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Analysis of the Moldovan-Czech Economic Relations: Hindrances and Opportunities for Increasing Bilateral Trade and Investment

A study developed under the joint Moldovan-Czech project "Enforcing Economic Development Policies through Building Czech-Moldovan Partnership" implemented by the EEIP a.s. (Czech Republic) and EXPERT-GRUP think-tank (Republic of Moldova).

Chişinău-Prague 2007

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About the project

This study was developed within the project "Enforcing Economic Development Policies through Building Czech-Moldovan Partnership". The project is jointly implemented by the EXPERT-GRUP think-tank (Republic of Moldova) and the EEIP consultancy company (Czech Republic). The project was supported financially by the Moldova Soros-Foundation and the Open Society Fund–Prague within the East-East Program.

The main goal of the project was to contribute to the advancement of partnership relations, especially in the area of economic development, between the Czech Republic and the Republic of Moldova as part of Moldova´s European integration endeavor. This goal was achieved through a joint study of the policies of economic development employed by the Czech Republic authorities and exchange of experience between Czech and Moldovan business and civil society sectors. The project finalized with this comprehensive study and dissemination of the information on the results of the project.

Working within a joint research program the Moldovan and Czech partners aimed at assessing and analyzing the current state of economic relations between the Czech Republic and the Republic of Moldova. As result, a number of niches and opportunities for economic cooperation have been identified. The key points of analysis were trade, investment and business contacts.

Executive summary

Since the breakup of the socialist bloc and Soviet Union, both the Republic of Moldova and the Czech Republic have stridden to build modern democratic states and competitive market economies, as well as to become legitimate parts of the European Union. Certainly, the Czech Republic has much more progress to report with this respect. Its political and economic transition culminated on May 1, 2004, when the Czech Republic along with other nine countries became member of the European Union. Moldova's transition has been much more uncertain and erratic up to the moment. Here is the first purpose of the study to highlight the most important features of the countries' transition path and to draw important lectures for Moldova from the Czech experience. Furthermore, significant economic progress and international openness might make the Czech Republic an important destination of Moldovan exports and source of investments to be attracted in Moldova. So far progress has been rather modest. Thus, the second purpose of the study is to look closer at the economic cooperation between two countries, to see what the major impediments in the process are and how this cooperation may be re-energized.

The structure of the study is as follows.

The fist chapter attempts to outline most contentious issues posed by the transition process in the Czech Republic and to draw chief lessons on this basis. Former Czechoslovakia had a good starting point at the beginning of transition as a mid-developed industrial country at levels comparable to those of poorest EU members, Greece and Portugal. Generally, Czech transition followed path well-known in former socialist bloc countries. It was based on so-called 'Washington Consensus', which most shortly can be expressed by the following triad: liberalize, privatize, stabilize. The first period of transition (up to 1997) was quite successful featuring robust economic growth, modest inflation, high inward investment, reorientation of exports westwards. However, in the 1997-98 economy trembled as a result of delays in enterprise restructuring and in establishment of well-developed capital market. Another source of discontent was the manner in which government managed privatization. This process is paid considerable attention as Moldova chose the same privatization methods. Only after 2000 robust growth trends have returned. Strong economic performance eventually contributed to the country's EU accession.

This chapter also shows other important elements that helped successful transition in the Czech Republic: active involvement in global and European trade, making the country an attractive place for FDI and unleashing SME sector. And as this chapter shows the state has an important role to play: establishing open and predictable framework for trade and investment, and pro-active promotion of country's and companies' interests both in the Czech Republic and abroad.

Besides successful transition, there is one more aspect mentioned of which Moldovan counterparts may be envious: European integration. Hence, the second chapter looks in more detail at the way passed by the Czech Republic in joining the European Club back since 1991 up to accession celebrations in 2004. The process started with the Copenhagen criteria, which Moldova has yet to fully satisfy, to the so-called Maastricht indicators. The Czech Republic put considerable effort to fully adjust its legislation to the acquis communitaire, while hard work on the ground was strongly supported by PHARE Program and others alike. However, as a result of accession the Czech Republic has had to apply common customs policy, which might put additional stress on its commercial relation with the countries out of the EU. The chapter also reflects on the shifts Czech agriculture had to pass through in the accession process. At the same time, the benefits of accession have been important: access to the EU markets, stronger negotiation position towards partners from third countries, more transparent domestic entrepreneurial environment and higher inflow of FDI. While on the opposite side, outflow of qualified labor force to western member states and higher inflow of foreign goods were perceived as the main risks. As the Czech Republic became fully-fledged EU member it obtained more leverage over the European foreign policy. In this respect, the Czech Republic is mostly on side with other new members supporting more EU involvement in assisting developing neighboring countries in eastern Europe and keeping the EU doors open for them.

The third chapter turns to Moldova, looking at rather unsteady country's progress in transition. The Moldova had much worse starting point in transition than Czech Republic. Thus, early transition was mainly featured by state-building efforts coupled with rather modest progress in economic domain. These were further undermined by the military conflict in break-away region of Transnistria. Despite all these, early in transition Moldova was considered 'star performer' amongst western CIS countries, while ending up as ‘reform laggard’ by mid-90’s as privatization and structural reform reforms went stunt. Moldova was also very slow to reorient its trade and suffered enormously in the wake of Russian crisis of 1998. Economic fortunes have reversed since then. In 2000-2006 GDP growth averaged 5.9%, while the GDP per capita level of 1993 being reached by 2004. There is questing how long this growth may last. It remains heavily dependent on remittances sent by Moldova’s labor emigrants and concentrated mainly in big cities, while modernization of economy is rather slow. Most dispiriting, Moldova’s trade patterns have been changing quite slowly, being mostly oriented toward CIS markets and concentrated in very limited group of low value-added products category. No surprise, Moldovan exports suffered immensely as a result of Russian ban on wine imports from Moldova. Moldova has fared comparatively poorly on the FDI attraction as well. Unstable policy framework, unfavorable business climate, weak governance and rampant corruption have determined such outcomes.

All this being said, the fourth chapter attempts an economic comparison of the Czech Republic and Moldova. In the nutshell, the chapter tries to answer crucial question: why one should expect strong economic cooperation between these two countries at all? The chapter approaches this question armed with two theories: complementariness of economic specialization and trade gravity. According to the first theory, the Czech Republic and the Republic of Moldova have quite different specializations reflected in the structure of economy and of exports. Moldova’s current specialization lies with agriculture, food and beverages, while the Czech’s one is more advanced being concentrated on manufactured articles, machinery and transport. Gravitational theory suggests that Moldova’s trade with the Czech Republic should be comparable to other countries in the region, this is however not the case. Trade with the Czech Republic appears much weaker developed than with Slovakia, Hungary or Poland for example. The chapter also shows how the Czech Republic has become a regional economic hub that may well become important partner for Moldova in Europe. Further on, Moldova’s strong points are shown if the aim this country to become one the bridges between Europe and Asia is considered. The chapter also provides interesting exercise of presenting business cultures of both countries, which exhibit both similarities and differences, but clearly showing compatibility of the approaches of Moldovan and Czech businessmen to the way of doing business and setting economic relationships.

Next chapter looks at how bilateral trade between the Republic of Moldova and the Czech Republic can be advanced. The chapter starts with reviewing major steps by which bilateral cooperation evolved, looking closely at the changes brought by the Czech accession to the EU. Unfortunately, as analysis shows, economic relations between two countries remain well below their potential. This underdeveloped is closely mirrored by anemic evolution of trade between two countries. What reasons may hold back development of bilateral trade? Probably, this question is best addressed to Moldovan and Czech companies who do business with each other. For example, survey conducted among Moldovan companies trading with Czech counterparts point out lack of information, cumbersome customs procedures and high technical standards. On their part, surveyed Czech companies also outline lack of reliable information on eventual trade partners in Moldova, that’s why they often act through dealers. At the same time, it seems, Moldovan market so far is less attractive in regional comparison for the Czech companies. The chapter concludes with identifying potential niches for trade development.

The sixth chapter looks at possibilities of attracting Czech investments in Moldova. It starts with a review of current situation and shows that so far volumes of Czech investments have been quite negligible. However, it also shows that interest to invest is growing ranging from soap production to irrigation equipment production. Quite important is the fact, that these investors find Moldovan market quite attractive and lucrative after all. This, however, does not mean that further efforts to attract much more investment are not needed. How this can be done? Well, Czech investors are not that different from others after all. The recipe is well-known: improve general investment climate. Putting foreign investors on par with domestic ones was a step in right direction, others like refraining from preferential treatment of state-owned companies and an administrative measure, advancing further regulatory reform and others should follow. The chapter concludes with 6 possible investment projects that would unite efforts of Czech and Moldovan businessmen.

Next chapter looks at relation between the Czech Republic and the Republic of Moldova from another angle. Namely, it looks at the way Czech government assists development of Moldova via official aid provision. As Moldova was declared by the Czech government as one of priority countries for its aid and development programs oversees. Thus, chapter pays a lot of attention to the ways and priorities the Czech government provides its aid to Moldova. However, it seems that opportunities to further explore the opportunities in this field are abound. More expressed and documented interest on Moldovan side is required.

What the Czech Republic and the Republic of Moldova have in common?

While not immediate neighbors, the Czech Republic and the Republic of Moldova have many features to share and many links to explore. Paradoxically, as it may seem, both countries are located in the heart of Europe. While the Czechs are just in the center of the political Europe (European Union), the Moldovans live in the middle of the geographical Europe stretching from the Atlantic to the Ural Mountains. However while the Czech Republic has achieved in 2004 its strategic goal of becoming a fully-fledged member of the European family, the Republic of Moldova has only recently asserted its aim of accessing the European Union.

Both countries have rich and plentiful history which they are proud of. The Czechs have their Charles IV, the winning Bohemian king in the 14th century and the Moldovans are proud of being the successors of the king Stephen the Great living in the 15th-16th centuries and acclaimed by the Pope Sixtus IV as "the Athlete of the Christ". An interesting historical fact is the Stephen the Great being ally of the Czech king Jiří from Poděbrady against the king Matias. The Hussitism, the most important European religious movement of the 15th century, has exerted a certain influence in many towns of the historical province of Moldova.

There are also a number of direct historical links between the two countries. For instance, in the Chisinau downtown there is one of the most beautiful Organ Halls in the Europe with unique acoustics and architecture. The Organ, comprising about 4000 pipes and 41 ranks was made by the Czech company "Rieger-Closs" in the early XX century. In the 1860 the Czech colony Novograd was founded in the Southern Moldova close to Cahul town. Nowadays the name of the locality is Holuboaya and there are about 100 Czechs descendents.

Presently the human links between the two countries are very important. Czech Republic is one of the most important recipient countries for the Moldova labor migrants. According to Moldovan estimates there are about 10000 Moldovan citizens working in this country. Also, the Czech Republic provides annually 4-6 high education scholarships for Moldova students.

The Czech Republic is two times larger than the Republic of Moldova but in relative terms both countries are geographically small and landlocked. Both are very densely inhabited by pleasant people, who are well-known for their hospitality and traditions. Enjoying a unique geographical position north to the Black Sea, the Republic of Moldova is famous for its outstanding red wines produced throughout the country. Excellent grapevines are also ripened on the warm slopes of Moravia in the Czech Republic for producing top quality white wines.

Unique combinations of traditions, culture and beautiful nature make both countries attractive for visitors. While the Czech Republic is already an important tourist destination, the Republic of Moldova only begins to make use of its natural and cultural heritage. In this respect, as well as in many others, the Republic of Moldova can learn a lot from the Czech Republic.

Key data about the Republic of Moldova and the Czech Republic

	Republic of Moldova	Czech Republic
Area	33,800 km sq.	78,860 km sq.
Population	4.2 million	10.2 million
Labour force	1.9 million	5.1 million
Capital	Chisinau	Prague
Language	Romanian	Czech
Currency	Moldovan leu (MDL)	Czech crown (CZK)
Time zone	GMT +2, daylight saving time GMT +3	GMT +1, daylight saving time GMT +2

1. Czech experience of transition: relevant lessons for the Republic of Moldova

The Republic of Moldova may benefit greatly from the experience that the Czech Republic has with economic and social transformation, the completion of a transition to a market economy while maintaining broad access to basic services, and establishment of the rule of law.

The following chapter should highlight the main failures and problematic issues posed by the transition process of the Czech Republic. Since in some cases Moldova and the Czech Republic followed the same way on their path to market economy, some best and worst practices can be found to serve as a lesson for Moldova for its further development.

In 1989, Czechoslovakia[1] entered the transition, a change from a planned economy to a free market, as a mid-developed industrial country. The economic level was comparable with the least developed EU member countries (Greece, Portugal). Despite the performance level, the productivity was only 2/5 of that of Germany. In comparison with other transition countries a position of the Czechoslovakia was significantly better. The Czechoslovakia had higher economic performance, relatively low foreign external debt and disequilibrium on domestic market, relatively high qualification and educational structure of population, very low inflation and high level of domestic savings. Nowadays, it is thought by some Czech economists that these advantageous starting conditions not only were insufficiently utilized but were in large extent laid waste. One of the reason was also low emphasis on institutional changes that should have supplemented a reform program based on Washington consensus[2], which is at present considered as an incomplete that resulted in number of deficits and failures of original transition paradigm.

1.1. Experience of macroeconomic stabilization

The Czechoslovak transition process was based on the following principles: fast and massive privatization, price liberalization, liberalization of external relation and macroeconomic stabilization. Price liberalization of most prices was reached by January 1, 1991 and establishment of new tax system as of January 1, 1993. Concerning the external relations liberalization, it was necessary to eliminate legislative barriers of foreign trade, introduce currency convertibility, eliminate customs barriers and import taxes on import goods and negotiate with EU and NAFTA the removal of protecting measures on export goods.

During the first period of transition lasting until 1997 astute economic management led to the liberalization of ca 85% of all price controls, annual inflation within the 10% range, modest budget deficits, relatively low unemployment, a positive balance of payments position, a stable exchange rate, a shift of exports from former communist economic bloc markets to Western Europe, and relatively low foreign debt.

Box 1: The most important steps of the CR (Czechoslovakia) on the path towards market economy during the first period of transition

1990

- Approval of economic reform scenario

[1]The country before splitting into the Czech Republic and Slovakia on January 1, 1993

[2] Reforms recommended by the IMF: fiscal policy discipline; redirection of public spending toward education, health and infrastructure investment; tax reform – flattening the tax curve, lowering the income tax rates on proportionally high tax brackets (typically above median income), and raising the tax rates on the proportionally low tax brackets (typically below median income); lowering the marginal tax rate; interest rates that are market determined and positive (but moderate) in real terms; competitive exchange rates; trade liberalization – replacement of quantitative restrictions with low and uniform tariffs; openness to foreign direct investment; privatization of state enterprises; deregulation and prudent oversight of financial institutions; and legal security for property rights.

- First changes in legislation framework (laws on private entrepreneurship, joint stock companies, etc.)
- Repeated devaluation of the currency
- Start of restitutions

1991

- Price liberalization as of January 1, 1991
- Internal convertibility for legal persons
- Foreign trade liberalization
- First auction of small privatization
- Establishment of the Consolidation Bank - transfer of 80% of bad debts to its balance sheet
- Compilation of a list of companies selected for privatization
- Public secondary security market opened
- Association agreement with the EC

1992

- The first wave of voucher privatization

1993

- The Czech Republic established
- Introduction of a new tax system
- Monetary separation from the Slovak Republic
- Prague stock exchange launched
- RM-System[3] launched (off-exchange security market)
- Essential changes in social security, health insurance systems

1994

- The second wave of voucher privatization

1996

- Submission of an application for EU accession
- Extension of exchange rate fluctuation band to 7.5%

1997

- Full convertibility

This successful period was followed by a period of growing imbalances (trade deficit of 16% GDP in 1996) with apparent deficiencies in structural reforms. During this period currency was attacked and government collapsed. A recession in 1998 revealed that the government still faced serious challenges in completing industrial restructuring, increasing transparency in capital market transactions, fully privatizing the banking sector, transforming the housing sector, reforming the health care system, and solving serious environmental problems. The importance of institutional changes was acknowledged.

Particularly on microeconomic level, economic troubles were caused by delays in enterprise restructuring and failure to develop a well-functioning capital market. These problems culminated in a currency crisis in 1997. The current account deficit exceeded 6% of GDP. This situation ended with introduction of two austerity packages later in the spring (called vernacularly "The Packages"), which cut government spending.

Another transition problem was too much direct and indirect government influence on the privatized economy. The government established a restructuring agency in 1999 and launched a revitalization program to spur the sale of shares in state companies to foreign companies. Key priorities included accelerating legislative convergence with EU measures, restructuring enterprises, and privatizing banks and utilities. The economy, fuelled by increased export growth and investment, was expected to recover in 2000.

The period since 2000 can be characterized again by robust growth (2005 and 2006 were the best years in several decades with 6% growth), low inflation, unemployment slightly increased to about 10% (now more subdued below 8% due to sound growth of economy) and entry into EU in 2004 (a major plus for the economy). However, many structural and institutional reforms impeding growth remain to be completed, particularly reforms of health care systems and pensions, labor market flexibility, judicial efficiency, institutional and political accountability or corruption.

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[3] RM means abbreviation for "Registracni misto" (Registration point) - traditional name stemming from the period of Czech privatization

1.2. Experience from privatization

It was often argued that voucher privatization was necessary because of the lack of cash. The no-cash argument stated that the free or almost-free distribution of vouchers was necessary since the citizens had no cash to buy shares.

Furthermore, in Czechoslovakia, a number of experts preferred fast privatization. The need of fast privatization processes was often promoted as the main criterion for progress of transformation processes. The argumentation followed a line of a need of fast dominance of private sector in transition economies. It was believed that slow privatization could make a free space for active participation of representatives of previous communist regime. Finally, this partly happened.

Following facts characterize the Czech way of privatization:

- The heritage of the Czech fast mass voucher privatization was a bunch of residual shares of a wide range of companies, which remained in state hands for a long time. The residual state property was in the second half of 90´s rather extensive; according to the National Property Fund (institution founded especially to take care about the state property) the state held various share in more than 350 companies.
- Another anomaly was the fact that during the mass privatization representatives of old communist nomenclature belonged to first wave of very active privatizators.
- Problem of effective control of privatization process went along with all types of privatization politics in transition economies.

Moreover, the following deficiencies impeded smooth progress in privatization process:

- Weak microeconomic bases of companies, especially on weak performance of firms that had entered voucher privatization;
- Underdevelopment of bankruptcy procedures resulting from postponement of the Act on Bankruptcy from 1991;
- Following section should summarize difficulties of the Czech privatization way with possible lesson for Moldovan process;
- Weakened financial sector determined by incautious credit and warrant policy of the state banks and their subsequent slow privatization;
- Underdeveloped capital market with no proper basic rules and enforcement;
- Inadequate institutional support of privatization process resulted in unequal conditions for the participants.

Czech privatization can be divided into "small" and "big" privatization. Small privatization concerned small and middle enterprises and its main form was a sale via auctions. During the privatization of large enterprises, besides direct sale to foreign investors or public auctions/TENDERS, voucher privatization was used. Within the framework of two waves of large privatization a large part of state property was transferred to hands of voucher holders. As a consequence of this form of privatization the property rights were split among large number of owners. However, more than two-thirds of these citizens were unfamiliar with private investment and entrusted their vouchers to newly created investment funds that grew to over 600 during the process[4]. The most powerful investment funds were subsidiaries of state-influenced banks.

