ECONOMIC COMPETITIVENESS - PREREQUISITE TO ACCELERATE MOLDOVA'S ACCESSION TO THE EUROPEAN UNION

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***Abstract**: The Republic of Moldova continues to swing between East and West, including in its intentions of economic integration. In this context, the paper argues the importance of the European vector of Moldova's strategic orientation and acceleration; as a prerequisite of this process is considered the assurance and the development of economic competitiveness to a level close to the one achieved by the EU countries, the main reserves in this regard being the attraction of foreign direct investment, improvement of export performance, development of an innovative economy.*

***Keywords**:* business internationalization, economic integration, competitiveness, foreign direct investment, foreign economic relations, innovative economy, research and development, economic competitiveness factors.

***JEL Classification**:* F_{15}, F_{21}, F_{63}, P_{51}, P_{52}

The world economy is deeply marked by the phenomenon of business internationalization, increasing economic interdependence among states, regional, European and even global economic integration. Similarly, increases the role of international financial organizations were - IMF, World Bank, WTO etc. In the given context, the integration processes allow us to conclude the two most important trends:

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1. Increasing number of states, integrated and aggregated in various economic unions, proves the growing economic globalization, which is considered a quantitative change.
2. Continuous improvement of forms and methods of achieving economic integration, which is a qualitative change in the integration processes.

Towards the end of the 20th century the absolute majority of world states became members of various international economic organizations such as the International Monetary Fund (183 countries), World Bank (180 countries), the World Trade Organization (130 countries) etc.

We can mention the following forms of economic integration:

1. **Creation of free trade areas** - the first level of integration, and involve agreements between states that limit customs restrictions, including quantitative restrictions in the trade of goods and services. Predictability of trade policies of the founding states is considered positive for this form of integration. A negative consequence can be the loss of competitiveness of local products on the open markets of the member states, tightening of competition and bankruptcy of enterprises caused by lack of competitiveness.

It should be noted, that the creation of the Deep and Comprehensive Free Trade Area between Moldova and the European Union requires gradual liberalization of trade in goods and services, reducing customs duties (zero duty on import of Moldovan industrial goods), abolition of quantitative restrictions, technical and non-tariff barriers; Moldova undertakes to continue adjusting the legislative, regulatory and institutional framework in the field of customs administration, rules of origin, conformity assessment, competition, intellectual property to the European Union one, preparing the country for a liberalization regime with the EU. Certainly, the new agreement will offer much larger opportunities than the present one and according to an EU study, some preliminary results being recently announced, the free trade agreement with the EU could increase the annual Moldovan exports up to16% and GDP by 5.6%.

2. **Customs Unions.** They appear under arrangements between founding countries regarding the canceling of all customs duties on trade in goods and services, establishing unique duties for certain products in trade with other countries. The Customs Union is a more advanced form of integration into international economic relations than the free trade areas because they not only eliminate customs restrictions but also requires

Member States to promote a single policy in foreign trade. However, setting common tariffs for certain products and services may generate positive effects by protecting the markets of the member states from the dependence on external market and create favorable conditions to increase competitiveness in trade between the union and the member states. An example of such a union is considered the intention to form the Customs Union Russia-Belarus-Kazakhstan.

3. **Common Market** involves an even more advanced degree of economic integration and, in addition the above mentioned, requires the establishment of common technical and ecological standards, unique legislation to regulate entrepreneurial activity for all member states. The experience of creating the European Single Market has shown the need of a long and rather complicated period, with a number of contradictory processes in its creation, and setting quotas for production and marketing of goods and services both, inside and outside each state and the common market as a whole.

4. **Economic Unions** today are the most advanced form of interstate integration and is a union of states with common economic, legal, military and information area with some supranational governing bodies. Today in the world there is only one economic union - the **European Union**, formed in 1993 based on the European Single Market and in 2015 is proposed the creation of the Euro - Asian Economic Union. It is natural that creating the European Union were not, for the moment, overcome all the economic and trade contradictions that previously existed between the member states, it has not eliminated competition between states, and each member state, supports common interests of the Union as a whole and continues to put their own interests first. Thus, the Great Britain so far has not accepted the European single currency and refrains from signing the Convention on the free movement of labor force within the Union.

It is noteworthy the fact that the economic groups are usually formed of countries with different levels of economic development. This differentiation and different economic opportunities make larger and more economically powerful states primarily to benefit from the economic integration. Usually, economically stronger states have a higher level of economic development based on knowledge and innovation, and the available potential export capital enables a higher level of profitability compared to other economic activities.

We must admit that Moldova continues to swing between East and West, including in its intentions of economic integration. Similarly, there have not been yet done any fundamental studies which would assess opportunities, dangers and costs which might be incurred for each alternative. Also, in the short term, we may be tempted by some opportunities offered by the Eastern Customs Union, such as reducing energy tariffs, capacity of markets, etc. However, the costs of such integration can not only be quantitative and economic.

Let us face, that political and economic unit named CIS, and the idea of creating a single economic area is close to a total bankruptcy. Actually, about CSI is lately said as being more "a club of political leaders" of the member states.

Similarly, facing a number of problems in the country, Russia loses its attractiveness in the formation of political or economic unions, often showing lack of consistency and political sincerity in relations with neighboring countries. Let us remember Russia's open, active and aggressive involvement in the unresolved Transnistrian issue which can be regarded as the greatest obstacle to solving all economic and social problems that Moldova is facing. Also the embargo on imports of Moldovan wines, Georgian mineral water, dairy products from Belarus, etc.

Ukraine also imposes a series of economic barriers to the Moldovan exports to its market and to Russia, primarily in the form of various taxes. As a result, we have an extremely negative balance of payments in the economic relations with this country.

It is obvious that in this case the European vector of Moldova's strategic orientation acquires a special importance and makes a final option in favor of EU membership.

However, we must acknowledge that Moldova's integration into the European Union should not be an end in itself, but a possible way of the country's economic and social development, raising the living standards.

Similarly, European integration **is a process** that involves both **benefits,** and some **risks**. It is natural that when a nation agrees to adhere to certain structures, voluntarily waives, in a certain extent, to its **sovereignty** and accepts the rules of that structure etc. However, it is obvious that for **Moldova**, which has a **long and difficult period of transition**, European integration would certainly bring many benefits, including:

- application of European standards, which, at least, mean **civilization**;
- access to greater financial resources through various European programs;
- greater **investment** flows, leading to **increased welfare**;
- enforce human rights;
- possible settlement of the Transnistrian conflict as this problem could turn into a European Union's matter.

However, achieving this goal requires a rather **long and arduous path**, starting from:

- becoming an associated state;
- becoming a candidate state;
- beginning of actual adherence negotiations, which involves the adoption, development and implementation of the acquis communautaire;
- drafting the Accession Treaty;
- obtaining the consent of the European Parliament, adopting the Treaty of Accession;
- signing and ratification of the Treaty by all member states.

It should be born in mind that the European Union submits a number of obligatory conditions to the candidate states; it is required to achieve some political and economic criteria for initiating negotiations and the accession procedure. For this purpose, just as the other countries did, we must start from a comprehensive assessment of the national economy in relation to the requirements of the EU integration. We must recognize that we need a functional market economy, able to face new competitive pressures in a new competitive environment, framed in completely different dimensions. Under these conditions, of particular importance is ensuring economic competitiveness and development at the product, enterprise and national levels, being evident the reciprocity between them. It should be mentioned that no nation can be competitive in all kinds of economic activities, emphasizing the increasingly dynamic and relative feature of competitiveness.

Although in literature there is no single opinion on the content regarding the concept of competitiveness, generally it may be defined as:

- ability of a country, measured by comparison with other countries, to form and ensure an economic, social and political environment supporting rapid creation of added value;

- ability to achieve high productivity based on innovative use of human, financial and material resources;
- ability to create value for increasingly sophisticated and demanding consumers, willing to pay higher prices for higher perceived value;
- set of institutions, policies and factors that determine the country's level of productivity;
- ability of businesses, industries, branches, nations provide input profits and relatively high levels of use on a sustainable basis which are exposed to international competition.

Economic development is a process of continuous modernization. Following M. Porter's model, we can talk about three stages of economic competitiveness (1):

1. **Economy based on factors**, the primary production factors, such as cheap labor force and access to natural resources are dominant sources of competitive advantage.

2. **Investment-based economy**, in which competitiveness is the result of increased production efficiency and quality improvement of produced goods and services.

