

Direct Foreign Investments and Domestic Competitiveness

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Abstract

This paper presents the key-elements regarding domestic competitiveness, in the context of increasing interdependencies among countries. Also, the author underlines the role of direct foreign investments in the development of all economic sectors, illustrating by significant figures the recent years' progress in this field. A special attention is paid to the Republic of Moldova, therefore the article presents the present restraints and opportunities in attracting direct foreign investments.

Key words: *economy, domestic competitiveness, direct foreign investments, investment climate*

The world economy is strongly influenced by the internationalization of businesses, by the increase of the economic interdependencies among countries, by economic integration at regional, European and even global level.

Globalization imposes new game rules for the economic activity and states become equal as subject to these rules, when involved in international economic transactions, no matter how large or small, strong or weak.

Under these circumstances, the wealth of nations depends on their competitiveness on international markets, turning the issue of economic competitiveness, of achieving and maintaining competitive advantages, into a priority.

Based on wide research, in his well-known book “Competitive advantage of nations”, Michael Porter notes that competitiveness is the result of a complex and dynamic interaction of numerous social, political and economic factors, thus reflecting the history, culture, legal system, institutional background, macroeconomic policies, interest towards technical progress and education etc.

At the same time, Porter identifies four categories of factors that determine the domestic competitive advantage:

1. factors of production - the availability of human resources, natural resources, technical know-how, knowledge of the market, the capital, the infrastructure;
2. demand conditions - the level and structure of the demand, the demand coverage, the ability to anticipate and create needs;
3. supporting and related industries, via their level of development and competitiveness;

4. firm strategy, structure and rivalry.

Aside from the above mentioned factors which are considered to be the direct determinants of competitiveness, the government policy also contributes to the creation and sustaining of competitive advantages, by:

- educating the work force;
- creating and developing the infrastructure;
- influencing the capital offer and demand;
- developing the supporting segments;
- establishing the legal framework for competition etc.

In a larger sense, any country where one wishes to stay and develop a business can be viewed as competitive.

There are currently several authorized institutions in the world that deal with competitiveness evaluation. Several regional and national centers specialized in competitiveness issues have been established.

Consequently, there are several methods for competitiveness evaluation, methods that employ a large number of indicators that are different from one institution to another, and a lot of the factors taken into consideration are subjective.

Nevertheless, when competing on global markets, one must take into account these indicators and statistics in order to make the right decision. This is the reason why we will briefly refer to two such authorized institutions:

1. World Economic Forum, that publishes, in collaboration with M. Porter, the annual Global Competitiveness Report;
2. International Institute for Management Development, Lausanne, that publishes the annual World Competitiveness Yearbook.

The World Economic Forum uses two main indicators for competitiveness evaluation: The Growth Competitiveness Index and The Business Competitiveness Index

The first index uses variables such as:

- the technology index: innovation, IT&C, technologic transfer;
- the public institution index: the legal and contractual framework, corruption;
- the macroeconomic environment index: macroeconomic stability, the country solvency and the governmental loss.

The second index takes into account the complexity of the operations and strategies of firms and the overall quality of the business environment.

The state table by both indexes has not changed dramatically during the past years (table 1).

Table 1. Countries ranking by Growth Competitiveness Index between 2002-2004

	Country's ranking:		
	2002	2003	2004
Finland	1	1	1
USA	2	2	2
Sweden	3	3	3
Taiwan	6	5	4
Danmark	4	4	5

Table 1. (cont.)

Norway	8	9	6
Singapore	7	6	7
Switzerland	5	7	8
Japan	16	11	9
Iceland	12	8	10
Estonia	27	22	20
Slovenia	26	31	33
Lithuania	39	40	36
Hungary	29	33	39
China	38	44	46
Bulgaria	58	64	59
Romania	67	75	63
Russia	66	70	70
Ukraine	74	84	86
Chad	-	93	104

As shown in the table 1, Finland, USA and Sweden are constant leaders.

From the former socialist states, the best positioned is Estonia (27th in 2002 and 20th in 2004), Slovenia (26th and 33rd respectively), Lithuania (39th, 36th) and Hungary (29th and 39th).

Unfortunately, the Republic of Moldova has not yet been included in the World Economic Forum report.

Romania has been included in the Report for the first time in 2002, without showing significant progress during 2002, 2003 and 2004: positions 67 and 75 in 2004.

According to the components of the competitiveness growth index, Romania's position has been positively influenced by the variables indicating the technological and innovative potential of the country (47th in the table) and negatively by the institutional framework and the quality of the macroeconomic environment (74th and 71st – table 2).

Table 2. Countries ranking by the components of the competitiveness growth index in 2004

Position	Country	The components of the competitiveness growth index		
		Technological potential	Institutional framework	Macroeconomic environment
1	Finland	3	3	3
2	USA	1	21	15
3	Sweden	4	6	17
4	Taiwan	2	27	9
5	Danmark	6	1	4
6	Norway	10	5	2
7	Singapore	11	10	1
8	Switzerland	7	8	5
9	Japan	5	16	29
10	Iceland	14	2	12
20	Estonia	15	26	30
33	Slovenia	26	31	39
36	Lithuania	33	43	33
39	Hungary	29	37	55
46	China	62	55	24
59	Bulgaria	59	56	60
63	Romania	47	74	71

Table 2. (cont.)

70	Russia	76	89	56
86	Ukraine	83	97	76
104	Chad	104	103	91

Aside from the countries in the above mentioned table, the top 10 by the components of the competitiveness growth index included:

- by technological potential: Israel, ranked 8th and Korea ranked 9th;
- by institutional framework: New Zealand (4), UK (7), Honk Kong (9);
- by the quality of the macroeconomic environment: Luxemburg (6), Netherlands(7), UK (8), Austria (10).

The table by the second index used in the World Economic Forum Report – the business competitiveness index – is not dramatically changed (table 3).

