

# *Analysis of Economic Development of Moldova*

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**Abstract:** This comprehensive study delves into the multifaceted changes that Moldova has undergone over the past three decades, centering on its unique geographical setting, demographic shifts, and profound transformations in its economic structure. Moldova, a landlocked country blessed with fertile black soil, has long relied on agriculture as the lifeblood of its economy, significantly contributing to its GDP. Nevertheless, the country has grappled with economic growth constraints, including limited international trade opportunities and poor water quality, impacting the livelihoods of nearly half of its population. The research not only retraces Moldova's economic trajectory from a downturn spanning 1990 to 2000 to its peak of recovery in 2022 but also highlights the positive shifts in its economy – a diversification away from sole reliance on agriculture towards a more inclusive mix of industries and services. Confronted with persistent challenges such as balance of payments issues, the intricacies of international relations, and the need to boost domestic production, particularly in the pharmaceutical sector, this study concludes by outlining a series of strategic recommendations aimed at fostering sustained economic growth and development in Moldova, illuminating a promising path forward for the country.

**Keywords:** Moldova, economic, development, trade.

## 1. Introduction

The economic evolution of Moldova can be effectively introduced by considering several key factors that have played a crucial role over the last 30 years. These factors include the country's geographical context, trade dynamics involving both exports and imports, trends in the balance of payments, periods of crisis, and the impact of financial policies. By examining these elements, It gains valuable insights into the multiple stages of Moldova's economic development. Terrain is the key point to affect a country's economic development. As Haynes claims, Moldova's terrain consists mainly of plateaus interspersed with ravines and rivers. Moreover, Moldova has fertile black soil which contributes to an agricultural country, and forty percent of the labor force is engaged in agriculture [1].

Moldova experiences a moderately continental climate dominated by moist warm air, resulting in abundant rainfall and ample water resources for agriculture [1]. However, due to pollution, the water quality of Moldova is terrible, affecting 44% of the population with no safe water sources [2].

Because Moldova is a landlocked country with only one port on the sea, it is difficult to trade with other countries. The fertile black soil on the mainland assists agricultural development. Moreover, the weather as well as water resources are also very favorable for agriculture. This has led to a very

rapid development of the brewing industry associated with farming, which has become a major pillar of the country's economy [1]. Overall, Moldova is a relatively poor country. They were well suited for agriculture, but their trade as well as machinery development was not strong due to the limitations of a landlocked country.

## 2. Economic Aggregate and Growth Rate

Gross Domestic Product is the essential indicator of Moldova's economic growth. As shown in figure 1, from 1990 to 2000, there is a noticeable decline in the GDP of Moldova. From 2000, the GDP will begin to recover and gradually increase. The growth trend continued steadily through the early 2000s, with noticeable spikes around 2008 and after 2010. From 2018, the GDP rose sharply, reaching its highest level in 2022. This indicates that Moldova's economy has grown significantly in recent years.

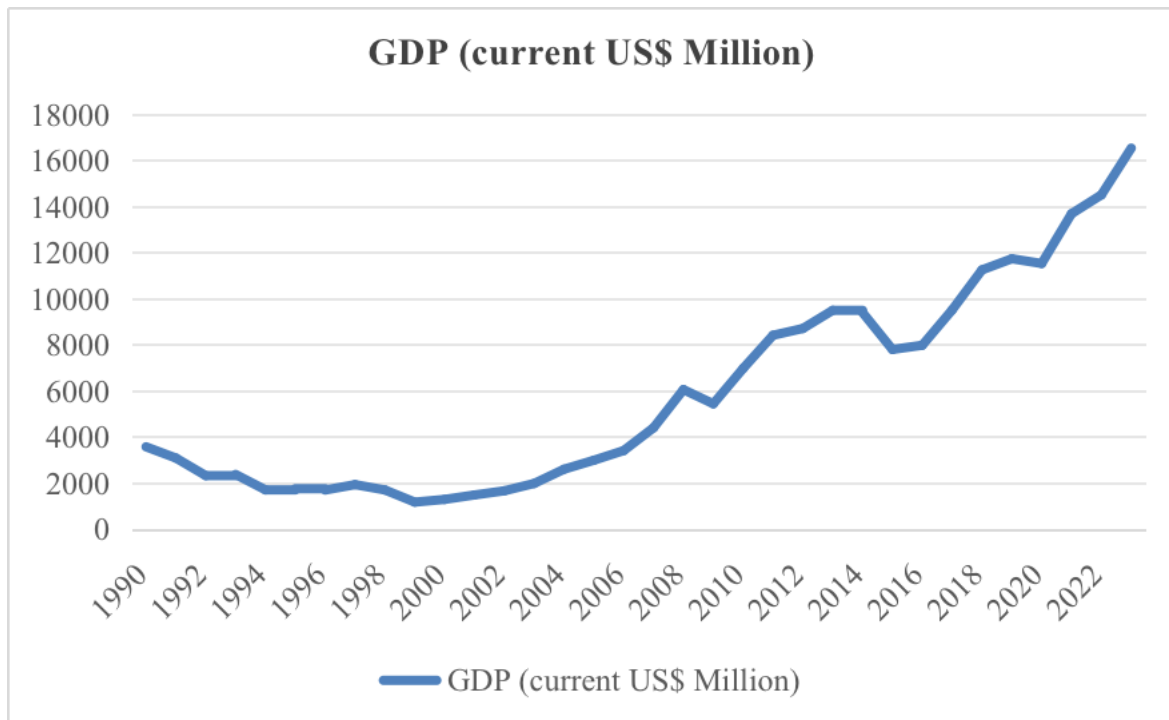


Figure 1: Moldova's GDP from 1990 to 2022 (in million U.S. dollars)  
Date from: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>

## 3. Industrial Structure

Moldova's economy is significantly dependent on its agricultural sector, and agriculture occupies a big part of Moldova's GDP. According to the International Trade Administration, farmland covers 75% of the country's territory. The agricultural sector employs over 27% of the country's labor force, with agricultural production usually occupying around twelve percent of Moldova's GDP [3]. Moreover, the service sector usually accounts for more than half of Moldova's GDP, which is an essential part. And the industry sector is always around 20 percent of GDP [4].

