

Competitive Economic Development of The Republic of Moldova

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Abstract

With this general framework in mind, this section has explained through various examples the circumstances in which economic theory would justify a temporary increase in trade barriers – even above the level of commitments in a trade agreement. These circumstances include when an import surge provides an argument for an increase in trade barriers as well as when a change in demand or supply or in policy leads to a sharp contraction for a particular sector and this, in turn, has a negative externality (like in the case of the one-company town). Another argument for trade policy intervention is when something alters the degree of competition in the market – for example, if a company indulges in predatory dumping. Other circumstances include developing countries providing support to infant industry, action to address balance of payment crises, and responding to a sharp increase in the world price of a product. In all these cases, the adoption of restrictive trade policy can be justified as a second-best option.

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INTRODUCTION

In the medium term, the objectives of the national development strategy over the period 2008-2011 may be influenced by the emergence and amplification of disturbances caused by either domestic or external factors. Currently, some of these factors may be avoided, but their impact is difficult to estimate and forecast, quantitatively or in time. One of the economic targets proposed for the medium term is the potential dynamic development which is dependent, to a large extent, on resources availability, world and regional conditions.

Among the main indigenous factors of risk for economic development we can mention:

- The adjustment of economic policies as a result of world financial crisis in terms of the negative impact of the crisis in partner states, which would limit foreign demand for domestic products intended for export.

- The delayed implementation of a system of anti-crisis actions and measures by central public administration, of the development of studies evaluating the potential impact and consequences, of the use of techniques of systematic monitoring of active crisis phenomena in the regional context.

- The phenomenon of migration to other countries, which has not only an economic dimension imposed by the worklabor deficit in certain sectors, but also a socio-demographic dimension caused by low birth rate and the aging process.

- Continuing current negative demographic trends, enlarging demographic decline and structural imbalances with profound economic and social consequences.

- Limited cooperation of public administration with the private sector (and trade unions), the social partners, the academic environment in preparing and implementing public policies and measures to increase competitiveness based on increasing productivity, the promotion of export as a priority, and ensuring macroeconomic stability.

- The delay of decentralization and of measures which could lead to the substantial increase of the administrative capacity, and the potential to generate projects eligible for funding

(from the point of view of efficiency, and socio-economic feasibility studies).

- Limited effective monetary policy aimed at continuing the process of decreasing inflation, which may have a significant adverse impact on sustainable economic growth reform.

- Continuing trends in exaggerated increase in private consumption and imports for everyday consumption on the basis of external remittances.

- Revenue growth inconsistent with labor productivity under the circumstances of experienced staff shortages in certain productive sectors.

- The delayed implementation of appropriate policies for the decrease of energy intensity, and of measures aimed at reducing the energy impact factor for a better functioning of the real sector of the economy.

- Insufficient allocation of public funds for initial and continuous training of human resources and for stimulating research, development and innovation, which form the areas of strategic importance for sustainable economic development.

Among the multitude of exogenous risk factors we can include:

- Amplification of crisis tendencies in the global financial system, fluctuation of world prices for oil products, natural gas, raw materials, which can generate major effects on inflation and national energy security;

- Increased evidence of economic crisis in the states where the foreign remittances of most Moldovan workers come from, and which would have a negative impact on the living standard of the population, and the coverage rate from this source of current account deficit, the default on the national currency exchange rate;

- Uncertainties about the attitudes of foreign investors in emerging markets states, including the Republic of Moldova, which could be caused mainly by growing external deficit, with negative effects on volume and quality of foreign direct investment in the real sector of economy;

- Increasing costs of external financing due to the international financial turmoil and a possible decline in the rating of the country, which may cause a negative impact on the national currency rate and the inflation rate over the medium term. Moldova's strategic economic objective over the

medium term is the gradual reduction, over a short period of time, of the gaps that still separate Moldova from the EU average value of GDP per capita and the quality of life. The dynamic economic development of Moldova in recent years (2001-2007), with an average annual GDP growth over 5.8 percent, in comparison with a slower pace in the EU, shows that achieving this goal is possible. With key elements of deepening global financial crisis it is obvious that the process will result in a global recession that will be felt by each state regardless of its national economic development.

In the specific conditions of global economic recession, competitiveness and efficiency are the main factors of growth sustainability in any country, including the Republic of Moldova. Therefore, ensuring a growth rate of 4.0-5.0 percent on a medium term, national economy requires the adoption of effective instruments of economic policy, allowing the substantially improved management and exploitation of the existing potential resources in key sectors, which determine a sustainable development in a competitive framework.

Taking into account the global context from Moldova's perspective, we can formulate the following main objectives over the medium term:

- Maintaining macroeconomic stability, inflationary processes within acceptable limits and reduction of the current account deficit;
- Improving the business environment, promoting entrepreneurial culture, increasing flexibility and labor market participation and ensuring harmonious regional development;
- Ensuring sustainability of public finances over the medium and long term;
- Further structural reforms and favorable conditions for the professional research, development and innovation processes, improved education training and service, and further reforms needed to improve efficiency;
- Continue and thorough reform of public administration.

