

ECONOMIC GROWTH IN THE REPUBLIC OF MOLDOVA – TODAY'S CHALLENGES AND OPPORTUNITES

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This article is interesting for businesses, including entrepreneurs and potential investors, as well as for the governmental organizations and public authorities. It provides both an evaluation of Moldova's position on the international socio-economic arena in context of globalization, and suggests action-points and recommendations potentially supporting the growth of the private sector, at the same time fighting poverty and enforcing sustainable economic growth. The purpose of the article is to investigate the influences and challenges of globalization, which, on the one hand, is a positive enabler of global economic development, yet on the other, is a proxy of growing inequality gap between developed and developing economies. Globalization limits the opportunities for qualitative economic growth for a number of developing countries, such as Republic of Moldova, that consequentially are trapped into the 'vicious circle' of poverty. Developing economies must find a way to survive, to restructure towards growth and to remain competitive. To do so they must innovate (technologically and otherwise), since they lack some of the key resources available to the developed industrial economies. One of the main conclusions of the paper suggests that in light of the forthcoming Fourth Industrial Revolution Moldova will have the possibility to 'leapfrog' through several stages of the structural ladder at a time entering the path towards qualitative economic growth. Thus, such nations as Moldova do have the potential to break out of the poverty circle and towards qualitative economic development. This particular study is based on the results of the analysis of both quantitative and qualitative indicators of growth of national and international relevance, allowing to track and interpret changes in the economic structure overtime.

Keywords: globalization, inequality, economic growth with the development, developing countries, "vicious circle of poverty", "structural ladder", investment, infrastructure, high-technology, technology, innovation.

Articol prezintă interes pentru antreprenori, investitori, funcționarii publici, deoarece conține evaluarea poziției Republicii Moldova în economia mondială în fața noilor provocări ale globalizării, și recomandările referitoare la posibilele direcții de dezvoltare a afacerilor și de reducere a sărăciei în țară și de asigurare a creșterii economiei durabile. Scopul acestui articol – investigarea influenței noilor provocări ale globalizării, care, pe de o parte, este un factor pozitiv, dar, pe de altă parte, sporește decalajul dintre țările dezvoltate și cele în curs de dezvoltare. Globalizarea limitează posibilitatea creșterii economiei reale în unele țări în curs de dezvoltare, inclusiv și în Republica Moldova, care, prin urmare, se încadrează în așa-numitul „cerc vicios al sărăciei”. Aceste țări trebuie să găsească modalitate de a supraviețui și de a fi competitive, să fie creative și inovatoare, deoarece ele nu dispun de multe resurse și posibilități ale țărilor industrial-dezvoltate. Articolul concluzionează că, în condițiile celei de-a 4-a Revoluție Industriale, Moldova are posibilitatea de a trece simultan câteva trepte ale „scării structurale” și a se urca la un nivel mai înalt de dezvoltare economică și de a asigura creșterea economică calitativă. Astfel, țările, precum Republica Moldova, au o șansă bună de a scăpa din cercul de sărăcie și a se îndrepta spre prosperitate. Articolul se bazează pe rezultatele analizei, cu ajutorul unor indicatori cantitativi și calitativi ai clasamentelor naționale și internaționale, care permit, în mod unic, a interpreta modificările ce au loc.

Cuvinte-cheie: globalizare, inegalitate, creștere economică, țări în curs de dezvoltare, “cerc vicios al sărăciei”, “scară structurală”, investiții, infrastructură, tehnologie înaltă, inovare.

Статья представляет интерес для предпринимателей, инвесторов, государственных чиновников, поскольку содержит оценку позиций республики Молдова в мировой экономике в

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условиях новых вызовов глобализации, а также рекомендации, касающиеся возможных направлений развития бизнеса, снижения уровня бедности в стране и обеспечения устойчивого экономического роста. Цель статьи – исследовать влияние новых вызовов глобализации, которая, с одной стороны, является положительным фактором, но, с другой стороны, увеличивает разрыв между развитыми и развивающимися странами. Глобализация ограничивает возможности реального экономического роста ряда развивающихся стран, в том числе и Республики Молдова, которые попадают в так называемый «порочный круг бедности». Эти страны должны найти способ, чтобы выжить и конкурировать, должны быть изобретательными и инновационными, так как они лишены многих ресурсов и возможностей промышленно-развитых стран. В статье делается вывод о том, что на волне Четвертой Промышленной Революции, у Молдовы появляется возможность пройти одновременно несколько ступеней «структурной» лестницы, подняться на более высокий уровень экономического развития и выйти на траекторию качественного экономического роста. Следовательно, такие страны, как Республика Молдова, имеют хорошие шансы вырваться из «круга бедности» и двигаться к процветанию. Представленное исследование основано на результатах анализа, с использованием количественных и качественных индикаторов национальных и Международных рейтингов, позволяющих однозначно трактовать происходящие изменения.

