

FOREIGN DIRECT INVESTMENTS IN THE ECONOMY OF THE REPUBLIC OF MOLDOVA

Camelia – Elena Ivan¹

*Bucharest University of Economic Studies, Romania
Economics and International Business*

Abstract

The European Union aims through the European Neighbourhood Policy (ENP) and the Eastern Partnership (PtE) to develop close relations with the countries in its eastern neighbourhood. In this paper I analysed the impact of the implementation of the European Neighbourhood Policy/ Eastern Partnership on the attraction of foreign direct investments in the Republic of Moldova.

Foreign Direct Investment (FDI) is one of the main engines of economic growth. For the Republic of Moldova, the implementation of ENP / PtE has led to the alignment of legislation with that of the European Union and has been an important step in attracting FDI. Also, the creation of the Free Economic Zones represented for the Moldovan economy the opportunity to attract investors and the development of the industrial branch, which generated the creation of better paid jobs, thus contributing to the increase of the living standards of the population of the Republic of Moldova.

Keywords: foreign direct investment, economic development, jobs

JEL Classification: J51, L51, P25

Introduction

The Eastern Neighbourhood countries are a priority for the European Union (EU). These are at the EU's land borders, being the region where the influences and interests of the two great economic powers - the European Union on the one hand and the Russian Federation on the

¹ Corresponding author – **Camelia – Elena Ivan**, email: ivan.cameliaelena@gmail.com

other hand - collide. By launching the European Neighbourhood Policy (ENP)² and the Eastern Partnership³, the European Union aims to strengthen relations with the countries of its eastern neighbourhood.

The post-communist years have meant an economic drift for the Republic of Moldova. Due to the lack of jobs, many Moldovan citizens chose to migrate to other countries, and for years the economy of the Republic of Moldova was based on the remittances sent by the citizens left for work abroad.

The launch of the ENP in 2004 meant for the Republic of Moldova closer to the EU and a viable alternative to the relationship with the CIS countries. With the launch of the Eastern Partnership in 2009, an extension of the ENP in the Eastern Neighborhood, the Republic of Moldova succeeded, after more than 20 years, to get out of Russia's influence and dependency. The Eastern Partnership Application Instruments, the signing of the Association Agreement⁴ and the Deep and Comprehensive Free Trade Agreement⁵ have reversed the trade balance of the Republic of Moldova in favor of the EU Member States.

The proximity of the European Union has meant for the Republic of Moldova the opportunity to attract foreign investors and to create better paid jobs. Thanks to the investments made and the presence of the big European companies on the Moldovan market, young Moldovans have the chance to find a well-paid job and according to their training in areas such as IT and telecommunications. Unfortunately, much of the population of the Republic of Moldova lives in rural areas, where opportunities are reduced. Generally speaking, in rural areas job offers are only available in the public sector and in agriculture.

Foreign Direct Investment (FDI) is one of the main engines of economic growth. For Moldova, the alignment of legislation with that of the European Union was an important step in attracting FDI. Also, the creation of the Free Economic Zones represented for the Moldovan economy the opportunity to attract investors and to develop the industrial branch. This generated the creation of better paid jobs, thus contributing to raising the standard of living of the Moldovan population.

Methodology

The investigation of the FDI evolution in the Republic of Moldova in the period 2000-2016 is based on the historical method (presentation of the specific processes in their dynamics,

² Commission of the European Communities, Communication from the Commission, *European Neighbourhood Policy – STRATEGY PAPER*, COM (2004) 373 final, Brussels, 12 Mai 2004 <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52004DC0373&from=EN> the page accessed on 09.05.2018

³ Eastern Partnership Summit in Prague May 7, 2009 - Czech Republic http://www.consilium.europa.eu/media/31797/2009_cap_declaration.pdf - page accessed on 15 June 2018

⁴ Association Agreement between the European Union and the European Atomic Energy Community and their Member States with the Republic of Moldova <https://eur-lex.europa.eu/legal-content/RO/TXT/?uri=CELEX%3A22014A0830%2801%29> - page accessed on April 15, 2018

⁵ DCFTA EU - MOLDOVA Deep and Comprehensive Free Trade Area - <http://dcfta.md/exports-republic-moldova-si-impactul-zlsac> - page accessed on 15 April 2018

following the internal causality) and statistics (to identify the trends in the evolution of economic flows between the EU and the Republic of Moldova) by which I interpreted the influence of the application of the Association Agreement and the Deep and Comprehensive Free Trade Agreement signed by the European Union and the Republic of Moldova on the attracted FDI.

