

PREMISES AND OPPORTUNITIES OF THE REPUBLIC OF MOLDOVA FOR SUSTAINABLE DEVELOPMENT IN EUROPEAN CONTEXT

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***Abstract.** Applying the principles of sustainable development and ensuring sustainable economic development are of primordial actuality for the Republic of Moldova. Promoting sustainable development presupposes correlating economic growth with improving the quality of life and health, education, social development and environmental protection. The issue of sustainable development as a complex phenomenon is approached under the conditions of the influence exerted by some constraints and restrictions, of the existence of some serious economic, social and technological gaps in regional and European context. The analysis of the external commercial flows of goods highlights the predominance in exports of products from the traditional economic sectors. Improving competitiveness of export is regarded as the decisive factor of sustainable economic growth. For the chapter regarding the reform of the investment climate, modest successes are recorded which did not give the necessary impetus to massive foreign capital entries under the form of foreign direct investments as compared with other Central and Eastern European countries. The low attractiveness for foreign direct investments is attenuated by the small size of the local market and the low purchasing power of the population. Ensuring economic sustainable development is approached within the context of creating the necessary premises and valuing the opportunities provided by the prospects for European integration of the Republic of Moldova.*

***Key words:** Eo - Macroeconomics and Monetary Economics: General*

F4 - Macroeconomic Aspects of International Trade and Finance

It is known that initially the concept of sustainable development was initiated as a viable alternative to the ecologic crisis, to the crisis of natural resources and especially of those related to energy, triggered by the intensive industrial exploitation of resources and the continuous degradation of the environment and that it attempts, firstly, to protect the quality of the environment. At the same time, currently, the concept extended to the quality of life in its complexity also under economic and social aspect.

Hence,

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1. The Conference of the United Nations on Environment in Stockholm, 1972 is regarded as the historical moment when it is acknowledged that human activities contribute to deteriorating the environment, thus endangering the future of our planet.
2. In 1973 the World Committee on Environment and Development (WECD) starts its activity.
3. As a result of discovering the hole in the ozone layer above the Antarctic, the Vienna Conference initiated the identification of some solutions for diminishing the content of substances damaging the protective ozone layer that surrounds the planet.
4. In 1987, one year after the Chernobyl disaster, within the Report of the World Committee for Environment and Development the most successful definition of sustainable development was formulated: *Sustainable development is the one satisfying the needs of present generations without compromising the opportunities of the next generations to satisfy their own necessities.* Through this synthetic definition sustainable development also receives a moral character of intergenerational equity in protecting the environment and preserving life on the Earth. Within this context we might also remember the memorable words that Barbu Ștefănescu Delavrancea in his historical drama “Sunset” attributes to the venerable ruler Stephen the Great and Holy: “...**that Moldavia belonged not to my ancestors, it is not mine and it is not yours, but of our inheritors and of the heirs of their heirs for all ages to come...**¹
5. The term of sustainable development became very known after the UN Summit on Environment and Development from the summer of 1992 from Rio de Janeiro known as the “Earth Summit”. It had as result the drafting of several solutions regarding **climate change** (the diminishment of methane and dioxide carbon emissions) and the **biological diversity** (preservation of species and preventing deforestations). Within the Summit was also drafted Agenda 21 – the plan of supporting sustainable development and the imperative of interdependent consideration of the economic and natural environment was also taken into account, even though the principle of social efficiency was not discussed. At the same time, the Principles of Sustainable Development stipulated in the Rio Statement on Environment and Development makes reference, among others, to the fact that:
 - People are at the centre of the concerns of sustainable development and they are entitled to a decent, healthy and productive life in harmony with nature (principle 1);
 - In order to attain sustainable development and a better quality of life for all people, the states must diminish and eliminate the unsustainable models of production and consumption and to promote the right demographic policies (principle 8);
 - The states must cooperate in order to promote an open international economic system that would lead to economic growth and sustainable development in all countries (principle 12);
 - Peace, development and environmental protection are interdependent and inseparable (principle 25).

¹ Barbu Delavrancea, Apus de soare (Sunset), Editura Litera Internațional, Chișinău-București, 2003, p. 55.

6. As of 1997, sustainable development turns also into an objective of the European Union (the Maastricht Treaty), and in 2001, the Summit from Göteborg passed the **EU Sustainable Development Strategy** to which an external dimension was added at Barcelona in 2002.

In June 2006, the Sustainable Development Strategy was passed for an enlarged European Union based on the Göteborg Strategy.

Mention worthy is also the fact that some of the challenges of the Sustainable Development Strategy are very similar to the issues put forward into another EU strategy called the Lisbon Agenda (2000) which has as target objective, as already known, to **change Europe (the European Union) into the world's most competitive and dynamic economy based on knowledge capable of generating sustainable economic growth and greater social cohesion.**

It should be also mentioned that as pillars of the Lisbon Strategy were acknowledged **economic competitiveness, social inclusion, and environmental protection**, and sustainable development is recognised as an all-comprising principle for European policies and, indeed, the issue of economic competitiveness came to dominate the political agenda. Within this process, the Sustainable Development Strategy is sometimes reduced to only its environmental pillar and many European commissioners have even made allegations on various occasions with respect to these issues, implying that EU needs, first of all, economic growth before being able to act with respect to environmental protection or implementing some policies of social protection.

The stated purpose of the reviewed Strategy is **to act** for continuous improvement of the quality of life for present generations but also for the future ones. But this objective cannot be reached but within some communities able to use rationally and efficiently the resources and to discover the ecologic potential of the economy, thus ensuring **prosperity, environmental protection and social cohesion**. This determined the three dimensions of sustainable development: society, economy and environment, and at the core of all these ideas must be mankind, the full development of human resources being the essence of any strategy or development plan, as the concept of quality of life in itself may be defined as **“the totality of economic, social, ecologic, spiritual conditions, etc. that ensure the integrity and balance of the biologic life, the continuing and sustainable development of the human personality”**.

Having as starting point the above-mentioned, the emergence and implementation of the sustainable development principle allows for highlighting the following moments:

1. The emergence of the sustainable development concept stimulates academic debates regarding the basic concepts and processes of sustainable development;
2. The intensified conceptual-methodological activity is finalised with the formulation and implementation of other visions and concepts related to human development, living standard, quality of life, human poverty, social exclusion, all being conceived based on new methods of assessing the various dimensions of sustainable development;
3. The intense research activity at the world, regional and national levels for analysing the sustainable development under its various aspects lead to the drafting of reports, studies, analyses that shape a more complete image of the state of affairs of mankind;

4. Extending the encompassing area of the international comparison and developing the comparison criteria.

It should be mentioned also that within EU Member States the economic aspect of sustainable development is monitored through statistic indicators classified in three groups that characterise the **proper** economic development, **investments and economic competitiveness** from which we could underpin: (i) the annual growth index of GDP, including the one per capita; (ii) GDP per capita in current prices; (iii) GDP per capita related to the purchasing power; (iv) inflation and consumption prices index; (v) the volume and structure of investments; (vi) the volume and structure of commercial flows; (vii) labour force productivity; (viii) energy intensity of economy; (ix) total expenditures on development and research related to GDP; (x) public expenditures on education related to GDP.

The Republic of Moldova, by its participation in the UN Summit on Environment and Development in Rio de Janeiro (June 1992) and by signing the UN Statement for Environment and Development undertook to include in the transition process the sustainable development model in elaborating and implementing the strategies and national action plans corresponding to the basic principles of sustainable development. The National Sustainable Development Strategy was elaborated in accordance with the UN strategic objectives but also with the actual possibilities of the country that, among others, presuppose:

- Shaping a market economy socially oriented, based on private and public ownership and involved in free competition, which imposes the creation of a system that is competitive and compatible with the principles, rules, mechanisms and institutions of modern economies;
- Building up an open civil society, based on democracy, decentralised public system and encouraging the civil society's institutions;
- Orienting the development towards improving the quality of life, investing in human capital;
- Promoting a new concept of economic, social, food and ecologic security.