Ключевые слова: глобализация, неравенство, экономический рост с развитием, развивающиеся страны, «порочный круг бедности», «структурная лестница», инвестиции, инфраструктура, высокие технологии, инновации.

JEL Classification: 011, 012, 038.

Introduction. Future of any nation and any economy, just like the future of the Republic of Moldova, depends on economic growth. Globalization is one of the major driving forces of modern economic and social activities. At the same time, globalization has an ability to cause asymmetries and inequality in the development of economies worldwide, as well as within individual economies and nations.

In the words of one respected contemporary economist awarded with Nobel Prize, Professor Joseph Stiglitz, inequality indicators of the modern world have now reached dangerous levels, and global instability today is tightly related to the escalating levels of inequality [13]. "The top 0.1% – about 315 thousand people from 315 million do about half of all capital gains on sales of shares or property after 1 year; and the capital gain is 60% of the income attributable to the business from the list of Forbes Top 400" [5].

Increasing level of inequality globally is one of today's most heated debates and probably among world's greatest economic and social challenges causing conflicts and various economic, social and political disturbances among nations. Globalization, which is overall a positive trend, yet the one with the ability to create inequality, tends to increase the gap between rich and poor economies where the former gain further access to wealth creation and the latter get dragged further backwards due to inability to reorient their economies towards growth, for various socio-economic and political reasons. In this context, developing economies, and Moldova is a case in point, find it difficult to catch up with the developed ones, and tend in the long term to lose rather than gain from most of economic transactions in context of globalization. This particular article discusses the position of the Republic of Moldova in this so-called vicious circle of inequality, and presents potential possibilities to leap-frog through the mountain tops of economic and other disadvantages towards wealth creation and qualitative economic growth.

1. Dynamics and Dangers of Inequality Growth, and Poverty's Vicious Circle

Paul Krugman notes that today's reality is akin to the one in the 1930s that Keynes described the economy in a state of long-lasting decreased activity, demonstrating neither obvious signs of recovery nor of complete collapse [4]. Stiglitz [13] adds that market forces to a certain extent contribute to growing inequality, probably because they are artificially created by policies.

Notably, the majority of policy makers appear either not to know or not to take into consideration the main argument made by Keynes that the best times to save money are the times of growth, and not the fall of an economy. It's hard to dispute Krugman's opinion that today the governments must spend more, not less, since the private sector is unable to push economic development forward to the necessary extent. However, today we observe the opposite economic policies, which are characterized with measures of

austerity, and bear negative consequences to the labour market in the long-term. Yet, now is the time to act, and now is the time to fix some of world's most pressing economic problems, such as problems of inequality. Today, global inequality is growing inevitably and progressively, threatening to impose serious limitations to economic health, especially of the developing nations, which are the focus of this article.

Observing inequality growth one may note the following dynamics. In the 1990s, the gap in average income of the 20% richest and 20% poorest parts of the global population was at 30:1, whereas in 2000 that same gap was already at 78:1 levels [1].

In addition, according to World Bank (2014), there were over two thirds of the global GNP (gross national product) per capita generated per high-income economies in 2015, about one third per share of medium-income nations, and only about half a per cent of global income per share of the low-income economies [5]. This means that high-income countries generate proportionately more and more GNP, whereas low-income countries trend negatively, pointing to the growing gap in the share of possible contribution into the global GNP between the nations with high and low income. It is obvious that the growth of inequality in the past decades is becoming a serious hinder to global economic development, affecting economies and societies.

The asymmetry in the development of the global economies causes differentiation within various nations, diving them onto 'winners and losers' of the world's globalization game. The losers are obviously the developing economies, as well as a number of those lacking the sources of capital accumulation. As the result, those economies end up in the vicious circle of poverty.