Table 3. Countries ranking by the components of the businesses competitiveness and its components in 2004

Position	Country	The rating of the index components	
		The quality of firms operations and strategies	The quality of the macroeconomic environment
1	USA	2	2
2	Finland	7	1
3	Germany	1	5
4	Sweden	5	6
5	Switzerland	4	7
6	United Kingdom	8	4
7	Denmark	9	3
8	Japan	3	11
9	The Netherlands	6	9
10	Singapore	13	8
27	Estonia	34	24
31	Slovenia	27	33
35	Czech Republic	31	33
36	Lithuania	37	35
42	Hungary	48	37
47	China	39	47
56	Romania	61	57
61	Russia	62	60
69	Ukraine	64	71
103	Angola	102	103

As shown in the table, by the analyzed index, UK and The Netherlands are among the top 10 states, Taiwan is 17th and Norway 20th.

From the former socialist countries, still the best positioned is Estonia (27), followed by Slovenia (31), Czech Republic (35) and Lithuania (36).

Romania is 56th, with an overall good quality of the business environment but low quality of the firm operations and strategies.

The Report of the International Institute for Management Development Lausanne, called “The World Competitiveness Yearbook”, is another well known report on the competitiveness of

nations; it analyzes the conditions offered by the economic and business environment of each country.

The report analyzes 60 competitive countries and economic regions, according to 323 criteria classified after 4 competitiveness factors:

1. *Economic performance*, given by the overall state of the domestic economy, foreign trade, foreign investments, workforce market and prices;
2. *Governmental efficiency*: public finances, fiscal policy, institutional framework, trade and business regulations, social conditions;
3. *Business effectiveness*: business profitability, human resources, finances, managerial practices, knowledge and values;
4. *Infrastructure*: basic infrastructure, technological infrastructure, scientific infrastructure, health and environment.

In the 2005 general competitiveness table, among the top 10 countries we find USA, followed by Hong-Kong, Singapore, Iceland, Canada, Finland, Switzerland, Australia, Luxemburg (figure 1).

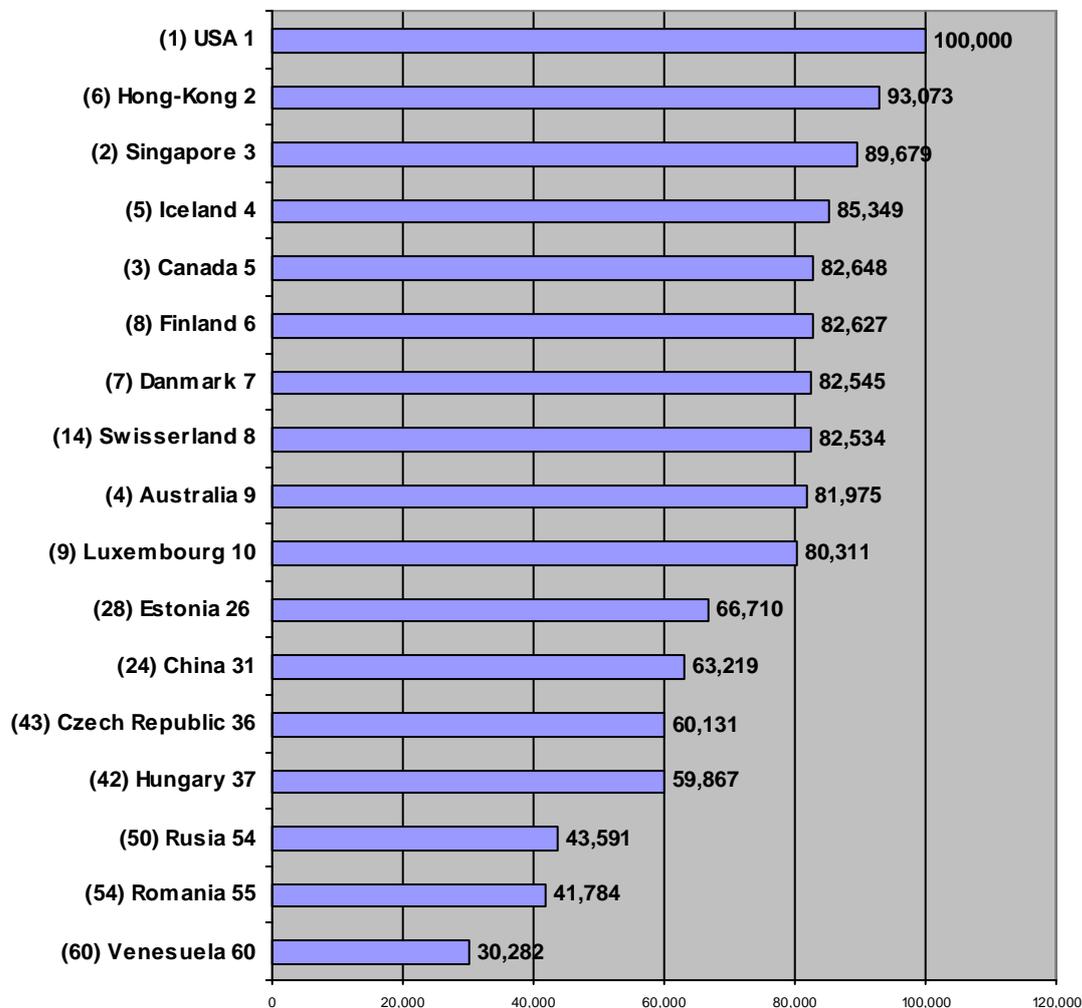


Fig. 1. The World Competitiveness Scoreboard 2005

From the former socialist countries, the best positioned are Estonia (26), Czech Republic (36) and Hungary (37).

Romania is 55th in 2005, after being 54th in 2004.

The Republic of Moldova is missing from this top.

Among its most notable rating successes, the Republic of Moldova ranked 77th out of 161 countries by economic freedom index, a rating made by the “Heritage” American Foundation and published in the Wall Street Journal.