A special weight, in this context, has the Strategy for Economic Growth and Poverty Alleviation (SCERS) adopted in the year 2004. Within SCERS, the aspects related to environmental protection and territorial arrangement are mirrored under a special chapter, underpinning the relationships between environment and poverty, the importance of environmental protection and of rational use of natural resources for the sustainable development of Moldova and poverty alleviation. This document outlined, among others, the following national objectives of sustainable development:

- Shaping a competitive potential for re-launching and stabilising economic growth, and of sustainable human development;
- Reforming the social security system, attaining the standards of decent living;
- Structural enhancement of the socio-economic system on a sustainable basis, in accordance with the accession requirements to the European Union;
- Shaping the human capital in accordance with the scientific, technological, information and moral exigencies.

Therefore, as we may notice from the above-mentioned, also in the Republic of Moldova the promotion of sustainable development presupposes the integration of economic growth

with improvement of the quality of life and health, education, social development and protection of the natural environment.

Unfortunately, for the Republic of Moldova the issue of sustainable development under all its aspects is approached under circumstances marked by a series of constraints and restrictions, among which we mention the existence of some serious economic, social and technological gaps, not only in relation to the economically developed countries, but also to neighbouring countries and even to those of the CIS.

We should be aware of the fact that during the last 16 years the economy of the Republic of Moldova is marked by an unprecedented historical process – the transition from an over-centralised economic system to a market one.

The total lack of experience in state building and the transition to a market economy, the building up of the new state along the dissolution of the old system, the lack of an implementation strategy for economic reforms, the external challenges that had to be faced, the attempts of solving issues only by approximately deducing results, all made Moldova face a set of **issues** during the first years of transition, that are specific to all former Soviet states, such as: de-industrialisation and marked decline of production; decreased capacity of the state to guide economic processes, the dissolution of traditional economic relations; productivity decline; saving and investment diminution; decreased living standard due to reduced purchasing power of the population; higher unemployment and social differences; reduced birth rate and life expectancy; growing general instability and economic fraudulent attempts, etc.

At the same time, among the **successes** of the initial stage of economic reform one should note the building of the legal and institutional structures of the market economy, the speedy initiation of economic liberalisation processes (prices, domestic and foreign trade liberalisation), the creation of the banking system, taking some stabilisation measures, such as the introduction of the national hard currency, the reform of the fiscal system, the privatisation process, and the development of the private enterprise sector, etc. On these grounds, in the initial stage, the Republic of Moldova was regarded as a leader among the CIS states in realising the reforms, including those related to the chapter “economic liberalisation” but, in time, the reform pace became very slow, and the results of the changes occurred within the real sector of the economy were also less impressive in this period. Moldova continued to remain the poorest country against the majority of Central and East European (CEE) states and the Community of Independent States (CIS). A profound and long-lasting economic collapse was triggered by slowed-down reforms and macroeconomic shocks, and the economic discrepancies between the Republic of Moldova and the regional level became only deeper. Only in 1997, for the first time since the beginning of the nineties, a **non-essential growth of the GDP** was recorded, to be followed by the economic crisis in Russia in 1998, which had extremely negative effects on the Moldavian economy, particularly with respect to foreign trade.

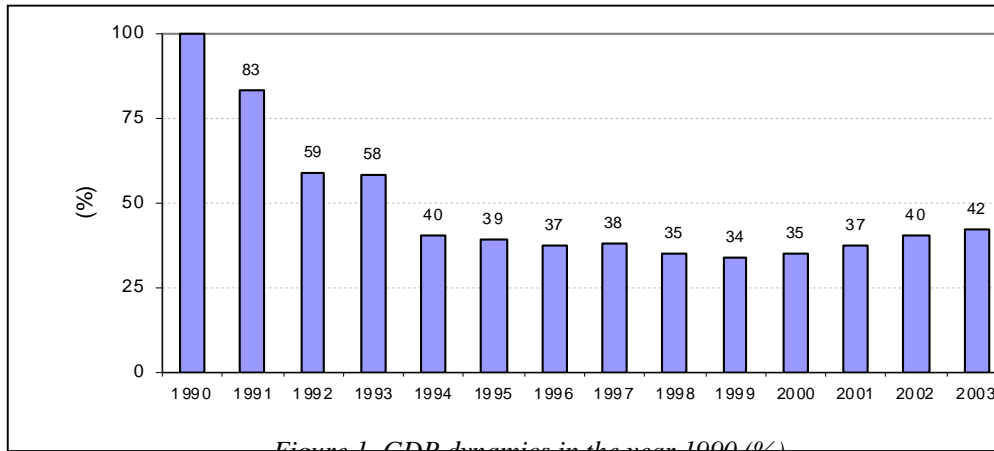


Figure 1. GDP dynamics in the year 1990 (%)

Considering the first decade of economic reform in the Republic of Moldova we find, unfortunately, that in our country **took place the highest production decline from all CIS countries**, and the prestigious magazine “The Economist” placed Moldova on the first place in the world according to the annual average decrease in the GDP in the period 1991-2001 – 8.5% being followed by Georgia – 8.2 %, Tajikistan – 7.6 %, Ukraine – 6.6 %, Congo – 5.4 %, Sierra Leone – 3.7 %, Latvia – 3.6 %, Russia – 3.3 %, Kyrgyzstan – 3.2 %, Lithuania – 2.9 %.

The situation imposed to continue reforms with some alterations, a stronger social orientation being necessary, which also required also more active regulations from the state with respect to the course of the reforms. Hence, as of 1999, after an economic decline of almost 70% against the year 1990, **the economic decline stopped and the premises for economic recovery and growth emerged**. In the year 2000 was already recorded a growth of 2.1% and in the following five years of 6-7% annually, which corresponds to the CIS average.

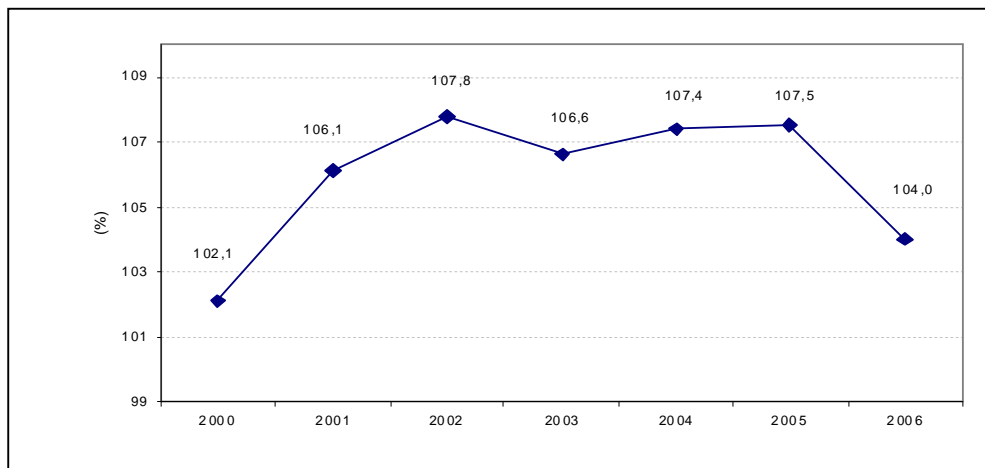


Figure 2. GDP dynamics for the Republic of Moldova, in % against the preceding year

But, despite the continuous growth recorded in the following years for the GDP, the Republic of Moldova did not succeed up to now to recover all losses caused by the economic collapse in the 1990s.

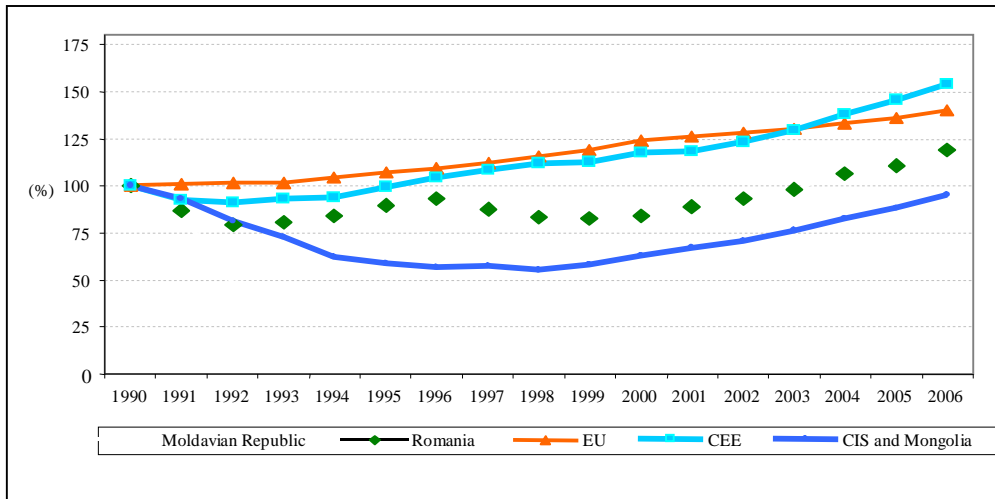


Figure 3. GDP dynamics of the Republic of Moldova at regional level, in % against the year 1990

It should also be mentioned that the growth rate of GDP in the Republic of Moldova corresponds also to the average of the states with a transition economy by and large, which in the year 2006 represented about 5.8%.

