

The economical mechanism of the Republic of Moldova in the context of the European Integration

PhD Daniela POPA¹

¹ The State Agricultural University of Moldova, Chisinau
42 Mircesti st., MD-2049, Chisinau, Republic of Moldova, Phone: +373 22 31 22 58, Fax: +373 22 31 22 76, E-mail: d.popa@uasm.md



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University (SGGW)**

Republic of Moldova is a country in Eastern Europe, located between Romania to the west and Ukraine to the north, east and south.

Surface (Area): 33.845 sq km

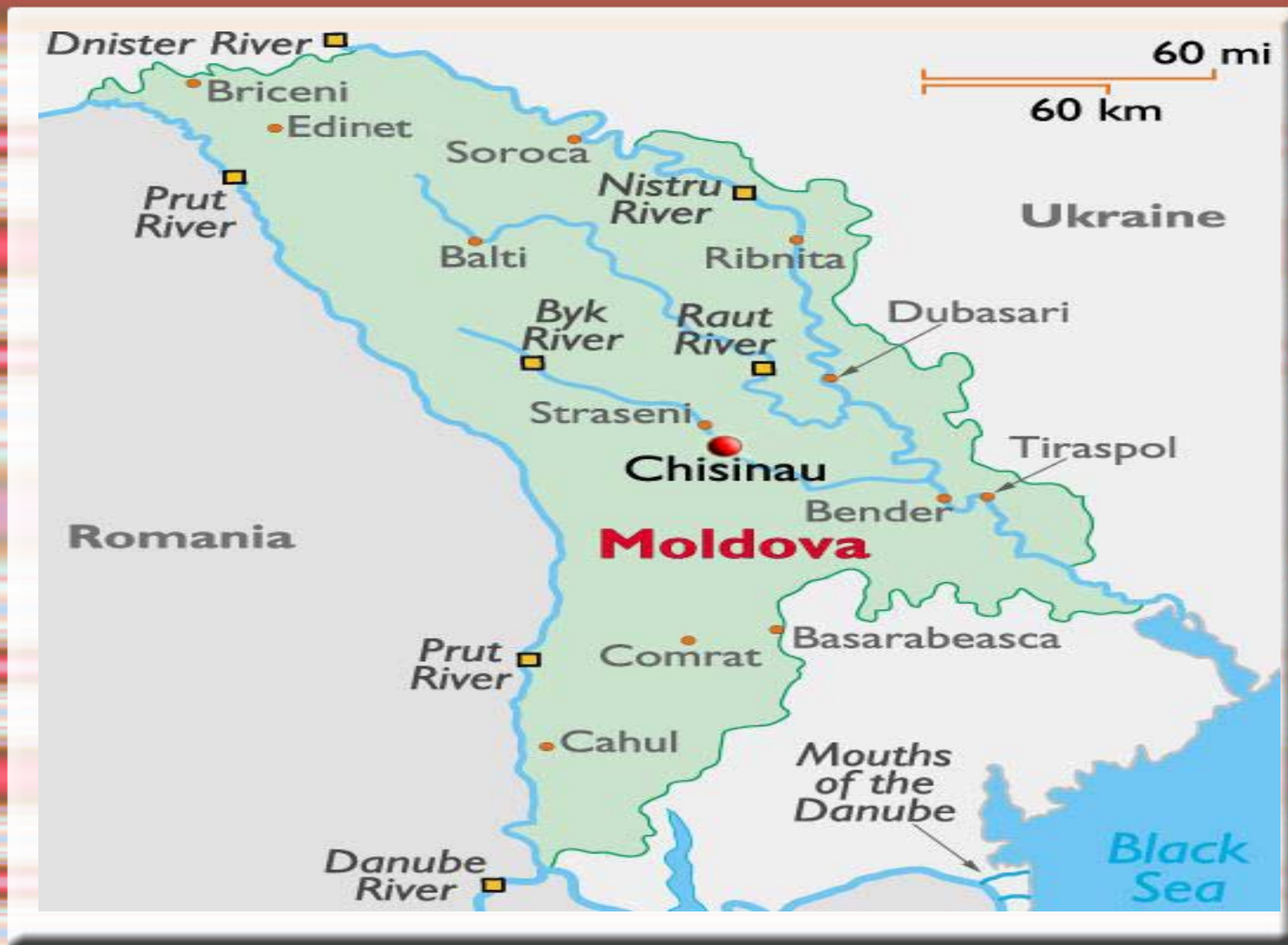
Population: 3.600.000

Capital: Chișinău

Official languages: Moldovan (Romanian)



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✚ In the Republic of Moldova agriculture has been traditionally regarded as the cornerstone of the national economy: agricultural output accounts for 15% of GDP and together with the processing industry represents over 30% of GDP and approximately 50% of total exports. At the same time, agriculture constitutes the most important sector of the national economy, using over 40% of country's labor force.



