

## **The advantages and impediments in fostering Republic of Moldova- the European Union economic cooperation**

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**Abstract:** *Despite considerable efforts and funding, the reform implementation process in the Republic of Moldova meets important difficulties especially in the areas of strategic significance including the fields of public administration, justice and banking sectors. The initiatives implemented in these sectors by the Moldovan authorities under European supervision proved to be inefficient as they did not reach the expected results. This situation leads to dragging down the pace of European integration of the country, as the trust of the population and of foreign partners regarding European future of Moldova was negatively affected. Thus, this research intends to identify the most important impediments of bi-lateral cooperation between the Republic of Moldova and the European Union. Also, some recommendations are provided to increase the actual status-quo and are specified main Moldovan economic advantages which have been registered since the acceleration of cooperation with the EU.*

**Key-words:** Economic cooperation; European financing; Economic competitiveness; Economic freedom;

### **Introduction**

The effectiveness of cooperation is usually judged by the supposition of inputs against outputs. In the case of cooperation between the Republic of Moldova (RM) and European Union, the inputs could be considered the financial and technical resources extensively provided by the European countries to Moldova as well as the Moldovan commitment to implement effectively reforms and specified projects. Accordingly, the outputs relate to sectorial transparency, rise in the level of living of population and strong and independent institutions the Rep. of Moldova committed to aspire to. Yet, the results or in our case the outputs are not satisfying, and in some areas even disappointing such as the promotion of the rule of law and fighting corruption. In such a way, the reluctance of Moldovan authorities regarding justice and public administration reforms' implementation and, in patches, the European lack of control upon financial resources allocation caused the Moldova to lag behind in terms of creating competitive and lucrative environment for socio-economic development. The internal political obscurity of Moldovan decision making factors and the lack of promptness and in some cases of asperity, from the EU part caused the raise of EU scepticism within the Moldovan society. Therefore, it can be

remarked that during the ten year period of cooperation with the EU, the preference of population for EU integration decreased from 68% in November 2006 to 38% in October 2016 [1]. Thus, it is generally recommended that the European Union need to change the approach in cooperation with the Republic of Moldova from the actual top-down, promoted in the last years including in the economic sector, to the bottom-up one. In such a way, it will be possible to rebuild the population trust in the EU's willingness to support people and businesses and not the bureaucratic apparatus in the country.

Nevertheless, to have a better understanding of the impediments in fostering the cooperation between the Republic of Moldova and the European Union, it is necessary to have firstly an impartial view upon the advantages the first receives by building closer economic collaboration with the community partners. A more intense participation of Moldova in the community supported projects is of high convenience for the socio economic prosperity of the state as the European Union represents by far the most promising economic partner of the Republic of Moldova in terms of trade, investment and development assistance. The conclusion of the AA and consequent adoption of DCFTA trade regime in fact could provide additional economic opportunities for the Rep. of Moldova in the future if the process of reformation of the country is properly managed. With a population of 510 million inhabitants (6.9% of the world population); a territorial area of 4,324,782 km<sup>2</sup> (2.9% of global area); a GDP (PPP) reaching \$19.7 trillion (16.4% of world GDP); representing a union of 28 democratic states with a strong and competitive market driven economy; the EU offers a more competitive model of socio economic development for the Republic of Moldova than the one existing in the country at the moment or proposed by the Russian Federation through the Eurasian Economic Union. In such a way, the present paper intends to impartially describe the main advantages for Moldova in fostering the cooperation with the European Union and point out the impediments which are widely exploited by populists in distorting public opinion regarding the community.

### **1. Main Moldovan economic advantages in fostering cooperation with EU**

The main economic advantages the Republic of Moldova is going to benefit from deepening the cooperation with the EU comprise both technological and socio-economic aspects regarding the proper economic efficiency and also public institutional functionality. Firstly, a deeper level of economic cooperation with the European Union will help the country to strengthen its institutional framework taking into consideration the current issues linked to red-tape and cost expensive bureaucracy. In such a way, the conclusion of the AA and DCFTA, besides the economic and commercial aspects in terms of tariff and non-tariff trade barriers reduction and facilitation of commercial exchanges, comprise the aspects of countries reformation in order to absorb the western advanced experience regarding governance and justice, border management and transparency. As it was mentioned in the sections above, the reformation of public administration and justice sector of the Republic of Moldova is crucial taking into consideration the modern challenges of globalisation.

