.2. Institutional quality in Armenia and It´s Relation with FDI



	2003	2006	2008	2010	2012	2014	2016	2018
Armenia	5.7	5.8	6.4	5.7	5.6	5.7	5.6	5.6
Azerbaijan	4.4	4.5	4.5	4.9	4.9	4.7	4.4	4.1
Georgia	4.1	5.7	6.6	6.0	5.9	6.2	6.3	6.4

Figure 4. Transformation Index for the Caucasian Countries, focusing on political and economical transformations. The progress towards rule of law and social economy. [6]

[6] **Source**: <https://www.bti-project.org/en/home/> ; The research establishes a relation between the variables investigated. In some of the figures presented in this work are presented economic and political indications for the near past as well, since we need to gather evidence on the past levels of one variable affecting the current levels of the other. Anyway, where possible, in figure or in writing, it has been a detailed presentation regarding the situations of the varibles in the most recent years as well.



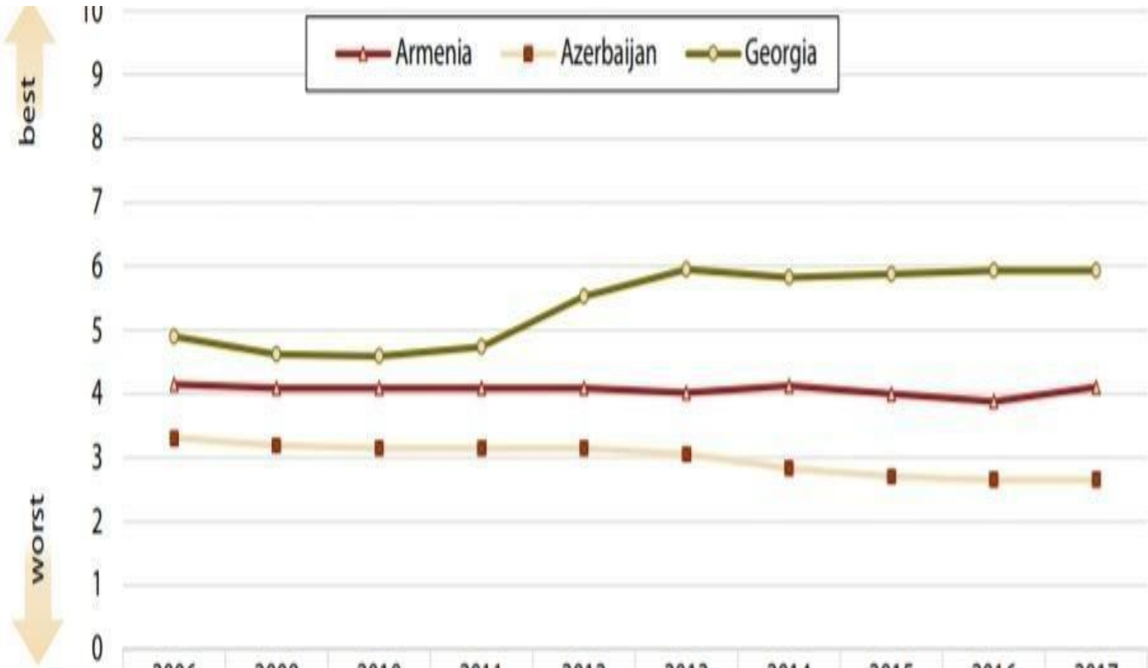
	2003	2006	2008	2010	2012	2014	2016	2018
Armenia	5.1	5.1	5.1	4.4	4.7	4.8	4.3	4.3
Azerbaijan	3.2	3.5	3.8	4.1	4.0	4.0	3.7	3.9
Georgia	2.3	5.9	6.4	5.7	5.4	5.8	5.7	5.9

Figure 5. The Transformation Index for the Caucasian Countries, focusing in the level of Governance. [7]

Recently Armenia has done impacting advancement in the realm of liberalizing its economy, since for years it has been stuck with the same issue and problems in transformation processes, showing no change at all in several indexes measuring economic and political transformation for many years in a row. Among the state members of CIS in terms of Foreign Direct Investment appeals (World Bank, 2019). In last periods of time, Armenia has unleashed laws and policies very favorable towards investment attraction venues, and due to an accelerated dynamic in the economic development, the international community and the experts have started to call the country, “Caucasian Tiger”. The reformations consist in the creation of free economic zones for the companies involved in innovation and high-tech businesses, and gives them special treatment in terms of customs, organizational taxes, VAT, etc. (UNCTAD, 2019). Armenia has abolished the restricting behavior on the rights to private ownership, establishing procedures,

