

## **European integration dimension of Republic of Moldova as development path in a globalization setting**

Natalia ANTOCI\*

### **Abstract**

*In a global market economy, the opening towards outward, standard harmonization and convergence of national economies can create the necessary synergy in order to address the challenges of globalization. Republic of Moldova needs to develop partnership relations with European Union (EU) countries, which have experience in relation to commodity markets, and without which it is difficult to modernize the economy and diversify its export. Moldova's integration into the European Union allows increasing dynamism and sustainability of the economic system of our country and allows implementing a new model of economic growth according to EU Member States' experience.*

*Keywords:* globalization process, foreign trade, Association Agreement with EU

### **Introduction**

Currently, it is obvious that due to globalization and regionalization of world economy, efficiency and competitiveness of national economies can only be ensured by international institutional cooperation and integration of market infrastructure that would ensure fluidity and flow of capital, technology, information and so on and so forth. In a global market economy, the opening towards outward, standard harmonization and convergence of national economies can create the necessary synergy in order to address the challenges of globalization. If before the formation of centralized nation states in Europe, it has been based on the idea of consolidation (e.g. integration of nations), today they encounter another situation such as the strengthening of regional integration (e.g. internationalization), especially based on economic criteria. Therefore, based on these facts, it is not thoroughly and practically possible to explain the recurrence of formation process of new statehood according to old concepts. [1, p.263].

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\* Antoci Natalia, Doctor, lecturer at Moldovan State Institute of International Relations

### **Republic of Moldova's economic growth in a globalized world**

Thus, as part of the globalization process, the Republic of Moldova has no choice but to adjust to a very strong economic regional organization, especially when investments for this process come from outside the country. In this context, we consider that European integration is not only a mean to stimulate economic growth but also a catalyst to develop itself in the context of globalization challenges, in terms of enhanced international competitiveness and fully capitalized comparative advantage.

Comparative advantage means cheap but qualified labor, natural and geographic factors and good infrastructure. Republic of Moldova disposes of transport means and other communications that connect trading routes between East and West. If the advantages of our country are created by natural factors, and they usually are static and not reproduced, then the competition, to the contrary, is dynamic and changeable as it relates directly to innovation and investment resources, to market conjuncture, technical scientific discoveries and their implementation in the production process. In this sense, the antitrust policy and support for a competitive environment play an important role in the foreign policy formulation of Republic of Moldova. For instance, World Bank's experts consider the following aspects as relatively safe parts of Moldova such as scientific potential, qualified engineers and the existence of technological networks that connect different businesses into a unique production complex. The relatively weak parts are the following ones: weak competition at regional level, poor orientation with regard to consumer protection side (e.g. marketing) and low quality of production processes.

The increasing degree of market transparency enhances the requirements concerning the competitiveness of domestic goods and services. It is evident that Republic of Moldova needs to develop partnership relations with European Union (EU) countries, which have experience in relation to commodity markets, and without which it is difficult to modernize the economy and diversify its export. The development strategy is ineffective in terms of the possibility of achieving growth and competitiveness, as well as, equal positions in contemporary retail markets. In this context, it is very important for Moldova to increase its pace, quality of economic and commercial development that directly depend on its correlations with countries of the region and the world.

### **The role of political and economic cooperation of Republic of Moldova with European Union in a sustainable economic development of our country**

The integration process is an important factor to stimulate economic growth. It creates the right conditions and mechanisms to increase operational efficiency of Moldovan economy from behalf of convergence expenses, collaboration and reasonable implementation mechanisms of the European Union's instruments. [2,

p.24]. On the one hand, Moldova's integration into the European Union allows increasing dynamism and sustainability of the economic system of our country. On the other hand, it allows implementing a new model of economic growth according to EU Member States' experience.

Republic of Moldova's integration into European Union implies our country to enjoy of economic and political recognition that will have a high political level, economic maturity together with development and stability. After joining the EU, Moldova will become a country with an open economy. In these circumstances, it would quickly liberalize the movement of people, goods, capital, ideas and increase competition. As well, the labor migration vector will be oriented towards countries with a standard of living higher than in our country.

In case of an economic and trade integration with the European Union, the Republic of Moldova remains free to determine its commercial policy towards other trading partners (obviously, in accordance with its commitments as a World Trade Organization member). [4]. This means, by the way, that Moldova will be free to negotiate a free trade agreement with the Custom Union formed of Russia, Belarus, Kazakhstan or any other country in the world. This strategy is fully in line with the objectives of Moldova's economic and development imperatives. So far, the economic integration with the European Union has already brought some spectacular results. For example, the foreign direct investments from the EU in Moldova's economy have helped the country to find its strongest competitive advantage in completely new economic sectors, such as the production of auto spare parts. [3]. It is equally important for a long-term development of the Republic of Moldova, a country that is poor in natural resources, to boast a friendly and supportive business environment. It is extremely important for Moldova to progress not only in the economic but also social and democratic areas combined with a better-trained human capital and a predictable investment climate. Direct financial and technical support from the EU's behalf is a precondition for Moldova to remove its oppressive business climate and adopt a climate according to the expectations of a modern business culture.

Currently, the Moldovan economy develops unevenly and this fact reduces its economic stability. The situation depends on the circumstances of foreign markets and energy resources. The systematic EU enlargement is not only a form of struggle for markets, but also an attempt to move the border zone of stability and assign to it an essential security. Besides this, the enlargement of EU assigns a political importance for EU in the international arena and allows to essentially influence the creation and maintenance of the world order through such organizations like: United Nations, International Monetary Fund, World Bank, World Trade Organization, etc. However, in the context of globalization, it is important to protect the domestic market and to actively struggle for foreign markets of goods and services, including in developing markets. Therefore, knowledge, new technologies and scientific research centers must stand in the foreground of this process.

International Monetary Fund's observers, western experts and economists conclude that there is no structural restrictions in the economic sphere that would not prevent Moldova to develop fruitful trade relations, with a potential EU integration. It is remarkable the link of Moldova's economy to conjuncture fluctuations of world markets, but there are also some positive movements. The foreign trade is becoming more pragmatic and flexible. Therefore, it assumes a rational approach to problem solving and allows protecting the economic national interests of the Moldovan state.

With regard to Moldova - EU commercial relations, the best model is the model that involves the modernization strategy of development based on democratic liberalization in conjunction with rational protectionism that would provide a necessary competitive environment to stimulate accelerated growth. At the same time, there are issues with regard to Moldova's relations with the EU related to ensuring Moldova's unification as to deepen the partnership with the EU and ensure its integration into the European Union.

In my opinion, the existing experience of Moldova's cooperation with the EU consists of the following factors:

- Adjusting its fundamental interests and positions in the sphere of trade (e.g. advantages and gains from foreign trade, increased offer, etc.);
- Understanding the degree of mutual substitution and dependence between the EU and Moldovan economy;
- Highlighting the historical and cultural closeness intensified by common values in areas such as trade, economic freedoms and democracy.

EU policy stimulates the development of countries that aspire to join EU, but the success depends largely on the domestic potential of Moldova in connection to its speed and efficiency to carry out sustainable reforms. The general principles of harmonization of Moldovan policy to EU policy (e.g. participation, transparency, efficiency, consistency and priority) will determine the economic pattern of Moldova's development, in line with the European integration. The most important measures of institutional harmonization according to EU's standards are the market access improvement, increased investment, increased competition, reduction of corruption, improvement of confidence in reforms and credibility in economy.

The benefits and the costs of the EU enlargement will depend, in particular, on the coordination of two processes - deepening and widening the integration at the current stage, using the experience gained by the association of the states with varying degrees of socio-economic development. Moldova's EU accession process guarantees such advantages as: the peaceful, civilized development, the safe organization of partnership relations with neighboring countries, the continuous development of the trade, stabilization of democratic institutions, ensuring economic and social progress and the impossibility of returning to the authoritarian methods of administration.

Identification of technical-economic development priorities in key areas to enhance the competitiveness according to the indicators of the Lisbon Strategy to

the EU average - "improving the conditions for innovation activities and R & D, the development of the informational society, creation of a corporate environment conducive to business private economic sector". These priorities should be achieved through targeted programs financed with state support, concessional loans, public procurement and the provision of government guarantees for investments in equipment purchases which require a significant capital.

The respect of the economic policy principles and the harmonization of trade policies of Moldova and the EU, the changes in legislative and normative-legal acts are important for improving the competitiveness of the domestic and interregional markets, and are essential to the increase of the effective access to EU markets.

I believe that the harmonization of the mechanisms of economic growth in the EU and Moldova should include: the replacement of the organizational and economic institutions and mechanisms according to the European practice; active implementation of the advanced technologies borrowed for upgrading and developing the infrastructure; creating the foundation for the development of its advanced elaborations and innovations.

The political association and the economic integration will represent a new stage in the evolution of relations between Moldova and the EU. The legal, political and institutional aspects of the new stage will be set by the future Association Agreement with the EU, which would replace the current Partnership and Cooperation Agreement.

The Association Agreement with the EU will recognize Moldova's European aspirations and will cover a number of areas of cooperation which will aim to develop closer political relations and economic integration with the EU:

- The political dialogue, which will involve an increasing convergence of positions of both parties on international issues and common positions on security and stability domain in Europe;
- The regional cooperation as a tool for ensuring stability and security in the European neighborhood;
- Free circulation of goods through the gradual establishment of a free trade zone with the EU;
- Free movement of labor by ensuring non-discriminatory treatment of Moldovan citizens legally employed in work in EU Member States;
- Free circulation of services and capital under the most favored Nation State in economic relations with the EU;
- The legislative harmonization that will entail the gradually increase of the compatibility of Moldovan legislation with the community acquis;
- The justice and the home affairs, which will include strengthening of the rule of law, development of state institutions that are responsible for law enforcement, preventing and combating crime and other illegal activities;
- The policies of cooperation in the economic, research and technological development, regional and local development, statistics, etc ..., all designed

- to assist the economic and social development of the Republic of Moldova;
- The financial cooperation, which will set the principles and criteria under which Moldova will benefit from EU financial assistance to implement the objectives of the Association Agreement.

By signing and implementing the Association Agreement with the EU on June 28, 2014 the Cabinet of Ministers approved a draft legislation on ratification of the Association Agreement between the Republic of Moldova, on the one hand, and the European Union, on the other hand, signed on June 27, 2014 in Brussels.

On July 2nd, 2014, the association agreement between Moldova and the European Union have ratified the plenary session of Parliament.

At the plenary session of the European Parliament of 13 November 2014, 535 deputies voted to ratify this document, 94 against, 44 deputies abstained. The legal and institutional framework of relations between Moldova and the EU is defined by the Partnership and Cooperation signed on 28 November 1994 and entered into force on 1st of July 1998, for a period of 10 years (after the expiration of 10 years being automatically renewed each year).

APC was, above all, a commitment between Moldova and the EU on behalf of the affirmation of democratic values. Through this agreement, the parties agreed to promote a political dialogue designed to strengthen their approach to support political and economic changes in Moldova, contributing to greater convergence of positions on international issues of mutual interest to encourage their cooperation issues on respect for democratic principles and strengthening stability and security in Europe.

In addition to governmental cooperation, trade is one of the main forms of economic cooperation between Moldova and the EU, providing a direct impact on growth and economic development of the country. In the period of January - February 2015, the exports of goods to EU countries (EU-28) amounted to 210.8 mln. dollars (6.7% more than the same period in 2014), accounting for 67.3% share in total exports (55.1% in January-February 2014), the data of the National Bureau of Statistics shows. Thus, the EU countries have supplied goods worth 242.4 mln. Dollars (21.8% less than in January-February 2014) and the imports of goods from CIS countries decreased by 28,3% and amounted to 184.4 mln dollars. Note that the import volumes decreased for all major trading partners of Moldova. So, the deliveries of the Russian Federation were reduced by 23.1%, those from Ukraine - by 37.7%, from Romania - 24.3%, Italy 24.6%, China 12.4%, Belarus by 49.5%, Germany 14.7%. The gap in exports and imports resulted in January-February 2015 a trade deficit of 260.3 million dollars, 116 mln .dollars (-30.8%) lower than that registered during corresponding period in 2014.

The chronic deficit of the trade balance with EU countries, in particular, and significant import pressures lead to reduced production of domestic goods. Therefore, the situation may create branches, which are characterized by unstable development (engineering branch, some types of food and light industry), limited exit opportunities in foreign markets, reduced financial indicators. Also, the costs

for manufacturing production in harmonizing technical requirements with European standards lead to bankruptcy of many agricultural enterprises. Agriculture becomes uncompetitive with imported production. The competitive positions of the export of certain types of goods: clothing, metals and metal products, electrical equipment get worse in connection with trade liberalization and trade preferences from the EU to countries in the developing world. It depends very much on the situation of foreign markets and energy prices.

### **Conclusions:**

Approximation of EU borders with Moldova directly opens lots of possibilities for expansion and development of the service sector, but in this case it depends very much on the state and development of the infrastructure, as well as the capacity of the Moldovan business to adapt to the new conditions. For example, the transportation services, the cargo processing, the storage and dispatch of cargoes and advisory services, the banking information will become the most requested. However, given the increasing competition, they must be more attractive to business than in foreign countries. Thus, already today, it is important to study the market conditions for alternative proposal. Therefore, if Moldova wants to implement major projects, it has to demonstrate that it is a fully independent country that can guarantee political and economic stability

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