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# NEWSLETTER

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## Synthesis and Foreign Policy Debates

The materials are realized by Lina Grau, foreign policy expert and programme coordinator with APE.

### TOPICS OF THE EDITION:

1. MACRO 2017 Conference – Moldova 2030 in Europe 2030
2. **Martin Hutsebaut**, ex-expert with ETUC: The future of this country will be built by the younger generation with the help of European countries
3. **Erik Reinert**, professor at Tallin Technical University: Add value to your raw materials and industrialize

#### The last period was marked by a series of important events for the Republic of Moldova.



The European Parliament's Foreign Policy Committee adopted a statement on October 10 that recommends intensifying sanctions against Russia and creating a mechanism that will further bring Moldova, Georgia and Ukraine closer to the European Union. It is expected that the recommendation will be approved by Parliament's plenary on the eve of the Eastern Partnership Summit in Brussels in November. The Foreign Policy Committee recommends, among other things, that the countries that have already signed association agreements be given the prospect of joining the "customs union, the energy and digital unions and the Schengen area". The measures for the near future could be "preferential tariffs, the abolition of roaming charges and the development of rapid communication networks".



President Igor Dodon attended the meeting of CIS Heads of State, which took place in Sochi, where he met the Russian President Vladimir Putin for the sixth time this year. The Kremlin leader said Russia would guarantee any possible agreement that would lead to the final settlement of the Transnistrian conflict. According to him, the Transnistrian problem needs to be resolved "once and for all" for the benefit of the people who live there. Igor Dodon said that a long-lasting solution will be found only after the next year's general elections.



The President Igor Dodon said in a speech at the Sochi CIS summit that "not only the economic development, but also the statehood of Moldova depends on the stability and positive processes in the CIS countries and the Eurasian Economic Union." President Igor Dodon announced on his Facebook page that the countries of the Eurasian Economic Union welcomed the request of Moldova to be granted observer status and undertook to look at ways how such a request could be integrated into the status of the Eurasian Union.



The Constitutional Court (CC) decided on Tuesday, October 17, that the head of state cannot block the replacement of cabinet ministers, the latter being the decision of the Prime Minister. According to the CC, President Igor Dodon's refusal to appoint the Minister of Defense constitutes a "failure to fulfil constitutional obligations" and is "a prerequisite for the suspension of the head of state". Igor Dodon criticized the decision, saying it is equivalent to the "usurpation of power in the state" and it is an "interpretation of the Constitution in the interests of the Democratic Party that controls the parliamentary majority." Dodon threatened the Constitutional Court magistrates and government officials with reprisals after the 2018 parliamentary elections that his former party - the Party of Socialists - hopes to win. "In nine out of ten cases, those who came through the blood leave through the blood," Dodon said without explaining his statement.



The Action and Solidarity Party headed by Maia Sandu announced that she accepted the offer of the DA Platform led by Andrei Nastase to participate with a joint list of candidates in the 2018 parliamentary elections.



The EU will not transfer the last tranche of EUR 28 million to the Republic of Moldova for the justice reform. A statement by the EU Delegation in Chisinau says that "The EU has carefully followed the process of reform implementation and noted that the authorities have shown insufficient commitment to implement reforms in the justice sector in 2014 and 2015 and the necessary reforms have not been implemented." The head of the EU Delegation, Peter Michalko, is quoted as saying that "the EU continues to support Moldovans who are working hard for a better future. We are now looking at how we can help citizens in the coming years. We want to give priority to projects that directly improve the lives of Moldovans."

## MACRO 2017 – Moldova 2030 in Europe 2030



The rethinking of Moldova's economic growth model was one of the main topics of this year's MACRO Conference, organized by the Expert-Grup Think Tank in partnership with the Friedrich-Ebert-Stiftung. The fifth edition of the conference was dedicated to "Moldova in 2030 in a Europe of 2030: Development solutions in a changing environment". Among the subjects discussed was the way in which economic growth can be ensured in the interest of

the people, but also the aspect of good governance as a key element for the prosperity of the Republic of Moldova.

The State of the Country Report, developed by Expert-Grup in partnership with the Friedrich-Ebert-Stiftung and presented at the MACRO Conference analyses the main economic and social trends of the Republic of Moldova over the past year.

