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TENDENCIES, PROGRESS AND CHALLENGES RELATED TO THE IMPROVEMENT OF NATIONAL COMPETITIVENESS

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Abstract

The Republic of Moldova marked its 30th anniversary of independence. A brief review of the period that has elapsed, from the point of view of the evolution of the national economy, must give us the answer to the question, of whether we are satisfied or not with those results that we have obtained in this period. The paper addresses issues related to the process of increasing competitiveness and reducing discrepancies compared to other states in the region, given the major arrears recorded by the Republic of Moldova. At the same time, a set of indicators was analyzed that reflect on the one hand the change in the welfare of the population as a whole and the sustainability of economic growth, including the performance of foreign trade and investment, and on the other hand the performance of the business environment and their productivity compared to other states. Another very important component is the factors or, in other words, the intervention policies of the state to eliminate the constraints in order to increase the country's competitiveness.

Keywords: economic competitiveness, economic growth, foreign trade, investments.

1 INTRODUCTION

After gaining independence, the Republic of Moldova faced a number of political, economic and social problems that it had to face, relying mainly on its own potential for resources. The process of economic reform took place against the background of an acute socio-economic crisis and the radical transformation of the economic system. Lack of experience in counteracting external shocks, economic and social crises, systemic reforms, and instability in domestic politics, territorial disintegration of the country as a result of the 1992-armed conflict were the factors that predetermined the essence of the transition period to the market economy. The high degree of integration of the Moldovan economy into the economy of the Soviet Union was determined by the almost total absence of own fuels, non-agricultural raw materials, equipment, machinery, etc. The disintegration of the USSR led to the destruction of the system of economic relations and led to the emergence of obstacles to the circulation of goods, restrictions on the access of newly independent states to newly created markets.

The changes that took place in the 1990s had serious consequences and negatively affected the standard of living and quality of life of the population. As a result of the massive release of the labor force, the high inflation and the decrease in real terms of the volume of state expenditures for social needs, the sources of income of the population have been reduced. The average monthly salary in real terms was only about 25% of the level of 1990, and the average pension - about 17%, the level of unemployment exceeding 11%. The deterioration of the conditions and the quality of life of the majority of the citizens of the Republic of Moldova has caused negative changes in the demographic evolution of the country. The mass exodus of the country's citizens has begun in the hope of gaining a decent living abroad [1].

Along with some tangible achievements during the transition to the market economy, it should be noted that our country has faced major problems in order to ensure efficient and rapid economic change, these being from both inside and outside the country. After more than

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a quarter of a century of reforms, the country's economy has failed to recover from recessionary losses and the growth rates of the economic recovery period were not enough to recover them. At the moment the country is in a difficult situation, having an economic potential equal to approx. 2/3 compared to the one he had at the beginning of the reforms [2].

2 METHODOLOGY

The research methodology consists of the analysis of the discrepancies in the level of GDP per capita and productivity reached by the Republic of Moldova compared to the average of Eurozone and Central European countries, as well as the analysis of progress in international ratings regarding the convergence towards developed countries with functioning market economies. The analysis of the discrepancies in terms of GDP per capita and labor productivity in the Republic of Moldova compared to EU countries (separately the countries of the Eurozone and Central Europe and the Baltic countries - targeting the countries that have completed the transition to market economy) was performed using own estimates based on data provided by the World Bank and the National Bureau of Statistics (NBS).

3 RESULTS

Currently, in the process of implementing the Association Agreement (AC) with the European Union, the Republic of Moldova urgently needs to reduce the existing disparities in terms of economic competitiveness compared to the countries in the region. Thus, the implementation of the country's national competitiveness enhancement policy was of crucial importance for changing the country's development paradigm and for taking advantage of the opportunities offered by the AC with the European Union. The results demonstrate a non-satisfactory degree of implementation of the Policy Matrix of the Roadmap for improving the competitiveness of the Republic of Moldova (2015-2020), as well as the way the country's economy develops and its progress towards becoming a more competitive economy internationally, including in the framework of the European Union - a highly demanding market.