3. **Innovation-based economy,** where the ability to make innovative products and services to the edge of global technology, using the most advanced methods becomes the dominant source of competitive advantage.

It is worth mentioning that Moldova is considered having an **economy based on intensive use of primary factors**, along with countries such as Bangladesh, Burkina Faso, Ethiopia, Kyrgyzstan and Tajikistan, states that are at the beginning of the development process (table 1). For these countries is specific the **concentration of exports to industries that exploit the advantage of low price of primary factors (natural resources, climatic conditions, labor force)**. In such economies, **competition** is usually **low**, **subcontractor industries are weak or absent, the low purchasing power makes the market less attractive, techniques and technologies are largely imported**. At this stage economy is very sensitive to global economic crisis and changing exchange rates, leading to unstable demand and prices. In addition, competitive advantages based on provision of inputs are less protected.

Table 1.

Distribution of world states by level of development in 2012

Level 1	**Transition from level 1 to 2**	**Level 2**	**Transition from Level 2 to 3**	**Level 3**
Bangladesh	Algeria	Albania	Argentina	Australia
Burkina Faso	Azerbaijan	Armenia	Brazil	Canada
	Bolivia	Brazil	Croatia	Cyprus
Cambodia	Brunei	Bulgaria	Estonia	Czech Republic
Ethiopia	Egypt	China	Latvia	Hong Kong
India	Gabon	Georgia	Lithuania	Israel
Kirghizstan	Iran	Romania	Poland	Japan
R. Moldova	Kuwait	Macedonia	Slovakia	Norway
Nigeria	Morocco	Montenegro	Turkey	Slovenia
Pakistan	Mongolia	Serbia	Hungary	15EU states
Tajikistan	Ukraine	Ukraine	Russian Federation	the USA
...	...	...	...	...
38 states	**17 states**	**33 states**	**21 states**	**35 states**

World Economic Forum publishes annually since 1979, the Global Competitiveness Report, considered as the most important and reliable source of comparable data on economic competitiveness, monitoring policies implemented by governments, suggesting appropriate measures to be taken by it. In addition, contributes to the perceived image of an economy (state) in the world and its attractiveness. It should be mentioned that since 2010 the AESM Economic Research Center is the official partner of the World Economic Forum in compiling these reports, being responsible for the collection and processing of primary information and the official launch of reports in Moldova.

Moldova was included for the first time in the Global Competitiveness Report in 2005, being placed on position 82 of the total of 117 countries and in 2012 was placed in position 87 of a total of 144 countries included in the ranking, with an improvement position held in the previous year.

In this context, it should be noted that Moldova continues to present serious gaps in competitiveness compared to the absolute majority of European countries, in all the determinants of competitive ability and the largest gap occurs primarily in terms on innovation and R & D, information society, being placed in the "Innovation" in position 135 (position 124 in 2011), and "The complexity of business" - 121 (position 117 in 2011) (figure 1). To these positions, Moldova yields considerably and in regional issues, including in relation to its major trading partners - Romania, Ukraine and the Russian Federation (figure 2).

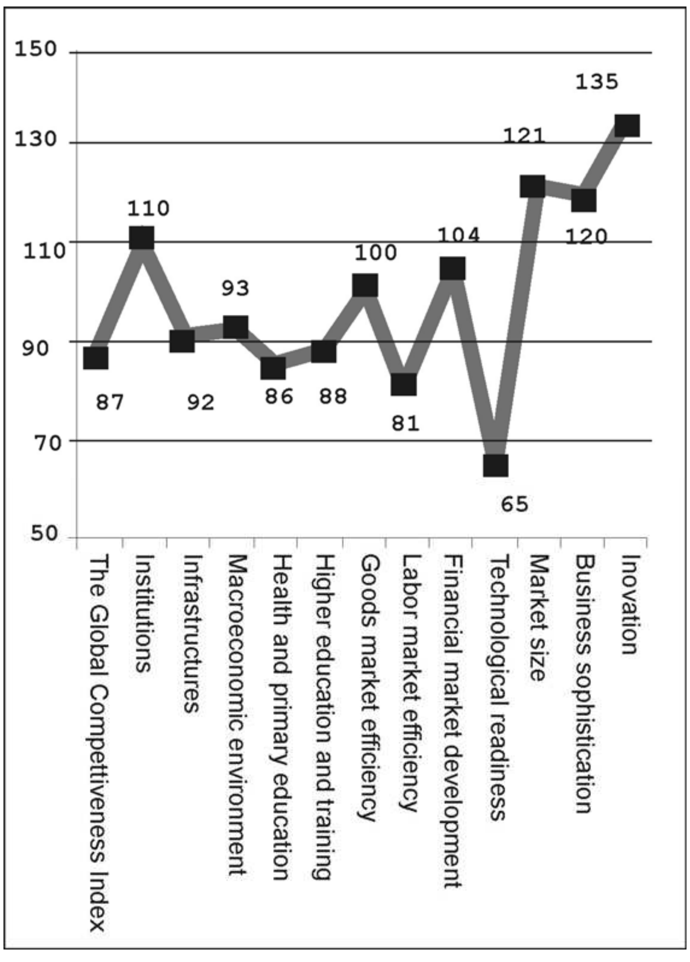

Figure 1. Moldova's Global Competitiveness Index in 2012

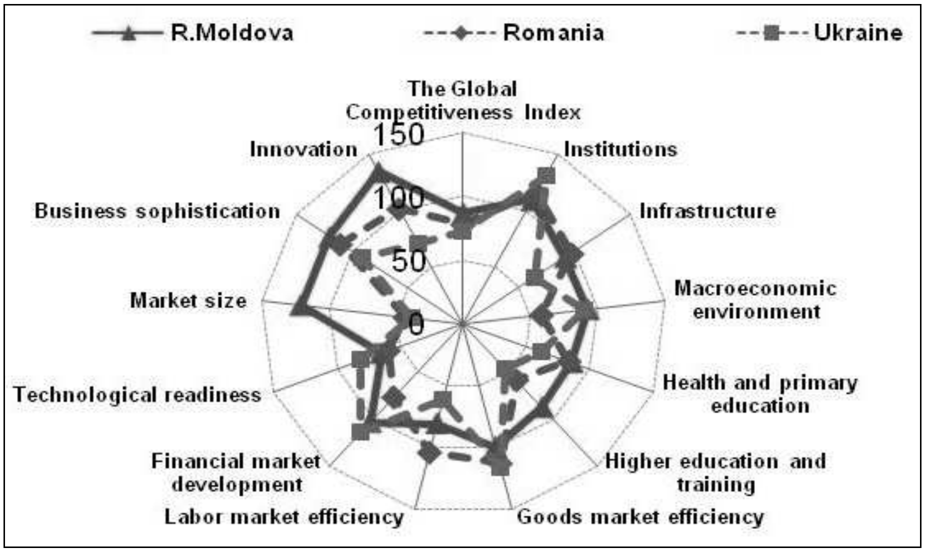

Figure 2. Global Competitiveness Polygon of Moldova in the regional context in 2012

We should mention here that among the factors with a positive impact on Moldova's Global Competitiveness Index in 2012 are the following:

1. Malaria cases/100 000 population - position 1.
2. Business impact of malaria - position 1.
3. Internet access - position 15.
4. Imports as a percentage of GDP - position 16.
5. Legal rights index (on financial market) - position 24.
6. Business costs of terrorism - position 25.
7. Women in the labor force (ratio to men 0.91) - position 26.
8. Flexibility of wage determination - position 27.
9. General government debt, % GDP - position 31.
10. Fixed telephone lines - position 36.
11. Total tax rate, % of GDP - position 39.
12. Pay and productivity - position 40.
13. Number of days to start a business - position 43.
14. Business impact of HIV/AIDS - position 43.
15. Business costs of crime and violence - position 53.
16. Budget deficit, % of GDP - position 59.

However, among factors with a negative impact on Moldova's position in the global competitiveness ranking in 2012, which should be the priority activity areas in order to improve competitiveness, we can mention:

1. Quality of roads - position 144.
2. Company spending on research and development - position 140.
3. State of cluster development - 140.
4. Judicial independence - position 138.
5. Brain drain - position 137.
6. Government procurement of advanced technology products - position - 136.
7. Agricultural policy costs - position 134.
8. Quality of scientific research institutions - position 131.
9. Availability of scientists and engineers - position 131.
10. Effectiveness of anti-monopoly policy - position 130.
11. Local supplier quantity - position 130.
12. Quality of port infrastructure - position 129.
13. Firm-level technology absorption - position 128.
14. Financing through local equity market - position 127.
15. Degree of customer orientation (goods market efficiency) - position 126.
16. University – industry collaboration in R&D - position 124.
17. Available airline seat kms/week - position 123.
18. Domestic market size index (2.3 p of 7) - position 122.
19. Property rights - position 122.