World experience, including the period after 1990, shows that there is a direct connection between domestic competitiveness and investments in general or direct foreign investments in particular.

Competitive countries become more attractive to direct foreign investments, while a country’s competitiveness is given by its ability to attract FDI. Nevertheless, the availability of factors of production (natural resources, cheap labor force etc) cannot be totally ruled out, especially when investments target a short to medium term benefit.

At the same time, taking into account that the investment resources are limited, the competition for attracting them becomes tougher and the countries strive to channel them towards the priority sectors, according to the general country strategy for developing domestic competitiveness.

It is a well known fact that investments influence both the production segment as well as the level of income, demand and savings.

An investment increase leads to an income increase, which determines the demand increase. As the demand increase is lower than the income increase, the result is an increase in savings, as financial support for further investment.

This ultimately leads to an even larger increase in incomes and, consequently, in larger demand etc. These interdependencies recur and amplify.

Therefore, investments have a great impact upon all economic sectors, thus leading to an increase in production, a quality improvement, an increase in the number of workplaces and improvement of the working conditions, an increase in productivity, income, aggregate demand, economic efficiency, and standard of living.

In any country, especially in the transition countries or those lacking financial resources for investments, this handicap can be overcome by policies of attracting FDI.

This is why it is impossible to revive an economy without having a coherent investment strategy.

The failure to understand domestic competitiveness (or non competitiveness), as well as the lack of a strategy in order to develop competitiveness results in rendering a country as unattractive to direct foreign investments, therefore as noncompetitive at regional or world level.

Within this context, it is imperative to synchronize and integrate the national strategies for developing competitiveness with those for attracting FDI.

Following the ‘90s decline and with the beginning of the decade, the FDI volume at world level had a tendency to increase.

According to specialists, most of all to the United National Conference on Trade and Development, the FDI world volume increased by 6% in 2004 and reached 612 billion USD (figure 2).

However, on the world market, the demand for FDI exceeds the offer, and the international competition for attracting FDI is increasing. Under these circumstances, the countries seeking to attract FDI must have the ability to overcome their competitors.

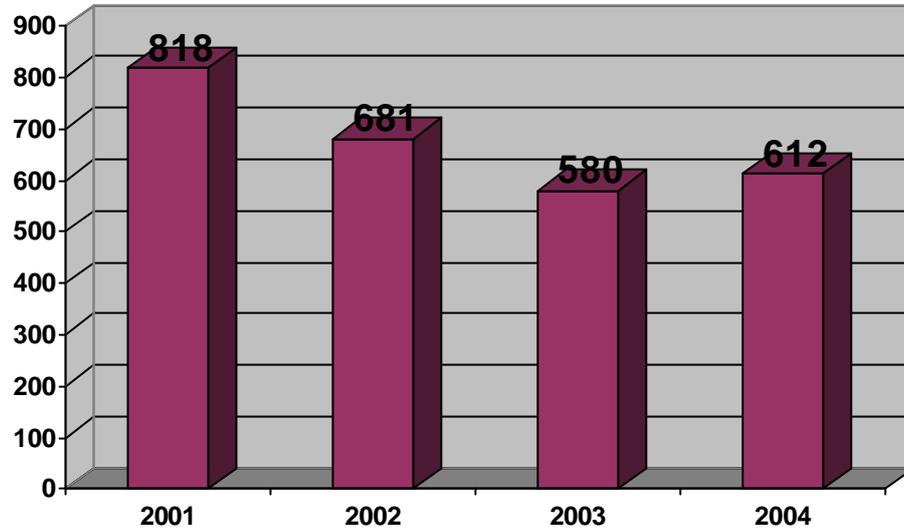


Fig. 2. The evolution of world's FDI (billion USD)

Being the strongest and most competitive economy in the world, the USA ranked first at this chapter, attracting 121 billion USD FDI last year, according to UNCTAD figures. (figure 3).

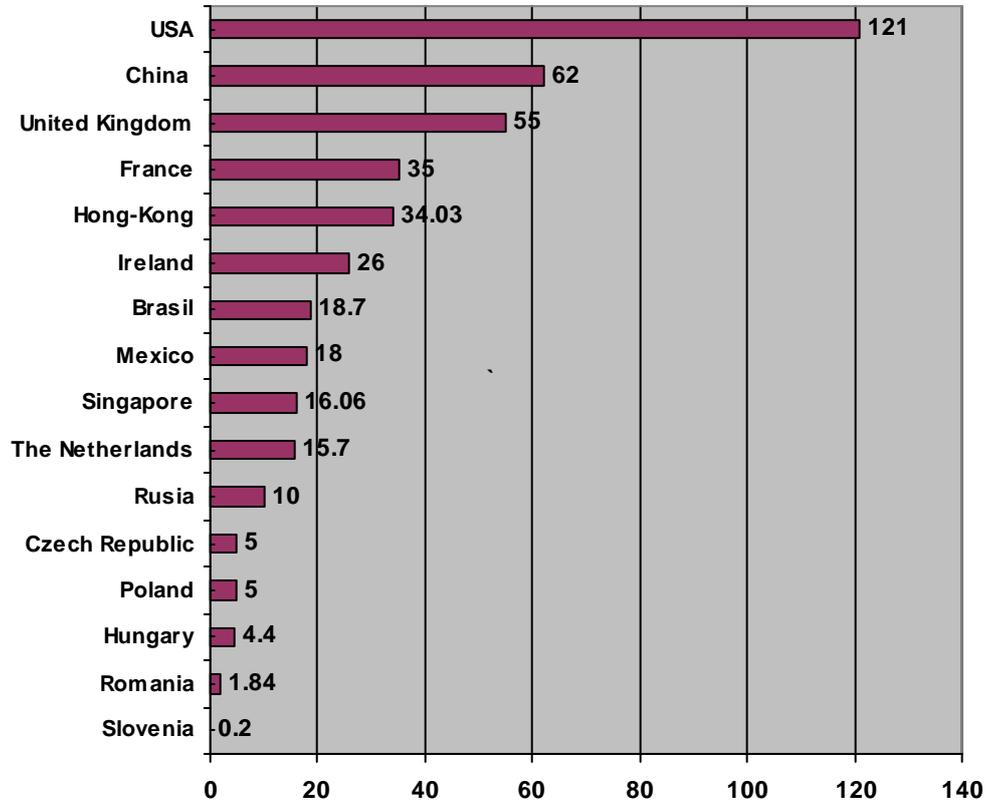


Fig. 3. The countries FDI flow in 2004

An important competitiveness increase during recent years is to be observed in Asia, especially in China and India. Asia became a very attractive spot for FDI coming from developed nations.

