

## THE FOREIGN ECONOMIC ACTIVITY - AN IMPORTANT FACTOR IN SUSTAINABLE DEVELOPMENT OF THE REPUBLIC OF MOLDOVA

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### *Abstract*

*The Foreign economic activity plays an important role in the economic development of each country. Organizing and carrying out foreign economic activity is an area of major importance in the creation of a new economic mechanism by which the country is classified is performed in the global economy. World experience confirms that many countries have achieved a significant increase of socio-economic development, because of their open "economy", which involves relatively free movement of goods, capital, technology, labor and knowledge. Integration evolution contributes to the increase of the import-export potential of any country. Global competition and domestic market protection prevent, however, the expansion of export flows. Thus, the external links of a country are conditioned and regulated by the interaction of the factors listed above. This paper aims to present some considerations on foreign economic activity as an important factor in the sustainable development of the Republic of Moldova.*

*Key words:* economic activity, export, import, foreign capital investment, sustainable development

### INTRODUCTION

It is known, that the national market economy of a country can exist and can be viable only within and in relation with the market economies of other countries.

Also, we must take into account the fact that the contemporary global economy includes a wide variety of national economies, which are at different stages of their development: some are economically highly developed countries and have a significant share in world GDP (USA, Germany, Japan, England, France, Italy, Canada, etc.), others are developing countries and many other countries are underdeveloped.

Corresponding to the study of business activity, the foreign economic activity is based on the following principles:

1. incentives and mutual benefit;
2. free enterprise;
3. legal equality of all the subjects of the foreign economic activity, regardless of ownership;
4. defending the interests of the subjects of the foreign economic activity;
5. preventing the illegal limit of the rights of

the subjects of the foreign economic activity.

The modalities of carrying out the foreign economic activity are:

• **Direct** - this method involves organizing and running the export and import of goods, work performance services rendering by manufacturing units on their own account and risk.

• **Indirect** envisages organizing and conducting import and export foreign trade through the units of foreign trade.

According to the legislation, the content of external business includes import and export of goods, works, services in accordance with the nomenclature and the way prescribed by the Government.

The economic activity in the Republic of Moldova has been determined by the need for economic reforms since independence. In all these years, the country has done a lot to reform the national economy, the transition it from a centralized socialist command economy to a market economy.

At present in the Republic of Moldova essential reforms were carried out successful by and unsuccessfully privatization of enterprises, price liberalization and reducing

the deficit of goods and services, the introduction of the national currency and inflation control; the establishment of the market economy infrastructure, banking establishment. However, the national economy is poorly structured, the legislative support is as incoherent and contradictory. Without the foreign economic activity there would not be possible the sustainable development of the country.

## MATERIALS AND METHODS

The reflected researches were achieved on informational materials of the National Bureau of Statistics of the Republic, the National Bank, etc. There were used the following research methods: monographs, comparison, analysis, inference.

## RESULTS AND DISCUSSIONS

Taking into account the purpose of the work, we should mention that trade by the nature of the carried out activities is one of the most important sectors of a country or a community of countries.

At the same time, trade through its functions, play an important social role, being a point of contact both between the citizens of a country and between the citizens of different countries.

Along with goods, a large sector of international trade belongs to services that are at global market as a highly dynamic, trade flow exceeding 23% of the world trade (Table 1).

Moreover, for some developed countries, foreign trade in services has a much higher share than the world average, with an outstanding contribution in their balance of payments.

International trade with services includes various types of activity:

- services related to foreign trade, including additional costs for freight, transport etc. ;
- the trade-related services, which may be included in capital constructions, technical collaboration, administrative services;
- trips that include revenue and profits from

- tourism and business travels;
- bank charges, leasing, financial services etc.

Table 1. The evolution of global international trade in services

Indicator	Value, mld doll.	Annual percentage change,%			
		2009	2010	2011	2005-2011
Total trade services, including:	4,149	11	10	11	9
Transport	855	-23	15	8	7
Travels	1,063	-9	9	12	7
Other business services	2,228	-7	8	11	10

Source: prepared by the author based on the data from World Trade Report, 2012, p. 22

According to tab. 1, the largest share of the total global trade services belongs to the group "other business services", which is 54%, the growth percentage changes being positive.