Business success or failure within an economy can be caused by a wide range of factors that impact negatively or positively the real business performance. However, the experience of USA, Japan and other countries demonstrates that the competitiveness of these countries started at the level of certain companies. This is also observed from the works of renowned scholars in the field (M. Porter, J. Shumpeter, etc.) who speaking of national economic competitiveness actually refer to companies' competitiveness who take part in the competitive fight, both on domestic and foreign markets. If, in order to survive, a company only needs to continuously adapt to the environment in which it operates, then in order to be competitive, the environment needs to follow certain favorable rules. The meaning of environment, in this case, can be understood as a set of performances that are presented by the legal, political, cultural and economic environment, as well as key changes in the system of values, and social behavior in general.

Starting from the above mentioned, in the national survey organized among 108 companies from all regions of the country, representing the most important sectors of the national economy, respondents were asked to indicate from a list provided, five most problematic factors for business development in Moldova. Research results have shown that as factors with a negative impact business activity can be considered the following (Figure 3):

1. Corruption - mentioned by 79.6% of surveyed companies (in 2011 - 75.0%);
2. Policy instability - factor mentioned by 58.4%% of all surveyed enterprises (in 2011 - 77.8%);
3. Inefficient government bureaucracy - 48.7%;
4. Tax regulations -45.1%;
5. Access to financing - 41.6%;
6. Labor force quality - 40.7%.

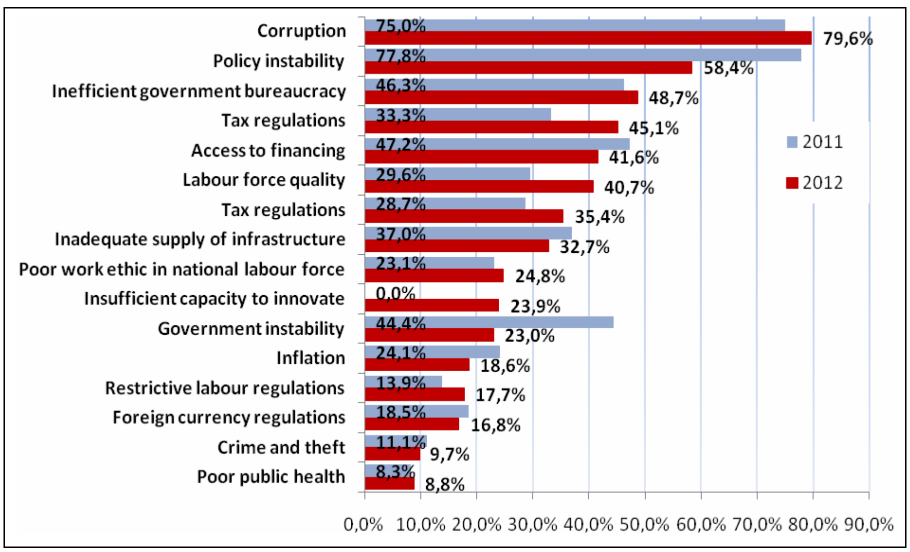

Figure 3. The incidence of negative factors in doing business in 2012 and 2011

However, human health is not considered a great thereat for business, a factor mentioned only by 8.8% respondents, theft and crime (9.7%), restrictions on currency market (16.8%).

As mentioned above, Moldova continues to present serious gaps in competitiveness in all the determinants of competitive ability, the largest gap occurs primarily in terms of innovation, research and development, information society.

Obviously, in order to be competitive, an economy must rely on educated and skilled population, developed information infrastructure, innovative and efficient economic system and institutional framework to support this approach. Hence, since Moldova's priority is economic competitiveness, the goal of developing an innovative economy must also be a priority.

It is well known that science, technology, innovation, use of knowledge, over the time, had an important role and have made their contribution to socio-economic development in support of economic progress in general. However, contemporary society is increasingly becoming a society based on knowledge and information, information becoming a fundamental and strategic resource, just like capital in industrial society, and with a decisive impact on the development and prosperity of any nation. In most economically developed societies, intensive use of knowledge is recognized as the main factor of progress.

Starting from the fact that the new economy is based on Internet, we state that the essence of the new economy is communication, information sharing between partners, which further derive new information.

The new economy is more than high-tech and Internet. It involves creative and effective use of innovation by implementing new technical developments, new products and services, new forms of presentation, new functional structures, new ways of organizing work, a new management style, etc.

It should be noted that in another annual report released by the World Economic Forum, entitled The Global Information Technology Report, Moldova is included in the group of countries at convergent stage of transition from primary to advanced stage of development of information technologies (table 2) and is ranked 78 of 152 countries included in the ranking. At this point, our country's position in the ranking was positively influenced by groups of indicators such as availability of latest technologies (position 8), infrastructure and digital content (position 63), skills in using information technology (position 65). A greater negative impact on Moldova's position concerns the use of information technologies in business (position 120) and the political and regulatory environment (position 109) (table 3, figure 4).

Table 2

Distribution of world states by development stages of information technologies in 2011

Stage I **Primary stage**	**Stage II** **Convergent stage**	**Stage III** **Advanced Stage**
Armenia, Bangladesh, Burkina Faso, Cambodia, Ghana, Gabon, Ethiopia, India, Indonesia, Laos, Nepal, Niger, Pakistan, South Africa, Sri Lanka, Tajikistan, Tanzania, Uganda	Albania, Argentina, Brazil, Bulgaria, Belarus, China, Czech Republic, Georgia, Greece, Hungary, Kuwait, Lithuania, Mexico, **R. Moldova,** Poland, Romania, Russian Federation, Portugal, Serbia, Slovakia, Turkey, Ukraine	Australia, Canada, Hong Kong, Island, New Zealand, Israel, Japan,Norway, Slovenia, Switzerland, Singapore 15 EU states, USA
61 states	**60 states**	**31 states**

Table 3

Ranking of states by Global Index Information Technologies in 2011

	2012-2011 Ranking (142 countries)	**Score**	**2010-2011 Ranking (138 countries)**	**Score**
Sweden	**1**	**5,94**	**1**	**5,60**
Singapore	**2**	**5,86**	**2**	**5,59**
Finland	**3**	**5,81**	**3**	**5,43**
Denmark	**4**	**5,70**	**7**	**5,29**
Switzerland	**5**	**5,61**	**4**	**5,33**
Netherlands	**6**	**5,60**	**11**	**5,19**
Norway	**7**	**5,59**	**9**	**5,21**
USA	**8**	**5,56**	**5**	**5,33**
Canada	**9**	**5,51**	**8**	**5,21**
Great Britain	**10**	**5,50**		
Taipei China	**11**	**5,48**		
Republic of Korea	**12**	**5,47**	**10**	**5,19**
Germany	**16**	**5,32**	**13**	**5,14**
Japan	**18**	**5,25**	**19**	**4,95**
Estonia	**24**	**5,09**	**26**	**4,76**
China	**51**	**4,11**	**36**	**4,35**
Lithuania	**31**	**4,66**	**42**	**4,20**
Czech Republic	**42**	**4,33**	**40**	**4,27**
Hungary	**43**	**4,30**	**49**	**4,03**
Turkey	**52**	**4,07**	**71**	**3,79**
Russian Federation	**56**	**4,02**	**77**	**3,69**

	2012-2011 Ranking (142 countries)	Score	2010-2011 Ranking (138 countries)	Score
Azerbaijan	**61**	**3,95**	**70**	**3,79**
Romania	**67**	**3,90**	**65**	**3,81**
Albania	**68**	**3,89**	**87**	**3,56**
India	**69**	**3,89**	**48**	**4,03**
Ukraine	**75**	**3,85**	**90**	**3,53**
Mexico	**76**	**3,82**	**78**	**3,69**
...				
Republic of Moldova	**78**	**3,78**	**97**	**3,45**
Georgia	**88**	**3,60**	**98**	**3,45**
...				
Armenia	**94**	**3,49**	**109**	**3,24**