## 4. Import and Export Trade Trends

Trade plays a big role in Moldova's GDP. Over the past 30 years, their imports and exports have changed a lot. They focused on agriculture more and then transferred to a country whose services account for 62% of the national GDP [5].

Additionally, the types of items in imports and exports have changed over time. According to the World Integrated Trade Solution, in 1994, Moldova's top five export items were wine (not sparkling), maize seed, raw beet sugar, fresh grapes, and fresh apples. Instead, their top five import items were natural gas in the gaseous state, anthracite, liquefied natural gas, electrical energy, and other medicine of mixed or unmixed products [5]. In 2021, their top five export items were co-axial cable, common wheat and meslin, ignition wiring sets, sunflower seeds, and maize. Instead, their top five import items were petroleum oils, natural gas in the gaseous state, other medicaments of mixed or unmixed products, transmission apparatus, and electric conductors. In 1995, trade constituted 128.02% of GDP, while in 2021, it occupied 88.47% of GDP. According to the above data, Moldova's focus has shifted from agriculture and winemaking to industry and services. Moldova's industry is growing rapidly, going from a reliance on imports to even having the abundance to export.

According to the World Integrated Trade Solution, Moldova's imports are much higher than exports in the past 30 years [5]. Moreover, although exports and imports have decreased three times, in 2009, 2015, and 2020, they are generally growing. These three decreases are due to international relationships with other countries, especially Russia [6]. In the case of a stronger industry, Moldova does not need to import machines, and they could meet their basic needs of industry. Therefore, the percentage of trade occupied decreases for 30 years. They no longer rely on imports from other countries and produce by themselves.

Although exports have changed a lot and generally take a bigger part in trade, export promotion is still beneficial to Moldova. Over 30 years, the top five export items changed from all agricultural items to containing part of engineering items, which means the industry has developed a lot and could be abundant to export [5]. Therefore, export promotion not only sells abundant items but also ensures a more significant influence of Moldova in the international market, assists Moldovan firms to grow, and generates more income from trade.

Exports of agricultural products in Moldova allow abundant agricultural items to be sold in the international market. Exporting more agricultural products ensures more profits from agricultural products and ensures the development of agriculture. Moldova can promote itself by utilizing the native characteristics of the wheat grown on the black soil and producing red wine. Moreover, export promotion will make Moldova's reputation in the international market as well as the country's influence stronger [7].

Moreover, export promotion could help firms to develop. According to Czinkota, exports provide companies with opportunities to broaden their marketing reach sell more products, and then have more consumer sources, and have better production efficiency [8]. Therefore, firms focused on engineering could have more profits from exports and increase their productivity. Once engineering firms develop more efficiently, the industry will grow faster and stronger.

The government should be more evolved to ensure export promotion is effective. The government can make policies, control taxes, and call on firms to export. Less tax for export could encourage exporting, and allowances toward exporting companies could also protect the companies' rights and interests.

Furthermore, Moldova should consider producing medications domestically to substitute imports. Moldova has a high demand for medications, and they typically rank among the top five import items. Developing domestic products and firms in the pharmaceutical sector could significantly reduce imports.

## 5. Balance of Payments Trends

Knowing Moldova's trends in the balance of payments is a proper way to understand the development of Moldova. Balance of payment means current account plus financial account plus change of cash account is equal to zero. Moreover, the current account consists of adding on exports, net investment

income, and net remittances, and taking imports and debt service payments off. The financial account, also known as a capital account, consists of adding on direct private investment and foreign loans and taking increases in foreign assets of the banking system and resident capital outflow off.

Over 30 years, the current account has changed over time but overall expresses a decreasing trend [9,10]. It appears extremely low in 2008, 2011, 2018, and 2022; it appears extremely high in 2004 and 2016. Moreover, the capital account has fluctuated more over the last 30 years. It shows a peak in 2014, and in 2016, the net of capital accounts moved from positive to negative. Before 2016, Moldova had a deficit in the current account and a surplus in the financial account which is common for developing countries. This is because Moldova got a lot of new loans and investments from abroad, but exports cannot cover imports yet. But in 2015 and 2016, there was a high decrease in the capital account because of the conflict with Russia. It showed an increase in resident capital outflow which means citizens of Moldova investing money outside of their country [11]. One year also worth mentioning is 2008. Because of the financial crisis of 2008, there was a significant decrease in foreign direct investment which also accounted for foreign loans. Therefore, the capital account in 2008 was comparatively low [12,13]. The change that occurred these years shows the frustrations Moldova experienced. Moldova's development has been affected by other countries several times, which means that its economic environment is not stable yet.

## 6. Conclusion

This article analyzes Moldova's economic development over the past 30 years, focusing on key aspects such as geography, GDP growth, industry structure, trade dynamics, and balance of payments trends. The analysis reveals that while Moldova has utilized its agricultural resources effectively, its economic growth has faced challenges due to trade limitations, international relations, and reliance on imports.

Based on these conclusions, this article suggests that Moldova should prioritize export promotion, particularly in agriculture and engineering, to strengthen its position in the global market. Additionally, the development of domestic industries, especially in the pharmaceutical sector, could help reduce reliance on imports and stabilize the economy. Finally, the Moldovan government should implement policies that encourage exports and support firms to ensure sustainable economic growth and a more resilient financial system.

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