## Valeriu Prohnițchi: Education is the only strategy without regrets

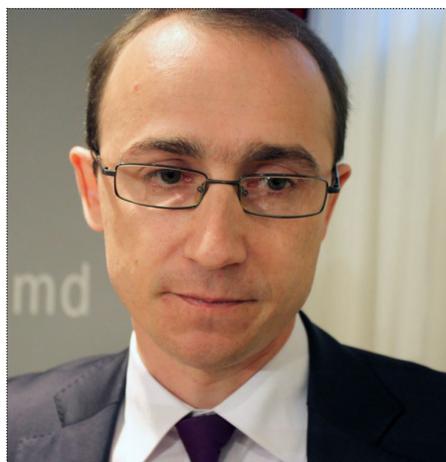
**V**aleriu Prohnițchi, Policy Specialist with the United Nations Development Programme in Moldova, said in his presentation that besides global challenges of climate change and demographic issues related to technology development and digitalisation, the Republic Moldova is going to face several other challenges in the coming years caused by several internal factors.

■ **Valeriu Prohnițchi:** There are several national trends that are heavily influenced by global and regional ones such as more droughts and hails.

Another important trend which is often neglected is the so-called invasive crop varieties that are becoming more aggressive for local varieties and which could have major implications for the agriculture. Also, increased resistance of plants to the traditional pesticides will require a total rethinking of the Moldovan agricultural sector.

Emigration and family reunification abroad is a phenomenon that will continue to mark the evolution of the country in the next 13 years. Alongside with the opportunities offered by emigration, the problem of the human and social capital degradation - that is to say, social values such as trust, the way people communicate with each other, how often they visit each other- is going to increase.

A new class of large landowners is emerging and this trend could have major implications for the land price, integration of rural people in the agricultural processes, etc. Another observation is the emergence of new



agricultural technologies, which, besides the new niches discovered by Moldovans, are promising and increase substantially the labour productivity. At the same time, they will be further reducing the labour force needs in agriculture.

All these trends have both positive and negative implications for the country's development. On the positive side, there will be more resources for capital investment in agriculture. Those advanced technologies will offer more opportunities to involve everyone in the decision-making process and there will be more women in politics and business, which is a positive thing for the Moldovan business and political culture.

But there will be also negative implications. There is a growing stress on water resources, soils and local species. The regional economic polarization is going to increase. The economy will increasingly move to Chisinau and probably to Balti. This is going to accentuate the problems of abandoned settlements and abandoned people living in these localities. By the

year 2030, about 100 localities in the Republic of Moldova will have less than 100 people and most of them will be elderly people.

The regional economic polarization will lead to strong pressures on regional infrastructure, urban infrastructure and natural systems adjacent to urban areas. Also, poverty alleviation will be at risk, because poverty reduction was largely possible through emigration and emigrants' remittances.

As to the implications for people, the incomes of the middle class will increase significantly, the work program will be more flexible and there will be many opportunities for lifelong learning, including through the development of media networks, Internet opportunities etc.

The negative implications for people will be that the interference of the government in everything which is private will increase, the fiscal pressure will be on the rise, the data processing algorithms combined with a generally more predictable environment will greatly reduce people's access to credit and insurance.

Education, in my view, is the only strategy without regrets. Regardless of the circumstances that will mark the country, the school should become a place that attracts children, parents and the community. Because only trained people can survive in this ever-changing environment.

## ***Irina Vlah: The Gagauz Autonomy works together with both the East and the West***

***Irina Vlah, the governor of the autonomous territorial unit Gagauz-Yeri, says the southern autonomy of the Republic of Moldova is a very interesting economic platform for both Moldovan and foreign investors. Comrat is ready to provide tax incentives to investors and is committed to helping to build the necessary infrastructure and train the staff, says Irina Vlah.***

■ **Irina Vlah:** The Gagauz autonomy, being part of the Republic of Moldova, is influenced by the same factors that determine the development of the national economy. Despite the existing barriers, due to the joint effort of the authorities and of the business community, the average annual growth of industrial production in the last two years increased by 19.5%, while the agricultural production increased by 45.1%. Investments have increased by 43.2 percent and exports increased twice.

There is also a positive dynamics of accruals to the Gagauzian budget from own revenues and transfers from the central budget. In 2016 this increase accounted for 44% and 49% respectively, compared to 2014.

The analysis of basic macro-financial indicators shows that the labour productivity in Gagauzia in 2016 was higher by 13 per cent than at the national level. Together with the increased labour productivity, also the salaries rose by 19.7 percent compared to 2014.