Second advantage provided by a deeper level of economic cooperation with the European Union which the Republic of Moldova is benefiting from includes more profound technological transfer. The reduction of tariff and non-tariff trade barriers allow the country to import advanced technologies from the countries of the European Union at a lesser cost, thus creating favourable pre-conditions of trade growth in this area of strategic importance for further development. So, the internal market of the RM will have a larger range of possibilities to absorb technological capital and develop high complexity economic clusters. This fact will affect directly or indirectly all economic sectors motivating the growth in sectorial competitiveness. The technological development will allow the country to create higher value added per capita which in its turn will raise the level of living.

Third advantage provided by a deeper level of cooperation with the countries of the European Union is the absorption of modern entrepreneurial practices and modern business culture. The conclusion of the AA and the creation of DCFTA foster the formation of a strong institutional component. In this way, it is empowered the functionality of the market economy in the country which is to be more functional and performant meeting the requirements of the EU. This factor is essential as a performant market driven economy considers a high degree of sectorial cooperation and interaction among the main economic actors including entrepreneurs, government and consumers.

Fourth advantage includes better perspectives of attracting FDI which is fundamental considering the economic development. The increasing cooperation between the Republic of Moldova and European Union within the period of y. 2006-2016 led to higher institutional inter-connection. It empowers the adjustment of the national legislation and institutional framework to the standards adopted by 28 EU states. Impartial, transparent and lucrative institutions and legislative framework is of high importance providing additional security for national and international investors interested in building businesses in the Republic of Moldova. Despite of multiple difficulties in the area of FDI attraction, the Rep. of Moldova pursues the commitments of AA which once realised are meant to assure a functional business environment.

Fifth advantage is related to the trade opportunities the Republic of Moldova has since the conclusion of AA and consequent enforcement of DCFTA. The DCFTA increases the access of Moldovan producers to the EU market, they will have even larger opportunities when the process of alignment to EU safety and health standards will be fully implemented. The full completion of food safety reform will offer new possibilities to the Moldovan farmers to export agricultural goods to EU in larger quantities and at a higher price. According to a study performed by the EU External Action Service in 2016, the proper implementation of the reform process and full access of Moldovan farmers on the community market will foster GDP growth of the state with 5.4% annually. Moreover, the AA and DCFTA are compatible with all trade agreements the Republic of Moldova is member of, including the membership in CIS. Also, Moldova maintains full control of its trade policy as it has no membership in any customs union. In general, the domestic policies which the Rep. of Moldova pledged to implement alongside with the EU support and

development assistance will open for Moldova new trade opportunities as it will reach full compliance with EU standards.

Sixth advantage provided to Moldova by a deeper level of cooperation with the European Union is the enlargement of development assistance. Since y. 2006, the level of development assistance provided by the European Union to Moldova has considerably increased amounting to almost EUR 1 billion. It mainly targets strengthening the rule of law and improve of business environment. Many resources have been allocated towards making more efficient the public administration, rural and agricultural development as well as to proper management of border and transparent police and justice. Many achievements have been accomplished; nevertheless further efforts should be directed towards these sectors of strategic importance for further European Integration of the Rep. of Moldova. Only for the years of 2014-2017, the EU through the instrument of ENP planes to provide the Republic of Moldova with EUR 335-410 million if necessary reforms will be realised. According to the same EU External Action Service report, it is estimated that in the Rep. of Moldova with the assistance of the community have been created 20 000 jobs all across the country. Furthermore, additional funding of EUR 400 million is available for Moldova through the intermediation of regional funding mechanisms of Neighbourhood Investment Facility. Cumulated, there are 21 programmes implemented by the European Union in the Rep. of Moldova in the area of governance, democracy, human rights and support for economic and institutional reforms. Besides these, additional 6 programmes in the field of trade and regional integration, 10 programmes in the area of infrastructure, communications and transport, 5 programmes intended to improve the sector of water and energy, 4 programmes in the area of social cohesion and employment. At the same time, the EU is stimulating the human development in the Republic of Moldova with 5 programmes, the area of rural development by 1 programme, conflict prevention 4 programmes, and other 6 programmes for multi-sectorial purposes.