In China, FDI increased especially after the country became member of the World Trade Organization in 2001, when it was compelled to give up several restrictions imposed to foreign investments.

China attracted FDI worth 62 billion USD in 2004 alone, ranking 2nd after USA. Hong Kong came in 5th place with 35 billion USD.

According to some estimates, China could become the world's largest economy in the 21st century. The comments of some of the Nobel Prize winners in Economy are of great interest in this respect.

At the September 2004 Summit in Germany, the Wall Street Journal asked for their opinion concerning what the largest economy in the world would look like in 75 years. Here are some of the answers:

Laurence Klein, University of Pennsylvania USA (1980): "China, most likely. Or the US, if GDP/capita is taken into account".

Garry Marcovith, University of California San Diego USA (1990): "China".

Robert Solow: Technological Institute of Massachusetts (1987): "By GDP –China, by GDP per capita, the USA".

Kennteh Arrou, Stanford University (1972): "If the annual GDP growth rate remains the same the answer is China, but the GDP per capita will be less than half of the EU level".

Milton Friedman, Institute of War, Revolution and Peace, Stanford University (1976): "China".

Ronald Coase, University of Chicago (1991): "I am certain that China will surpass both USA and the EU".

John Nash, Princeton University (1994): "At this point it is not yet clear which will be the member states of the EU in 2079. If Russia will join the EU, then the largest world economy will be the EU. If not, then it will be the US".

William Sharpe, Stanford University: "China – with a probability of 50%, EU - 30%, USA - 20%".

Jorje Akerloff, California University (2001): "The European Union. It has a larger population than the US and the GDP per capita is somewhat similar. China remains well behind the two.

Djozef Stiglits, Columbia University (2001): "It's difficult to forecast what will happen in 75 years. We don't know what other countries will join the EU. We must be aware of the fact that even if the Chinese economy will be the largest economy in the world, China will still have the biggest population. Even if China will not sustain the levels of economic increase it had in the past 25 years, the gap between China and EU and US will decrease considerably".

Vernon Smith, Jorje Mason University (2002): "USA".

Klive Grainjer, California University, San Diego (2003): "In the following order: SUA, China, UE.".

The enlarged EU member states, with a population of nearly 455 million people is currently the source of 46% of the FDI and the host of 24% of FDI.

In 2004, FDI meant: 55 billion USD in the UK (3rd place), France – 35 billion USD (4th place), Ireland -26 billion USD (6th place). Hungary, Poland and the Czech Republic also managed to attract significant FDI volumes.

From the former members of the Soviet Republic, the best positioned is Russia with 10 billion USD (13th place), Czech Republic and Poland with 5 billion USD each (26th place), Hungary with 4,4 billion (32nd).

After 1990, Romania managed to attract FDI worth 15 billion USD. In 2004 alone, the FDI volume was 1, 84 billion USD, Romania ranking 40th in the chart.

Within the context of redirecting the FDI flows towards the CEE countries, FDI in Romania have great potential.

A more relevant indicator of a country's domestic competitiveness is the percentage of FDI out of GDP (figure 4). The leaders in this respect are Hong-Kong, Singapore, Ireland. Romania is 16th with 3,22% FDI out of the GDP.