Thanks to the collaboration established by the Comrat Executive Committee with donors and international funds, we are able to increase each year the volume of investments for the development of the region's economy. Only in 2016 through projects and grants we managed to bring



164 million lei investments in Gagauzia, or four times more than in 2014.

We are taking real steps in order to change the region's development model. We are establishing solid regional contacts with Russia, CIS countries, the European Union and Turkey. Another aspect of the new development model is trade with both the East and the West.

In the first half of this year, the economic agents in Gagauzia expanded the geography of exports and increased the export volumes. Thus, the products from Gagauzia were exported to 42 countries, of which 19 are EU countries, 7 are CIS countries. The export volumes have increased by 12% compared to last year, including in the CIS countries - by 62% and in the EU countries - by 8.2%.

With the support of partners in the region and with the region's own sources, large infrastructure projects are being implemented - construction of new kindergartens, medical institutions and out-of-school education institutions. Work is being done to strengthen budgetary and financial discipline.

The economic bloc of the Comrat Executive Committee is paying particular attention to the reorientation of high added value goods to exports. A priority direction is the manufacturing industry. In order to stimulate and develop the manufacturing industries and job creation, the central budget of the autonomous region is planning to allocate 20,000 lei for each newly created job in 2018.

In Gagauzia the legal framework is stimulating investments. In 2016 we adopted the law on investments, which opens new opportunities for attracting investments, including foreign investments.

This year in Gagauzia two new investment platforms have been created - free trade sub-zones in Comrat and Ceadir-Lunga. The National Fund for Regional Development of the central budget has allocated funds to create infrastructure for these platforms.

Another important aspect of the economic activity in Gagauzia is the cooperation with the EU development programs, UNDP, USAID, GIZ, TIKKA, EBRD and EIB.

In Gagauzia's view, the economic growth can be achieved by increasing consumption, increasing investment and export of goods and services and by implementing innovations, modern technologies, including information technologies, but also by increasing labour productivity. In order to accelerate the economic growth, the emphasis should be on mobilizing investments and implementing innovations, which are the future of Gagauzia and of the Republic of Moldova in general.

## Sergiu Sainciuc: The informal economy is a phenomenon which affects us all

**Sergiu Sainciuc, vice-president of the Moldovan National Trade Union Confederation, drew the attention in his presentation to the issue of training the labour force, but also to the low wages, pointing out to the fact that the wages in the Republic of Moldova are the lowest in Europe.**

■ **Sergiu Sainciuc:** The estimates suggest an economic growth of 3% in the current year. Will this ensure growth also in the social field?

Regarding the labour market situation, over the last 8 months of the year, the number of the unemployed that was registered is much lower than the number of jobs available. Unfortunately, these jobs cannot be taken because of the insufficient professional training of those who are registered as unemployed. So there is a systemic problem if the workforce is not competitive on the labour market. What is worse is that about 60-70% of those who are registered with the Employment Agency have no speciality.

A World Economic Forum report shows that the human capital index in the Republic of Moldova climbed from position 62 to position 63 among 130 countries. The report mentions that we have had positive achievements in the field of schooling, secondary and lyceum education, but there is still a major problem with the professional education at all levels - secondary vocational education and higher education.

The report also mentions that if we don't take the necessary measures, there will be a brain drain- the educated and talented people are going to leave the country. This is a very, very big problem with negative consequences for the future of the country. Given the rather modest motivation for work in the country, it is obvious that we will have major problems with the lack of qualified labour force for the needs of the labour market.



The salary in the Republic of Moldova is the lowest in Europe, accounting for only 20 percent of the salary of the EU countries. Obviously, the wage level should account for at least 60-70% of the European one, so that the workforce is motivated to stay in the country.

This year the unions have once again notified the international public opinion about the existence of inequities in the salary level. In Moldova, this inequality consists in the fact that in the budget sector the minimum wage is 1000 lei, while in the real sector - 2380 lei, in the insured medicine - 1890 lei. Obviously we should have only one minimum wage in the country.

It is necessary that in the first stage the minimum wage be at least 2000 lei - at the minimum subsistence level. As a second step this amount has to be raised to the minimum wage in the real sector. After that we should achieve the objectives of the revised European Social Paper, according to which the minimum wage should account for 50-60 percent of the country's average wage. Thus, we should have a minimum salary of at least 3000 lei. When we achieve that alongside with other payments, we will be able to provide another quality of work, motivating citizens to stay and work in the country.