[7] It focuses on the readiness of the decision makers to enact the necessary political processes. **Source**: https://www.bti-project.org/en/home/

registration of venues, etc. As for the look alike cases, also for Armenia the signing of Comprehensive and Enhanced Partnership Agreement with EU, does a great job to promote Foreign Direct Investment (CEPA, n.d.). In any way, Yerevan still is too much reliant in terms of attracting Foreign Investments on health of some European, and especially Russia. Corruption levels are still very high and diffused everywhere in the system. The report of World Bank, in its index of Doing Business measurements, lists Armenia in the 47th position for 2019, thus losing some places on the rank on comparison with 2018 (World Bank, 2020).



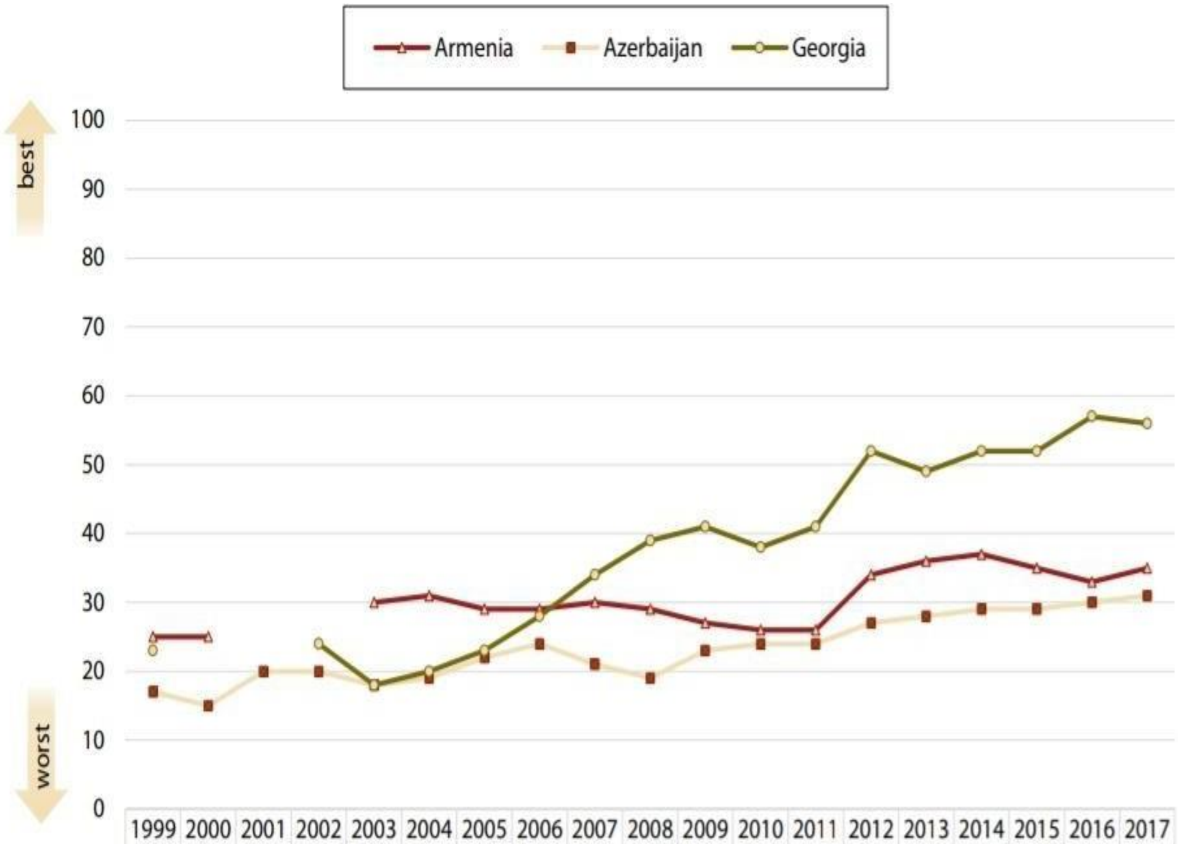
	2006	2008	2010	2011	2012	2013	2014	2015	2016	2017
Armenia	4.15	4.09	4.09	4.09	4.09	4.02	4.13	4.00	3.88	4.11
Azerbaijan	3.31	3.19	3.15	3.15	3.15	3.06	2.83	2.71	2.65	2.65
Georgia	4.90	4.62	4.59	4.74	5.53	5.95	5.82	5.88	5.93	5.93