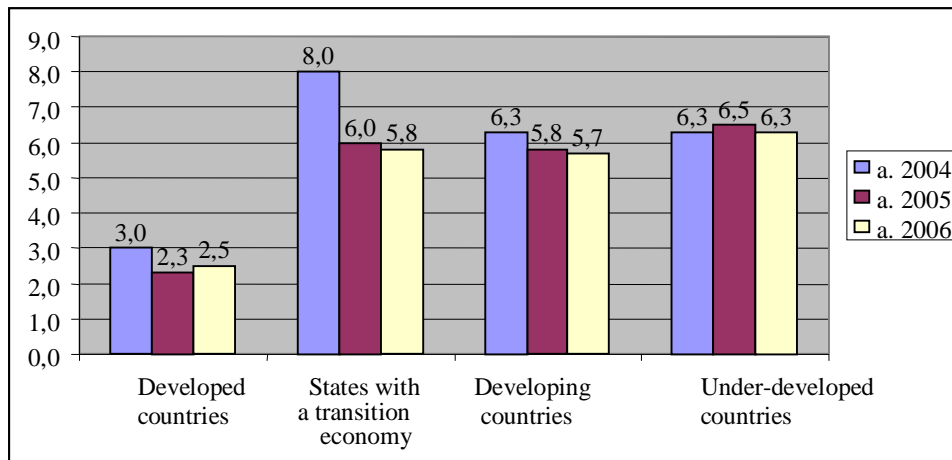


Figure 4. World GDP dynamics in the period 2004-2006

World GDP recorded in the year 2005 a growth of approximately 3.1%, with a lower level for developed countries (-2.3%) and higher for developing countries (-5.7%) and underdeveloped countries (-6.5%). No significant changes were foreseen for the year 2006.

With a value of 3.356 billion US dollars, the GDP per capita represented in the year 2006, 958 USD (according to the purchasing parity of the national currency, ~3744 USD).

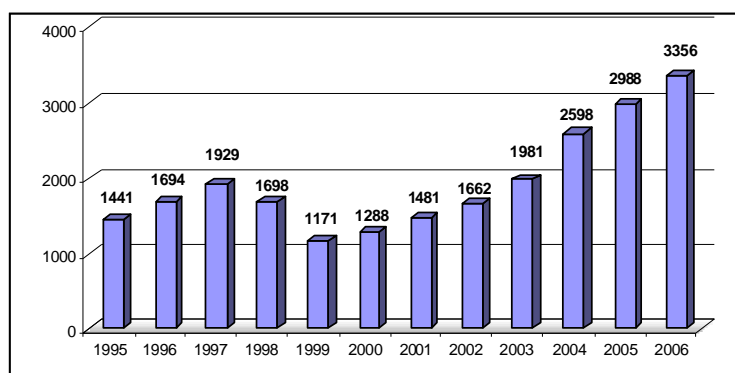


Figure 5. GDP value for the Republic of Moldova in millions USD

At first sight, the economic situation of the Republic of Moldova in the last years is circumscribed to an increasing evolution: stabilisation and socio-economic turnaround trends have been shaped. Hence, the constant increase in GDP in nominal and real terms should be emphasised, as well as the major contribution of the private sector to GDP formation (70%) with a continuing increase trend. The nominal exchange rate of the national currency is stable, and even an increase in the Moldavian Leu is recorded against USD and euro.

We should also notice the fact that, currently, the entire mechanism of managing the economy is already different, and that the background structure of the economy is different, and another economic thinking imposed itself, along with a changed managerial thinking and another behaviour of the enterprises – hence, some positive trends from the last years show that the Moldavian economy slowly adjusts to the market conditions. The main issues which require solutions pertain to the quality of economic growth, diminution in the massive labour force migration, the creation of an actually favourable environment for entrepreneurship and attracting foreign investments.

Also, the real growth rate of GDP in Moldova is lower as compared to most CIS countries and Baltic countries, Romania, Slovakia, even if it is superior to the EU average. The eloquent example of China and other Asian states, of the Baltic countries from the European area has shown that a sustained economic growth rate on long term of more than 7.3% ensures the doubling of GDP every 10 years.

Table 1

Growth rate of real GDP (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU (27 Member States)	2.7	2.9	3.0	3.9	2.0	1.2	1.3	2.5	1.8	3.0
EU (25 Member States)	2.7	3.0	3.1	3.9	2.0	1.2	1.3	2.4	1.8	3.0
EU(15 Member States)	2.6	2.9	3.0	3.8	1.9	1.1	1.2	2.3	1.6	2.8
Bulgaria	-5.6	4.0	2.3	5.4	4.1	4.5	5.0	6.6	6.2	6.1
Czech Republic	-0.7	-0.8	1.3	3.6	2.5	1.9	3.6	4.6	6.5	6.1 ⁽¹⁾
Estonia	11.1	4.4	0.3	10.8	7.7	8.0	7.1	8.1	10.5	11.4
Latvia	8.4	4.7	3.3	6.9	8.0	6.5	7.2	8.7	10.6	11.9
Lithuania	8.5	7.5	-1.5	4.1	6.6	6.9	10.3	7.3	7.6	7.5
Hungary	4.6	4.9	4.2	5.2	4.1	4.4	4.2	4.8	4.1	3.9
Poland	7.1	5.0	4.5	4.3	1.2	1.4	3.9	5.3	3.6	6.1
Romania	:	:	-1.2	2.1	5.7	5.1	5.2	8.5	4.1	7.7
Slovenia	4.8	3.9	5.4	4.1	2.7	3.5	2.7	4.4	4.0	5.2
Slovakia	5.7	3.7	0.3	0.7	3.2	4.1	4.2	5.4	6.0	8.3
Croatia	6.8	2.5	-0.9	2.9	4.4	5.6	5.3	3.8	4.3	4.8 ⁽¹⁾

Turkey	7.5	3.1	-4.7	7.4	-7.5	7.9	5.8	8.9	7.4	6.1
Moldova, Republic of	1.6	-6.5	-3.4	2.1	6.1	7.8	6.6	7.4	7.5	4.0

Source: EUROSTAT; National Statistics Office of the Republic of Moldova.

In relation to the purchasing power at the GDP level per capita in Moldova, we notice that this is still far from the average recorded within EU Member States, and even against the one of CEE countries and that a narrowing trend is still lacking, which confers to this indicator a special strategic importance.