Results

Between 2000 and 2016, the investment environment in the Republic of Moldova has considerably improved and the FDI regulatory framework is generally similar to international practice. Most legislative acts are in line with those of the European Union, and institutions responsible for regulating and managing business in a market economy have been set up. An example of this is the creation of Free Economic Zones or Free Entrepreneurship Areas⁶ (ZELs), which are parts of the Moldovan customs territory strictly delimited throughout their perimeter, where Moldovan and foreign investors are allowed in preferential regime entrepreneurial activities under the law. Seven Free Economic Zones were created in Moldova: Chisinau, Balti, Ungheni, Valkanes, Tvardita, Otaci and Taraclia.

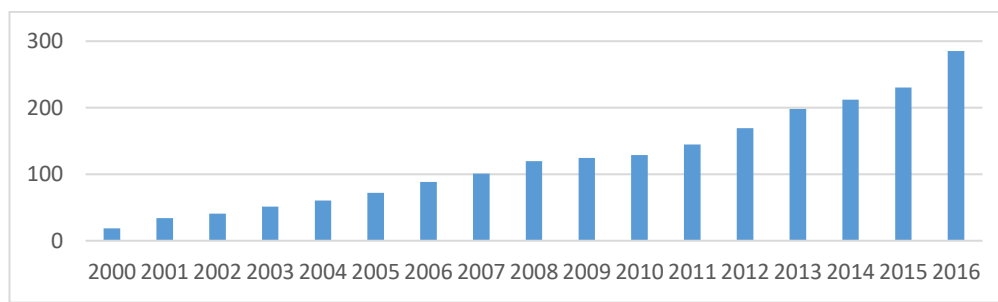


Figure 1. Total volume of investments in the Republic of Moldova, 2000-2016

Source: Created by the author on the basis of the data provided by the National Bureau of Statistics of Moldova⁷

Free Economic Zones have had a significant impact on attracting investments in the Republic of Moldova. According to the information presented in Figure 1, the volume of investments increased by 179.5% since 2001, the first year since the creation of the EEZ. Growth has increased from year to year, from \$ 18.8 million in 2000 to \$ 285.3 million in 2016. Even during the global economic crisis, the volume of investment attracted by the Republic of Moldova grown. Between 2000 and 2016, the Republic of Moldova attracted investments amounting to 2.078,9 million US dollars, out of which over 80% were in the Free Economic Zones.

⁶ Parliament of the Republic of Moldova Law no. 440 of 27.07.2001 on Free Economic Zones

⁷ Statistics database Moldova <http://statbank.statistica.md> - Page visited on 04 July 2018

Of the total volume of investments, the highest share was in ZAL Expo-Business - Chisinau - 629.5 mil. USD, followed by ZEL Ungheni-Business - 308.6 mil. USD and ZAL PP Taraclia - 295.7 mil. US dollars, at the opposite pole there is ZAL PP Otaci-Business where the value of investments in the analysed period was only 23.7 mil. USD. Since 2001, investments worth \$ 1,700 million have been attracted to the Free Economic Zones.

The main activities carried out in the free zones are industrial activity. They have the largest share and are steadily increasing. Only in 2016 the total volume of goods and services provided in the free zones amounted to approximately 367.9 million US dollars, out of which 74.5% represented industrial production.

