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NEWSLETTER

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Synthesis and Foreign Policy Debates

TOPICS OF THE EDITION:

1. The American lawyer **George Teodorescu** speaks about foreign investors and the business environment in the Republic of Moldova.
2. Foreign residents in the Free Economic Zones generate industrial growth despite the internal and external economic crisis.
3. The economic expert **Vleriu Prohntichi** says the Free Economic Zones are a transitory solution and they do not ensure industrial development in the long term.
4. Trade union representatives say they cannot create trade union organisations in Free Economic Zones.

The Republic of Moldova has been recently marked by a series of important events



The high-ranking European officials have continued their appeals to the political forces in Chisinau urging them to cooperate with a view to forming a new Government and not missing the chance of signing the Association Agreement with the EU this year.



The Moldovan citizens can travel to Turkey without visas starting with May 1st, 2013. They will not pay any longer 30 dollars or 20 Euro for a 30-day visa to Turkey. The agreement on the abolition of the visa regime was signed on November 1st, 2012 and envisages that both Moldovan and Turkish citizens will be able to leave, enter and stay on each other's territory for a 90-day period without visa. The agreement targets also the international transporters of goods and passengers, train, truck and bus drivers as well as aircraft crews.



„Lithuania speaks in favour of an extended format of the Vilnius Summit, to which 28 EU and six European Partnership member states will be invited”, states the Lithuanian foreign office in a press statement. The given topic has been discussed at a meeting of the Lithuanian foreign minister with the European Commissioner for Home Affairs, Cecilia Malmström. In Vilnius, the first meeting of the interior and justice ministers from both EU and EP member states will take place. Lithuania will take over the presidency of the EU Council starting from July 1st this year. Close cooperation between the EU member states and the post-soviet countries is one of Lithuania's priorities.



The Republic of Moldova has missed the 76 mln USD last tranche of the IMF credit provided in 2010, because of political instability and now finds itself in a situation when it has no active programme with the international financial organisation. According to the IMF permanent representative in Chisinau, Tokhir Mirzoev, the programme could not be successfully completed in the absence of a functional government in Chisinau and because of the failure by Moldova to meet several commitments under the bilateral Memorandum. The IMF official has mainly referred to the unplanned increases in pensions and wages operated by the Filat cabinet before dismissal, as well as to the single tax in agriculture which was introduced and the return to the 8 % VAT for the agricultural production.

George Teodorescu: Investors should be able to solve their problems through institutional appeal and not via direct intervention by the political decision makers

Lina Grău: Moldovan authorities always stated their intention to create a favourable investment climate in the Republic of Moldova and transform the country into an economic bridge between East and West. Despite the official declarations however, foreign investors have been reluctant for many years to come to the Republic of Moldova. Furthermore, those who have already invested in Moldova's economy often encounter huge bureaucratic difficulties (such as in the notorious case of the German investor Draexlmaier), leading to a perception of Moldova as a corrupt state, with an inefficient justice system and



an unskilled labour force ill-suited for the development of a large business.

George Teodorescu, managing attorney of the Chisinau office of the American law firm Vernon David has been advising foreign companies looking to invest in the Republic of Moldova since 2009. Mr Teodorescu says the foreign investors are very sensitive to political instability, especially when it comes to developing countries. In the short term, this instability freezes new investment projects and/or expansion of the existing ones because investors adopt a “wait and see” attitude towards the political situation.

I have asked George Teodorescu about the impediments and barriers that, in his opinion, prevent the massive flow of investments to Moldova and, consequently, preclude its transformation into a true bridge between East and West.

George Teodorescu: The expression of “bridge between East and West” is used quite a bit these days, from Vienna to Istanbul, all the way to Kharkov – all these places are in a way bridges between East and West. The hope had been that once the Republic of Moldova signed on to a pro-European course, along with political changes there will have come a new transparency as well as economic reforms that will have allowed the arrival of large-scale foreign investors to the country.

The problem of the Republic of Moldova has always been that it had a hard time identifying clearly for a foreign investor what would have been the advantage of investing here as opposed to investing in Romania or Ukraine. The Republic of Moldova should be able to identify at least one or two vertically integrated industries that would offer such an advantage. I have to admit that unfortunately, since I have been here, it has been difficult for me to identify an industry in which the Republic of Moldova would have a competitive edge vis-à-vis its two large neighbours.