Today it was mentioned that the future belongs to information technologies. It is true, given that in this field the salary is the highest in the Republic of Moldova - about 12 thousand lei. However, we are of the opinion that this salary of MDL 12,000 should be a normal salary for all categories of employees, while the average salary of those working in IT should be at least twice the current salary level. Only then the productivity in this area will be higher.

The informal economy is a very big problem in our country. Just trying to liberalise the labour relations through the labour law will not, in my opinion, lead to immediate economic growth, immediate investment, and job creation.

Other issues include occupational safety and health. If the workplace security is not ensured, we will not have qualitative workforce. That is why Moldova has the obligation to adapt the national legislation to these standards and we can do this only if we ensure the implementation of the minimum requirements adopted by our country.

The pension system reform in the Republic of Moldova, though with deficiencies, was in principle a good reform and has developed positively since it has been implemented. It has very good elements which are beneficial for the citizens, but unfortunately, they don't ensure the sustainability of the state social security system.

This is the biggest problem of the pension system. If we don't solve the problem of sustainability of this state social security system, the good provisions that are being implemented now will not have any effect in the short term, especially in the medium term. For this, apart from other measures and actions, one solution would be to strengthen our efforts to combat the informal economy, as this is the biggest reserve at present to be able to raise the living standards in the country, alongside with attracting investment and creating new jobs.

# ***Iurie Ciocan: Through the government reform we have cleared the field that was favourable to corruptible elements***

***Iurie Ciocan, Director of the Government Implementation Center, spoke in his presentation at the Macro conference about the Government reform and the upcoming reform of the agencies subordinated to the executive.***

**Iurie Ciocan:** We've started from a ministerial structure composed of 16 ministries and reached 9 ministries. At the content level, all the business processes were internally analysed, followed by job descriptions for each employee. We've found a lot of duplications, inefficient activities and extended staff. We also conducted a comparative study of the structure of civil servants in the ministries in 2017 and 2009 and found out that the staff increased after 2009 by 42 percent. And this made us think.

Today we are at a new stage – that of employment of state secretaries in ministries. It is a new element in the governmental structure of the Republic of Moldova. The state secretaries are going to be leaders of civil servant structures in each ministry.

Ministries in their turn are becoming institutions that generate state policies and ensure their implementation. In the case of the old structure, the ministries were dealing with control functions, authorizations, and management of public property, which often generated conflicts of interest and corruptible elements. I think we have cleared this field through this reform.

Another element which went in parallel with the government reform was the reorganization of a particular group of public services. The Public Service Agency was created by merging the Registrar State Enterprise, Cadastre State Enterprise, State Registration Chamber State Enterprise, Licensing Chamber and the Civil Service. All



these five institutions are already one entity. We've immediately obtained an optimized internal structure - we do not have five financial departments, five directors, and so on. On the part of the administrative functions alone we managed to significantly reduce the number of civil servants and improve the quality of the management of the institution.

Regarding the remuneration of civil servants within the ministry, it is obviously very difficult to hire a very well-trained younger person educated abroad, with a salary rarely reaching 4,000 lei. Today, the public wage system is absolutely demotivating, relying on seniority as one of the most important wage growth criteria, which is not acceptable from our point of view. Our plan is to introduce a new concept based on performance.

We have made some simulations and we have come to the conclusion that the top management at the level of state secretaries, not at the level of a minister who is a political function, could in a new formula have salaries close to \$1,000 or 16-18 thousand lei. It is already a fairly attractive salary and one that can compete with the salaries in the private sector as well.

We have completed the first pre-selection phase for Secretary General in the nine ministries. There are ministries with 9 candidates. At the Ministry of Defense, there are 4-5 candidates for a job on average. So I believe that under the new conditions we will be able to attract qualitative specialists in the public sector.

The next step that we are now dealing with at the Implementation Center for Reforms, is the reform of the agencies subordinated to the executive. While we had 2054 employees in the ministries, in government agencies their number is about 9,000. We have institutions such as the Tax Inspectorate, the Customs Service with 1700-1800 employees each, or National Health Care Insurance Company- with 1,300 employees, the National Bureau of Statistics -with 900 employees.