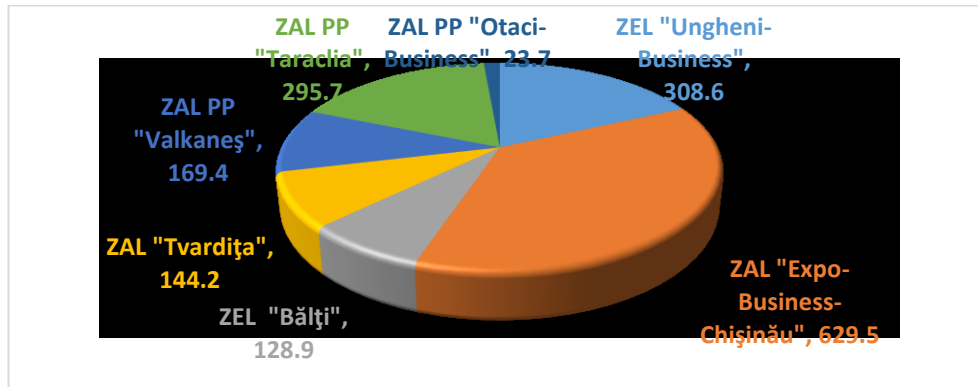


Figure 2. Share of the volume of attracted investments (by free zones)

Source: Created by the author on the basis of the data provided by the National Bureau of Statistics of Moldova⁸

Although important steps have been taken, Moldova does not have a functional system to promote Foreign Direct Investment. Improving the economic performance of Moldova is not yet known by the big investors, and the achievements so far have not attracted the attention of the international media.

Moldova's National Development Strategy 2012-2020, also called Moldova 2020, contains a current and realistic vision of the main strengths and weaknesses of the Republic of Moldova. This strategy envisages changing the model of economic development from the "remittance-based consumption growth model to the dynamic model based on attracting foreign and local investment, as well as developing the goods and services exporting industries"⁹.

The level of foreign investment attracted by the Republic of Moldova has always been low. Since the early 2000s, there has been an increasing trend in FDI, coupled with increased

⁸ National Bureau of Statistics of the Republic of Moldova <http://www.statistica.md/category.php?l=en&idc=336&> - page accessed on 04 July 2018

⁹ Government of the Republic of Moldova, http://particip.gov.md/public/files/strategia/Moldova_2020_ROM.pdf page accessed on 04 July 2018

economic development, lower fiscal and administrative constraints on companies, and the privatization process.

The sources of Foreign Direct Investments attracted by the Republic of Moldova between 2000 and 2016 reflect the strategic location of Moldova as a bridge between East and West.

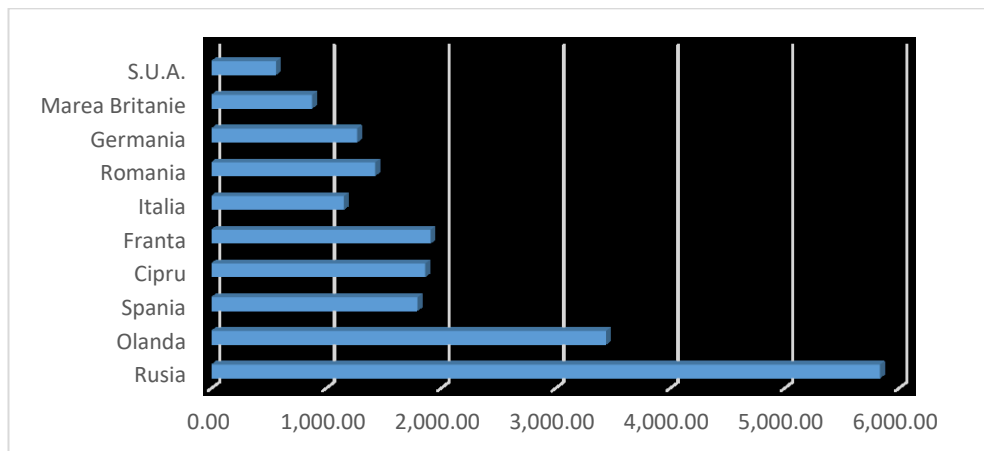


Figure 4. The largest sources of FDI attracted by Moldova between 2000 and 2016 (US \$ million)

Source: Created by the author on the basis of the data provided by the National Bureau of Statistics of Moldova¹⁰

Eight of the ten countries that have attracted the largest volume of FDI are EU member states, although the Russian Federation is the number one country in the volume of investments made in the Republic of Moldova.

