Moldova’s Phenomenon: Can Foreign Investments Help Out of the Poverty Circle?

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Abstract

The aim of this paper is to further develop findings on the forces of globalization, which, in a positive and in a negative manner affect economic growth of various nations worldwide, both creating opportunities and posing challenges whilst deepening inequalities between developed and developing economies. The dilemma of global growth is pressing and especially relevant for the economies that currently lack economic quality, which makes them vulnerable to what this paper coins the ‘vicious circle’ of poverty. The findings in this study interpret changes in economic structure overtime based on the results of the analysis of quantitative and qualitative indicators of growth of national and international relevance. The case study of Moldova is expanded from author’s previous contributions to demonstrate a few of the possible alternatives to create and sustain economic growth with quality, even in conditions of globalization obviously hazardous for this small economy. The paper shows how the emphasis on innovations and appropriate policies is supposed to make up for the lack of other key resources available to the developed industrial economies. It takes up an important instrument of foreign investments to demonstrate how and in what way those can be used for economic restructuring towards innovation-driven growth. It inquires how such approach will create competitive advantages helping the developing economies to break out of the ‘poverty circle’ towards qualitative economic growth. Among other considerations, the paper concludes on the importance of capturing the opportunities presented by the ongoing Fourth Industrial Wave, which, if approached correctly, may help many nations to ‘leapfrog’ through several stages of the structural ladder, enabling them to pursue qualitative economic growth. This article is interesting for businesses, including entrepreneurs and potential investors, as well as for the governmental organizations and public authorities. It provides both an evaluation of Moldova's position on the international socio-economic arena in context of globalization, and suggests action-points and recommendations potentially supporting the growth of the private sector, at the same time fighting poverty and enforcing sustainable economic growth.

Keywords: globalization, inequality, economic growth with the development, developing countries, "vicious circle of poverty", "structural ladder", investment, infrastructure, high-technology, technology, innovation JEL Classification: 011, 012, 038

Introduction

Economic growth is central to well-being of any nation. Modern world, in which progress is quick and poverty is continuously decreasing, still experiences the pressure of inequality gaps, meaning that the difference between rich and poor are still extremely wide. This is true both between the nations, but also within the nations. Part of the problem is caused by globalization, which in itself is a very positive trend. Globalization is one of the major driving forces of modern societies and economies. At the same time, as competition becomes more severe, globalization puts pressure of increased asymmetries and between economies worldwide, as well as within individual economies and nations.

The Nobel Prize winner Professor Joseph Stieglitz often mentions in his works that today’s inequality indicators are at dangerous levels, and global instability is tightly related to the escalating levels of inequality [13]. Moreover, Stieglitz [13] adds, artificially-created market policies to a certain extent contribute to growing inequality. Lenzner adds that the top 0.1%, which is about 315 thousand out of 315 million people, makes about half of all capital gains on sales of shares or property after 1 year; and the capital gain is 60% of the income attributable to the business from the list of Forbes Top 400" [5]. Not contesting wealth generation as such, this fact puts an interesting perspective on the gap between extreme wealth, and
extreme poverty, in conditions of which a family survives for less than a few dollars a day. Extreme wealth, however, should not be taken as reference point for measurement of inequality. In today’s reality, it is enough to consider the gap between ordinary working class and poorer layers of society in such countries as Moldova.

In this respect, counteractive measures against inequality globally are perhaps among today’s most heated topics, and probably among world’s greatest economic and social challenges causing conflicts and various disturbances among nations. Globalization, which is overall a positive trend, yet the one with the ability to create inequality, tends to increase the gap between rich and poor economies. The former gain further access to wealth creation, whilst the latter get dragged further backwards due to inability to reorient their economies towards growth, for various socio-economic and political reasons. In this context, developing economies, and Moldova in particular, find it difficult to catch up with the developed ones, and tend to lose rather than gain from most economic transactions in context of globalization in the long-run. This particular article discusses the position of the Republic of Moldova in this so-called vicious circle of poverty, addressing inequality, and presenting potential possibilities to leap-frog despite economic and other disadvantages towards wealth creation and qualitative economic growth.

