

The role of country's institutions in the valorization of potential the liberal foreign trade policy - The case of the Republic of Moldova

Marica DUMITRASCO

Doctor of economics, research associate professor

Institute of Juridical, Political and Sociological Research, Chisinau, Republic of Moldova

E-mail address: mdumitrasco@asm.md, mdumitrasco@gmail.com

Abstract

Implementation of Foreign Trade Agreement between RM and EU is on the government agenda, beginning with the moment of ratification. The valorization of the economic potential of this agreement can be provided by strong state institutes and should be realized through the elaboration of adequate mechanisms and policies. They are related first of all to the deepening trade between partners.

The purpose of this paper is to assess the extent to which the institutes correspond to an ambitious agenda for the implementation of reforms, as well as are prepared to use the adequate economic mechanisms and policies to manage and adapt to contemporary trends in the international trading system.

The novelty of the research is exploring the measure of the institutional competitiveness of country's economy in the period 2011-2017, in the correlation with the methodology of the World Economic Forum.

At present stage of development the competitiveness of the economy of Moldova is largely predetermined by the performance of institutions both public and private, that study found one of the most problematic sectors.

The implementation of reforms in the foreign trade sector, which began with accession to the WTO, was not supported by reformation of other economic sectors. Among the main obstacles are the following: the weakness of state institutions, inconsistency and non completing the government policy reforms started, the lack of political will, the high level of corruption etc.

Results of this study can be used for the elaboration of set the appropriate economic policies.

Keywords: trends in international trade, GVC, institutional competitiveness.

1. Introduction

The Government of the Republic of Moldova has started the process of accession to the World Trade Organization (WTO) yet in 1993, in the period of economic reformation and the integration of the economy of the Republic of Moldova in the world economic system. At that time the legislative framework and the economic situation has been such that our country was unprepared to join this organization. The process of accession to the WTO required a scrupulous preparation and it was a long and complicated issue that ended in 2001, when Moldova became a full member of the WTO.

For more than 15 years the Republic of Moldova is in compliance with and in an implementation phase of the obligations, when it was possible to gain from the advantages obtained from the process of accession.

From that time, both the Government and producers are placed in front of new requirements, which are to a large extent compliance with laws that do not allow an arbitrary attitude with respect to the rules laid down by the organization. In this context, the valorization of the potential of the WTO member country directly depends on the existence of strong institutions capable to implement the agenda of the economic development of country.

The purpose of this paper is to assess the extent to which the institutes correspond to an ambitious agenda for the implementation of reforms, as well as are prepared to use the adequate economic mechanisms and policies to manage and adapt to contemporary trends in the international trading system.

In this context, the first section of the paper examines the main trends in the international trading system over the past two centuries. In the second section the dynamics of institutional competitiveness of Moldovan economy is analyzed during period 2011-2017.

The novelty of the research is exploring the measure of the institutional competitiveness of country's economy in the period 2011-2017, in the correlation with the methodology of the World Economic Forum.

The main attention will be paste at the identification those institutional competitiveness indicators that have the greatest negative influence on the national competitiveness with the scope of elaboration their recovery agenda.

The last section contains the conclusions regarding the institutional competitiveness of the Republic of Moldova in the context of utilizing the potential of liberal foreign trade policy.

2. Review of main trends in the international trading system over the past two centuries

The liberalization of foreign trade is one of the main consequences of globalization, which reflects a continuous growth trend of the interdependence of the countries of the world.

A number of reputable international institutions, including the World Bank, the International Monetary Fund, the World Trade Organization, who are promoting free trade, adhere to the point of view that globalization is capable of accelerating the growth processes of the economy [1]. It was demonstrated by the examples of number advanced and developing economies in the second part of the 20th century. But this relation is not automatic. It is the true the same that not all developing countries can benefit from the priorities of liberalization of foreign trade could be explained by their slow integration into the world technology renewed economy, not application of trade supporting policies etc.

Despite arguments that seem undeniable, one of more disputable national trade policy topics in the period of post-World II of creation GATT/WTO till the early 1990s were that every country that is actively involved in globalization processes, in addition to obvious benefits, has many difficulties and complicated issues overcome. They caused, by the high competition on international markets, with the result that companies that are not competitive and adapted to the requirements of the day, and last but not least - those in developing countries and economies in the transition phase risk be eliminated from the market.