Unlike investment firms in Western Europe and North America, these investment funds had immense authority within the individual companies in which they invested. They frequently had representatives on the board of directors as in the West, but they went a step further by making more day-to-day decisions creating a highly distorted corporate structure. Interestingly, in those companies in which rising debts rather than profits were occurring, funds tended to take a less active role. This phenomenon was

[4] Kouba, K., Roberts, J., Vychodil, O. (2005)

attributed to the investment funds owners' (banks) other interests. Due to the fact that the banks had extended often large credits to the very same companies at that time in control by their investment fund subsidiaries, they were extremely hesitant for the funds to engage in dramatic downsizing, restructuring or to initiate bankruptcies because of the risk of loan defaults.

Furthermore, the banks, which owned privatization funds, had an inherent interest in those companies who could default on the bank's loans. Therefore, the bank's indirect ownership of these companies served as a way to protect themselves from loan defaults.

Therefore, the investment funds owned by banks did not restructure or declare bankruptcy when they were also the primary lenders. While there was little debate that several newly "privatized" companies should either be drastically restructured or dissolved altogether, the number of bankruptcies had been minimal. Thus, there was a serious systemic problem in the Czech Republic with regard to its lack of transparency in the market-place.

While number of state-owned banks had not been privatized until 1999-2000, their managers were facing conflicts of interests: they were about to follow banking prudential rules. At the same time they had to respect the interests of its majority shareholder (i.e. state) lying often in lending to inefficient companies in order to avoid unemployment that resulted in bad debts[5].

1.3. Advancing the foreign trade

The Czech Republic is highly integrated into the world economy. Foreign trade thus plays a crucial role in economic development of the country. Since 1989, the geographic distribution of merchandise trade has continued to shift towards western Europe, reflecting the Czech Republic's (Czechoslovak) continuing integration with western Europe. Exports and a surge in foreign direct investment were the main factors that led the Czech economy to a recovery from the 1997-99 recession, causing GDP grow by 3.6% in 2000. In addressing the recession, it is believed that the Czech government took significant steps to enhance the economic climate, both through domestic reform and by further trade and investment liberalization.

Character of the Czech foreign trade is shaped by the following facts:

- The Czech Republic is a member of a number of international organizations. In view of its involvement in global economic relations, and of the development of the national economy including trade, of greatest importance for the Czech Republic is its membership in the EU, WTO, OECD, ECE[6] and UNCTAD. From the point of view of the external economic relations, the trade policy of the CR has so far been based on membership of these international organizations and on multilateral as well as bilateral trade agreements (*see box 4).*
- As of May 1, 2004 the Czech Republic had to adopt EU common trade policy and the whole acquis communitaire. Therefore it is fully bound by bilateral and multilateral trade agreements concluded between the EU and other partners, including preferential agreements, and the obligations ensuing from them. The adoption of the EU common trade policy does not deprive the CR of its own trade interests, but these are asserted and coordinated within the framework of the trade interests of the 27 EU members.
- Currently the EU indicates October 2007 as a reference date for enlargement Schengen area. The Czech Republic declared its readiness to join Schengen area as of this date.

Box 2: The Czech Republic´s priorities for future

In the future, the Czech Republic will regard progress in negotiations on the liberalization in agriculture and on the reform process as decisive. The CR strives to take a constructive approach in negotiations on domestic supports which harm trade, on export subsidies, and on market access, which would appropriately reflect non-trade concerns as an integral part of negotiations on agriculture, and which

[5] Mejstřík et al. (2004), (1997)

[6] Economic Commission for Europe

would include special treatment for the developing countries. Modalities for negotiations must provide sufficient flexibility for taking into consideration different forms of agriculture and specific interests and needs of the WTO members. From the point of view of the CR, the important base for negotiations are the reformed EU common agricultural policy, the increase in the competitiveness of domestic agriculture, the development of rural areas, and respect for environmental and quality standards, all with the objective of trade liberalization and support of sustainable development.

Another priority of the Czech Republic is improving market access of non-agricultural products. In the negotiations on tariff and non-tariff barriers, the CR supports the participation of all WTO members without exception in the liberalization process, which will include all trade sectors. It also supports preferential treatment for the least developed countries by the developed members. The CR seeks a reduction in bound and applied tariffs, a resolution of the problem of tariff peaks and non-tariff barriers which prevent access to foreign markets for Czech entities, and the elimination of the most striking differences among the customs levels of the WTO members.

In the negotiations on trade services, the Czech Republic is interested in the widest opening of foreign markets with the preservation of national protection for the sector of public services, and completion of negotiations on the rules of domestic regulation.

(*Source: Štěrbová, L., Jeníková, M. (2003*))

Several institutions have been operating in the Czech Republic to give helping hand to Czech exporters. Among the most important ones one could name CzechTrade, CzechInvest, Economic Chamber of Commerce Confederation of Industry of the Czech Republic Association for Foreign Investments, International Chamber of Commerce, furthermore Czech Export Bank or Export Guarantee and Insurance Corporation. For more details see Annex 1.

Besides export supporting institutions there exists diversified range of instruments enabling Czech companies their presentation abroad, facilitate their access to financial means or simplify the best match of both partners.

At first, providers of electronic trade opportunities must be mentioned. Some Internet projects were developed as specialized in a way focused on quality rather than quantity. Particular projects and their details can be found in Annex 1.

Furthermore, company information on approximately 1,200,000 companies and individual entrepreneurs is provided in several company registers; partially free of charge business directories and databases and charged business directories or databases. The most known are ARES (Access to Registers of Economic Subjects) integrating data and links of all source registers (Commercial Register, Trade and Craft Register, Register of Economic Entities, Excise Duty and VAT payers, Securities Center), electronic version of the Business Registry provided by the Ministry of Justice (unfortunately available only in Czech), the Trade and Craft Register (also only in Czech language), Inform Net database, Czech Exporters database (the directory of the Czech exporters), Kompass, EDB - European Databank database or Quality System Certification (Database of Certified Companies awarded ISO 9000, ISO 14000, QS 9000, VDA 6, CSN 732601[7].

The Czech Republic belongs to the group of countries where exhibiting has long tradition. Number of trade fairs where Czech companies as well as foreign ones has been present is significant from the global point of view as well. In 2005, 227 trade fairs and exhibitions organized by 41 companies were held on the total exhibition area of almost 1 mil. sq m. Presentations of 32,289 exhibiting subjects attracted more than 3,150,000 visitors. Major Exhibition Grounds in the Czech Republic are Brno Fairgrounds, Prague Exhibition Grounds, PVA - Prague, Flora Olomouc or České Budějovice Exhibition Grounds. Up-to-date information and terms can be obtained on website www.veletrhyavystavy.cz.

At second, export activity is being supported by the Czech Export Bank. It is a specialized banking institution (directly and indirectly fully state-owned) set up in 1995 to financially support exports through provision and financing of export credits and other services connected with exports. CEB thus

[7] For links to these databases see Annex 1.

supplements the services offered by the domestic banking system by financing export operations that require long-term financing at interest rates and in volumes that are not available to exporters on the banking market under the current conditions. This allows Czech exporters to compete on international markets under conditions comparable to those enjoyed by their main foreign competitors. The recipient of supported financing may be a Czech exporter or its foreign customer. A manufacturer producing for export or a Czech entity investing abroad may also receive some types of credits. The exporter's domestic bank or the importer's abroad bank may also be involved in these transactions.

Alongside the CEB, the Export Guarantee and Insurance Corporation (EGAP) was founded in June 1992 as a state-owned export credit insurance agency, insuring credits connected with exports of goods and services from the Czech Republic against political and commercial risks. EGAP, now part of the state export support program, provides insurance services to all exporters of Czech goods irrespective of their size, legal form and volume of insured exports. In addition, they provide insurance of domestic receivables. Insuring copes with political risks and a combination of political and non-marketable commercial risks. In addition to insurance of export supplier and buyer credits against commercial and political risks, EGAP also provides insurance of credits for pre-export financing of production for export, insurance of Czech companies' investments in foreign countries and also insurance of bonds issued by banks on behalf of Czech exporters for preparation and realization of export contracts. A daughter company of EGAP, the Commercial Credit Insurance Company EGAP, provides insurance against short-term commercial risks, i.e. the risk of non-payment resulting from insolvency or protracted default of a foreign or domestic buyer.

These were the main steps and measures the Czech government adopted to advance the Czech foreign trade. The financial forms of support provided by several state institutions and agencies are in most cases designed for the Czech exporting side. From this point of view they can serve as a good or bad example for Moldova either to follow or to learn from pros and cons of the established system. The same can be stated about the promoting activities, which can be actively used even by the Moldovan private sphere when looking for trading partners as they are often operated in English besides the Czech language. Herein one big advantage for the Czech-Moldovan bilateral trade must be emphasized and that is a possibility to use the Russian language as a communication language, as it is spoken by majority of Moldovan and Czech population since in the Czech Republic it was the second language taught at schools before 1989.

Since business environment plays crucial role for country´s foreign trade, it is worth noting at the end that there are no significant barriers to start-up a business activity in the Czech Republic. The right of every individual to transact business and to carry out other commercial activities, and the right to own property is stipulated in Article 26 of the Charter of Fundamental Rights and Freedoms, which is a part of the Czech Constitution. The conditions and limitations for carrying out certain activities may be determined exclusively by law. A basic public law regulating the basic relationships between entrepreneurs and the state and the basic conditions for commercial activities in the majority of entrepreneurial activities of legal and physical entities is Act No. 455/1991 Coll., on business activities (Small Business Act) as amended. Pursuant to this act, a foreigner intending to pursue a business activity (trade) in the Czech Republic is authorized to pursue such activity only upon a duly issued trade license.

1.4. Attracting FDI: key features of an enabling investment climate

The Czech Republic is one of the most successful transition economies in attracting foreign direct investment. The introduction of investment incentives in 1998 has stimulated a massive inflow of FDI into both green-field and brown-field projects and since 1993 more than EUR 46 bn in FDI has been recorded (for development see Table 1). The privatization of few remaining government stakes in state-owned enterprises is expected to further attract significant amounts of FDI and the major inflow of green-field projects is expected to continue.

Table 1: FDI indicators in the Czech Republic (2000 – 2005)

	2000	2001	2002	2003	2004	2005
Annual FDI inflow (mil. EUR)	5,404	6,296	9,012	1,863	4,007	9,374

Reinvested earnings (mil. EUR)	1,035	1,695	2,088	1,912	2,375	2,624
Annual FDI inflow per capita (EUR)	526	616	883	183	393	914
Accumulated FDI stock (mil. EUR)	23,323	30,717	36,884	35,852	42,035	51,424
Accumulated FDI stock per cap. (EUR)	2,270	3,004	3,616	3,514	4,118	5,017

Note: Data on reinvested earnings and other capital have been included into FDI flows.

Source: Czech National Bank

To summarize some important facts, foreign owned companies employ approximately 37% of the workforce in industry, produce 52% of industry sales and generate 60% of total Czech exports[8].

The largest share in foreign investment belongs to financial intermediation and insurance sector (16.5%), followed by wholesale and retail trade and repair, investment in real estate and business services. As regards the sectors of the economy, services account for 50% of the total inflow of FDI, while manufacturing has a 40% share. Of the other sectors, electricity, gas and water supply also have a significant share, accounting for almost 7% of FDI in the Czech economy.

The largest share of FDI inflows comes from the Netherlands (33%)[9], followed by Germany (20%) and Austria (11%). The eight largest investors also include France, the United States, Belgium, the United Kingdom and Switzerland. EU countries account for 88% of the inflow of investment into the Czech Republic, with the "old" EU countries representing a full 85%. Non-European countries account for a mere 8% of the volume of direct investment in the Czech Republic.

Foreign investors have a dominant influence in the majority of companies. Of the total number of about 3,900 foreign-owned companies, more than 73% are wholly owned by foreign investors and in 20% the share of foreign capital exceeds 50% of registered capital.

Trends in indicators characterizing the performance of foreign-owned Czech companies in 2004 (sales, number of employees, value added and exports and imports of goods and services) are positive. The same can be stated about the balance of trade of foreign-owned companies as well[10]. Further indicators to allow for comparison of performance of private domestic and foreign controlled companies are shown in Table 2.

Table 2: Position of foreign and domestic controlled companies within the corporate sector

	2000	2001	2002	2003	2004	2005
Domestic private						
ROA	0.6%	1.6%	2.7%	2.9%	5.2%	0.6%
ROE	1.5%	3.2%	5.4%	5.9%	9.9%	1.5%
Value Added/Assets	25.0%	25.4%	25.5%	26.7%	27.8%	25.0%
Equity/Assets	42.8%	48.2%	50.7%	49.4%	52.6%	42.8%
Foreign controlled						
ROA	4.1%	4.0%	4.5%	5.7%	6.5%	4.1%
ROE	11.0%	10.6%	10.9%	12.9%	14.4%	11.0%
Value Added/Assets	26.8%	28.0%	27.9%	27.9%	29.2%	26.8%
Equity/Assets	37.4%	38.1%	40.8%	44.0%	45.3%	37.4%

Source: Ministry of Industry and Trade of the Czech Republic

With respect to the comparison of share of takeovers vs. green-field investments, two periods can be distinguished in the Czech Republic; the period prior to 1998 and the period after 1998. Prior to 1998, the take-over form of FDI prevailed, when the foreign investors acquired the existing large companies and

[8] Survey of the Czech Economy 2004, Ministry of Industry and Trade, 2005

[9] This percentage can be biased due to the fact that Netherlands is considered to be "a tax heaven" and foreign investors from the United States, Japan and other countries often invest in the Czech Republic through this country.

[10] The Czech National Bank Survey

there was a limited number of green field investments. After 1998, a significant increase in FDI was recorded not only due to the renewed privatization process, but also due to new green-field investments.

The involvement of foreign investors in the Czech Republic is facilitated by CzechInvest, the Investment and Business Development Agency. It is an agency of the Ministry of Industry and Trade. Established in 1992, it contributes to attracting foreign investment and developing domestic companies through its services and development programs. CzechInvest also promotes the Czech Republic abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing Structural Funds in the Czech Republic. Moreover, it is exclusively authorized to fill applications for investment incentives at the competent governing bodies and prepare draft offers to grant investment incentives. Its task is also to provide potential investors current data and information on business climate, investment environment and investment opportunities in the Czech Republic.

In the course of its existence, the agency has participated in more than 500 investment projects with a total value exceeding CZK 400 bn (more than USD 18 bn). These projects should gradually bring the Czech Republic more than 100 thousand of directly established jobs.

To further promote the investment and business environment of the Czech Republic CzechInvest together with the Association for Foreign Investment[11] established a joint project „Partnership to Support Foreign Direct Investment to the Czech Republic“. The project addresses all stable companies interested in supporting foreign direct investment and in taking part in improving the business climate in the CR with the aim to support the competitiveness of the Czech economy and to promote dialogue between foreign investors, state administration and Czech companies.

Public support programs are important constituents of the Czech investment environment. These include primarily a system of investment incentives for investment into the manufacturing sector, and a special program for the support of investment into technology centers and strategic services. The tax incentive has two forms. If a new company (legal entity) is established for the investment project, the new company is eligible for corporate tax relief for up to ten years. If the investment is made as an expansion or modernization project within an existing Czech company (legal entity), the company is eligible for partial tax relief for up to 10 years. The tax relief is terminated when the company has exceeded the maximum level of eligible state aid. Annex 1 shows the number of companies having received an investment incentive with total amounts.

The Czech Republic also offers other opportunities, such as support for the creation of new jobs in regions with high unemployment, help to foreign companies in their search for suitable domestic suppliers, and support for the development of industrial zones. The objective is to improve conditions for capital construction projects in the processing industry, strategic services and technology centers sector, mainly by regenerating old disused industrial zone, preparing new ones, and by constructing and restoring rented buildings.

Companies or projects that for some reason fail to meet the requirements of the Investment Incentives Act can use other forms of support available in the Czech Republic, such as the Operational Program Industry and Enterprise (OPPP), co-financed by EU Structural Funds, which offers subsidies to small and medium-sized enterprises of the manufacturing industry and related services especially for a variety of projects from the purchase of technologies to support for human resources development. Moreover, certain OPPP programs support the development of the business environment, science and research infrastructure, as well as provide support for the co-operation of entrepreneurs and universities, the establishment of clusters, etc.

As mentioned above, the Czech Republic has attracted many foreign investors over the last decade. The development and “maturing” of its economy is naturally reflected in the structure of incoming investment and change of system of incentives. In contrast to the 1990s when most investment went into manufacture, a trend towards more sophisticated activities is recently becoming increasingly evident.

[11] The Association for Foreign Investments represents a group of service companies with local experience that support the entry of foreign investors to the Czech Republic and offer a wide range of professional services to foreign investors entering the local market.

Besides research and development, foreign investment with high value added is currently being directed at strategic services (shared services, client support, software development, multi-language client centers, high-tech repair centers, software development centers, and expert solution centers). This shift in structure of recent foreign investment indicates that the Czech Republic is moving from quantity towards quality. Minimum equity threshold has been recently also reduced to allow viability of more small and medium size projects and domestic companies.

The Czech Republic tries to maintain favorable investment climate to support FDI. It is important that the country's economic policy has been consistent and predictable. A strong and independent central bank (the Czech National Bank) has maintained a high degree of currency stability since 1991.

Under Czech law foreign and domestic entities are treated identically in all areas, from protection of property rights to investment incentives. The government does not screen any foreign investment projects with the exception of those in the defense and banking sectors. Moreover, the country has signed a number of bilateral treaties, which support and protect foreign investments. The Czech Republic is a signatory to the Bern, Paris, and Universal Copyright Conventions, ensuring protection of all forms of intellectual property rights including patents, copyrights, trademarks, and semiconductor chip layout design. Trademark law and copyright law are compatible with EU directives. No limitations exist concerning the distribution and expatriation of profits by Czech subsidiaries to their foreign parent companies, other than the obligation of joint stock and limited liability companies to generate a mandatory reserve fund and pay withholding taxes. Since January 1, 2002, foreign companies with a registered branch office in the Czech Republic that are authorized to conduct business in the Czech Republic can acquire ownership title to most types of real estate in the Czech Republic, with the exception of agricultural land and forests. Other foreign legal entities and individuals often use a Czech legal entity (e.g. a limited liability company) as means of acquiring real estate in the Czech Republic. Legal entities founded under Czech law, even foreign-owned entities, and Czech individuals can purchase real estate without any restrictions. Since May 1, 2004, foreign individuals who are holders of the residency permit for citizens of some EU member state can acquire Czech real estate with some exceptions relating to agricultural land and forests.

Box 3: Conditions how to be good investment location:

- no restrictions on the level of investment or ownership
- a skilled and disciplined workforce
- high level of knowledge
- low labor costs
- good location of a country
- quality infrastructure
- the expansion of telecommunication networks and IT as a national priority
- good conditions for green-field investment, suitable industrial sites and buildings around the country that have a clear title, industrial zoning permission and a plan for delivery of infrastructure to the border of the site
- a program on the development of industrial zones
- a program of investment incentives
- existence of an investment promotion agency
- privatization projects in preparation

The data for 2006 show that a total of 176 investment projects that might in the future bring in investments of CZK 114 bn were announced. As part of the projects that received investment incentives, 34,824 jobs might be created in the future. Despite the fact, that this figure seems to be high, the sum of CZK 114 bn, that is expected to be raised through the investment incentives promised last year, accounts for only 14% of the overall volume of the last year's investments in the Czech economy (amounting to some CZK 780 bn). Therefore, the significance of investment incentives for the growth of the Czech economy should not be overestimated.

As well as in previous chapter there is also other side of the story - costs by which the Czech State, i.e. all taxpayers are burdened. This tax burden can hamper the performance of economy and increase immediate pressure on the state budget. Next fact is that the major part of investment in the Czech Republic flows into automobile industry, which can be criticized as too deep specialization. The influence of foreign capital on export and GDP structure is rather obvious. The effect on unemployment is not unambiguous too since investment incentive in one location can increase employment and growth at the expense of other location. Some experts claim that investment incentives bring employment in the relevant company, which is multiplied by subcontracted works and services, but do not solve unemployment, as they can cause only local shifts of labor force on the labor market[12]. The major part of investment incentives is granted to big multinational companies because of the minimal investment limit. This threshold is too high for SMEs. Therefore it seems that the program gives preferential treatment to above-mentioned big companies. It is therefore questionable whether the investment incentives cannot distort market environment.