Agriculture is one of the most sensitive sectors of the Moldavian economy. To mitigate and correct blockages in development of agriculture to the new demands required the concerted efforts of governments and business community.

Agriculture in Moldova is of utmost importance because in this field work most of the population, conditions are favorable, this area also has a significant contribution to gross domestic product.

In many places in the country, agriculture is the limit of subsistence: productivity is very low, competitive products is modest, and the products are sold at discounted prices. The causes of poor state of agriculture is excessive fragmentation of land, primitive technical equipment of agricultural enterprises, competition of foreign producers, modest state support, lack of financial resources and fewer opportunities to attract foreign investment.

Attracting investment is a strategic priority of farmers at present, because investment is material support economic growth. Agrarian sector and modernization of production capacities of the complex food may only be based on substantial investments, which total necessary updated, in accordance with some preliminary estimates, exceeds the amount of 4.0 billion Euro.

Increased investment in agriculture is one of the basic factors that contribute to economic growth and improve the national economy complex, issues related to modernization of agricultural enterprises in Moldova.

In Republic of Moldova

✚ The fertile soil supports wheat, corn, barley, tobacco, sugar beet, and soybeans. Beef and dairy cattle are raised, and beekeeping is widespread. Moldova's best-known product comes from its extensive and well-developed vineyards concentrated in the central and southern regions. In addition to world-class wine, Moldova produces liqueurs and sparkling wine. It is also known for its sunflower seeds, walnuts, apples, and other fruits.

Moldova has always been famous for its fertile lands and traditionally, the agricultural sector would constitute the fundament of its economy and the country's welfare. The boons of the generous Moldovan land, including the foodstuffs, would usually be one of the major aspects of Moldova's exports. The biggest Moldovan cities were founded and developed on trade roads and in the place of fair markets. That is the explanation why the agro-industrial system (farming sector, agro-processing producing, branches delivering equipment and industrial services to the farming sector) has a special role in the economy of the whole country.



Prices regulation in the EU requires the creation of a complicated mechanism which will administrate the prices changes on the agricultural market (figure 1). Its main elements are support prices. The support prices include three types of prices: target price, threshold price and intervention price.

