

NATIONAL COMPETITIVENESS AND THE ROLE OF SCIENCE*

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The main purpose of the paper is to reflect the main progress and problems in the evolution of national economy competitiveness, in the context of finalizing the action of the roadmap on improving the competitiveness of the Republic of Moldova (2014-2020), and elucidating the main contributions of the National Institute for Economic Research as a scientific support for the successful completion of that document. The main results show that the country's economy hardly converges with the dynamics registered by the countries from the European Union, but also with some countries from the region. In light of the above, efforts are needed on the part of the authorities to improve the investment climate, fight corruption, improve the justice system, protect property rights, increase population income and employment and enhancing the institutions capacity building.

Introduction.

The transition to an economy based on free market principles has been a winding path with some progress but also many failures. Now, 30 years after independence, we have a transformed economy, with similarities to highly industrialized countries. However, although the Republic of Moldova manages to narrow the gap in GDP per capita compared to the countries of the European Union (EU), the gap remains huge and convergence is very slow. Moldova is a small country in terms of population, territory and GDP, however we feel proud that since 2021, in terms of income, the country has immigrated from the group of countries with lower average incomes to the group upper intermediate income countries. We are a small country with a significant share of agriculture in the structure of GDP, as well as the occupied population in this sector, alongside with impressive wine-making traditions. There is a lot to offer to visitors, including rural tourism as a new identified sector having a potential in wine and gastronomy, ecotourism, rural life, adventure, culture and history, heritage and spirituality. Industry has quite a low share, and the industries that represent us are those mostly export oriented, like light industry, including textile manufacturing, apparel manufacturing, footwear manufacturing, leather, leather products and accessories. Automotive and ICT are developing industries with a great potential and there are some other industries that require development – renewable energy, organic agriculture, electronics, and creative industries.

Results and discussions.

Moldova lags behind other European countries from the region as concerns income of the population, measured as GDP per capita that constituted in 2020 approximatively 13 thousand USD in current prices (Figure 1). From the very beginning we had the most difficult recovery along with Armenia and Georgia. At our first sign of economic growth in 1997, we were immediately affected in 1998 by the default in Russia; subsequently an advance has been registered in the period of 2000-2008. But as you can observe we are very vulnerable to diverse internal and external shocks, mainly the crises

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from the last decade in 2009 and 2020. As a result, economic growth in Moldova is tempering and the growth rate differential to EU is getting smaller.

The gap between the level of gross wages and productivity is still high compared to the average of EU countries. Moldova records very high disparities in what concerns the level of productivity towards other countries ...Low productivity determines low wages!