Concluding the above paragraphs, it can be mentioned that the European Union is an important economic partner of the Republic of Moldova which not only provides trade and investment opportunities, but also learning, transfer of knowledge and technology and high quality experience in terms of entrepreneurship and business. The last decade cooperation between EU and Moldova not only provided economic benefits to our country but also an integrational perspective which will enable the Republic of Moldova to join the community in the future as the AA and DCFTA tend to align RM economic and socio-politic standards to the EU accepted one.

## **2. The impediments in fostering the Republic of Moldova –European Union economic cooperation**

An important dimension to be analysed regarding the impediments in fostering the economic cooperation between the Republic of Moldova and the European Union regards poor economic competitiveness of the first, which can affect economic growth in the conditions of increasing economic competitiveness from the EU producers. Albeit, the Republic of Moldova

did not completely liberalised the market for EU businesses, there is a considerable risk that the country will not manage to achieve in the future 10 years an economic competitiveness level able to match that of the EU states. So, it can be remarked that within the period of y. 2006-2016 the Republic of Moldova registered weak economic competitiveness which has been affected by the lack of FDI inflows, poor FDA (foreign development assistance) management and raise in uncontrolled consumerism. In order to find out the level of economic competitiveness of the Republic of Moldova it is necessary to examine table 1.

**Table 1: Global Competitiveness Index rank of the Republic of Moldova**

Period	2006-2007	2008-2009	2009-2010	2010-2011	2011-2012
Rank	86 (out of 125)	95 (out of 134)	not included	94 (out of 139)	93 (out of 142)
Score	3,71	3,75	not included	3,86	3,89
Period	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Rank	87 (out of 144)	89 (out of 148)	82 (out of 144)	84 (out of 140)	100 (out of 138)
Score	3,94	3,94	4	4	3,86

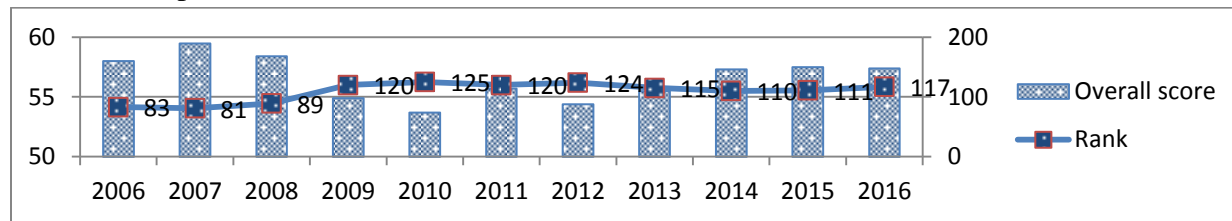
**Source:** *Designed by the author based on WEF data [2]. Available at: [www.weforum.org](http://www.weforum.org)*

It can be concluded that the Republic of Moldova has not substantially improved its economic competitiveness in terms of score in the period of y. 2006-2016. Nevertheless, in terms of rank Moldova has dropped 14 positions in just 10 years, the fact demonstrating that the world's competitiveness has increased at a higher extent on average. It can be remarked that the best rank of the Republic of Moldova was 82<sup>nd</sup> position.

