

## COMPARATIVE ANALYSIS OF THE INVESTMENT CLIMATE OF THE REPUBLIC OF MOLDOVA AND LIECHTENSTEIN, SWITZERLAND

### ANALIZA COMPARATIVĂ A CLIMATULUI INVESTIȚIONAL AL REPUBLICII MOLDOVA ȘI LIECHTENSTEIN, ELVEȚIA

**GUDIMA Luminița-Dorina, studentă, Specialitatea: FB**

Academia de Studii Economice din Moldova

Republica Moldova, Chișinău, str. Bănulescu-Bodoni 61, [www.ase.md](http://www.ase.md)

e-mail autor: [lum12gudima@gmail.com](mailto:lum12gudima@gmail.com)

**Rezumat.** *Climatul investițional reflectă atractivitatea investițională a unei țări. Amalgamul de factori politici, social-economici, financiari, organizatorici, juridici și geografici influențează, fie direct sau indirect, climatul investițional. Contribuția acestora se răsfrânge prin atragerea investițiilor, care ulterior se manifestă sub formă de catalizatori în influența creșterii economice, prin prisma reducerii sărăciei și îmbunătățirii nivelului de trai a cetățenilor. Scopul acestei lucrări se bazează pe analiza climatului investițional al Republicii Moldova, prin compararea acestuia cu cel din Liechtenstein, Elveția. De-a lungul anilor, investițiile în economia Republicii Moldova, au fost constrânse de impedimente și riscuri sporite, iar ameliorarea climatului investițional are rolul esențial în schimbarea situației. Compararea cu Liechtenstein, Elveția are drept obiectiv, elucidarea situației distincte din Republica Moldova la capitolul atragerea investițiilor și determinarea unor practici internaționale specifice, care ar putea fi implementate în economia autohtonă. **Cuvinte cheie:** climat investițional, investitori, investiții străine directe, creștere economică, Republica Moldova, Liechtenstein, Elveția.*

**JEL CLASSIFICATION: F21, F53, G28, H71, J82, O44**

#### INTRODUCTION

Almost 30 years of so called “changes”, almost always in the position of searching the most efficient ways to attract investments which will finally, foster the economic growth of the Republic of Moldova. Notwithstanding the effort to improve the overall situation of the country during the years, in present, there are still significant challenges and impediments in the way of economic wellbeing. This paperwork is focused on analyzing the investment climate of the Republic of Moldova, at the same time comparing it with Liechtenstein and Switzerland. The main reason of choosing this field is based on the argument that the improvement of the investment climate, from the author’s point of view, is a solution to facilitate the economic growth, through attracting domestic and foreign investments. Thus, by strengthening the overall condition, it will undoubtedly, open up the opportunities for firms, starting from small and medium to multinational companies, to invest productively, create jobs and further to expand, which represent a clue to a sustainable economic progress. As a result, in the next content will be determined, investigated and analyzed the main factors which influence the investment climate, furthermore will be emphasized the comparative situation of the Republic of Moldova and Liechtenstein, Switzerland, and at last will be shaped the current situation of the investment climate and its correlation with FDIs.

#### BASIC CONTENT

Generally, Switzerland and Liechtenstein are described by having an agreeable investment climate, while Moldova is still facing some influential challenges. However, the investment climate of Moldova cannot be characterized extremely dreadful, in 2020 it was classified the 48<sup>th</sup>, in accordance with the “Ease of Doing Business” [1], yet there are numerous weaknesses which overweight the strong points and are more influential for investors.

According to “Transparency International Corruption Perceptions Index”, Moldova is placed on the 120<sup>th</sup> place out of 190 economies, while Switzerland on the 4<sup>th</sup> one [2]. From this fact might be deduced that the problem of corruption in Moldova is acute and prominent, especially in attracting foreign investors. The rank of Switzerland shows the discipline and compliance with the law.