Agreements GATT and WTO uphold strict rules, but they contain and exceptions. It gives the rules elasticity, but WTO rules are applied with even greater flexibility. Although under

agreements there is a ban on import quotas and approved binding tariff levels, GATT also allows anti-dumping and countervailing duties, subsidies as well as safeguard measures and includes escape clause. Thanking to them governments have easy access to all measures that can limit trade. So, the governments of many countries found it inappropriate to increase competition in a number of industries that play an important role in ensuring food security and national security of their own countries. This is why both developed and developing countries resorted to selective bans or restrictions on the import of goods. These measures increase the circulation costs of imported goods, which make them less competitive than domestic ones or create uncertain conditions in the import mechanism of these goods. To be mentioned that the last surge of protectionism took place in the first decade of the 21 century and was explained by post-crisis consequences of economic shock of 2008-2009 periods. According to researchers it didn't result in much protectionism because of contemporary developed shock absorbers mechanisms [2],[3]. Trade protectionism is although still present in the world trade.

The WTO membership offers to the Government an opportunity to defend itself from local protectionist pressures which persist and have a greater or less then extent in all market economies. However, not all protectionist tendencies in Moldova are related to a desire to avoid intensifying competition in the domestic market of the country, as happens in some developed countries. In Moldova they are conditioned, first of all, by the general economic crisis and the inability of the country's power to pull out the country from this state.

From the moment of obtaining independency Moldova has been going through period of systemic social-economic and political crisis, related with transformations of transitional period. Also, the Republic of Moldova is very vulnerable to the global economic and regional crisis, displaying a poor resistance, as there were in the period of 2009-2010 crises and the flight capital crisis and the insufficient institutional capacity to manage the crisis situation.

In the study elaborated by the OECD is indicated that economic instability and weakness of the institutions are regarded as some of the dimensions of a fragile state which raises obstacles to fulfilling the agenda of further economic development [4].

Since WTO has achieved remarkable results in the liberalization of customs tariffs, their role, as internal market protection tools, logically diminished.

In accordance with trade management concept applied in the past century, simultaneously with the reduction of tariff barriers, the following trend was also manifested: increasing the use of different non-tariff limitations in foreign trade.

By the accepted definition in international trade practice, non-tariff barriers to trade are considered to be any measures taken by governments but different to tariffs that help to limit trade-offs between countries.

Compared with tariff measures, non-tariff barriers are often more difficult to detect. They are usually "hidden" in rules and practices that in fact can have a perfectly legitimate

objective, but the economic effects of non-tariff barriers can be substantial in both positive and negative sense. The main reasons for the frequent application and use of these measures were generated by the domestic policies of each country. Trade negotiations between countries were driven mainly by the granting of market access “concessions”. Consequently, countries diminished trade barriers only when their partners weakened theirs.

At present high non-tariff barriers to trade in some key areas of the global economy are remain restricting trade.

Thanks to liberalization of customs tariffs, reducing of trade barriers as well as transport and communications costs has been changing global trade picture.

Recently trade facilitation which can be determinate as “the simplification, standardization and harmonization of procedures and associated information flows required to move goods from seller to buyer and to make payment” (UNECE, 2012) - has appeared as a key topic in agenda the world trading system.

As it is mentioned in WTO report 2015: “While trade agreements in the past were about “negative” integration – countries lowering tariff and non-tariff barriers – the WTO Trade Facilitation Agreement (TFA) is about positive integration – countries working together to simplify processes, share information, and cooperate on regulatory and policy goals” [5].

Last decades in the economic literature dedicated of trade topics are discussed the importance of trade liberalization for organizing the production of goods and services and adding value across different countries that consistently led to appearance of global value chains (GVC). In global trade landscape where partners' exports depend on imports and where their connection to the world market is as effective as their link to any other link in the value chain, countries have a greater motivation to work together in order to reduce trade barriers, harmonize standards, costume procedure etc.