It is necessary to mention that the economic competitiveness of the Republic of Moldova significantly decreased in the period of 2016-2017 losing 16th position in comparison with the previous period the fact which is a direct consequence of economic and political difficulties the country met in the last period. In such a way, it can be underlined that broadening the economic cooperation with the European Union slightly increased economic competitiveness of Moldova in the researched period with little effect on the attraction of investments. The aggravation of economic situation in the Rep. of Moldova caused the weakening of Moldovan economic potential, while the reluctance of reforms implementation reduced the level of trust of foreign partners, including of the European Union one, in the ability of the current authorities to pursue EU integration the situation leading to the cessation of FDA allocation.

Another important indicator which should be taken into consideration when assessing the impact of politico-economic impediments upon the level of economic cooperation with the EU is the level of economic freedom registered by the Republic of Moldova. The economic freedom describes the critical relationship between the business environment, employees and the government. It assesses the level of government's ability to create favourable conditions for businesses and individuals as to enforce the mutual sense of liberty. Through the Index of Economic Freedom it is analysed the main socio-economic aspects characterising the functionality of society, businesses and institutions in terms of rule of law, government size and

its effectiveness, taxation, regulatory efficiency (including business, monetary and labour liberty) and market openness for investment, trade and finance.



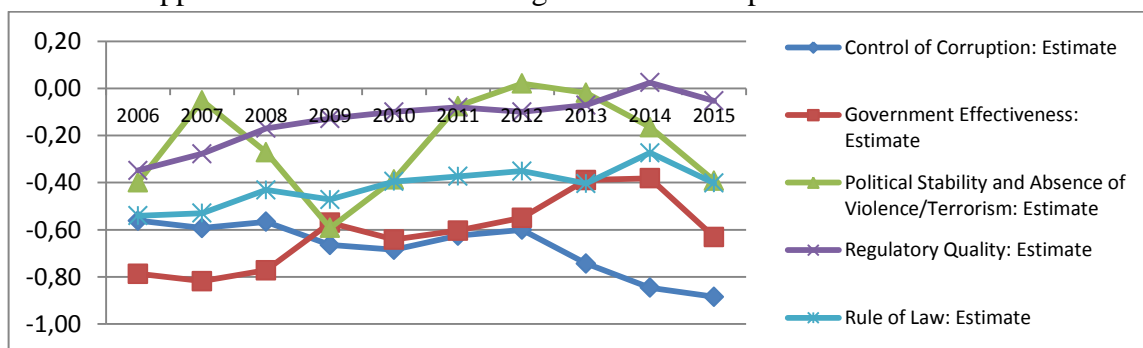
**Figure 1: Index of Economic Freedom of the Republic of Moldova**

**Source:** *Designed by the author based on data provided by the Heritage Foundation [3]. Available at: [www.heritage.org](http://www.heritage.org)*

Taking into consideration the information presented in figure 1, it can be highlighted that there have been made poor efforts by the Moldovan decision making factors in order to improve economic freedom of the country. It is a determinant impediment in enlarging the area of cooperation with the European Union, the economic freedom being one of the basic indicators of country’s economic attractiveness. The Rep. of Moldova needs to improve this aspect as to assure better prospects for development. In such a way, it should be noticed that despite of the reformation road-map provided by the European Union, the passivity of Moldova in fighting the corruption and ineffective bureaucracy caused poor evolution of state’s economic freedom.

Analysing the information provided above, it can be underlined the fact that the process of reform implementation in the Rep. of Moldova to meet the European Union standards encounters several difficulties in areas of institutional functionality including especially justice and public administration.

Nevertheless, on overall the deepened economic cooperation with the European Union countries raised the governance standards in the Republic of Moldova due to the implementation of the EU experience (figure 2). The reforms implemented in the period of y. 2009-2013 led to signing the AA which established further framework for bilateral cooperation including in the economic field supposed to lead to the EU integration of the Republic of Moldova.