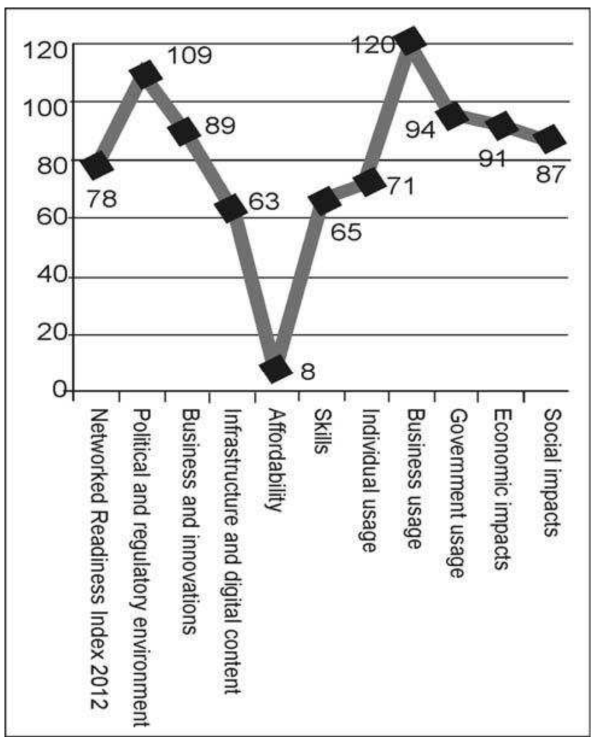

Figure 4. Global Index of Information Technologies of the Republic of Moldova in 2011

Of the 53 indicators used in developing the ranking factors with positive impact on the Global Information Technology Index of the Republic of Moldova in 2011 can be considered:

1. Competition in information and communication technologies – position 1.
2. Prices for broadband services - position 5.
3. ICT accessibility - position 8.
4. Number of procedures to enforce a contract – position 18.
5. Time to enforce a contract/days – position 20.
6. Internet bandwidth, Mb / s per 10 000 population – position 20.
7. Total tax rate, % of profits – position 39.
8. Time required to start a business – position 42.
9. Adult literacy rate – position 44.
10. Households with Internet access – position 56.
11. E-participation index – position 56.
12. Internet connection broadband rate – position 60.
13. Households with personal computers – position 63.
14. Internet access in schools – position 63.

At the same time, as factors with negative impact on Global Information Technology Index of Informational Technologies of the Republic of Moldova, with large reserves of improvement may be considered:

1. Government procurement of advanced technology – position 134.
2. Judicial independence – position 132.
3. Venture capital availability - position 126.
4. Absorption of technologies by business – position 126.
5. Quality of management schools – position 124.
6. Importance of ICT government vision – position 119.
7. Personnel training level – position 118.
8. ICT use and government efficiency – position 114.
9. Impact of ICT on access to basic services - position 114.
10. Access to latest technology – position 112.
11. Intellectual property protection – position 110.
12. Efficiency of legal system in settling disputes – position 108.
13. Software piracy rate – position 103.
14. ICT regulatory framework – position 101.

The conducted investigation and analysis has revealed a real correlation between Global competitiveness index and R&D expenditure to GDP in the world countries, or, the countries with a higher share of spending on R&D have a better position in the global rankings on competitiveness (figure 5). This causes the need for increased investment in research, development and innovation, in modern technological processes, staff training in everything that determines the country's innovative potential.

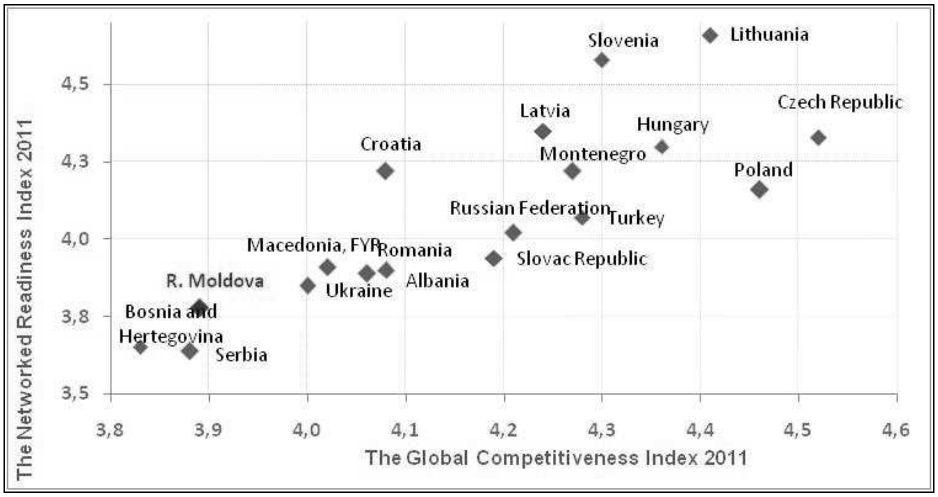

Figure 5. Correlation between Global Competitiveness Index and Global Information Technology Index in regional context in 2011

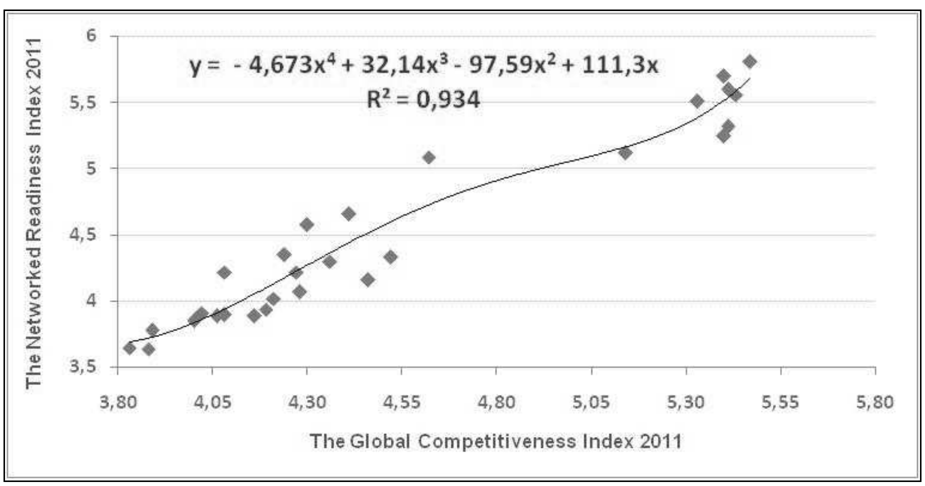

Figure 6. Interdependence between Global Competitiveness Index and Global Information Technology Index in the global context in 2011

It should be noted that after a long period of under funding of research during the 90s, the situation in this respect has improved considerably during 2005-2008, before the crisis, reaching the amount of 394.8 million MDL, which was 0.63% of GDP. Even if during the next years funding of research in has not suffered radical changes (funding volume in 2012 is projected at 364 million MDL, which is 92% of the level achieved in 2008) reported to GDP the amount allocated to research has decreased by 0.40%, or about one percent of the national public budget (figure 6). At this point we have to recover significant differences compared with developed countries in economic terms, where total expenditure for research to GDP is much higher than the level reached in our country: Sweden - 3.42, Finland - 3.87, Slovenia - 2.11, Hungary - 1.11 etc. (figure 7).