Two main categories of indicators required to be quantified in the process of assessing the competitiveness of the economy of the Republic of Moldova were differentiated:

- *Final indicators.* According to generally accepted theoretical and empirical approaches, the primary indicators of competitiveness are ensuring sustained growth and increasing the well-being of the population.

- *Intermediate indicators*, represented by indicators for measuring productivity, prices and costs. Although they cannot be independently considered final 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. The state policy in the field of competitiveness was evaluated, in the first stage based on the international rankings. The place of the country in the ranking, the relative change of its position compared to the previous year, as well as the comparative analysis of the position in the ranking in the last 5 years, allows for formulating conclusions about the reforms carried out and the results obtained.

According to the World Bank's recommendations in the Trade Competitiveness Toolkit [3], the average level of indicators for the EU-28 (at that time) and 6 other countries was selected

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as a benchmark for analysis (Latvia, Lithuania, Romania, Georgia, Serbia, Ukraine). Their selection was made according to several criteria: neighboring countries with a relatively close culture, size, and 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.

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 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 (Fig.1). This was the cumulative growth of Moldovan economy starting from 1995 compared to some countries in transition or having finalized the transition process and nowadays members of the European Union. Although the GDP per capita discrepancy decreases, at the same time the gap towards the European average remains quite significant.

The place of the Republic of Moldova on the global map of competitiveness remains modest according to the results of the latest comparative assessments. According to the Global Competitiveness Index (GCI), in particular, compared to the reference countries (Latvia, Lithuania, Romania, Ukraine, Serbia, Georgia), the Republic of Moldova in 2017 as in previous years was ranked the last among those states but registered the highest position (+11) along with Serbia [4]. In the years 2017-2018, the Republic of Moldova ranks 89th among 137 countries, included in the ranking of the Global Competitiveness Index (GCI). During the analyzed period, the place of the Republic of Moldova improved by +11 positions, and the value of the DFB index increased by only 0.1 points (from 3.9 in 2016 to 4.0 in 2017).

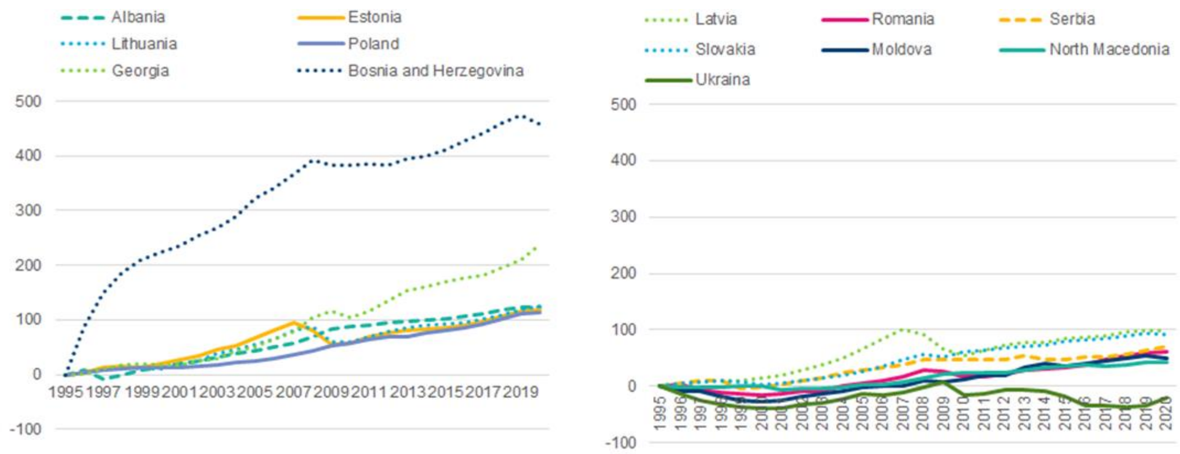

Figure 1. Economic growth in the region different from EU growth, 1995=100%.

Source: Author's calculations based on NBS and World Bank data

It should be noted that despite the macroeconomic situation, which seemed to be relatively stable, the economy has developed at a slow pace in recent years from a historical perspective. Indeed, some indicators, such as inflation, have seen significant improvements, falling from 9.7% in 2015 to 6.4% in 2016 and 6.6% in 2017, respectively. Interpretable is, however, the advancement of the Republic of Moldova in the international ranking from position 57 in the

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GCI 2016-2017 to 44 in the GCI 2017-2018 to the evolution of the indicator Public debt relative to GDP. Or according to IMF data, the indicator has decreased insignificantly by about 0.4 pp. during this period [5].

