

PROGRESSES AND CHALLENGES IN THE EVOLUTION OF ECONOMIC COMPETITIVENESS OF THE REPUBLIC OF MOLDOVA¹

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The implementation of the country's national competitiveness enhancement policy is of crucial importance for changing the country's development paradigm and for taking advantage of the opportunities offered by the DCFTA with the European Union. Annually, the research team within this project evaluates the degree of implementation of the Policy Matrix of the Roadmap for improving the competitiveness of the Republic of Moldova, as well the way the country's economy develops and its progress towards becoming a more competitive economy internationally, including in the European Union - a very demanding market.

This year, in the first stage of the research project, we aimed to achieve the following priority tasks that were successfully fulfilled: analysis of international reports reflecting the quality of the business environment and the level of competitiveness of the Republic of Moldova compared to other states in the region in 2017; analysis of the monitoring report on the implementation of the Policy Matrix of the Roadmap for Improving the Competitiveness of the Republic of Moldova in 2017; to formulate conclusions on the main constraints limiting the economic growth that emerges from the analysis of the Monitoring Report on the implementation of the Policy Matrix of the Roadmap and the international rankings.

Key words: competitiveness, economic growth, foreign trade, investments.

Implementarea politicii țării în domeniul sporirii competitivității naționale are o importanță crucială pentru modificarea paradigmei de dezvoltare a țării și pentru valorificarea oportunităților oferite de către Zona de Liber Schimb Aprofundată și Cuprinzătoare (ZLSAC) cu Uniunea Europeană. Anual, de către echipa de cercetare din cadrul acestui proiect este evaluat gradul de implementare a Matricei de politici a Foii de parcurs pentru ameliorarea competitivității Republicii Moldova, nemijlocit modul în care se dezvoltă economia țării și progresele sale de a deveni o economie mai competitivă pe plan internațional, inclusiv în spațiul Uniunii Europene – o piață cu exigențe foarte înalte.

În anul curent, în prima etapă a proiectului de cercetare, ne-am propus realizarea următoarelor sarcini prioritare care au fost executate cu succes: analiza rapoartelor internaționale ce reflectă calitatea mediului de afaceri și nivelul competitivității Republicii Moldova comparativ cu alte state în regiune în anul 2017; analiza raportului de monitorizare a implementării Matricei de politici a Foii de parcurs pentru ameliorarea competitivității Republicii Moldova în 2017; formularea concluziilor privind principalele constrângeri ce limitează creșterea economică ce relevă din analiza Raportului de monitorizare a implementării Matricei de politici a Foii de parcurs și a clasamentelor internaționale.

Cuvinte cheie: competitivitate, creștere economică, comerț extern, investiții.

JEL Classification: D40, D41, D49, P45, P49.

Introduction. After a long period of reforms, the Republic of Moldova continues to face a series of constraints in completing the transition process, being one of the countries with the lowest level of development in the region. In order to speed up the transition process, increase the competitiveness of the business environment and the quality of life of the population and thus reduce the development discrepancies compared to the states in the region, the Republic of Moldova signed four years ago the Association Agreement with the European Union.

In the given context, the Government Decision No.4 of 14.01.2014 adopted the Roadmap for Improving the Competitiveness of the Republic of Moldova, which is a well-structured plan of actions aimed at increasing the country's competitiveness by exploiting the advantages offered by the Association Agreement and, in particular, the Deep and Comprehensive Free Trade Agreement with the European Union. Taking into account the provisions of the Government Decision No.676 of August 20, 2014, in order to ensure a good implementation of the Roadmap and thus to improve the capacities of the public authorities to manage the competitiveness of the national economy, it was considered necessary to elaborate the methodology for evaluating the implementation of the policy matrix of the Roadmap. This paper aims to diagnose the level of national competitiveness, contributing to streamlining the

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implementation of state policy in the field of increasing the national competitiveness. Also, during the actual research phase, investigations were also initiated on the following directions, which will be finalized in the second stage of the project scheduled for this year: completion of the database with the most recent statistical data on the indicators reflecting the macroeconomic situation, foreign trade, investments, socio-demographic situation, prices, costs, productivity etc. in the Republic of Moldova and in the reference countries of the region; the multilateral analysis of the socio-economic performance of the country in 2017, including the 2014-2017 period in which the Policy Matrix of the Roadmap for improving the competitiveness of the Republic of Moldova was implemented.