Table 2

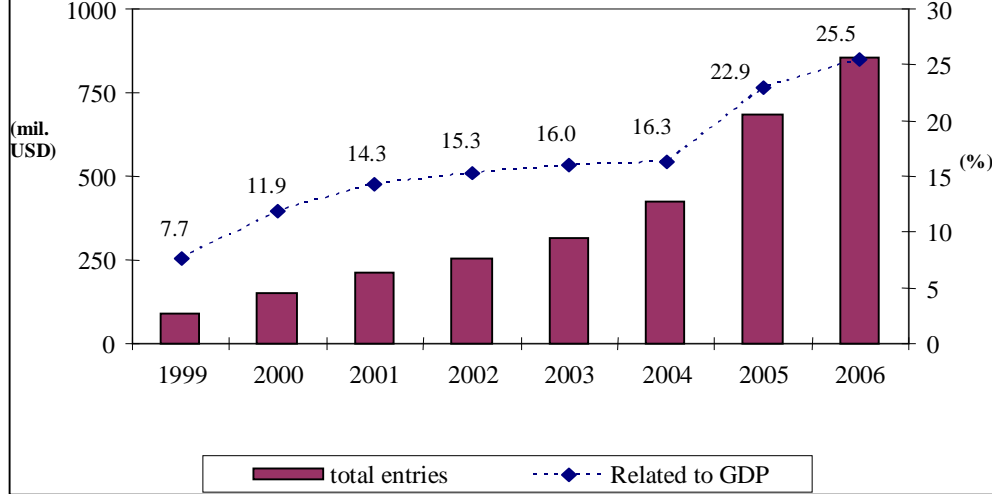
**GDP per capita estimated in euros at the purchasing power parity
(EU-25 index = 100)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EU (27 Member States)	95	95	95	95	96	96	96	96	96	96
EU (25 Member States)	100	100	100	100	100	100	100	100	100	100
EU(15 Member States)	111	110	110	110	110	109	109	108	108	108
Bulgaria	25	26	26	27	28	30	31	32	34	36
Czech Republic	70	68	67	65	67	68	71	73	74	76
Estonia	40	40	40	43	44	48	51	53	60	64
Latvia	33	34	34	35	37	39	42	44	48	54
Lithuania	37	38	37	38	40	42	47	49	52	56
Hungary	49	50	51	54	56	59	61	61	62	63
Poland	45	46	46	46	46	46	47	49	49	51
Romania			25	25	26	28	30	32	33	36
Slovenia	73	73	75	74	74	77	78	80	81	84
Slovakia	50	50	49	48	50	52	53	54	58	60
Croatia	41	42	40	41	42	44	46	47	48	48
Turkey	31	31	28	29	25	26	26	27	27	28
Moldova, Republic of	12	11	10	11	12	13	11	11	12	12

Source: EUROSTAT; National Statistics Office of the Republic of Moldova.

The GDP structure by categories of uses is characterised by increased share of final consumption, conditioned preponderantly by the final consumption of households, especially due to the hard currency entries from the work of residents abroad. Hence, the value of remittances through commercial banks amounted in the year 2006 to 855 million USD, or 25.5% in relation to GDP, that is an increase by 5.6% against the year 2000, and the total amount of remittances being over 1 billion USD.

The GDP in the year 2006 covered the aggregated demand in a share of only 51.4%, 46.6% from imports, a fact denoting the considerable dependence of the national economy on external resources and exposing the country to major risks in the process of sustainable development.



Source: National Bank of the Republic of Moldova.

Figure 6. Remittances from abroad by natural persons through commercial banks

Talking about the premises of Moldova's sustainable development, we might refer to the following:

- maintaining the macroeconomic stability with some frailty elements;
- the relatively developed and stable banking sector;
- the qualified human potential in some sectors of the economy;
- the relatively low cost of skilled labour force;
- the political and social consensus on the priority European vector;
- the access without customs duties to EU markets based on the GSP+, in the countries from South-Eastern Europe based on CEFTA and in the CIS based on the free trade agreements;
- the existence of a stimulating legal and fiscal framework for investments.

The world economy is profoundly marked by the phenomenon of business internationalisation, the increased economic interdependence between states, the economic integration at regional, European and even world level. The liberalisation and globalisation have induced a higher mobility of production factors, their rapid delocalisation, increased specialisation of activities in value chains of products and services. These determined the continuous growth trend of the international trade, the growth rate exceeding two times the growth rate of the gross world product.

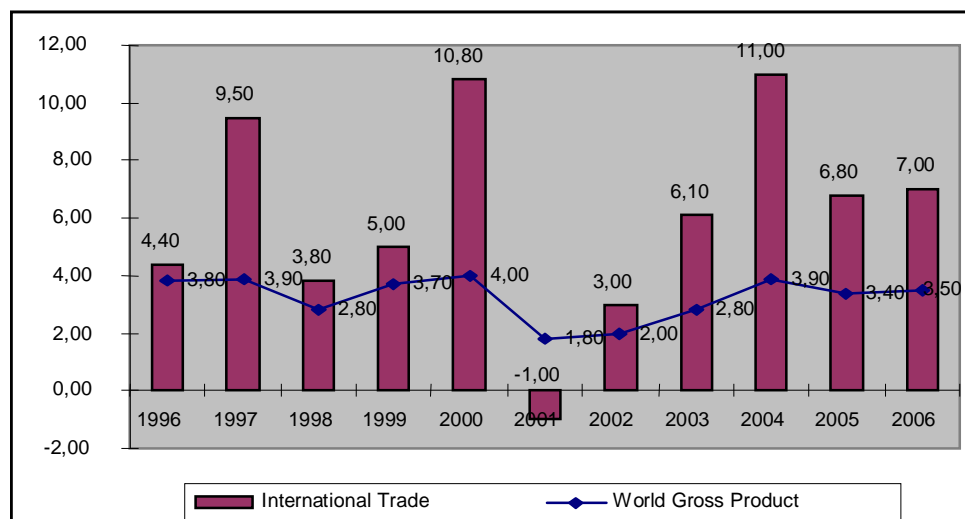


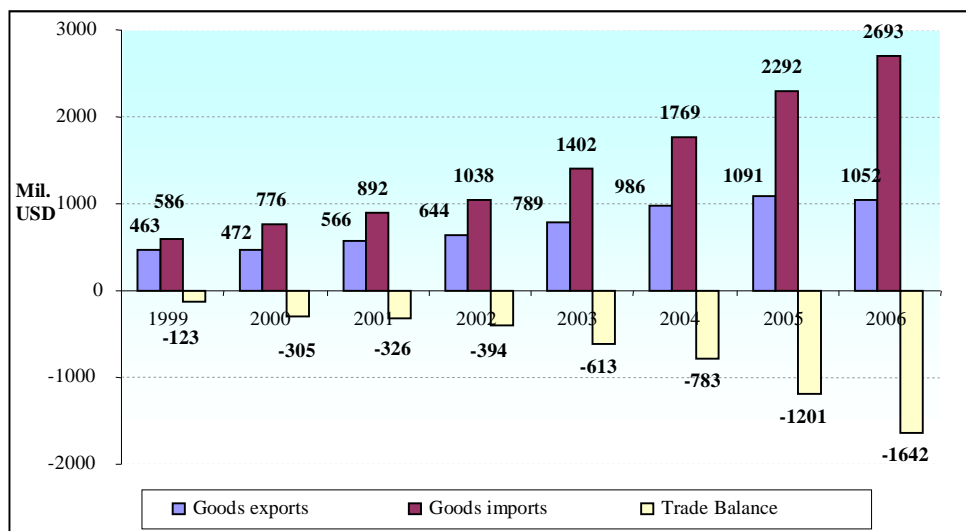
Figure 7. Dynamics of the World Gross Product and of international trade in % against the preceding year

These are the reasons why the improvement of export competitiveness must be regarded as one important means of increasing the national competitiveness and finally of sustainable economic growth of the Republic of Moldova.

With respect to the trends triggered by the evolution of Moldavian foreign trade, in the last years, we could mention the following:

1. The more active involvement of our country in the European and world economic processes, a phenomenon which might be regarded as having a continuing trend, specific to the last years, of foreign trade growth. Hence, the volume of foreign trade amounted to 3745 million USD in 2006, respectively 1052 million USD, and imports 2693 million USD. At the same time, **the trade balance deficit** reached catastrophic proportions, amounting to 1597 million USD, or it was 5.0 times higher than the one recorded in 2001. Thus, in 2006 imports were 2.6 times higher than exports, which correspond to coverage of imports through exports of only 39.0%.

In the Republic of Moldova the foreign trade in goods has recorded **trading deficit** since 1994, with a continuing increasing trend, but the current shares might affect the economic security of the country, by increasing the dependency of the state on strategic imports, the negative consequences being also possible on the stability of the national currency and increased unemployment. The trade deficit is due to swift increases of imports but, especially, to low exports to foreign markets as well.



Source: EUROSTAT; National Statistics Office of the Republic of Moldova.

Figure 7. Moldavian foreign trade dynamics

The Republic of Moldova has a record trade deficit against all countries from Central and Eastern Europe and incomparable with the EU-15, EU-25 and/or EU-27 average.