According to the legal regime of the Republic of Moldova, under the laws, the investors may enjoy national treatment, specifically “Law of The Republic of Moldova on Investments in Entrepreneurial Activity No. 81-XV, as of 18.03.2004” is compatible with European standards and it defines the guarantees provided by the state for local and foreign investors, methods of resolution of investment disputes, as well as methods of regulation of activity of enterprises with foreign investments. Even though most of the regulations and governmental decisions are placed in “Register of Regulations on Business Activity”, having the goal of increasing the transparency and awareness of the investor, there are still dilemmas concerning red tape, corruption and opaque bureaucratic procedures. Usually there no restriction upon investments, excluding the fact that foreigners are not allowed to own agriculture and forest land. In case of Switzerland, Liechtenstein, investors may openly operate in any form of legal organization and certain activities. However, sometimes it is hard to enter Swiss markets due to some public monopolies like public transportation, postal services, alcohol aerospace, defense and other fields.

Being a member of the World Trade Organization since 2001, Moldova has signed several agreements in order to facilitate easier ways of collaborating with other countries. Until now, it endorsed 43 Free Trade Agreements, 44 Bilateral Investment Protection and Promotion Agreements and 50 Double Taxation Avoidance Treaties, and also for Switzerland – 34 FTA, 111 BIP, 93 DTAT [3].

Each canton of Switzerland (Switzerland has in total 26 cantons), was allowed to fix different corporate tax rates for foreign investors and the local ones, however, starting with 2020, for all cantons is mandatory to offer the same rate for both foreign and non-foreign investors, while still keeping own cantonal rates. As a result, the corporate tax rate in Switzerland varies from 11.9% to 21.6%, while in Liechtenstein it constitutes 12.5%, being very close to the one from Moldova – 12%. In Switzerland exists 3 types of VAT, as well as in Moldova. The standard rate in Switzerland is 7.7% applied to most of the goods and services, in Moldova is much higher – 20%. Also there are two reduced VAT rates, the Swiss rate - 3.7%, MD-12% are applicable for hotel accommodation and respectively, 2.5% and 8% to the most of the agriculture suppliers, medicine and other goods [4]. In order to attract more investments, in the Republic of Moldova were created 7 Free Economic Zones for which are applied diverse tax incentives, such as:

- Zero rate VAT on goods supplied to/from the FEZ;
- 25% exemption from income tax;
- 50% exemption from tax on income from exports;
- Investments > 1 million USD, a three-year exemption from tax on income resulting from exports;
- Investments > 5 million USD, a five-year exemption from tax on income from exports; 0% VAT; exemption from excises [5].

Also Moldova hosts one International Free Port in Giurgiulești and one International Free Airport in Mărculești, which might be turned into a regional hub for low-cost passenger airlines.

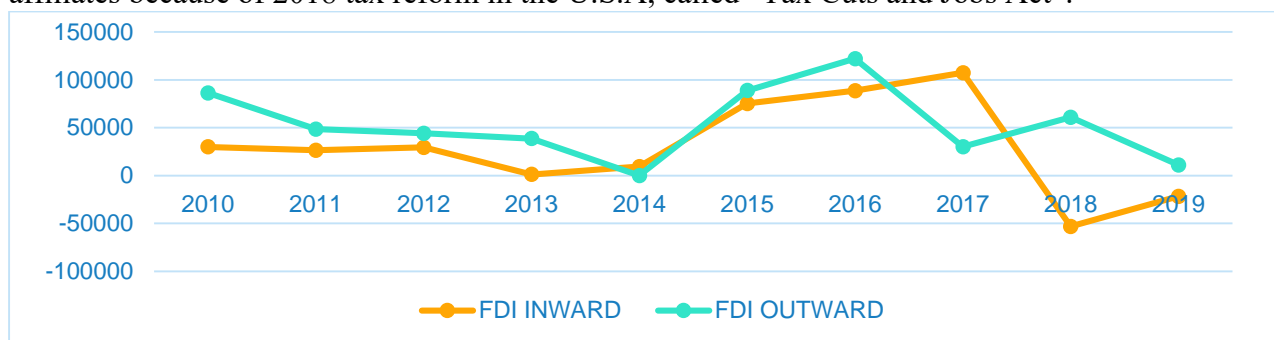
The main key investment sectors in Switzerland are: IT, precious engineering, scientific instruments, pharmaceuticals, medical technology and machine building [6]. The key investment sectors of Moldova are totally different from those in Switzerland, which are: agriculture and food industry, automotive industry, business service, electronics, information and communication technology, machinery [5]. It is obvious that Switzerland is relying more on services and industrial sector, while Moldova is more oriented to manufacturing. This fact could be taken as an advantage of economies of scale to enhance efficiency and to produce more units at reduced costs.