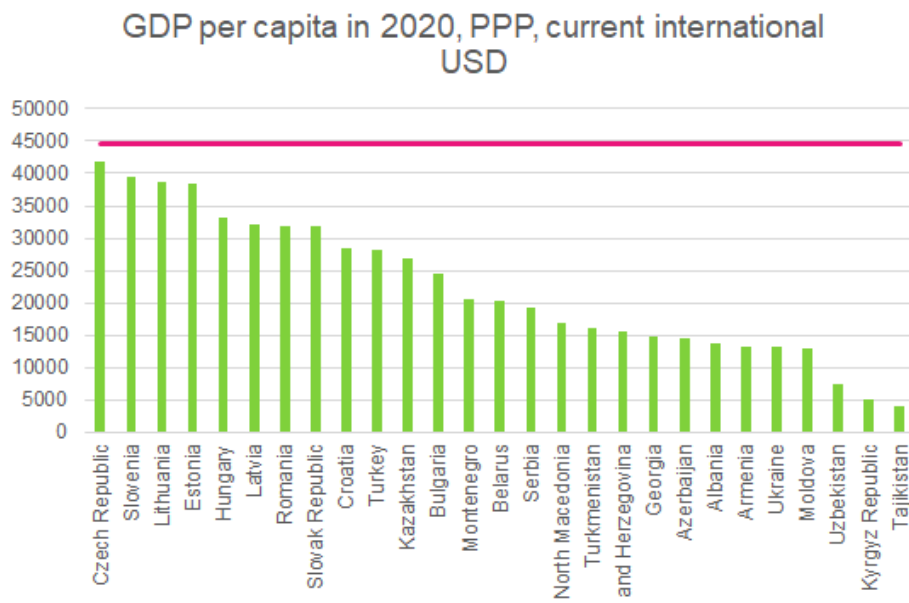


Figure 1. Moldova’s GDP per capita

Source: World Bank data

Accelerating economic growth must be ensured by increasing productivity. Unfortunately, the moderation of economic growth is influenced by labor productivity, which is also moderating. According to the Global Wage Report 2020-2021, Moldova is among the last countries from Eastern and Central Europe with regard to the established minimum wage in the economy and this aspect actually represents a non-stimulatory tool and does not encourage increased productivity and overall competitiveness (Figure 2 and 3).

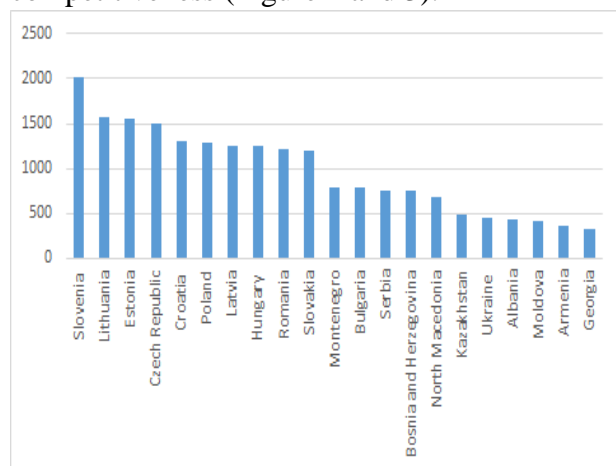


Figure 2. Average monthly gross wages

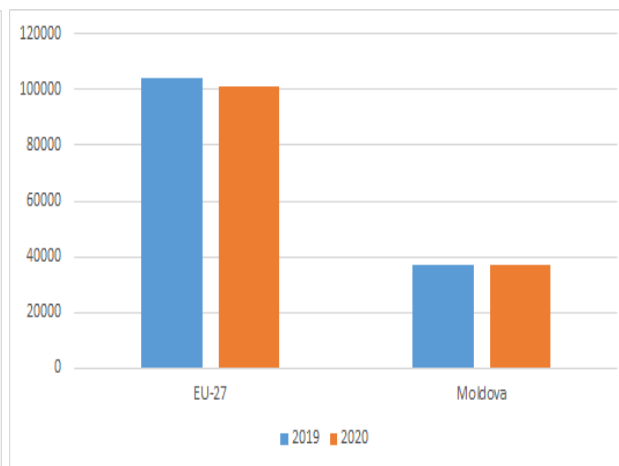


Figure 3. Average labor productivity (current PPP international USD per employee)

Source: Global Wage Report 2020-2021

Another indicator used for competitiveness evaluation is the real effective exchange rate. In our case, during the last 2 decades, the appreciation of the real exchange rate is manifested as a whole, which results in the diminution of the competitiveness of the domestic goods that become more expensive. The increase in REER is an indication that the exports are becoming more expensive and its imports are becoming cheaper.