**Figure 2: Worldwide Governance Indicators min(-2.5) and max (2.5) reported by the R. of Moldova, y. 2006-2015 [4]**

**Source:** *Designed by the author based on data provided by the WB. Available at: [www.worldbank.org](http://www.worldbank.org)*

According to the figure 2, it can be observed that the Republic of Moldova in the period of y. 2006-2014 recorded positive dynamics of all indicators excluding the control of corruption. In such a way it is worth mentioning that the Rep. of Moldova registered improvements in the area of regulatory quality due to the implementation of EU's normative. The same directions are followed by the rule of law whose quality also has grown in the period. Also, it can be observed that the government effectiveness grew in dynamics as well as the indicator of political stability. However, it should be mentioned that for the y. 2015 the all indexes registered a decrease, this fact being a direct result of alarming corruption, social inequality and political instability. Moreover, they are direct indicator of unfavourable evolution of Moldovan banking system causing weak economic evolution dragging down the socio-economic stability of the country.

### **3. Prospects and recommendations for improving the actual status-quo of EU-Republic of Moldova economic cooperation**

Nowadays, the Republic of Moldova achieved an important success by concluding AA with the EU which provides main guidelines and represents a roadmap of achieving social, political and economic cohesion with the countries of the European Union. At the same time, the country should take into account the experience of the East European nations (further EEN) which successfully integrated into the community in y. 2004, 2007 and 2013. By learning from these states experience, the Republic of Moldova will be able to accelerate the European integration of the country as the main mistakes and difficulties are supposed to be taken into consideration. These countries represent a whole range of treats characteristic and for the Republic of Moldova including common communist past, economic difficulties of 90's, problems of market economy formation and of privatisation. Moreover, the Rep. of Moldova can learn from the states' experience in combating corruption and red-tape, essential conditions to assure working economic environment as to attract internal and foreign investments [5], p75-76]. In this regard, the East European nations, member of the European Union could be considered as success examples and suitable for Moldova, whose proper European integration road was abounding in issues to be dealt with [6], p8].

Further, there will be analysed the most important points of these states' experience to be taken into consideration and the recommendations as to improve and accelerated the economic development of the Rep. of Moldova and bring the economic cooperation with European states at a more complex level. Thus, the Republic of Moldova will be able to a build socio-economic environment matching, even surpassing, in competitiveness the European Union one. The integration into the European Union of former socialist nations could be considered a major achievement of the East European region as a whole, the EU representing a symbol of democracy, human freedom and effective market economy.

Nevertheless, it should be mentioned that the European integration of EEN was a long-run process of economic restructuring and adjusting to EU requirements based on a throughout socio-political reformation as to assure the suitable institutional framework. A relevant example of how right approach towards implementing reforms and initiatives improve countries' socio-

economic environment and institutional framework meeting the pre-established requirements of the European Union is shown by the Visegrad group states including Poland, the Czech Republic, Hungary and Slovakia. The Visegrad states have registered important progress in terms of economic development succeeding in re-building and re-forming the inherited communist economic potential assuring high degree of competitiveness based on best modern experience. They overcame the difficulties and crises of 90's realising successful transformation from planned economy towards market driven one [7], p85-101].

The Visegrad countries managed to overcome corruption and red-tape damaging to economic and entrepreneurial freedom, the countries' experience being an important example for the Republic of Moldova to combat these impediments towards deepening the economic cooperation with the European Union. Also, the countries created favourable environment to attract national and foreign investment the fact which considerably accelerated the countries' economic development and the growth of socio-economic welfare of the population.

These states unrolled the process of the privatisation in a more effective way than the Republic of Moldova. They succeeded in attracting foreign direct investment and restructure their industries due to stable and transparent socio-economic environment, while the Republic of Moldova failed at this chapter. The privatisation process in the Republic of Moldova was made with multiple moral and law violations, when profitable enterprises were brought to bankruptcy. Afterwards, the state enterprises whose assets valued millions of dollars were privatised on cents. In such a way, it can be easily identified the link between the illegal privatisation process and the impairment of institutions of Moldova leading to the deterioration of economic development prospects. Thus, the causes of the current precarious economic situation in the Republic of Moldova are deep rooted in the 90's when the FDI attractiveness potential was ruined and economic development prospects minimised. The Visegrad countries have undertaken reform implementation process in all economic sectors including taxation, industry, agriculture, government procurement one European Union manner, at the same time building effective justice and public administration systems. The Visegrad countries concluded AA with the EU in the period of y. 1994-1995, succeeded to realise the provisions within several years as to become member states of the European Union in y. 2004. In such a way, if the Republic of Moldova aspires to integrate into EU, it should implement reforms on a pragmatic and effective taking into consideration the experience of Visegrad nations.