1.5. Unleashing small- and medium-sized businesses

The main turning point with regards the development of SMEs and business environment was the year 1990, when after the Velvet revolution political and social conditions totally changed and consequences of these changes started to take effect in several different fields of economy. The development of SME sector can be divided into several periods. In post-revolution period there was a huge boom in this sector. Besides new small firms, small business units started to separate from their mother companies. The high growth of SMEs was supported by tax advantages, wage regulation in state companies, which caused a transition of well-paid activities in favor of private entrepreneurs, and a good access to credits. On the other side there were hidden problems, which caused serious troubles in subsequent period - lack of readiness of legislation, state administration, banking sector and also insufficient experience of entrepreneurs. The result was then a high number of not repaid and qualified loans, which were not secured by sufficient guarantees or were provided due to low knowledge and experience of bank employees. In 1991 the number of trade licenses issued increased from 380 thousands to almost 1,060 thousands. The fast development of this period started to slow down in 1992 when the problems came out and new legislation measures needed to be approved. The legislation developed quite fast and as the new amendments accumulated the first euphoria from new opportunities started to disappear. The growth rate of number of entrepreneurs was decreasing and since 1998 the number of entrepreneurs has stabilized.

The state "Concept of development of small and medium-sized enterprises for the period 2007 – 2013", which assesses position of SMEs in the Czech economy (see Table 3), confirms that the position of small and medium-sized enterprises in the past 7 years was relatively stable. In total, 3,751,000 trade licenses had been issued in the Czech Republic as of December 31, 2005. However, not all enterprises holding trade authorizations reported consistent activities pursued in order to make profit. According to figures from the Czech Statistical Office, there were 993,712 SMEs active in the Czech Republic as of December 31, 2005. Concerning foreign trade indicators, SMEs´ exports have been growing constantly since 1997 (an increase by 139%). The share of SMEs´ exports in total exports was 39.7% in 2005. In the same year, they accounted for 54.4% of total imports.

Table 3: SWOT matrix for SMEs according to the "Concept of development of small and medium-sized enterprises for the period 2007 – 2013", MIT

Strengths	Weaknesses
▪ Capability of the state to attract massive investments of large enterprises from abroad with positive impacts on the overall economic growth and the development of markets for SMEs. ▪ Tradition of industrial production and handicraft. ▪ Tradition of the vocational school system. ▪ Created system of tools for support of SMEs, existence of specialized institutions promoting enterprise. ▪ Geographic advantages of the territory of the state –	▪ Insufficient natural motivation for enterprise caused by the disruption of business traditions over the period of dozens of years. ▪ Complicated tax system ▪ Low effectiveness of law enforcement. ▪ Administratively demanding manner of setting up of new enterprises. ▪ Insufficiently developed system of specialized services

[12] This is valid mainly in case of insufficiency of particularly skilled workforce, which is difficult to substitute, when part of employees is drawn out to a new company.

availability of important markets, transit potential. ▪ Prerequisites for the development of an active tourism. ▪ Good telecommunication infrastructure. ▪ Relatively high level of qualifications and professional adaptability of the labor force. ▪ General advantages of SMEs (flexible response to the development in the market, knowledge of local markets). ▪ Adaptability of the labor force ▪ High level of the company owners‘ motivation (commitment) **Opportunities** ▪ Creation of long-term financial resources for educational and consulting services aimed at development of enterprise. ▪ Simplification of procedures for setting up of commercial (business) entities. ▪ Strengthening of creditors‘ rights and creation of conditions for constructive procedures for the solution of insolvency of both enterprises and individuals. ▪ Improvement of protection of intellectual property. ▪ Improvement of communication of entrepreneurs with the state administration using the ICT. ▪ Goal-directed promotion of entrepreneurship. ▪ Simplification of the taxation system. ▪ Introduction and development of the system of life-long education. ▪ Increased supply of the venture capital for the financing of innovation projects of small enterprises with a very limited history. ▪ Creation of new manners of effective implementation of tools of direct support for enterprises. ▪ Elimination of temporary administrative barriers to the penetration of the EU markets by local companies ▪ Extension of the scope of support for SMEs to certain so far unsupported activities. ▪ Penetration of new parts of the single European market. ▪ Development of trade with the countries of Eastern Europe and Asia, building on traditions of deliveries of investment and consumer goods to markets offering good prospects ▪ Increased co-operation of companies in common interest areas within purchasing, sales and cooperation networks and clusters. ▪ Introduction and use of common trade marks. ▪ More extensive use of support programs or EU funds. ▪ Development of R&D for the benefit of SMEs. ▪ Cooperation of SMEs with universities and research institutions.	(financial, trade, technical etc.) for micro enterprises and small enterprises. ▪ Insufficiently developed system of life-long (continuing) education of enterprises and their employees. ▪ Limited possibilities for the national economy to create a widely structured financial market. ▪ Administrative demands placed on the process of obtaining direct support for entrepreneurs. ▪ Insufficient interrelatedness of R&D and the commercial sphere. ▪ Absence of support tools for innovation projects of small firms with a very limited business history. ▪ Relatively generous social system with insufficient pressure on a particular part of the population to participate in the work process. ▪ Insufficient interrelatedness of employee professional and language skills and practical experience. ▪ Structure of supply of the labor force in terms of its qualifications and localization. ▪ Limited scope of experience and management skills, in particular in the area of management and marketing. ▪ Insufficient capital resources, in particular of small and medium-sized enterprises and self-employed natural persons. ▪ Outdated technical equipment of a part of the companies, outdated technology. ▪ Insufficient available free funds for the protection of intellectual property and industrial rights. ▪ Limited number of own trade marks, the absence of tradition of a trade mark for medium-sized enterprises. ▪ Outdated design. ▪ Poor orientation in opportunities of support for SMEs. ▪ High energy consumption of production. ▪ Prevailing production with low added value. ▪ Low productivity of labor by comparison with the EU average. ▪ Insufficient emphasis on human resources development. **Threats** ▪ Failure to harmonize procedures of the government and regions related to the focus of activities promoting enterprise. ▪ Unbalanced structure of direct and indirect tools promoting enterprise and priorities of the development of SMEs. ▪ Insufficient implementation capacity for the use of increased extent of resources from the Structural Funds. ▪ Insufficient support for investment activities of SMEs. ▪ Lack of labor force trained in technical and handicraft lines of business. ▪ Competition of large companies. ▪ Immigration of highly skilled employees. ▪ Continued trend towards technical and technological retardation

Source: The Ministry of Industry and Trade

National SME Support Programs valid as of 2007 includes following programs:

- Simplification of the market access to external financing for start-up projects and implementation of commercial projects by SMEs in the form of interest-free loan or preferential bank guarantee with or without a financial subsidy for the guaranteed credit
- Certification enabling to obtain ISO certification and facilitating the participation of SMEs in commercial and public tenders in the form of a subsidy towards certification or guarantees for proposals for public tenders
- Design targeted to support the integration of design into business strategies and assist enterprises in the selection of a suitable designer, to improve conditions for effective collaboration with entrepreneurs, to support the creation of original works and to promote high-quality design

- Development supporting the participation of SMEs in research and development projects within the EU´s 7th Framework Program for Research and Development provided in the form of subsidy for set activities
- Alliance aimed at improvement in the competitiveness of SMEs on foreign markets by applying international market activities to an alliance provided also as a subsidy for specified range of activities.

These programs are being approved by the government of the Czech Republic and by the Ministry of Industry and Trade (MIT).

Furthermore, the Ministry of Industry and Trade constantly and systematically seeks to develop business in the Czech Republic via Business Environment Development Council (RRPP), an interdepartmental advisory body. RRPP is the main platform for cooperation between businesses and state administration. The Council launched the 'Simplification of administrative procedure in the start-up and development of business' project. This project should enable business entities and enterprises to start up operations and make changes in their registration at trade licensing offices.

The Economic Chamber of the Czech Republic operates a project named "Information points for enterprises". The aim of this project is to set up a centrally managed, clearly defined network of information points within the regional and sector structure of the Economic Chamber that would be able to provide up-to-date information for SMEs. The implementation of the project comprised period 2003-2006. These points provide following services: information about business, information on the region, area, contacts to consulting institutions, governmental departments, information on enterprising conditions within the EU, Czech legislation for entrepreneurs, possibilities to receive funding under the SMEs support programs at national or regional level, and funding from the Structural Funds of the EU, range of available educational and training programs, consulting services, provision of individual consultations concerning EU issues, transmission of commercial offers and enquiries inland and abroad, information about products and services of CEI, CEBRE, EIC, Regional Advisory and Information Centres, Business Innovation Centres, CzechTrade, CMZRB (the Czech-Moravian guarantee and development bank) etc. Since nowadays the information points handled more than 40 thousand of enquiries, mainly about possibilities how to finance further development of enterprises and how to find relevant business contacts, how to interpret specific legislation etc.

The Czech Ministry of Regional Development provides support for instance within the frame of "Regional program in support of the development of industrial enterprises in the NUTS 2 territories of North-West and Moravia-Silesia, and other regions with intensive State aid" with the aim to foster conditions for the creation of new jobs by promoting business plans in selected regions with intensive State aid while respecting the maximum effectiveness and efficiency of financial expenditure.

For export support see chapter 1.3.

Support for SMEs is also provided through programs set up by some commercial banks. The support is provided in the form of a soft investment loan, for which a contribution is made to the payment of interest, in the form of venture capital and development capital investments, a current account with preferential interest rates for individual interest rate brackets and a simplified overdraft facility, micro loan and small loan for businesses (provided from the funds of the credit line granted by the European Bank for Reconstruction and Development in the form of investment and operating loans), comprehensive services associated with accession to the EU (information, assistance obtaining EU grants, project financing), a prompt and simplified loan for SMEs with reduced time of the approval process, low demands on collateral and the lower fee for the application evaluation etc.

Following accession to the EU, the Czech Republic can draw aid from the EU resources. The Multi-annual Program 2001-2005 is an instrument for activities aimed at enhancing the growth and competitiveness of business, especially SMEs. The MAP supports the Euro Info Centers network or the financial instruments and policy development. From 2007 many MAP activities has been continuing under the Competitiveness and Innovation framework Program (CIP). CIP roofs three specific programs within its framework: Entrepreneurship and Innovation Program (aiming at help enterprises to innovate by providing access to finance by sharing risks and reward with private equity investors and providing counter or co-guarantees to national guarantee schemes operated by EIF[13]), ICT Policy Support Program (stimulating the new converging markets for electronic networks, media content and digital technologies) and Intelligent Energy-Europe Program (encouraging wider uptake of new and renewable energies and improve energy efficiency).

Since SMEs do not need only financial assistance but also the expertise, there are over 25 Business Innovation Centers (BIC's), Science and Technology Parks and Business Incubators in the Czech Republic. The BIC founded by the Czech Technical University in Prague is one of the most important one[14]. Its mission is to initiate and to support the development of small and medium-sized innovative firms, and it participates in a range of national and international projects.

To conclude, in 2005, CZK 6.4 bn (USD 0.27 bn) was used in support of almost 8,000 SMEs. In 2005, business support also benefited from a significant contribution of CZK 757 mil. (USD 31.6 mil.) coming from EU funds, i.e. Phare and the Structural Funds, and CZK 1,398 mil. (USD 58.4 mil.) flowing from financial market resources. A certain portion of the support (31.2%) is returnable, i.e. these are not direct subsidies but soft loans. It can be stated that the implementation of the supported projects is beneficial to the national economy and to the reduction of unemployment in the Czech Republic.

[13] EIF´s (European Investment Fund) activity is centered upon two areas, venture capital and guarantees; EIF's venture capital instruments consist of equity investments in venture capital funds and business incubators that support SMEs, particularly those that are early stage and technology-oriented; EIF's guarantee instruments consist of providing guarantees to financial institutions that cover credits to SMEs.

[14] The Technology and Innovation Center of the Czech Technical University in Prague

2. Republic of Moldova learning from Czech experience of European integration

2.1. Czech Republic meeting basic EU integration criteria

After the fall of the communist regime in 1989, the Czech Republic set the entry into the EU as one of the main goals of foreign policy. The Czech Republic became the EU member state on May 1, 2004, along with other nine countries.

Table 4: History of the CR´s accession to the EU

1991	In December 1991, the Czech and Slovak Federal Republics reached an agreement regarding accession to the EU, the result of which was the intention to join the Union.
1993	On January 1, 1993, the two countries became independent and the Czech Republic and Slovak Republic had to enter and ratify the agreement again in 1993. In 1993, the European Committee held a meeting in Copenhagen and accepted the purported Copenhagen criteria. The conditions for new applicants for the EU membership were defined. For example, these criteria included the existence of a state of law, democracy and functioning market economy.
1995	The European Parliament approved the accession agreement in 1995, and it thus became valid.
1996	In Rome, the Czech Republic represented by Václav Klaus submitted an official application for entry to the EU.
1997	In July 1997, the European Commission agreed to talks of accession with the Czech Republic. The talks were opened with five other candidates. The document named Agenda 2000 was approved in the same year, EU budget for the period from 2000 to 2006 being a part of this document. The budget took into account the entry of the new countries. The European Commission highlighted the unsatisfactory conditions of the public administration, agriculture and power engineering in the Czech Republic at that time.
1998	The accession talks between the Czech Republic and the EU commenced in March 1998. Pavel Telička represented the Czech side. The first stage of the talks began in the same year, and focused on the assessment of the legal system and its compliance with acquis communautaire; so-called screening.
1999	The screening of all 31 chapters regarding the Czech legal system was completed.
2000	Additional screening took place. Three chapters of the screening were completed and 10 were completed in advance. Further 18 chapters remained open, which required quick rectification, or an interim agreement period.
2001	The Czech Republic applied for the interim period.
2002	In December 2002 during the European Union Summit in Copenhagen, accession talks were completed and all chapters closed. The date for the enlargement of the European Union was set for May 1, 2004.
2003	On April 16, 2003, in Athens, the agreement of the Czech Republic's accession to the European Union was signed. According to the Constitution of the Czech Republic, citizens had the right to express their opinion on EU entry. The president of the Czech Republic announced a referendum for June 13 and 14, 2003. 55.21 % of voters turned out for the referendum and 77.3 % voted in favor of the entry.
2004	On May 1, 2004, the Czech Republic became one of 10 new member states of the European Union.

The basis for the accession of the Czech Republic and other new Member States to EU was set by the Copenhagen criteria. Particularly, they required the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU. The main conditions according to which the progress towards Copenhagen criteria was assessed were following:

- demand-supply equilibrium achieved through free competition of market forces;
- full liberalization of prices and trade flows;
- the existence of a developed financial sector without any obstacles to market entry and exit;
- enforceability of law, including ownership rights;
- macroeconomic stability, including price stability, sustainable public finances and sustainable international financial accounts;
- a broad consensus on the principles of economic policy or a sufficiently developed financial sector capable of channeling savings into productive investment.

After the accession these criteria were replaced by indicators set in Maastricht aimed at country's preparation for euro area entry.

In order to become the EU member, the Czech Republic had also to accept the common policies of the EU, as well as partially to coordinate its own policies before its accession to the EU. It devoted considerable effort to implement all directives, which the EC issued. European law regulates mainly the free movement of goods, services, capital and payments and competition policy. Therefore the most important change was to adopt the European law system, which was valid in all member countries, besides the national legislation while having in all aspects priority to the national law. Transformation and reforms, to which candidate countries bounded themselves, were importantly supported by PHARE program, representing substantial financial sources for CEE countries. This aid was established as a consequence of situation, when euphoria of western European politicians was replaced by fear of possible threat for already achieved results of integration and discussion between advocates of widening or deepening came back to life[15]. A series of laws and law amendments had to be effected by May 1, 2004, the most important ones are mentioned in the Annex 1.

Concerning the trade relations the Czech Republic had to adopt the measures of other EU member countries within the frame of common trade policy, i.e. common customs policy, so that the Czech Republic applied similar duties to non-member countries even if contracted terms were different and in some cases more advantageous for the Czech Republic. This concerned China, some Asian countries and other.

Hereto it is worth mentioning the situation in agriculture sector between and after accession, since this issue is of high relevance for Moldova. This situation was determined mainly by the conditions negotiated during the accession negotiations. EU offered to new members a transition period for direct payments tied with agricultural production, which have the largest share in the production subsidization. Besides, a system of up-evening payments TOP-UP was set. Within this system new members can even up direct payments at most by 30% (of the old member states level) above what they are entitled to and consequently cannot overreach 100% of older members´ entitlement in some sectors.

Table 5: Transition period for direct payments for EU-10

Year	Direct payments from EU budget as a share of EU-15 direct payments (%)	Up-evening payments from own resources (%)
2004	25	30

[15] Among examples of measures, which were the most difficult to enact, standards for agriculture, intellectual property trademarks and denomination of origin in the EU, technical and construction standards for public buildings or standards of reporting for EUROSTAT can be mentioned. The newest information concerning this issue are the first European Court of Justice Decisions against the CR (C-203/06, C-204/06) on freedom of establishment.

2005	30	30
2006	35	30
2007	40	30
2008	50	30
2009	60	30
2010	70	30
2011	80	20
2012	90	10
2013	100	0

Source: Accession Agreement of the Czech Republic to the EU

Generally, it can be said that the production quotas were set at level of production before accession (see Annex 1). Therefore, it can be stated that the transition of the Czech agricultural system to Common Agricultural Policy (CAP) including consequences of its reform in 2003 meant a problem mainly due to characteristics and specifics of the Czech agricultural sector, which were shaped during pre-revolution era and reformed during transformation. Collectivization brought about such a sector structure, in which big producers dominated small family farms. Subsequent industrialization and modernization led to higher efficiency and competitiveness. These facts indicate that agricultural producers tended to follow often a direction counteracting the new CAP trend towards preference of non-production function of agriculture and payments for termination of production. Within the EU framework, agricultural production must reflect the importance of production costs, ability to abide with legislative parameters and a fact that it enters managed competition not only on internal market of other 24 members but also in export.

2.2. Negotiations with the EU and impacts of the entry to the EU

The main expected impacts from accession to the EU were higher competition pressures on domestic markets, easier access to EU markets, stronger negotiation position towards partners from third countries, more transparent domestic entrepreneurial environment and higher inflow of FDI. The opportunities, which the Czech Republic benefited from, stemmed form easier communication with EU companies, easier technical equipments approval proceedings and their introduction on the Czech market, possibility to attract new customers, easier transfer of western companies' production and other activities to the Czech Republic. Following threats were perceived: outflow of qualified labor force to western member states, higher inflow of foreign goods since the companies were not forced to have some larger base in the Czech Republic to supply their goods on the Czech market (own employees, logistic infrastructure etc.).

One of the most important aspects of the Czech membership in EU is the possibility to draw aid from the Structural Funds. During the pre-accession period support programs (Phare, ISPA, SAPARD) played the most important role in environmental investments. After the entry of the Czech Republic to the EU access to other forms of financing was introduced:

- Pre-accession aid - until the end of started projects
- Financial resources directly at disposal, administrated by authorities in Brussels, with application submitted directly to Brussels (environment and energy, innovation and R&D, education, healthcare and security)
- Structural Funds and Cohesion Fund
- Indirect support - via financial institutions (EIF - venture capital, guarantees, EIB, EBRD)
- Other forms of aid - non-financial, external cooperation

Implementation of "Operational programs" mentioned in the chapter 1.5 falls within the frame of Structural Funds.