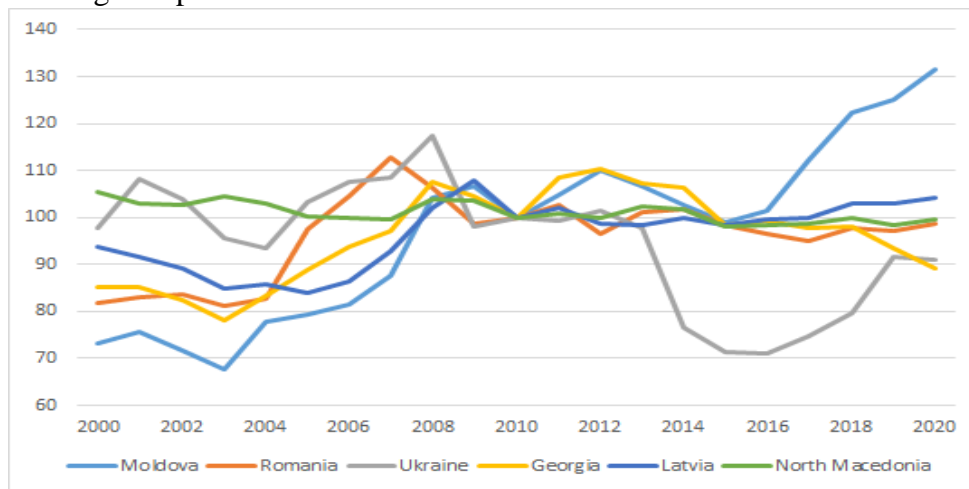


Figure 4. Real Effective Exchange Rate Index 2010=100%

Source: World Bank data

In light of the above mentioned, we are facing a large trade deficit, which consists mainly of trade in goods (Figure 5). In particular, a breakthrough in foreign trade took place after 2000, being a member of the WTO, and then signing asymmetric agreements with the EU, then free trade with the EU. However, after the financial crisis of 2009 there is a moderation of foreign trade. The country remains agri-food, although there are also positive changes in the export of light industry, machinery and equipment.

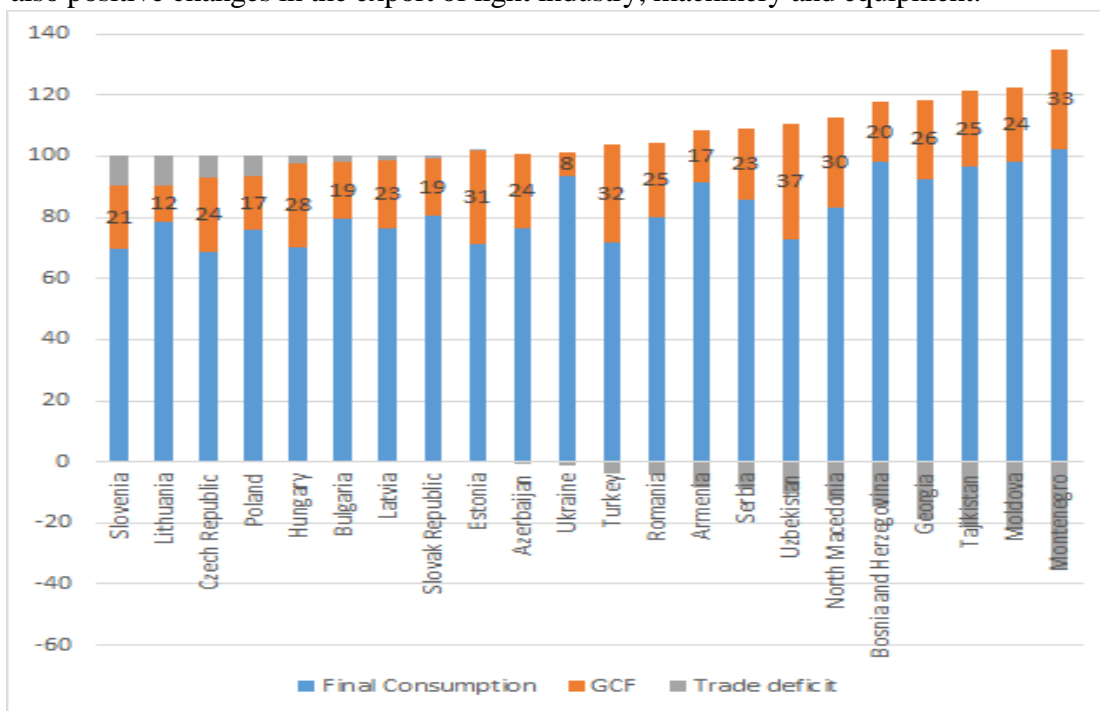


Figure 5. Final consumption, gross capital formation and trade deficit

Source: World bank data

Exports cover only 55% of the imports representing only about 27% of GDP – among the lowest values in the region (as of 2020). Final consumption is as high as the GDP level. The share of GDP invested in capital is rather small compared to other transition countries from the region taking into account the needs to converge to the ECE average GDP per capita. As we can reveal from UNCTAD’s comparative advantage radar, our comparative advantage is not related to machines, equipment and chemicals, but rather to primary agricultural products and low technology intensive goods.