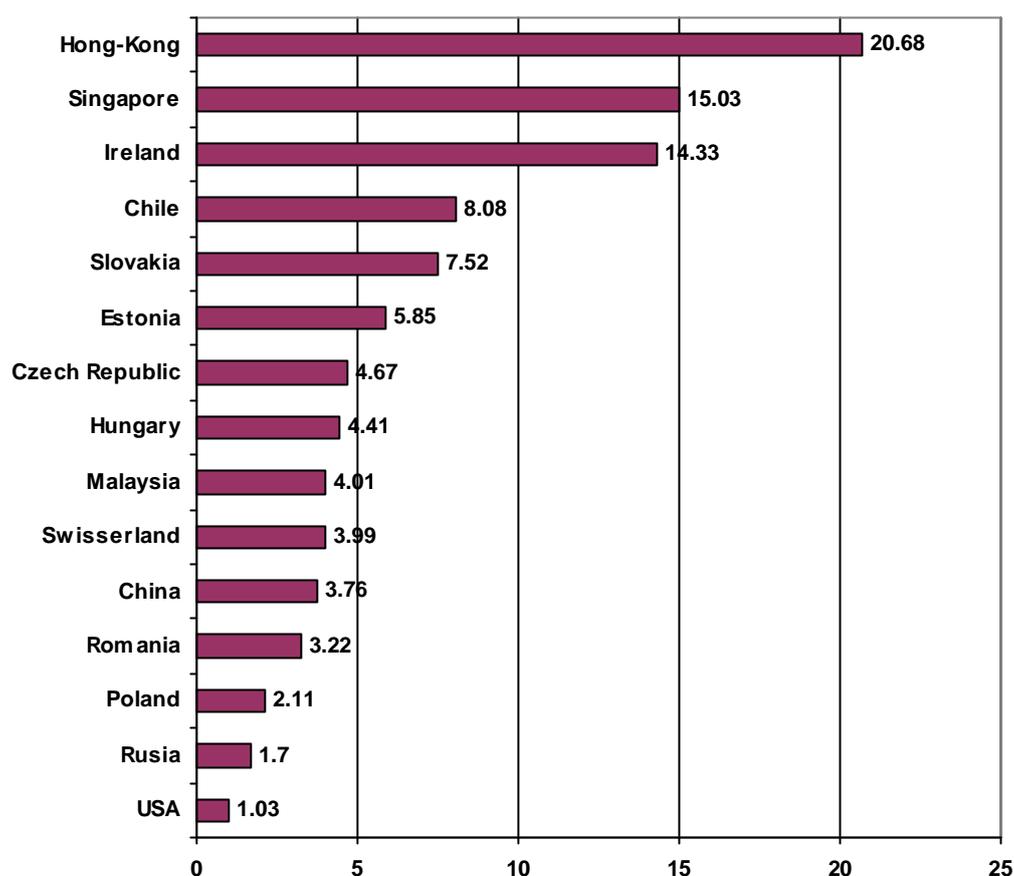


Fig. 4. Percentage of FDI in GDP per capita by countries

A country that wishes to benefit from the advantages of FDI must set the premises for a proper business environment.

Immediately after achieving independence, the Republic of Moldova made an objective out of adopting radical reforms that would help the country overcome rapidly the centralized stage of the economy and pass to the market economy.

At this point, the country had neither the governing experience, nor the institutions and the laws specific for the market economy.

Consequently, Moldova's efforts towards economic reform resulted in a real social and economic disaster associated with the destruction of industrial factories, of social care services, in dramatic changes of relative prices and hyperinflation.

Beginning with 1999, the economic decline stopped and the premises for economic recovery and growth emerged, together with a pro-EU orientation of Moldova's foreign economic activity, as it follows:

- following an almost 70% decrease compared to the 1990 level – the most significant decrease from all of countries of the former soviet republic – Moldova registered an annual 6-7% economic growth during the past 5 years, which is the CSI average level but is less than Romania or Ukraine.

In 2004 the GDP reached 2,595 billion USD resulting in a GDP per capita of 766 USD. If the economy were to maintain its average annual level of 5% growth, it would take more than 25 years to reach the 1991 GDP per capita and about 50 years to level the 1991 standard of living.

- the national currency - the Moldavian Leu – introduced in 1993, depreciated considerably after the economic crisis in Russia in 1998 but stabilized during recent years, arriving to 12,3 USD at the end of 2004;
- following the Russian economic crisis in 1998 inflation also raised dramatically, stabilizing at 12,5% by the end of 2004;
- investments in fixed capital have been decreasing considerably ever since 1990; consequently, the fixed funds have aged morally and physically;
- the official unemployment rate, calculated by the International Labor Force Bureau standards, has reached 7 and 8% in the past two years; it is higher in urban areas and among men;
- according to last Census figures (oct. 2004), the population of the Republic of Moldova, excluding the district left of Nistru and the city of Bender, reached 3,388 million people, from which 61,4% represented rural population;
- the minimum income for the working population reached 615,5 lei (approximately 50 USD) during July– September 2004.

The average monthly salary of an employee within the economic sector reached 1170 lei (approx. 100 USD) in 2004, i.e., between 45 USD (the lowest level) in agriculture and forestry and 250 USD (the highest level) in financing.

- according to official data, out of the total working population, between 600 and 800 thousand people left the country in order to work abroad. The volume of gross transfers among them exceeded 700 million USD in 2004 (according to other sources, they were even higher than 1 billion USD), an amount that surpasses consolidated budget income (approx. 800 million USD) and represents 24% out of the GDP.
- out of the total number of registered companies (at December 1st 2005 – 128363), 95% are private companies.

The percentage of companies with foreign participation is currently rather small 2.9%, but tends to increase. By type of activities, most of the registered companies are retailers and wholesalers – 52%, followed by those from the processing industry – 11,8%, and agriculture and forestry. – 6,4%.

- the private sector's contribution to GDP is currently rising over 70%, over 85% in the total industrial production volume, over 90% in trade and more than 60% in services;
- foreign trade tends to increase, reaching 2760,5 million USD in 2004, including export 986,3 mil USD, import 1774,2 mil USD. The trade balance deficit reached dangerous proportions. In 2004 imports were 1,8 times larger than exports.

Both imports and exports have involved mainly countries from the former Soviet Union in 2004, as:

- 51,2 % of total exports;
- 43,3 % out of total imports.

Moldova's main partners in foreign trade are:

1. for export:

- Russian Federation - 37%;
- Italy – 15,2%;
- Romania – 10%;
- Germany – 7%;
- Ukraine – 6%;

2. for import:

- Ukraine –24%
- Russia – 12%
- Romania - 9%
- Germany – 9%
- Italy – 9%.

During recent years the structure of Moldova's foreign trade has undergone significant changes, in the sense that it has become more oriented towards the EU. Between 1997-2004 the CSI percentage in RM's foreign trade dropped:

- in exports – from 68,6% to 51%
- in imports - from 51,6% to 43,3%.

The percentage of the EU countries in RM's foreign trade increased during the same period, as follows:

- in exports – from 10,3% to 30,1%;
- in imports – from 20% to 32,8%.

The Republic of Moldova remains a mainly agricultural country, which is the reason why agricultural and traditional products such as food and textile are still predominant in our own exports. In 2004 food products represented 60,8% out of total exports, including alcoholic drinks – 28,3%.

Within the structure of Moldavian imports, mineral products, aggregate machines, electronics and chemical products are predominant.

The positive trend from the past three years shows that Moldova's economy is adapting itself to market conditions. The main problems can be solved by focusing on improving the quality of the economic growth, by reducing the massive migration of the labor force, by creating an attractive environment for foreign investors and entrepreneurship.

What the Republic of Moldova strongly needs is FDI, in order to ensure its economic development and the competitiveness increase via the creation of workplaces, the reducing of unemployment, the increase of income for the population, the promotion of exports and the transfer of know-how and performing technologies, by increasing the level of European and global economic integration.