Moldova among the countries with the lowest population in the region recorded the sharpest decline in the number of inhabitants during the last 2 decades (Fig.2). So, this convergence that occurs very slowly fuels a harmful process, such as population loss. And the forecasts show that the process of the population decrease will continue and this represents a big challenge for economic growth in the future.

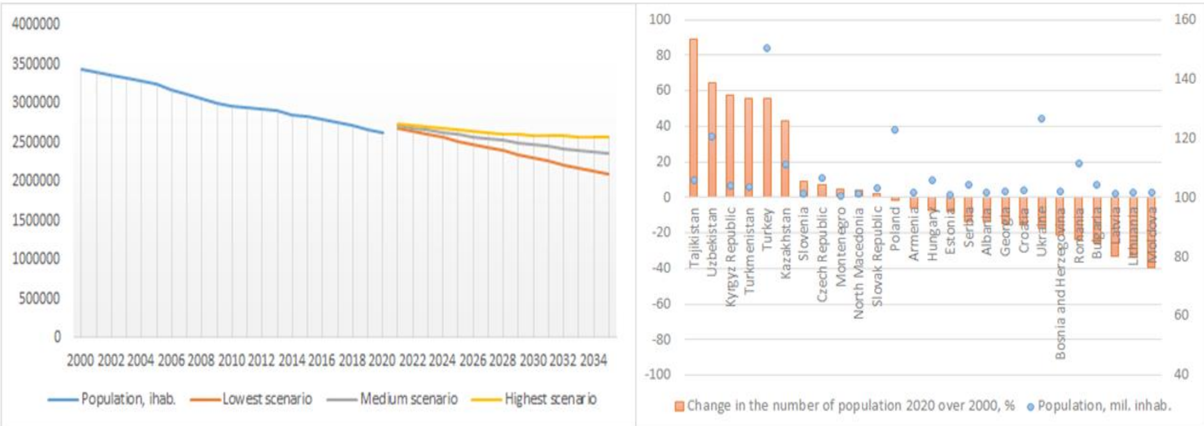

Figure 2. Changes in the population in the Republic of Moldova (left)
and the countries from Europe and Central Asia (right)

Source: Forecasts of Center for Demographics Research of NIER, NBS and World Bank data

An imperative is to create employment opportunities, develop employment policies, align the guaranteed minimum wage with the subsistence level, taking into account European standards [6], eradicate poverty, promote active aging and develop policies in this domain.

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. 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.

Another indicator used for competitiveness evaluation is the real effective exchange rate (Fig.3). 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.

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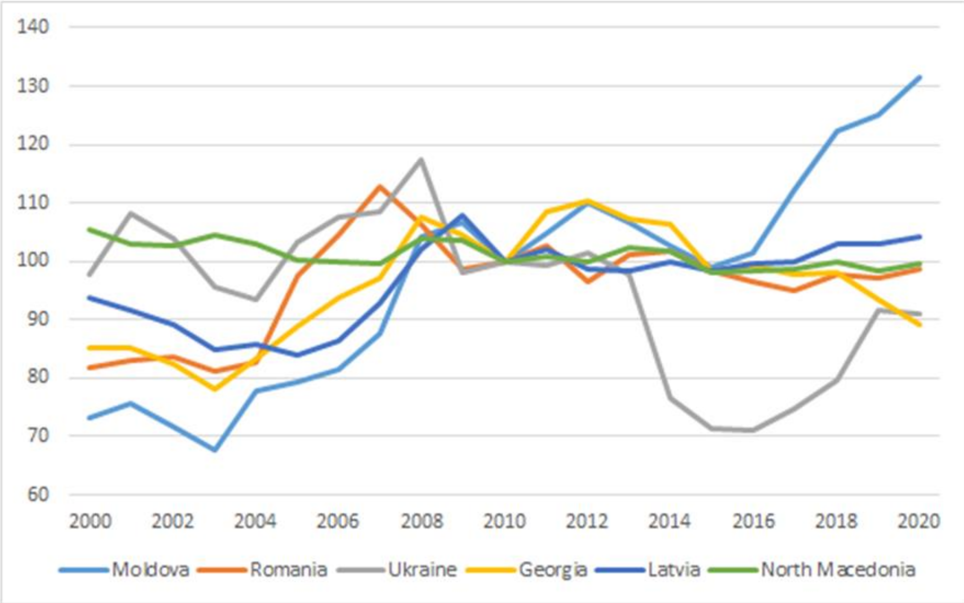