It is consensus among researchers regarding that trade tariff reduction has stimulated trade exchange between countries that in line with the growth of volume of international trade was expressed in the global fragmentation of production. In economic literature regarding to this phenomenon is mentioned, that since the early 1990s GVCs have become a strong driver of productivity and manufacturing exports [1], [6].

The evolution of this concept can be seen in a number of studies of past years. In the economic literature increasing trade of big parts and components of manufacturing goods between countries has been variously called.

Besides mentioned above, for description of this globalization process has been used the following notions: vertical specialization, processing trade, slicing up the value-added chain, out-sourcing, offshoring.

There are differences in the reflection of international fragmentation of production in the economic literature of end of twenty century and in the recent studies of twenty first century accompanied by the analysis of accumulated experimental dates.

At the earlier studies there have been to explain the fragmentation of production based at classical theories of the trade, using Ricardian and Heckscher-Ohlin type models [7], [8], [9], [10]. So, main drivers of these phenomena were the big production firms in high developed countries that have been interested in reduction production costs in order to increase their competitiveness. They persuaded this strategy by vertical division of production process at the stages replaced in different countries.

At the twenty-first century, the reducing of customs tariffs and transport and communications costs are diminishing the advantages of scale in international trade.

At present GVCs are often taken as a determinative peculiarity of the current wave of globalization. Conform UNCTAD estimation, at present about 80% of trade takes place in international production chains linked to multinational companies [11].

GVCs have become the main driver of global economic growth. In global world, liberalization of trade as well as IT dissemination allowed to transfer competition from the firms to their departments and individual jobs.

In context, to be mentioned some of important studies that contributed to the economic analysis of the modern picture of the world by estimation of consequences of current wave of globalization for EU [12] as well the profound critical evaluation of classical trade theories [13].

One of main conclusion from first mentioned of Baldwin [12] study is the globalization opened new opportunities for rising of productivity of EU's firms. To use this opportunities it should made adjustments in set of Government policies, preponderant in R&D, labour market and education. It has important implications for competitiveness Strategy of EU the same, because the study argued that the second wave of globalization is favorable for high skill sectors/workers in Europe and vice versa.

From second mentioned study of Eric Sheppard [13] follow that classical trade theories in explain of globalization process are not sufficient. The similar conclusion was made by Krugman [14] that noted the vision of traditional theoretical approaches is limited for explaining of tremendous growth of world trade.

Beside the works studying the appearance of trade fragmentation, to be mentioned the research dedicated to its measurement.

In economic literature notes that trade in intermediate goods between countries is often used as a suitable indicator for trade fragmentation.

Recent OECD studies are based at the approach to measurement of GVC participation, elaborated at the synthesis of the number experimental research. According to this “value chain participation is defined in terms of the origin of the value added embodied in exports both looking backward and forward from a reference country: backward when it comes to foreign value added embodied in exports, and forward when it refers to domestic value added which is used as inputs to produce exports in the destination country” [15].

Regional integration through trade and investment agreements in Central and Eastern Europe has been linked to the emergence of large international networks of production. At present Europe is one of the main manufacturing hubs around of which are organized GVC activity. In this context, recent FTA between of Republic of Moldova and EU open new opprtunities for deeping penetration of countrie’s activities in external fragmentation of production and first of all in the EU.

To be mentioned that it will allow to Moldova to overcame the disadvantages of small country market by creation of narrow specialization profiles in the production of many times greater than the needs of the domestic market, and even at all unrelated to them. This will help to overcome such deficiencies of domestic production as the insufficient competitiveness of Moldovan exports at the external markets as well as the failure to suggest a wide enough assortment of final consumption goods them. Valorification of this potential of FTA gives the chance of the country's economy out of the crisis and to create the preconditions for sustainable economic growth and economic integration in the EU. It should take a place of a new paradigm of economic growth.

It should be noted that all government programs for the period 2013-2018 [16] are concentrated at the market place extension for Moldovan’s firms by the capture of position of external markets. They emphasize the need of elaboration of government program for promotion of competitive final consumption goods at the external markets the same. It is rather outdated concept of development for modern world. It should be accompanied by strategy framework of penetration of local intermediate products in global value chains at least.

