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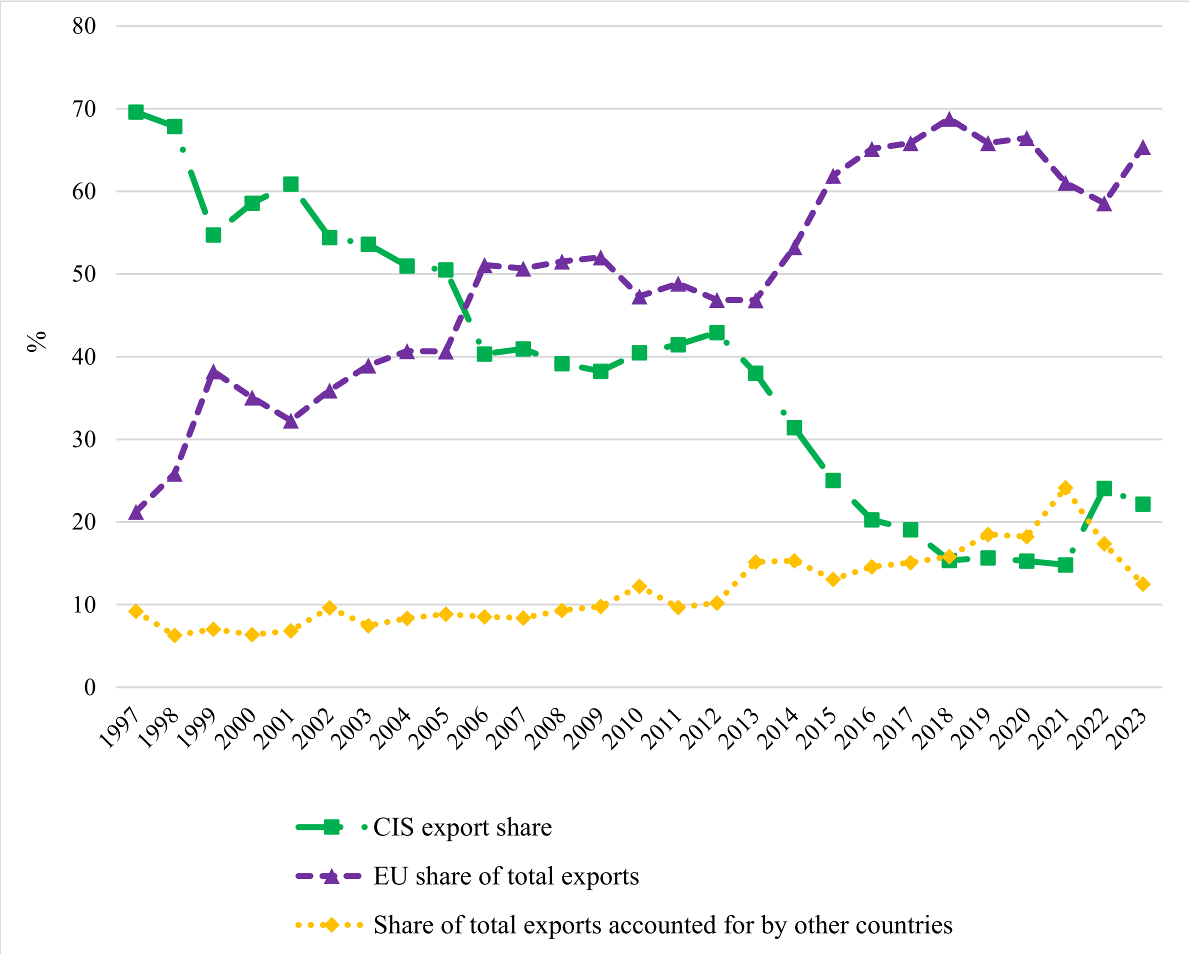
ENHANCING MOLDOVA'S COMPETITIVENESS IN A GLOBALIZED ECONOMY: KEY CHALLENGES AND STRATEGIC IMPERATIVES

The current period can be called a period of globalization, geoeconomic fragmentation [9], as the foreign trade policies of the largest economies have changed. The world's leading economies are raising import duties to limit foreign competitors in their markets. The economic slowdown and decline in Foreign Direct Investment (FDI) (by 2% in 2023) will lead to a decrease in Gross Domestic Product (GDP) in many countries worldwide [11]. According to forecasts by the World Trade Organization (WTO), the tariff war could lead to the sharpest drop in trade since the peak of the pandemic year, with world merchandise trade falling by 0.2% in 2025. The global division into two blocs will lead to a 7% reduction in world GDP [12]. In the current circumstances, it becomes relevant to analyze the country's competitiveness, identify key barriers to economic growth, and formulate strategic directions for development.