An essential condition for achieving sustainable development is to implement an appropriate mix of coherent **macroeconomic policies** that will ensure sustainability of material resources and energy used for economic growth,

investments in modernization and competitiveness of the productive and service sectors, and infrastructure, qualification and continuous improvement of workforce in line with the requirements of technical and scientific progress. For these reasons, without replacing the existing programs of development in the Republic of Moldova a complementary approach to economic problems is necessary by developing the *National Sustainable Development Strategy of Moldova in the medium term*, which proposes a strategic vision in terms of sustainability criteria laid down by the European Union Directives and the main trends that are emerging worldwide. Gross domestic product in January-June 2009 totaled 27.869 billion lei, constituting 92.2% compared to the corresponding period of previous year.

Resources, 2008/09

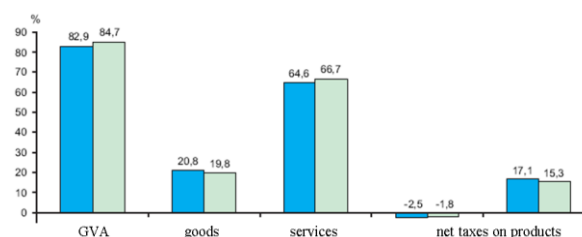


Figure 1. Structure of Gross Domestic Product (R. Moldova)

Global trends in economic development show that the modern economy is increasingly becoming a knowledge and information based economy, the latter becoming, in fact, a key strategic resource, similar to the capital in the industrial society, and having a decisive impact on the development and prosperity of any nation. In the most economically developed societies the intensive use of knowledge is recognized as the main factor of progress and sustainable economic growth. In Moldova, the acquisition of knowledge must be regarded as the priority domain (subdomain) activity. Being the result of human activities, and having a market value like any economic goods research and innovation can be sold in the market.

The new economy attaches great importance to competitive workers. Education and training have become a definite source of competitive advantage for any person. Hence, the creation of a

knowledge-based society which requires new skills, abilities, and competence.

Obviously, this approach requires considerable changes in intellectual property law and the way research can be funded: from the acquisition of research intentions to the sale of research results. In this context we can conclude:

- Building the knowledge based society has become a reasonable goal for all world states, including Moldova. Today it is the only way to competitiveness and economic prosperity.

- The Republic of Moldova needs setting up a business environment for innovation and a clear and realistic approach, which can start stimulating research, development and innovation. It needs, actually, a systematic approach to innovation, in the context of relations and interests of all stockholders participating in this process: universities, research institutions, sponsors and, not least, the state.

- In terms of research and development we need to focus on innovation and technological transfer, to use the research results as soon as possible. So, perhaps, in the short run, in the Republic of Moldova it is extremely important to acquire technology instead of designing technology, from the productivity growth perspective.

- Innovation process in Moldova will be successful only if knowledge is assimilated in companies' businesses. From this perspective, as a reason to support the research-development-innovation process, the economic analysis of efficiency and profitability must be performed.

Currently, the insufficient contribution to the activities of research-development-innovation, the slow renewal of technological basis, the low quality of infrastructure, low competitive performance of products and services offered in the market, the insufficient capacity to adapt to global market requirements remain the main causes of negative influences both on labor productivity and resource efficiency. Since the efficiency of material resources and labor productivity are key determinants to efficiency and competitiveness in the medium term, a considerable effort and investment management are required to remedy the situation. The sustainability of the total consumption of material resources should be a priority concerning the

significant improvement in resource productivity and energy efficiency.

Labor productivity levels throughout the economy (GDP per employee) and at the sectorial level is still lower in Moldova than in the EU.

In the medium term, an increase of the quality of economic management at all levels is required, from the national or regional level to enterprise level, for the efficient use of capital resources available and the additional funding sources for investment both in equipment in modern technology, scientific research, technological development, innovation and in the permanent training of worklabor.

The investments needed for the development of Moldova require the active involvement of central government and local private sector in maintaining a favorable environment for domestic and foreign capital investments, for the modernization and sustainable development of the country.

In the medium term, maintaining a higher investment rate than in the neighboring states is absolutely necessary in order to achieve a real convergence. Modernization of energy infrastructure, transportation and utilities, education and public health, regional development and the decrease of the technological and informational gap require a large investment effort. To increase investment for medium and long term policy, the acquisition of FDI will be continued, particularly of those that can contribute substantially to export growth, so that exports become the main determinant of economic growth. The evolution of FDI in recent years (2001-2007), mainly in services, justifies the need for priority acquisition of *Greenfield* investments in the productive sectors.

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