Poverty's Vicious Circle

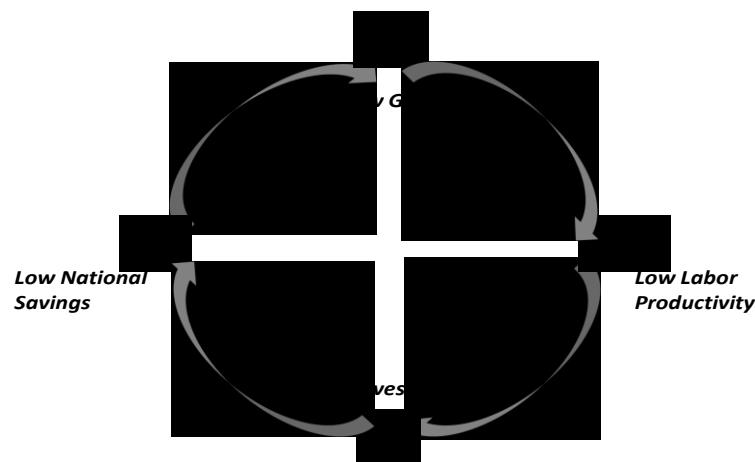


Fig.1 Poverty's Vicious Circle

Source: Compiled by author.

The problem of the "Circle of poverty" is that low income does not allow for savings, and, consequently, the investment on the scale needed to achieve acceptable growth rate. As a result, these countries could not break the "vicious circle of poverty", and try to "catch up" to the level of more developed countries. That is, they are "doomed" to be poor. Thus, poverty produces poverty.

What makes that poverty circle truly vicious is the relationship between low income and any growth potential. Low income ceases the opportunities of the population to save, thus, prevents any flow of internal investments from the population into the economy, or at least to the extent that makes growth possible. As the result, low-income economies find it very difficult to break through the poverty threshold. In other words, poverty creates more poverty.

Moldova, along with a number of other developing economies, is one of those economies that arguably lost in the globalization game finding itself in the vicious circle of poverty. So, is it possible for the country to break out of this vicious circle, and how? In order to answer this question, the following considers some of the main aspects of Moldova's position within the global economy, as well as some of the key aspects in its economic growth.

According to the classification of the World Bank, the increase of well-being and growth of an economy takes place through three consecutive stages, from the first factor-driven to the second efficiency-driven, to the third innovation-driven stage of economic development [14].

This process of climbing the 'structural ladder' serves as a certain indicator of a nation's economic state, as well as the quality of its economic growth [8]. Moldova, according to World Bank's classification, is somewhere between the first (Factor-driven) and the second (Efficiency-driven) stage of economic growth.

Table 1

**The Share of Moldovan GDP in the world economy,
in the European economy, in the Eastern European economy, %**

| Share of Moldovan GDP in the | 1990 | 2013 | deviation |
|------------------------------|-------|-------|-----------|
| world economy | 0,017 | 0,011 | - 0,006 |
| European economy | 0,046 | 0,037 | -0,009 |
| Eastern European economy | 0,44 | 0,22 | -0, 22 |

Source: Compiled by author based on data from [12].

Are there any positive dynamics in the development of Moldova's economy? There are several statistical facts to consider. Firstly, the share of Moldova's GDP (Gross Domestic Product) is about 0,01% of the global. During 1990-2013 that share decreased by 0,006% falling from 0,017% to 0,011% of the global economy. Consequently, this share fell by 009% lading from the level of 0,046% to 0,037% within the European economies, and by 0,22% among Eastern-European economies ending up at the level on 0,22% from 0,44%.

In 2015, Moldova's GDP was valued at \$6,2billion (121851 million MDL), decreasing in real terms by 0,5% compared to 2014 (\$6,4 billion) [7] and [1].

According to the ranking of Human Development Index [10] Moldova is a country at medium levels of economic development. Notably, in 2015, Moldova was ranked at 114 out of 187 economies by the Index. In 2008, however, it was at 113th place out of 179 [18]. This uncovers some of the deeper challenges and highlights that something must be done to increase the share of welfare-generating share of growth in the economy. For instance, today, Moldova is one of the leading (top 8 to 10) nations when it comes to healthcare and education spending landing at about 12% and 8-10% of GDP, respectively.

