

COMPETITIVE ADVANTAGES IN THE NEW ECONOMY: THE CASE OF MOLDOVA

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Abstract

This article puts in perspective competitive advantages as key prerequisite to qualitative economic growth. It explains competitive advantages as a complex interconnection of various socio-economic and geo-political factors, complementing and enhancing each other, capitalizing on opportunities especially in periods of upward economic cycles, but also supporting long-term sustainable economic development overtime. This topic is prominent as ever for the developing nations in the world of booming, yet unpredictable, economy dominated by the opportunities of the technological revolution. The purpose of the study is exploration of the case of the Republic of Moldova and outlining the importance of competitive advantage in formulating national priorities for growth. Moldova is as a ‘new economy’ with a few challenges but also opportunities for qualitative, innovation-driven growth. Moldova is a case study that provides many interesting insights to economies with similar conditions, which contributes to the actuality of the study in current economic conditions. The study is using a qualitative approach to exploration of Moldova’s key competitive advantages and highlights the country’s geo-political situation, it’s openness to trade and international environments, as well as its human capital, which obviously plays a crucial role in creating growth from within. It concludes on a few suggestions of direction to policies with regards to national priorities towards 2030. Moldova is an economy of many facets, and current priorities defined to support economic growth in Moldova must be addresses through the prism of own competitive factors, essential for natural and organic growth.

Key words: developing countries, new economy, competitive advantages, economic growth.

JEL CLASSIFICATION: 011, 012, 038.

1. INTRODUCTION

The discourse on international competitiveness is broad, and the ways and means to ignite economic growth, from both micro – firm, and macro – total economy – perspective has been duly explored by modern economists. The ability to create and sustain economic competitiveness is especially important in today’s globalized and technology-driven world that presents multiple challenges, as well as opportunities, and evolves with higher speeds than ever before.

Thus, competitive advantages, which is not a new concept in economic field, re-gain acute prominence. This study suggests that exploiting local advantages, such as geo-political and socio-economic factors, should be key in forming national priorities for growth. Competitive advantages, in simple words, make it easier on an economy to form priorities and strategies that should exploit its own local strength. In this way, the path to qualitative growth will be much quicker and more effective.

For smaller economies like Moldova, which are dependent on many international influences, the realization of competitive advantages is key prerequisite to taking the right path towards economic prosperity. This study outlines some of the national advantages that should help increase Moldova’s chances to success.

2. COMPETITIVE ADVANTAGE AS A FACTOR OF ECONOMIC GROWTH

What factors constitute competitive advantage of a nation? From Porter (1990) to Wright (1992) to Norton and Kaplan (2008), various theories and analogies outline several micro-firm or national economic factors and interdependences of resources that should defines if a nation is more or less competitive. Practical lessons could be drawn from recent history. For instance, in the 1960s and 1970s, the economies with prevailing machinery within their industry grew by 3,5%, followed by those with larger shares of natural and mineral resources that grew by about 2%. Finally, agrarian, or agricultural economies, proved to have least growth of about 1,5%.

As much as the facts are self-explanatory, if the formula is as simple as it is well-known, why do some economies experience dramatic positive development, while others do not? All too many economies in the world today neither grow nor decrease, as Krugman describes, unable to capitalize on the opportunities of today’s global economy. It is a known fact that opportunities create inequality, and

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today’s economic gap is wide, despite the fact that the world in general is probably wealthier than ever in history. More than half of the global GNP (gross national product) per capita is still generated by the high-income economies, which indicates that there is further need to address possibilities for the developing economies (Birdsall, 006; Stiglitz, 2012; Lenzner, 2011; World Bank, 2014). With all the possibilities of globalization, regionalization and technological innovations, why is it so hard for some nations to ‘leap-frog’ (see discussion in Goldemberg, 1998; Murphy, 2001; Schwab, 2015) skipping a few stairs on the way up the development staircase, and catch up with the rest of the welfare nation?

The answer is, perhaps, that even though there are a few industries that can be identified more competitive than others in terms of labour-intensity and economic output, one size does not really fit all in terms of, specifically, the path to development of these industries. A society should promote economy designed to bring out qualitative factors from within and vice versa, leading up to the so-called ‘qualitative economic growth’. Thus, in order to reach economic growth, various nations need to overcome the hurdles and to excel upwards in the structural ladder of the economy, while utilizing own resources and capabilities, national interests and context (Pischina, 2007, 2007a).

In addition, capitalizing on own strengths, in combination with increasing the share of technology in socio-economic activity, may help the developing nations in the formation of competitive and innovative economy based on perfecting technology already tested through international practice (as described in Pischina, 2007). If not producing own innovations, then finding the right economic niche and importing of innovations from the developed nations and then evolving them, is an effective tool to grow economy with quality at an accelerated speed by means of adaptation of existing progressive technologies, while hopping over various inferior or more costly and less efficient technologies.