In order to achieve all of these objectives, Moldova must improve its investment climate and pay attention to what actually determines foreign investors to enter a market – incentives,

foreign currency policy, financing policy, ownership laws and regulations, visa access, work permissions, physical infrastructure, repatriation and expropriation rights.

The UNCTAD mentions the main factors that attract FDI towards an economy: the size of the internal market, the availability of natural resources, cheap labor force, the liberalization of the internal economic policies, access to external markets, the technological progress and the quality of the human resources, corporate strategies for new comers on the market.

Some of the improvements in the investment climate of the Republic of Moldova include:

1. the existence of a state investment policy; the main documents in this respect are:
 - the Investment Strategy of the Rep. of Moldova issued by Gov Decision no 234/27.02.2002, which stipulates as main objective the acceleration of the economic growth of the country, via high levels of investment increase, including FDI in-flow, in order to improve significantly the standard of living and to achieve a high degree of occupation in the work field;
 - the law of the RM regarding investments in entrepreneurship no. 81 – XV from 18.03.2004, which stipulates that investments must contribute to a so-called process of economic development, so that the rate of export increase surpasses the rate of import;
 - the stipulations of the Economic Growth and Poverty Reduction Strategy (SCERS);
2. the improvement of the legal system, including the generalization of an effective commercial legislation (the new fiscal code, customs code, civil code, penal code and labor code entered into force, in accordance to European standards and international organizations standards);

The fiscal policy has been liberalized; foreign investors benefit from the same rights as national investors; the national currency is convertible; the population, as well as foreign citizens have full rights to participate in the privatization process, the state guarantees the right to ownership, foreign investors have the right to repatriate the profit from investments, as well as the investments themselves, the registration procedures has been simplified a lot, as well as the licensing, authorization and certification procedures.

The legal framework that governs Moldova's economic activity can be regarded as liberal, favorable and motivating for foreign investments.

3. the relative stability of the national currency and the low inflation level are also in favor of FDI.

When speaking of Moldova's opportunities for drawing FDI, most specialists and foreign experts, as well as national experts refer to the strategic geographic location of the country: fertile soil, a climate that is favorable for agriculture; tradition in agriculture and wine industry; investors can still benefit from the well qualified and rather cheap labor force.

The main obstacles affecting the investment climate and the business development are:

1. in spite of a good legal framework, there is still the problem of putting the laws in practice, in a proper and efficient manner;
2. an active governmental intervention, a strong political influence on the economic sectors, repressive actions upon foreign investors;
3. instable economic policies;
4. slowing down and even suspension of privatization processes;

5. the Republic of Moldova has a rather poor image outside, being perceived as a poor and unpredictable country. The separatist regime of Transnistria remains the main factor of instability and insecurity.
6. the massive migration of the labor force reached dramatic proportions that are affecting the country's economic security;
7. frequent administrative interventions within the activity of economic agents, taking the form of inspections;
8. general bureaucracy, protectionism and corruption.

Other reasons why the Republic of Moldova is still not very attractive for FDI are: the small size of the economy, the low purchasing power, the lack of natural resources, the lack of developed infrastructure for business etc.

All of the above mentioned factors are the reasons why Moldova remains unattractive to FDI and to strategic investors that are currently setting the trend in global economy.

According to the National Bank of Moldova, the total FDI volume attracted by the country between 1992 and 2005 reached 974,9 million USD, out of which 639,5 million USD were investments in statutory capital, 107 million USD were reinvested profits, and 226,6 USD represented other types of capital.

Following a continuous drop ever since 2001, the FDI volume attracted by Moldova doubled in 2004 compared to the previous year and reached 184,5 million USD (figure 5).

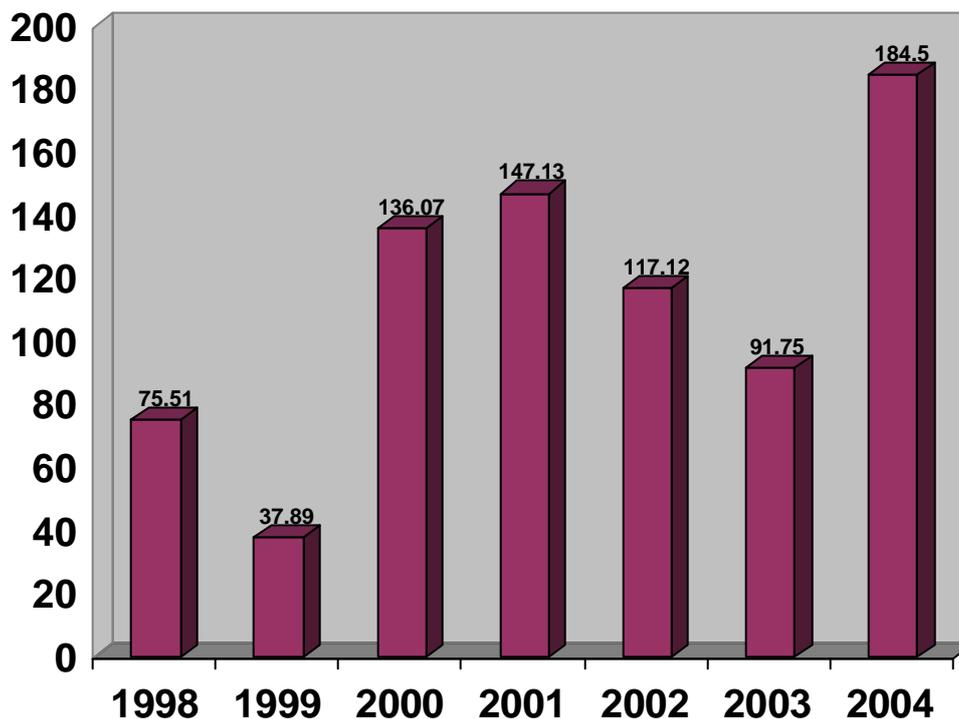


Fig. 5. The FDI volume attracted By Moldova (millions USD)

The FDI increase in 2004 was mainly caused by the increase in the volume of reinvested profits that was 387% higher than in the previous year – from 12,52 to 61 million USD (table 4). Investments in statutory capital increased from 47,42 to 66,5 million USD, while investments in other forms of capital increased from 31,81 to 54,6 million USD.