According to the latest proposal of the European budget for 2007–13, the Czech Republic could receive the net income of CZK 93 billion annually. Similarly to other new member states, the Czech Republic is likely to face problems with acquiring the finances, because the knowledge regarding finance distribution is not sufficient.

Microeconomic impacts of Czech membership in EU mentioned above obviously brought about macroeconomic consequences. The first one was an undisputable improvement in economic and social environment due to the adoption of European law. Membership also means a stability of international position of the Czech Republic. Next advantage is that the Czech producers are able to use brand "Made in EU", which can make a way of Czech products and services to European markets easier. This can be supported by current gradual increase in work productivity and improvement in trade balance. EU membership can strengthen FDI inflows given the exit of speculative foreign investors, as well because the investment risk decreased as the Czech Republic became a part of EU market. Substantial macroeconomic impact of EU membership can be seen in the tendency of rising price level and its gradual convergence to the EU level. Generally, this can be achieved in two ways - by allowing higher rate of inflation or admitting nominal appreciation of the CZK/EUR exchange rate. In both cases there is a danger that the productivity growth will not be able to sufficiently compensate decrease of competitiveness.

Integration into the EU is the basis for the convergence of the Czech economy towards the advanced market economies, especially those of the Western European countries, and the creation of conditions for further growth of the integrated economies. The conditions are based on the fundamental principles of the EU: free movement of persons, goods, services and capital and the prospect of a single currency. Indicators of convergence are important for the integrated entity since the closer the developments of individual members are, the better absorption of external shock and better reaction to imposed economic measures in case of adoption of single currency - euro. In other words a higher level of such convergence fosters greater similarity of long-run equilibrium development, which decreases the likelihood of cyclical misalignment. Furthermore, higher degree of convergence prior to ERM II entry and euro adoption decreases the potential future pressures for the price level growth and equilibrium appreciation of the real exchange rate.

The Czech economy's strong trade and ownership links with the euro area are the principal argument for euro adoption, as they increase the potential benefits arising from the elimination of potential fluctuations in the exchange rate. To be admitted to accept euro currency the Czech Republic has to fulfill the so-called Maastricht criteria[16] indicating the level of country's nominal convergence. At present, the Czech Republic is compliant with the criterion on price stability, with the long-term interest rate criterion, with the exchange rate criterion and conditions imposed on the level of government debt, as well. However, the current settings of the Czech Republic's public finance parameters prevent it from satisfying the government deficit criterion in a sustainable manner. This issue is closely tied with for a long time postponed pension reform and modification of rather generous system of social benefits.

In general, the obligation to accept euro currency can be understood as one of the most important impacts of the CR´s entry to the EU. This process will have two stages - joining ERM II depending on the Czech Republic's ability to comply with the requirements of this system and subsequent euro adoption after a period of intensive technical preparations. A commitment to adopt the single currency in the future was one of the conditions for the Czech Republic's accession to the EU. The date of adoption rests on the degree of economic convergence (fulfillment of the Maastricht criteria) as well as the compatibility of national legislation with EU legislation.

[16] In summary: 1) Inflation rate (No more than 1.5% higher than the 3 best-performing member states of the EU (based on inflation); 2) Government finance (the ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding fiscal year); 3) Government debt (the ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year); 4) Exchange rate (applicant countries should have joined the ERM II under the EMS for 2 consecutive years and should not have devaluated its currency during the period); 5) Long-term interest rates (the nominal long-term interest rate must not be more than 2% higher than the 3 best-performing member states (based on inflation)).

2.3. Czech view on further European construction and Czech support to Moldova's European integration

At the beginning let us summarize the basic facts relevant to the current status of enlargement discussion between the EU member states, which can a bit clarify the EU attitude.

With regards to next enlargement the EU often uses the term of "absorption capacity", i.e. the ability to accept a new member into the EU structure. However, it is not quite easy to determine what this "absorption capacity" means since there is no exact definition of this phrase. The only definition is included in strategic document of the EC on enlargement from November 2005. This document states that the speed of enlargement must reflect the absorption capacity of the EU and the EU must ensure that it will maintain the ability to act and decide within fair and well-balanced relations between its institutions, will respect its budget limits and realize common policies, which perform well and achieve set targets.

Other difficulty stems from the fact that different members states have different opinion on which country to accept and which not. In general, the countries are polarized between two groups: UK, Scandinavian countries and some new members from CEE on one side, which principally do not want to impede next enlargement and allow entry to whoever applies; and France, Germany and Austria on the other side proclaiming that Europe should have its borders and there exist psychological, cultural, economic and political limits which are necessary to be respected. Other member states oscillate between these two poles.

Generally, it can be said that the Czech Republic has positive attitude towards further enlargement and this attitude is approved through the whole political spectrum even if each political party has different reasons why to support this view. A common general feeling is that the Czech Republic and the EU should have positive stand towards all countries, which want to become members and that EU should defend European strategic interests rather than social achievements. However, the problem of the Czech Republic is that it has not yet precisely defined its relations with the EU and with foreign countries, as well. Support of further enlargement exists, although it is very superficial, since CR does not exactly know yet what it wants to achieve.

Nevertheless, the assessment of the CR´s attitude to further enlargement can be based upon following basic interests of the Czech Republic, i.e. interests of foreign policy, security and economical interests.

The Czech Republic is not currently a neighbor of any non-member country, which is rather special and advantageous position although a bit problematic in light of determining its interests. Therefore it is more difficult to identify preferred geopolitical regions for the Czech Republic than for other member states, which have relatively well-pronounced opinion how the future EU should look like since it is in their interest to have accepted their non-member neighbor and not to be a state with EU external borders. For Hungary and Slovenia it is Croatia and states of former Yugoslavia, for Poland it is Turkey since after Turkey Ukraine would follow, for Baltic states it is stabilization of their eastern space and clear-cut attitude towards Russia. The more integrated EU, the better negotiation position of the EU towards Russia.

But what is more obvious is that the Czech Republic should support access of small countries since one of the priorities of the Czech foreign policy is to strengthen its own membership in the EU. Small states can stand out as potential coalition allies when approving new proposal on institutional structure of the EU.

Concerning its security interests there would be reasonable explanation if the Czech Republic supported the entry of states, which are members of NATO.

The last and rather crucial issue is the economic side of the story. On the one side the Czech Republic will try to maintain its relative status among poorer member states to remain in a position of net receiver of financial resources. Its concern would also be to avoid inflow of cheap and qualified working force from potential new member countries. In the past the majority of EU 15 countries did not open labor market for the new members, which puts the Czech Republic as one of the formerly restricted countries in a position to rather decline the introduction of protective measures for future new EU member states.. On the other side, the Czech Republic has to acknowledge the fact that it will not receive net positive payments from the EU forever. Accession of poorer countries would obviously enhance pressure on reform of financially demanding areas as CAP or regional policy. In case that these fields were not reformed the EU budget would be threatened by enormous burden. This situation has already happened during 2004 enlargement when this problem was solved by setting of transition period for direct payments within the CAP framework (see chapter 2.1). The last but certainly not the least important benefit from EU enlargement is potentially high increase in foreign trade after removing all barriers within the single market and access to new developing markets.

To conclude, how the European structure will look like in future depends on several factors as the number of accessing countries, their economic performance, date of enlargement, terms of accession (transition periods etc.), present level of bilateral relations, security risks, threat to functioning of EU mechanisms or a process of further integration. The Czech Republic will participate in this process as one of full members that can influence it and within which frame it can defend its interests. This will be supported by the Czech presidency of the EU shared with Sweden and France. The Czech Republic will be the second presidency state from the new member states, after Slovenia. The Czech Republic should become a presidency state in the first half of 2009. The active enlargement policy is in the Czech Republic interest, supported by public opinion since 64% of Czech citizens consider enlargement as a positive step (Special Eurobarometer 251).

3. Moldova in transition: mixed progress, tall order ahead

The transition process in Moldova has been very complex, contradictory and protracted. Started in 1991, since Moldova's independence proclamation, at least four transitional aspects have been closely intertwined: statehood, political, economic and socio-economic.[17] We believe that at least three other transitions should be added: cultural, geopolitical and demographic transitions. Broadly speaking, transition process in Moldova can be divided into two main periods: early transition (1991-1999) and late transition (2000- present).

3.1. Early transition: state-building and economic reforms.

Early transition was marked by steep economic decline and "muddling through" reform process, political turmoil, short but bloody conflict with the separatist Transnistria region in 1992 and soaring poverty. Although serious progress was made in statehood affirmation, such as joining UN and other international organizations as a distinct state entity, adoption of the Moldovan leu as national currency (1993) and passing the first-since-independence Constitution (1994), the successes on the ground level were rather modest. Difficult initial conditions, such as deep integration in the Soviet production structures, high dependence on energy subsidies from the Soviet Union's center and over-reliance on agriculture[18] were compounded by uneven reform process.[19]

Being ranked a "star reformer" in the first couple of years when prices, exchange rate and trade were swiftly liberalized, Moldova ended up as "reform laggard" as privatization and structural reform efforts were mostly botched.

The case of privatization process is quite eloquent in this respect. Law on Privatization adopted by the Parliament in 1991 laid the groundwork for this process. The law envisaged three ways for the state property to be privatized: the Mass Privatization Program (MPP), the management/employee buy-out and the selling to strategic investors. However, privatization started only at the end of 1993. The Mass Privatization Program was based mainly on the Czech model with issuance of vouchers (National Patrimonial Bonds) and establishment of Investments Trusts (IT) with all the failures characteristic to this model, i.e. lack of real owner and transparency of ITs, etc. Many citizens preferred to invest their bonds in their apartment, which proved to be a much safer bet. Another privatization procedure, selling to strategic investor, was often marred by suspicions of corruption and public scandals. Moreover, by the end of the decade privatization process all but stalled.

Moldovan enterprises and goods remained highly uncompetitive and exaggeratedly oriented towards CIS markets with 60% of exports directed to Russia. All this left the Moldovan economy totally unprepared for the next wave of exogenous shock in the wake of Russian financial crisis in 1998. By 1999 the adverse impact of the Russian crisis was wide-spread. The economy was suffering fully-blown crisis as nascent recovery of 1997 was reversed, output contracted again, national currency depreciated and many more people were left unemployed.

Thus, in 1991-99 Moldova experienced enormous economic decline: the industrial output has collapsed to only 34% and the agricultural output to 50% of the 1990 level. [20] In 1999 the GDP was only 33% of the level of 1989, and the real wage fell to one half. In 1999 about 73% of the population was living below national poverty line.[21] Along with poverty, the income inequality increased enormously. The Gini coefficient of earnings distribution slipped from 0.250 in 1989 to 0.441 in 1999 being quite high even for a transition economy.

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[17] See more in Weeks and others, 2005.

[18] The break-up of the Soviet Union business, trade and budgetary ties actually represented the first wave of the exogenous shocks from the "East" followed by the second and third waves in 1998 and 2006, respectively.

[19] International Development Association, Country Assistance Strategy, 2004.

[20] GRoM, 2004;

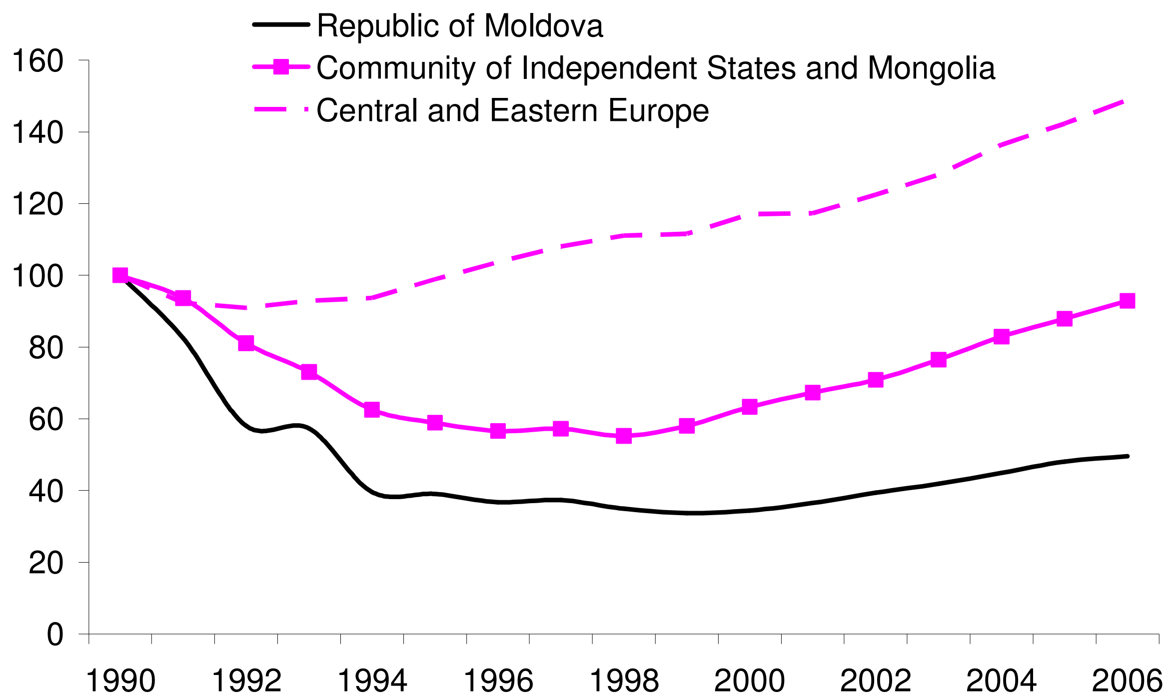
[21] PPMU, 2002, a)

To sum up, the early transition was a very hard period for Moldova. Along with independence, very serious tasks came, e.g. to reform and modernize economic and state institutions, offer a strategic vision for nation's development and ensure decent life for the country's disgruntled citizens. Unfortunately, national elites were not always ready to find solutions to these issues and the prospects were lackluster.

3.2. Late transition: growth, poverty and migration

In 1990s Moldova suffered one of the most protracted and deep economic recessions (see Figure 1). Apparently, Moldova's fortunes reversed in 2000. Since then the country has firmly been on the growth track, growing 5.9% on average in 2000-2006, while GDP per capita reached 1993 levels by 2004. The economic growth was chiefly supported by sound macroeconomic policies, favorable external environment and burgeoning internal demand.

Figure 1: GDP growth in a regional prospective, 1990=100%



By 2004 poverty rate declined to 26.5% however, according to official estimates it increased to 31% in 2005. Inequality receded slightly: in 2000–2004, the Gini coefficient has decreased from 0.38 to 0.36.[22] Real wages, government transfers and remittances are considered main engines behind poverty reduction in Moldova in 2001-2004. And all of them grew throughout the period. For instance, real wages anything but doubled in 2005 in comparison with 2000, growing 10% on average throughout this period. Reforms in health and education sectors accompanied by stronger social public expenditure ushered recovery in population access to basic social services.

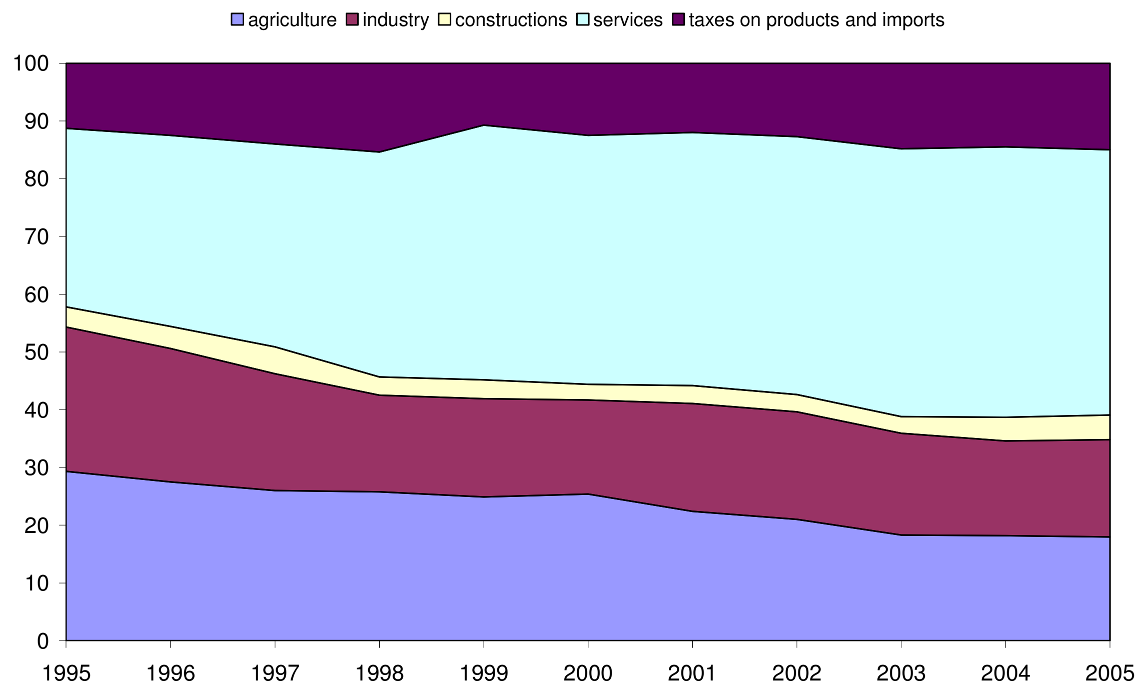
Nonetheless, there are obvious question marks over the sustainability of the current growth. First of all, the economic growth has been heavily dependent on the remittances of Moldovan workers. According to official estimates, remittances contributed approximately 31% to the GDP growth in 2005-2006, mostly by fueling domestic demand. Furthermore, remittances played crucial role in raising income and poverty reduction in recent years. Notwithstanding current role of remittances they can hardly ensure sustainable economic growth. First of all, remittances are mostly used for current consumption and mostly for

[22] Annual Evaluation Report on Implementation of the Economic Growth and Poverty Reduction Strategy Paper, 2005.

imported goods, and only a small share of them ends up as productive investments. Secondly, no one can ensure that remittances inflow will not be reversed. As some tentative data show, the labor migrants are leaving at a slower rate. Moreover, some of them become legal residents in destination countries and have started to take their family members to the host countries. Therefore, at some moment in the future there will be less people in Moldova to send money to. With no structural changes, leading to better business environment, enhanced international competitiveness and shifting to export-led growth the current economic expansion is poised to flatten at best.

Second factor is slow modernization of the economy.[23] Obviously, services' share in the economy exploded, while that of agriculture languished, especially since 2000 (Figure 2). The most significant growth was observed in transport, telecommunications and construction branches.

Figure 2: Evolution of the GDP structure by resources, % of total



Source: NBS of Republic of Moldova

This new role of tertiary sector is not however reflected if we consider employment. More the 40% of active labor force is still employed in agriculture and reside in rural areas. However, this is exactly where poverty rate started to grow since 2005 as farmers' income has dwindled.[24]

Thus, the benefits of economic growth have not been spread evenly throughout Moldova. The major cities have reaped the most benefits, while small towns and villages have been left behind. So far, the economic developments give no hope for great changes in this respect. The third wave of trade shocks, i.e. the trade barriers imposed by Russian Federation on imports of Moldovan vegetal products and alcoholic beverages hit Moldovan agriculture and wine-making industry quite hard. These products also comprise the most important part of exports, while almost 80% of Moldovan wine were exported to Russia. At the same time, prices for natural gas imported from Russia were raised twice in a row in 2006 and once again at the beginning of 2007, which consequently increased costs of production and thus decreased competitiveness of the local products dependent on gas. At the same time, growing gas prices increased burden on individual consumers. The reaction and attempts to tackle consequences of these

[23] NHDR, 2006.

[24] WB, 2006.

exogenous shocks by authorities and Moldovan companies were slow. In 2006 economic growth rate slowed to 4%, while industry and agriculture plunged into recession. While international financial institutions and European Union offered help in dealing with these shocks, the success in this endeavor depends mostly on Moldovan government and private sector.