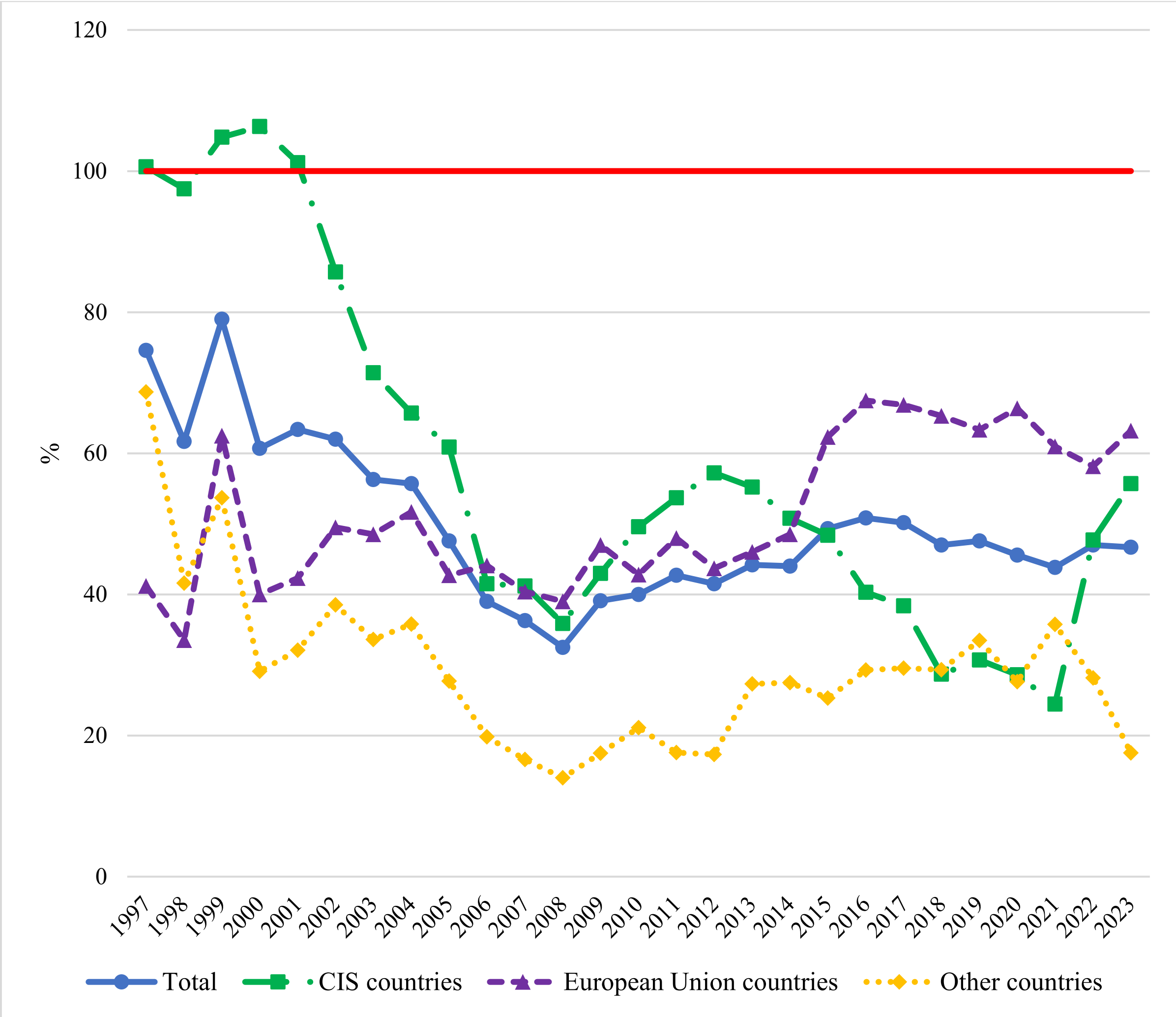
The study of Moldova's competitiveness is particularly relevant because the country chose the vector of European integration in 2014 and was forced to abandon the Russian market [6]. From 1991, when Moldova declared independence, to 2014 (except for the crisis year of 2008), the largest share of exports went to the Russian Federation [5]. Over the past decade, the primary destination of Moldovan exports has been Romania, a neighboring European Union (EU) member state (Figure 1).



Source: Data from the National Bureau of Statistics of Moldova (NBSM) [4].

Figure 1. Composition of Moldova's Exports by Country Group, 1997-2023

The share of exports to the CIS (Commonwealth of Independent States) countries in 1997 was nearly 70%, but by 2023, it had fallen to 22%. At the same time, the share of exports to the EU countries increased from 21% in 1997 to 65% in 2023. A positive trade balance was recorded only with the CIS countries in the first decade of Moldova's development as an independent state (1991-2001, except 1998, the financial crisis year). Historically, the lowest export coverage of imports was recorded with other countries. Following the signing of the Association Agreement with the EU, exports to these countries increased, resulting in a 14.7 percentage point rise in export coverage of imports in 2023 compared to 2014 (Figure 2). However, this figure never exceeded 69%.



Source: Data from NBSM [10].

Figure 2. Export coverage of imports in Moldova, by groups of countries

It is worth noting that there are differences between these markets, specifically the EU and the Russian markets. As shown in Table 1, each market has its own unique advantages. The indicator "Discretionary" income after housing costs was used to assess real purchasing power. In 2013, after paying for housing and utility payments, the average European had 3% more money than a Russian, and in 2023 the situation changed, now, thanks to low regulated tariffs and a high share of homeowners, the average Russian family has 10% more "free" money than the average EU resident.