Republic of Moldova as small market economy should adapt to globalization process. The issues of how developing countries intended to benefit from global value chains and the associated profits of increased participation in them are insufficiently studied.

Experimental dates of OECD [17] demonstrate the participation of developing countries in low income global value chains. In the country’s research also was demonstrated that goods from Moldova are insufficiently penetrated in income value chains. They mostly are related to items with a low value-added share that provided in the customs regime of inward processing trade with few European countries. The advantage of geographical approximation to Europe one of the main manufacturing hubs around of which is organized the GVC activity is practically unused by Moldova [18], [19].

OECD study [17] paid attention to the necessary the adoption of economic policies that can help developing countries improve their competitiveness for integration in GVC.

3. Range of institutional competitiveness of Moldovan economy during period 2011-2017

The study is based on the analysis of the Republic of Moldova's score and position in international indicators and rankings in correlation with the methodology of the World Economic Forum. These indicators are organized into 12 pillars in framework of three subindexes: basic requirements, efficiency enhancers, and innovation and sophistication factors. Institutions pillar is included in basic requirements subindex.

According to the stage of development, the economy of Moldova was classified as the factor-driven economy in the last years. In conformity with methodology of the World Economic Forum, weight of the “Basic requirements” in the Global Competitiveness index is about 60%.

It should be noted that indicators derived from the Executive Opinion Survey of the World Economic Forum are expressed as scores on a 1–7 scale, with 7 being the maximum possible value and the most desirable quality.

In this context there is a low progress demonstrated by Moldova in the domain of basic requirements (4.2 the average score), was reached thanks to the records of institutions pillar (3.24 average score) and infrastructure pillar (3.59) (Table 1).

Table 1. Indicators of Basic requirements for the economy of Republic of Moldova

Pillars in framework of Subindex	year	2011	2012	2013	2014	2015	2016	2017	Average score
Institutions	score	3,4	3,4	3,2	3,2	3,2	3,1	3,2	3,24
	rank	106	110	122	121	123	128	119	
Infrastructure	score	3,3	3,5	3,6	3,7	3,7	3,6	3,7	3,59
	rank	96	92	88	83	83	86	88	
Macroeconomic environment	score	4,3	4,4	4,6	4,9	4,9	4,1	4,5	4,53
	rank	103	93	77	56	55	100	81	
Health and primary education	score	5,5	5,4	5,4	5,4	5,4	5,4	5,4	5,41
	rank	86	86	93	93	91	95	97	
Subindex Basic requirements - total	score	4,1	4,2	4,2	4,3	4,3	4,1	4,2	4,2
	rank	102	93	97	90	89	101	95	

Source: Author's calculation, based on the Global Competitiveness Report, 2011-2012 to 2017-2018

It can be mentioned that the scores and ranks of institutions pillar testify the regress of indicators of competitiveness in the recent years in comparison with the beginning of the period.

The Republic of Moldova and Serbia demonstrate the lowest indicators of institutional pillar competitiveness in matching to the South-Eastern Europe countries with the average value reached by both – 3.24 (Table 2). It means that both countries have the same institutional difficulties.

Table 2. Indicators of institutional pillar competitiveness of some South-Eastern Europe countries for the period 2011-2017

Countries	Year	2011	2012	2013	2014	2015	2016	2017	Average value
Moldova	score	3,4	3,4	3,2	3,2	3,2	3,1	3,2	3,24
	rank	106	110	122	121	123	128	119	
Romania	score	3,5	3,3	3,3	3,5	3,6	3,6	3,7	3,5
	rank	99	116	114	88	86	92	86	
Bulgaria	score	3,3	3,4	3,3	3,3	3,4	3,5	3,5	3,39
	rank	110	108	107	112	107	97	98	
Albania	score	4	3,6	3,3	3,3	3,7	3,8	3,9	3,66
	rank	57	84	118	103	84	76	68	
Croatia	score	3,6	3,5	3,6	3,6	3,6	3,6	3,5	3,57
	rank	90	98	93	87	89	89	102	
Serbia	score	3,2	3,2	3,2	3,2	3,2	3,3	3,4	3,24
	rank	121	130	126	122	120	115	104	
Montenegro	score	4,5	4,4	4,1	3,9	3,9	3,8	3,9	4,07
	rank	42	44	52	59	70	80	66	

Source: Author's calculation, based on the Global Competitiveness Report, 2011-2012 to 2017-2018

At the same time if the scores and ranks of Moldovan institutions pillar testify the regress of indicators of competitiveness in the recent years in comparison with the beginning of the period the Serbian institutions show the vice versa tendency.