The main economic sector in which Direct Foreign Investments were attracted are services, mainly the banking sector, followed by trade, real estate development and business services. The industrial sector drew only a quarter of the investment, generally in glass, building materials, automotive components, clothing and footwear. In agriculture and construction, the least investment was attracted.

The Republic of Moldova has the potential to attract more Foreign Direct Investments and to increase the value added by creating job locks, increasing technology and exports, which will lead to poverty reduction and economic growth, thus reducing the vulnerability of the Republic of Moldova to external shocks and internal and will lead to a sustainable growth model.

¹⁰ National Bureau of Statistics of the Republic of Moldova <http://www.statistica.md/category.php?l=en&idc=336&> - page accessed on 23 April 2018

Conclusions

Foreign Direct Investment (FDI) is one of the main engines of economic growth. For Moldova, the alignment of legislation with that of the European Union was an important step in attracting FDI. Also, the creation of Free Economic Zones represented for the Moldovan economy the opportunity to attract investors and to develop the industrial branch. This generated the creation of better paid jobs, thus contributing to raising the standard of living of the Moldovan population.

By actively promoting the benefits offered in the Free Economic Zones, the Republic of Moldova has the potential to increase the attraction of foreign investors and to increase the volume of investments made in different economic sectors.

It remains a challenge for Moldovan authorities to identify the best ways to attract investment in rural areas. There live more than 50% of the population of the Republic of Moldova, and the basic activity remained agriculture, produced unproductively and unprofitously, after obsolete and non-technologized motorcycles.

References

- [1] Association Agreement between the European Union and the European Atomic Energy Community and their Member States with the Republic of Moldova <https://eur-lex.europa.eu/legal-content/RO/TXT/?uri=CELEX%3A22014A0830%2801> % 29 - page accessed on April 15, 2018
- [2] National Bank of Moldova - <https://www.bnm.md/> - page accessed on 25 April 2018
- [3] National Bureau of Statistics of the Republic of Moldova <http://www.statistica.md/category.php?l=en&idc=336&> - page accessed on 23 April 2018
- [4] Commission of the European Communities, Communication from the Commission, European Neighborhood Policy - STRATEGY PAPER, COM (2004) 373 final, Brussels, 12 May 2004
- [5] DCFTA EU - MOLDOVA Deep and Comprehensive Free Trade Area - <http://dcfta.md/exporturi-republicii-moldova-si-impactul-zlsac> - page accessed on 15 April 2018
- [6] Government of the Republic of Moldova, http://particip.gov.md/public/files/strategia/Moldova_2020_ROM.pdf page accessed on 25 April 2018
- [7] Government of the Republic of Moldova, Ministry of Economy and Infrastructure - <http://mei.gov.md/en/content/zonle-economice-libere> - page accessed on 25 April 2018
- [8] European Union Law - <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52004DC0373&from=EN> page accessed on 09.07.2015
- [9] Ministry of Economy and Commerce of the Republic of Moldova - REPORT on the activity of free economic zones of the Republic of Moldova <https://mei.gov.md/> - page accessed on 25 April 2018

- [10] Parliament of the Republic of Moldova Law no. 440 of 27.07.2001 on Free Economic Zones
- [11] State Tax Service of the Republic of Moldova - Fiscal Code Republic of Moldova <http://www.fisc.md/CodulfiscalalRM.aspx> - page accessed on 25 April 2018
- [12] Eastern Partnership Summit in Prague 7 May 2009 - Czech Republic http://www.consilium.europa.eu/media/31797/2009_eap_declaration.pdf - page accessed on 15 June 2018
- [13] United Nations Conference on Trade and Development - <https://ipfsd.unctad.org> - page accessed on April 23, 2018