Material and method. Two major categories of indicators needed to be quantified in the process of assessing the competitiveness of the Moldovan economy were distinguished:

- Endpoints. According to generally accepted theoretical and empirical approaches, the primary indicators of competitiveness are to ensure sustained growth and increase the welfare of the population.

- Intermediate indicators, which are measured by productivity, price and cost indicators. Although they cannot be considered as independent indicators of competitiveness, they are also essential conditions that, in a system with a set of other determinants and macroeconomic policies of the state, contribute to increasing competitiveness.

State competition policy has been assessed in the first stage on the basis of international rankings. The country's place in the ranking, the relative change in its position as compared to the previous year, as well as the comparative analysis of the position in the ranking over the last 5 years, allows conclusions to be drawn on the reforms and the results achieved in comparison with other countries.

In order to assess the situation in 2017, the following rankings were analyzed: The Global Competitiveness Index, Doing Business, Global Innovation Index, Global Enabling Trade Index.

According to the recommendations of the World Bank in Trade Competitiveness Toolkit [1], the average indicator level for the EU-28 and six other countries: Latvia, Lithuania, Romania, Georgia, Serbia, Ukraine were selected as the reference point for benchmarking. Their selection was carried out according to several criteria: neighboring countries with a relatively close culture, size, economic structure relatively similar to that of reference countries at the beginning of the transition, relatively small economies and low endowment in natural resources that managed to reach high growth performance, etc.

Results and discussions

The place of the Republic of Moldova on the global map of competitiveness remains modest according to the results of the last comparative evaluations. According to the Global Competitiveness Index (ICG), in comparison with the reference countries (Latvia, Lithuania, Romania, Ukraine, Serbia, Georgia), the Republic of Moldova is in 2017 as last year among the most the most advanced position (+11) with Serbia [2].

In the years 2017-2018, Moldova ranks 89th among 137 countries, included in the Global Competitiveness Index (ICG). During the analyzed period, the position of the Republic of Moldova improved by +11 positions and the DFB¹ index value increased only by 0.1 points (from 3.9 in 2016 to 4.0 in 2017).

At the same time, the evolution of the Republic of Moldova's position in the ranking over the past years indicates, in fact, a worsening trend from the 82nd place in the GCI 2014. Moreover, this drop in the ranking was due to the decrease in the number of participating countries from 144 in GCI 2014-2015. The value of the DFB ranged between 3.9 and 4.0 points in all these years.

According to the 12 pillar of the ranking, the Republic of Moldova registered a decrease of its position only in the field of Infrastructure, Health and primary education (with -2 positions) and Labor Market Efficiency (-3 positions). All other changes in the ranking of the country were mainly positive, with the most significant ones being recorded at the pillars:

- Macroeconomic situation (+19 positions), this change being determined by the significant improvement of the position on the inflation indicators (+20 positions); Public Debt and Gross National Economies (+13 positions).

- Market efficiency of goods (+10 positions), change due to significant improvement of indicators Local competitiveness intensity (+19 positions); Customer orientation (+11 positions) Impact of FDI rules on firms (+9 positions); Effectiveness of anti-monopoly policy (+8 positions).

- Institutions (+9 positions), both public and private. The positive change of position in relation to public institutions was determined by the significant improvement of the indicators Transparency of State Policy (+14 positions); Protection of Intellectual Property (+14 positions); Dismissal of public funds (+10 positions); Efficiency of the legal framework in dispute settlement (+9 positions).

- Higher education and professional training (+8 positions), change due to improved position on Internet access indicators in schools (+18 posts); Quality of the education system (+7 positions); Quality of school management (+7 positions).

¹ The DFB (distance from the best) index is displayed on a scale from 1 to 7. The higher average score indicates a higher degree of competitiveness.

It should be noted that the macroeconomic situation, although, seems to be relatively stable, the economy is developing at low rhythms in recent years from a historical perspective. Indeed, some indicators such as inflation have experienced significant improvements, shrinking from 9.7% in 2015 to 6.4% in 2016 and 6.6% respectively in 2017. However, it is interpretable the advancing of Moldova in the international ranking from the position 57 in ICG 2016-2017 to 44 in ICG 2017-2018 concerning the evolution of the government debt-to-GDP ratio indicator. According to the IMF data, the indicator has decreased insignificantly by about 0.4 p.p. in the given period [3]. Moreover, the context in which the change in Public Debt has occurred in recent years is one that has a negative impact on the country's overall development. According to IMF data, which are the basis for the estimation of the given indicator for the GCI, with one-year anticipation, the public debt of Moldova increased in 2015 compared to 2014 by about 8%, mainly as a result of the increase of the domestic public debt, mostly related to the bonds issued for the execution by the Ministry of Finance of the payment obligations arising from the state guarantees assumed on 17 November 2014 and 1 April 2015.