Figure 6. Index of Democracy for the Caucasian Countries[8]

The governance representatives and policy makers have in fact always been conscientious that the country needs better policies to attract funds and to develop its economy more. Legislation has been improved with the introduction of the Law of Reduction of Poverty and Corruption

[8] Source: Economist Intelligence Unit https://www.eiu.com/topic/democracy-index

and several other reforms directly connected to the enhances business climate, such as: Treatment for foreigners, limitless ownership for them, repatriation of profits earned in Armenia, blockages in the interventions from the domestic government, etc. (World Bank, 2019).



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Armenia	25	25	-	-	30	31	29	29	30	29	27	26	26	34	36	37	35	33	35
Azerbaijan	17	15	20	20	18	19	22	24	21	19	23	24	24	27	28	29	29	30	31
Georgia	23	-	-	24	18	20	23	28	34	39	41	38	41	52	49	52	52	57	56

Figure 7. The Index of the Perception of Corruption among the Caucasian Countries[9]

The sectors of communication and information technologies have the been the more important ones to suck foreign direct investment in the recent years in Armenia (Business Armenia, n. d.). Numerous global organizations have built up workplaces in Armenia to enroll qualified HR and specialists in these orders. At last, in 2015, the administration made the Development Foundation of Armenia to empower investment inflows from outside, advance the travel

[9] Commonly known as CPI. **Source**: https://www.transparency.org.research/cpi/overview

industry (tourism has really a great potential in Armenia) and create expertise, an institution that starting in 2018 has been working under the new label “Business Armenia” (Business Armenia, n.d.).

As for the procedures needed to conduct business in Armenia, we should mention that establishment´s freedom is something guaranteed. In terms of shareholding regulation, a foreigner can express his interest in the company by buying shares in it (Gevorkian, 2015). This is part of the privatization legislation and efforts. First of all, a company has to be privatized from the state ownership, and then can be sold to investors. The country needs to do more on privatizations will, since the legislation and policies are already in good shape. There are several obligations enforced to make the investors declare certain things. There is no limit about the foreign capitals and ownership levels, but everything is subject to the domestic law. There is an obstacle about land properties, which in terms of foreign grasp, it can only be leased, and it is needed formal permission and informal initiatives to lease the land for a very long time. This fact needs to be addressed by the policy makers and administration.

3.2.1. The Policy of Open Doors

The administration in Yerevan, since the beginning of the independence of 1991, declared a foreign trade policy annotated “Open Doors”, which encapsulated the behavior towards FDI as well (Guliyev, 2012). In this way, officials have been constantly trying to make the investing atmosphere a better one, and this has been reflected in some better rankings in various well known measurement indexes. Except for the ownership of the land properties, no other limitation is in place to block the ownership of foreigners in the country. But foreign capital when registered as a company in Armenia can buy land (Guliyev, 2012). To further accelerate the inflows of Foreign Direct Investment, there have been created some free economic zones. These areas make the investing much more profitable since the investors do not pay VAT and some other taxes, and also can complete they entire bureaucracy services in just one stop. In the recent years, the country has further revolutionized the Agency which is responsible to tackle th issues of investments, has made more instructions and professional advances, but more importantly to implement better operational technicalities. There is a clause in the legislation arguing that capitals can in fact be confiscated in cases where the national interests are at risk, but also in these cases the country is forced to compensate at full (Standard Trade, n. d.).

The adherence to the Organization of EEU (Eurasian Economic Union) has not resulted as it was thought, since it has posed towards Armenia some difficulties (Rinna, 2014). The economic situation of Russia, in which Armenia relies heavily, always impacts the domestic situation (Standard Trade, n. d.). The political and economic turmoil in Russia affected Armenia for the bad by the middle of the last decade. Most importantly it lost terrain to Russian consumer markets due to the crisis there. The significant burdens of Armenia's business condition incorporate corruption levels, absence of straightforwardness and much of the time changing administrative framework, in spite of the fact that the legislature has presented a few changes and enhancements have been made. Following more than 25 years of autonomy, it shows up in this way that an "open entryway" approach to draw in ventures does just a limited amount of the necessary activity.