Increasing competitiveness is somehow demonstrated by increased sales. The quota since 1992 has remained constant, compared to the evolutions in the countries with which we compare ourselves. It is worth mentioning that Bosnia and Georgia, at a lower level than Moldova in 1992, by the end overtook it.

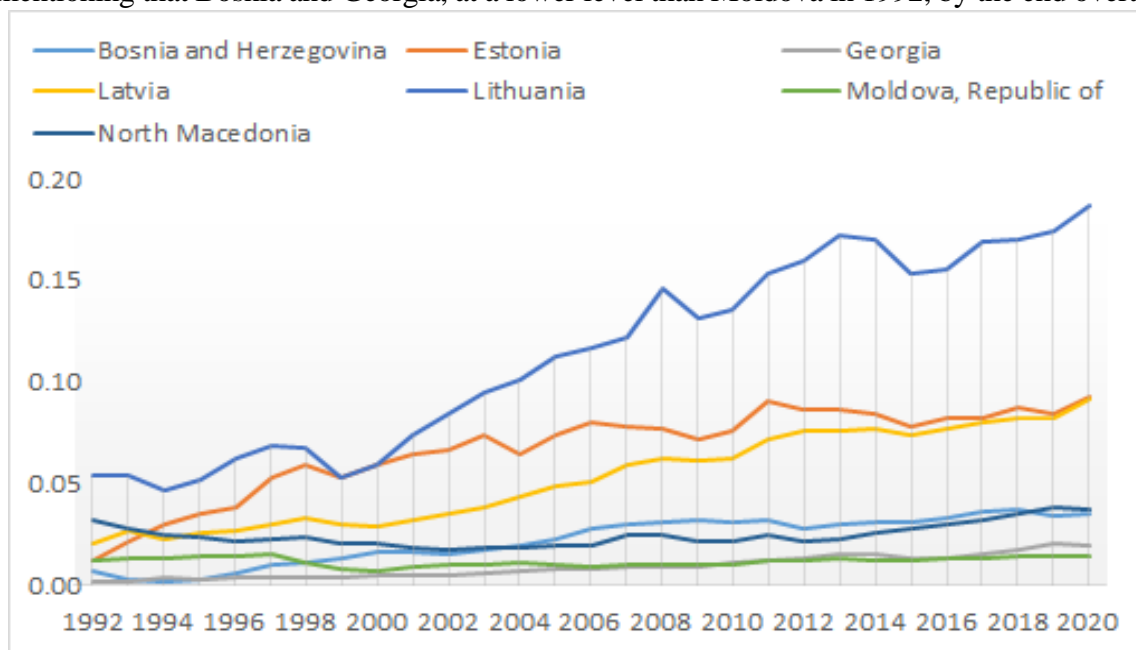


Figure 6. Share of the world market of goods, %

Source: UNCTAD data

During its 30 years of existence, the Republic of Moldova has managed to integrate into international economic relations. During the first 10 years of transition, Moldova became a member of several Multilateral, Regional and Bilateral International Cooperation Agreements: UN (1992), Central European Initiative (1996), Partnership and Cooperation Agreement with the EU (1998), Economic Cooperation Organization Black Sea (1999) etc. Ever since the mid-1990s., Moldova was included in the list of countries benefiting from autonomous trade preferences granted by the EU, which was later expanded in several stages. In 2001, Moldova joined the World Trade Organization, which was another important milestone in the country's foreign trade. The completion of this step led the European Bank for Reconstruction and Development to assess Moldova's progress in trade liberalization with the highest score (4.3) that transition states could achieve.

In 2014, the Republic of Moldova took another important step and signed the Association Agreement and the Comprehensive and Comprehensive Free Trade Agreement with the European Union, which pushed for reforms in several areas and expanded access to Western markets. As a result, the Republic of Moldova has managed to diversify its exports geographically and increase its share of exports to the markets of EU countries.