We can say that for example the wine industry could be somewhat competitive. But what we have here is in the first place a problem of capacity. An investor that would need a cheap labour force would have a problem here in finding qualified employees in the number that he or she would need. In the second place, few employees actually stay in the Republic of Moldova for the long term. There are foreign investors in the Free Economic Zone in Ungheni for instance, who would love to open a second

factory, but cannot find enough employees for even the first one. And this leads to a very clear limitation of the manufacturing output that an investor can count on.

A second problem that Republic of Moldova needs to address is the lack of infrastructure. Most investors wish to be able to transport their products very easy. The opening of the Giurgiulesti Port has been a great help in this regard, but at the moment it is still rather difficult to import and export goods to and from the Republic of Moldova.

In the third place, and perhaps as just important, is that commercial partners who wish to buy or import from the Republic of Moldova have certain problems with the fact that in certain industries, and here I speak again especially about the wine industry, there is no uniformity of quality. You can buy three bottles of wine from the same year and from the same vineyard and all three may have a very different taste. And this thing is in fact a problem, when you want to conquer a western market. It is very important that a buyer should be able to count on the consistency in the quality and quantity of the goods that he or she wants to buy. Therefore, the problems encountered by the investors in this regard can be quite serious.

On the other hand, we can also talk about some of the advantages of the Republic of Moldova. One of them is that, being relatively a small country, larger investors do enjoy a heightened level of attention from the Government. If they were invest in Romania or in Ukraine and would have a problem caused by inadequate application of the existing laws or by unclear legislation, they would have a hard time finding any official willing to discuss the issue. In Moldova, once you are an investor of a certain size, you have at least the leverage to focus the Government’s attention on the problems that you encounter. And this is a significant advantage.

Lina Grău: The Draexlmaier case has caused a lot of noise this past year. In the meantime, some of the problems encountered by the German investor have been addressed via certain legislative changes, which in turn made life easier for other residents of the Free Economic Zones. Therefore it looks like it was necessary for a large investor to raise the problem and only the influence and the authority that this investor commands allowed the fixing of a legislative problem. What kind of signals does the Draexlmaier case send either internally in Moldova, as well as externally,

concerning the Republic of Moldova’s image?

George Teodorescu: In the first place, one could say that all is well when it ends well. The problem is that in this case, as well as in the previous cases of the so called „raider attacks” which, apparently, also ended well, the institutional weaknesses of the Republic of Moldova were clearly visible. An investor, especially one in the Free Economic Zones, often tends to come across legislative unclearities, which makes the relevant agencies that interpret such legislation sometimes to take erroneous decisions – here we are talking mainly about the Customs and Fiscal Authorities. One of the serious legislative problems often encountered in Moldova is that it is not only rather confusing and likely to be erroneously interpreted, but in contrast with other countries – and here I will give as example the United States of America – the authorities have the right to contradict themselves. In other words they can decide one way today and in the opposite way tomorrow about the very same issue.

Let me give you an example. In the United States, any time there is confusion over the interpretation of an article in the Fiscal Code, one can write a detailed letter to the tax agency (the Internal Revenue Service) and they will answer by giving a clear interpretation concerning the article in question. The letter that the U.S. fiscal authorities send you then becomes part of the public record, becomes part of the body of laws, you can frame it, put it on the wall, and rely on it like it was just a regular law. Here, in the Republic of Moldova, this does not happen. Draexlmaier had already asked the opinion of the Fiscal authorities who answered in a certain way, and then it changed its mind and decided that its first opinion was not correct. And of course all these inconsistencies do not help at all the business environment.

When a large investor has such problems, there is often a certain type of high-level intervention by external political factors, which pushes the issue on the government’s agenda. My own personal preference in this regard (and I think that of the business community) is that there has to be an institutional legal framework to solve such problems, and not be addressed via direct intervention by the political decision makers following a public outcry.

On the other hand however, I think that the message has been clearly received, because a certain number of reforms have already been

put on the table. And I would like to see that this process continues.

Lina Grău: When most people hear about Fiscal or Customs authorities they immediately think about corruption and various pressures that are brought to bear on the business community. Do most of the businessmen in Moldova have the same perception? How often does an investor that comes to open a business in the Republic of Moldova come across this phenomenon?