This is a rather high level only affordable to a limited number of economies. However, average longevity in Moldova is 70 years, throwing it to the 142nd place in the world, and 120th и 130th places respectively in maternal and child death [16]. Thus, there is obviously a challenge in terms of social services that Moldova is able to offer to its citizens. Moldova is in desperate need of an increase in high technology share in its infrastructure and its economy.

To be able to evaluate the dynamics and determine the direction of Moldova's economy a comparison may be drawn to the year of 1990. At that time, Moldova was ranked 64th by the abovementioned Index, having the status of industrial-agrarian economy and in general being way ahead of its today's position on the so-called global structural ladder. In practice, Moldova was at its second Efficiency-driven stage of economic development (for more detailed analysis see [8], [10], [18]).

In 2015, Moldova's nominal GDP (Gross Domestic Product) per capita landed at mere \$1740 a year. That is the 140th position out of 186 list of countries of the Global Monetary Fund. In 2013, Moldova's nominal GDP per capita was at \$2214 a year, meaning a considerable decrease of \$474. The World Bank statistics (2013) shows similar dynamics. In 2013, Moldova's GDP per capita was at \$2038, which means by \$298 higher than in 2015 (World Bank statistics). United Nations, in its turn, placed Moldova at \$2285 GDP per capita in 2013, meaning by \$545(!) higher than 2015 [16].

Negative dynamics in the evolution of nominal GDP per capita in Moldova is tightly connected to economic and a bunch of other factors. Among economic factors, however, we highlight an absolute decrease in the key production factors – labour, capital, technologies as well as the erosion of the structure of the economy with the following decrease in the potential production volume. In is unlikely that an economy would develop positively and grow its labour productivity and its competitiveness within a structural environment where scientific and technological research and development accounts for less than 0,35% of GDP. For comparison, European Union spends on average 2 to 3% of GDP on similar activities, which facilitates high rates of technological development.

In the GDP structure of Moldova the share of consumption accounts for about 87% of the total GDP. Such levels of consumption are considered to be exceptionally high, even for USA and other developed economies. At the same time, there is only 15% of own investments, which is rather low and inadequate.

It remains to be seen how long it will take Moldova to return to the pre-crisis levels of 1990, the level of which is yet to be reached by the country's economy.

The dynamics of the GDP structure is presented in the Table 2 below. Table 2 shows that Moldova's GDP structure changes in context of global economic tendencies. In this way, the main share of value added of the economy, 59,4%, is comprised of the Services sector, 14,1% generated by industry, and 12,8% through agriculture. The share of net taxes on products is 15,7%. It seems at first sight as if Moldova's structure of the economy is rather progressive as it seemingly reflects global development trends. For instance, the high share of the Services sector (compared to the global share of GDP of 64%) with simultaneous decrease of the share of industry and agriculture. Yet, importantly, since 2000s, the share of agriculture started to pick up again within the global GDP landing at approximately 32%.

Table 2

The Dynamics of the Structure of GDP of Moldova

| 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 |
| Financial intermediation services measured indirectly | -2,4 | -2,3 | -2,1 | -2,3 | -2,5 | -2,0 |
| Net taxes on products (taxes less subsidies) | 12,5 | 12,0 | 12,7 | 14,4 | 15,0 | 15,7 |

Source: Compiled by author based on data from [7], [11].

Thus, it is important to highlight the fact that even though the Services sector is prevailing in Moldova's economic value added, digging deeper into the Services sector itself allows to caution that the main contribution in this sector – through finance and trade – is merely a 'formal' value added, in contrast to real.

This means that its increase, in fact, reflects only a wage increase of individuals engaged in relevant business dimensions, and not of the economy as a whole. Moreover, the development of one of the key services – trade – is mostly dependent on import. In this way, for instance, Moldova's GDP in 2013 was at \$7,453 billion. Import was at \$5,492 billion, or at 73,7%. In 2015, imports amounted to \$5,3 billion. The export share, at the same time, was about two times smaller and landed at \$2,4 billion [7, 17].