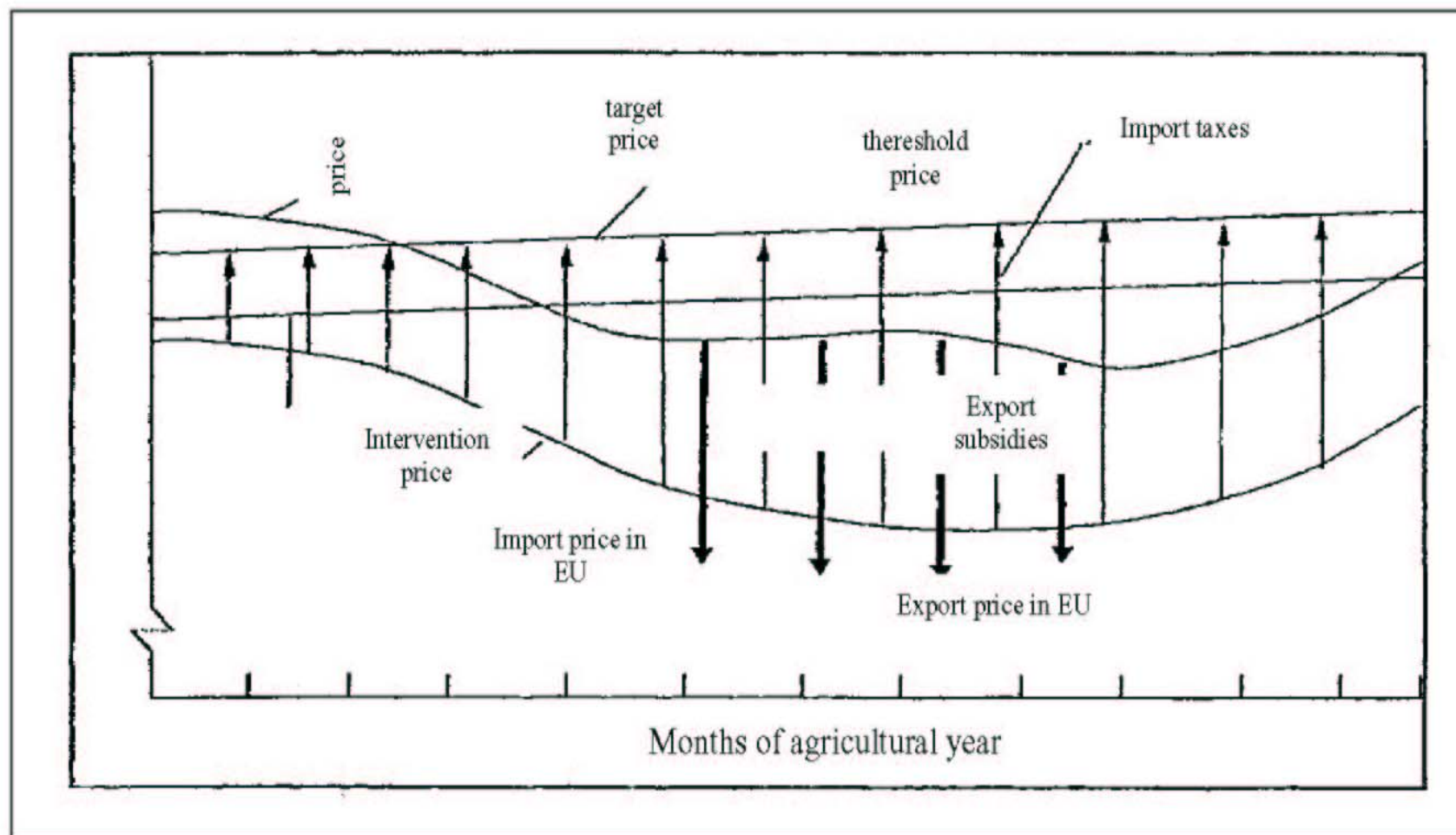


Figure 1. The price mechanism on the agricultural markets from EU (main model) [4]

The main factor of EU agricultural policy is the permanent control on the markets and prices. One of the main directions in the regulation of EU markets is the purchasing of agricultural products and their storage.

In Moldova credits and taxes are used as efficient instruments in the development of farms. Credits are needed for the development of the agricultural sector particularly taking into consideration the natural conditions in this sector, but because of high interest rates for credits farmers cannot afford them.

The Republic of Moldova has many opportunities to have a competitive agriculture but the insufficiency of financial resources stop the development of this sector. In this way of thinking we must increase the attractiveness of this sector in the eyes of foreign investors.

If we analyze the investments which came to our country in different sectors of our economy we will see that the agricultural sector is less attractive than other sectors. In this sector there are investments near 10%. The most of investors invested in energy sector (33%), in manufacturing industry (25%), wholesale and retail trade (17%) (Figure 2).