George Teodorescu: I personally think that the first problem leading to such issues is sometimes the lack of professionalism or lack of experience of the government agents that are in contact with the investor. I think that the Fiscal Authorities, Customs, the Prosecutor General, and all public agencies that have an economic role, have a serious problem in attracting and retaining quality employees who would stay on for a longer period of time and would understand the mentality of the investors. There is a need to understand that the literal and mechanic application of the law does not always conform to the spirit in which the laws were adopted. Yes, of course Moldova does suffer because of corruption and other problems, but I think that the first and most important aspect we have to deal with is the lack of proper training, the lack of a mentality that would understand that the role of a public agency that deals with foreign investors is that of helping and facilitating the investments and not to assume from the start that any investor is in fact a potential criminal that tries to break the law.

Lina Grău: From the experience which you have gained in the United States and from working with the foreign investors in the Republic of Moldova, what solutions do you see for improving the business climate, addressing the perception of corruption, especially in justice and, the third important issue for raising the level of professionalism of the work force.

George Teodorescu: As far as the improvement in the business climate, over the last past few years many different bureaucratic procedures that used to be quite time-consuming for investors have been simplified. For example, obtaining a work permit for a foreign professional in the Republic of Moldova was, at the time when I moved here, a rather difficult and long process, which has become much simpler at this time. The steps that need to be taken in order to open a business have been simplified as well. So one can already see and feel a numbers of deep changes are taking

place already. As long as Moldova will continue to adapt its legislation to the realities of modern business and take the best practices from European and American experience, I believe that the improvement of the process will continue, and the administrative burden on the business community will become less and less.

There is already a bilateral involvement and a fairly intensive level of cooperation between the business community and the Government. There is an ongoing dialogue with business organizations, especially with the American Chamber of Commerce, the European Business Association and the Foreign Investors Association. All these organizations for the first time in many years have had the chance to be truly part of the process of the streamlining and modernization of the Moldovan legislation. Therefore this is already good news.

The second aspect, the one about corruption and justice, is of course a problem that affects everyone, including the investors, who are always interested in having an efficient justice system that is not corrupt. You can imagine that some business transactions end up before local courts, and the interest of all investors is to have an efficient dispute resolution mechanism. In the last few years, the Republic of Moldova has taken an important step in this direction. Almost two years ago it ratified multilateral treaty called the Washington Convention, or the Convention on the Settlement of International Investment Disputes. Before this convention came into effect, if you as an investor felt that the Moldovan state was abusing your business either via a corrupt justice system, via abusive pressures by a state agency, or via a local politician who used his influence to harm your business, your solution outside the Moldovan justice was to wait until the case goes through all the local court levels, after which you would have brought a case against Moldova in the European Court of Human Rights. You then would still have to wait five or six years until you get a judgement in your favour which many times came either too late, or the damages awarded would be too small, to make a difference.

Once this new treaty had been signed, certain investors could bring an international arbitration directly against the Moldovan state. The first investor that has done this was Le Bridge, and a few days ago there was already a decision in this case. This process on one hand makes the Republic of Moldova more responsible in its treatment of foreign investments, and on the other hand offers an additional guarantee to any investor that is thinking of coming to

Moldova. In fact it is a guarantee that if matters get bad enough for an investor that it feels it has to activate the "nuclear option" of filing an arbitration case against Moldova, there is in fact such option available. And although this may mean that in the short term the Republic of Moldova may find itself vulnerable to legal action by investors that feel they have been mistreated, in the medium and long term this further opening will have a beneficial effect for the entire country by providing an additional investment guarantee.

Coming back to corruption in the justice system, it is rather common knowledge that in the Republic of Moldova there are different grades of family relations amongst judges and lawyers, that most judges were classmates and their personal relations with lawyer and politicians go back a long way. And probably as long as these "special relations" exist, there will always be a certain amount of inefficiency in the justice system. But it is clear that strong efforts have been made toward eradicating institutional corruption. For instance, Economic Courts have been dissolved following a number of large-scale corruption scandals, and a number of judges suspected of corruption have been fired. Therefore there are some efforts in this direction, and one hopes that the new judges coming to the system - and even the ones already practicing - will have a different approach to their mission.

As far as the training of the labour force, it should be noted that the Moldovan universities and schools unfortunately do not seem to emphasise practical skills, while the curriculum is fairly outdated. This means that very few students are well prepared for the demands of a modern economy.