It can be observed also that Moldova is placed much further than Montenegro with the maximum score between countries analyzed – 4.07. The best Moldovan's position was the 106-th place, but Montenegro's – the 42 place. This means that Moldova was in the last fifty economies included in the world ranking during the analyzed period.

In the context of the Global Competitiveness Index, the quality of the public institutions of a country is determined by legal and administrative framework within which individuals, firms, and governments interact, that in economic literature is named the institutional environment.

To be mentioned that from a list of 16 of most problematic factors for doing business in the Republic of Moldova, there are 10 factors, assigned by respondents and ranged according to the average score, that most frequently affect institutional environment (Table 3).

Table 3. Most problematic factors for doing business in Republic of Moldova

Factors	2011	2012	2013	2014	2015	2016	2017	Average score
Corruption	16,8	17,9	19,8	22,2	20,1	20,6	20,7	19,7
Political instability	19,5	12,6	18,5	12,6	12,8	15,2	13,5	15
Government instability	9	5,2	11,2	9	8,4	15	9,4	9,6
Inefficient governance bureaucracy	9,2	10,3	7,6	10,7	9	8	7,9	9,0
Access to financing	10	9,1	6,9	6,9	8,1	6,2	8,7	8,0
Inadequately educated workforce	6,4	7,8	7	7,1	8,1	3,8	7,0	6,7
Inadequate supply of infrastructure	6,6	7,1	5,7	4,9	6,2	4,3	7,5	6,0
Tax regulations	5,4	7,8	7,6	7,7	-	4	4	5,2
Tax rates	4	4,8	5,7	4,5	4,4	4,3	5,4	4,7
Inflation	3,6	2,7	1,1	3,4	5,9	6,1	4,1	3,8

Source: Author's calculation, based on the Global Competitiveness Report, 2011-2012 to 2017-2018

It can be observed that the corruption (19.7 the average score) and political instability (15) are most factors of the institutional environment that affects the business development. They are followed by the administrative factors: the government instability (9.6 the average score) and the inefficient governance bureaucracy (9.0).

It should be also noted that the economic factors play a most insignificant influence in comparison to both above-mentioned groups of factors. The access to financing valued in average with the 8 score is the greatest problematic factor from the economic factors. The rest economic factors are much less important, from which: the tax regulations (5.2 the average score), the tax rates (4.7) and inflation (3.8).

All unfavorable factors mentioned are accompanied by the inadequately educated workforce (6.7 the average score) as well as the supply of infrastructure (6.0). In context to be mentioned that the lack of skilled workforce, linked to current and future market demands, is transformed into a one of a key obstacle to the development of small and medium business for the Republic of Moldova.

Regarding the corruption, the government instability and inflation respondents specified the deterioration of indicators in the recent years in comparison with the beginning of the period.

In the context of the Global Competitiveness Index also, the pillars of institutions are divided into the two compartments: the public and private institutions.

The public institutions include the institutional arrangements that affect the efficiency of firms functioning in the market economy from that are: property protection, public trust in politicians, irregular payments, and bribes, judicial independence, favoritism in decisions of government officials, security of doing business in the country, burden of government regulation etc. (Table 4, Table 5). In turn, the private institutions include arrangements of the firm's corporative ethics and the firm's responsibility directly for strengthening of auditing and reporting standards, the efficiency of corporate boards and protection of minority shareholders' interests etc.

In the following analysis, the indicators of public and private institutions competitiveness of the Moldovan economy are studied in detail.

It can be observed that the economy of Moldova had the disadvantageous indicators of institutional competitiveness during the analyzed period, for exception of strength of investor protection (Table 4).

Only four indicators were placed above the hundredth position in the global list of institutional competitiveness: business costs of terrorism, business costs of crime and violence, organized crime and strength of investor protection in the period 2011-2017.