Having an “open entryway” arrangement is a significant, yet clearly not adequate condition for powerful FDI infusion into the economy of the nation. Armenia is a good case of this statement. The administration in Yerevan ought to keep on improving the business atmosphere, focusing on straightforwardness of the administrative framework, battling against debasement, and focusing on enhancement of ventures by division and by area with a proactive speculations age and fares advancement approach and activities. This sort of approach will have unmistakable positive effects on the economy by expanding work, pay levels and autonomy from outside components. The main and the most crucial venues to address through stronger rule of law are the independence of the judiciary, the corruption levels, protection rights, and also to diminish the high concentration of property. Monopolies are a negative thing in countries like Armenia with a small market and population (Guliyev, 2012). In such markets informal relations and political factors have a great importance. Barriers which informal could be really high, impossible to overcome, despite the provisions of the legislation.

3.3. Pluses, Minuses, and Potentiality about the Investing Atmosphere in Armenia

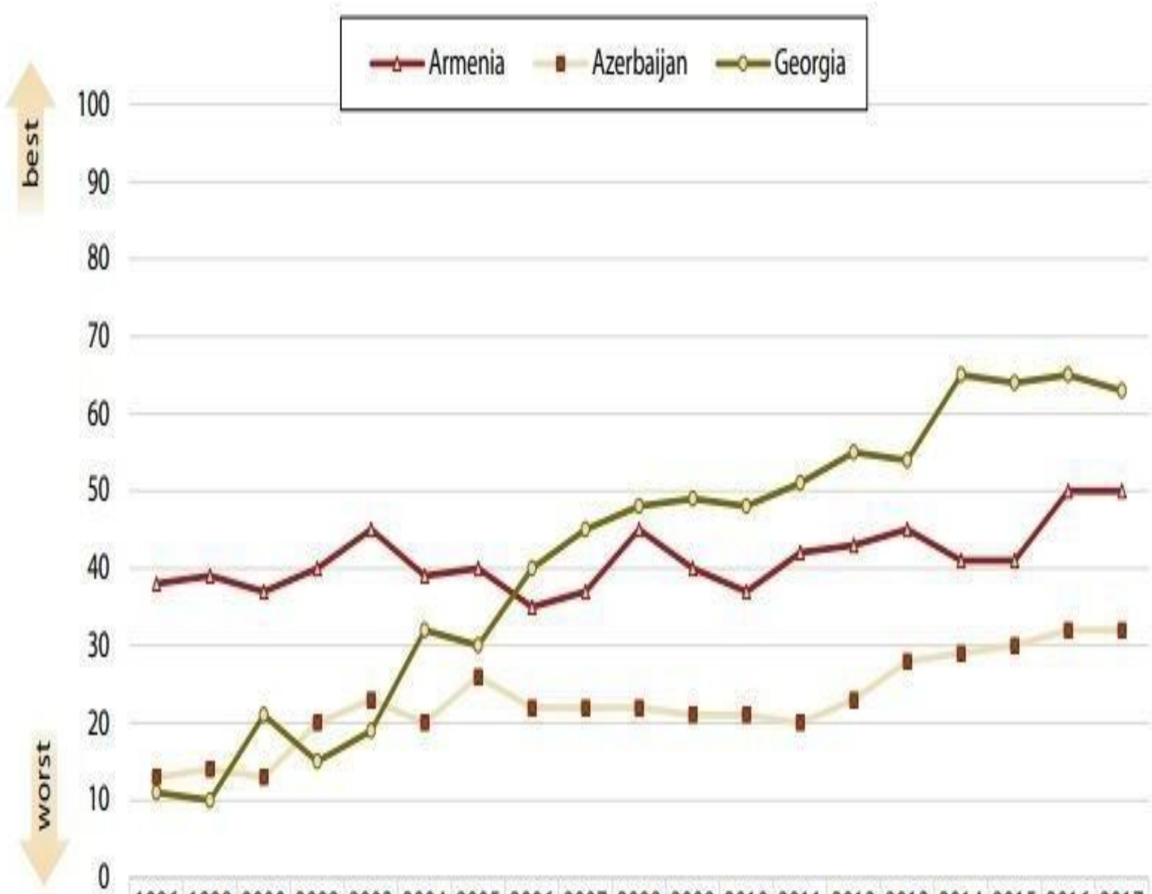
After analyzing carefully what was said above, I will some up in a few points the strong points about investing in Armenia and its current climate:

- First of all, Armenia has a decade of sustaining a consistent growth in its economy and this is a fact that lure foreign investment. The country has also done a myriad of reformations.
- Yerevan has now by far a more stabilized political atmosphere.
- Territory of the country enjoys a great strategical position, which can give the investors access also to other former Soviet Republics.
- The country has reached a qualitative integration in the economic orders, regionally and internationally. Regionally it is a member of EEU.
- The labor force in the country is cheap, and by now it has started to gain crucial knowledge and skills.
- The economy is in accelerated development and has sectors that lure the FDI inflows, such Telecommunications. Also, macroeconomic indicators have been in control and under stabilization, such as inflation rates, etc.
- The country both formally and informally has expressed the will to normalize the relations with an important player, being always hostile, such as Turkey.
- Armenia has discovered significant mineral resources such copper and gold, which have the potential to increase FDI.
- Another sector showing very good opportunities is the field of Tourism, recently booming and indirectly improving the image of the country in other domains.

Some unfavorable and weaknesses about investing atmosphere in Armenia:

- The national market is a small one and this cannot be undone as an obstacle

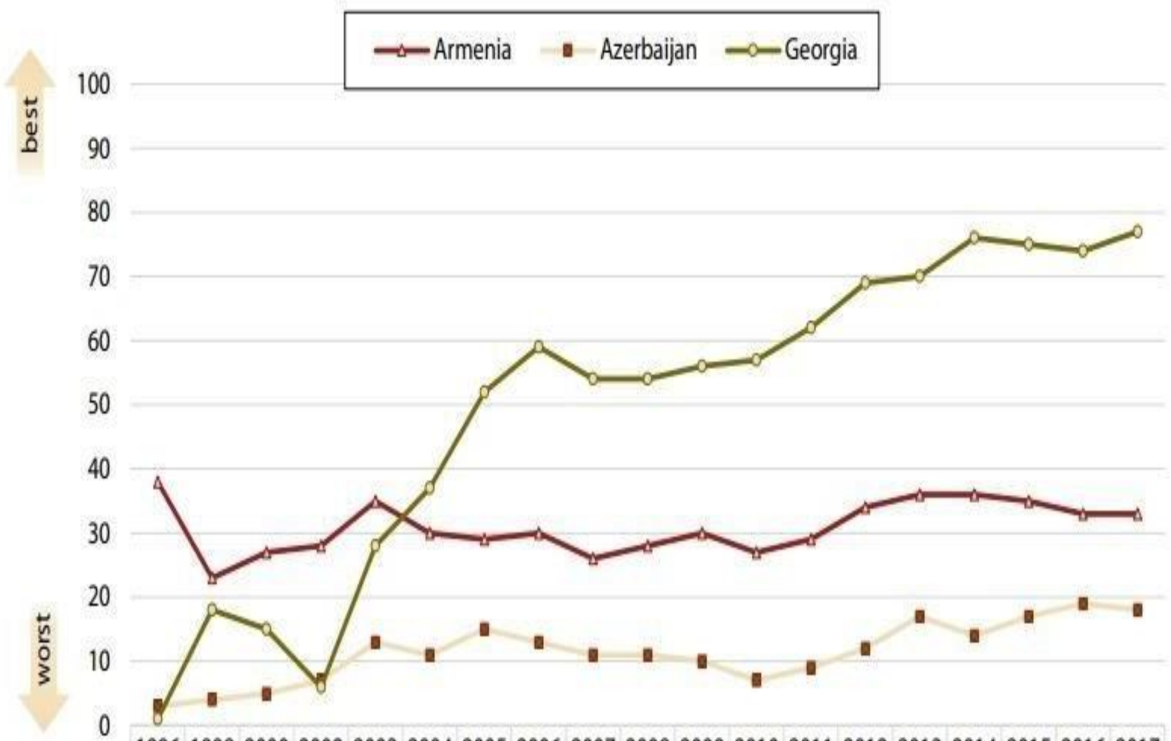
- The embargo coming from Turkey and Azerbaijan still prevents Armenia. This makes after all a huge cost about the transportation of the goods, since they have to pass through Georgia.
- In a macro national level, there is a strong presence of nepotism and corruption levels which damages the economic development the FDI amounts.
- Being blocked from some and having hostile relations with some others, Armenia has too much dependency for development on a few actors such as Russia and Germany. This hinders the economic situation.
- We all know that in 2006, the country experienced a huge earthquake, and according to expertise it remains a territory which is very prone of natural catastrophes.
- Poverty measurements argue for a population which has severe difficulties. Thus, the people in Armenia behave in a more vulnerable way and cope worse with potential crisis. The latter can enhance a severe social relations situation but also very low levels of consumption.
- Something of utmost importance to be taken care of is the risk that banking sector provides for the country. It is really too much exposed to the volatility of the European neighbors of Armenia.