From a logistics perspective, it is more profitable for Moldova to trade with the European Union, given their shared borders. Due to the increased logistics risk through Ukraine, exporters are forced to route their goods through EU countries and Belarus to deliver to Russia, resulting in higher costs. Therefore, exporting goods to the EU, particularly to Romania, is more cost-effective. The lower the costs, the lower the price, and the more competitive the product becomes in terms of price [13]. On the other hand, competition in the European market is significantly higher than in the Russian market, and the standards for goods are more stringent. Significant investments are required for Moldovan goods to meet European standards, and most Moldovan businesspeople lack the necessary funds to make these investments.

Table 1.

Key differences between the two markets

	EU Market	Russian market
"Discretionary" income after housing costs (PPS/PPP* per inhabitant): - Median/average disposable income - Housing costs, % - Left "for living"	 19,955 PPS [8] 19.7% 16,024 PPS	 19,546 PPP [15] 9.3% 17,728 PPP
Logistics	Common borders with the European Union (Romania).	Logistics through Ukraine is closed, the route runs through the EU countries and Belarus.
Non-barrier requirements	Strict standards (SPS, CE marking, ESG**).	Looser technical requirements.
Trading mode	Zero duty, but not for all goods.	Zero or reduced duty for CIS countries.
Payment risks	Free conversion of the euro.	SWIFT*** restrictions, ruble fluctuations.

Source: Calculations and systematization by the author.
Note: *) PPS – Purchasing Power Standard; PPP – Purchasing Power Parity.
*****) SPS – Sanitary and Phytosanitary measures; CE marking – Conformité Européenne marking; ESG – Environmental, Social & Governance.***
******) SWIFT – Society for Worldwide Interbank Financial Telecommunications.***

According to the "Association Agreement between the European Union and the Republic of Moldova" [2], Moldova has gradually eliminated all customs duties on goods originating in the EU. The EU maintains tariff and non-tariff barriers for goods delivered from Moldova from Annexes XV-A (goods imported within the limits of the established tariff quotas), XV-B (goods subject to an import duty), and XV-C (quota goods) [7, p. 58].

The main barriers that hinder the growth of Moldova's competitiveness include the low quality of institutions, corruption, a high-risk environment for business activity, and a shortage of qualified personnel. The effectiveness of the state apparatus remains insufficient, which is reflected in the ineffectiveness of the reforms. Frequent changes in legislation and unpredictability of government policy hurt the stability of economic development and competitiveness. The decline in real GDP by 5.9% in 2022 compared to the previous year was not compensated by a slight growth in the next two years, by 1.2% in 2023 and by 0.1% in 2024 [10]. Most often, the primary reasons for the ineffectiveness of reforms and long-term development strategies are weak administrative capacity, bureaucracy, corruption, inadequate risk assessment of the reforms, unrealistic goals, and overly ambitious deadlines.

Systemic corruption remains one of the main problems in Moldova, distorting competition and increasing business costs. Transparency International, a non-governmental organization, annually publishes the Corruption Perceptions Index (CPI) results. In 2024, the CPI was 43, and Moldova ranked 76th out of 180 countries [3]. Corruption undermines economic development and erodes public trust, scaring away both local and foreign investors. Without significant progress in the fight against corruption, efforts to increase the competitiveness of the national economy will have limited effect. Small and medium businesses in Moldova have limited access to bank loans [14]. As noted above, the country's legislation often changes, directly affecting the business environment and increasing transaction costs, which hinders investment growth and innovation. Expenditures on science in Moldova remain low, which limits opportunities for creating new technologies and scientific and technological progress within the country. Expenditures on research and development activities constituted 0.23% of GDP in 2022, 0.22% in 2023, and 0.22% in 2024 [1].

In addition to economic problems, Moldova faces demographic issues. Large-scale emigration involves young people and skilled professionals, resulting in a brain drain. The main reasons for labor emigration are low incomes and limited opportunities for professional self-realization. An analysis of the reasons for the low level of competitiveness in the economy and labor emigration revealed some similarities, such as the low quality of institutions, corruption, an unfavorable business environment, and a low level of innovation potential.

Conclusion

An analysis of the European market's advantages revealed that exporting products with high added value is most profitable to this market if they meet European standards and offer a competitive price. The Russian market offers more lenient technical requirements. The taste preferences of Russian buyers are similar to those of Moldovan consumers, whereas for European buyers, it is even necessary to adjust the wine blend according to their tastes. A comparative risk analysis revealed that exporting to the European market is more profitable, as it is not subject to sanctions and does not incur SWIFT restrictions.

A vicious circle has emerged in Moldova. On the one hand, low incomes and limited opportunities have led to an outflow of qualified personnel. On the other hand, the lack of skilled personnel hinders business development, scientific and technical progress, innovation, and increased competitiveness. Based on the analysis, the following recommendations were developed: creation of effective institutions, increasing business access to loans and other financial resources, development of innovations, development and implementation of targeted programs to retain young people and qualified specialists in the country, as well as to attract the diaspora to return to the country and participate in the development of Moldova.

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