In financial sector, particularly in the banking, 11 commercial banks are registered in Moldova, with 87% share of foreign capital [7]. Switzerland and Liechtenstein are well-known for their banking services, owning in total 264 banks within the country and 211 branches abroad [8].

The Swiss labour force is highly skilled and educated, approximatively 76.5% being involved in the service sector [9]. In case of Moldova, several skilled workers have emigrated in other countries, in order to get a better paid job. As a result, a shortage of labor is registered in such area as manufacturing, engineering and IT. According to World DATA Statistics, Liechtenstein is ranked on

the 3<sup>rd</sup> – 116 430 \$ and Switzerland the 4<sup>th</sup> - 85 500 \$ [10], pursuant to the average income per year (2019). The data for the Republic of Moldova – 86 804.4 MDL average income per year [11], is taken from National Bureau of Statistic as it was not included in the placement.

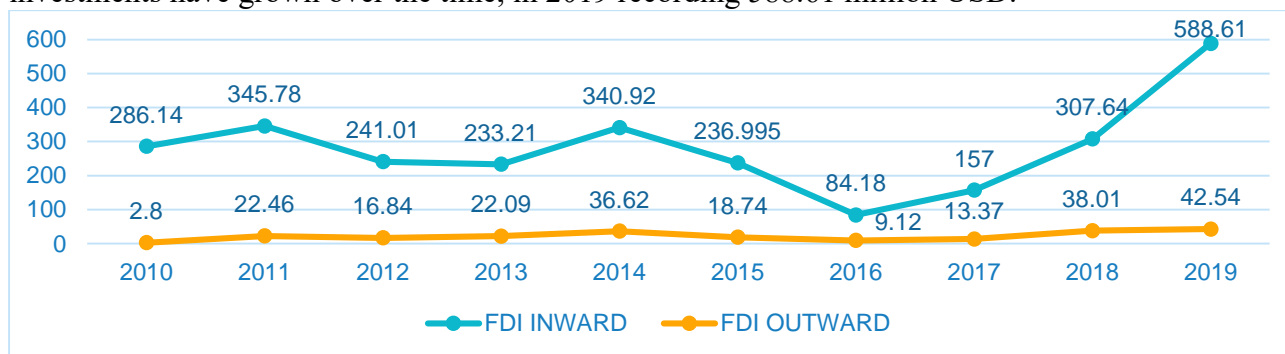
Foreign Direct Investments represent an essential indicator of the quality of the investment climate and the investment policies determined by the state authorities towards investors. FDI is also considered to be the most complex strategy of entering a market, which usually requires a favorable investment climate. Analyzing the figure 1 which displays the evolution of FDI during the last 10 years in Switzerland, Liechtenstein, in most of the cases the value of outflows was much higher than the volume of the inflows. The peak of inward of FDIs was recorded in 2017 – 107 billion USD, however, the next year it went to the lowest point of – (minus) 53 billion USD. This disinvestment was influenced by the large repatriation of earnings by U.S parent companies from their foreign affiliates because of 2018 tax reform in the U.S.A, called “Tax Cuts and Jobs Act”.



**Figure 1. The evolution of Foreign Direct Investments in Switzerland, Liechtenstein 2010-2019, (million USD)**

Source: elaborated by the author based on the data from <https://unctadstat.unctad.org/wds/ReportFolders/>

In contrast, the Republic of Moldova is registering far less amounts of FDIs and along all years, the inflows were exceeding the outflows (figure 2). In this case is also observed a sharp decrease of investments from 340.92 million USD in 2014 to 84.18 million USD in 2016. The reduction was determined by both, exogenous and endogenous factors. Hence, the theft of 1 billion US\$ from 3 Moldovan banks, the internal political stalemate, financial downturn in Russia and the conflict in Ukraine were the main drivers. Notwithstanding the destructive situation, the foreign direct investments have grown over the time, in 2019 recording 588.61 million USD.