Table 3

Deficit of goods trade balance in relation to GDP (%)

	1999	2000	2001	2002	2003	2004	2005	2006
EU (27 Member States)	-0,7	-1,6	-1,0	-0,5	-0,7	-0,7	-1,2	-1,7
EU (25 Member States)	-0,7	-1,5	-0,9	-0,4	-0,6	-0,6	-1,0	-1,5
UE (15 Member States)	-0,2	-1,0	-0,5	0,1	-0,1	-0,3	-0,7	-1,1
Bulgaria	-11,6	-13,4	-15,9	-14,1	-16,5	-18,3	-15,0	-14,4
Czech Republic	-3,2	-5,1	-4,8	-2,9	-3,3	-0,9	1,3	1,3
Estonia	-18,4	-19,3	-15,9	-18,6	-20,4	-20,6	-18,4	-23,2
Latvia	-16,9	-17,1	-18,0	-18,8	-20,7	-22,2	-21,8	-26,4
Lithuania	-17,3	-14,8	-14,7	-16,1	-14,4	-13,7	-14,6	-17,4
Hungary	-6,2	-8,3	-6,0	-4,9	-5,6	-4,9	-3,3	-2,2
Poland	-11,0	-10,1	-7,5	-7,1	-6,7	-5,8	-4,0	-4,6
Romania	-5,3	-7,4	-10,4	-8,7	-10,6	-12,1	-13,0	-15,3
Slovenia	-7,2	-7,2	-4,5	-2,6	-3,9	-4,3	-3,2	-2,3
Slovakia	-5,4	-4,6	-10,3	-8,8	-2,1	-5,0	-7,1	-7,5
Moldova, Republic of	-10,5	-23,7	-22,1	-23,7	-30,9	-30,1	-40,2	-48,9

Source: EUROSTAT; National Statistics Office of the Republic of Moldova.

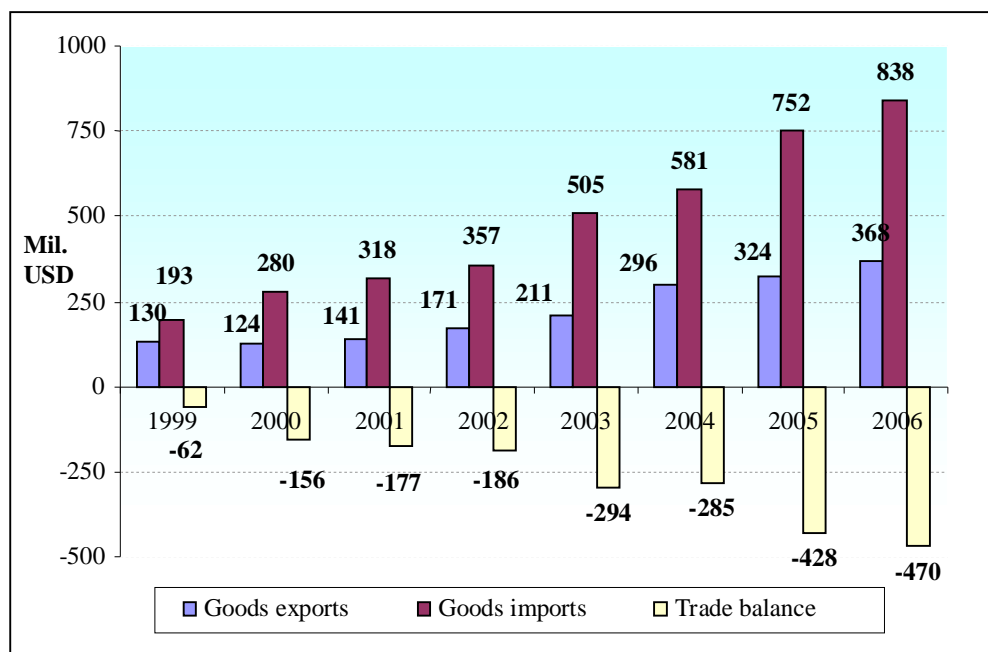


Figure 8. Dynamic of goods trade flows to EU countries

It also should be mentioned that the trade deficit of the Republic of Moldova has higher rates of growth also on the CEE countries' market, including Romania.



Figure 9. Dynamics of goods trade flows to CIS countries

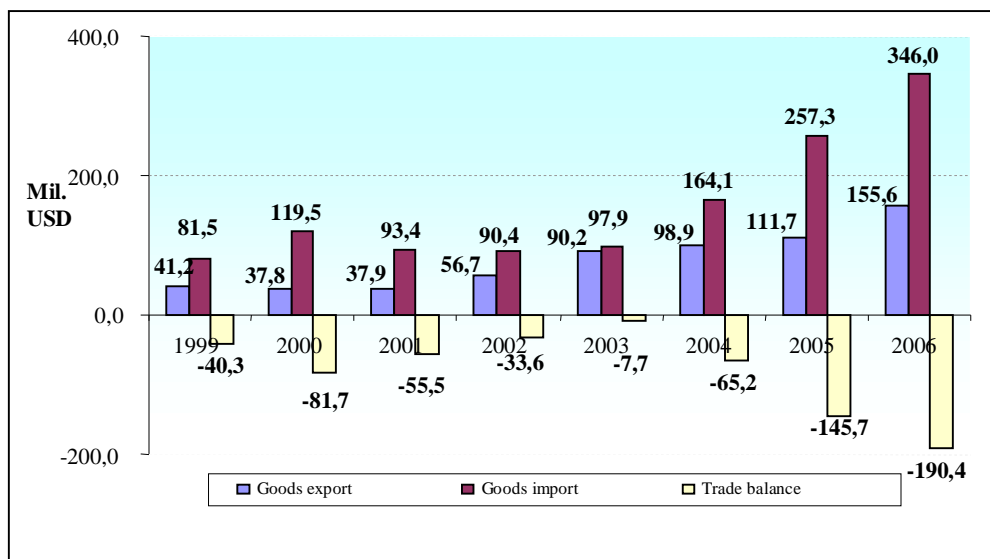
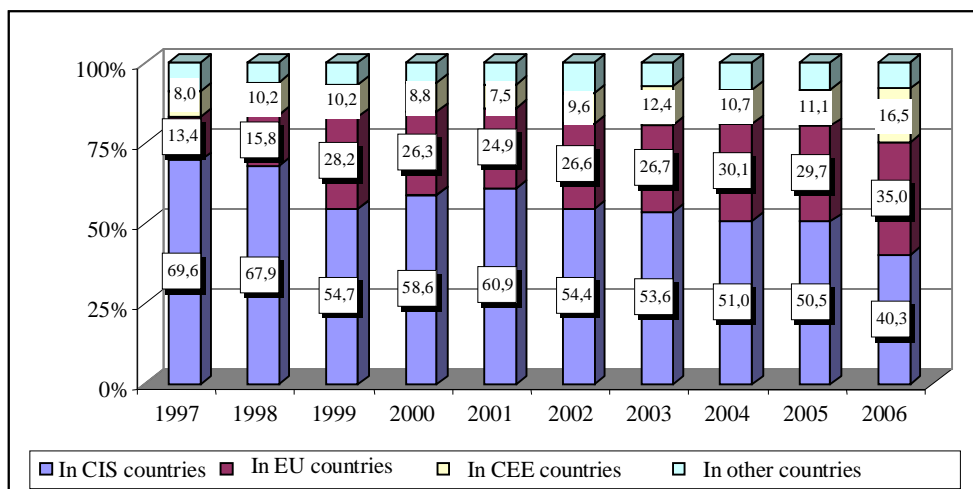


Figure 10. Dynamics of goods trade flows to Romania

The majority of foreign experts consider that the issue of deficit showed already at the beginning of the transition period, when the Government was encouraged to enforce a total liberalisation policy of trade, which made the national production non-competitive according to the price/quality performance. To this, one might add the policy regarding the exchange rate which recorded a continuous increase in the national currency in the periods 1994-1998 and 2003-2005, and last but not least the economic crisis in Russia (August 1998) and, lately, the prohibition of imports by the Russian Federation for alcoholic beverages and other non-agricultural products.