In this way, competitive advantage should best be perceived as a complex interrelationship – a combination of various socio-economic factors specific for a particular society and economy that must complement and empower each other in order to create self-sustaining and self-igniting growth with quality. This type of competitive advantage through complementarity has been described in academic endeavours targeted at understanding economic and industrial competitiveness in the era of Industrial Revolutions, including the latest ongoing wave of information and technology revolution. Economy evolves in cycles, and each cycle represents an opportunity for economies to exploit in terms of creating economic growth. Whereas the periods of slowdown of economic activities, when most economies start taking measures, are not the most fruitful times for working with structural potential of an economy, as Keynes once suggested.

3. MOLDOVA: THE OPPORTUNISTIC ‘NEW ECONOMY’

In this context, Republic of Moldova is an interesting case to regard for several reasons. Moldova is a small economy on a global scale, with GDP landing at approximately 0,01% of the world’s share, in per capita terms about 18 times lower than European Union average, as shown below. Various international sources define Moldova as a developing economy with comparatively weak key economic indicators (UNDP, 2016; Heritage Foundation 2015, 2016; WEF 2014, 2015; WIPO 2015, 2016; World Bank 2017).

World Bank classifies Moldova somewhere between factor-driven and efficiency-driven economy, out of three stages of economic development, third being innovation-driven economy (Pyshkina, 2002; Pischina, 2007, 2007a; Schwab, 2015). The country has a lot of socio-economic hurdles to overcome, however there are also opportunities that do outweigh the challenges, if analysed properly and used wisely.

Table 1. The Share of Moldovan GDP in the world economy, in the European economy, in the Eastern European economy, %

	1990	2015
Global economy	0,02	0,01
European economy	0,05	0,04
Eastern European economy	0,44	0,22

Source: National Bureau of Statistics of Moldova (2015)

Table 2 below considers the structure of Moldova’s GDP is search for indicators of gaps and opportunities. There are a few obvious drawbacks in Moldova’s GDP structure caused by various factors in the past few decades, from decrease of labour, capital, technologies to the dissolution of medium and larger industrial companies and decline in production volume (GPRSP, 2004). In addition, Moldova has a clear challenge to grow its human capital, labour productivity and competitiveness within a structural environment where scientific and technological activity accounts for less than 0,35% of GDP, in comparison to EU average of 2 to 3%. In addition, the country is hugely exposed to trade and imports into the European Union, where the interest in Moldova’s produce is rather low, and very much exposed to trade and economic conditions of its Eastern European neighbours, such as Ukraine, and Russia.

However, even though the share of innovation in Moldova’s economy is low, the value added of such sectors as services, usually associated with developed economies, is rather high, at almost 60%, with global average comparison of 64%. Even though the fact remains that wage increase pertains to limited amount of individuals engaged in various businesses, and not in the economy as a whole. In addition, the share of agriculture is decreasing overtime.

Table 2. Sector Break-Down in Moldova’s GDP Structure, %

	2000	2001	2002	2003	2004	2014
Gross value added	87,5	88,0	87,3	85,6	85,0	84,3
Agriculture	25,4	22,4	21,0	19,3	17,1	12,8
Industry	16,3	18,7	17,3	17,8	18,2	14,1
Services	48,2	49,2	51,0	50,8	52,2	59,4
Fin. intermediation services	-2,4	-2,3	-2,1	-2,3	-2,5	-2,0
Taxes (excl. subsidies)	12,5	12,0	12,7	14,4	15,0	15,7

Source: Based on National Bureau of Statistics of Moldova (2016)

Despite challenges, Moldova is advantageous in several respects. The country, being a dynamic, multinational and multilingual, incorporates the best qualities from both Eastern and Western cultures, is associated with macro-economic stability and relative geo-political peace. Moldova’s climate and geographical context are favorable to the development of ecological agricultural economy (black soil and pleasant climate for agriculture) and attractive to entrepreneurs, both domestic and foreign, interested in the dynamic of Eastern and Western European markets. Volume of external trade (export and import) equals the volume of GDP, meaning that Moldova’s economy is associated with high degree of external trade openness.