On the second place is traveling, which includes tourism and business travel, which holds 26% share of global commercial services. In 2011 they were up by 12%. Transport services ranked the third with 20% share. If we analyze the evolution of these types of services, we can see their decrease. The consequences of trade freedom increase are overwhelming. Lately, trade in goods and services have a greater growth than production. Trade volume increase exceeds twice the global production growth. The analysis of international trade in the postwar period highlights specific trends of this period, which occurred under the influence of scientific-technical progress, economic integration processes of different regions of the world, global nationalizing etc.

The first main feature of the international trade is the fact that in the postwar period, compared to the previous, international trade registered the highest growth rate. In the period 1950-1995 the total value of world exports, expressed in current prices increased by 80 times the physical volume of

commercial products increased approximately 14 times and prices - about 5.8 times. In the period 1995-2000 world exports of goods recorded a 7% percent change and global gross product grew by 3%. So we can say that the changes of the period are positive but not as huge as in the previous period. The analysis of the dynamics of world merchandise exports shows that it suffered two major crises: in 2001 and 2009.

The second feature of the international trade is that its increase surpasses the growth rate of industrial production, agricultural output, GDP and GNP in the world.

The third feature of the international trade results from the comparison of the international trade volume of gold and currency reserves and the state capitalist countries.

Amazing consequences of scientific and technical progress on interdependencies (in deepening their meaning) is reflected in the structural changes that take place in international economic relations. Regarding international trade, there is a diversification of trade in tangible goods through the development of new products, particularly in machinery and equipment, of chemicals, and other industries and manufacturing sectors, as well as through the increase of previous trade in services. Thus, the share of processed industrial products in world exports, and the machinery and equipment doubled, in some countries the increase being much higher.

However, we emphasize that the import - export of Moldova has a relatively simple nature. Businesses export mostly raw materials, they have insufficient information about the situation and prices on the export market, which presents a significant barrier to determine the effect of commercial operations. Being a country with a small domestic market, Moldova is dependent largely on foreign trade. If we refer to the structure of exports and imports, then we find that in 2007-2012 foreign trade goods groups are run by a small number of products. According to the data in Figure 1, the largest share of total exports throughout the period under review, belongs to food, excluding the

group of miscellaneous items.

If we analyze the dynamics of this group, we find that it is floating. In 2007 it holds the share of 18.8% and has a positive growth trend until 2010, where it reaches 25.2% share.

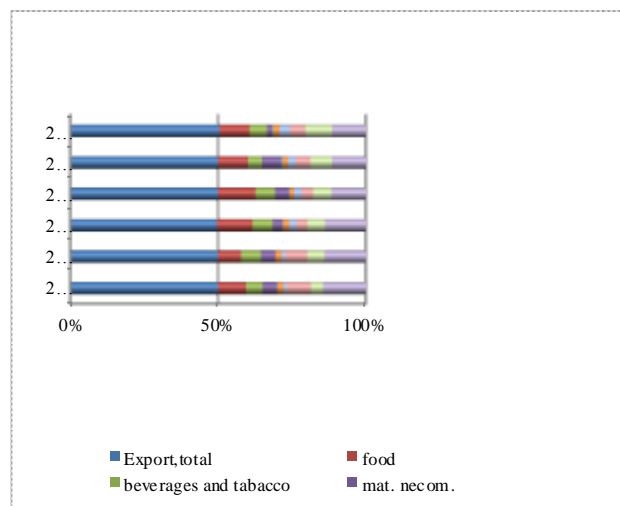


Fig. 1. Structure and dynamics of Moldovan exports,%  
Source: prepared by the author based on the data from statistical yearbooks of the NBS

In the next period there is a decrease in the export of food by about 5%, reaching 20.3% in 2012. The same floating is observed in the other categories of products.

If we analyze the structure of Moldovan exports by special groups (fig. 1), we see that the group food and live stock, the largest share in the period 2007-2012, is held by vegetables and fruits. In 2012 there were exported fruits and vegetables worth 279.8 million. dollars USA

In the second place group of cereals and cereal products. In 2012 there were exported products from this group amounting to 51.9 million. dollars USA.

On the third place are sugar exports. Analyzing the dynamics of exports, we mention that it mostly has a positive trend since 2008.

As export agroindustrial products prevail at a rate of about 35% of total exports.

Referring to the import one of the main problems is to ensure the national economy and the population with mineral products as Moldova imports 98% of its. This group has about 30-40% of total imports.