But the most important issue related to trade deficit still is **the lack of competitiveness of national products**, a fact which limits the supply on the domestic market but also on the foreign one. From another viewpoint, the structure of the deficit reveals also that it is

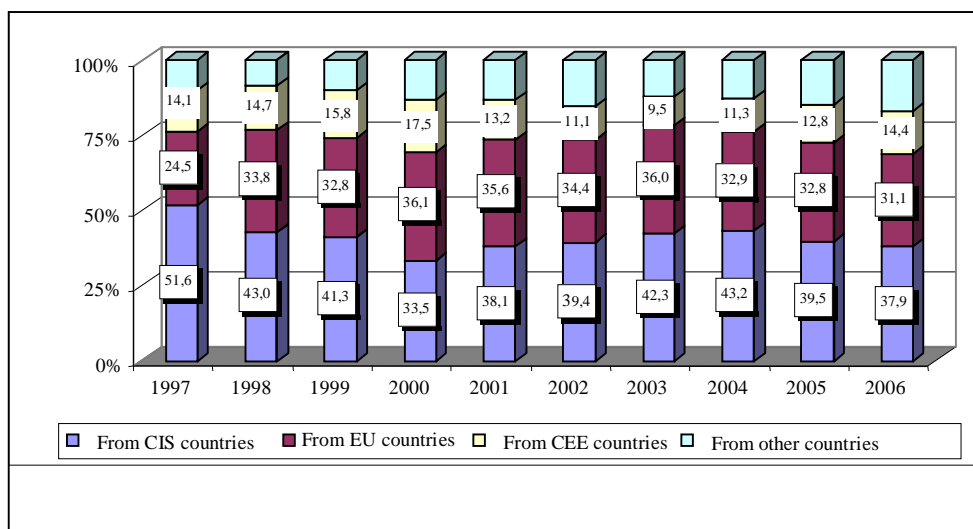
localized preponderantly in the area of energy resources and goods for supplying the industry, as well as in the area of capital resources, which supports the restructuring, modernization, and economic growth processes, which potentially are generators of development and new jobs. The differentiated evolution of exports and imports by geographic areas lead to a certain distribution by countries of the trade deficit.



Source: National Statistics Office of the Republic of Moldova

Figure 11. Goods exports from the Republic of Moldova by geographic regions

2. Even if in 2006 too the main share of exports and imports pertained to CIS countries, respectively for exports 40.3% from the total volume of exports and imports 37.9% from total volume of imports, there are also **considerable changes in the geographic structure of the Republic of Moldova foreign trade, a pro-European Union orientation of the latter becoming more and more marked.** Hence, in the period 1997-2006, the share of the CSI states decreased for exports from 69.6% to 40.3%, and for imports from 51.6% to 37.9%.



Source: EUROSTAT; National Statistics Office of the Republic of Moldova

*Figure 12. Goods import in the Republic of Moldova
by geographic areas*

At the same time, there is an essential increase in the share of EU countries in the foreign trade relations, respectively for exports from 13.4% up to 35.0%, and for imports from 24.5% to 31.1%. It should be also mentioned that in the years 2000-2001 the EU member states were the main foreign partners of the Republic of Moldova for the import chapter.

3. For the foreign trade an **excessive concentration by geographic areas for goods export and import** is specific, so that the first five trading partner countries cover more than 62.5% of total exports and 62.8% of total imports. The quality of the main partners of the Republic of Moldova in the year 2006 was held by the following countries:

For export:

- Russian Federation – with a share of 17.31% (31.8% in the year 2005);
- Romania – 14.80% ;
- Ukraine – 12.25 %;
- Italy – 11.12%;
- Belarus – 7.03%.

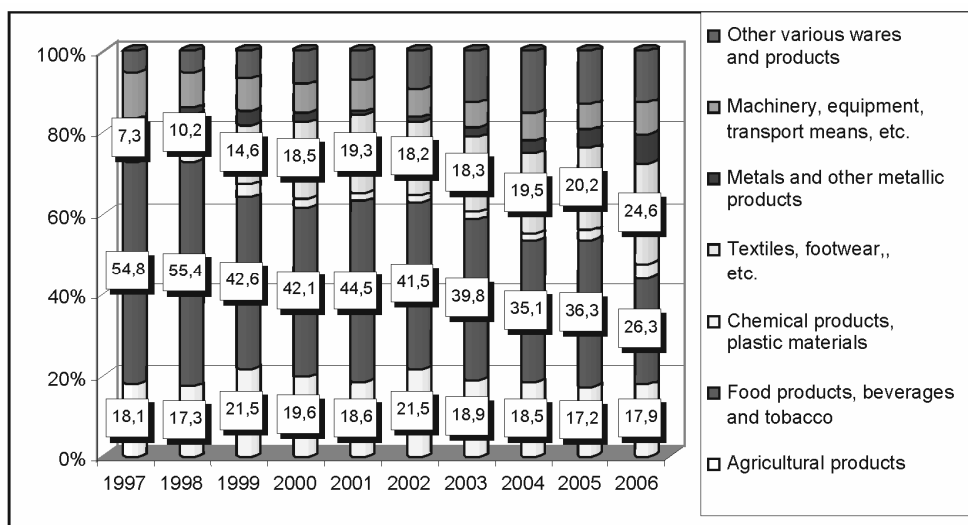
For import:

- Ukraine – with a share of 19.18%,
- Russian Federation – 15.48%;
- Romania – 12.85%;
- Germany – 7.95%;
- Italy – 7.29%.

The very high degree of concentration with respect to the foreign trade of goods of the Republic of Moldova conditions a very high dependence of the national economy on the conjunctural fluctuations in the traditional CIS markets. The restrictions with respect to imports of food and wine products imposed by the Russian Federation and the multiple economic barriers (tariff and non-tariff) which Ukraine raises against Moldova exports have led to a negative balance in the foreign economic relations with these states. In the last years the dynamics of the trading flows to CIS states was dominated by the value growth of imports to the detriment of exports. Up to the year 2001, the Republic of Moldova recorded a positive balance in the relation with CIS countries, but from 2001 the negative balance increased rapidly, so that in 2006 the trade deficit exceeded in value the volume of the exports by 173 million USD.

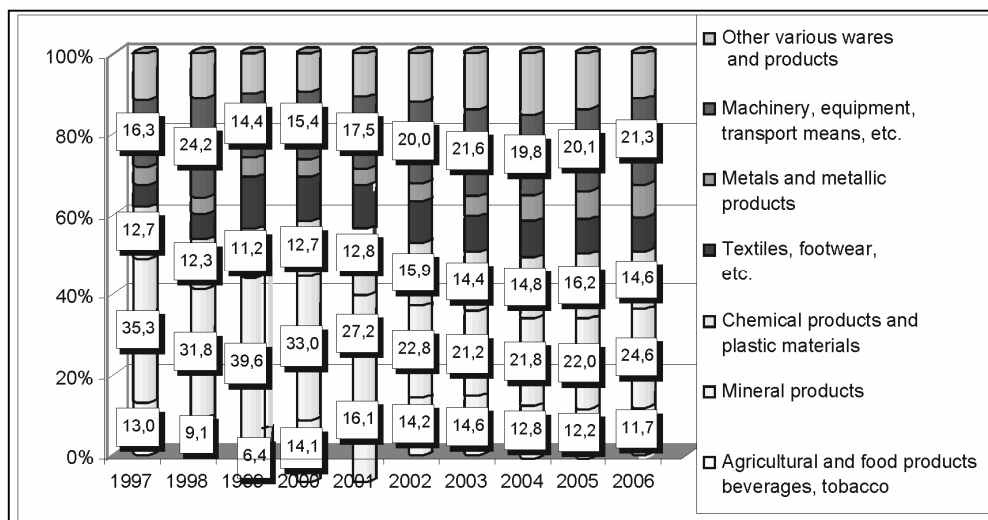
4. The analysis of the foreign trade flows of goods shows that the Republic of Moldova remains a preponderantly agricultural-industrial land, and that is the reason why **in our exports the agricultural/food products continue to be predominant along with some products of the traditional sectors of the economy:** food products, textiles, vegetable products. So, in the year 2006 food products, beverages and tobacco had a share of 26.3% of total volume of exports, including beverages – 17.8%, of total exports. On the second important positions are textiles, footwear and accessories with a share of 24.6% and the agricultural products – 17.9%. Against the year 2005 the share of beverages in total goods exports diminished by 10 points as a result of the diminishing volume of goods exports, respectively from 314.5 million to 186.8 million USD.

The above-mentioned show the exaggerated concentration of the Moldavian foreign trade on some categories of products, which denotes the high dependence on the export volume for just some categories of products, such as food products and beverages, fruit and vegetable cans and textile products. As we may notice, exports are generated preponderantly by industries using intensively labour force and local natural resources. Also, the exported products have a low value added and depend entirely on the imported raw materials, such as textiles.