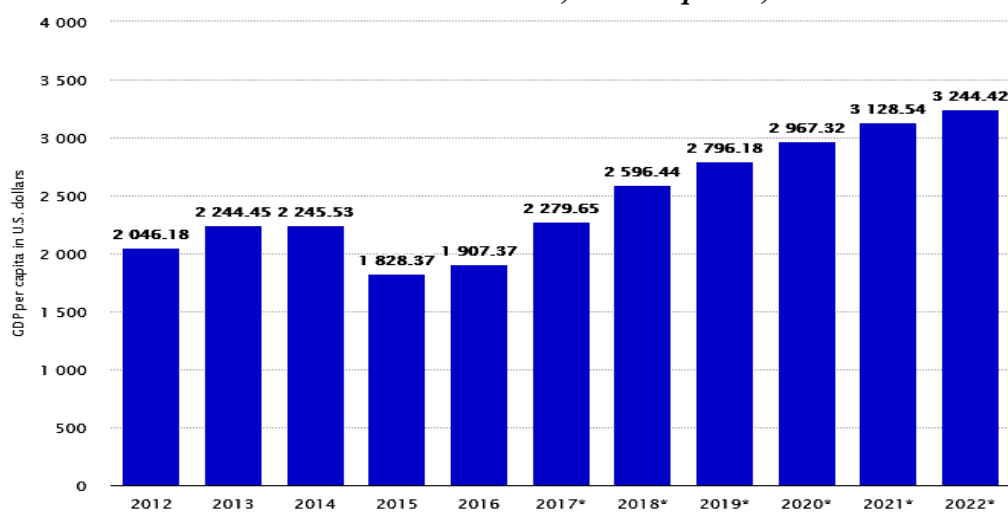
The country is rich in both human and social capital, meaning both strong societal ties, relating population in a mutually-supportive manner, and highly skilled population. Though the years of local and international partnerships, Moldova accumulated a lot of knowledge in such areas as healthcare and education, physics and microelectronics. For example products, of Moldova’s IT companies are highly competitive not only due to lower labour force costs, but also due to quality on par with global standards.

The country does have a relatively large foreign investment portfolio of over €3bn, which is more than half of its GDP (with capital rate at 15-16%). For instance, EBRD (European Bank for Reconstruction and Development) portfolio in Moldova is half a billion euros, €8,5 million received in 2016, supporting twelve projects, eight of which in the private sector, e.g. German automotive parts producer Draexlmaier. Thus, Moldova shows all prospects as a ‘new economy’, economy with strong potential for successful evolution of both private companies and non-profit sectors, with potential for revival of the economy and inclusion of high-technology into the share of its most competitive industries, as well as the possibility to progress along several steps in its development process, few steps at the same time.

If Moldova manages to continue growth that picked up in 2017 after the period of downturn in 2015, given known macro-economic factors, there is a possibility that GDP will increase rather

substantially towards the second decade of the 21st century, as presented in one of existing statistical estimations.

Table 3. Estimation of Moldova’s GDP per capita 2012 to 2022 Under Known Circumstances, current prices, USD



Source: Based on Statista (2018)

Albeit small, Moldova is an interesting economy in Eastern Europe and has a potential role to play in the geo-political structure of European Union. It also is an economy which could set an example for many other economies with similar economic situation and prerequisite. It is a case in point for many economies that find themselves in similar circumstances due to various political, economic and social events.

4. NEW ECONOMY’S APPROACH TO ECONOMIC GROWTH

Moldova is part of various global initiatives, one prominent is the World Bank Partnership with several focus areas and priorities identified for the country with long-term horizon until 2030. They range across economic, service and skill dimensions, with various activities targeted at enhancing economic and political institutions, trade and investment landscape, infrastructure, as well as social and business climate to attract growth.

Table 4. Estimation of Moldova’s GDP per capita 2012 to 2022 Under Known Circumstances, current prices, USD

Three Main Focus Areas:	National Priorities Across Focus Areas:
1. Economic Governance - rule of law and accountability in economic institutions;	(g) enhancing the <i>efficiency and quality of justice, including combatting corruption</i> ; and (h) fostering the <i>competitiveness of agro-food products and sustainable rural development</i> .
2. Service Governance - improving inclusive access to and the efficiency and quality of public services;	(d) improving the <i>business climate</i> ; (e) raising energy efficiency, including the use of renewables; (f) ensuring fiscal sustainability of the pension system;
3. Skills Development - enhancing the quality and relevance of education and training for job-relevant skills.	(a) aligning <i>education with labor markets</i> ; (b) increasing <i>public investment</i> in roads; (c) promoting <i>financial sector competition</i> ;

Source: World Bank Group Country Partnership Framework

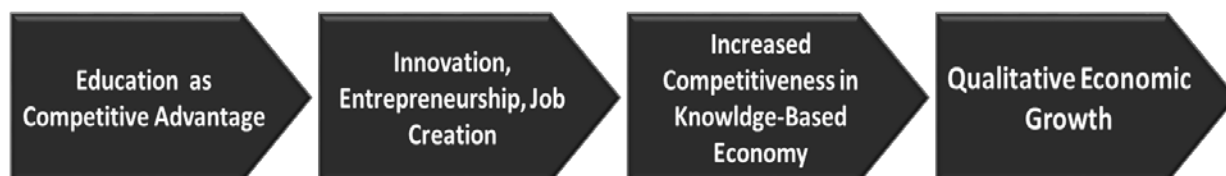
Strategic priorities and focus areas outlined above are crucial to address through internal and natural to Moldova competitive advantages. Based on Moldova’s socio-economic conditions and structure of the economy and human capital, we outline four core competitive advantages

summarized below that should contribute across all focus areas and priorities while creating qualitative economic growth in Moldova’s ‘new economy’:

1. Build on own natural resources and invest into technologies to support the agricultural sector, including bio-products
2. Focus on shifting production structure towards the industry, which has more value added than agriculture, including Information Technology, and create and attract large enterprises
3. Promote job creation and labour market internationally by creating better conditions for small businesses, e.g. franchise and leasing etc.
4. Focus on creating relevant and innovative basis for human capital – strengthen University education and training, in order to make it more relevant, practical and adequate for participation in Moldova’s labour market

As Moldova’s agricultural sector is one of the core elements of the country’s GDP, Moldova cannot avoid using the opportunities associated with that particular sector. It is, however, necessary to focus on products with highest value, and develop process efficiency and quality, thus increase competitiveness in Moldova’s exports. Importantly, investments in technologies associated with production processes should be made. Secondly, of course, it is important to offset the high share of agriculture with industry, most importantly Information Technology. Notably, Moldova has very strong prerequisites in the form of human capital to the development of IT, which could help the country to leap through a few stages in economic development at a time. Naturally, it is important to create long-term focus on retaining that capital and stopping outflow of young professionals for Moldova. For this purpose, labour market and job creation need a new twist – for instance, through promotion to alternative streams to value creation through ownership, such as leasing and franchise, which are less risky and less investment-heavy.

Finally, education is the core building block for growth due to the fact that higher education reaches one of Moldova’s core competitive advantages, already existing in the economy today and associated with Moldova’s high potential labour force and population.



Statistically, human capital and scientific potential of a firm, or of an economy, has a substantial impact on competitiveness and economic growth. Scientific, and technological, activity builds on education, which increases production of knowledge through diversification of sources of information, circulation of new information and exchange of technologies, media and services, development of new industries and new business ideas. Education is an important channel into labor market, and into innovation-creation. Innovation, leads to entrepreneurship, which in turn leads to job creation and makes the economy more competitive and prone to qualitative economic growth. Creation of knowledge base through education gives the possibility to jump though a few stages of technological ladder at once.

Thus, as it is necessary for Moldova to build some core elements of innovation-driven growth into the structural ladder towards the innovative stage of economic development. Several priorities associated with developing higher education and high-quality skills through learning should be explored, such as Promoting inclusive education, Open, diversified and innovative education, support for teachers and higher education institutions, transparency of skills and qualification, sustainable investment, especially in quality, efficiency and innovation.

5. CONCLUSIONS

To conclude, the intention of this article is to stress the importance of competitive advantages in formulation of national strategies towards economic growth, particularly relevant for the developing economies in present micro-and-macro economic conditions. Competitive advantage is one of the most important factors and the engine of sustainable economic growth for any economy, and especially for the Republic of Moldova. Globalization, which increases the opportunities of also regionalization and localization, as the new term ‘glo-calization’ suggests, challenges the abilities of any economy to use their specific competitive advantages in order to reach qualitative economic growth. Therefore, economic and social priorities and the choice of economic policy should be closely aligned to national competitive advantages.

Moldova is as a ‘new economy’ with a few challenges but also opportunities for qualitative, innovation-driven growth. Moldova is a case study that provides many interesting insights to economies with similar conditions, which contributes to the actuality of the study in current economic circumstances. This study, by exploration some of Moldova’s key competitive advantages, highlights the country’s geo-political situation, it’s openness to trade and international environments, as well as its human capital, which obviously plays a crucial role in creating growth from within. It concludes on four priorities that should be carried out in Moldova’s strategic agenda that build on the country’s competitive advantages. Those include building on own natural resources and investing into technologies to support the agricultural sector, including bio-products; focus on shifting production structure towards the industry, which has more value added than agriculture, including Information Technology, and create and attract large enterprises; promote job creation and labour market internationally by creating better conditions for small businesses, e.g. franchise and leasing etc.; focus on creating relevant and innovative basis for human capital – strengthen University education and training, in order to make it more relevant, practical and adequate for participation in Moldova’s labour market

Moldova is an economy of many facets, and current priorities defined to support economic growth in Moldova must be addresses through the prism of own competitive factors, essential for natural and organic growth. Importantly, this article outlines merely a few crucial components for qualitative economic growth associated with competitive advantages, and various priorities in this respect must be addressed and explored. Nevertheless, Moldova’s economy, as an example for other developing economies in similar conditions, will hopefully serve as benchmark in certain activities in the long-run.

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