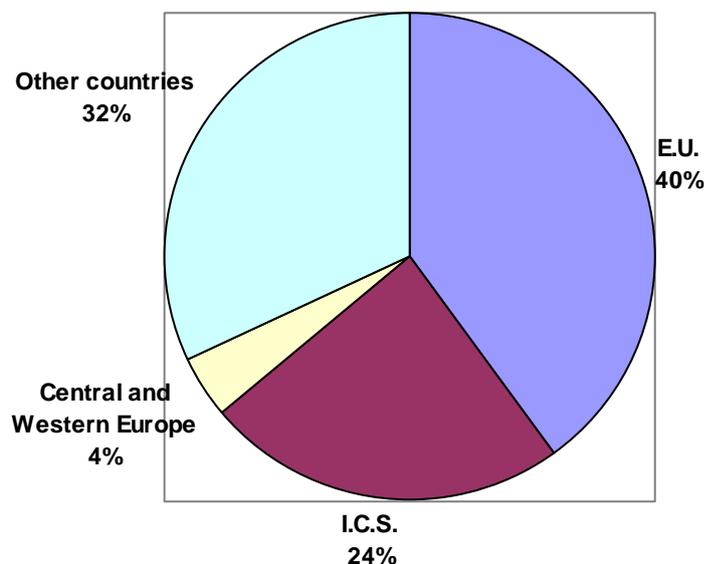
Table 4. The dynamics of foreign investments

	2000	2001	2002	2003	2004
1. Direct foreign investments (millions USD)	136,07	147,13	117,12	91,75	184,5
Social capital	83,69	111	59,65	47,42	66,5
Reinvested capital	4,96	6,13	11,08	12,52	61
Other capital	47,42	30	46,39	31,81	54,6
2. Yearly direct foreign investments per capita (USD)	40,2	43,4	34,6	27,1	54,5

In spite of some successes in improving the business climate and the investment conditions, capital inflows in Moldova are relatively small compared to the countries in Central and Eastern Europe and those from the former Soviet Union.

At the end of 2004, the FDI volume coming to RM was almost 2 times smaller than the one going to Romania in 2004 alone and 16 times smaller. Between January and July 2005, Romania attracted FDIs worth 750 mil USD, which is equivalent to the total amount of FDI attracted by Moldova ever since 1992.

At January 1st 2004, the distribution of FDI by economic region was the following: 40% out of the total investments came from the EU member states, 24% from the CSI countries, 4% from the CEE countries and 32% from other countries. (figure 6).

**Fig. 6.** Distribution of FDI by economic region at Jan 1st 2004

The Russian Federation continues to be Moldova's most important investor. Toward the beginning of 2004, the total volume of Russian investments in Moldova amounted to 158,2 million USD.

Russia had 24,9% of the total foreign investments attracted by Moldova, followed by Spain – 16,2% (102,7 million USD), SUA – 15,9% (101,2 million USD), Netherlands – 8% (50, 6 million USD) and Switzerland – 5,3 % (33,7 million USD) (table 5).

Table 5. First 15 states – major investors in Moldova

Ranking	Country	Direct investments, (million USD)	Percentage out of the total (%)
1	Russia	158,2	24,9
2	Spain	102,7	16,1
3	USA	101,2	15,9
4	Holland	50,6	8
5	Swisserland	33,7	5,3
6	Germany	22,4	3,8
7	Romania	18,8	3
8	France	18	2,8
9	Great Britain	12,3	1,9
10	Luxembourg	10,2	1,6
11	Cyprus	9,5	1,5
12	Ireland	9,5	1,5
13	Italy	9	1,4
14	Danmark	5,9	0,9
15	Greece	5,5	0,9

In 2004 the largest investments in Moldova came from Romania (3,49 million USD, via investments made by Metro Cash&Carry Moldova SRL – wholesaler), SUA (2,55 million USD), Germany (1,8 million USD), Cyprus (1,67 million USD), UK (1,51 million USD).

Regarding their structure, investments were preponderant in the energetic sector, in manufacturing, trade, transportation and communication (figure 7). Unfortunately the sector that could offer a large number of working places (agriculture, constructions) benefited from rather small amounts of investments.

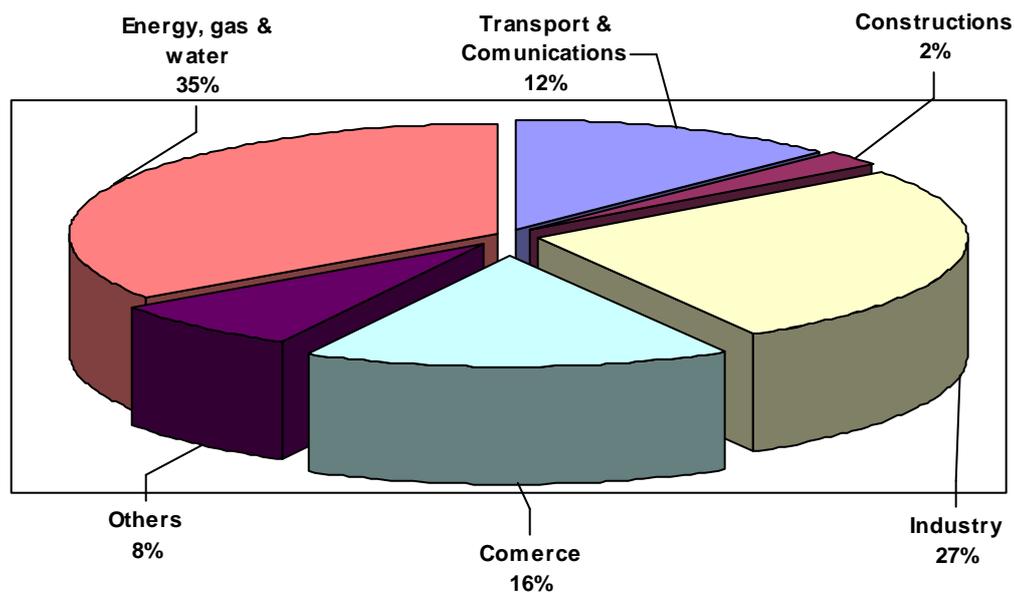


Fig. 7. The FDI structure by sector at Jan 1st 2004

The number of companies incorporating foreign capital increased considerably during recent years (figure 8).