Inequality and Poverty’s Vicious Circle

Keynes once noted that the best times to act are the times of growth, and not the fall of an economy. It’s also hard to dispute Krugman’s opinion that today, in some cases, the governments must spend more, not less, since the private sector is unable to push economic development forward to the necessary extent. However, as notes Paul Krugman, for some nations present reality is akin to the one in the 1930s, when, as Keynes described it, the economy was in a state of long-lasting decreased activity, demonstrating neither obvious signs of recovery nor of complete collapse [4]. However, it seems that in many developing countries the opposite economic policies can be observed, which are characterized with measures of austerity, and bear negative consequences to the labour market in the long-term. Yet, now is the time to act, and now is the time to fix some of world’s most pressing economic problems, such as problems of inequality, since global inequality is growing inevitably and progressively, threatening to impose serious limitations to economic health, especially of the developing nations, which are the focus of this article.

Observing inequality growth one may note the following dynamics. In the 1990s, the gap in average income of the 20% richest and 20% poorest parts of the global population was at 30 to 1, whereas in 2000 that same gap was already at 78 to 1 levels [1]. In addition, according to World Bank (2014), there were over two thirds of the global GNP (gross national product) per capita generated per high-income economies in 2015, about one third per share of medium-income nations, and only about 0.5% of global income per share of the low-income economies [5]. This means that high-income countries generate proportionately more and more GNP, whereas low-income countries trend negatively, pointing to the growing gap in the share of possible contribution into the global GNP between the nations with high and low income. It is obvious that the growth of inequality in the past decades is becoming a serious hinder to global economic development, affecting economies and societies.

The asymmetry in the development of the global economies causes differentiation within various nations, dividing them onto ‘winners and losers’ of the world’s globalization game. The losers are lacking the resources of capital accumulation, which obviously includes developing economies. As the result, those economies end up in the vicious circle of poverty, illustrated below.

Figure 1: The Vicious Circle of Poverty

Source: Compiled by author
What makes that poverty circle truly vicious is the relationship between low income and any growth potential. Low income ceases the opportunities of the population to save, thus, prevents any flow of internal investments from the population into the economy, or at least to the extent that makes growth possible. For instance, a low-income household is not likely to make any substantial savings, or any savings at all. This means that, a low income family will not ‘invest’ into the economy, simply will not buy substantial amount of products, necessary for an economy to achieve and sustain certain level of economic growth rate. Similarly, on the state level, low national savings and low GDP, couples with negative labor productivity, create lack of resources and unfavorable economic climate, usually making an economy an unattractive place to invest. Without investments, national savings remain low, and the circle continues all over again. As the result, the countries with low economic indicators are dependent on international infusions, otherwise finding it difficult to break through the vicious poverty circle. The "circle of poverty" is hard to break through. Part of it is due to the fact that poverty relates to other monetary variables in a non-linear, but circular manner, meaning that without one another cannot be secured. This makes the poverty cycle ‘vicious’.

**Context: Moldova’s Key Economic Indicators**

Before exploring potential opportunities of Moldova’s growth, it is worth putting Moldova’s economy in context through exploring its main indicators. Firstly, the share of Moldova’s GDP (Gross Domestic Product) is about 0,01% of the global. During 1990-2015 that share decreased by 0,006% falling from 0,017% to 0,011% of the global economy. Consequently, this share fell by 009% lading from the level of 0,046% to 0,037% within the European economies, and by 0,22% among Eastern-European economies ending up at the level on 0,22% from 0,44%. This is summarized in Table 1 below:

<table>
<thead>
<tr>
<th>Share of Moldovan GDP in the</th>
<th>1990</th>
<th>2015</th>
<th>deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global economy</td>
<td>0.017</td>
<td>0.011</td>
<td>- 0.006</td>
</tr>
<tr>
<td>European economy</td>
<td>0.046</td>
<td>0.037</td>
<td>-0.009</td>
</tr>
<tr>
<td>Eastern European economy</td>
<td>0.44</td>
<td>0.22</td>
<td>-0.22</td>
</tr>
</tbody>
</table>