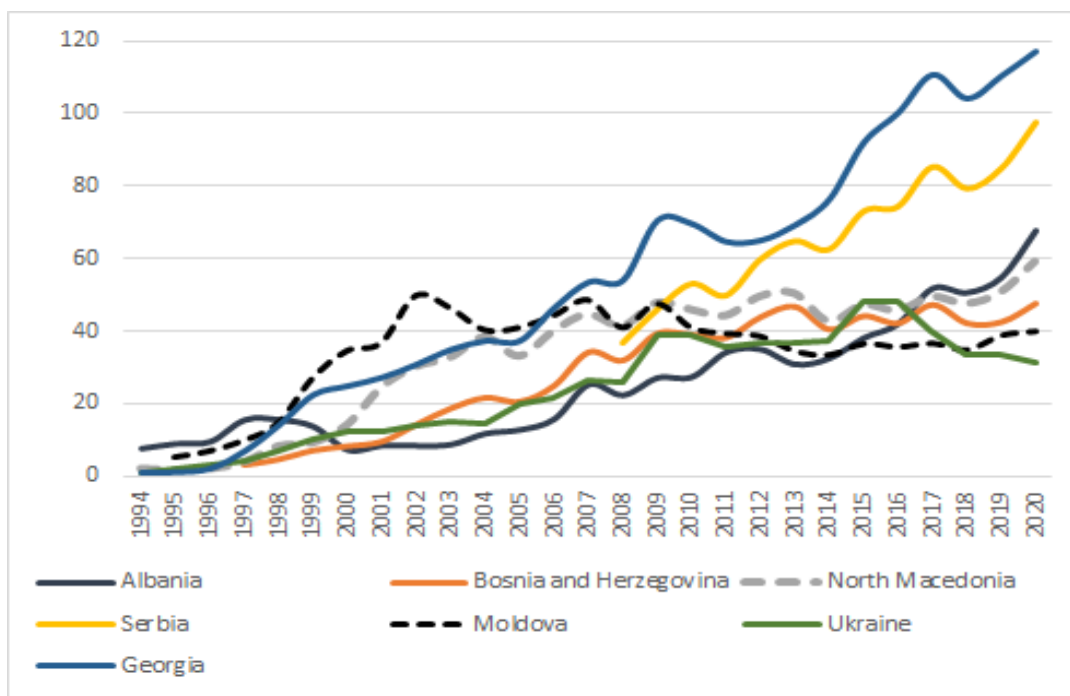


Figure 7. The share of FDI inward stock to GDP

Source: World Bank and UNCTAD data

However, Moldova hardly manages to attract FDI. The share of FDI inward stock to GDP is slowly declining to 40% in 2020. Once again Georgia could be brought as a good example, more than 100%! Moldova, by the way, in the early 2000s was the leader of all the countries of comparison (Figure 7). Competitiveness is influenced by more policies (Figure 8).



Figure 8. National policy competitiveness management

Source: developed by the author

The National Institute for Economic Research has been taking an active part in the institutional framework for elaboration of different policy documents (Figure 8), as well as in the process of managing the implementation of the Roadmap for competitiveness improvement by 2020. Thus, the Institute has played a major role in the framework of the Competitiveness Council, along with such important actors like Ministry of Economy and Infrastructure, Moldovan Investment Agency and other ministries and relevant authorities. The main contributions at the elaboration and evaluation of public documents for competitiveness improvement were the following (Figure 8):

- Draft of the Strategy for an Inclusive, Sustainable and Digital Economy 2030 and other strategies elaboration (2021);
- Report on impact assessment of the National Strategy for Investments Attraction and Exports Promotion 2016-2020 (2020);
- Methodology and Report on national competitiveness assessment and evaluation of the implementation of the Roadmap for competitiveness improvement of RM (2015-2019);
- Matrix of policies for the implementation of the Roadmap for competitiveness improvement of RM (2013).

At the same time, drafting of the policy documents was accompanied by an impressive scientific support through the implementation of a variety of research projects in different fields:

I. Macroeconomic analysis and forecasts

- Developing the method of potential GDP estimation from the perspective of elaborating the medium-term macroeconomic forecast for Republic of Moldova /15.817.06.04A / 2019.
- Analysis and forecasting of macroeconomic indicators of the Republic of Moldova /15.817.06.04A/ 2015-2018.
- Modernization of the statistical system functioning in the Republic of Moldova in the context of its harmonization to the European statistical system /11.817.08.27F/ 2011-2014.
- Development and side effects of remittances in the CIS countries: the case of Republic of Moldova /2013. Technical Report, Migration Policy centre, CARIM-East Research Report, 2013.