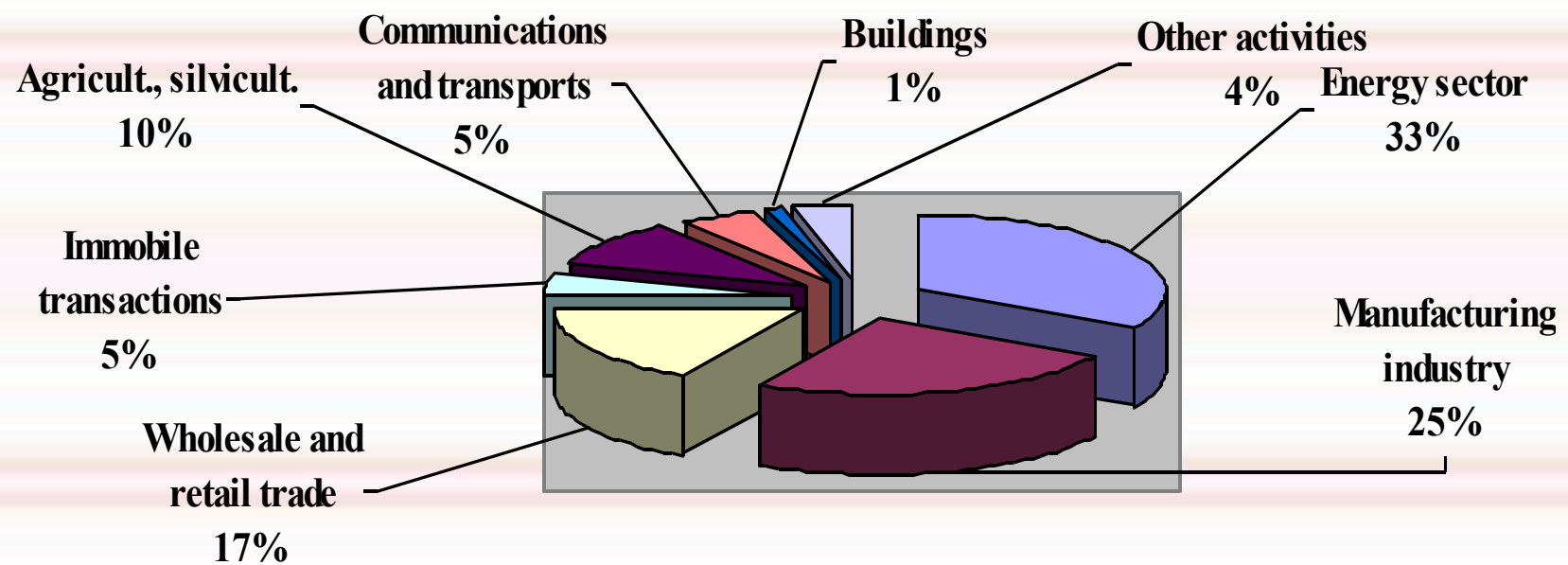


Figure 2. The distribution of Foreign Direct Investments in the sectors of Moldavian Republic economy, 2009

Table 1. The SWOT Analysis in attracting investment in the Republic of Moldova

<p><u>Strengths</u></p> <ul style="list-style-type: none"> ◆ Neighboring with EU; ◆ Favorable climate condition for developing some types of productions and services; ◆ Bilingual business environment (Romanian and Russian); ◆ Well developed banking system; ◆ Favorable geographical location of the country; ◆ Cheap labor; ◆ The existence of trade preferences offered by European Union; ◆ The existence of bilateral agreements on mutual promotion and protection of investments. 	<p><u>Weakness</u></p> <ul style="list-style-type: none"> ◆ Macroeconomic instability, high inflation rate; ◆ Poor infrastructure; ◆ Major discrepancies in regional development; ◆ Lack of material resources, including natural resources; ◆ High energy import dependence; ◆ Considerable influence of external factors on national economy; ◆ Raising deficit of skilled labor force; ◆ Insufficiently developed technological transfer; ◆ Low development of scientific and technological economic sectors; ◆ Insufficient development of consulting and information service for attracting investment and export promotion.
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> ◆ State policy oriented towards European integration; ◆ High level of consumption and its perspective for remaining unchanged on the domestic market as well on the markets of main trade partners; ◆ Selling government property using various means, including public-private partnership; ◆ Benefits for investors; 	<p><u>Threats</u></p> <ul style="list-style-type: none"> ◆ Presence of administrative obstacles for attracting of investments; ◆ High regional competition for attracting investments; ◆ High level migration mobility in the region ; ◆ Reduced state capacities in financing investments in infrastructure; ◆ Lack of domestic resources for investments; ◆ Growing prices for energy resources.

*Source: Strategy for the Mobilization of Investments and Promotion of Exports for period 2006-2015
 //Official Monitor nr.181-183 from 24.11.2006 pag.17.*

Nowadays this sector of activity needs modernization by using high technologies and scientifically researches, attracting Foreign Investments in agricultural sector will contribute to modernization of this sector; will create new possibilities to use high technologies; will bring us the possibility to use all the farm lands more efficient, in this way we will assure the economical growth of the country.

The experience of the EU countries demonstrates that in the conditions of market economy farmers' activity, the efficiency of the food economy complex, the improvement of economical and ecological sphere are subjects of governmental regulation of agricultural products.

In Moldova is necessary to improve and strengthen the system of governmental regulation for agricultural products, based on the experience of other developed countries in order to protect national agricultural sector and increase its efficiency.

Among the main priorities, the following should be mentioned:

- fertile soil and favourable climate conditions – the main conditions required to develop highly-productive intensive agriculture – as well as a processing industry with a stable source of high- quality raw materials;
- high efficiency of a profitable agro-industrial sector, which significantly exceeds the efficiency ratio of neighbouring countries;
- large popularity of Moldovan brands in CIS markets;
- high quality of Moldovan products recognized in all former USSR regions. It is necessary to mention that Moldovan products are ecologically pure and have remarkable gustative qualities provided at accessible prices;

- fruits and vegetables growing and processing industry - creation of new plantations, freeze-drying, preserving enterprises, as well as greenhouses;
- livestock sector - high potential of meat and milk processing, which requires assuring raw material supply. In this context, creating production joint venture enterprises for cattle and pig breeding, meat processing and production becomes another attractive investment opportunity;
- irrigation systems - the high production volume and advanced agriculture require modern irrigation systems that reduce drought risks and ensure a rich crop; and
- Organic farming - one of the basic priorities is to develop (bio) organic products, the preconditions for the development of organic food production being described above.

- ◆ **To implement the system of compensation payments and exports subsidies which demonstrated their high efficiency in protecting EU local producers and to increase exports of agro-food products;**
- ◆ **To undertake actions for government intervention on agricultural markets for purchasing agricultural products on guarantee prices according to the model of mechanisms implemented in EU countries.**

Thank you



Dziękuję bardzo za uwagę