Figure 7. Dynamics of budgetary allocations and their share of GDP and National Public Budget during 2000-2012

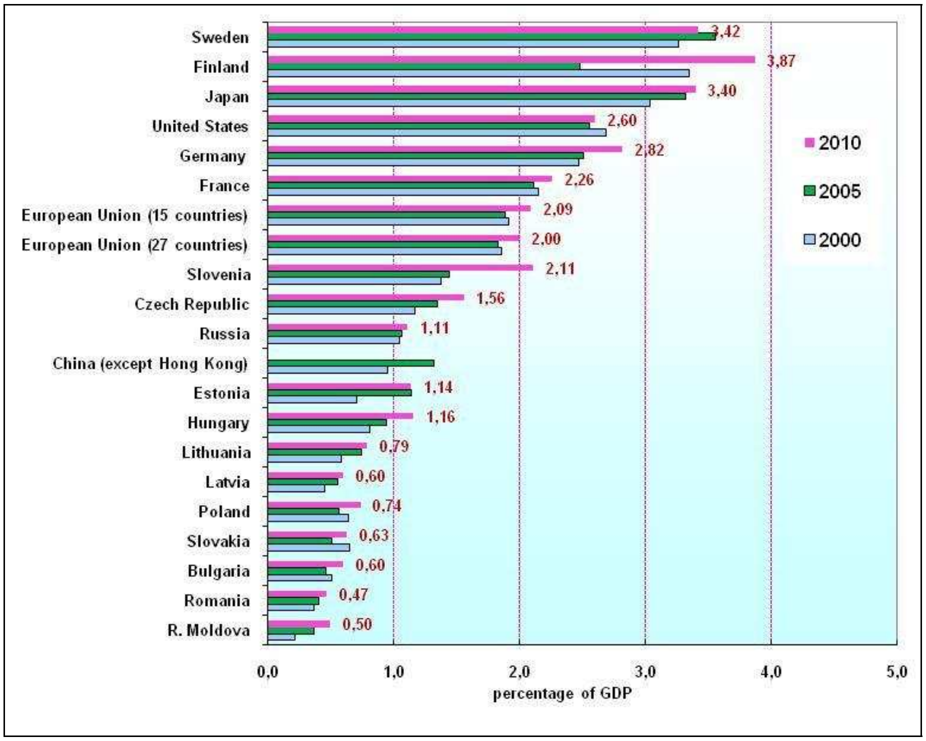

Figure 8. Total expenditure on R & D in some countries during 2000-2010

At the same time, it should be mentioned that in Moldova we find a very limited involvement of the private sector in research, both in terms of research funding and performance, regardless of the funding source (figures 9, 10, 11).

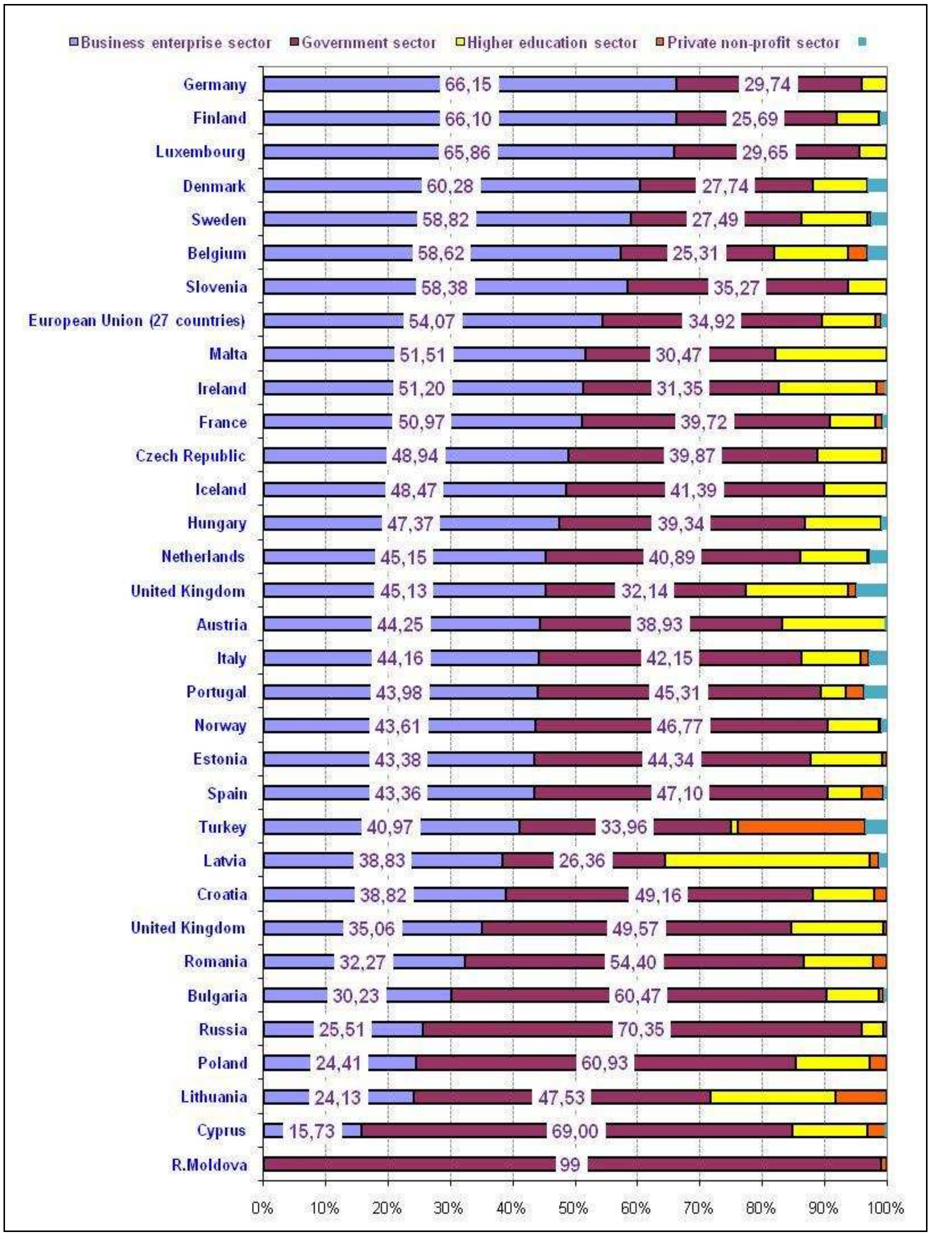

Figure 9. Structure of R&D expenditure by source of funding

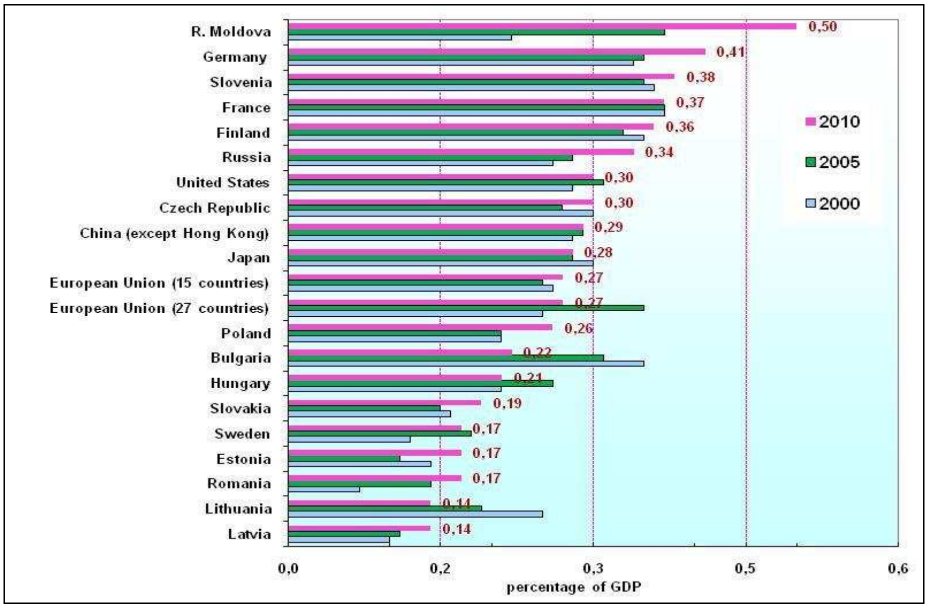

Figure 10. Public sector R&D spending reported to GDP in some countries during 2000-2010

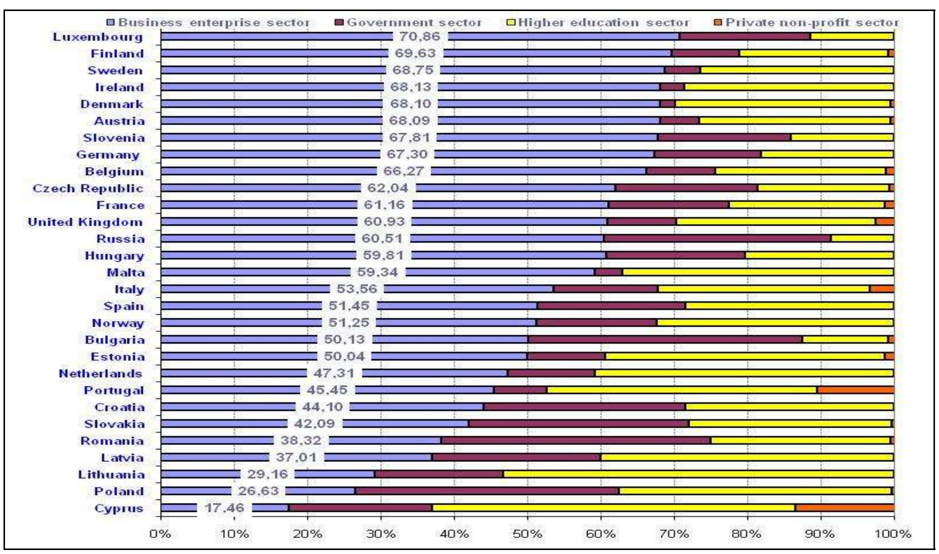

Figure 11. R & D expenditures structure by beneficiary sectors in some states in 2010

It should be also mentioned the fact that the lack of private research (in companies) stops the demand development within the market research, as there is no need in using the research results. Increasing involvement of private sector in research, development and innovation can be achieved through state support, including through grants, subsidies or tax credits.