The efficiency of the goods market is an extremely important pillar for ensuring competitiveness, in particular, ensuring a viable competition. GCI reflects a significant advance of Moldova in the ranking with regard to the intensity of local competition and the effectiveness of anti-monopoly policy, as well as a slight advance towards the indicator of market dominance degree. At the same time, the country occupies very low positions in the ranking for these indicators.

Institutional efficiency is a key factor for boosting competitiveness and has an enhanced role for countries with a level of development similar to that of the Republic of Moldova. Despite the fact that Moldova managed to advance in the ranking with 9 positions compared to the previous edition, the country holds a very low position in the GCI 2017-2018 - 119. In addition, the results of the questioning of the business environment within the Global Competitiveness Report mention among the most important business constraints various aspects indicating directly on the reduced efficiency of the state institutions.

The lowest positions of the Republic of Moldova continue to occupy the pillars:

- Innovations (128th place).
- Development of the financial market (124th place).
- Business sophistication (120th place).
- Market size (120th place).
- Institutions (119th place).

According to the Global Innovation Index (GII), the Republic of Moldova ranked in 2017 a relatively advanced position (54) among 127 countries, however, it recorded a significant decline (-8 positions) compared to the previous period.

From 2014 to 2017, the evolution of Moldova in the GII rankings was negative, with the country gradually falling from position 43 to 54 (-11 positions in 3 years), and the most significant decline (-8 positions) occurred in 2017. The most advanced position in the ranking is registered by Moldova in the Innovation Efficiency Ratio sub-index (22nd place), which shows the top of the most efficient countries in transforming innovative ideas into practical results. At the same time, the given indicator reflects not the potential to innovate (in the Republic of Moldova, as in a number of other countries that occupy advanced positions in the efficiency of innovation, this potential is very limited), but the degree of utilization of the existing potential or the results obtained by a country, based on its own effort and contribution to innovation. In the last year, the index has had a pronounced negative evolution (-18 positions), and the country's chances of moving out of the less innovative and uncompetitive economies of the world are diminishing.

In the period under review, Moldova's Doing Business ranked above the global average, position 44 out of 190 countries included in the ranking. Compared with the previous year, the position of the country has not changed, as of 2013 Moldova has progressively and significantly advanced in the ranking by 2016 (by +15, +11, +8 positions respectively). The lowest places in the ranking the Republic of Moldova occupies, as in the previous year, for the following indicators:

- Obtaining building permits (165th place),
- Energy Infrastructure (80th place),
- Solving insolvency problems (65th place).
- Ensure the execution of contracts (62nd place).

Significant negative trends continued to be registered by the indicator Obtaining of Credits (-10 positions) and the Energy Infrastructure indicator after an exponential advance in 2016 recorded a sharp decline (-7 positions) in the analyzed period. The indicator Obtaining of Construction Authorizations, although ranked lowest among all indicators (165), maintained its position in relation to the previous year, along with the indicator on Ensuring the Execution of Contracts (62nd).

The challenges and constraints of the business environment remain major despite the progress made in the implementation of reforms in the field of the country's competitiveness, as confirmed by the increase in the degree of achievement on some dimensions of the Roadmap for improving the competitiveness of the Republic of Moldova in

2017. According to the monitoring report of the implementation of the Roadmap Policy Matrix in 2017 the rate of achievement of the actions to reach the set targets was 71%, by 10 p.p. more compared to 2016.

According to the Report on Implementation of the Policy Matrix, the following were fully achieved:

- 88.8% of the actions planned for the competition, or 16 actions out of the 18 planned for 2017. The actions aimed at ensuring the effective implementation of the legal provisions in the field of competition regulation were fully carried out. At the same time, the regulatory framework for regulating the business environment on the compatibility with the new Competition Law on the identification of barriers to entry on the market continues;

- 88.5% of the planned fiscal and tax management actions, in line with the following objectives: ensuring equity, stability and fiscal transparency, improving and simplifying national tax systems, guiding tax policy towards creating incentives for economic development, increasing the use of information technologies in tax administration;