	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Armenia	38	39	37	40	45	39	40	35	37	45	40	37	42	43	45	41	41	50	50
Azerbaijan	13	14	13	20	23	20	26	22	22	22	21	21	20	23	28	29	30	32	32
Georgia	11	10	21	15	19	32	30	40	45	48	49	48	51	55	54	65	64	65	63

Figure 8. Governance Indicators from World Bank, Rule of Law in Caucasus Region[10]

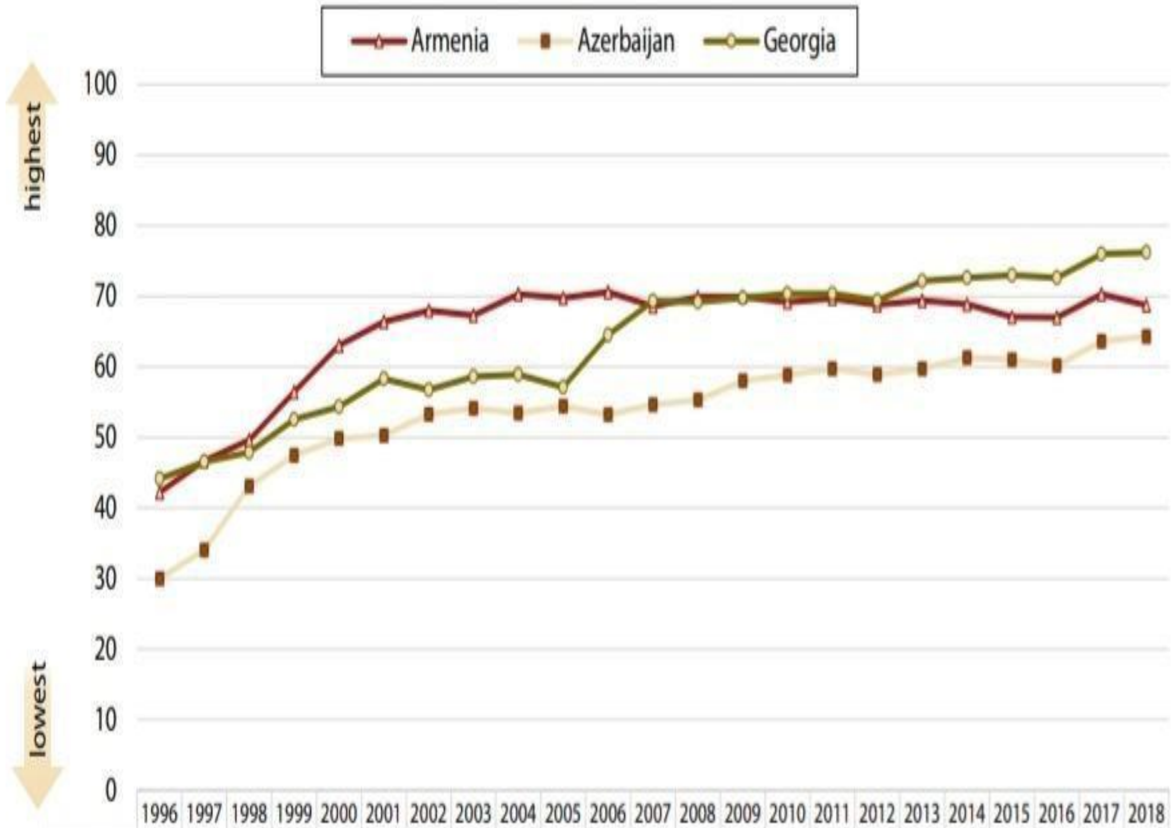
[10] **Source**: https://info.worldbank.org/governance/wgi/#home



	1996	1998	2000	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Armenia	38	23	27	28	35	30	29	30	26	28	30	27	29	34	36	36	35	33	33
Azerbaijan	3	4	5	7	13	11	15	13	11	11	10	7	9	12	17	14	17	19	18
Georgia	1	18	15	6	28	37	52	59	54	54	56	57	62	69	70	76	75	74	77

Figure 9. Governance Indicators from World Bank, Control of Corruption in Caucasian Countries[11]