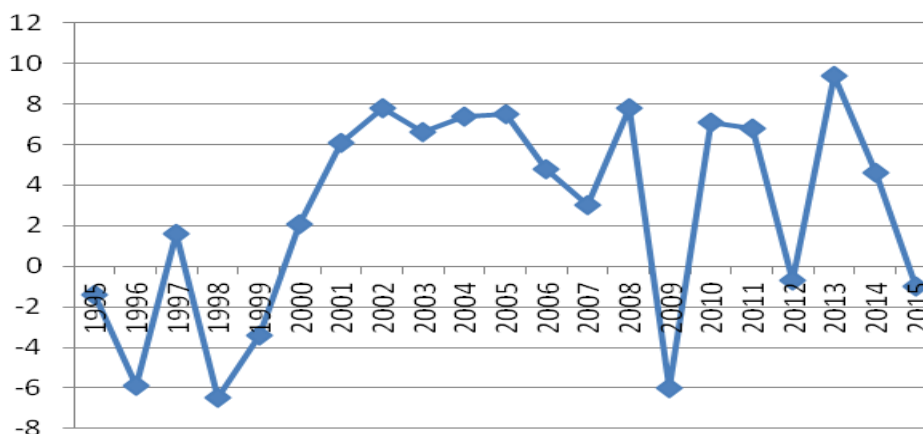
This correlation could be considered as a tendency in Moldova's external trade, since the share of import versus export has been prevailing now for many years and reflects some of the pitfalls in the structure of Moldova's economy.

Such high import-dependency obviously bears high risks for an economy, including the risk of being indefinitely in debt. Indeed, external debt of Moldova equals to \$6,218 billion (in 2013), which means more than 83% of GDP. Since 2008, European Union emerged as one of the major trading partners of Moldova, absorbing somewhere around half of its external trade (46,4%). Naturally, the evolution of economic ties to the EU has considerable impact and consequences to the structure of Moldova's economy, including health in Moldova's balance of payments. In 2015, Moldova's export to the EU shrunk by approximately 2,3% (to \$1,1 billion). Compared to the previous year, import also decreased by about a quarter, to \$3,6 billion. The demand on imported products, however, is mainly covered by Moldovans working abroad. They contribute by about \$1,5 billion yearly. This is considerably higher than the contributions of the foreign investors.

According to the World Bank, the value added per worker in agriculture, which is the main source for Moldova's export, is approximately \$2,5 thousand. While, for example, in Spain the corresponding value is \$45-50 thousand. In Norway, that indicator goes up to \$70 thousand. On average, in European Union countries the corresponding value is approximately 20 times higher than in Moldova. Given this low level of labor productivity, and hence the competitiveness, one of the leading sectors of the Moldovan economy, it can be argued that the industry is unlikely to be the basis of high economic growth.

The above mentioned negative dynamics in the development of the real indicators of economic

development of Moldova allows to conclude that price factor is the key origin of growth of the country's economy. Graph 1 below shows the rates and the dynamics of GDP growth from 2005 to 2015:



Graph 1. Rate of GDP Growth of Moldova, %

Source: compiled by author based on [7].

The so-called 'quality index', or the coefficient of the quality of growth, is applied to measure quality of the growth of Moldova's economy. This is, in short, a known index which measures the ratio of the difference of GDP growth index and GDP deflator to the growth rates of the GDP in absolute terms. According to this indicator, Moldova's economy cannot be characterized in positive terms, and has not been characterized as such for the past several decades.

In this way, being one of the poorest European countries with median monthly income of \$250 and with the GDP per capita level being about 18 times lower than European Union average, the Republic of Moldova today finds itself in the vicious circle of poverty.

2. The Window of Opportunities – Can Moldova Get Out of the Poverty Circle?

Returning to the argument stated at the beginning of this paper, globalization is one of the major contributors to growing inequality among global economies. Globalization reformed the structure of many national economies through the introduction of a system of international division of labour in favour of the developed economies.

Notably, the structure of an economy is one of the key factors in economic growth as well as behind the well-being of a population. In the 1960s and 1970s, the countries with the fastest rates of GDP growth (about 3,5% annually) were those with the largest share of machinery within their industry. Those with larger shares of natural and mineral resources grew by about 2%, finally, agrarian, or agricultural economies, grew by about 1,5%. However, most obvious winners were those that emphasized the development of high-technologies within their economies.