Figure 3. Real Effective Exchange Rate Index 2010=100%

Source: World Bank Data

As we mentioned, we are facing a large trade deficit, which consists mainly of trade in goods. 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 in foreign trade. The country remains agri-food, although there are also positive changes in the export of light industry, machinery and equipment.

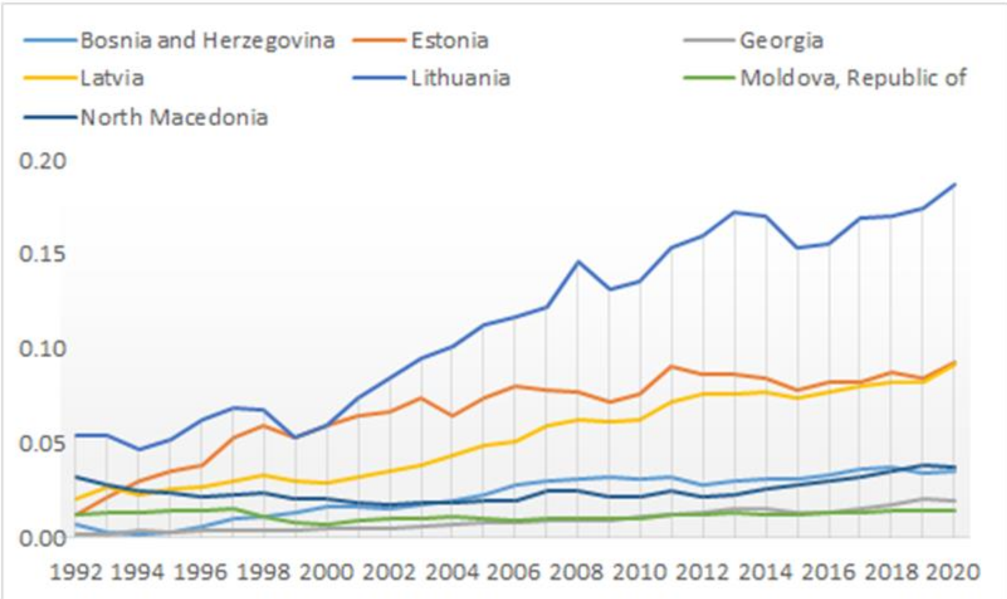

Figure 4. Share of the world market of goods, %

Source: UNCTAD Data

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Increasing competitiveness is somehow demonstrated by increased sales (Fig.4). The quota since 1992 has remained constant, compared to the evolutions in the countries with which we compare ourselves. If you pay attention, Bosnia and Georgia, at a lower level than us in 1992, by the end overtook us.

Moldova hardly manages to attract foreign direct investment (FDI). The share of FDI inward stock to GDP is slowly declining to 40% in 2020 (Fig.5). Once again Georgia is 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 in this slide.