Table 4. Indicators of institutional competitiveness of the Moldovan economy for the period 2011-2017

INSTITUTIONAL ARRANGEMENTS	2011		2012		2013		2014		2015		2016		2017	
	Score	Rank												
Property rights	3,3	117	3,3	122	3,2	131	3,2	126	3,2	126	3,1	129	3,3	126
Intellectual Property protection	2,7	110	2,8	117	2,7	125	2,8	118	3,1	116	3,4	114	3,5	100
Diversion of public funds	2,7	101	2,6	108	2,4	123	2,4	123	2,3	126	2,2	130	2,4	120
Public trust in politicians	2,5	77	2,3	96	2,1	118	2,2	116	2,1	117	1,9	119	2,0	112
Irregular payments and bribes	3,3	102	3,4	103	3,2	114	3,0	116	3,0	113	3,0	116	3,1	111
Judicial independence	2,2	132	2,1	138	1,9	145	2,0	141	2,1	134	2,0	133	2,1	132
Favoritism in decisions of government officials	2,5	107	2,5	121	2,3	131	2,3	130	2,2	131	2,0	130	2,1	123
Efficiency of government spending	3	108	3	87	2,6	111	2,6	102	2,6	101	2,6	97	2,7	93

Burden of government regulation	2,9	98	3	105	2,8	122	2,9	110	3	108	2,8	112	2,8	110
Efficiency of legal framework in settling disputes	3	108	2,9	120	2,6	131	2,7	127	2,5	134	2,2	135	2,5	126
Efficiency of legal framework in challenging regulations	3	100	3	112	2,5	137	2,3	134	2,3	136	2,1	134	2,4	126
Transparency of government policymaking	4,3	66	4,4	61	4	81	4	69	3,9	81	3,7	106	3,7	92
Business costs of terrorism	6	45	6,2	25	6,4	10	6,1	19	5,7	45	5,5	50	5,5	46
Business costs of crime and violence	5,1	54	5,3	53	5	54	4,9	46	4,9	57	4,8	61	4,7	66
Organized crime	5,1	77	5,0	80	4,8	83	4,6	83	4,6	84	4,3	91	4,3	94
Reliability of policy services	3	121	3,1	119	3	119	3,1	116	3,1	115	3,2	117	3,4	111
Ethical behavior of firms	3,3	110	3,4	117	3,4	119	3,5	117	3,3	120	3,1	127	3,3	112
Strength of auditing and reporting standards	4,3	97	4,2	98	4,1	102	4,2	100	3,9	113	3,7	114	3,5	128
Efficacy of corporate boards	4,5	70	4,5	65	4,2	101	4,2	95	4,3	97	4,5	98	4,4	108
Protection of minority shareholders' interests	3,6	116	3,6	116	3,5	118	3,5	117	3,3	127	3,1	127	3	133
Strength of investor protection	4,7	93	4,7	94	5,3	69	5,3	68	5,8	55	6,3	41	6,3	36

Source: Author's calculation, based on the Global Competitiveness Report, 2011-2012 to 2017-2018

It should be mentioned that based on the methodology of the World Economic Forum on the indicator the strength of investor protection Moldova obtained the competitive advantage in the last two years, ranking higher than the fiftieth place. While the economy of Moldova was ranked lower than fiftieth positions in the overall GCI.

Indicators with greatest negative influence on the national competitiveness are within following institutional arrangements: property rights, diversion of public funds, public trust in politicians, irregular payments and bribes, judicial independence, favoritism in decisions of government officials, burden of government regulation, efficiency of legal framework in settling disputes and in challenging regulations, reliability of policy services, ethical behavior of firms, auditing and reporting standards and protection of minority shareholders' interests.

It should be mentioned that the progress achieved in framework of institutional pillars can be estimated by the growth rates calculated for the period 2011-2017 (Table 5) [20], [21], [22], [23], [24], [25].

Table 5. Growth rates of indicators of institutional competitiveness of Moldovan economy during the period 2011-2017

Type of institutions	Institutional Pillars	Institutional arrangements	Growth rate,%
Public institutions	Property rights	Property rights	0
		Protection of intellectual property	4,42
	Ethics and corruption	Diversion of public funds	-1,95
		Public trust in politicians	-3,65
		Irregular payments and bribes	-1,04
	Undue influence	Judicial independence	-0,77
		Favoritism in public decision making	-2,86
	Government policy	Efficiency of government spending	-1,74
		Burden of government regulation	-0,58
		Efficiency of legal framework in settling disputes	-2,99
		Efficiency of legal framework in challenging regulations	-3,65
		Transparency of government policy	-2,48
	Security	Business costs connected to terrorism	-1,44
		Business costs connected to crime and violence	-1,35
		Organized crime	-2,8
Reliability of police service		2,11	
Private institutions	Corporative ethics	Ethical behavior of firms	0
	Responsibility	Strength of auditing and reporting standards	-3,37
		Efficiency of corporate boards	-0,37
		Protection of minority shareholders' interests	-2,99
		Strength of investor protection	5,00

Source: Author's calculation, based on the Global Competitiveness Report, 2011-2012 to 2017-2018

It can be observed that the average growth was obtained only in three domains. In context, the highest average growth rates were achieved in the domain of strength of investor protection (5% annually) and the protection of intellectual property (4.42% per year). The Moderate growth was recorded in the domain of reliability of police service (2.11% annually).

Absent of the progress is testified in the domains of the property rights and the ethical behavior of firms.

To be mentioned that the highest decline was reached in the sphere of public trust in politicians and the efficiency of legal framework in challenging regulations. It falls in the average (-3.65% per year) in both spheres. The relevance of auditing and reporting standards for preventing fraud and mismanagement also tends to significant decline (-

3.37% annually) as well as the efficiency of legal framework in settling disputes (-2.99%), protection of minority shareholders' interests (-2.99%), favoritism in public decision making (-2.86% average annual decline), organized crime (-2.8% fall per annum) and transparency of government policy (-2.48 % average annual decreasing).

It can be testified the weakest records in the field of the public institution with three from the five institutional pillars affected by fall from which the greatest was reached in the domain of government policy.

4. Conclusions

This study showed that the Republic of Moldova has disadvantageous indicators of institutional competitiveness in general as well as in comparison with other countries of Southeast Europe.

The institutions of the Republic of Moldova are characterized by a low progress in the fields of property rights protection, diversion of public funds, public trust in politicians, irregular payments and bribes, judicial independence, favoritism in decisions of government officials, burden of government regulation, efficiency of legal framework in settling disputes and in challenging regulations, ethical behavior of firms, strength of auditing and reporting standards and protection of minority shareholders' interests etc.

The study found also while some efforts by the private institutions have tended to arise (the strength of investor protection is increasing with 5% annually; the country had the competitive advantage on this indicator in the last two years), they are not enough supported by the measures of government policy. First of all it concerns to the government support the efficiency of legal framework in challenging regulations (-3.65 % per year average fall), the efficiency of legal framework in settling disputes (-2.99 % annual average fall), the transparency of government policy (-2.48 % annual average decreasing); efficiency of government spending (-1.74 % annual average decline).

So, the competitiveness of the economy of Moldova is largely predetermined by the development of state institutions, that study found one of the most critical indicators.

The study also showed that the economic and administrative factors play a most insignificant influence for business development in comparison to the corruption and political instability. They impose significant economic costs on businesses and impede the economic development of the country.

The country's membership to the WTO and the implementation of the Association Agreement with EU offer favorable conditions for promotion Moldovan goods and increase the volume of exports to the markets of states concerned as well as their penetration in the international and regional GVC. However, reforming foreign economic policy it has not occurred together with the reform of the financial sector, of the implementation of fiscal policy stimulating economic development, reforming the benefits of entrepreneurial activity still have to be valued, etc. Frequent changes of governments in recent years, high levels of corruption brought upon stopping initiated reforms. The external economic

relations remains one of the most developed in all sectors of national economy. Boosting of economic reforms under the Association Agreement between Moldova and the EU is vital for the development of the state. The weakness of state institutions, associated with fragile state, can create almost insurmountable obstacles in the way of fulfilling the country's economic development agenda in the future.

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