Likewise, the marketing function is missing or is poorly developed in research institutions.

This imposes the need to promote some cooperation and partnerships between economy and science, regardless of funding source, and marketing function implementation involves nothing but directing the research towards the needs of potential customers, adapting the research activities to market needs.

We must take into consideration the fact that market research is not characterized only by types and sizes, but also by levels of performance, price levels, price/performance ratio. Similarly, market analysis should not only refer to the description of ranges, but also other marketing parameters: promotion, distribution networks, possible intermediates, etc. Intermediaries on research market must meet the mutual information function of the market actors, promote the products on the market, assist in negotiating contractual terms, sale scientific products, implement them through innovation and technology transfer etc.

The degree of a country's integration into the global economic flows, as well as the protectionism or opening degree can be appreciated in terms of export performance.

It is also worth mentioning that the international trade context is changing at fast pace in recent years. Liberalization and globalization have induced a greater mobility of factors of production, their rapid relocation, higher specialization of the business value chains of products and services. This caused a continuous trade growth trend, the growth rate exceeding twice the growth rate of gross world product.

Talking about the trends established in Moldova's **foreign trade development**, the researches allow us to point out the most important ones:

1. **Country's more active involvement in European and international economic processes**, a phenomenon that can be shown by a continuous trend, except during the crisis, growth in foreign trade (figure 12).

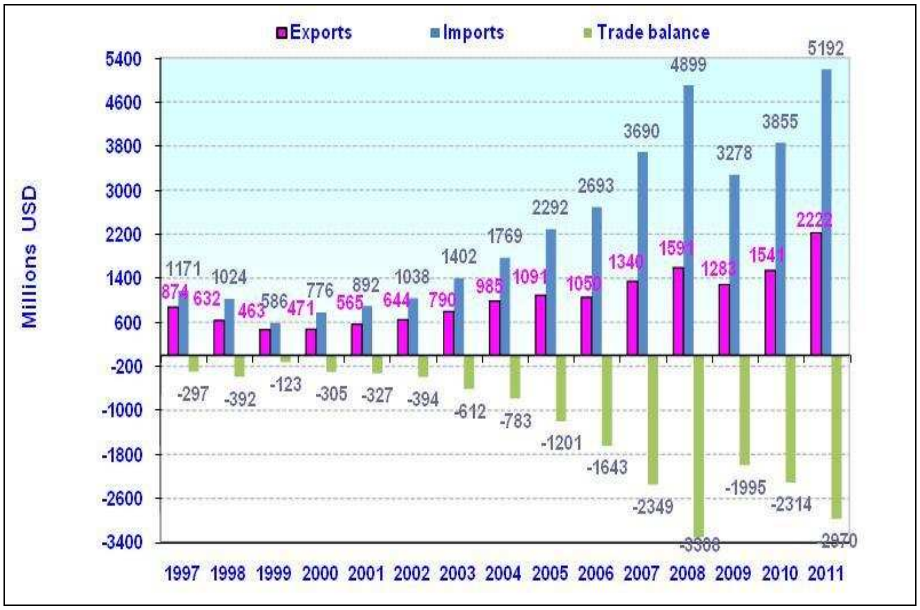

Figure 12. Moldova's foreign trade dynamics of goods during 1992-2011 (million USD)

In 2011 we had a volume of foreign trade of 7414 million USD (imports – 5192 and exports – 2222 million USD), the deficit of balance of payments was 2970 million USD, the coverage of imports with exports representing 42.8%. With few exceptions, throughout the independence of the Republic of Moldova, the trade deficit had an ascending trend, and its considerable proportions may already affect the country's economic security by increasing dependence on the foreign exports, this being possibly a negative consequence for the stability of the national currency and rising unemployment. The trade deficit is caused by the rapid growth of imports, but especially by lower exports towards foreign markets. At the same time, a more detailed analysis of the foreign trade during 2008 - 2012 demonstrates that after a continuous growth over the past two years, during the first six months of the current year there is a slow reducing trend of both exports and imports (figures 13, 14).

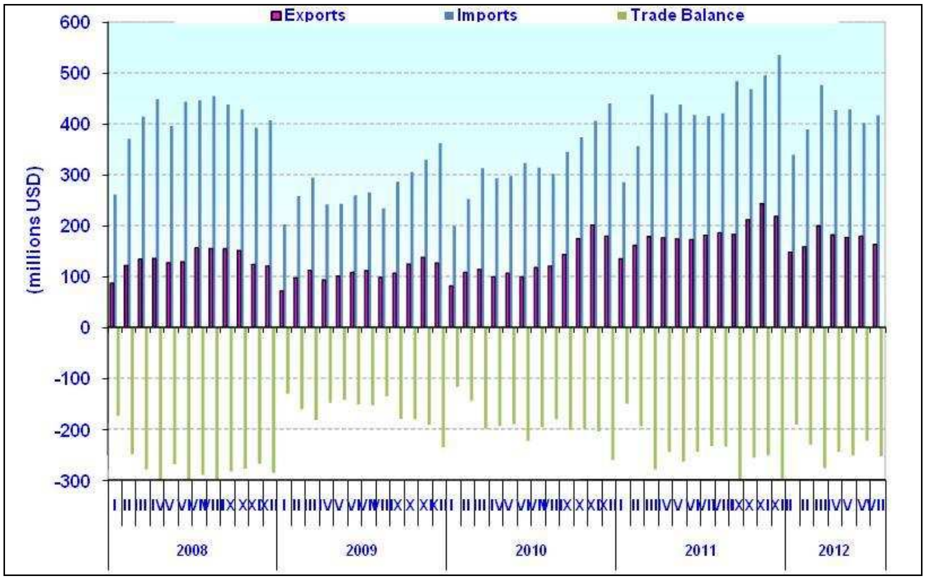

Figure 13. Monthly foreign trade of goods in Moldova during 2008-2012 (million USD)

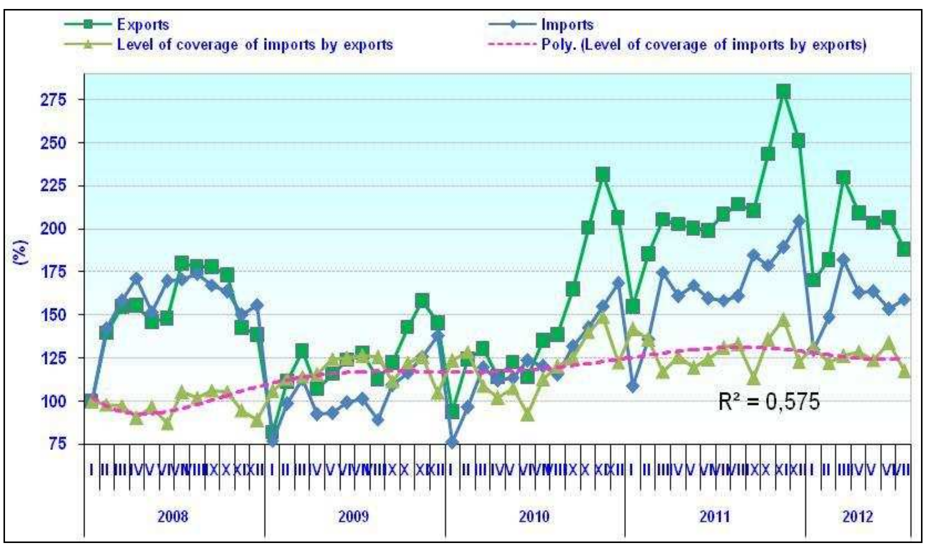

Figure 14. Exports and imports of goods and coverage imports during 2008-2012 compared to January 2008 (%)

Certainly, these negative trends are caused by reduced demand for Moldovan products on foreign markets, and primarily those of the European Union, and solving this problem is primarily related to increasing the competitiveness of local products on potential markets.