3.3. Lagging transition of Moldovan trade

Evolution of foreign trade reflects quite closely overall development trends of the Moldovan economy and its international competitiveness. A more focused look shows striking difference between trajectories followed by foreign trade patterns in Moldova and more advanced CEE countries or Baltic countries. As the latter successfully re-directed its trade westwards to the EU market and away from COMECON partners, Moldovan trade remained for most of 90's deeply rooted in the old Soviet-era patterns. Thus, throughout most of 90's Moldovan trade was mainly oriented eastwards and specialized in low value-added products with low capital and technological inputs, chiefly agricultural products and textiles. Such a specialization was quite convenient for Moldovan producers as belonging to old trade bloc allowed to capitalize on remnants of Soviet-era business connections, while low MSTQ permitted to avoid significant structural and technological upgrades.

Russian crisis, however, served as a rude awakening for Moldovan producers. Exports declined steeply, many producers suffered huge losses. Since then, Moldovan trade slowly started to reorient westwards and its exports to the EU market more than doubled by the end of 2006. Somewhat perversely, the trend was supported by Russia's ban on main Moldovan exports to this country – wines and various agricultural products (although meat, fruit and vegetable exports were resumed recently, while wine sector is languishing as a result of the shock). Nonetheless, with all the positive developments in diversifying geography of the exports, the product structure remains mostly the same. Moldovan exports seem to be stuck in the category of low value added and low competitive products, mainly wines, agricultural products and textiles. This precludes unfolding of export-led growth and leaves Moldova extremely vulnerable to vagaries of certain excessively important foreign markets. Moreover, the sooner Moldovan companies embrace international MSTQ the more progress they will make on the European markets; otherwise liberalized trade regime (current or ATP granted this year) may prove of little help for embattled Moldovan producers.

Table 6: Geographical concentration of Moldovan exports, %

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Export – total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***
CIS	62.6	68.3	69.6	67.9	54.7	58.6	60.9	54.4	53.6	51.0	50.5	40.3
Russia			58.2	53.3	41.3	44.5	43.7	37.1	39.0	35.9	31,8	17.3
Ucraine			5.7	7.7	7.0	7.5	10.1	9.5	7.1	6.6	9,1	12.2
Belarus			4.1	5.0	4.7	4.6	5.3	6.1	5.2	6.0	6,5	7.0
EU	11.6	9.8	13.4	15.7	28.1	26.3	24.9	26.6	26.7	30.1	29.7	35.0
Germany			3.7	3.8	7.2	7.7	7.1	7.2	7.1	7.2	4.3	4.9
Italy			2.7	3.5	5.5	7.7	8.0	8.8	10.4	13.8	12.2	11.1
CEE	21.3	16.3	8.0	10.2	10.2	8.8	7.5	9.6	12.4	10.7	11.1	14.4
Romania										10.0	10.2	14.8
Rest of the world	4.5	5.6	9.1	6.2	7.0	6.3	6.7	9.3	7.3	8.2	8.7	8.2

Surse: NSB and EG calculations

Table 7: Export structure by groups of goods, %, if not indicated otherwise

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Export, total USD mln.	***874.1***	***631.8***	***463.4***	***471.5***	***565.5***	***643.8***	***789.9***	***985.2***	***1,091.3***	***1,051.6***

Foodstuffs, beverages, tobacco	54.8	55.4	42.6	42.1	44.5	41.5	39.8	35.1	36.3	26.3
Textiles and apparel	6.7	9.8	13.9	17.7	18.4	16.7	16.4	17.3	17.8	21.7
Vegetal products	8.6	11.3	14.7	14.0	13.9	16.5	11.6	12.2	6.1	13.0
Raw and process leather, furs	1.4	1.7	2.8	2.8	2.0	3.6	5.7	7.9	6.6	2.2
Animal and vegetable oils and fats	1.0	0.6	0.5	0.8	1.5	2.6	3.7	4.2	3.5	3.3
Machinery and equipment	5.2	6.5	5.9	5.1	5.4	3.9	3.8	4.0	4.2	5.1
Mineral products	0.4	0.4	0.4	0.6	1.1	1.8	2.6	3.1	1.8	2.6
Metals and its derivatives	1.0	1.5	3.5	2.5	0.5	1.1	2.5	3.0	4.5	7.2
Other	21.0	12.8	15.7	14.5	12.6	12.3	14.0	13.3	19.8	18.6

Surse: NSB and EG calculations

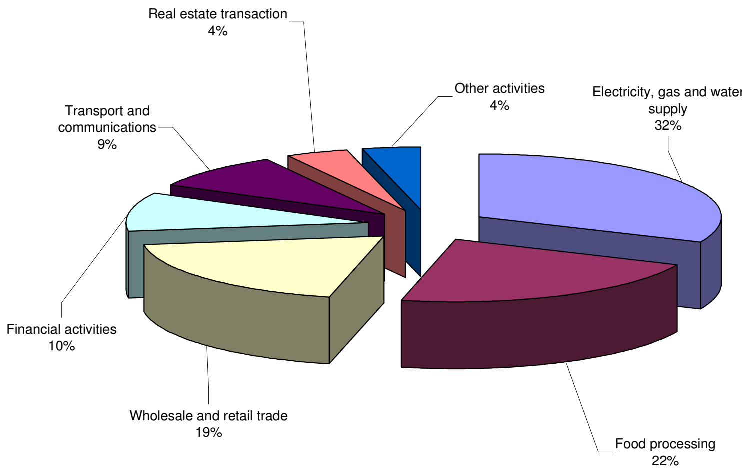
3.4. FDI inflows to Moldova in the transition period

Moldova inherited from the USSR an obsolete and unbalanced economy, which has suffered over the entire transformational period of shortages of capital and advanced managerial skills and technologies. As the experience of other transition countries suggests, only FDI can help overcoming such deficiencies and these countries entered a fierce competition for attracting more FDI. Among the positive effects of the FDI, one should acknowledge not only their importance as source of indispensable capital, but also of experience and knowledge, management practices, marketing innovations and technological know-how. In the regional competition for luring more foreign investors, Moldova was not very successful.

In terms of GDP, the net inflow of FDI has grown constantly since 2003 and is quite large by regional standards. For instance, in 2005 the FDI equaled 7% of GDP, while in the CEE countries the average was 5%. However, this indicator is mostly explained by small size of the Moldova economy rather than by its performance in attracting FID. Indeed, in per capita terms, the Moldova's performance is similar to that of other CIS countries (USD 50 per capita in 2005), while in CEE countries the FDI inflow in 2005 averaged 370 USD per capita.

The breakdown of FDI by country in 2004, according to NBM data, was as follows: Spain 34.7%, Netherlands 12.1%, United Kingdom 8.4%, Romania 7.3%, Russia 6.3%, United States 5.8%, Germany 3.9%, Cyprus 2.8%, Italy 2.5% and other countries 16.3%. The biggest foreign investors are coming from Russia, Spain, Netherlands and Unites States. The distribution of FDI stock by economic sectors is shown in the Figure 3.

Figure 3: The distribution of FDI stock by economic sectors



As of January 2007 the total FDI stock in Moldovan economy was about 1.3 billion USD. This is roughly equal to the total amount of money sent home by Moldovan migrants. The relatively weak Moldova's performance in attracting more FDI has influenced negatively the economic growth. A World Bank study suggests that foreign capital enterprises (i.e. with at least 25% of the capital of the enterprise) achieve higher sales and profit per employee. While counting for only 3% of the total active enterprises and 5% of the total of employees, in 2004 the enterprises with foreign capital have posted 15% of total sales and 23% of the investment activity.

Why was Republic of Moldova so slow in attracting foreign investors? Obviously, the FDI received by a given country depends on geographic factors, such as size of the host-country, geographic location and natural resources. However, economic and institutional factors like the policy framework, business climate, the quality of governance and level of corruption are even more important. Moreover, a country has to have an FDI absorption capacity, which depends on quality of its human resources and existence of basic technology and premises for incorporating new technologies. Moldova has admitted failures in both building an attractive institutional framework and consolidating its absorptive capacity.

4. Republic of Moldova - Czech Republic: an economic comparison

In this chapter two basic questions are addressed: Why would one expect that there is a potential to strengthen the economic relations between the Czech Republic and the Republic of Moldova and how large this potential can be. The chapter is based on an analysis of the complementariness of economic specializations of the two countries and on the gravitational trade theory. For the Republic of Moldova new economic opportunities may derive from the Czech Republic emerging as a new economic hub in Europe. The Moldova's favorable geographic location and its traditional links to Eastern markets may be attractive for the extension of the Czech trade. However, significant effort by Moldova is needed to materialize its geo-economic advantages.

4.1. Complementary economic specializations

While having some general economic features in common (economic history of the second half of the 20th century, small and open economies) the productive and trade specializations in the Republic of Moldova and the Czech Republic evolved differently. Currently the economic systems of the two countries are to a significant degree complementary, as shown in the Table 8. This provides a large room for advancing the trade between the two countries, which is currently rather small when comparing the Moldova and Czech trade with other countries from the regions. In 2006, the trade equaled USD 36.5 million, including USD 30.9 million of Czech exports and USD 5.6 million of Moldovan exports.

Table 8: Structure of Gross Value Added by sectors (2004, %)

	Republic of Moldova	Czech Republic
Agriculture, hunting, forestry and fishing	20.8	3.3
Mining and quarrying	0.4	1.4
Manufacturing	16.4	25.6
Electricity, gas and water supply	1.9	3.8
Construction	4.7	6.5
Trade	12.1	12.2
Hotels and restaurants	1.1	2.3
Transport, storage and communication	13.2	10.8
Financial intermediation	5.2	3.5
Real estate and business activities	6.5	13.1
Public administration	5.5	5.7
Education	5.9	4.3
Health and social work	4.0	4.1
Other community, social and personal services	2.0	3.4

Source: Authors calculations based on the Moldovan and Czech statistical offices information.

The Moldovan economy is dependent on the agricultural sector (providing roughly 21% of the country output), whereas in the Czech economy the sector has only a minor role (3.3%). Moldovan agriculture employs about 40% of the labor force. Opposite to this, the manufacture sector in the Czech economy posts the largest bulk in the gross value added (25.6%), while in Moldova it reaches only 16.4%. Energy sector in the Czech Republic accounts for 3.8% of the country's production, while in Moldova, which largely depends on energy imports it accounts only for 1.9%. The share of constructions in Moldova's value added is about 4.7%, which is slightly below the Czech, 6.5%, but this discrepancy is likely to narrow in the future because of recent boom in constructions in Moldova. Trade, transport, storage and communication sectors are equally important in both economies. The difference in "hotels and restaurants" reflects the fact that the Czech Republic is an important tourism destination, while Moldova is not yet so important. The financial intermediation seems to play a bigger role in Moldova, than in Czech Republic. Due to the recent arrival of foreign banks in the Republic of Moldova the role of the financial sector is likely to increase in 2007-2008. The real estate and business-related services are much more important in the Czech Republic than in the Republic of Moldova.

Table 9: Composition of exports by commodity sections, % of total, 2004

	Republic of Moldova	Czech Republic
Food and live animals	21.2	2.8
Beverages and tobacco	29.1	0.5
Crude materials, inedible, except fuels	0.2	2.9
Mineral fuels, lubricants and related materials	3.1	2.9
Animal and vegetable oils, fats and waxes	4.2	0.1
Chemicals and related products.	0.9	6.0
Manufactured goods classified chiefly by material	32.6	22.5
Machinery and transport equipment	7.1	50.9
Miscellaneous manufactured articles	1.6	11.4

Source: Authors calculations based on the Moldovan and Czech statistical offices information.

As shown in the Table 9 the structures of the exports of two countries are very dissimilar. Almost 50% of the Moldovan exports are concentrated in the "food and live animals" and "beverages and tobacco" sections. In case of Czech Republic the "machinery and transport equipment" account for half of the exports earnings.

Based on figures in the tables above, one can conclude that nowadays Moldova's specialization is to a significant degree related to agriculture, food and beverages sectors. These sectors are the main contributors to the country's GDP and exports; and will likely remain the main sectors in the near future. As for the Czech Republic, its specialization is more advanced and concentrated on manufactured articles, machinery and transport. These dissimilarities are propitious for advancing the trade between the two countries. Moldova is experiencing a rather strong economic growth and its investment needs will only increase in the future, including the needs for machinery, equipment and transport (currently representing about 20% of the total Moldovan imports). According to the recent statistical data in 2006 the investment in the Republic of Moldova increased by 17%. This is a real opportunity for the Czech producers of machinery and equipment to increase their sales to Moldovan companies. As for the Czech Republic, about 5% of its imports come as food and beverages products, where Moldovan producers can find their own niches. The statement that there is a high potential for Moldova to increase its exports to the Czech Republic is also supported by the gravity trade theory, which is explained in the following subchapter.

4.2. What the gravity trade theory suggests

The gravity trade theory purports that the exports of the country A to the country B are positively correlated with the economic and demographic sizes of the country A and B and negatively correlated with the geographical distance between the two countries. Obviously, one cannot ignore such factors as trade regime, regional and bilateral trade agreements, adjacent borders, cultural factors, common language spoken, natural conditions, diasporas and others. From this angle the analysis of the trade between the Republic of Moldova and the Czech Republic is quite interesting.

Let's look at Moldova's exports to the region composed of Czech Republic, Germany, Switzerland, Austria, Poland, Slovakia and Hungary. With all these countries Moldova has practically the same trade regime, all these countries are similar in terms of culture and religion and none of these countries borders Moldova. The Table 10 highlights the distribution of the Moldovan exports and imports to/from these countries and the countries "gravity" parameters (size of economy, population and distance from Chisinau to the capital of the corresponding country).

Table 10: Moldovan trade with selected countries and their "trade gravitational" parameters

	GDP, billion USD, PPP, 2006	Population, million people, 2004	Distance from Chisinau to the capital, km	Moldovan exports, million USD, 2006	Moldovan imports, million USD, 2006
Czech Rep.	198.9	10.2	1120	5.6	30.9
Germany	2605.4	82.5	1265	51.9	214.1

Switzerland	246.2	7.3	1619	14.2	17.2
Austria	286.7	8.2	945	13.1	23.4
Poland	526.2	38.2	812	39.2	73.4
Hungary	179.6	10.1	740	14.6	33.0
Slovak Rep.	93.3	5.4	889	22.7	13.4

Sources: IMF for the GDP and population, GeoBites for geographical distances and NBS for exports volume.

Domination of Moldovan exports to Germany – the largest European economy with a large population - is obvious. Moldovan exports to Poland, which is another large economy and large country are also quite big. However, Czech economy is practically comparable with the Swiss and Austrian ones and larger than Hungarian and Slovak ones. The Czech population is identical with that of Hungary and bigger than that of Switzerland, Austria and Slovakia. Moreover, in the Czech Republic there are a significant number of Moldovan migrants. Despite this, as it can be seen from the Table 10, the Moldovan exports to Czech Republic are the lowest as compared with exports to other analyzed countries, which suggests a significant room for increase in Moldovan exports to the Czech Republic.

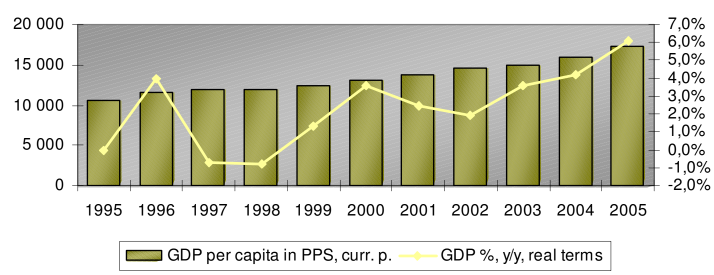
The relevance of trade gravitational factors is reflected by the fact that imports from the Czech Republic to the Republic of Moldova are much higher than in other three countries (Switzerland, Austria, and Slovakia). This simple analysis based on the gravitational trade theory suggests that there is potential for a substantial increase of the Moldovan exports to the Czech Republic. In order to achieve this goal the formal or informal trade barriers should be identified and removed and more attention be given to establishment of the business contacts. This will enable Moldova companies to benefit from the fact that the Czech Republic is emerging as a new economic hub in Europe.

4.3. The Czech Republic: an emerging European economic hub

The Czech Republic is often called as the country located in the heart of Europe. It is a landlocked country with an area of 78,866 sq km sharing its borders with Germany, Poland, Austria and Slovakia. It currently has approx. 10.3 million inhabitants. Until 2006 population level was decreasing, due to low birth rates with immigration partially compensating the decrease. The Czech Republic has a high proportion of its population in the productive age ranges of 40 – 54 and 20 – 25 years. This strategic location at the center of Europe, with good access to established western and emerging eastern markets, a good quality infrastructure, where investors can benefit from a skilled and productive workforce, a significant research and development sector at a comparatively low cost brings substantial advantages for economic development. External trade statistics show that the Czech economy is highly open and integrated into the economies of Western Europe. Moreover, the Czech Republic is one of the most successful transition economies in attracting foreign direct investment. These facts suggest that the Czech Republic has eventually emerged as European economic hub.

Economic growth is underpinned by foreign investment and growth in consumer demand. The 1997 currency crisis and the subsequent restrictive macroeconomic stabilization packages brought about a slight decline in real GDP, but combined with structural reforms, ultimately led to a revival in 1999. Since then, the Czech economy has been constantly growing by an average of 2.2% annually despite the global downturn in 2001 (Figure 4). In 2007 GDP is estimated to grow by 4.9 %.

Figure 4: GDP per capita in PPS (CZK) and GDP growth in real terms (%)



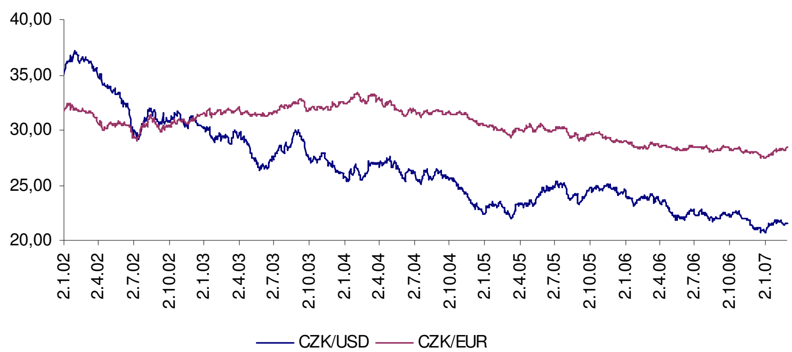
Source: Czech Statistical Office

The structure of industrial production substantially changed in the early nineties, caused by complete restructuring of Czech industry transitioning from a centrally organized system to decentralized capitalism. The basic trends were a decline of overall industrial production.

The Czech Republic has only limited energy resources. Coal is still the leading fuel for power generation but its role is declining. This trend accelerated with the commissioning of a second nuclear power plant, at Temelin. Oil and gas imports accounting to almost 100% of domestic consumption are relatively diversified.

Price stability characterizes the current state of inflation. Since 2002, the CPI index has moved within a very narrow corridor. For 2007, the average rate of inflation is expected to rise to 3.0 %. Monetary policy of the Czech National Bank follows the inflation-targeting regime. Since January 2006 inflation target has been set as 3 % year-on-year increase of CPI. Prudential monetary policy of the CNB contributes to keeping the year-on-year CPI below the inflation target due. Tight monetary policy and strong investor confidence resulted also in a stable exchange rate against currencies of major trading partners over the last decade (Figure 5). Consequent appreciation and not deteriorating of deficit of trade balance show evidence of growing competitive ability of Czech exporters, especially on EU markets and reflects advancing convergence towards the level of developed EU member states.