Another important point which should be taken into consideration regarding the European integration experience of the Visegrad nations concerns the states' experience in managing development assistance and attracting FDI. The countries have spent much time in developing legislative rules, agencies and most important effective procedures as to build economic processes capable of absorbing FDA and FDI transforming these resources into economic development and growth [8], p10-17]. The governments of these nations have invested much in creating favourable business environment as to accelerate socio-economic development oriented mostly on long-run prospective. The policies promoted were both oriented towards assuring macroeconomic stability and insure microeconomic flexibility, as to meet the nowadays



requirements of modern dynamic world. In such a way, it was promoted policies of combating the inflation, reducing the taxation burden upon entrepreneurs, liberalising the labour market, creating more effective system of acquiring real-estate and establishing new companies. They focused on privatisation of utilities, telecommunications and financial sector which provided the countries with additional economic advantages in terms of FDI [9], p63-70].

Also, the states created favourable conditions for the efficient use of funding by creating wide working infrastructure. The priority was set on the people with initiative whom the governments offered the most support in terms funding and technical advice. Therefore, the Republic of Moldova should overcome the problems of corruption and ineffective bureaucracy to succeed in attracting FDI and provide more efficient use development assistance. The European Union should support the people of the country in this regard. In this way, it will be created favourable pre-conditions for economic development and EU integration of the Rep. of Moldova.

Therefore, the experience accumulated by these countries will be a considerable input in accelerating politico-economic reformation of the country to meet the modern competitiveness requirements. The main advice from the Baltic States the Republic of Moldova should take into consideration in pursuing the European Union integration regards the following areas: unity of national decision making factors in following the strategic goals of society and national interests which is the key for effective reform implementation process in a country. Moreover, the reforms should be de-politicized. They are to be entrusted to technocrats and pragmatic specialists the payment of whom should be commensurable with their responsibilities. Furthermore, the initiative should be well-coordinated at the institutional level.

## **Conclusion**

The success of an effective economic cooperation with the countries of EU resides in the responsibility of the governing elite for implementation of reforms committed through the conclusion of the AA. Thus, the governing elite of the Republic of Moldova should set national reform priorities ahead the individual petty economic interests. There should be undertaken efforts which are to be supported by the EU in order to eliminate red-tape and eradicate corruption, two-main impediments the country face in effectively implementing economic reforms. In such a way, the European integration of the country will improve the actual socio-economic environment providing better opportunities for population and business people. The idea highlighted in this research is that the Republic of Moldova, based on the experience of European Union, can build even stronger economic ties with the community member states fitting into their economic clusters. The responsibility of Moldova is to create favourable environment for doing entrepreneurial activities keeping up economic standards and reducing at the lowest possible level the implication of the state. Moreover, the Rep. of Moldova should look forward to promote higher productivity industries in the country as well as new prospective directions characterised by more progressive and innovation requirements. In such a way, there will be possible to boost the degree of economic cooperation between the Moldova and EU

including in the trade and investment fields. In this situation both parties will have to benefit as there will be reduced the economic costs and financial waste.

It could also be mentioned that broadening the economic cooperation with EU countries requires both responsibility and pragmatism which needs to be shown by Moldovan government decision making factors and EU representatives. The success of reforms do not only consist of funding which was provided by the EU representatives extensively in the period of y. 2006-2016, but also from political will-power which certainly the Rep. of Moldova's authorities are in lack of. In such a way, it is necessary to re-think the framework of current economic cooperation between the Republic of Moldova and the European Union which should be based on mutual orientation towards improving the current living and business conditions in the Republic of Moldova.

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