2. **Significant changes in the structure of Moldova's foreign trade, emphasizing an increasingly pro-EU orientation and decrease of its share in CIS.** Thus, in 2011 the total exports to EU countries were 49% and total imports to Moldova were 43.5%, to CIS countries respectively, 41.4% and 33.0%.

Table 4

Structure of exports of goods from the Republic of Moldova to partner countries (during 2010 –2011)

	States	2011		Share, %	
		millionsUSD	in % compared to 2010	2010	2011
	Export – total, including:	2221,6	144,1	100	100
1.	Russian Federation	625,5	154,8	26,2	28,2
2.	Romania	376,4	152,8	16,0	16,9
3.	Italy	215,1	145,9	9,6	9,7
4.	Ukraine	153,0	167,1	5,9	6,9
5.	Germany	111,2	147,4	4,9	5,0
6.	Great Britain	101,8	124,0	5,3	4,6
7.	Poland	85,9	183,9	3,0	3,9
8.	Belarus	75,6	94,2	5,2	3,4
9.	Turkey	73,4	108,8	4,4	3,3
10.	Kazakhstan	45,5	148,8	2,0	2,0
	Total for the top 5 partner countries	1481,2	–	62,6	66,7
	Total for the top 10 partner countries	1863,4	–	82,5	83,9

3. **Excessive concentration on geographical areas** continues to be specific for Moldova's foreign trade. Thus, in 2011, 66.7% of the total exports from Moldova are directed to the top 5 importing countries (Russia, Romania, Italy, Ukraine and Germany) and top 10 (to the listed above are added Great Britain, Poland, Belarus, Turkey and Kazakhstan) – 83.9%. Meanwhile, the top 5 countries (Russia, Ukraine, Romania, China and Germany) amount 54.6% of Moldova's total imports, and the top 10 (to those listed above are added Turkey, Italy, Belarus, Poland and Hungary) – 76.7%. The high degree of concentrating Moldova's foreign trade has led to a great

dependence of our economy to the negative events that occur regularly in Russia (28.8% of total exports and 15.9% of total imports in 2011) and the numerous economic barriers (tariff and non-tariff) which Ukraine (representing 6.9% of total exports and 12.3% of total imports in 2011) puts in front of Moldovan exports to this market, has led to an extremely negative balance of payments in economic relations with Ukraine, which were 488.1 million USD in 2011. Moldova exported on Ukrainian market goods of 153.0 million USD, while imports accounted for 641.1 million USD.

Table 5

Structure of imports of goods to the Republic of Moldova from partner countries during 2010-2011

	States	**2011**		**share, %**	
		millions USD	**in % compared to 2010**	**2010**	**2011**
	Import - total, including:	5191,6	66,9	100	100
1.	Russian Federation	823,0	140,3	15,2	15,9
2.	Ukraine	641,1	121,3	13,7	12,3
3.	Romania	574,2	148,5	10,0	11,1
4.	China	399,8	124,9	8,3	7,7
5.	Germany	396,2	134,4	7,6	7,6
6.	Turkey	366,9	178,3	5,3	7,1
7.	Italy	348,1	128,6	7,0	6,7
8.	Belarus	194,7	163,5	3,1	3,8
9.	Poland	134,6	128,1	2,7	2,6
10.	Hungary	100,1	156,9	1,7	1,9
	Total for top 5 partner countries	2834,3	–	54,8	54,6
	Total for top 10 partner countries	3978,7	–	74,6	76,7

We have to admit the fact that the political and economic unit named CIS, as well as the idea of forming a single economic area for all participating countries, is close to total bankruptcy. Similarly, faced a number of problems within the country, Russia loses its attractiveness in the formation of political or economic unions, often showing lack of consistency and political sincerity in relations with neighboring countries.

4. The Republic of Moldova remains a predominantly agrarian country, thus, its exports continue to be dominated by agrarian production or traditional sectors of the economy: food, textiles, vegetable raw materials.

The mentioned goods are produced in branches with intensive use of natural and human resources and have a low added value. Similarly, the export of agricultural and food production is accompanied by a number of risks and is dependent on weather conditions and frequent cyclical changes in the market.

Foreign markets are of major importance for the Republic of Moldova that has a small and open economy. This is why economic orientation towards foreign markets must become an integral and binding part of the country's development strategies. We must understand that promoting exports is not an objective, but a goal that can ensure a sustained economic growth. And in order to strengthen competitiveness, **exports need to be diversified geographically**, to reduce excessive dependence on any foreign market. This does not mean you have to give up foreign relations with Russia and other CIS member states, which are our traditional partners for a long time. Moldova is a small country and requires a balanced economic policy in its relations with larger neighboring states. Simultaneous orientation of exports to developed Western markets with high quality requirements, and to huge markets of Russia, Ukraine and other CIS countries, is an important way of reducing the trade deficit.

The **range of products must also be diversified**, with inclination towards products with a higher added value, shifting from activities with low productivity, low levels of technology and intensive labor activities to activities with high productivity, advanced technologies, based on intelligence.

Export performances should be based on competitive advantages, on development of export skills and competences and creating an economy able to develop under conditions of **free trade** and increasingly globalized market. **Increased protectionism** could endanger Moldova's prospects regarding the exploitation of competitive advantages. This is because competitive advantages do not come from protectionism, this leads to stagnation, to a lower level of entrepreneurial skills and low motivation of the private sector towards efficiency, quality and development of new products.

That is why a continuous search for new competitive niches is required, both by modernizing traditional industries and initiating less popular businesses in Moldova. For this reasons, the export promotion policy must be a combined with the policy of attracting FDI in export-oriented economic sectors.

In order to ensure economic growth and competitiveness, the Republic of Moldova needs investment, and primarily foreign direct investment for opening new jobs, reducing unemployment and increasing income, export promotion and transfer of knowledge and technologies, increasing integration into the European and world economic system.

It is worth mentioning that during 2004-2008 the Republic of Moldova has registered considerable successes in attracting FDI, their volume being more than 700 million USD in 2008 (figure 21). However, during the period of highest financial and economic crisis (2009), they fell almost 5 times, registering 145.3 million USD.

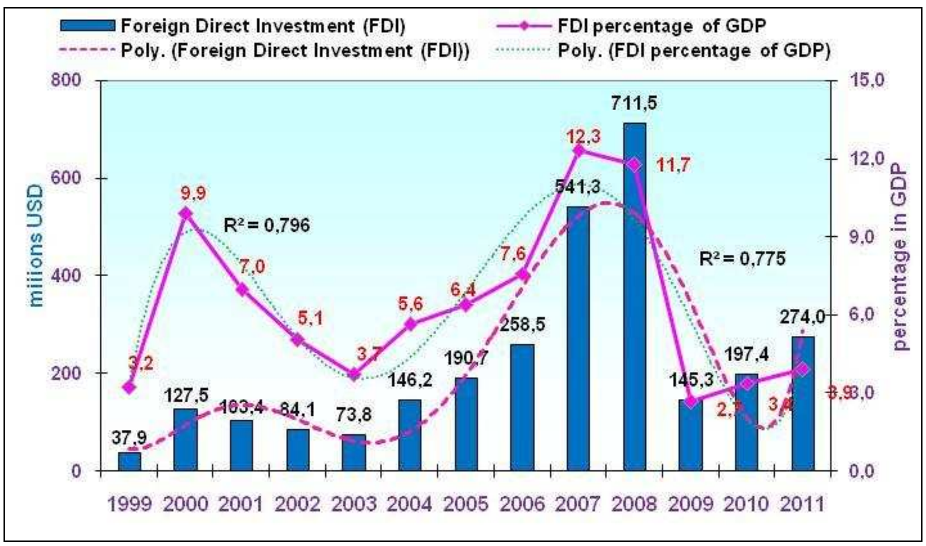

Figure 15. Foreign Direct Investment Dynamics in the Republic of Moldova (during 1999-2011)

Even if during the last 2 years has been registered an increase in FDI, it was not significant; in 2011 it was 274 million USD, which represents 38.5% of the level achieved in 2008. It is worth mentioning the low absorption capacity of the foreign direct investment by the domestic economy, or, taking into consideration their stock related to GDP, the Republic of Moldova has a much better situation than many of the countries with economies in transition (figure 16).