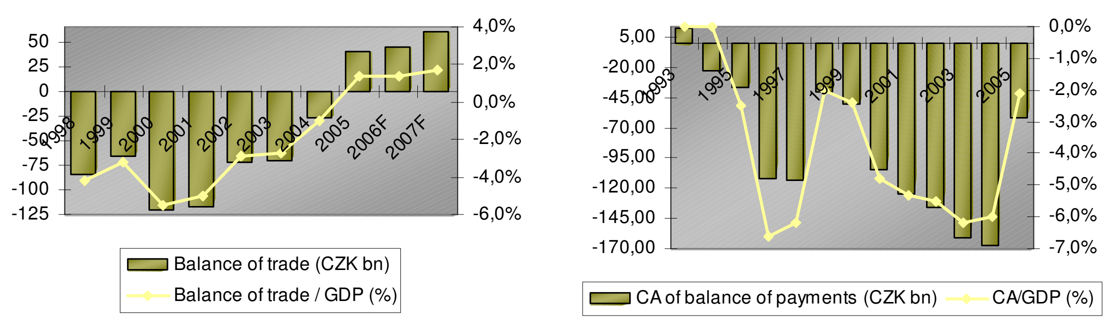
Figure 5: Exchange rates 1991 to 2007 - monthly averages



Source: Czech National Bank

External trade statistics show that the Czech economy is open and well integrated into the economies of West Europe. In 2002, exports to EU amounted to 68.4% of all Czech exports, and imports from EU to 60.2% of all Czech imports. Such high levels of trade place the Czech Republic among the most integrated Central and Eastern European (CEE) economies. Ratio of current account balance to GDP has substantially improved in 2005. The forecast for 2007 is 2.4 % of GDP and in longer horizon a tendency toward balancing the current account should be seen.

Figure 6: Net exports and current account (CZK bn and as % of GDP) in 1998-2007F



Source: Czech Statistical Office

The Czech Republic has a solid country rating (see Table 11). Its rating among CEE countries is for Moody´s and Fitch-IBCA rating exceeded only by Slovenia.

Table 11: Foreign and domestic currency long-term sovereign debt ratings

COUNTRY	STANDARD AND POOR´S	MOODY´S	FITCH-IBCA
Slovenia	AA	Aa3	AA
Czech Republic	**A-**	**A1**	**A**
Hungary	BBB+	A1	BBB+
Poland	BBB+	A2	BBB+
Estonia	A	A1	A
Slovakia	A	A2	A
Romania	BBB-	Ba1	BBB-
Russia	BBB	Baa2	BBB+

Source: Czech National Bank, August 2006

The Czech Republic is one of the most successful transition economies in attracting foreign direct investment (Table 12).

Table 12: Comparison of selected CEE countries according to FDI flows and stocks

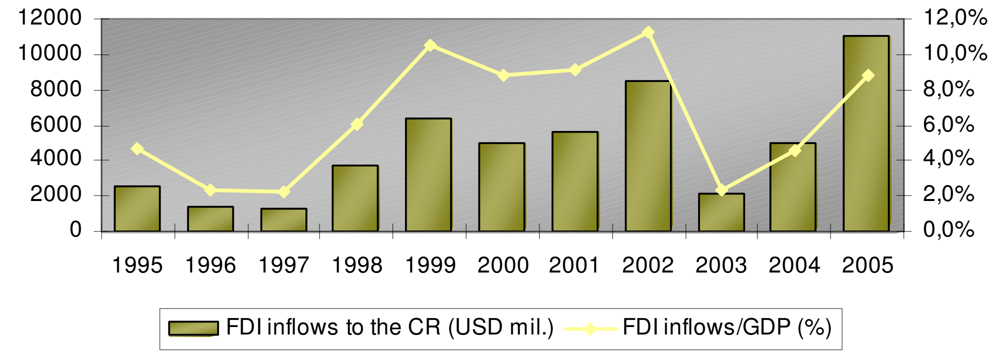
in USD year	FDI inflow per capita				FDI stock per capita			
	Czech R.	Hungary	Poland	Slovakia	Czech R.	Hungary	Poland	Slovakia
1993	**63.3**	472.3	44.6	33.6	**331.4**	538.4	68.1	75.1
1994	**84.0**	221.0	48.6	51.0	**440.0**	685.2	98.3	110.7
1995	**248.1**	494.1	94.8	48.2	**711.6**	1,094.3	203.2	151.1
1996	**138.5**	320.0	116.5	68.8	**831.0**	1,288.1	296.8	232.1
1997	**126.2**	405.0	127.0	43.0	**896.1**	1,746.1	377.4	310.3
1998	**361.2**	324.8	164.6	131.1	**1,396.4**	2,019.4	580.9	394.9
1999	**614.9**	323.5	188.0	79.3	**1,706.8**	2,272.1	674.5	421.1
2000	**485.4**	270.7	243.0	357.3	**2,107.0**	2,239.7	890.1	692.7
2001	**551.1**	386.4	149.4	294.5	**2,646.6**	2,690.2	1,078.4	899.1
2002	**831.2**	296.7	108.1	761.1	**3,789.3**	3,565.9	1,269.9	1,585.7
2003	**205.9**	211.0	120.1	140.5	**4,436.7**	4,772.2	1,514.9	2,205.3
2004	**486.9**	460.5	337.1	234.4	**5,604.8**	6,202.3	2,242.0	2,853.4
2005	**1,073.8**	664.1	202.4	354.2	**5,808.9**	6,069.2	2,445.4	2,844.6

Source: UNCTAD, Eurostat

The introduction of investment incentives in 1998 has stimulated a massive inflow of FDI into both green-field and brown-field projects[25]. Moreover, the Czech Republic is strategically located in the center of Europe, with good access to established Western and emerging Eastern markets, a good infrastructure, investors can benefit from a skilled and productive workforce, a significant research and development sector at a comparatively low cost. Many multinationals, including Panasonic, Honeywell, Motorola and Mercedes-Benz, run R&D or design centers in the republic. Both incoming and established investors benefit from a range of incentives offered by the government. Increasingly, investors are not just locating their production facilities but are also setting up "knowledge-intensive" activities in the country. For trends in FDI inflows see Figure 7.

[25] The FDI inflow into equity capital was mainly a result of sales of large companies to non-residents (Český Telecom, Unipetrol, Vítkovice Steel). The remaining part of investment was largely attributable to increases in ownership interests of foreign corporations and the establishment of new foreign-owned corporations.

Figure 7: FDI inflows in 1995 – 2005



Source: Czech National Bank, Czech Statistical Office

Concerning the tax policy, emphasis is shifting from income taxes to consumption taxes. The main consumption tax is VAT, set at two rates: 19% (basic rate) and 5% (reduced rate, applied mainly to food products, medicine, heat, newspapers, journals, books, passenger transport, and telecommunication services). Other indirect taxes are excise taxes, road tax, inheritance and gift tax, and real-estate transfer tax.

Capital gains are taxed as part of company income. Dividend withholding tax and tax on interest paid is set at 15%, with plans to reduce the dividend withholding tax in the future.

The standard rate of corporate income tax was 24% for tax periods ending in 2006. There are plans for further reduction of corporate tax but no timetable has been set.

When comparing the Czech Republic with other EU countries, PPS-adjusted per capita GDP in the Czech Republic has already reached 60% of EU-15 level. Among other CEE new members, only Slovenia has reached a higher level. A comparison of economic performance of the Czech Republic with candidate countries is shown in Table 13.

Table 13: Comparison of EU member countries

	GDP per capita in PPS (EU-25=100)		Real GDP growth rate - Y/Y, %		Labour productivity per person employed - EU-25=100		Total employment growth		Inflation rate		Real unit labour cost growth		Public balance as a percentage of GDP		General government debt as a percentage of GDP	
	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005
EU25	100	100	3.9	1.7	100	100	1.6	0.8	2.4	2.2	0.2	-0.6	0.4	-2.3	62.9	63.2
EU15	109.7	108.2	3.9	1.5	108	106.4	2.2	0.8	1.9	2.1	0.3	-0.4	0.5	-2.3	64.1	64.5
BG	26.5	33	5.4	5.5	31.4	34.1	-3.5	2	10.3	5	-5.4	1.7	-0.5	3.1	73.6	29.9
CZ	64.7	73.7	3.6	6.1	58.3	66.1	-0.2	0.7	3.9	1.6	0.7	-0.9	-3.7	-3.6	18.2	30.4
ES	92.1	98	5	3.5	97.9	97.1	5.1	3.8	3.5	3.4	-0.6	-1.8	-0.9	1.1	61.1	43.1
LV	35.3	48	6.9	10.2	38.4	47.3	-2.9	1.5	2.6	6.9	-6.9	-3.1	-2.8	0.1	12.9	12.1
LT	37.9	52.1	4.1	7.6	41	53.4	-4	2.6	1.1	2.7	-8.2	-2.3	-3.2	-0.5	23.8	18.7
HU	53.9	62.5	8.1	4.2	62	71.3	1.3	0	10	3.5	-0.8	0.1	-2.9	-6.5	55.4	57.7
PL	46.7	49.8	4.2	3.5	53.3	59	-2.6	0.9	10.1	2.2	-2.3	-1.6	-1.5	-2.5	36.8	42
RO	24.9	34.1	2.1	4.1	28	38.8	2.5	0.2	45.7	9.1	21.7	6.3	:	-0.4	226623	15.2
SI	72.7	81.9	4.1	4	70	78.5	0.8	0.7	8.9	2.5	3.3	0.1	-3.8	-1.4	27.4	28
SK	47.4	57.1	0.7	6	54.7	64.8	-1.8	1.4	12.2	2.8	-0.6	-1.8	-11.8	-3.1	49.9	34.5

Note: numbers in yellow fields - Estimate, orange fields - Forecast
Source: EUROSTAT

The above-mentioned macroeconomic indicators and promising development of the Czech Republic place the country among candidates for a European economic hub. From this point of view the Czech

Republic could become an interesting partner for Moldova consequently with the CR´s strengthening position in Europe and its expected EU presidency.

4.4. The Republic of Moldova: how to become a bridge between Europe and Asia?

Moldovan officials have long time boasted the fact that Moldova lies at the crossroads between Europe and Asia in a fashion that presumed that Moldova's geographical position is a value itself. However, advantages of Moldova's geographical position are often overestimated and not properly assessed to make use of. Moreover, in a new economic era for a country to become a bridge between one region and another geographical position is not the sole condition. Such factors as languages spoken by the population may also become an advantage. Thus, the quality of a "bridge" may vary from simple transitory territory, to production site for trade expansion for western companies eastwards and other way around, to a location when business people from West and East can meet avoiding restrictive visa regimes and benefiting from the services of local multilingual population. In what follows we try to analyze how Moldova's geographical and cultural factors can be employed for the country to become a bridge between Europe and Asia and show how the Czech companies will be able to benefit from the advantages that Moldova offers. We outline the following factors: physical infrastructure (roads), trade openness (trade regime and procedures), cultural endowment (languages spoken, etc.), and visa regime.

4.4.1 Infrastructure.

Quality of infrastructure is crucial for Moldova if we consider it as a "transit bridge" from Central and South-Eastern Europe to countries located in the western wedge of the former USSR and eastwards. It is hard to make use of geographical position when adequate infrastructure is lacking and roads are derelict. Unfortunately, this is the case of the Republic of Moldova. The major roads have sufficient capacity for long-distance road transport, however, due to limited financing they are not maintained properly. Overall, Moldova possesses 3,325 km of national roads, but 87% of them are in poor condition.[26] Although 95% of roads are those with hard cover, their condition is bad. While in most transition countries infrastructure investment normally averages 8-10% of GDP, in Moldova the investments hardly reach 3%, with most of these going to telecommunications not transport.[27] For instance, only 0.45% of GDP was used for road maintenance and construction in 2005.[28] Poor state of the roads significantly raises costs of transportation across the country. For instance, in 2004 the Vehicle Operation Costs were estimated at 30 million USD.[29]

Furthermore, if eastern connection to Ukrainian port of Odessa is considered the transportation is somewhat complicated by the fact that part of the road passes the self-proclaimed separatist region of Transnistria. Another road connecting localities of Causeni and Palanca that bypasses the region could help, however it needs complete reconstruction. Things may improve somewhat in the forthcoming years as development of road infrastructure was declared national priority by the government supported by international financial assistance under Millennium Challenge Account, OECBS (Organization of Economical Cooperation for the Black Sea) and others.

4.4.2 Trade Openness: formal trade regimes and informal barriers.

Throughout the first decade of transition the Republic of Moldova passed through serious trade liberalization process culminating in accession to the World Trade Organization in 2001. At the same time Moldova participates in a number of free trade agreements (FTA), most important of which are the bilateral and multilateral Free Trade Agreements with the countries of Community of Independent States and South-Eastern Europe. Trade relations with the EU are carried out under the GSP+ system; however the granting of the more advantageous Autonomous Trade Preferences is negotiated. In this respect

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[26] White Book, FIA.

[27] Trade diagnostic study, WB 2004.

[28] Report on State Budget Execution, 2005.

[29] EGPRSP, 2004.

situation of the Republic of Moldova is unique: it can boast FTAs both with western Balkans as well as fSU states, while no other country in the region has such an extended web of trade agreements. This is a real opportunity to reach many markets for any export-oriented productive enterprise located in Moldova.

As much as CIS FTA is concerned, this actually functions on basis of a string of bilateral deals, as the multilateral agreements signed in 1992 and 1994 were not ratified by the Russian Federation. Moldova has signed bilateral deals with all CIS member except Tajikistan. These deals also provide for free transit through the territory of signatory countries. Although these bilateral deals cover all goods, some of them may be subject to exemptions. Such goods are determined annually by bilateral trade commissions and are introduced in separate Protocols.

Besides this, CIS bilateral agreements have a series of disadvantages that undermine their efficiency: (i) the dense web of bilateral and multilateral agreements undermines transparency and hampers the efficiency of the free trade area; (ii) exclusions from the free trade regime can be imposed unilaterally; (iii) the agreements lack permanency; and (iv) safeguards and antidumping measures are applied on ad hoc manner with little regard to WTO agreements on this matter[30]. At the same time agreements on free transit of goods are not always respected, as it often happens with Moldovan exports to Russia via Ukraine. Nonetheless, this issue can be potentially solved after Ukraine becomes fully-fledged WTO member.

Unfortunately, formal trade agreements still do not mean unrestricted and lean flows of goods across the borders. The inefficient and costly border controls may significantly impede the process of border transit of goods. Although some significant progress has recently taken place, such as implementation of ASYCUDA World and EU compatible Customs code, surveys conducted among companies point out a series of persistent shortcomings: intricate, non-transparent, and subject to frequent change customs procedures, cumbersome procedures for clearing goods or passing through the border, difficulties in applying modern Customs standards, such as the WTO Agreement on Customs Valuation and corruption.[31] All in all, in order to amplify benefits of its liberal formal trade regime, Moldova is to effectively fight its informal shortcomings.

4.4.3 Visa regime and language: a new business hub?

Currently Moldova has a very liberal visa regime, representing a geographical point where West and East can meet “visa free”. Citizens of the EU, US, Canada, Japan, Switzerland, Norway, Iceland and all the CIS countries except Turkmenistan do not need visa to enter Moldova. This is again a unique situation for the region that can be eventually replicated in the future by Ukraine. Thus, Moldova can serve as a perfect location for meetings between business people from the aforementioned countries with no need to pass through lengthy and cumbersome visa procedures.

Majority of population is bilingual speaking both Romanian and Russian, and young population is also much more fluent in main European languages: English, French, Italian, and Spanish. Learning a foreign language in Moldovan schools and universities is compulsory. This has already paved the way for establishment of couple of international call centers. However, taken more broadly this may mean better workforce for multinational companies that might decide to establish in Moldova or business consultancies providing logistical and intermediary support for matching different business interests here in Moldova.

4.5. Insights into the Moldovan and Czech business cultures

Business culture is one of the factors influencing decision by a company of whether to look for a partner in another country with the purpose to invest or trade. Business culture is one of the fundamental features of economic system, influencing in one way or another how business is carried out, how partners are communicating, the level of trust and desired personal contact, role of uncertainty in making and implementation of decisions, role and place of the government in market economy, etc. Obviously, business culture to a large extent reflects the fashion the economic system and its institutions have

[30] Ibidem.

[31] Ibidem.

developed, and how much open it has been to foreign influences in this process. Analysis of the Moldovan and Czech business culture indicates that there might be potential for establishing new business contacts and working together in joint projects since some important aspects of the business culture are quite similar in the two countries (e.g. high level of uncertainty avoidance).

4.5.1 The Republic of Moldova

Emerging Moldovan business culture is quite specific in this respect. It is still "in transition" as the whole economic system is. In the early years of transition it mainly represented an outcome of the confluence of Soviet business culture and informal economy important during late Soviet Union. As time passed on, growing openness of the economy has led to wider acceptance of the features characteristic to global business culture, bringing Moldovan counterparts closer to their western ones. However, Moldovan business culture still retains a series of distinct features. In what follows, we will chiefly focus on outlining these features against criteria set for business culture analysis by Geert Hofstede in his well-know work "Culture's consequences: International differences in work-related values". In this work Hofstede lays out four main criteria against which he analyzes business culture: power distance, collectivism vs. individualism, masculinity vs. feminism, uncertainty avoidance and long-term orientation.[32]

1. *Distance from power.*

This criterion generally refers to the degree business culture is subject to the government's involvement. Doing Business Survey, published by World Bank, with some approximation can serve as useful tool in measuring degree of government's involvement in business activities. Overall, government's involvement is quite high judging by OECD standards. Thus, Moldova ranks 103 among 175 countries as measured by the aforementioned survey.[33] For example, starting a business or dealing with licenses in Moldova takes almost twice as much time and number of procedures, and thrice as much money paid to cover these costs as in OECD countries on average. The comparison is somewhat better in the case of registering property and closing business.

Such a strong involvement of the government in the business activities influences quite adversely business culture in Moldova. It makes companies more prone to corruption and cozy relations with government officials in order to grease business operations, and precludes consolidation of honest competition among companies. In the future the ongoing legal reform aiming to cut red-tape will certainly reduce the room for government involvement in business operations.

2. *Collectivism vs. individualism*

Historically, collectivism is much more common in Moldova both as a consequence of extensive rural populace and preservation of traditional social institutions, as well as prevalence of Soviet business culture amongst urban workers. This feature presents some advantages and risks at the same time. That means the Moldovans are generally good team-workers, responsible to the working team interests and obligations, showing high degree of corporate loyalty. Also, this is often a characteristic of the vertical relations within Moldovan companies between bosses and workers. General managers often display a sort of paternalistic "family attitude" towards their workers. This is often demonstrated by widespread sayings "We are all people" or "Moldova is a small country".

However, such collectivist attitudes have their flip-side as well. Lack of individualism often turns out as lack initiative as well. This negative feature is further worsened by Soviet legacy, when promotion of collectivism served as one more instrument to control the individuals and stability and control prevailed over creativity and initiative.

3. *Masculinity versus feminism*

There are two controversial trends in this respect. On one hand, the traditional structure of the society envisions strictly designed roles on the gender basis, where a man is usually main bread-winner, while a woman is housekeeper, taking care of the family and raising up the kids.

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[32] Geert Hofstede, *Culture's Consequences: International Differences in Work-Related values*, Beverly Hills, Califormia: Sage Publications, 1980; *see also: http://www.geert-hofstede.com/geert_hofstede_resources.shtml*

[33] *Doing Business Survey*, World Bank, 2006.

On another hand, massive dismantlement of industrial enterprises and overall steep economic decline in the wake of Moldova's independence left many men without jobs and resources to support their families. Much more vigorous growth of service sector opened working opportunities equally affordable to men and women, while massive migration contributed to dilution of traditional structure of relations between genders.