Source: National Statistics Office of the Republic of Moldova.

Figure 13. Structure of goods export from the Republic of Moldova by categories of products



Source: National Statistics Office of the Republic of Moldova.

Figure 14. Structure of imports in the Republic of Moldova by categories of products

The current economic structure of the Republic of Moldova predefines also the structure of imports. Thus, in 2006, the most important categories of imports were: mineral products –

24.6% of total machinery, electric tools and equipment = 21.3%, chemical and plastic products – 14.6%, agricultural products – 11.7%.

Obviously, for the Republic of Moldova – a small and open economy – the foreign markets have major importance. That is why the orientation of the economy towards the foreign outlet markets must become an integral and compulsory part of all development strategies for the country. We must understand that the promotion of exports is not a purpose in itself, but an objective through which sustainable economic growth can be ensured. And in order to strengthen competitiveness, exports must be **geographically diversified**, in order to diminish the exaggerated dependence on any external market. This does not mean that we should give up the economic relations with Russia and other CIS countries, all our traditional partners for more than half of a century. The Republic of Moldova, as a small country, **requires a balanced economic policy** in its relations with the large neighbouring countries, first of all with Romania, Ukraine and Russia. A simultaneous orientation of exports towards developed Western markets, with their high exigencies with respect to quality, and the strengthening of the presence on the large markets from Russia, Ukraine and other CIS countries represent an important direction for diminishing the deficit in the trade balance.

Also, the assortment of products should also be diversified, favouring products with increased value added by shifting from activities with low productivity, and low technological level and intensive use of labour force to activities of high productivity, high technology and based on knowledge. We should bear in mind the main role played within international competition by high-tech products. This because:

- The growth of high-tech industries (electronics, information, and telecommunications) is twice the average of industry. As a result, a country having a supply of high-tech products is also better placed in the world competition.
- High-tech industries are at the same time structural and strategic. Acting as drivers of economic growth, these industries develop new products, new production techniques, which radically change the structure of economy.

The export performance must be based on competitive advantages, on developing the capacities and competencies of the export sectors and on creating an economy that is able to develop under the conditions of free trade and in a more and more globalised market. Increasing protectionism might endanger the perspectives of the Republic of Moldova with respect to making use of the competitive advantages. And this, because competitive advantages do not come from protectionism – which only leads to stagnation, low level of entrepreneurial skills and diminished motivation of the private sector with respect to efficiency, quality and development of new products. That is why we need to permanently search for some competitive niches, by modernizing traditional industries, but also by initiating some less known types of businesses in the Republic of Moldova. And therefore, it is necessary to combine the policy of promoting exports with the policy of attracting direct foreign investments in the national economy sectors and with an orientation on exports.

It should be also mentioned that after the decline from the beginning of this decade, **the world volume of direct foreign investments (FDI) has an increasing trend**. Hence, in accordance with the estimates of the experts in the field, and first of all of the experts of the UN Conference on Trade and Development Issues – UNCTAD, the world volume of foreign direct investments in 2006 increased by 50% and amounted to 1200 billion USD.

The Republic of Moldova needs investments, and first of all, foreign direct investments that would ensure the economic development and an increased competitiveness by creating new jobs, diminishing unemployment and increasing the incomes of the population, promoting exports and realising a performance knowledge and technology transfer, thus raising the integration degree within the European and world economic system.

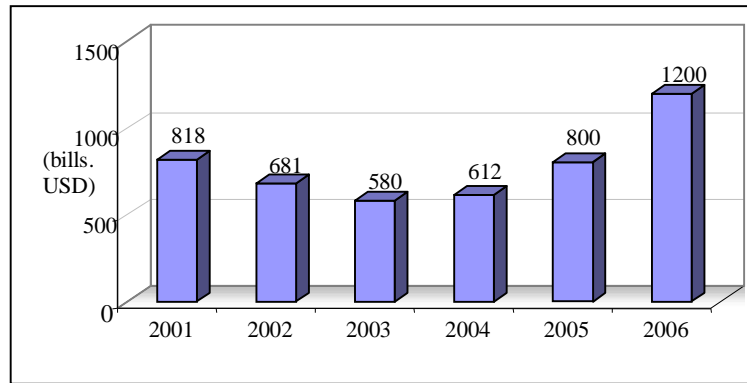
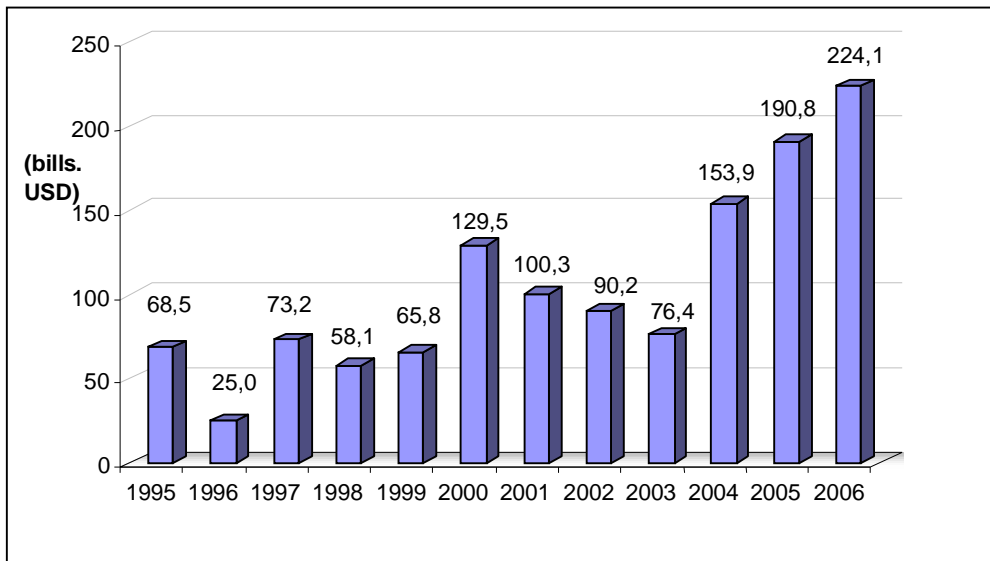


Figure 16. Evolution of the world FDI volume (billion USD)

UN Commission on Development and Trade considers as main factors triggering the placement of foreign direct investments in an economy the following: the size of the domestic market; the existence of some important natural resources; the cheap labour force; the existence of the access to foreign outlet markets; the liberalisation of the domestic economic policies; the level of the technological progress and the quality of the human resources; the corporative strategies, accessible to new-comers in the market, etc.

In this context we mention the fact that the Republic of Moldova remains less attractive to foreign direct investments due to: the small-sized economy; the low purchasing power; the lack of natural resources; the lack of a developed infrastructure for business; the territorial isolation of the country, etc. In accordance with the National Bank of Moldavia, on 1st January 2007, the total balance of foreign direct investments attracted since the beginning of the 1990s, represented **1284.5 billion USD**, so that foreign direct investments reached 359 USD per capita.



Source: National Statistics Office of the Republic of Moldova.

Figure 17. Dynamic of the FDI flows in the Republic of Moldova (million USD)

Even if Moldova registered successes in reforming the investment climate, the annual entries of capital under the form of foreign direct investments are rather modest as compared with other European states and, without them, we cannot expect a sustained economic growth. Moldova is perceived by some European entities as providing a higher degree of economic freedom to investors as compared with other countries, but the investment image of the country is still poorly outlined. The potential investors do not dispose of enough information with respect to investment opportunities or do not correctly interpret the data that they have. The state invests less in developing the physical infrastructure, education and health, all absolutely necessary conditions for developing business on long term.

If, by the end of the year 2006, the total volume of foreign direct investments per capita represented in Moldova about 359 USD, in Estonia by 2005 it was 9442 USD, in Hungary 6061 USD, in the Czech Republic 5830 USD, in Slovakia 2838 USD, in Lithuania 1900 USD, and in Romania 1098 USD. The Republic of Moldova remained much behind in the “fight” for attracting foreign investments, as compared to the Baltic Countries which managed to involve themselves actively in the EU accession processes at the beginning of the nineties, and adhered to EU in 2004 as a result of the efforts made. Even though the volume of FDI related to GDP in the Moldova is comparable with the majority, rendering dynamic the market of foreign investments becomes a vital requirement for sustained economic development.