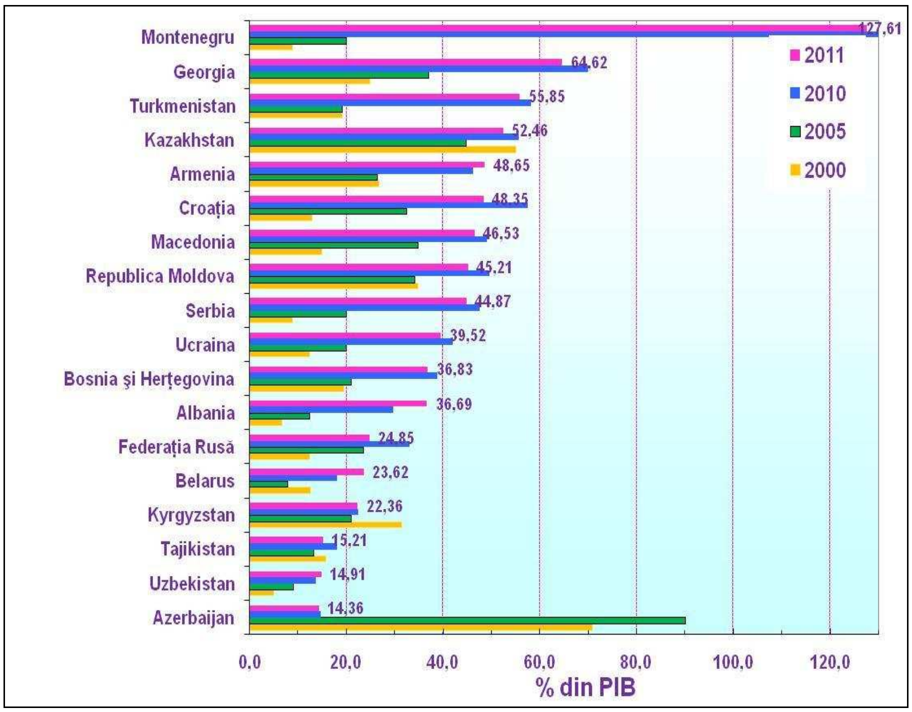

Figure 16. FDI stock related to GDP in countries with economies in transition during 2000-2011

It is natural that for massive increase of foreign direct investment in the country's economy is necessary a more active reforming of the investment climate for foreign investors, being important entrance requirements, incentives, foreign exchange policy, laws of land ownership, access to visas and work permits, access and availability of physical infrastructure and economic rights repatriation etc. In this context, the United Nations Commission on Trade and Development considers that the main factors that determine the location of FDI in an economy are the existence of important natural resources, cheap labor force, access to foreign markets, liberalization of domestic economic policies, the level of technical progress and the quality of human resources, corporate strategies that are available to new market entrants etc.

In this context, among the **positive changes** in the investment climate of the Republic of Moldova we can mention:

- The existence of a state policy in the field of investment, reflected mainly in the Investment Strategy of the Republic of Moldova, approved by Government Decision no. 234 of 27 February 2002 and the Law of the Republic of Moldova on investments in entrepreneurial activity from 18 March 2004;
- Improvement of the legal system, including expanding and improving trade legislation, which is regarded as a liberal, supportive and encouraging one for foreign investment;
- Relative stability of the national currency and relatively low level of inflation.

As **opportunities** in attracting FDI can be also considered the country's strategic location determined by a successful location, fertile soils and favorable climate for a wide range of crops, traditions in agriculture and in wine industry, investors can still benefit from a relatively low cost of labor force.

However, **the main problems** affecting the development of business and investment climate can be considered:

- The practical implementation of legislation is still a problem, as well as its adequate and effective implementation;
- Active government intervention, great influence of politics on the economic sphere, with repressive actions, including towards foreign investors;
- The Republic of Moldova still remains little known in the world and has a bad image being perceived as a poor and unpredictable country, with an uncertain future. The separatist enclave Transnistria remains the most serious factor of instability and insecurity, and the media in the Russian Federation (Moldova's strategic partner!), in the context of some economic decisions with a political content has caused and continues to prejudice the country's image, and not only in Russia but also all over the world;
- Massive migration of population (labor force), which, also has positive aspects, from Moldova has reached proportions affecting the state's economic security;
- Frequent administrative interventions in economic activity of businesses, including in the form of controls and inspections;
- General bureaucracy, protectionism and corruption etc.

The Republic of Moldova remains unattractive for foreign direct investment also because of small size economy, low purchasing power of the population, lack of traditional natural resources, business infrastructure etc.

Therefore, even though the Republic of Moldova has been successful in reforming the investment climate, the annual capital inflows as foreign direct investment are quite modest compared to other European countries, and without it we can not expect a sustainable growth.

Thus, the Republic of Moldova is perceived by some European structures as giving investors a higher degree of economic freedom compared to other countries, the investment image of the country is still poorly shaped. Potential investors do not have sufficient information on investment opportunities or not correctly interpret available data.

Even if few in number, the successful examples of foreign investors are not promoted abroad. The state invests little in physical infrastructure (excepting the last year), in education and health, which are indispensable conditions for the development of long term businesses.

The analysis of investment activity in the Republic of Moldova shows that the largest FDI stocks, since 1991, have been accumulated in sectors that provide a quick return (electricity), in sectors using intensive labor forces and natural resources, and sometimes a lower grade of processing and added value (manufacturing), or activities that do not require significant investment but ensure a high level of profitability (wholesale and retail, financial activities). Also, the above-mentioned areas have a modest share in national GDP and exports, except for food industry.

Of course, foreign direct investment for the development of economic infrastructure will not come in the nearest future in Moldova, but without a developed economic infrastructure attracting FDI would be extremely difficult. There can be only one conclusion: the Government should use public expenditure in higher proportions for economic infrastructure development, including infrastructure for quality development (metrology, standardization, testing, quality certification).

Moldova’s policy on foreign direct investment must acquire a more liberal (of course, taking into account the state’s economic security) and proactive direction, being necessary even a “more aggressive” attraction of investments. It is unlikely for potential foreign investors to be treated the same as in other states. They should be treated better than by the governments of competing countries. We should not wait for FDI to come. Foreign direct investment must be attracted to the Republic of Moldova. And for this reason are required direct marketing actions towards target investors, alongside with undertaking urgent measures to improve the external image of the country in international business and political environments.

In conclusion, we state:

1. Economic and financial crisis experienced by most countries determined the necessity to seek new models of development, recognizing that during the post-crisis period **competitiveness and efficiency will be the key factors of sustainable growth.**
2. The main problems currently faced by the Moldovan economy are not of economic nature and relate mainly to:
   - unsolved Transnistrian conflict and lack of a clear perspective of the future of the Republic of Moldova, causing political instability and low investment attractiveness;
   - unreformed judiciary system, respectively, distrust in the property protection, with similar consequences.
3. Now that Moldova is perceived in the world as having an economy based on intensive use of primary factors, it becomes important to continue structural reforms and implement a model of economic development based on investment, innovation, export growth and diversification, both geographically and varieties.
4. Economic success and competitiveness of world countries mostly depend on education and research, and their ability to produce, disseminate and assimilate knowledge. Hence, since Moldova's priority goal is economic competitiveness, developing an innovative economy must also be a priority.
5. Moldova continues to present serious gaps in competitiveness compared to absolute majority of European countries, in all the determinants of competitive ability, and particularly - in terms of innovation, research and development. That's why the national education and research system must be recognized as a priority and a primary direction of development and their financial support - the best investment for the development of the knowledge economy.
6. Increasing the role of research-development-innovation in developing competitiveness and ensuring sustainable economic growth should be based on:
   - increase the competitiveness of research and innovation, including in terms of efficiency, performance, and adapting it to the national economy needs;

- creating a business environment favorable to innovation and promoting clear and realistic policies in the field, that would start with stimulating research-development-innovation; activities;
- promoting a systemic approach to innovation in the context of all stakeholders' relationships and interests: universities, research institutions, funders and last but not least, the state;
- knowledge competitiveness growth, its efficient management in order to transform it into competitive market advantages, starting with investment in research, production and dissemination of knowledge, and ending with their implementation (through inventions and innovations) or marketing.

7. Returning to discussions on issues related to the country's strategic orientation should be considered unnecessary as the Republic of Moldova has finally declared firmly its strategic orientation towards eventual membership association and adherence to the great European states family. This will is understandable and natural, since our culture and traditions are an integral part of the European civilization.

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