As the result, most or all of today's developed economies find themselves at post-industrial, information and high-technology stage of development, whilst peripheral economies have either not been able to fully complete the industrialization stage, or were thrown back, just as Moldova, to the lower development stage. In addition, the interest of the developed economies to import finished industrial products from their less developed counterparts has decreased considerably. This evolution obviously triggered the asymmetry in foreign trade negatively affecting the rates and quality of economic growth in the peripheral economies. Thus, the gap between the 'post-industrial world' and other economies has now acquired qualitative character and is growing inevitably in its proportions. As the result, the possibilities to catch up in economic growth are currently very slim for the majority of the less developed and developing countries, having them more or less stuck in the "vicious circle of poverty".

So, is there a way out of that Circle for Moldova?

The answer is yes. However, to break out of the negative trend there is a need for internal or external sources of investments into the economy. Investments and their qualitative share – which are innovations – comprise the true, or material, base of economic growth. Innovations impact the change in the sources, types and quality of economic growth.

High quality of economic growth has the ability to positively affect well-being of the population, to induce innovations in production methods, into goods and services, as well as into governance and management, and literally into all spheres of economic activity. Qualitative economic growth reflects

positive and forward-looking dynamics of an economy, and its transition to the higher stages of economic development. Even though, presently, prerequisites for the number of the developing countries, including Moldova, to enter the innovative stage of development, and especially the stage driven by wealth of the economy, are not sufficient (see, for instance, EIU), it is absolutely necessary to start building various separate elements of innovations-driven growth into the structural ladder of the national economy.

In conditions of globalization, considering its tight relationships to integration, localisation and regionalization, many developing countries, Moldova including, demonstrate potential areas for growth climbing several steps of the structural ladder simultaneously. In this way, for instance, the activities of international corporations disseminate global competitiveness into national markets and economic structures, regardless of the structural stage of that given economy. To be able to introduce such growth areas, some of the key building blocks of the economy have to be 'repaired' after years of unfortunate economic downward slope.

Investments into infrastructure, especially for such economies as the one of Moldova, are among more effective resources of qualitative economic growth. Infrastructure deficit, especially in low-income countries, is an obstacle of long-term economic growth. Infrastructure investments may also serve as a source of growth in aggregate demand. They are among the few instruments available in economic policy toolbox for sustaining growth in real terms, especially in condition of a weak, and not always adequate credit and monetary policies.

Investments into infrastructure secure growth in production capacity of various sectors of the economy. They are usually massive investment projects and have an ability to produce multiple external effects with positive long-term social impact. Judging by the global experience the biggest effect can be reached in interplay of the government and private sector based on partnerships uniting large corporations and business with smaller firms, venture capital funds and 'angel' investors through direct government support of basic innovations and venture capital investments from the first stages through commercialization of innovations. The inclusion of innovation factor into the process of investment in infrastructure can thus be viewed as a factor for the development of innovation-based economy.

Innovation-based type of economic growth is a type of economic growth adopted by most, if not all, of the developed economies. It is based not on the production and consumption of material goods as such, but on creation and consumption of information-technology goods and services, in other words, high-technology products. Therefore, structural component of the investments is specifically important in this context.

There are at least two ways of approaching the formation of innovation-based economy proven through international practice (the problem was thoroughly described in [8, pp.128-163]).

The first one assumes orientation towards own innovations. As a rule, it is applicable to the highly-developed economies. This particular approach was predominantly executed in the American economy. The second approach is based on 'borrowing' and importing of innovations. Its effectiveness is proven by a number of global economies, including, for instance, Japan and even more so China. In order to form the necessary elements of innovations into its economy, Moldova can very well use the second approach, which is based on the concept of imitation and adaptation of the new technologies.

This is similar to the concept of technological leapfrogging [3], [6]. An obvious example is the implementation of mobile networks and the spread of mobile telephones. By buying and using existing technology, late-industrializing countries are able to 'leapfrog', or jump over various inferior or more costly and less efficient technologies (that the first movers had to go through in the stages of development of those new technologies).

As the result, the 'leapfroggers' may get latest technologies cheaper and faster than the economy where this technology originates. Thus, it is valid to assume that if the mechanisms of innovative growth are in use, those growth areas where already existing innovations are actively used have a potential to increase competitiveness of the national economies and increase the quality of economic development.