II. People: demography and human capital

- Migration, demographic change and stabilization policies/20.80009.0807.21/2020-2023.
- Multidisciplinary approach of human capital and population dynamics in view to increase the performance of policies regarding population and development in the Republic of Moldova/15.817.06.01A/2015-2019.
- Creation of a Youth-Centered Skills Observatory and Experimentation Lab/20.80009/ 2016-2018.
- Mitigating the negative effects of the COVID-19 pandemic on families/AENCovFam, 2020-2021.

III. People: wellbeing

- Improving the mechanisms for applying innovative instruments aimed at sustainably increasing the well-being of the population of the Republic of Moldova/20.80009.0807.29/2020-2023.
- Assessment of trends and elaboration of recommendations for improving poverty reduction policies in the Republic of Moldova/20.80009.0807.29/2015-2018.
- Calculating the monetary value of the minimum basket of goods required for the birth of a child /2017-2021;
- Methodological guide on how to calculate the size of the subsistence minimum/2013.

IV. Entrepreneurship

- Foreign Direct Investments – The impact on the economy of Republic of Moldova/2021.

- Multidimensional evaluation and development of the entrepreneurial ecosystem at national and regional level in order to boost the SME sector in the Republic of Moldova/ 20.80009.0807.38/2020-2023.
- Improving the possibilities of involving young people in entrepreneurial activities in the Republic of Moldova/15.817.06.05A/2019.
- Harmonization of SME development policy in the Republic of Moldova with the principles of "Small Business Act" for Europe /15.817.06.05A/2015-2018.
- Elaboration of the Action Plan for the development of female entrepreneurship - contribution to the development of the Action Plan of the Development Strategy of the small and medium enterprises sector for 2012-2020/2016.

V. Sustainable Economy

- Developing the mechanism for circular economy creation in the Republic of Moldova/ 20.80009.0807.22/2020-2023.
- Promoting the "green" economy and identifying financing facilities in the process of greening small and medium enterprises in the Republic of Moldova/19.80012.08.18A/2019.
- Elaboration of a new priority "Development of the green economy for SMEs" (priority 8) for the Action Plan for the period 2015-2017 of the Development Strategy for the Small and Medium Enterprises Sector 2012-2020/2015.

VI. Sustainable Agriculture

- Development of new economic instruments for assessing and stimulating the competitiveness of agriculture of the Republic of Moldova for the years 2020 – 2023/20.80009.0807.16/2020-2023.
- The role of small family farms in sustainable development of agri-food sector in the countries of Central and Eastern Europe.
- Leaving something behind - Migration governance and agricultural & rural change in 'home' communities: comparative experience from Europe, Asia and Africa/2019-2021.

Conclusions.

The overall diagnosis of the national competitiveness evolution reveals that there is room for improvement. The results of the analysis of the economic transition process of the Republic of Moldova in the light of the criteria established in the 1990s by the European Bank for Reconstruction and Development, confirmed by other national and international studies, indicate some arrears accumulated by our country in what concerns the privatization and quality of that process, ensuring the efficiency of competition policy, improving governance and restructuring enterprises. In fact, the way in which the transition took place also created premises for the development of a phenomenon harmful to the national economy - the dark economy and informal employment. Therefore, the successful completion of reforms on these dimensions by the Republic of Moldova and the monitoring of their economic impact are indispensable for narrowing the economic development gap compared to developed countries.

What should we pay attention to based on the constraints we have in order to stimulate investment and productivity? Among the key factors to improve national competitiveness we could highlight the following:

- Increase institutions quality and diminish costs of doing business;
- Human capital development and labor market policies;
- Improving key infrastructures: transport, energy, quality, digital;
- Facilitating access of business to external financing sources;

- Facilitating accumulation of productive capital;
- Implementing programs to support innovation activities of business and the shift of resources to high productive activities;
- Developing research & development sector;
- Ensuring digital and green transition of the business.

** The paper was developed as result of the implementation of the roadmap on improving the competitiveness of the Republic of Moldova (2014-2020) and in the framework of the institutional financing of the NIER activity for 2021.*