The key word in this reform in 2017 was the search for efficiency. We want to get ministries that will generate effective policies and professional implementation agencies. We want to bring all the subordinated agencies into the budget. Because a large part of the agencies subordinated to the Government and the ministries have got a so-called financial autonomy status- providing services on behalf of the state they are collecting funds that they distribute internally. They don't give the money to the budget. Sometimes even state taxes are kept with these agencies for their own needs. This seems deeply flawed and we want to bring them all into the budget.

I think we are going to have a great deal of dissatisfaction among the officials of these agencies, because obviously their salaries will suffer, but we believe the rules must be the same for everybody.

## **Ion Sturza: The government reform was a politically populist gesture and a poorly planned action**

**Ion Sturza, President of Fribourg Capital Company and former Prime Minister of the Republic of Moldova, criticized the way in which the government reform in Chisinau was made, qualifying it as poorly planned, politically populist and without any feasibility study at the basis.**

■ **Ion Sturza:** In the end, the government is a political institution and is based on a parliamentary majority, which in its turn is the exponent of the popular will. Governments are never technocrat, they are political and need to implement a political programme. This is the origin of the intense discussions at the moment about the new electoral system that takes us away from the axioms of democracy.

I would like to mention three important things which today dominate the Moldovan society and the way in which we understand governance.

For a Government to be effective, it must be legitimate. The legitimacy of the Government depends to a large extent on this parliamentary majority and on the disputable way in which it was built. Is the current government legitimate? I think the answer comes by itself if we look at the ostrich-camel construction behind the parliamentary majority – ideologically it is very different and has very different mandates from the electorate. Secondly, it lacks popular



support. The popular support of the parliamentary majority and of the party behind it is at the limit of statistical error.

Another very important component is the personal rating of formal and informal leaders which has reached historic negative limits.

Without legitimacy, having no popular support and credible leadership, whatever reform you make, all your actions will be profoundly challenged and unsuccessful.

It is true that the principles of good governance are related to the separation of political functions from those of property management, control functions, but also from the regulatory functions, which are not in the competence of the Government. It is very important to separate these functions - executive, legislative and judiciary- not only in statements, but also in reality.

Unfortunately, today we have a total confusion as to the real intentions of these three branches of power. An additional problem is the two-faced system of the executive - the president and the government- which creates a lot of confusion.

Regarding the Government reform, this is a populist political statement which is not based on any feasibility study and it hasn't been consulted with the civil society or specialists in the field.

We need a functional and efficient government. It is an illusion today that only the human factor can solve the multiple problems faced by any administrative system. One solution would be to digitalise the governance. At the beginning of 2009-2010, there was an extremely beautiful and plausible initiative - e-government. It placed us among the world leaders such as Singapore and Estonia. Unfortunately, this project has spent the money and disappeared. For a Government to function with minimal human resources, digitization is very important.

And the last observation - we need the governments to think strategically, to have a vision at least in the medium term, if not in the long term. That's what I wish for Moldova.

## **Martin Hutsebaut: The future of this country will be built by the younger generation with the help of European countries**

**In an interview after the Marco conference, Martin Hutsebaut, expert with the European Trade Union Confederation, said he has big hopes that the young people will bring change to the Republic of Moldova and fight against corruption.**

■ **Lina Grău:** How do you see Moldova in 2030?

■ **Martin Hutsebaut:** It's an impossible question, of course, but if we ran our fantasy, what I believe is that the young generation, contrary to what was said today by ex-Prime Minister Mr Sturza, will bring the change. That's the major hope- that they will fight corruption. Because the young people, contrary to what they argue, care about the general interest. Also, another important factor is, of course, the relations with the EU which plays an important role in creating a better Europe. The desire of the Moldovan side is to harmonise the situation with that of Europe. But even in Europe there are differences between East and West, North and South when it comes to food, health and safety standards as well as social standards. Not everything is harmonious in the social field, but we have a rule of basic standards. All that are extremely important for Moldova.

I think the future of this country will be built by the young generation with the help of the European countries, because Moldova is a European country. I'm rather optimistic, but of course, this will take years and years.

■ **Lina Grău:** You said the future will be built by the young people. In the



Republic of Moldova, a large part of the young people go abroad to study or find a job, and very few of them get back. What is the perspective of the Republic of Moldova in the situation when it is depopulated of young people, while the number of elderly people increase?