In 2004 there were 437 such registered companies compared to 393 in 2003, and in total there were 3621, i.e. an 11,2% increase compare to 2003.

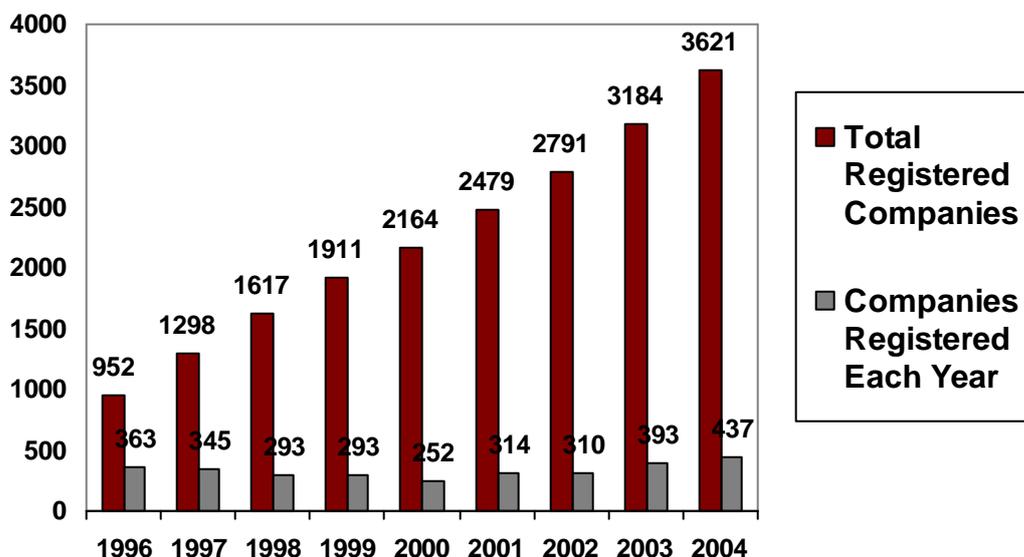


Fig. 8. Evolution of number of companies with foreign capital registered in RM

Out of the total number of companies with foreign capital registered in RM (table 6), 14% represented companies incorporating Romanian capital (493 companies) – a lot more than Romanian FDI in Moldova.

This goes to prove that RM's investment market is not very attractive for the Romanian capital.

By type of economic activity, the most attractive sectors for the Romanian investors were the retail sector and the wholesale sector – 234 companies or 48% of the total; manufacturing – 107 companies, i.e. 22%; transportation and communications – 48 companies (10%).

Table 6. The structure of companies incorporating Romanian capital, by type of business

Types of activities	Total companies			
		With Romanian capital	With Romanian and other countries capital	With both Moldavian and Romanian capital
Agriculture, hunting economy & forestry	10	3		7
Processing industry	107	36	1	70
Electricity, water and gas	1			1
Constructions	15	6		9
Trade	234	104	10	120

Table 6. (cont.)

Hotels & Restaurants	3	1		2
Transports & Logistics	48	9	2	37
Financial activities	4	3		1
Real estate transactions and lease services rendered to companies	47	25	3	19
Education	2	1		1
Health and Social Care	5	2		3
Other social services	17	2	2	13
Total	493	192	18	283

The main conclusion of this paper is that even if RM has been successful in reforming its investment climate, the annual capital inflows taking the form of FDI have been quite modest compared to other European countries and consequently they have not supported a continuous economic growth.

Even though Moldova is perceived by some of the European structures as a country offering a high level of economic freedom as opposed to other states, the country's image in terms of investment opportunities is still suffering.

Potential investors do not have all the necessary information on the investment opportunities or cannot correctly process the data they have.

The few success stories are not properly advertised abroad. The state invests small amounts in physical infrastructure, education and health, which represent the prerequisites for setting up a long term business.

Both RM's and Romania's policies in terms of FDI must become more liberal and pro-active, more aggressive, when it comes to attracting FDI. Treating the foreign investors just as they are treated in other countries would be an important step ahead. FDI must not be waited for.

They must be attracted, via direct marketing activities channeled towards the targeted investors, along with urgent measures for improving the image of the country inside political and foreign business circles.

It is already a well known fact that after many years of oscillating between the East and the West, the Republic of Moldova has finally made it clear that its strategic orientation is towards a potential association to the family of European countries.

Such a perspective needs economic, social and political reforms, together with solving the conflict in Transnistria – the biggest obstacle in the way of Moldova's sustainable growth.

Any state that wishes to join the EU must increase its competitiveness up to the level of the member states, which is the same thing with attracting significant FDI volumes.

Otherwise put, the objective of drawing foreign capital is synonymous with achieving competitiveness similar to that of the member states.

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Investițiile străine directe și competitivitatea internă

Rezumat

Articolul prezintă elementele-cheie privind competitivitatea națională, în contextul creșterii interdependențelor dintre țări. De asemenea, autorul subliniază rolul investițiilor străine directe în dezvoltarea tuturor sectoarelor economiei, ilustrând cu date numerice semnificative evoluțiile din ultimii ani în acest domeniu. O atenție specială este acordată Republicii Moldova, articolul prezentând actualele limite și oportunități în atragerea investițiilor străine directe.