Compiled by author based on data from [12]

In 2015, Moldova’s nominal GDP (Gross Domestic Product) per capita landed at mere $1740 a year. That is the 140th position out of 186 list of countries of the Global Monetary Fund. In 2013, Moldova’s nominal GDP per capita was at $2214 a year, meaning a considerable decrease of $474. The World Bank statistics (2013) shows similar dynamics. In addition, the same year Moldova’s GDP per capita was at $2038, which means by $298 higher than in 2015 (World Bank statistics). United Nations, in its turn, placed Moldova at $2285 GDP per capita in 2013, meaning by $545(!) higher than 2015 [16].

**Graph 1: Rate of GDP Growth of Moldova, %**

Source: compiled by author based on [7].
In 2016, Moldova’s GDP was valued at $6,79 billion, GDP per capita was valued at $2062, and trade openness at 91,9%. [7] and [1]. According to the ranking of Human Development Index [10] Moldova is a country at medium levels of economic development. Notably, in 2015, Moldova was ranked at 114 out of 187 economies by the Index. In 2008, however, it was at 113th place out of 179 [18]. To compare, in 1990, Moldova was ranked 64th by the aforementioned Index, having the status of industrial-agrarian economy and in general being way ahead of its today’s position on the so-called global structural ladder. Thus, the trend is not convincing of bright economic future.

In addition, today, Moldova is one of the leading (top 8 out of 10) nations when it comes to healthcare and education spending, landing at about 12% and 8-10% of GDP, respectively. This is a rather high level only affordable to a limited number of economies. However, average longevity in Moldova is 70 years, throwing it to the 142nd place in the world, and 120th and 130th places, respectively, in maternal and child death [16]. Thus, there is obviously a challenge in terms of social services that Moldova is able to offer to its citizens.

In addition, the so-called ‘quality index’, or the coefficient of the quality of growth, is applied to measure quality of the growth of Moldova’s economy. This is, in short, a known index which measures the ratio of the difference of GDP growth index and GDP deflator to the growth rates of the GDP in absolute terms. According to this indicator, Moldova’s economy has not been characterized in positive terms for the past several decades.

Assessing broader business environment, Table 2 below summarizes key indexes that demonstrate Moldova’s position in various international rankings by international organizations such as World Bank, the World Economic Forum, the Heritage Foundation etc. From 2015 to 2016, the decrease may be noted in key positions, such as competitiveness and economic freedom, whereas innovation only slightly increases, so does global trade and ‘doing business’ as such.

**Table 2: Moldova’s Business Environment, Key Indexes, 2015, 2016**

<table>
<thead>
<tr>
<th>Key Index Rating</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Competitiveness Index</td>
<td>82</td>
<td>84</td>
</tr>
<tr>
<td>Index of Economic Freedom</td>
<td>111</td>
<td>117</td>
</tr>
<tr>
<td>Global Innovation Index</td>
<td>46</td>
<td>44</td>
</tr>
<tr>
<td>Logistics Performance Index</td>
<td>93</td>
<td>96</td>
</tr>
<tr>
<td>Global Enabling Trade Index</td>
<td>92</td>
<td>79</td>
</tr>
<tr>
<td>Doing Business</td>
<td>63</td>
<td>44</td>
</tr>
</tbody>
</table>

*Sources: Compiled on the basis of data in [14]-[17], [19]-[27].*

In this way, being one of the poorest European countries with median monthly income of $250 and with the GDP per capita level being about 18 times lower than European Union average, the Republic of Moldova today finds itself in the vicious circle of poverty. The country finds itself in a shaky position balancing on the edge of economic prosperity. This uncovers deep challenges to Moldova’s economy, and highlights the importance of an increase in the share of country-wide welfare-generating activity. Arguably, Moldova is in desperate need of an increase in high technology share in its infrastructure and its economy. This is developed in the section below that discusses the lack of innovation in the structure of Moldova’s economy.