**Figure 2. The evolution of Foreign Direct Investments in the Republic of Moldova 2010-2019, (million USD)**

Source: elaborated by the author based on the data from <https://unctadstat.unctad.org/wds/ReportFolders/>

## CONCLUSION/RECOMMENDATIONS

This research-paper has had the aim to shape the investment climate of the Republic of Moldova, referring to the economic, financial, and socio-political conditions, being, at the same time, compared to Liechtenstein, Switzerland.

Generally, Moldova is still facing strong challenges within the country, however the situation can be improved by not only applying effective regulations and laws, but also obeying them, focusing on

eliminating corruption and clientelism. In case of Switzerland and Liechtenstein, the investment climate is quite admirable, however, it is still vulnerable from some angles. This is deducted from the fluctuation of FDI's, as their economy is highly dependent on trade, financial services and the presence of multinationals.

In author's opinion, there are three significant practices that can be taken from Switzerland, Liechtenstein and implemented in the Republic of Moldova, in order to improve not only the investment climate, but the most important – the economy of the country. Firstly, in Switzerland, proposed laws and regulations are opened for three-month public comment before being discussed within the parliament or promulgated. Hence, this practice applied in Moldova could influence the improvement of the legal system. Secondly, the direct taxes in Switzerland have a larger proportion in the total amount of taxes than indirect, while in Moldova is vice-versa. This approach might serve as a point of revising the fiscal policy and as a result, to take particular actions. And the last one is based on the practice called "kurzarbeit" - employers may temporarily shift full-time employees to part-time, due to justified reductions necessary to the business activity. By trying to make such a shift, especially during the harsh time of pandemic, it might positively contribute in three directions: the state will register a lower unemployment rate, the citizens will be able, at least, to have a job and support financially their families, and also, the businesses will be given the chance to solve their internal problems, and consequently to avoid a potential bankruptcy or failure.

#### BIBLIOGRAPHY:

1. World Bank "Doing Business" Report, 2020. Available at: <https://openknowledge.worldbank.org/bitstream/handle/10986/32436/9781464814402.pdf> , [last visited March 30, 2021]
2. Transparency International – the global coalition against corruption. Available at: <https://www.transparency.org/en/cpi/2019/index/nzl> , [last visited March 30, 2021]
3. UNCTAD, "Investment policy Hub". Available at: <https://investmentpolicy.unctad.org/international-investment-agreements> , [last visited March 30, 2021]
4. The data is provided from Swiss KPMG Report, available at: <https://home.kpmg/xx/en/home.html> , and Tax Code of the REPUBLIC of MOLDOVA, available at: [https://www.legis.md/cautare/getResults?doc\\_id=120061&lang=ro](https://www.legis.md/cautare/getResults?doc_id=120061&lang=ro) , [last visited March 30, 2021]
5. National Strategy for Investment Attraction and Export Promotion 2016-2020. Available at: [https://mei.gov.md/sites/default/files/snaipe\\_2016-2020\\_eng.pdf](https://mei.gov.md/sites/default/files/snaipe_2016-2020_eng.pdf) , [last visited March 30, 2021]
6. SIGTAX, "Investment climate in Switzerland". Available at: <https://sigtax.com/en/investment-climate-switzerland> , [last visited March 30, 2021]
7. The National Bank of Moldova, <https://www.bnm.md/> , [last visited March 30, 2021]
8. The Swiss National Bank, <https://www.snb.ch/en/> , [last visited March 30, 2021]
9. Federal Statistic Office -Swiss Labour Force Survey (SLFS), 2019. Available at: <https://www.bfs.admin.ch/bfs/en/home.html> , [last visited March 30, 2021]
10. World DATA "Average income", available at: <https://www.worlddata.info/average-income.php> , [last visited March 30, 2021]
11. National Bureau of Statistic of Moldova "Average income per year", available at: <https://statistica.gov.md/index.php?l=en> , [last visited March 30, 2021]

---

**Coordonator științific: BUNU Mariana, dr., conf. univ.**  
Academia de Studii Economice din Moldova  
Republica Moldova, Chișinău, str. Bănulescu-Bodoni 61, [www.ase.md](http://www.ase.md)  
e-mail: [bunu.mariana@ase.md](mailto:bunu.mariana@ase.md)