■ **Martin Hutsebaut:** The reason they emigrate is that they don't see opportunities for decent jobs in the country or whatever jobs. There was a similar situation in Croatia, even if the situation in Croatia is much better than in Moldova. The youth emigrates because they cannot find jobs in Croatia. The economy doesn't provide means for the future and as a result, people start looking for a future abroad. And very few return to their countries after they have had the taste of a better life in more developed countries like Germany, Belgium. When they come back to their country they see medieval health care, bad roads, not to mention the problems with the justice sector. Another big problem is the poor social provisions- salaries, unemployment benefits. In my country- Belgium- when you get ill, you have an income which is

related to your previous earnings. When you become unemployed, you have for a limited period of time an income which is over 1000 Euro. This way you don't get problems and you have the possibility to look for a job in the meantime. Is this the case here?

■ **Lina Grău:** And what is the perspective of the elderly for 2030?

■ **Martin Hutsebaut:** In the case of the new pension system, those who will declare their real salaries will have a decent pension that will account for 45% of their previous earnings, which is a decent level. Of course, that will be possible if you have a decent salary. For comparison, the pensions until 2016 guaranteed only 25% of the previous earnings. One cannot make a living on such pensions - they are way too low. The reform is a good one, but what is important is the economic support ratio, because the new law needs money in order to be functional. That means you need more employment, because with an official employment rate of 40-42% you cannot support the social system. You need to gradually integrate all the workers into the system- even those who work part time or temporarily. You should integrate them irrespectively of their contributions. The reform is an incentive for the employees to declare their full salaries- and not only 50% or the minimum- and work formal.

■ **Lina Grău:** You mentioned about the informal economy in the Republic of Moldova. Is it a widespread phenomenon and how can it be combated?



■ **Martin Hutsebaut:** The general definition is that every good or service which is not declared to the authorities for different reasons is considered informal. There are two different ways of measuring that- direct and indirect. You can ask people directly, but it's not very efficient as people may not tell you the truth. Another way is through the services of the tax auditors- they go to the companies and look at the books. That's a micro approach. The macro approach is comparing the real effective labour force with the officially declared labour force, or the national accounts is compared with the declared income. These are the direct and indirect ways of measuring informal economy. The best is what we call the multi-indicator which looks at different factors together, making comparisons. For example, Schneider came to a figure of 30% for the informal economy in Moldova, but the Moldovan authorities said that the method used by Professor Schneider to measure informality is not good and that the informality in Moldova is much lower.

But why do people go informal? The people that are low qualified and have low salaries need badly the last cent in order to survive. Those who have a high income would rather go for comparison between the social contribution that they have to pay and what they get in return, also in the long term. If they can get a decent pension, they may decide to contribute. Those with low incomes need the money to make both ends meet. The motivation can be different.

What to do? I will start with what I also said in the meeting- my first point is that the government should declare publicly its commitment to fight by positive but also police measures the phenomenon. The first example should come from the top- the government should be able to guarantee that their politics is clean, because people read the newspapers and when they find out

about scandals, they decide not to pay. So the trust in the government, but also in the institutions is absolutely crucial. If you look at the world economic forums and the competitiveness index, Moldova ranks 138<sup>th</sup>. The protection of property and of the intellectual property is estimated by the business executives as extremely problematic. So that is another thing.

What is also important is that the tax burden is too heavy. What we call formalisation- the tax rates are very high for the small incomes. If you look at that, you will see that the incentives to go informal in the Central and Eastern Europe are much higher than in the Western Europe. There is no surprise that the rates of informality here are much higher than in our countries.

■ **Lina Grău:** Experts are talking about a new wave of emigration from the Republic of Moldova, this time with people who have good jobs, but who are dissatisfied with the state of democracy in the Republic of Moldova. The government recently had an initiative to stop foreign funding for non-governmental organizations that are involved in politics. What do you think about it?

■ **Martin Hutsebaut:** From the European perspective that is clearly unacceptable. The free press and the free speech is important and also if you want to become member of the European family you should accept that your NGOs work in the European context together with international NGOs, like for instance, Friederich-Ebert-Stiftung which is a German foundation active all over the world. You cannot, on one hand, receive European subsidies from the European Commission for the judicial and administrative reform, roads and infrastructure, and on the other hand, not accept that your NGOs are also supported by democratic foreign organisations. You cannot doubt the

transparency of these bodies – as a government you can request that these organisations work according to the rules, do accountancy controls on their activities. That is for sure correct. There is another thing- the democratic organisations and foundations which bring expertise to the country, including capital imports which are badly needed in the country, should be able to function fully autonomously. But to forbid that they receive financial support from outside is something which is unacceptable.