**Structure of Moldova’s Economy and The Vicious Circle**

So, how does the structure of Moldova’s economy look today?

Notably, the structure of an economy is one of the key factors in its potential for economic growth as well as behind the well-being of its population. In the 1960s and 1970s, the countries with the fastest rates of GDP growth (about 3,5% annually) were those with the largest share of machinery within their industry. Those with larger shares of natural and mineral resources grew by about 2%, finally, agrarian, or agricultural economies, grew by about 1,5%.

According to classification of the World Bank, the increase of well-being and growth of an economy takes place through three consecutive stages, from the first factor-driven to the second efficiency-driven, to the third innovation-driven stage of...
economic development [14]. This process of climbing the ‘structural ladder’ serves as a certain indicator of a nation’s economic state, as well as the quality of its economic growth [8]. Moldova, according to World Bank's classification, is somewhere between the first and the second stage of economic growth, and in some case placed at the second stage (for detailed analysis see [8], [10], [18]). Thus, the share of innovation in Moldova’s economy is very low, and the trend is not positive. Let us consider the structure of Moldova’s GDP in more detail.

The dynamics of the GDP structure is presented in the Table 3 below. It shows that Moldova’s GDP structure changes in context of global economic tendencies. In this way, the main share of value added of the economy, 59,4%, is comprised of the Services sector, 14,1% generated by industry, and 12,8% through agriculture. The share of net taxes on products is 15,7%. It seems at first sight as if Moldova’s structure of the economy is rather progressive as it seemingly reflects global development trends. For instance, the high share of the Services sector (compared to the global share of GDP of 64%) with simultaneous decrease of the share of industry and agriculture. Yet, importantly, since 2000s, the share of agriculture started to pick up again within the global GDP landing at approximately 32%.

Table 3: The Dynamics of the Structure of GDP of Moldova

<table>
<thead>
<tr>
<th>GDP Structure, %</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross value added</td>
<td>87,5</td>
<td>88,0</td>
<td>87,3</td>
<td>85,6</td>
<td>85,0</td>
<td>84,3</td>
</tr>
<tr>
<td>Agriculture</td>
<td>25,4</td>
<td>22,4</td>
<td>21,0</td>
<td>19,3</td>
<td>17,1</td>
<td>12,8</td>
</tr>
<tr>
<td>Industry</td>
<td>16,3</td>
<td>18,7</td>
<td>17,3</td>
<td>17,8</td>
<td>18,2</td>
<td>14,1</td>
</tr>
<tr>
<td>Services</td>
<td>48,2</td>
<td>49,2</td>
<td>51,0</td>
<td>50,8</td>
<td>52,2</td>
<td>59,4</td>
</tr>
<tr>
<td>Financial intermediation services measured indirectly</td>
<td>-2,4</td>
<td>-2,3</td>
<td>-2,1</td>
<td>-2,3</td>
<td>-2,5</td>
<td>-2,0</td>
</tr>
<tr>
<td>Net taxes on products (taxes less subsidies)</td>
<td>12,5</td>
<td>12,0</td>
<td>12,7</td>
<td>14,4</td>
<td>15,0</td>
<td>15,7</td>
</tr>
</tbody>
</table>

Compiled by author based on data from [7], [11].

Thus, it is important to highlight the fact that even though the Services sector is prevailing in Moldova’s economic value added, digging deeper into the Services sector itself allows to caution that the main contribution in this sector – through finance and trade – is merely a ‘formal’ value added, in contrast to real.

This means that its increase, in fact, reflects only a wage increase of individuals engaged in relevant business dimensions, and not of the economy as a whole. Moreover, the development of one of the key services – trade – is mostly dependent on import. High import dependency is risky for any economy, not least due to the exposure of high level of debt. Moldova’s import dependence is high, and export is consistently lower than import, pointing to the challenges in its economic structure.