On the other hand, large investors - Orange, Moldcell and others - have already set a structure to allow them to recruit promising students and give them in-house training, in effect a parallel education system which helps them create not just a well-educated workforce, but also professionals that can be truly competitive on a global level.

Therefore in this sense there are already alternative training structures. I would like to see a legislative framework which encourages internships, which allows for certain procedures regarding early hiring of students in order for them to get experience. There is this particular problem (not only limited to Moldova) that each employer is looking to hire somebody with experience. A student who just graduated university often lacks this experience, which

means that we have a chicken and an egg problem. In other states there are systems that are very well integrated in this regard, and I believe that in the Republic of Moldova things are slowly starting to move in this direction as well. I know that the American Chamber of Commerce has some ideas for legislation that would encourage better employer practices.

The second aspect which is equally important has to do with the fact that there should be a larger willingness at legislator level to allow foreign universities to open campuses in the Republic of Moldova. There certainly is a lot of interest from certain US universities and from other countries. The legislative framework however is fairly outdated and maybe influenced by a certain type of soviet paranoia of not letting foreigners come and “steal our children’s brains”, which is regrettable. I believe that many Moldovan students who at the moment are trying to obtain scholarships abroad and probably will not return to Moldova would be a lot happier to be able to stay here and to study in the Republic of Moldova next to their families, and build a future in the country.

Lina Grău: What impact do you think that the signing and entering into force of the DCFTA free trade agreement with the EU would have in the context of attraction of foreign investments in the Republic of Moldova? Is there a connection?

George Teodorescu: Yes, there is a very important connection. The initial fears of many Moldovan producers, which are understandable, are that once this new agreement would come into effect it is possible that their products would no longer meet EU standards and therefore they will lose some of their market share. We should not forget however that one of the biggest advantages of the Republic of Moldova in the regional competition for foreign investments is that it has a fairly affordable workforce – a necessary ingredient for all industries, but especially for the agricultural and food industry. Therefore, for any investors interested to produce here, the cost of large initial investment can be justified by the fact that general production costs tend to be fairly low. And I imagine once this accord will be signed and come into effect, many of the large investors may very well move their investments from Romania or Ukraine here in the Republic of Moldova in order to benefit from the facilities offered to the Moldovan products on the EU markets.

In 2012, the industrial growth in the Free Economic Zones accounted for 18.5%

Lina Grău: Last year, the foreign residents of the Free Economic Zones managed to secure the industrial growth even under conditions of deep internal and external economic crisis. Through the investments they have made, they gave a new impetus to the development of regions where they settled.

Moldova lost in 2012 over 12 thousand people – mostly young people, who couldn’t find a job at home and went searching abroad. The only way to stop this exodus is for the authorities to start striving to attract foreign investment, which will create competitive jobs in the Republic of Moldova. In this context, the Free Economic Zones are a good platform for production development and innovative technologies. Here are some of the conclusions of the annual Conference on the Free Economic Zones in the Republic of Moldova, which recently took place in Ungheni.

Training of the workforce – one of the concerns of foreign investors

Lina Grău: One of the important issues for both foreign investors and local operators is that of workforce training. Most of the times, economic agents are faced with problems when they employ people and are forced to invest substantial amounts in training and retraining of personnel. Thus, for training of a worker, a foreign investor allocates about 1000 euro. While the labor force fluctuation is around 1000 people annually, the foreign investors lose about one million Euros just for the training of new employees.

In these circumstances, the Manager of the Balti Free Economic Zone, Marin Ciobanu, came up with the idea of creating in Balti of a Technical Training Center in trial system – that is with the participation of state institutions, local traders and foreign investors. The Center would have to train or retrain experts in exactly the needed fields for foreign investors and enterprises in the Republic of Moldova.

The idea is supported both by the German and Austrian investors who opened businesses in Balti, as well as by the German Technical universities. The technical training

center should start its work this year. Short-term training will last up to 3 months, and the long term – up to 3 years, and the students will have at their disposal cafeteria and sports complex.

The goal of this project, says Marin Ciobanu, is to raise the status of vocational schools, which for example in Germany are in high demand, while in the Republic of Moldova they are not so successful.