This approach, however, should not be associated merely with consumption of already existing methods and technologies taking advantage of inventions of others. Moldova, in contrast to other examples of nations with comparatively lower levels of economic development, is a country with a lot of own potential in terms of research and development, as well as testing and implementation of the new technologies. Moldova preserved some of its highly skilled labour force and is capable to offer specialists and laboratories to receive but also to drive further innovation and new technologies in virtually all spheres from economy to physics and chemistry.

In this context, there is certainly a window of opportunities for Moldova which is opening at the moment. Recent convention in Davos in January 2016 marked the birth of the so-called Fourth Industrial Revolution, which would last from five to ten years and will inevitably and radically change all the economic, social and other structures. Akin the Revolution ignited by Microelectronics, this revolution will end up into goods and services previously unimagined, in the sphere of connected world and connected devices, from robotics to home appliances.

This revolution, in its turn, will open up new opportunities for smaller developing economies, such as Moldova, from being the testing ground to the economy for outsourcing the production of new technologies. Thus, Moldova could, in conditions of globalization, become a centre for outsourcing of the new products and therefore one of the economies that would be first to implement those innovations.

Global economy becomes less and less resource-intensive in the traditional sense of the term, shifting from production to the intangible resources represented by the people, as well as to the more capital-intensive and less dependent on raw materials. In this context, reorientation towards qualitative services in the sphere of high technologies is absolutely crucial. Moldova's IT specialists are considered to be among the better once in Eastern Europe, meaning that the country has the potential and the prerequisites for the creation of knowledge-based, innovation-driven economy based on the adoption and integration of innovations into its core structures. This is certainly a niche worth investing into.

Conclusions: From Vicious to Virtuous Circle

1. Quality of economic growth is determined by the investment resources, and, in the first place, by their qualitative component – innovations, as well as the possibility for their adaptations into the economy. Therefore, for any country, including Moldova, it is important to create favourable conditions for activation of investment resources and capabilities.

2. One of the sources for qualitative economic growth are the investments into infrastructure. They have an ability to induce multiple and long term positive outcomes, to stimulate aggregate demand and positive socio-economic impact. We believe that the Republic of Moldova must create an infrastructure with higher qualitative share of innovations able to justify higher investments. Today, this justification comes mostly from relatively cheaper land and labour force. Moldova must be able to offer and promote what actually makes it qualitatively different from its neighbours: safety and stability, high connectivity, high-quality education and healthcare.

3. So far, Moldova managed to attract \$3,5 billion in investments. That is a relatively large amount – more than half of the GDP (with capital rate at 15-16%). Building on its potential, in the next five years, the country must be able to accumulate about 1,5 to twice as much capital in foreign investments. Thus, it is important to create necessary conditions to attract direct foreign investments.

4. Moldova's economy could act as an economy for outsourcing of production of high-technologies and high-tech products. Why is this possible? Moldova's sector of information technologies in an export sector with truly high potential. The products of the IT companies operating in Moldova are highly competitive not only due to lower costs of the labour force, but also due to the fact that the quality of the end product is competitive with the global standards suggesting that there is a large amount of highly qualified labour force in this area.

5. It is important to increase the interplay between businesses and the government based on shared understanding of common needs. The biggest effect could be reached if that crucial partnership is in place and if large and smaller businesses, individual investors, investment funds, venture capitalists, as well as the government and other educational and research institutions work in interplay, through the direct support by the government from the first stages through the commercialization phase of investments and innovations.

6. As shown in practice, the more globalization and the more stakeholders, the bigger the need for a clear strategy for the development of the country, including challenges of import substitution regarding goods and services, which would increase the added value and would provide an opportunity to increase the budget and to provide new work places for Moldova's population. It is, of course necessary to create adequate fiscal, administrative and regulatory conditions for businesses to solve the problems related by consolidation and modernization of Moldova's business, as well as to increase competitiveness and capital intensity in its economy.

7. Moldova is left, among many, with one of the most challenging issues, to integrate effectively into the global structures at the same time preserving own national interests. There is a need for a more thought-through and weighted integration policy into the global division of labour when export markets

are limited for smaller and less developed economies. It is important to build effective horizontal touch-points with other regions, with the nations of EU and other strategic neighbours such as Russia.

This, in essence, should allow Moldova to break through the vicious circle of poverty into the virtuous circle of prosperity, which would help to secure stable and profitable levels of economic development in the long term.

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