For instance, in 2013, Moldova’s GDP was at $7,453 billion, while the share of import was at $5,492 billion, or at 73,7%. In 2015, import was at $5,3 billion. The export share, at the same time, was about two times smaller and landed at $2,4 billion (see [7], [17]). This situation does not help Moldova to counteract its high external debt, which equals to about $6,218 billion (in 2013), or more than 83% of GDP.

In addition, Moldova is highly dependent on its European Union partners, which since 2008 absorb about half of its external trade (46,4%), which naturally impacts Moldova’s balance of payments. In 2015, Moldova’s export to the EU shrunk by approximately 2,3% (to $1,1 billion) versus 2014, and import decreased by about a quarter, to $3,6 billion. The demand on imported products, however, is mainly covered by Moldovans working abroad. They contribute by about $1,5 billion yearly. This is considerably higher than the contributions of the foreign investors.

Moreover, the interest of the developed economies to import finished industrial products from their less developed counterparts has decreased considerably. This evolution obviously triggered the asymmetry in foreign trade negatively affecting the rates and quality of economic growth in the peripheral economies. Thus, the gap between the ‘post-industrial world’ and other economies has now acquired qualitative character and is growing inevitably in its proportions. As the
result, the possibilities to catch up in economic growth are currently very slim for the majority of the less developed and developing countries, having them more or less stuck in the "vicious circle of poverty".

Industry is unlikely to be the basis of high economic growth for Moldova. Agricultural products are the main source for Moldova's export, which is a challenge since they are labour and cost intensive, and lower in profitability and output than products of heavy industry or IT. In addition, labor productivity in one of the leading sectors of Moldovan economy – agriculture - is low. According to the World Bank, the value added per worker in agriculture in Moldova is approximately $2,5 thousand. While, for example, in Spain the corresponding value is $45-50 thousand. In Norway, that indicator goes up to $70 thousand. On average, in European Union countries the corresponding value is approximately 20 times higher than in Moldova.

Additionally, in the GDP structure of Moldova the share of consumption accounts for about 87% of the total GDP. Such levels of consumption are considered to be exceptionally high, even for USA and other developed economies. At the same time, there is only 15% of own investments, which is rather low and inadequate.

Negative dynamics in the nominal GDP per capita in Moldova is tightly connected to economic and a bunch of other factors. Among economic factors, however, we highlight an absolute decrease in the key production factors – labour, capital, technologies as well as the erosion of the structure of the economy with the following decrease in the potential production volume. In is unlikely that an economy would develop positively and grow its labour productivity and its competitiveness within a structural environment where scientific and technological research and development accounts for less than 0,35% of GDP. For comparison, European Union spends on average 2 to 3% of GDP on similar activities, which facilitates high rates of technological development.

Globalization reformed the structure of many national economies with labour division in favour of the developed economies. Most obvious winners were those that emphasized the development of high-technologies within their economies. As the result, most or all of today's developed economies find themselves at post-industrial, information and high-technology stage of development, whilst peripheral economies have either not been able to fully complete the industrialization stage, or were thrown back, just as Moldova, to the lower development stage. So, is there a way out of that Circle for Moldova, and are there any positive dynamics in the development of Moldova’s economy?

**Moldova's Way out of the Poverty Circle?**

The answer is yes. However, to break out of the negative trend there is a need for internal or external sources of investments into the economy. Investments and their qualitative share – which are innovations – comprise the true, or material, base of economic growth. Innovations impact the change in the sources, types and quality of economic growth.

High quality of economic growth has the ability to positively affect well-being of the population, to induce innovations in production methods, into goods and services, as well as into governance and management, and literally into all spheres of economic activity. Qualitative economic growth reflects positive and forward-looking dynamics of an economy, and its transition to the higher stages of economic development. Even though, presently, prerequisites for the number of the developing countries, including Moldova, to enter the innovative stage of development, and especially the stage driven by wealth of the economy, are not sufficient (see, for instance, EIU), it is absolutely necessary to start building various separate elements of innovation-driven growth into the structural ladder of the national economy.