Current data show no gender discrimination access to education and jobs, situation of women is even more favorable. Nonetheless, there is still some discrimination present regarding the income obtained by women and men. Apparently, women still earn less, which may be explained that they find it harder to move higher in their career.[34]

4. *Uncertainty avoidance*

Moldovan business culture is characterized by high uncertainty avoidance meaning predilection for well-structured and predictable situations, unwillingness to involve in conflicts, disputes and confrontation. Often people avoid pronouncing conflicting opinions, and use intermediaries for solving their disputes. At the same time legislative process and regulation implementation do not always follow this tide, and are subject to frequent changes. However, situation is improving as government is perfectly aware of the mood within the business community.

5. *Long-term orientation.*

The adverse social and economic effects of the breakdown of Soviet economic system, followed by slow consolidation of, otherwise unstable, business legal framework, expensive bank credit and dire consequences of Russian economic crisis of late nineties determined quite high level of anxiety towards uncertainty. No wonder, Moldovan companies are mostly active in areas where returns can be faster and more easily obtained. Another striking example is the way the remittances received from the migrants are used by their relatives at home. Thus, most of money is spent for consumption, much less is saved or invested.[35] This might indicate that Moldovan business culture is mostly short-term oriented. Nonetheless, as legal framework becomes more stable and credit cheaper (with entrance of two foreign banks in 2006 and other two expected in 2007) business culture will become more long-term oriented.

4.5.2 The Czech Republic

The Hofstede's estimated scores for the Czech Republic differ in different sources. On the web pages http://www.geert-hofstede.com/ the power distance index reaches 35, individualism index 58, masculinity index 45 and uncertainty avoidance index 74. In the research of J. Světlík from 2003 conducted among 2,500 respondents, the resulting indices are the following: power distance index 67, individualism index 56, masculinity index 10 and uncertainty avoidance index 70. Therefore there are significant differences in power distance index and masculinity index. In the next paragraphs we will rely on the research of J. Světlík (2003) and A. Jančíková (2005) since it provides, besides numerical values, deeper supporting and explanatory information.

1. *Distance from power*

In the above-mentioned survey of the World Bank on ease of doing business in particular countries, the Czech Republic ranked as 52nd. Starting a business takes by one half more days than in the OECD countries, which is by 20% less than in Moldova. Similarly, regarding the costs of starting a business the Czech Republic ranks between OECD countries and Moldova.

According to Hofstede's power distance index the Czech Republic can be characterized as a culture with large extent of power, where hierarchy, formal relationships and social status are very important. Social status in enterprises is reflected in expression of respect to chiefs and senior workers; an example is the usage of academic degrees. High extent of power affects also delegation of competences to junior workers and their participation on decision-making processes of an enterprise. In Czech enterprises the employees do not participate in decision-making much, the power is rather concentrated in the hands of

[34] National Human Development Report 2006, *Quality of Economic Growth and Its Impact Over Human Development, Chisinau 2006.*

[35] Matthias Luecke, Toman Omar Hamoud, Pia Pinger, Kiel Institute for Global Economy, *Study on Migration and Remittances in the Republic of Moldova*, 2006.

the chiefs and owners. The extent of power influences not only hierarchy of an organization but also significant differences in salaries of managers and other employees. Generally speaking, Czech managers prefer hierarchical structures, underestimate participation of employees in decision-making and their potential.

2. *Collectivism vs. individualism*

Based on the individualism index, the Czech national business culture can be characterized as individualistic, where an important role is played by an individual not by a group. The interests and benefits of an individual are preferred to the benefits of a group or society as such. In individualistic culture the relationship between employer and employee is based on mutual advantages, which can be offered to each other, not on moral obligations as in collectivistic cultures. Recruitment of employees and their carrier promotion is based on their skills and abilities not on the advantages brought for a group.

3. *Masculinity versus feminism*

Regarding masculinity level in the Czech Republic, the research results differ vastly. While some researches claim that the Czech culture is rather feminine (Světlík, Kolman), others claim the opposite (Nový et al.).

4. *Uncertainty avoidance*

For the Czech people high level of uncertainty avoidance is characteristic. They aim to avoid unknown and uncertain situations. Such behaviour is reflected in a need for creation of rules and norms, which could solve such situations. People rely on rules although they know that these often do not work. In the Czech enterprises this is reflected in a number of diverse internal directives, guidelines and rules regulating internal processes of an enterprise. Uncertainty avoidance also leads to unwillingness to take responsibility for the work done.

5. *Long-term orientation.*

The scores for long-term orientation for the Czech Republic move around 25, which indicates rather short-term orientation. Czech people seem to prefer rather fast benefits and results. Short-tem oriented cultures are not willing to save and traditions in such cultures are not adjusted to new conditions much.

Another view on national culture is presented by Fons Trompenaars, who in 1993 published the results of an empirical research with the aim to find cultural differences among almost 50 countries including the Czech Republic. According to the research, the Czech culture is rather particularistic, i.e. with people it is dealt with regard to the specific instantaneous situation and also to connections. Objective truth can be to certain extent adjusted to conditions and different people can perceive one specific rule differently. Furthermore, the Czech culture is highly individualistic, which complies with the results of the above-mentioned studies. Czech people also tend to separate their professional live from the personal one and the employees usually do not solve their personal problem at work. The social status is attributed to the people based on their origin, education level, connections to important people and financial situation of the family. It is usual that people let others call them by their academic degree. In addition, the Czech culture is rather emotionally neutral and theatrical gestures and loud speeches are not accepted positively. The culture is also considered as a culture with inner orientation – Czech people do not believe in luck, fate and fortune much. They try to manage their lives on their own without reliance on predetermined destiny. Czech culture can also be called synchronous, since the people are able to do more things at a time. During a business meeting it is not unusual to have phone calls and be interrupted by colleagues in some other issue. *(A. Jančíková. 2005. Czech National Culture in Context of Management, II. Part. Personál n. 4, p. 18-19)*

5. Advancing bilateral trade between the Republic of Moldova and the Czech Republic

This chapter outlines the general framework of the bilateral economic relations and analyses the trade dynamics between the Republic of Moldova and the Czech Republic. It looks also to the cooperation experience that Moldovan and Czech companies have and tries to identify new niches for increasing bilateral trade.

5.1. Trade and economic cooperation framework

The bilateral economic relations between the Czech Republic and the Republic of Moldova can be featured as "positive" since no trade or investment conflict has ever emerged between the two countries and both sides show increasing interest to each other. Currently, there are 17 bilateral treaties and agreements in force signed between the Republic of Moldova and the Czech Republic. The most relevant for bilateral economic relations have been the following:

- Agreement on the international road transport (signed Copenhagen 26/05/1998);
- Agreement on the air transport (signed Chisinau 24/02/2004);
- Convention on double taxation (signed Prague 12.05.1999);
- Bilateral investment treaty (signed Prague 12.05.1999); the Czech counterpart proposed amendments to the treaty in line with its EU obligations;
- Agreement between the Moldovan and Czech Governments on commercial and economic cooperation (signed Prague 11.05.1999, abolished); a new Agreement on the cooperation between the Moldovan Ministry of Economy and Trade and the Czech Ministry of Trade and Industry was proposed by the Czech counterpart; the Moldovan counterpart has responded to the Czech proposals;
- Agreement on cooperation in tourism (signed Moscow 08.06.1972);
- Protocol on cooperation between the Moldovan Ministry of Economy and Trade and the Czech Ministry of Trade and Industry (signed Prague 21.04.2006)

The agreement about trade and economic co-operation had to be cancelled due to its incompatibility with EU legislation. However, the Protocol to the Convention between the Czech Republic and the Republic of Moldova for the Avoidance of Double Taxation, Agreement on Investment Protection, Air Transport Agreement and others remained valid. Concerning free trade, the Czech Republic has not signed any bilateral agreement on free trade with Moldova. Therefore standard relation EU/Moldova applies. Particularly, The Republic of Moldova has been a beneficiary of the EU Generalized System of Preferences (GSP) since 1 July 1999. According to it, Moldovan exports to the EU markets are partially or totally exempted from customs tariffs. Since January 1, 2006, the Republic of Moldova benefits from the application of GSP+ offered by the European Union. It covers a broader range of products than those included in GSP, which are exported to the EU under a total exemption of customs tariffs.

From the other side, the basic document of customs regime in Moldova is the Act on customs with its amendments. In general, the Moldovan tariff policy is based on the trade regime established by the WTO. The country's consolidated classified list is rather liberalized: the weighted average tariff is 4.3%; the average customs tariff for agricultural products is 12.65%, while the average customs tariff for industrial products is 3.95%. Tangible assets whose cost exceeds MDL 1,000 per unit (about USD 78), imported as fixed assets to contribute to the creation or increase of the statutory capital of a certain entity, are exempted from the payment of customs duties. The license system and procedures have been simplified in 2002 through the establishment of the Chamber of Licensing - the official authority for issuance of licenses, as the number of activities requiring license has been reduced from 106 to 49 over the period 2001-2005 (Southeast Europe Investment Guide 2007 - Moldova, www.seeurope.net).

A number of sporadic meetings between the Moldovan and Czech official representatives have been held so far. In 1992 in Prague the Government of the Republic of Moldova and the Government of the Czechoslovak Federative Republic signed an agreement on economic and commercial links and technical-scientific cooperation. In November 2000 the first working meeting of the Moldovan-Czech inter-governmental committee for economic, commercial, scientific and technical cooperation was held. In April 2006 there was the first official visit of the Moldovan prime-minister, Mr. Vasile Tarlev, to the Czech Republic. The business communities of both countries are also increasingly active in developing bilateral relations. In 2003 in Karlovy Vary there was a presentation of wines produced by twelve Moldovan companies. In 2004 the Moldovan trade chamber "Moldvin CZ" opened in Prague and a Moldovan-Czech business forum took place. In December 2006 the Moldovan President, Mr. Vladimir Voronin, met a group of Czech businessmen interested in investing in the Moldovan agro-processing sector.

Despite the positive trends, the economic relations between the Republic of Moldova and the Czech Republic are far below their potential and quite unstructured. The Moldovan trade chamber in Prague is not functioning properly. Business links between the two countries might have also been significantly affected by the visa regime, especially as regards the Moldovan side. Czech companies did not mention visa regime as a significant barrier since their visas were in most cases arranged by agents. However, it is obvious that in case of a visa regime between two countries transaction costs of trade increase. In October 2000 the Czech government has introduced the visa regime for the Moldovan citizens and the Moldovan government responded with visa regime for the Czech citizens[36]. Lack of embassies for a long period of time also played a negative role in bilateral economic relations. The Czech Embassy in Chisinau has opened only in December 2005 and started issuing visas in 2007. The Moldovan embassy in Prague opened only in November 2006[37].

5.2. Dynamics of the bilateral trade

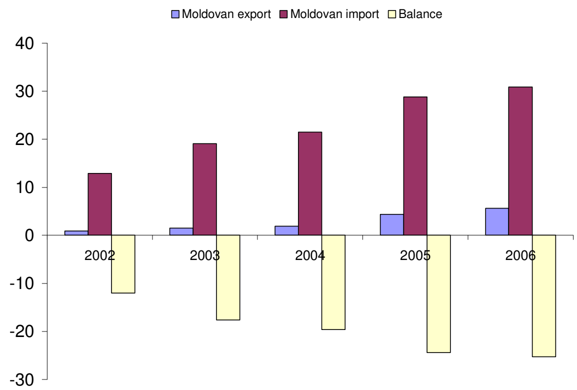
Czech-Moldovan economic contacts have been rather sporadic in the past. In 1998 the total turnover of bilateral trade amounted to USD 10.2 million, but in 1999 it fell to USD 8.7 million as a result of the Russian financial crisis. Since 1999, when the convention on double taxation, the bilateral investment treaty and the agreement on commercial and economic cooperation were signed, the bilateral trade started to rise.

While in the 1990s there were almost no Moldovan goods on the Czech market, the situation changed significantly since 2000. In 2006 the overall trade between the Republic of Moldova and the Czech Republic was thrice above the level of 1998, with exports being particularly robust at the level of USD 4.4 million. According to official data, in 2006 the Moldova exports amounted USD to 5.6 million. Despite the positive trends, in 2006 the Moldovan exports to the Czech Republic accounted for only 0.5% of its total exports. The Czech trade with Moldova is even less important for the overall trade balance of the Czech Republic.

[36] Since mid-2006 EU nationals do not need visas to enter Moldova.

[37] The delay in opening the Moldovan embassy in the Czech Republic is even more peculiar considering the large group of Moldovan migrants working in the Czech Republic. According to Moldovan estimates [CBS-AXA, 2005], there are about 10 thousand migrants, while Czech estimates reach 20-30 thousand.

Figure 8: Moldova's trade with the Czech Republic (USD million)



Source: Ministry of Economy and Trade of Republic of Moldova

Moldovan exports to the Czech Republic in 2006 were composed mainly of goods of three types: "foodstuff and beverages", "common metals and articles" and "vegetal and animal products". Imports from the Czech Republic are a bit more diversified (see the Table 14).

Table 14: Moldova exports to and imports from the Czech Republic (USD million)

Category	2004		2005		2006	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
Foodstuff and beverages	1.0	0.4	1.7	1.6	2.3	0.4
Chemical products	0.0	3.2	0.0	4.8	0.0	5.3
Machinery and equipment	0.0	3.2	0.2	4.0	0.1	5.6
Cars and other transport	0.0	3.4	0.0	5.8	0.0	5.1
Common metals and articles	0.0	2.3	2.3	2.6	2.7	2.6
Vegetal and animal products	0.1	4.1	0.1	3.3	0.5	3.6
Other	0.8	4.9	0.1	6.7	0.0	8.3

Source: Ministry of Economy and Trade of Republic of Moldova

Main Moldovan exports to the Czech Republic in 2006 were iron and steel bars and rods, dried fruits, fruit gems and marmalades and grape wines (Table 15). Besides, small amounts of fresh fruits (USD 52 thousand), fruits juices (USD 64 thousand), sparkling wines (USD 36 thousand) and metal threads and fibers (USD 110 thousand) were also exported.

Table 15: Main items exported to the Czech Republic (USD million)

	2004	2005	2006
Iron and steel bars	0.0	2.3	2.7
Dried fruits	0.0	0.1	0.4
Fruit gems and marmalades	0.3	0.5	0.8
Grape wines	0.6	1.2	1.3

Source: Ministry of Economy and Trade of Republic of Moldova

Moldovan imports from the Czech Republic are much more diversified than Moldovan exports to this country (see the Table 16). In 2006 road vehicles (mostly cars) were the main imported items with 16.5% of total imports from the Czech Republic. Boilers and heaters come on the second position with 15.9% of total imports. The shares of chemical products (mainly soap and detergents) and flour are also significant, about 11% each. In 2006 the Republic of Moldova also imported significant amounts of metal and plastic articles (USD 2 million each).

Table 16: Main items imported from the Czech Republic (USD million)

	2004	2005	2006
Road vehicles	3.4	5.8	5.1
Boilers, heaters, mechanic equipment and machinery	2.3	3.3	4.9

Soaps and other detergents	1.8	2.9	3.5
Flour and other mill products	3.9	2.9	3.4
Plastic materials and articles thereof	2.1	2.5	2.0
Metals and articles thereof	1.9	2.4	2.0
Paper and carton	0.5	0.6	1.3
Pharmaceuticals	0.7	1.0	1.1
Glass and articles thereof	0.7	0.8	0.9
Wood and wood products	0.1	0.4	0.8
Electric machines and equipment	0.9	0.7	0.7

Source: Ministry of Economy and Trade of Republic of Moldova

The structure of Moldova's trade with the Czech Republic is a litmus test of the overall weaknesses of the Moldovan economy. Despite the increasing Moldovan exports to the Czech Republic, the Czech exports to Moldova have also grown fast. While the degree of coverage of Moldova's imports from the Czech Republic by its exports improved to some extent (from 6% in 2002 to 18% in 2006), the Moldova's trade deficit has worsened from -12.0 USD million in 2002 to -25.3 in 2006. Taking into account the fact that Moldova imports are largely composed of non-substitutable goods, the soaring deficit can reverse only if Moldova exports more and higher quality goods to the Czech Republic.

5.3. Experience of Moldovan companies

Experience of the Moldovan exporters to the Czech market was assessed based on the analysis of Moldovan mass media publications, a survey of 21 Moldovan companies that exported in the Czech Republic in 2004-2006 and in-depth interviews with 5 Moldovan companies.

There are many examples of good economic cooperation between Moldovan and Czech companies. One practical case is the Moldovan DAAC-Hermes company working as Skoda's dealer in the Republic of Moldova. One senior official of the DAAC-Hermes has stated in a public interview that "the relationship between the two companies goes beyond simple business relationship" and that "with Czechs you can build not only good business but also very warm human relations".[38]

As suggested by the survey, two-thirds of the companies exporting to the Czech Republic work in the wine-making sector or other food sectors. The main products exported by Moldavian companies to the Czech Republic include a wide assortment of wines (dry, demisec, sweet, sparkling wines) and other alcoholic drinks (brandy). Also, among other products exported by Moldavian entrepreneurs on the Czech market are: concentrated apple juice, concentrated cherry juice, plum pulp, dehydrated plums, micro-fibers.

According to the survey data the typical exporter to the Czech Republic appears to be a medium-sized (50-249 employees) private company located in Chisinau. However there are also companies which are quite successful exporters and are based in other cities and regions: Balti (exported textiles, clothes, meat products, wine, brandy, vodka and soft drinks to the Czech Republic), Transnistria (metal products, power cable), Orhei (wines and natural juices), Ungheni (dried fruits), Calarasi (canned fruits and vegetables). A number of wine-making companies located in Ialoveni, Taraclia, Cahul, Straseni, Hancesti and Anenii-Noi have also registered exports to the Czech Republic.

Trends of the Moldovan exports are quite encouraging. Half of the surveyed companies have increased their sales to the Czech market in 2006. One quarter of the interviewed companies said that their exports to the Czech Republic remained the same, while one quarter reported decreased exports. The growth of exports to the Czech Republic is even more important as it took place against the background of plunge in overall exports by these companies. This reflects to some extent the attempts by the wine-making companies to discover new markets and cover losses infringed by the barriers imposed by Russia on imports of Moldovan alcoholic beverages and vegetal products. At the same time this rise in exports is relatively small. Most of the increase in exports in 2006 is due to more active companies exporting fresh

[38] The interview „Moldovan wine in Czech glass“ given by the DAAC-Hermes vice-president Igor Scherbinsky to the weekly magazine „Economic Review Logos-Press“ («Экономическое Обозрение Логос Пресс»), no.16 (656) of April 28, 2006.

and dried fruits, gems and marmalades, brandies, and metal products. However, in majority of cases share of exports to the Czech Republic make up for less than 3% of total exports of the companies.

What Moldovan exporters find most attractive in the Czech markets? First of all, it is growing purchasing power and growing demand for categories of products that are supplied by Moldovan companies. Secondly, availability of a reliable and stable Czech partner is a key for the success. Not accidentally, most of companies which increased their sales in the Czech Republic boast stable and trustworthy relation with their Czech counterparts. Also these partners often put forward precise and efficient proposals on how to enhance competitiveness of Moldovan goods imported to the Czech market. Thirdly, there are some other perceived advantages in exporting to the Czech Republic, such as the advantageous prices in Czech Republic, simple customs rules, low taxes, and simple technical standards. Companies exporting to the Czech Republic mentioned that their exports grew due to efficient promotional activities.

There is also a flip-side, though. Companies find serious barriers for their exports to the Czech Republic as well. The main difficulty regards lack of information on business opportunities on the Czech market. Another thorny issue is lack of established partnership relations with Czech counterparts. Companies with no reliable local partner find it increasingly hard to expand export operations in the Czech Republic. These companies often experience problems in dealing with customs procedures and conforming to the technical standards. Finally, several Moldovan companies find it hard to raise sufficient funds to carry out promotion campaigns or blame Moldovan competitors for damaging image of Moldovan wines by exporting low-quality products.