Marin Ciobanu: From the discussions we’ve had with the Director of the University of Ulminau, Technical University in Germany, he came to the conclusion, after several meetings that we have had here, and after having done studies on Moldova, that about 80 percent of the young people here tend to get higher education by all means. Vocational schools, unfortunately, are more overshadowed because the curriculum is already out of date and is not adjusted to the market requirements. And thus, the graduates of vocational schools, even if they graduate, often fail to find jobs and remain unemployed. I think that 50% of graduates from vocational schools end up in this situation.

In Germany, vocational schools have also a higher status – so called Crafts Academy. The curriculum is adjusted to the demand and offer – the enterprises demand and the alumni offerings that the vocational schools provide for. I think that we should change the paradigm. When vocational schools have the necessary equipment which really corresponds to the requirements of the market, people will find jobs after graduation and in this way will improve the image and

will increase the demand for vocational schools.

■ **Lina Grau:** On the one hand you say that half of the students do not find a job. On the other hand, investors and businesses complain that they cannot find qualified labour force in the Republic of Moldova. How can this be?

■ **Marin Ciobanu:** If we make an analysis, we'll see that the majority of those who

graduate at present get jobs as waiters, bartenders, tailors and cooks – professions that the market is more or less already saturated with. And we don't have graduates for businesses engaged in technological and industrial processes. Most demanded jobs in Free Economic Zones would be for example operators, machinists and loaders and others who more or less have direct connection with production or with auxiliary production processes.

Free Economic Zones – places to test technological innovations

Since their creation in 2001, the Free Economic Zones attracted total investments of 169.8 million US dollars. In Moldova there are seven such zones, the largest being in Chisinau, which drew 30.6% of investments, followed by FEA Ungheni – 29.1% of investments, and FEA Balti – 13.2% of the total investments. The southern Free Economic Zones (Taraclia, Tvardita, Vulcanesti and Otaci) managed to attract over time less foreign investment – between 9 and 2 per cent of the total amount. In those seven FEAs 157 residents are registered, who have created over 6,500 jobs. The average salary in the FEA Balti is 5,500 lei. And if 10 years ago, the wine industry prevailed in the FEAs, at present, the focus is on innovative technologies, such as production of electric wiring, auto seat covers, synthetic fibres and glass fibre net.

Valeriu Lazar, Deputy Prime Minister and Minister of Economy, said that last year, when overall the Moldovan industry was in minus, the FEA registered a significant increase in the level of industrial production sales - almost 18%. According to Lazar, this result is an argument in favour of the fact that the Free Economic Zones are less vulnerable to negative processes on the foreign market and in the euro area. And it would be good in future that the entire territory of the Republic of Moldova becomes an oasis of development.



■ **Valeriu Lazar:** Free Economic Zones, as a tool to attract especially foreign direct investments, not that they lost their potential, but, as we say nowadays, they are not trendy. That's why we need to return to the original concept of Free Economic Zones and I am glad that this is happening in all areas. In Balti it is easier, because we started from scratch; I mean we didn't repeat the mistakes we've made in other areas. In Chisinau it is a bit more complicated because there is certain inertia.

Maybe someone remembers the original concept – Free Economic Zones were created to attract innovative industrial producers for export. And I am glad that recently, as I see, we come back to the original concept of attracting exactly innovative industrial projects. Our purpose is not only to create jobs. We are obliged to create industrial projects that offer competitive wages.

In Free Economic Zones champions may appear easier. The champions are the ones that come with the most advanced technologies, which in partnership with us, take care and help us to solve certain problems such as vocational training, infrastructure. In this sense I see the future – modern technologies and training people who can give the productivity you need in order to afford paying them a constantly increasing salary.

This is the biggest political challenge of this country. Regrettably, last year we lost over 12 thousand people. That means that we haven't been able to offer a competitive salary at home to 12 thousand people. The youngest are leaving. That's why our main political task is to attract industrial investments and provide people with jobs at home.

Foreign investments generate development in the regions where they are located

Free Economic Zones have a beneficial impact on the development of the regions in which they are located. Foreign investors contract the services of local operators in areas such as transport, food, service, pay large sums in the budget and contribute to the rebuilding of the local infrastructure of communications, electricity, water and sewage. This is apart from the fact that they have created over 2000 jobs, says the manager of the Free Economic Zone Ungheni, Natalia Iepuras.