- 76.6% of the planned trade facilitation actions, in particular those related to the objectives of establishing transparent and permanent relations with the business community, development of standards of integrity and professionalism in the customs field, ensuring transparency, responsible governance and efficiency in the country's Public Financial Management System (PFM);

- 76.3% of the planned actions in the field of quality infrastructure, mainly related to the objectives of adjusting the legislative and normative framework to the provisions of the Community legislation, the signing of the Multilateral Recognition Agreement with the European Co-operation for Accreditation, ensuring the traceability of the measurements made in the Republic of Moldova to the International System of Units and international recognition of measurement results;

- 75% of planned actions on access to financial resources. Progress has been made in drafting and adopting draft laws, normative-legal acts and policy documents. In addition, a number of important actions have been taken to support certain groups of entrepreneurs (women, young people from rural areas, people who have created businesses by attracting remittances) and subsidizing agricultural producers;

- 61% of the planned transport infrastructure actions. From a qualitative point of view, most of the undertaken actions are related to the objective of enhancing the quality of roads and their degree of coverage of the territory of the country. At the same time, no action has been taken in the air transport objectives, and only one action has been fully implemented in the rail and maritime transport field;

- 59.1% of the planned actions for energy infrastructure projects, in particular those aimed at ensuring the security of natural gas supply (Ungheni-Chisinau pipeline construction, identification of alternative sources), the implementation of energy policy documents, capacity building of some infrastructure institutions and promoting the use of renewable energy sources;

- 57.9% of the planned actions related to the information society, mostly related to the drafting of normative legal documents and policy documents, harmonized with the EU standards, as well as a series of practical actions such as the creation of the information technology industry park, implementation of public transport information management systems, indicating the time of arrival at the public transport stations, in dynamics, the integration of the payment systems with different electronic means (cards, SMS, etc.), the elaboration of the tourism promotion website of the Republic of Moldova;

- 56.9% of the actions planned for Science, Technology and Innovation. Being one of the most sophisticated components, none of the goals outlined in this dimension has seen a complete realization of the planned actions. For more objectives or more than half of all planned actions have not been fully accomplished and they concern a wide range of issues, including evaluating the research potential for the activity within the established priorities, implementing in practice of the research results, the governance of the sphere of science and innovation, the need to orient the business environment towards innovation, and the promotion of innovation.

An imperative becomes the creation of employment opportunities, developing occupational policies, aligning the minimum guaranteed wage with the minimum subsistence level, taking into account European standards [4], and eradicating poverty, promoting active aging and policy development in this field.

Conclusions

The Republic of Moldova did not mark significant performance in 2017 in terms of economic growth, although a number of macroeconomic indicators showed significantly better results than in 2016. In the previous year the national economy tempered, the economic growth constituting 4% in real terms, with 0.3 p.p. less compared to 2016.

The economic evolutions recorded by the Republic of Moldova in the last years are below expectations and optimistic development forecasts. Or, the annual growth rate of 3.2% in the years 2014-2017, the period in which the Roadmap for improving the competitiveness of the Republic of Moldova was implemented, is unexpectedly low compared to Romania (4.7%) and Georgia (3.8 %) and only slightly more than Latvia and Lithuania, whose economy grew by about 2.9% during this period. According to the Moldova 2020 Development Strategy, the country's basic development scenario predicted continued trends in the last decade and assumes that the economy will develop with the same economic, social, political phenomena, rising remittances and the same pace of reforms. The baseline scenario estimated an average annual GDP growth rate of 4.7% in 2012-2020 [5]. At the same time, according to the actual

data, in 2012-2017 the national economy grew annually by only 3.6% and the NIER estimations for the years 2018-2020 indicate annual growth rates that will oscillate around the values of 3.5-4.5%.

Although the policy in the field of increasing the competitiveness is being implemented and the progress has increased compared to the year 2016, the degree of realization of the policy matrix of the Roadmap for improving the competitiveness of the Republic of Moldova is relatively small, especially for some components such as science, technologies and innovations, the information society, energy infrastructure, transport infrastructure, access to financial resources. At the same time, the international reports indicate an unfavorable position for the Republic of Moldova in international rankings aimed at business development and national competitiveness as a whole for these indicators. Fundamental are also the reforms in the area of ensuring the efficiency of the institutions, which play a crucial role for the Republic of Moldova in consolidating the basis for the development of the country's competitiveness. On the other hand, a number of aspects that characterize their effectiveness have been declared by the business as a major constraint for business development.

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