If we analyse the investment activity in the Republic of Moldova we notice that the highest foreign direct investments were concentrated in the sectors ensuring quick recovery (purchase of the electric power supply networks – the Union Fenosa case, the mobile phone networks, the banking sector), the sectors using the intensive labour force and the available natural resources, and sometimes with a lower degree of processing and value added (the processing industry), or activities which do not require considerable investments, but ensure a high level

of profitability (wholesale and retail trade, financial activities). Just the same, the indicated sectors have a low share in GDP formation and exports, save for the agricultural-food sector.

Table 4

Economic activities (goods) with a higher share in attracting foreign direct investments, GDP formation and exports of the Moldavian exports

Economic activities (goods) with higher share in:					
Attracting FDI – accumulated subscribed capital	Share in total	GDP formation	Share in total	Exports	Share in total
1. Electric power, gas and water	32.4	1. Industry	17.0	1. Food products, beverages, tobacco	36.3
2. Processing industry	25.4	2. Agriculture, hunting economy, forestry and fishing	14.2	2. Textiles and textile products	17.8
3. Wholesale and retail trade	16.7	3. Transports and communications	12.1	3. Vegetal products	12.1
4. Financial activities	9.9%	4. Wholesale and retail trade	10.6	4. Gross processed leather, furs and products thereof	6.6
Share by categories in total	84.4		53.9		72.8

Source: National Statistics Office of the Republic of Moldova.

It is obvious that the priority in attracting foreign investments must be granted to those sectors, sub-sectors, products, and services that efficiently contribute to value added and are oriented towards export.

Of course, foreign direct investments will not come in the next future to the Republic of Moldova for developing the economic infrastructure, and a weakly developed economic infrastructure is a considerable barrier in attracting foreign direct investments. The conclusion can be but one: the Government must use public expenditures to a larger extent for developing the economic infrastructure, and the quality infrastructure (metrology, standards, tests, quality certification, etc.).

The main conclusion which can be drawn is that for the Republic of Moldova to achieve a qualitative and sustainable economic growth it is necessary to:

- Increase all types of investments in the national economy, the emphasis being laid on attracting foreign direct investments.
- Diminish the trade balance deficit, with the emphasis on increasing exports.

Also, for attaining these objectives it is required to increase the economic competitiveness of product, enterprise, activity of the national economy as a whole, by promoting foreign direct investments to economic activities oriented towards export.

As regards competitiveness, in 2006, the Republic of Moldova is placed on position 86 in a rating of the economy competitiveness, elaborated by the World Economic Forum. With respect to this the competitiveness index, the Republic of Moldova is surpassed by all CEE countries, closest being Bulgaria on position 72. Among the states which recorded significant improvement of the competitiveness in the last years we mention Estonia and Latvia, countries with the most significant increases in the GDP.

Table 5

Index of Global Competitiveness for the years 2006-2005

	Rating 2006	Points 2006	Rating 2005	Increase(decrease) of the rating position
Estonia	25	5.12	26	1
Czech Republic	29	4.74	29	0
Slovenia	33	4.64	30	-3
Latvia	36	4.57	39	3
Slovakia	37	4.55	36	-1
Lithuania	40	4.53	34	-6
Hungary	41	4.52	35	-6
Poland	48	4.30	43	-5
Croatia	51	4.26	64	13
Romania	68	4.02	67	-1
Bulgaria	72	3.96	61	-11
Moldova, Republic of	86	3.71	89	3

Source: *The Global Competitiveness Report 2006-2007, World Economic Forum.*

Increasing the competitiveness of the national economy is one of the five strategic priorities of the Republic of Moldova stipulated in the draft of the National Development Plan and, directly and indirectly, being linked with the other four.

Even if progress was recorded in the last years, the Republic of Moldova still has serious **competitiveness gaps** in the world and European context. At the same time, the new processes and phenomena that act at the level of the national economies, but also at the global level, such as internationalisation and globalisation of businesses, the unprecedented intensification of the competitive exigencies and pressures on the national and international markets, the marked dynamics of the business environment, the rapid and frequent changes in the consumers' attitudes, and many other aspects, confer to this issue a very important role.

It should also be mentioned that approaching the issue of competitiveness is currently very important for the vast majority of the world's countries, irrespective of their being small or large, weak or strong. At the same time, if for the countries with a developed economic system this approach allows for estimating the **impact** of newly emerged trends on the already attained **competitiveness**, then for the countries newly emerged on the world market and with a transition economy, such as the Republic of Moldova, the issue of competitiveness must be approached in the **context of shaping the necessary conditions for ensuring and developing it**. And in order to be competitive on foreign markets we must first of all be competitive on the domestic market.

The issue of economic competitiveness comprises also the **Copenhagen criteria** established for the countries intending to accede to the European Union where, among others, it is stipulated that they must ensure the existence of a functional market economy, and to show their capacity to face the competitive pressure and the market forces from within the European Union.

Within this context, countries planning to adhere must have a competitiveness comparable to the one recorded by the Member States. That is why a higher attention should be paid to the relationship **national competitiveness–competitiveness at the European Union level**. And, as other countries have already done, we must start from an exhaustive evaluation of the state of affairs within the national economy in relation to the requirements for European Union

accession. We must acknowledge that we require a functional market economy that can face the competitive pressures, in a new competitive environment at quite different dimensions, and the economy specialization must presuppose a distribution of labour force by sectors and products with higher value added.

Even if the objectives determined in Lisbon in the year 2000 which stipulate that Europe's economy must become until 2010 the most competitive and dynamic economy based on knowledge in the world proved to be too ambitious even for the developed countries of the European Union, it is still obvious to all that promoting research-development-innovation and the information society along with education is still the compulsory condition also for the Republic of Moldova.

It is a well known fact that science, technology, innovation and use of knowledge, in all times, played an important role and contributed to social-economic development, and to supporting economic progress at large. The contemporary society turns more and more into a knowledge-based and information society, a society of global civilization, the information becoming, in fact, a strategic and fundamental resource, similar to the capital in the industrial society, and with a decisive impact on development and prosperity for any nation of the world.

Generating knowledge may be considered as a new field (sub-field) of activity. Being the result of research and innovation with a market value, knowledge more or less similar to other economic goods may be traded. As purchasers may act private companies, but also the state as representative of the social interests and needs. The state will tackle the issue of free access to knowledge, and shall request the elaboration of a new economic theory, considerable changes in the intellectual property rights and, possibly, in the financing ways for research (from financing the research projects to purchasing research results).

We should mention that the new economy pays special attention to competitive workers, education and training which turn into a sure source of competitive advantage. That is why building up a knowledge-based society imposes the shaping of new skills and competencies, along with new capacities.

I would like to add that also the universities must become more aware of the fact that the student of the 21st century is different from the one of the previous generations. The new student requires a partnership relationship with the professors, interactive training methods, online communication systems between student and professor. The student must be able to shape the skills of understanding and accepting the cultural differences, to think critically, to approach issues from a global perspective, to work in teams and able to change life style and consumption patterns so as to ensure also the protection of the environment, etc.

Universities must be aware of the fact that education has no longer frontiers. It becomes transnational. That is why it is necessary to promote a global innovative university, the mission of which should aim to ensure quality of education and numerous opportunities for students.

The President of the European Commission, Jose Durao Barroso has forwarded a new initiative for Europe: the idea of creating an **“Europe of opportunities”** by making Europe more attractive for investments and work, by promoting knowledge and innovation in view of development. It is an idea wholly answering also to the interests of Moldova and which can be also taken over by us, by creating opportunities for investing and living in the Republic of

Moldova. Or, even if competitiveness can be expressed by concrete indicators, such the **Gross Domestic Product**, productivity, trade balance, etc., finally **the country in which one intends to live and to develop a business might be regarded as competitive.**

We also should be aware of the fact that the accession of the Republic of Moldova into the European Union should not represent a purpose in itself, but a possible way of economic and social development of the country, of increasing the living standard of the population. And thus, the strategic orientation statement of the Republic of Moldova about the European Union accession has strengthened in a certain manner the entire society, the **competitiveness of the country** under all aspects defining it, might turn into a **national idea** which would allow for the attainment of this objective.