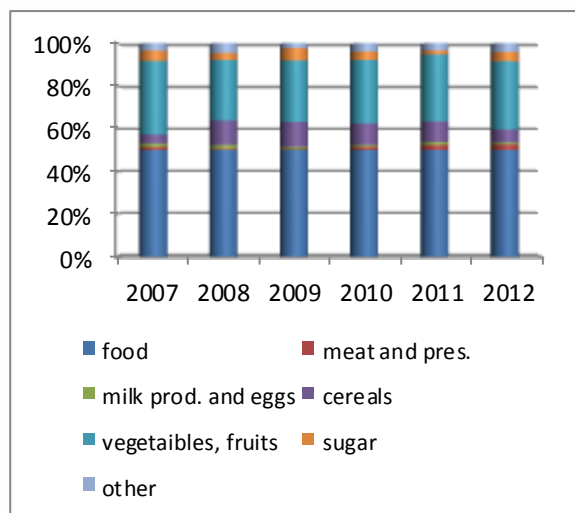


Fig. 2. The structure of Moldovan exports of food and livestock group, mil. dollars USA

Source: prepared by the author based on the data from statistical yearbooks of the NBS.

Table 2. Dynamics and structure of goods imports in Moldova

	2007		2010		2011		2012	
	mil.\$ USA	%	mil.\$ USA	%	mil. SUSA	%	mil. SUSA	%
Import	3689,5	100	3855,3	100	5191,3	100	5213,0	100
Food and livestock	301,0	8,16	410,0	10,6	500,9	9,7	537,7	10,3
Beverages and tobacco	113,7	3,07	136,3	3,5	140,8	2,7	150,1	2,9
Inedible raw materials	96,9	2,61	86,5	2,2	108,0	2,1	104,5	2,0
Mineral fuels, lubricants	774,8	21,0	791,1	20,5	1165,4	22,5	1198,0	23,0
Oils, fats	10,1	0,26	8,8	0,2	11,1	0,2	16,6	0,3
Chemicals	438,5	11,9	520,7	13,5	673,2	13,0	705,8	13,5
Manufactured and goods	795,7	21,6	738,0	19,1	975,9	18,8	942,5	18,1
Machinery and equipment	818,5	22,2	805,3	20,9	1157,5	22,3	1083,6	22,7
Miscellaneous articles	339,5	9,2	358,5	9,5	458,1	8,7	474,0	7,2

Source: the author's calculations based on the data from statistical yearbooks of the NBS

Imports growth is increasing and in 2012 they reached a value of 5213.0 million dollars. Compared to 2007, they increased by 1523.5 million dollars. It's a pretty impressive figure. If we analyze by categories, then we can mention that the food group is growing. The structure of imports is dominated by imports of fuels and lubricants, which have a share of 23.0% in 2012. Practically the entire analyzed period this group of goods is dominant in the structure of exports. After energy and fuel imports, imports of goods from the group machinery and equipment prevail, which have

a share of 22.7% in 2012.

The structure of imports of goods, according to the Standard International Trade Classification, indicates continued dominance of the products necessary for the functioning of the economy and the population consumption.

Low competitiveness of domestic products and increasing consumer capacity of the population and other factors, led to imports increased imports according to the country's income Moldova can join the group of countries that have a low income economy, which is characterized by low capital accumulation. That's why the fact that Moldova is structurally inadequate for import-export operations.

Export orientation of Moldova essentially to agroindustrial complex production and import orientation to energy resources and raw materials for light industry, heavy industry and so on the imposes urgent problem of improving external economic relations. The development of optimal structure of import-export flow determines the creditworthiness of the country on the world market and contribute to the stability of the national currency, to raising the socio-economic level of the country, to the increase of its authority in the world community.

Also, Moldova's foreign economic activity can be attributed to the external debt of the Republic, which is now a particularly acute problem. The external debt of the Republic is increasing due tonattracting foreign loans to finance the balance of payments deficit. Therefore, it is important to promote policies for managing the flow of foreign capital entering the country, which would allot these investments in the leading sectors of the national economy, with productive character. External debt crisis is a problem for all the countries of the former socialist space and its solution requires great effort from both international organizations and the countries themselves. The external debt crisis often happens because of errors in the orientation of economic and financial exchange rates, the use of foreign loans to finance unproductive targets or with low economic efficiency,

which does not ensure the repayment of external loans, including payment of interest.