In conditions of globalization integration, localisation and regionalization, the activities of international corporations penetrate national markets and economic structures, regardless of the structural stage of that given economy. This is a positive factor, which gives economies like Moldova the possibility to climb several levels in the structural ladder at the same time, in other words, to skip a few stages towards higher levels of economic development. To be able to introduce such growth areas, basics of the economy have to be rebuilt after years of unfortunate economic downward slope. There are a few instruments available in economic policy toolbox to sustain growth in real terms, especially in conditions of weak and sometimes inadequate credit and monetary policies.

Firstly, investments into infrastructure, especially for such economies like Moldova, are among more effective resources of qualitative economic growth. Infrastructure deficit, especially in low-income countries, is an obstacle of long-term economic growth. Infrastructure investments may also serve as a source of growth in aggregate demand. Investments into infrastructure secure growth in production capacity of various sectors of the economy. They are usually massive projects
with multiple external effects with positive long-term socio-economic impact. Judging by the global experience, the biggest effect can be reached in interplay of public and private sectors. It should be based on partnerships uniting large corporations and businesses with smaller firms, as well as venture capital funds and ‘angel’ investors with direct support of the government of the investments associated with basic innovations, securing the evolution of innovations from the first stages through commercialization. The inclusion of innovation factor into the process of investment in infrastructure can thus be viewed as a factor for the development of innovation-based economy.

Secondly, innovation-based type of economic growth is a type of economic growth adopted by most, if not all, of the developed economies, and is in itself a tool to support economic growth. It is based not on the production and consumption of material goods as such, but on creation and consumption of information-technology goods and services, in other words, high-technology products. Therefore, structural component of the investments is specifically important in this context.

There are at least two ways of approaching the formation of innovation-based economy proven through international practice (the problem was thoroughly described in [8, pp.128-163]).

The first one assumes orientation towards own innovations. As a rule, it is applicable to highly-developed economies. This particular approach was predominantly executed in context of American economy. The second approach is based on ‘borrowing’ and importing of innovations. Its effectiveness is proven by a number of global economies, including, for instance, Japan and even more so China. In order to form the necessary elements of innovations in its economy, Moldova can very well use the second approach, which is based on the concept of imitation and adaptation of the new technologies.

This is similar to the concept of technological ‘leapfrogging’ (see [3], [6]). An obvious example is the implementation of mobile networks and the spread of mobile telephones. By buying and using existing technology, late-industrializing countries are able to ‘leapfrog’, or jump over various inferior or more costly and less efficient technologies (that the first movers had to go through in the stages of development of those new technologies).

As the result, the ‘leapfrogging’ economies may get latest technologies cheaper and faster than the economy where this technology originates. Thus, it is valid to assume that if the mechanisms of innovative growth are in use, those growth areas where already existing innovations are actively used have a potential to increase competitiveness of the national economies and increase the quality of economic development.

This approach, however, should not be associated merely with consumption of already existing methods and technologies taking advantage of inventions of others. Moldova, in contrast to other examples of nations with comparatively lower levels of economic development, is a country with a lot of own potential in terms of research and development, as well as testing and implementation of the new technologies. Moldova preserved some of its highly skilled labour force and is capable to offer specialists and laboratories to receive but also to drive further innovation and new technologies in virtually all spheres from economy to physics and chemistry.

In this context, there is certainly a window of opportunities for Moldova which is opening at the moment. The roll-out of the Fourth Industrial Revolution which was solidified in Davos in January 2016 will last from five to ten years and will inevitably and radically further change global economic, social and other structures. Akin to the Third Industrial Revolution ignited by Microelectronics, this revolution will end up into goods and services previously unimagined, in the sphere of connected world and connected devices, from robotics to home appliances.

This revolution, in its turn, will open up new opportunities for smaller developing economies, such as Moldova, from being the testing ground to the economy for outsourcing the production of new technologies. Thus, Moldova could become a centre for outsourcing of the new products and therefore one of the economies that would be first to implement those innovations.