■ **Lina Grău:** You talked about freedom of the press. There is a strong monopolization of the press in the Republic of Moldova- there are only a few independent press organizations.

■ **Martin Hutsebaut:** I think pluralism in the press and media is crucial in a democratic society. In countries where the press and TV are monopolised and influenced by the government, you can see that the trust in the public broadcasting companies is very low. If you look at the percentage of the population that watch public TV in countries, you will see that in Great Britain nearly 50% watch BBC, while in Romania and Bulgaria- hardly 10% watch public TV channels. In Moldova there is a problem with monopolistic situation and this would have to be corrected. So I think, pluralism in the media is absolutely important.

■ **Lina Grău:** Do freedom of expression and the state of democracy relate to the situation in the economy?

■ **Martin Hutsebaut:** For a prosperous economy, you need democracy. If you don't have democracy, you oppress economic development, innovation, freedom of thinking and of experimenting. I think it is always in the interest of the people and of the country that democracy is maintained.

## Erik Reinert: Add value to your raw materials and industrialize

**Erik Reinert, professor at the Tallinn Technical University, says in an interview that Moldova's economy resembles the situation of the Central American countries such as Nicaragua or Honduras with the highest population working abroad. In order to get out of poverty, the country should export less raw material and focus on value-added products.**

■ **Lina Grâu:** What do you think should Moldova do in order to become a prosperous country in 2030?

■ **Erik Reinert:** I think being a relatively poor country in Europe which had never much industry and suffering from brain drain, having the problem that most entrepreneurial people leave, and being dependent on remittances of the workers from abroad- in that aspect you are not a typical European country. Moldova presents structures that you are more likely to find in Latin America than in Europe. So speaking about Nicaragua or Honduras, these are the countries with the highest population working abroad. It's not so normal in Europe, but in Central America is. You are in a much better position than the Central America but I'm just trying to say that to me, the problem is just well known. Being an agricultural country, in Latin America they talk about the resource curse – you know the countries with most resources are the ones which often stay poor.

So I think your chance is to use the basis of the raw material in order to add value. I heard that 70 percent of wool is being burned. I think that's very dramatic and reminds me of the 1930s in Brazil –the price of coffee was so low that they actually were fuelling the locomotives of the trains with coffee beans, not with coal.

If it's true that 70 percent of the wool is being burned, you have some serious problems and these are not communicated well enough to the world.



And again, what is the EU policy towards your wool? Are there producers of wool in Spain? Are they willing to take some of your wool if you add value to it, as it was very correctly suggested? Will you have a chance to sell that abroad?

So there is a very serious problem here, but we come from 25 years of people saying “the answer is the market, what was the question?” And now, I think, fortunately, with all the problems of the world, that period is coming to an end. The period we had looked a bit like 1840s -with the free market and free-everything and then- a big financial crisis and revolutions in all the big European countries except Russia and England. I'm not saying I'm asking for a revolution, but we are coming up to a situation. In 1848, even the most conservative and liberal English –the economist John Stuart Mill in 1848 said: “Every county needs an industry, so every country needs infant-industry protection”.

And now we are in a situation that we see that free trade is an issue in the USA- both Trump and Sanders are in that sense against free trade. And within Europe this problem also exists. So I think we are going to have a revision of this free trade relation. To be frank, the only country benefiting from the situation of today is Germany because of the Euro and because of the technical skills. So the periphery and also the EU periphery is in trouble. It's

not only Greece. The debt level of Italy is not sustainable either. And Portugal has been deindustrialized, Spain has a lot of problems.

So being as you are, you have the bottom of feed chain or labour. I'm trying to describe that feature of labour. I think the only realistic thing to do is to try to import less and protect what you can produce. I think it is ridiculous that Ukraine sells cheap wheat to Italy and buys expensive spaghetti back. Probably you have similar problems. So look at your import bill and see what it is there that you can produce, because I'm sure you have a trade deficit as well. So, in the short-term, try to get back the industry that you had and try to add value to your raw material. Try not to produce bulk, try to produce high-quality things and also wine. But I would like to use the example of Chili- you know there is a big market out there for organic wines. Generally, add value to your raw material – in this country this is the no.1 recommendation.