[11] **Source**: https://info.worldbank.org/governance/wgi/#home



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Armenia	42.2	46.7	49.6	56.4	63.0	66.4	68.0	67.3	70.3	69.8	70.6	68.6	69.9	69.9	69.2	69.7	68.8	69.4	68.9	67.1	67.0	70.3	68.7
Azerbaijan	30.0	34.0	43.1	47.4	49.8	50.3	53.3	54.1	53.4	54.4	53.2	54.6	55.3	58.0	58.8	59.7	58.9	59.7	61.3	61.0	60.2	63.6	64.3
Georgia	44.1	46.5	47.9	52.5	54.3	58.3	56.7	58.6	58.9	57.1	64.5	69.3	69.2	69.8	70.4	70.4	69.4	72.2	72.6	73.0	72.6	76.0	76.2

Figure 10. The Index of Economic Freedom through the years for the Caucasian Countries[12]

[12] Source: https://www.heritage.org/index/ranking/. This figure is really relevant since it depicts the economic freedom for the entire period in which countries experienced FDI inflows, since the middle 1990s.

4. CONCLUSIONS AND RECCOMENDATIONS

My research has aimed to investigate at certain extent economic and social transition and transformation in the countries of Georgia and Armenia, a directly connected derivation of the relation between the variables of institutional quality and foreign direct investment. The work was centered, among other things, in important factors such as the macroeconomic dimensions of the labour market, foreign direct investment, international trade levels, impact of the diaspora, the trends of the local institutions, etc. The analyses made directs the conclusion lines around three critical takeaways. What is revealed from the analyses, argues for a strong impact for the international business and foreign investors.

This Caucasian dichotomy of nations must be taken into consideration in a state - specific and comparative form of analyses, to reveal exactly the transitioning processes of the social - economic spheres. The analyses show relative betterment in the markets of Georgia and Armenia (domestic and foreign). After the great recession implications, which were clearly surpassed, both these countries are economically accessible and open to the international economic operations and collaboration. But, by this, certainly one must not argue or conclude that there are no risks. There is a huge unpredictable, macroeconomic and geo - politically related, uncertainty. It was touched by the analyses some aspects of it, such as credit growth, the concentration of financial flows, external exposure, etc.

Regarding the realm of the Institutions, both Georgia and Armenia did manage to hold back a lot of positiveness in a relatively short time. But still, some critical observations of the scenarios, raise a considerable amount of alert pertaining to business climate, hidden economy, and corporate governance. If one puts in comparison the updated state of affairs to the middle of the transition road, there are huge and immense improvements, clearly noticeable. This, though, should not serve to haul the operations of good reforms and transition. But, instead, it should be a starting point for more improvement in the participation of the international business in the locale, but also should serve as a mechanism for future research on these grounds. A great deal of the improvements, especially for the case of Armenia, has been concluded by a fruitful intervention of the diaspora factor, which led to the elimination of the dispersion problematic.

The way the analyses was done and the presentation of the model concepts pertaining to the peripheries in transition, points towards a key point or lesson, which is gradualism. I also think that the nations of Armenia and Georgia are a good and relevant representative sample of the periphery in transition, economically and politically. Step by step transition, macroeconomic, political, social, and in institutions, is an overwhelming characteristic of the post - communist or socialist countries of the ex - Soviet Union zone. There is another scenario for the rest of the countries in the Eastern Europe, which are more integrated in the realm of European Union. The nearness they have with the advanced markets, and the partial pooling of some institutions has helped those countries to integrate better and absorb the complex structures of the nowadays´ market. The cases studied here, present some indications to international business conductors and researchers, that it is the need of a longer concentration of resources and focus, in order to prevail after some difficult conditions emerging in the start.

Despite the fact that the two countries have a lot in common when it comes to the legacy connected to this analyses, international managers, but also researchers should find time and space to split and "enjoy" the relevant differences among these countries. Economically and institutionally speaking, these two countries are organized differently. International investors should need to focus strongly on the defining characteristics of each, before operational entries. Seeking for local collaboration which is nurtured based on local nuances of policy measures, is of utmost importance. An example of a perfect alternative which is credible and viable, is the engagement of the Diaspora communities in the business. Local partnership can either be private or public. In this way, they get a better grasp of the scale of the economy and the risk factors, which might differ importantly. For every researcher engaged in the economic of institutions and international business conduct, the states of Armenia and Georgia, stress the importance of dealing with country - related specifics when conducting comparative studies. The picturing aimed to present the variety of the institutional spheres, synthesizes crucially and fruitfully the relevance of some important aspects, to document the transition of some countries in the so - called periphery.