Global economy becomes less and less resource-intensive in the traditional sense, shifting from production to the intangible resources represented by the people, which are capital-intensive and less dependent on raw materials. In this context, reorientation towards high technologies is absolutely crucial. Moldova’s IT specialists are considered to be among the better once in Eastern Europe, meaning that the country has the potential and the prerequisites for the creation of knowledge-based, innovation-driven economy based on the adoption and integration of innovations into its core structures.
Conclusions: From Vicious to Virtuous

This article addresses the challenges of globalization on developing economies on the example of the Republic of Moldova, a small European economy with developmental challenges, yet a large bank of opportunities. Globalization affects various nations in different ways. It can be an enabler of economic growth on the one hand, while on the other it can cause an increase in inequality gap between developed and developing economies. In this way, globalization limits the opportunities for qualitative economic growth for a number of developing countries, such as Republic of Moldova, that consequentially are trapped into the ‘vicious circle’ of poverty. Developing economies must find a way to survive, to restructure towards growth and to remain competitive. To do so they must orient their efforts into technology, infrastructure, people and other sources of innovation, since they lack some of the crucial components of growth available to the developed industrial economies. The possibility to ‘leapfrog’ through several stages of the structural ladder at a time entering the path towards qualitative economic growth is an attainable goal. Thus, there is little time left to proactively address this issue on the national level, to enable the country’s growth in qualitative economic terms. Summarizing key outcomes of this article, it is worth to note the following.

Quality of economic growth is determined by the qualitative component of investment resources – innovations, as well as the possibility for their adaptations into the economy. Therefore, for any country, including Moldova, it is important to create favourable conditions for activation of investment resources and capabilities.

One of the sources for qualitative economic growth are the investments into infrastructure. They have an ability to induce multiple and long term positive outcomes, to stimulate aggregate demand and positive socio-economic impact. We believe that the Republic of Moldova must create an infrastructure with higher qualitative share of innovations able to justify higher investments. Today, this justification comes mostly from relatively cheaper land and labour force. Moldova must be able to offer and promote what actually makes it qualitatively different from its neighbours: safety and stability, high connectivity, high-quality education and healthcare.

So far, Moldova managed to attract $3,5 billion in investments. That is a relatively large amount – more than half of the GDP (with capital rate at 15-16%). Building on its potential, in the next five years, the country must be able to accumulate about 1,5 to twice as much capital in foreign investments. Thus, it is important to create necessary conditions to attract direct foreign investments.

Moldova’s economy could act as an economy for outsourcing of production of high-technologies and high-tech products. Why is this possible? Moldova’s sector of information technologies is an export sector with truly high potential. The products of IT companies operating in Moldova are highly competitive not only due to lower costs of the labour force, but also due to the fact that the quality of the end product is competitive with the global standards suggesting that there is a large amount of highly qualified labour force in this area.

It is important to increase the interplay between businesses and the government based on shared understanding of common needs. The biggest effect could be reached if that crucial partnership is in place and if large and smaller businesses, individual investors, investment funds, venture capitalists, as well as the government and other educational and research institutions work in interplay, through direct support by the government from the first stages through the commercialization phase of investments and innovations.

As shown in practice, the more globalization and the more stakeholders, the bigger the need for a clear strategy for the development of the country, including challenges of import substitution of goods and services, which would increase added value and would provide an opportunity to increase the budget and to provide new work places for Moldova’s population. It is, of course necessary to create adequate fiscal, administrative and regulatory conditions for businesses to solve the problems related to consolidation and modernization of Moldova’s business, as well as to increase competitiveness and capital intensity in the economy.

Moldova is left, among many, with one of the most challenging issues, to integrate effectively into the global context, while preserving national interests. There is a need for a thought-through and weighted integration policy into the global division of labour when export markets are limited for smaller and less developed economies. It is important to build effective horizontal touch-points with other regions, with the nations of EU and other strategic neighbours such as Russia.
This, in essence, should allow Moldova to break through the vicious circle of poverty into the virtuous circle of prosperity, which would help to secure stable and profitable levels of economic development in the long term.

References:


