

**FOREIGN DIRECT INVESTMENTS IN MOLDOVA: EVOLUTION,
TRENDS AND EFFECTS**
**(INVESTIȚIILE STRĂINE DIRECTE ÎN MOLDOVA: EVOLUȚIA,
TENDINȚELE ȘI EFECTELE ACESTORA)**

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***Rezumat:** Impactul investițiilor străine asupra economiei este incontestabil: lanțul de efecte pe care le creează se răsfrâng atât asupra producției de bunuri și servicii, cât și asupra consumului, motivând simultan cererea și oferta. Investigațiile propuse prezintă o analiză statistică a fenomenului Investițiilor Străine Directe (ISD) asupra economiei Republicii Moldova, cât și problema stimulării atragerii capitalului străin prin prisma prevederilor strategiilor emise recent.*

***Cuvinte-cheie:** investiții străine directe, moldova, strategii, investitori, Draxlmaier Group*

JEL CLASSIFICATION: F2; G28

INTRODUCTION

At the current stage, according to „Strategy of investment attraction and export promotion for 2006-2015” provisions the attraction of investments and export promotion is the strategical priority of Government of Republic of Moldova. Therefore it motivates me to enroll myself in the thorough study and analysis of the topic of Foreign Direct Investments (FDI) in Moldova. Analyzing the beginning of the FDI trend, I noticed that until 1997 amount of investment was insignificant, because the Government was paying more attention to obtaining foreign credits than foreign investments. So that, one of the major drawbacks for the Republic of Moldova in the transition period was the absence of a clear strategy in the field of investments: industrial and investment policies. Compared to other countries in the region the investment climate [1] is not an advantage for the Republic of Moldova. This fact denotes both Moldova's position in international ratings, as well as the direct comparison of macroeconomic and performance indicators on attracting FDI between countries.

BASIC CONTENT

Moving to the subject of FDI per capita and FDI share of GDP [2], figure 1 shows the FDI stock per capita in USD for different countries in 2015. The top performer in this comparison is Estonia with an FDI stock per capita of over USD 14,000. Moldova has the second lowest stock in this group with around USD 741 per capita, a lower stock has only Ukraine with USD 623. Therefore, the Moldovan FDI capital stock is quite low according to this comparison.

These results are submitted considering the issues:

1. Official data overestimate the population of Moldova - the official number is around 3.5 m, however the census in 2014 came to a result of around 3 m people;
2. Countries differ strongly in terms of GDP - countries that are economically bigger tend to have higher levels of foreign direct investment.

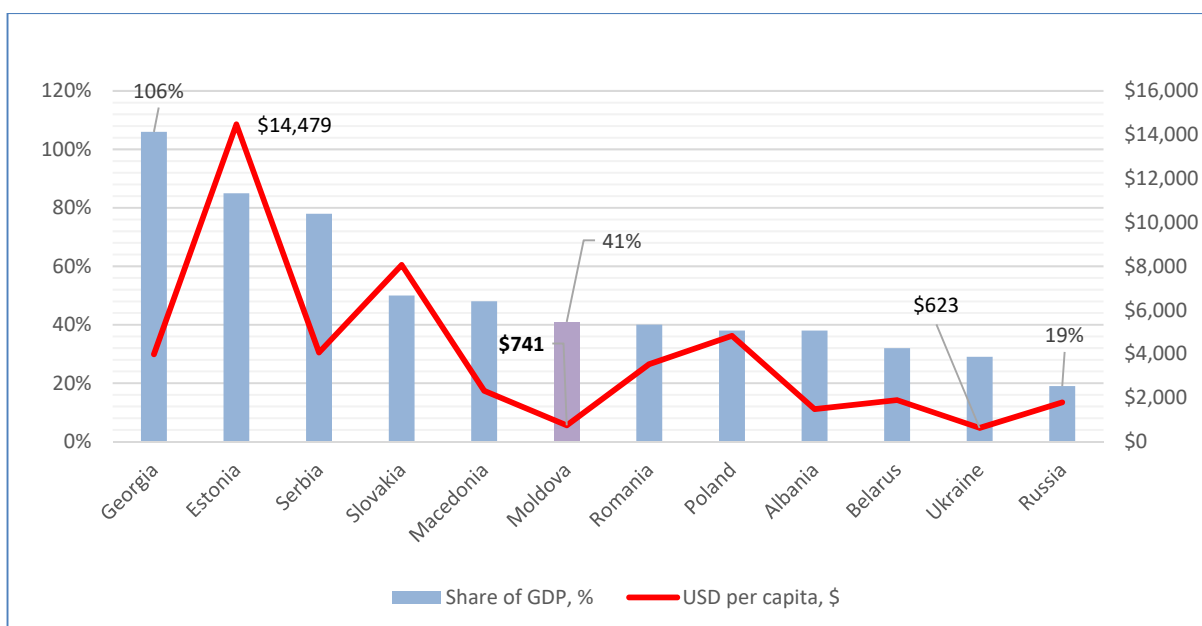


Figure 1: The share of foreign direct investments in GDP and FDI per capita, 2015

Source: IMF CDIS, 2015

A comparison of FDI stock with GDP shows a much more favorable picture. Moldova now holds a position in the middle. The FDI stock in USD now represents about 41% of GDP. Georgia has a peak value with an FDI stock that is higher than the annual GDP, mainly due to large investments in the tourism sector as well as infrastructure. The assessment of the Moldovan FDI stock is low to medium. The FDI per capita was USD 741 in 2015 or 41% of GDP, but the number has increased to 53.1% of GDP in 2016, meaning that FDI have a great impact over Moldova's economy. In addition, the big weight of the reinvested income from the total amount of FDI shows the long-term confidence of the businessmen that have already invested in the local economy. Therefore, there is plenty of room for improvement and it makes sense to further support FDI attraction.

At this specific point, by analyzing statistical data we get to main question: „*Why should foreigners indeed invest in Moldova?*”. And here is the answer :

- We possess suitable platform for manufacturing and exporting goods both to the CIS and to the EU countries;
- We provide market access through Free-Trade Agreements including: World Trade Organization (WTO), Deep and Comprehensive Free Trade Agreement (DCFTA), Central European Free Trade Agreement (CEFTA), Commonwealth of Independent States (CIS) International Monetary Fund (IMF), International Development Association (IDA), European Bank for Reconstruction and Development (EBRD) [3];
- We possess considerable network of operational Double-Tax Treaties and Investment Protection Agreements, in addition, competitive general corporate income tax [4] level in the region is 12%;
- Entrepreneurial activities are under preferential terms and conditions developed in free economic zones and regulated by improved legal framework;
- We assure investors with highly-skilled multilingual human capital, providing also relatively low employment costs.

Due to the factors listed above we can see a rich, diversified spectrum of FDI from the neighboring regions, so that 11300 companies with foreign capital are registered in the Republic of Moldova. According to the National Bank of Moldova (NBM) Coordinated Direct Investment Survey (CDIS) [5] database total FDI was USD 2,634 m in 2015. Figure 2 shows the breakdown of source countries.

As you can see, Russia is the most important source country for Moldovan FDI with 28% (One reason for the high share is the fact that Russian Gazprom owns 50% of the natural gas supplier Moldovagaz, which was acquired through a debt to equity swap in 2000. Russian FDI consists mainly of debt rather than equity). However, the countries that follow are all members of the EU. After adding up all investments from the EU, this shows that 61% of Moldova's FDI comes from the EU. The EU is therefore of paramount importance for Moldovan FDI.

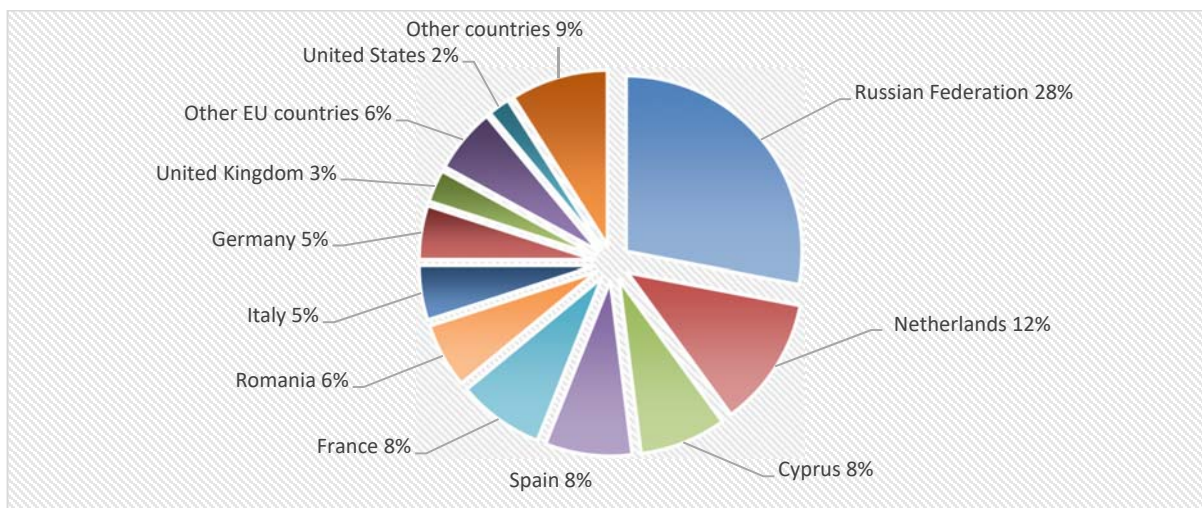


Figure 2: Foreign direct investments by foreign countries, 2015

Source: NBM, 2015

The figure 2 shows also that Cyprus is the third most important country for FDI after Russia and Netherlands, which seem not so real. In fact countries invest via Cyprus or the Netherlands through offshore companies, as this is easier from a legal point of view and perhaps in some cases also for other reasons. Nevertheless, we believe that this chart is a good approximation of the real situation as European companies also use offshore companies for business.

The main economic activities benefiting from foreign investments (according to the stock of direct equity investments) are: financial and insurance activities (26.5%) and manufacturing (25.9%) of the foreign direct investment stock under equity form. Other activities that attracted foreign investors were trade, energy, information and communications, transportation and storage, real estate transactions. Also in here, I find myself obliged to list the most influential foreign companies and their area of business which are investing in our economy: *Group Societe Generale, Veneto Banca, Lukoil, GazProm, Union Fenosa, Knauf, Lafarge, France Telecom MI, METRO Group, Dräxlmaier Automotive*.

The case of “Dräxlmaier Automotive” [6] can be considered a game-changer for the Moldovan economy due to its major and multilateral contribution to the development of the country, where the company left a long-lasting footprint in such areas as:

- Development of a new sector with a clear competitive advantage;
- Job creation;
- Integration with other industries;
- Contributing to the reform of the educational system;
- Attracting other FDI.

Moving down I would like to emphasize a number of strategies that Republic of Moldova have adopted and are being applied in the current period, namely “Moldova2020”. The major analyzed strategies [7] are following:

- The most important aspect of the Strategy consists in its integrated approach.

- The Investment Attraction and Export Promotion Strategy 2016-2020 has been designed to contribute to enhancing and structural diversification of Moldovan exports.
- FDI have an essential role in accelerating investment activity and closing the technological gap.
- The Strategy inter-relates with other development strategies adopted in the Republic of Moldova, exactly Strategy for the Development of the Vocational / Technical Education for the period 2013-2020.
- The Strategy objective of export development will be met mainly by attracting foreign and domestic investments to export-oriented sectors.
- Strategy targets a small number of industrial sectors, which are the most promising in terms of their FDI attraction, jobs creation and export promotion potential for the next 4-5 years.
- Prioritizing one industry by no means disadvantages the other sectors.

CONCLUSIONS

Looking through the prism of evolution of Republic of Moldova within the Foreign Direct Investment phenomenon brought me to the conclusion that despite of its low to moderate investment climate, of its bureaucratic economic and political system, of low-reliance of foreign investors, there is a chance to improve the investment climate by issuing optimized strategic laws and energetic involvement of Government in the economic life of the country. Thus, the improvements will be expressed by increased exports, large number of reliable companies motivated to implement innovations and being capable of creating attractive jobs for ensuring higher productivity and export-oriented competitive production. Inevitably, this will be reflected in the improvement of the macroeconomic indicators and further advancement of the Republic of Moldova in international rankings.

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