■ **Natalia Iepuras:** 2159 people are at home, close to their families, close to their children, working and receiving an adequate salary in order to support their families. That's the first priority. After people and their jobs, which is a priority issue, we put the taxes and duties paid to local budgets. Out of the salaries of those 2159 people working in the FEZ Ungheni, the amount representing the fees and taxes that was paid in 2012 is 43.5 million. This amount includes also taxes that go into the country's budget, but most remains here in our local budget.

Another issue is the infrastructure that began to develop in our city. Because once so many people come here to work, they must use shopping malls, food, industrial and other services. I would like to give you one example – a small hotel that grew before our eyes on the expense of the people who came to work here. Each month that man was coming and gladly saying: "I have built one more room", "I have a new room", "I repaired something". If you could only see what beauty of a hotel we have at the cross-cut of the main street in Ungheni with subzone nr. 4! There are some things that with the development of the Economic Zone, with the increase of economic indicators, have had positive impact on the city infrastructure as a whole.



■ **Lina Grau:** What should be improved in order for investors to feel better in the Economic Zone from the Republic of Moldova in general, but also for this flow of investment to grow?

■ **Natalia Iepuras:** Firstly, we must have well equipped spaces, pavilions to allow them to come to invest and start their businesses because we still have buildings and workspaces since Soviet times, which are in very bad shape and indeed require investments.

But, in addition, it would be good to keep the legislation that regulates the activity of the economic agents more or less intact, and not change it each year as investors face challenges in their work. I understand that the state is interested in acquiring as many taxes as possible, but you have to think about economic agents too, future investors, who want to develop and work here. It means that we have to offer them a favourable environment for their work.

I don't want to repeat myself, but I have to say it - we must have proper laws and legal rules, and less bureaucracy to hinder the activity of the Free Zones.

Valeriu Prohnițchi: The Free Economic Zones is a transitory solution and do not ensure long-term industrial development



Even though at the moment the Free Economic Zones are oases of industrial growth and regional development, they cannot be a long-term good model of industrial development. The entire Republic of Moldova should operate as a free-trade zone in order to create very good conditions for investors. To this aim, we should organise the state institutions, and particularly, the customs, says the executive director of Expert-Grup, Valeriu Prohnițchi.

■ **Valeriu Prohnițchi:** Firstly, this impressive industrial growth of 18,5%, attained last year by the Free Economic Zones, is due to the activity of two zones with big production capacity and very intense activity- Ungheni and Balti, but very little in Chisinau. The other zones are in a bad shape, especially the Free Economic Zones from Valcanes, Otaci and Tvardita. If is to call things by their proper names, these zones are practically dead.

The Free Economic Zones can be regarded as a transitory solution to a normal model of economic development. This model has been outdated for a long time in all Europe. It is true that the Free Economic Zones give the impression of oases of excellence. The problem is how to make these competences that create within the Free Economic Zones, spill over into the rest of the economy. All the studies conducted so far demonstrate there is no such transfer. In all the countries which based on Free Economic Zones as an economic growth model, such a technological transfer did not happen. Consequently, we are risking a situation when all the investors with advanced technological competencies and innovations wish to come to the Republic of Moldova only provided they are allowed to locate in the Free Economic Zones. This means, unfortunately, we will not have the desired wide-scale technological transfer and will obtain but excellence zones in an absolutely devastated economic landscape. And this is not a good solution.

Additionally, the free-economic zones have a negative impact on the competitiveness as these zones have been created to produce mainly goods and services for export, though a good deal of these get on the domestic market.

There is another aspect to be analysed: why in the long run, are the companies so much attracted by the Free Economic Zones in the case of the Republic of Moldova? The most important explanation is that these zones have their own customs units. This means, using the Moldovan terminology, that the „residents” solve the problems quickly. If an importer outside the Free Economic Zones wants to import raw material, it will have to communicate with the customs service in normal regime. That is if it reaches the customs unit at 4 pm on Friday to clear urgently a lot of raw material, he will manage to do it at best on Monday or Tuesday. In the case of the Free Economic Zones, these interactions are possible practically 24 hours, 7 days a week.

Thus, instead of trying to solve the problems with the customs service, we have created Free Economic Zones. This is an absolutely short-sighted solution

from the point of view of economic development. We cannot pile-up Moldova with Free Economic Zones each having its own customs unit. Actually, even the World Bank has suggested at a certain moment that the entire Republic of Moldova could become a free-trade zone. This, actually, means removal of the constraints which push the companies from the normal customs area into Free Economic Zones.