Subsequent to recovering its freedom in 1991, Armenia started a procedure of framework change. In spite of the acquaintance of various changes related with business progression and privatization, the nation is as yet battling with the issue of a low degree in the social and financial turn of events, as confirm by the estimation of the Transformation Indexes presented above. A troublesome inner circumstance is fortified by the political framework based on oligarchies, debasement, and extending neediness. From the earliest starting point of the 1990s until today, the volume of FDI inflows to Armenia has changed altogether. The circumstance was for the most part affected by fundamental change, political movement of state specialists (particularly concerning the enrollment of universal associations), and a few financial emergencies (Russian one in 1998 and the worldwide one in2009). Furthermore, the measure of assets streaming into Armenia as FDI was contrarily influenced by the un-settled furnished clash in Nagorno-Karabakh region and ensuing seclusionof Armenia inside the district (shutting of fringes by Turkey and Azerbaijan) (Kaczmarek-Khubnaia J., 2017, Foreign Direct Investment in Armenia, Journal of Geography, Politics and Society, 7(4), 46–52).

The Russian Federation has been Armenia's fundamental venture accomplice since the 1990s, writes Kaczmarek (2017). To the extent the geographic structure of FDI is centered, the significance of Russian interest in Armenia since the 1990s has expanded by over 20%. This, joined with information on the FDI sectoral structure (outside speculation is for the most part centered around the key businesses of the Armenian economy, for example, energy sectors and communications), shows a solid reliance on the inflow of the Russian capital, which at this point is controlling the most key state undertakings. The consequences of factual assessment joined with the data picked up from the investigation of political choices ofthe Armenian specialists (renunciation from EU enrollment, promotion to the Eurasian Economic Union, the foundation of Russian army installations on the region of Armenia, etc.),recommend the reanimation of past political and monetary ties and conditions. Ongoing occasions recommend a dynamic incorporation process. According to Kaczmarek (2017), this problem is especially significant when taken a gander at from the point of view of the 'Incomparable Game' in the Caucasus, Russia's action in the locale, and keeping up the autonomy by other post-Soviet republics. The consequences of the examination en-fearlessnessinside and out research on the monetary effect of Russia in the Caucasus district.

Preceding the twin emergencies, Georgia had seen a blast in remote capital inflows. Be that asit may, the stuns brought about by the August war in 2008 and worldwide credit crunch managed a major hit to financial specialist certainty and involved a proceeding with decrease in FDI. A few years after the war, the hopefulness of the Georgian specialists is fixated on a yearly steady monetary position. This marker, the administration trusts, alongside Georgia's universally perceived business atmosphere and the escalated venture advancement crusades worldwide will enable the nation to keep the trust of effectively settled speculators and draw innew capital generally from Asian nations. By the middle of the last decade, as the dangers wait,the key proposal to the Georgian specialists from neighborhood and remote specialists is to give better conditions to solid financial development just as to recognize and advance the most encouraging business divisions. Russia has to play a special role in this case as well, since it has the block the integration of Georgia in western security regimes. But Georgia is doing reallygreat recently, it has stabilized the economic conditions and the inflow of FDI, and as per the quality of governance and institutional reforms it stands really higher than the other two Caucasian countries.

The hypotheses that institutional quality helps to attract steady and growing amounts of Foreign Direct Investment, is strongly confirmed. Moreover, It would have been an extremely positive correlation taken with the notion of "ceteris paribus" (other things being equally). And becauseof the fuzzy intervening variables by the specifics of the two cases, I have to drop the hypotheseswhich assumes that Institutions affect the FDI levels in the same through the entire spatial areachosen to study. The level of governance and the legislation transformation have certainly in the both cases help to maintain a steady step by step growing FDI in the recent years. One aspectof the institutional quality is more important than others, and that is corruption and informal barriers. Who wants to do business and finds an attractive opportunity, in my opinion, does notcare much about the bureaucracy registration processes which have been eased in both cases. Corruption is more under control in Georgia because it has a better collaboration than Armeniawith international political bodies, and it is more western inclined. But institutional quality doesnot show to be a factor of more importance than some other crucial factors which affect the economy as well. The size of the market and conflicts affect the things a lot. Armenian trade blockages have proven to be something outside of domestic control. In anyway, further politicalreorganization in terms of governance quality, will make the countries more attractive and helpincrease the general expertise and well-being of the populations.

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