Therefore, we can mention that Moldova has a significant economic potential for the world of business abroad, but its financial and material resources both internal and external, must be managed effectively to ensure the rational and sustainable development objectives.

International economic cooperation is a form of intergovernmental cooperation between economic agents held on a contractual basis, and having a continuous character aiming at joint efforts of material, financial, technological and human resources of the partners to carry out activities related to the production, circulation, research and development field etc. in order to achieve mutual benefits. Cooperation, as economic partnership involves combining economic resources of two or more companies from different countries to achieve the interests of each in the proportion much higher than in the version of their independent actions.

As the world experience for small countries, shows the only way to use their real priority is cooperation with other countries, namely the development, production and marketing of goods and services on their own markets and on the market of other countries. World-class economists confirm that international economic cooperation is the most effective means of achieving balanced economic growth of restructuring and ensuring sustainable development. There are many international economic cooperation influences on the economy and, respectively on businesses. Benefits that are created by economic cooperation for economic growth are the following:

-cooperative relationship better reflects the convergence of interests of the partners, the thing that exchange relationship doesn't do. In terms of relations between countries, cooperation fits their mutual interest, while foreign trade in terms of different levels of economic development of the partners, meets the interests of some opposite partners those of others. So cooperation is a much more accessible form, as it meets the interests of the

countries, regardless of the level of development and economic system;

-cooperative relationship directly stimulates production growth which is the field of economic growth where a country place in the global division of labor can be changed. Cooperation provides the missing elements of production of a country or of an economic agent for development;

-cooperative relationship is the product of explosive development of the most advanced science and technology;

-cooperative relationship more easily remove barriers, discrimination and other obstacles to international economic relations. Partners can enjoy the facilities that host countries grant to them their producers, the facilities that could not be obtained by a foreign partner;

-cooperation is an effective means to develop and diversify trade, it influence the transformation of international trade into a factor of economic growth for all the countries, in particular developing ones. Cooperation stimulates additional material, paves way for expanding trade;

-cooperative relationship generates stability in international economic relations, gives them insight as partners commit to lasting action. Partners set long-term goals together take decisions on investment, specialization and technical progress.

Cooperation in production and services has favorable effects on the growth of the national economy, or on the other hand, or international economic relations as a whole. It also stimulates the growth and diversification of national economies by creating new targets in different sectors of the economy or expanding existing ones. Cooperation is also a factor of technical progress as it allows the transfer of modern technology and mutual learning at the same time partners join forces for new scientific and technical projects.

International investment banking practices emerged with the generalization and slow formation of modern states in the late Middle Ages, but true progress, investments made in the early nineteenth century. These investments were mainly from Europe exclusively from a single country - Great Britain.

From 1914 to 1939, due to great political disturbances in the European area, the hierarchy of capital exporting countries reversed - the USA becoming a leader in the export of capital, and Germany - the first of import.

After World War II, one can distinguish three major waves of foreign investment: The first wave is done since 1950 and lasted until 1965, This period corresponds to the flow of American investment firms in Western Europe. The second wave (1965-1975) is characterized by the fact that American and European companies are turning to low-wage countries in Southeast Asia.

The third wave is done nowadays and is characterized by continuous increase of investment flows.

This expansion of FDI can be explained by the following facts:

- changing international economic environment;
- privatization is a means of transferring the economic activities from public sector to private one;
- countries continue to reduce restrictions on FDI and unilateral trade policies liberalization takes place within multilateral negotiations;

In these years the number of treaties and agreements on investment promotion and protection has tripled, for example, the North American Free Trade Agreement (ALENA) multilateral agreement on investment (AMI). With an average growth rate two times higher than production, global trade is at the root of economic internationalization.

This has prompted businesses to develop investment abroad, to create multiple international networks of multiple and diffuse. Following the trends of internationalization we can clearly identify two developments:

- increasing the flow of commerce on one hand;
- increasing foreign investments on the other hand, that scored in the early 1980s.

As a result, the growth of trade and investment, led to an increase in the level of competition in many markets, which means an intensification of competition faced by domestic firms of receptive countries.