■ **Lina Grâu:** There is much talk in Moldova about digitization, a big emphasis being put on IT. Do you think this can be a solution for the Republic of Moldova or it is an agrarian country and so it should stay?

■ **Erik Reinert:** Well, I think you should use information technology as much as you can- use it to modernize your wine production for instance. But the problem with IT is that it tends to reduce employment, not create employment. Yes, you should do it and use it by all means, but don't think that is going to be an export good as you won't be good and cheap enough to compete. That's my view. And you find it in many countries: “This is the solution”. For example, in Ukraine, which has even a bigger internal market, yes they managed to create some companies, but Poland runs away with the skills.

■ **Lina Grâu:** The Republic of Moldova is an agrarian country, but there are, for example, in the industrial area, several German companies producing and exporting more than the entire agriculture of the Republic of Moldova. What is the correct ratio between the two?

■ **Erik Reinert:** Well, in your country, agriculture is, of course, dominant and as one gentleman picked up in the audience, instead of burning the wool, you should work it into high-tech or high-quality products. And perhaps having relatively inexpensive labour, you can attract the fashion industry and get Mr Armani do his things here. Even in such countries as Eritrea they are making high-fashion things. And you can use your own raw materials and try to create a brand of the raw materials. For example, tomato paste industry in the world is a strange industry where it is difficult to get into, but these are the ways you should think.

We found out, for instance, in Norway, that we get a lot of canned food-vegetables from Turkey. Well, canned vegetables is adding much more value than destroying them as you do. So either selling very fresh high-quality or adding value by putting into glasses or whatever.

■ **Lina Grâu:** You have a good book about why rich countries get richer and poor countries stay poor. But how can a poor country become rich? And why did this not happen in the case of the Republic of Moldova?

■ **Erik Reinert:** Well, I think also because in the communist system you were a food supplier and you didn't have to industrialize. So you didn't have so much

to lose as Ukraine and Georgia. So it has to do with the economic structure. The countries that developed after 1850s- Norway, Scandinavian countries like Finland- they all picked up this idea from the gentleman on the stamp- Friedrich List. He was also very influential in Russia. But you were kind of left behind in a way. So I think also a good idea would be to have free trade with your neighbours- free trade among countries at the same level of development is always beneficial. So having a free trade area with Ukraine or Georgia will probably help you, but I think you should look not that much to export, but a little more to your home market, and there actually looking at what you are importing and seeing if you can do it yourselves. That would be my suggestion- more inward looking. In Europe you are a special case, while in a bigger setting you are more normal.

■ **Lina Grâu:** Many people here say it is corruption that makes the country poor.

■ **Erik Reinert:** Of course, corruption is awful, but rich countries are also corrupt- that's my point. That was my point about Germany, but it may be corrupt in a different way. But this is – Ukraine is being deindustrialized. The UE is using its power to prevent it in a sense from reindustrialization. And they hammer and hammer on corruption. So this has become a self-flagellation- "oh, we are so corrupt, we will never develop, etc." I think that's a wrong way to think. You know, Sweden was an extremely corrupt country. In the 18<sup>th</sup> century, you can actually look at how the prices of votes in the Swedish parliament were falling. It was cheaper and cheaper to corrupt Swedish politicians. You know, corruption has become an excuse

of the West to explain poverty. Of course, you should fight corruption, but don't buy those arguments. It's just not true. You are not poor because you are corrupt. Partly you are corrupt because you are poor. There are few decent business opportunities and because of this more people are probably easier to corrupt. It's a way that rich Europe tries to blame it on you -the poor are poor and it's their fault. What I'm suggesting is absolutely to fight corruption, but don't think that's the core of the problem.

■ **Lina Grâu:** What is your suggestion, should Moldova connect more to the EU markets or to the Eastern ones, such as Ukraine, Russia and others.

■ **Erik Reinert:** I would say, if Europe lets you connect, absolutely. But every European politician is extremely afraid of having trucks of rotten tomatoes on his doorstep. And if Europe helps Moldovan agriculture, they will end up in having angry farmers and they don't want this. If you are sure that Europe would buy your goods, no doubt. So I think, by all means, go to Europe, but I don't think they want you. The European farmers have too much power and the European politicians are elected by the European farmers, not by you.

■ **Lina Grâu:** And what are your recommendations for the Republic of Moldova?

■ **Erik Reinert:** Integrate with your neighbours, add value to your raw materials and industrialize what you need for your internal market. These would be my recommendations.

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