■ **Lina Grău:** The logical question in this case is why then the Moldovan decision makers do not do this?

■ **Valeriu Prohnițchi:** Firstly, it is easier and quicker to make a free-trade area than to solve the systemic problems of the customs or tax service. The second aspect is that if you do it wisely, a free-trade area brings immediate powerful effects, though they are located very clearly from the geographical point of view. We have thus a Free Economic Zone in Balti- the investor immediately arrived and immediately 2000 jobs were created. It is more difficult to obtain such a result based on more conservative political economy approaches. And it is evident that the Ministry of Economy, which is in need of success stories, is pedalling on these results.

■ **Lina Grău:** My impression is that the local authorities are also in favour of this model as the infrastructure is developing and jobs are being created...

■ **Valeriu Prohnițchi:** It is a good model at the microeconomic level and a short-term solution. On the long-term though, this model leads us to nothing.

How can we then pass from the short-term solution to the future development? First of all, we should stop crating new Free Economic Zones. Second, we should have a closer look at what's happening in the customs service. This institution should operate around the clock, without breaks and days off. The country is small and has no resources of its own. Therefore the foreign investors will come to Moldova only if they see the country as a good platform for export production. The domestic market is small and has been mainly exploited by the foreign investors in such areas as telecommunications, banking and energy systems.

If we want to bring new investors, we should understand that they would come in the areas oriented towards exports. And in this case we need to solve key-issues in order to ensure the immediate access to the export markets – roads and trade facilitation by means of removing the barriers imposed by the Customs service and by a series of committees subordinated to the Ministry of Agriculture. We should facilitate everything which means immediate access to the external market.

For the long-term, if we choose this approach, the residents of the Free Economic Zones will not any longer have the interest to stay in only one zone and will be able to locate as well in the normal economic space.

■ **Lina Grău:** Does the Republic of Moldova have potential to pass from traditional agricultural products or wine to value added industrial goods?

■ **Valeriu Prohnițchi:** Of course it does – we have the example of the investors from Balti, which have discovered a new niche that did not even exist previously in the Republic of Moldova. It's a pity that we had to create Free Economic Zones to bring these investors. At the same time, we should not think that such a transition is possible immediately. It will take decades in order to pass from one economic model based mainly on agriculture and remittances to another one based more on innovations, skills, export and investments. It took the Asian countries three decades to realise this transition.

At the same time, we should not consider the agriculture as something which is drawing us down. Agriculture can be easily transformed from millstone into a life ring. The global prices for agricultural products are growing and in the next 20-30 years they will inevitably continue to grow. The soils are fertile and we have compare to other countries an enormous share of agricultural land in the total land of the country. Thus, agriculture will inevitably remain an important economic sector.

Ana Moldovanu: We have no access to Free Economic Zones to establish trade union organisations



Ana Moldovanu, the head of the Department for Social-Economic Protection of the National Trade Union Confederation of Moldova (CNSM), says the Free Economic Zones have both positive and negative aspects, the latter being linked to the social protection of the employees.

“The good side and the most important one is job creation and people are very happy about this. The Free Economic

Zones, though do not contribute significantly to the economic development of the Republic of Moldova because the goods produced there meant for export are very often sold locally”, says Ana Moldovanu.

According to her, the employees do not get the salary they are promised in the beginning. They get Moldovan salaries and the wage level in the FEZ is similar to the

one of other companies in the country. “Instead, the labour intensity is very high. This is why the labour fluctuation is also high”, says Ana Moldovanu.

Another upsetting aspect, says Ana Moldovanu, is that despite the ILO Freedom Association Convention, the trade unions cannot enter the territory of the enterprises to set up trade union organisations.

She adds that the employees of the Free Economic Zones sent petitions to the Labour Inspection. These petitions have to do with the fact that in certain areas, the enterprises closed down and the employees have not been paid their salaries and social compensations due in such cases.

“The Free Economic Zones can be a provisional and transitory solution so that Moldova could promote its image abroad. The goods produced there are labelled “Made in Moldova” which is good for the Moldova’s image as our produce is advertised. But there are also cases when the foreign companies change the label and we are deprived even of this advantage”, says Ana Moldovanu, the head of the Department for Social-Economic Protection of the National Trade Union Confederation of Moldova (CNSM).