Table 3. Direct Foreign investments in the Republic of Moldova, the period 2003-2012, mln.\$ USD

Years	2006	2007	2008	2009	2010	2011	2012
Total FDI	233,2	541,3	711,5	145,3	197,41	274,0	159,21
Social capital	119,1	227,4	441,7	161,6	156,98	143,9	144,55
Reinvestments	41,6	112,8	99,7	11,6	14,6	94,4	-11,7
Other capital	72,3	201,1	171,1	4,7	25,9	35,7	41,6
FDI / GDP, %	*	12,29	11,75	2,67	3,40	3,91	2,5

Source: Based on the data provided by the National Bank of Moldova

According to Table 3 data in we can mention that Moldova was able to attract FDI only after credible economic recovery. A considerable growth of FDI in Moldova's economy was registered merely in 2007, when it ran to \$ 539.3 million. In 2009 a dramatic decrease of the FDI amount occurred in our economy. It can be justified by political and economic instability in the country. As a result, foreign investors preferred to invest in geographically outlandish countries, but economically and politically steady. Also, there is a high FDI decrease in 2012. It can be explained by the difficult situation of the global economy.

Economic experts mention that Moldova lost in 2012 the struggle in attracting FDI , in comparison with the other countries of this area. "All this proves that the government, generally, didn't sufficiently reveal its ability to systematically approach about the business climate deficiencies in the country," says the study of the analytical center "Expert Group". Over wise, the same study of the Analytical Center "Expert Group" shows that in 2012, the private investment continued to decline and the most prominent decline was attested at foreign investments. "Moldova has lost not only regional struggle in attracting FDI, but risks to lose investors who already set up in the country. In this context, the public investment could be considered the redemption funds of the Moldovan economy in 2012 ", said experts.

Regarding the FDI in GDP share, we can mention that during the analyzed period this index was unstable and in 2009, as a result of the global crisis, this index decreased to

2.67%. The same situation is repeated in 2012. The main sources of foreign capital are from Netherlands - 18.2%. It is succeeded by Cyprus - 12.4%, Italy - 12.3%, Russia - 7.8%, Germany - 6.1% etc. A considerable amount of investment in Moldovan enterprise capital comes from European Union (EU).

## CONCLUSIONS

In a relatively small and open economy like that of the Republic of Moldova, agricultural trade benefits can be one of the possible ways to significant economic growth, increasing incomes, and consequent poverty reduction. Taking into the account the fact that the local market is relatively small and has a limited absorption capacity in the near future agriculture will continue to be the essential source of Moldovan exports and increasing exports of agricultural production will have the potential to produce a positive impact on consumption and medium and long term income. In turn, this will serve as a major incentive non-farm economy in rural areas. However, export growth will depend on Moldova's capacity to exploit its comparative advantages intensively and quickly connect them to the world trading system.

We consider that foreign economic activity is an important factor in the development of the country. The top four most important export partners are Russia, Romania, Italy and Ukraine, and imports partners are: Russia, Romania, Ukraine and China.

The reasons that led to reduced exports from the Republic of Moldova are Russian ban of Moldovan food products.

The reduction of the volume of textile production that is processed and exported to the EU, the Eurozone crisis and the reduction of metal production are other reasons that led to reduced exports.

In this regard, the Ministry of Economy has proposed to undertake a series of actions. They include the elimination of all trade and non-trade barriers, existing in foreign trade recorded both in Moldova and abroad. The simplification of customs procedures and the simplification of all the restrictions that are

placed on the market of Moldovan origin countries. Also, another purpose would be raising the competitiveness of domestic products.

We also, consider the role of foreign investments is quite important for developing countries, including Moldova, where internal resources are insufficient to reach the level of development and prosperity that modern countries have today. The influence of FDI on the domestic economy is twofold. On the one hand, it is credit, loans and investments through which foreign capital can complement national financial resources in implementing the macro stabilization. On the other hand, foreign capital plays a key role in the restructuring and modernization of the national economy.

Along with the capital invested with the corresponding effects on the growth of economic activity, foreign investment stimulates the transfer of modern technology, they help the country's balance of payments in which they are implemented.

Thus, we conclude that foreign economic activity, which consists of the following types of activity: export and import of goods (works and services) in accordance with the nomenclature in the manner prescribed by the Government, trade in goods (barter transactions) and other types of activity, based on the principles of commerce greeting; co-operation in production and other subjects of economic activity abroad; entrepreneurial activity carried out jointly with the subjects of economic activity abroad; activity of foreign investors, form one of the main factors for sustainable development of the country.

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