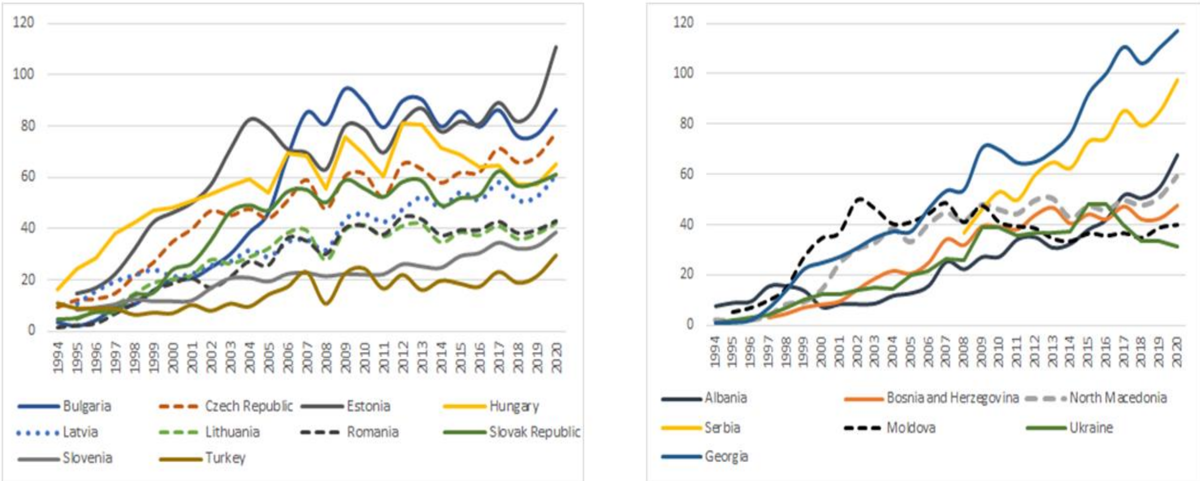

Figure 5. Share of foreign direct investment inward stock to GDP, %

Source: World Bank and UNCTAD Data

At the same time, the promoted reforms did not translate into creating a dynamic, innovative business environment that would ensure impressive increases in added value and, consequently, in the productivity of enterprises. The small successes in reforming corporate governance are compounded by the shortcomings in the quality of governance of public institutions, the incidence of corruption and the rule of law, which is another major constraint on ensuring the sustainability of economic development. Barriers resulting from the low quality of institutions in Moldova are among the biggest obstacles that must be overcome by entrepreneurs operating in the Republic of Moldova, both local and foreign. Political instability, the size of the informal sector and distorted competition, including due to the high incidence of corruption, create constraints and major costs for entrepreneurs.

4 CONCLUSIONS

The economic developments registered by the Republic of Moldova in recent years are below the level of optimistic development expectations and forecasts. Or the average annual growth of 3.2% in 2014-2017 - the period in which the Roadmap for improving the competitiveness of the Republic of Moldova was implemented is unexpectedly small compared to that of Romania (4.7%) and Georgia (3.8%) and only slightly surpassing Latvia and Lithuania, whose economy grew by about 2.9% in the meantime. According to the Moldova 2020 National Development Strategy, the basic development scenario of the country predicted the

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continuation of the trends of the last decade and assumes that the economy will develop with the same economic, social, political phenomena, with increasing remittances, with the same tempo of reforms. The baseline scenario estimated an average annual GDP growth rate in 2012–2020 of 4.7% [7]. At the same time, according to the analyzed data, in 2012-2017 the national economy grew annually by only 3.6%, and for the years 2018-2020, indicated an annual growth rate that has oscillated around 3.5%-4, 5%.

Although the policy in the field of increasing competitiveness has been implemented and progress has increased compared to 2016, the degree of achievement of the policy matrix of the Roadmap for improving the competitiveness of the Republic of Moldova was relatively low, especially in some components such as research and development, technologies and innovations, information society, energy infrastructure, transport infrastructure, access to financial resources. At the same time, the international reports indicated an unfavorable position for the Republic of Moldova in the international rankings regarding the ease of doing business and national competitiveness, as a whole for these indicators. The reforms in the field of ensuring the efficiency of the institutions are also fundamental, which play a crucial role for the Republic of Moldova in consolidating the foundation for the development of the country's competitiveness. On the other hand, a number of aspects that characterize their efficiency have been declared by the business environment as a major constraint for doing business.

In line with the above-mentioned, the key factors to improve national competitiveness should be focused on:
- increase institutions’ quality and diminish costs of doing business;
- human capital development and labor market policies;
- improving key infrastructures: transport, energy, quality, digital;
- facilitating business access to external financing sources;
- Facilitating the accumulation of productive capital;
- implementing programs to support innovation activities of the business and the shift of resources to high productive activities;
- developing research & development sector;
- ensuring the digital and green transition of the business.

Acknowledgment

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