What can be done in order to make these barriers less thorny? In this respect exporting companies would like to see more involvement of Moldovan public authorities in organizing more exhibitions and fairs for promotion of Moldovan products; ensure better information on export opportunities, business contacts and relevant procedures through a specialized infocenter; better marketing strategies; easing customs tax burden on Moldovan goods and quality adjustment to European standards; cumbersome visa procedures (this however may improve considerably when Czech Embassy in Chisinau starts issuing visas). Many wine-making companies also find scope for higher governmental involvement in limiting exports of cheap and low-quality wine from the Republic of Moldova, and thus improvement of the image of Moldova as homeland for high-quality wine-makers. However significant efforts should come from the part of the companies who have to be aware of the highly competitive environment dominating the Czech market. Some companies also find it reasonable to combine efforts by establishing a joint representation center in the Czech Republic that would allow for better sales coordination, marketing and market research of the Czech market. Nevertheless, previous experience with establishing the Moldovan Trade House in Prague has not so far proven a success.

Czech accession to the European Union apparently did not exercise any serious effects on Moldovan exports to this country. It may well be explained by the fact that Czech quality and other requirements were adjusted to the European standards well prior to accession per se. Introduction of the GSP+ trade regime by the European Union have not produced any significant influence on Moldovan exports to the Czech Republic as well. This regime does not cover wine exports to the EU, so it has not touched in any way wine exporters who make up for lion’s share of the companies with exports to the Czech Republic.

Nonetheless, expectations of benefits that would come from the eventual introduction by the EU of the Autonomous Trade Preferences ride high. Almost all companies expect this new regime to provide boost to their exports to the EU in general and the Czech Republic in particular. This will not be an easy walk anyway, as high quality requirements for Moldovan exports will stay in place. Therefore, Moldovan companies have to learn how to ensure and maintain good quality of their products.

All in all, the surveyed Moldovan companies expect growth in their exports to the Czech Republic in the following couple of years. Most probably, this growth will come from confluence of several factors, such as quality improvements in Moldovan exports, better knowledge of the local market, establishment of the lucrative partnerships with the Czech companies and eventual increase in the openness of European market if the EU Autonomous Trade Preferences are granted to the Republic of Moldova.

5.4. Bilateral trade from the Czech point of view and experience of Czech companies

In the past Moldova was not an important trade partner of the Czech Republic and trading volume did not correspond with mutual possibilities of both economics. This trend was to be changed since 2003 with a positive tendency having been continuing until present.

It is worth mentioning that in 2003 joint working committee was set up from representatives of the Czech Ministry of Industry and Trade and Ministry of Agriculture and the Moldovan Ministry of Economy and Ministry of Agriculture. The cooperation should have embraced investment, banking or scientific technical projects.

Detailed table with traded items and trade volumes between Moldova and the Czech Republic are shown in Annex 1. The numbers in these tables indicate that there are not many consistent and permanent trade relations between Czech and Moldovan partners and the trade between both countries is often based on one-shot deals with non-recurring character. In 2006, Moldova ranked 66 in exports from the Czech Republic and 90 in imports to the Czech Republic. Neither from the other side was the Czech Republic important partner for Moldova representing its only 0.1% of imports (Embassy of the Czech Republic in Moldova, Chisinau, General territorial overview (February 2007)).

Besides traditional items the Czech Republic in general exported to Moldova motor vehicles, tractors and other transport means, electrical appliances, laboratory appliances, boilers, consumer goods (glass, chandeliers), plastics and plastic products, malt, starch, pharmaceuticals, paper and paper products.

Czech imports from Moldova registered significant growth in 2004, which is explicable by high volumes of imported metallurgic products. Since then import fell down again. The most frequently imported items were shoes, wine from fresh grapes, cider, jams, jellies or garments.

The main fields of interests are city transport and other city services, cars, energy sector, electro-technical and other commodities, chemical products (especially plastics), mechanical appliances, healthcare appliances or pharmaceuticals. For the list of current and potential suppliers in these fields see Table 17.

Table 17: Current and potential suppliers to Moldova

Company	Product
Škoda Auto	cars
Škoda Electric	trolley-buses
ČEZ	reconstruction and modernization of power plants
TEDOM	technologies for waste incineration plants
Elektrizace železnic Praha	electrification of railways
SOR Libchavy	buses
Sigma Olomouc	steering pumps
FT Technologies	IT technologies
ČKMS Holding	engines
Alfa Union	aggregates for engines
MARBO CZ	mechanical security locks
Ecimex Group	monitors
Hard Jesenik	family houses

Source: General territorial overview (February 2007), Embassy of the Czech Republic in Moldova, Chisinau,

We handle the issue of Czech export to Moldova as important since it is a first step before some company starts to invest in a target country. The importance of FDI inflow for the economic progress of a developing country was mentioned in previous chapters.

The following analysis of the experience of Czech exporters to the Moldovan market is based on a set of interviews with 15 Czech companies.

The perception of Moldova as a potential trading partner by Czech companies can be summarized as follows. One of the most important impediments seems to be relatively low awareness about possibilities to search for a trading partner in Moldova. The companies start to be active in Moldova mainly when a particular demand comes from this country, in minor cases Moldova is a part of business strategy aimed at Eastern and CIS countries. In general it is possible to state that trade with Moldova accounts for split percentages in total companies´ trade.

Some companies emphasized that Moldova is a new market where it is possible to find a free space in almost all sectors. In general they positively assessed interest in cooperation with the Czech partner, interest in Czech experience and direct and open negotiations. Some companies see also long-term perspective in Moldova. For other delivery and payment terms are rather interesting. Often Czech partner exports to Moldova via a dealer, who has the local knowledge and provides the company with information on Moldova business environment. Thus personal presence is not necessary and the whole trading process can be facilitated via email and phone. Henceforth, the companies did not see visa regime as a substantial obstacle.

Between negative characteristics and barriers of mutual trade companies mentioned bad economic situation and therefore low purchase power of consumers, insufficient financial instruments including bank guarantees behind large projects, non-harmonized and a bit out-of-date technical regulations with inadequate assessment of new technologies, administration barriers prolonged by review and approval of project documentation, insufficiency of young qualified professionals, distance and therefore impossibility of regular personal meetings or long terms when fulfilling particular tasks and preparing trade.

As mentioned above, Czech companies got information on Moldova and their Moldovan partners in most cases directly from them through a specific offer or demand, from their dealers and also from the Czech state institutions (the Ministry of Industry and Trade, Czech Trade) followed by internet resources and Moldovan embassy. Some of them also took up again a historical cooperation with Moldova in socialist era and their personal knowledge of the partner and environment.

To conclude, the Czech companies are not afraid to be active in Moldova when direct demand from Moldovan partner comes. However, they do not search for business opportunities in Moldova on their own and from their own initiative since there are still more known and accessible regions with similar returns as in Moldova, where the companies already have some experience and the uncertainty is thus significantly lower. However, when there was a coming demand from the Moldovan side, Czech partner was most frequently very satisfied with the cooperation.

Therefore, relatively high effort is needed from Moldovan companies to actively search for their partners in the Czech Republic. On the other side, it would be useful to increase consciousness about Moldova, its recent development, improvements in business environment and better business opportunities in the Czech Republic so that companies came on their own with plans to expand further to East and CIS countries, particularly to Moldova.

5.5. Identifying potential niches for further trade development

In February 2005 Moldova has singed an Action Plan with the European Union. Through this Plan Moldova is harmonizing its legislation to EU trade requirements and product standards. With the accession of Romania and Bulgaria to the EU on January 1, 2007, Moldova became immediate neighbor of the EU. This provides further opportunities for increasing bilateral Moldovan-Czech trade.

Paradoxically enough, Moldovan exports to the Czech Republic are quite modest by regional standards and are growing slower than in other countries of the region. Value of exports to Hungary and Austria exceeds that to the Czech Republic almost thrice, while value of exports to Slovakia, more than four-fold (Table 18). This huge difference might indicate that Moldovan companies do not use sufficiently their export potential to the Czech Republic.

Table 18: Value of Moldovan exports to the Czech Republic, Slovakia, Hungary and Austria (USD thousand)

	2003	2004	2005	2006
Czech Republic	1,523.6	1,867.0	4,431.9	5,601.4
Slovakia	1,555.2	1,704.7	15,061.1	22,718.5
Hungary	8,007.6	14,460.9	14,743.9	14,625.5
Austria	11,320.8	10,033.1	11,684.6	13,145.2

Source: NBS

As much as major exports (over USD 1 million) are taken into account, there is only one exported good that can be found among Moldovan exports to all four countries, and it is cast iron, iron and steel. Besides this, however, exports to Hungary, Slovakia and Austria are much more diversified than to the Czech Republic, including cereals, oily seeds and fruits, other seeds and fruits, industrial and medical plants, animal or vegetal fats, processed food fats, animal or vegetal wax (all Hungary); tobacco and its processed substitutes, textiles, shoes and socks, various merchandise (Slovakia); fruits and nuts, processed vegetables and fruits, aluminum and aluminum products (Austria). This means these goods may find their niches on the Czech market too.

Another category of exports to which Moldovan exporters should pay close attention is the group of exports to the Czech Republic, which are growing at the fastest rates. Although their value may not be that impressive, the dynamics of these exports points out that these niches should be explored and amplified. This category includes: dried fruits (apples and prunes), fresh fruits, juices, sparkling wines and brandies. All these goods experienced a spectacular growth in 2006. Exports of honey can also turn out to be attractive niche, as restrictions imposed on the honey imports from Moldova were lifted by the EU in the beginning of 2007.

Main internal barriers impeding higher trade with the Czech Republic are in the area of influence of the companies themselves. These are the moderate quality and narrow range of the products proposed to the foreign markets. There is no immediate solution to this problem but rather consistent and overall revision of the management and marketing practices dominant in Moldova. The Moldovan companies have to possess management and product quality certificates for the entire technological process and their products to meet the EU health and safety requirements.

The main external trade barrier is the customs tariffs imposed by the EU against imports from tertiary countries. Wine, which is in short term the most competitive Moldovan product, is not treated preferentially by the EU in the GSP+. The Moldovan government has to deploy all its efforts to obtain wine to be encompassed by the future Autonomous Trade Preferences that the EU will grant in 2007-2008. Some support, advocacy and know-how can be received, among others, from the Czech government as well.

To summarize, there exist a number of barriers to mutual trade as well as opportunities. There is rather low probability that the Czech Republic could in significant manner influence customs policy of the EU. Therefore, it is necessary to search for some potential for improvement in other areas.

As was already identified above, awareness about Moldova in the Czech Republic is relatively low. This study should contribute to its promotion. Anyway, it would be worth continuing in this line and providing Czech institutions with regular reports or promoting material about current situation in Moldova, which could be further distributed to the Czech companies to make Moldova existence a general knowledge. This could be partly achieved through closer cooperation of the Moldovan MIEPO and the Czech organizations such as CzechTrade or CzechInvest.

Furthermore, the issue of promotion is closely related with the fact that huge amount of information about Moldova on Moldovan websites is not available in English. Since Russian was an obligatory language taught at school, major part of Czech population can speak Russian and is all right for them if websites are translated into Russian as a second language on websites. On the other side and importantly, younger population is familiar rather with English and other world languages than Russian and this trend will be naturally strengthening.

The chapter on international trade support in the Czech Republic lists several trade fairs and trade exhibitions, which can be utilized by the Moldovan companies (with the support of Moldovan export-supporting institutions) for presentation and promotion of their products. The same chapter includes available sources where Moldovan side can actively search for potential partners.

When setting a partnership Czech partners are (as described in chapter 4.5.2) a bit punctual, they prefer setting of clear rules of relationship, adherence to all necessary formal procedures, on-time arrivals, payments in advance etc. This feature of the Czech business culture should be taken into account by the Moldovan partners and reflected in their approach to cooperation with their Czech counterparts.

A typical Czech consumer bases his/her choice of products mainly on the price and quality and their relation. There is not any strong preference of assortment coming from whatever country. Hence we do not see any problem in acceptance of Moldovan products amid Czech consumers' community. This can be illustrated on growing popularity of Moldovan wines. Although the share of Moldovan wines on total wines imports is low, the trend has been clearly positive - their import to the Czech Republic increased from 2003 to 2006 by 157%. This example will be hopefully followed by other products listed in previous paragraphs.

6. Attracting Czech direct investment to the Republic of Moldova

6.1. Czech investment in Moldova - current status, Czech willingness to invest in Moldova

Czech investment in Moldova is still "in nappies". Its share on total outward flows from the Czech Republic reaches very negligible values - not even a tenth of percent (see FDI data shown in the Table 19). This amount is incomparable with significant share of Romanian and Czech investment in Russia, Belarus and Ukraine. In 2005, these shares were by turns 56.2%[39], 1.6%, 0.4% and 0.3% as a percentage of total equity capital.

Table 19: Foreign direct investment

	2005		for 1st quarter 2006	
in th. USD	**Outward flows from the CR to Moldova**	**Inward flows from Moldova to the CR**	**Outward flows from the CR to Moldova**	**Inward flows from Moldova to the CR**
Equity capital	16.1	2.5	n.a.	425.7
Reinvested earnings	2.8	2.3	n.a.	16.6
Other capital	49.7	0.0	n.a	0.0
Total	68.6	4.8	n.a.	442.2

Source: Czech National Bank, November 2006

Note: Data are based on information of Czech entities, which must report realized FDI to the Czech National Bank, therefore they do not have to be precise.

Unfortunately, since the volumes are so low, there is no other statistics or database with more details. The Czech National Bank does not publish particular data for FDI if there are only few projects (one or two) in the country to protect the companies against their competitors. From numbers included in the Table 19 we can only guess that very few projects were realized by Czech entities in Moldova.

Particularly, report of the Embassy of the Czech Republic in Chisinau, Moldova in Chisinau "General territorial overview (February 2007)" names following companies having established or considering establishing of joint-ventures. At first, it is Hamé Babice, which produced pates for Moldovan, Russian and Ukrainian market in Balti. Furthermore, the report mentions Budějovický Měšťanský pivovar (brewery), MILO mýdlárenská (soap producer), HSTOP (irrigation equipment producer), MGM Holešov (sprinkling equipment producer), Spofa (insulin producer), Defend Lock (alarm devices) or Eltodo (modernization of low voltage energy systems). Anyway, even if the names of companies are published, the companies are not very willing to talk about details of their projects since they protect their commercial interests and a partial "monopoly" on investment in regions still not well-explored by other investors. The only facts that were possible to gather from Czech companies´ own experience were the following.

Among the main reasons why the Czech companies would like to invest to Moldova they mentioned the possibility to be active in the territory, which is not well-known in Moldova regarding new technologies, to increase export of services and technologies from the Czech Republic or to participate in development of a perspective country. Promising perspective was also named among the biggest advantages of Moldova.

Barriers that inhibit investment in Moldova included insufficient financial stability and weak financial certainty, inadequate risk insurance or guarantees for realized investment. Czech companies appreciated

[39] However, it is necessary to note, that year 2005 was for Czech FDI in Romania exceptional and that outward flows from the Czech Republic to any county can be influenced and biased in particular year by one big investment project.

enormous effort for investment inflow to Moldova and endeavor for long-term cooperation with Czech side. As the most frequently used sources of information about Moldovan partners, Czech export bank, Export Guarantee and Insurance Corporation, CzechTrade and embassy in Chisinau were named.

Summing up all these facts, similar factors for improving investment relations like in chapter 5.5 can be identified. Again there is a lack of information about Moldova fueling feeling of uncertainty amid the Czech potential investors. Presence of important investors from bigger countries in Moldovan market was also cited as one of the barriers hindering entry of new smaller investors to Moldova. Moreover, there still exist unexplored opportunities in closer (not only in terms of distance) countries so that Czech investors prefer these ones. Henceforth, in the same manner as for the mutual trade it would be worth "disseminating" more information on Moldova among Czech companies, active searching for Czech partners since product portfolios of both countries are rather complementing than competing, continuing in cooperation and developing current relations with simultaneous improvements in Moldovan business environment and harmonization of its legislation mainly with regards to technical regulations.

6.2. How can Moldova attract Czech investors?

In the 1990s the Czech Republic itself was in shortage of investment and looked for attracting the foreign capital in its economy. However, in the 2000s the Czech Republic itself became an important source of direct investment to other countries.

In the year 2005 the Czech investment in Romanian economy equaled almost USD 200 million, whereas in the Ukrainian one it was about USD 11 million. Only USD *68 thousand* went to the Moldovan economy according to the Czech Central Bank and *USD 280 thousand* according to the information of the Ministry of Economy and Trade of the Republic of Moldova[40]. In either case, these are negligible amounts even after considering the small size of the Moldovan economy. Obviously, Moldova has to scale up its bilateral efforts in order to attract more direct investment from the Czech Republic. But equally important is to understand why the Czech investors have so far avoided investing in Moldova?

The answer to this question is probably the same as to the question why have international investors *in general* refrained from investing in Moldova. Indeed, it is rational to expect that the Czech investors are not different from other international investors who are looking first of all for a safe and productive placement of their capital. Therefore, in order to attract the Czech investors the Moldovan government has not only to enter in *efficient bilateral negotiations*, but also to implement an *enabling general investment climate*.

A number of positive developments in the domestic investment climate occurred since 2001 when Moldova has joined the World Trade Organization. Under the current legal framework the principle of national treatment applies to the foreign companies. There are no discriminatory laws or governmental strategies biased against any form of ownership of economic entities. The only (significant) exception is the fact that the right to transactions with agricultural and forest land is restricted to Moldovan citizens. Foreign companies and individuals may however buy and sell all other forms of land property, including plots under privatized enterprises or the land designated for construction.

The Government sees the growing investment as vital prerequisite for the country's economic growth and modernization.[41] One of the goals set in the Economic Growth and Poverty Reduction Strategy adopted in 2004 is to improve the investment climate and accelerate domestic and foreign private sector investment. A number of reforms have been implemented recently in order to achieve this goal.

In the fiscal area the progress is quite impressive. As shown in the Figure 9 the fiscal reform has been driving the Moldovan tax system towards lower levels. The corporate tax rate was gradually reduced from 32% in 1998 to 15% in 2007. In the same time the contributions to social insurance fund shrank from 31% of the total wage-bill to 25% and are expected to decrease more significantly and rapidly in the

[40] The discrepancy may be explained by the fact that much of the FDI coming to Moldova is really Moldovan capital channeled through off-shore as foreign capital for various economic and fiscal reasons.

[41] EGPRSP, 2004.

future. Currently these rates are already among the lowest in Europe[42]. The import customs tariffs have also followed a downward trend: the simple average import tariff fell from 8.6% in 1999 to 5.7% in 2005. As shown in the Box 4, in Moldova currently there are a number of tax exemptions and facilities stimulating the capital investment.

Box 4: Most important tax incentives offered in Republic of Moldova

Business investment facilities

Moldova's Tax Code provides many tax breaks for both domestic and international investors. Companies with formed or increased investment of more than USD 250,000 in charter capital enjoy a 50% exemption from the income tax for five consecutive years. Companies with formed or increased investment exceeding USD 2 million in charter capital enjoy full exemption from income tax for three consecutive years. Companies are eligible for such exemptions if at least 80 percent of their income tax is invested in production development or in national or sector development programs. Furthermore, upon expiration of these exemptions, eligible companies can deduct from taxable income an amount equal to 50 percent of the purchase value of fixed assets (excluding cars, office furniture and general-purpose administrative assets), including fixed assets bought on terms of financial leasing, on condition that during the following three fiscal periods no dividends are paid out and the assets are not alienated or transferred into someone else's possession or use. Also, fixed assets contributed to the charter capital of a company are exempted from the value added tax and customs duties if their value is above MDL 1,000 (about 80 USD).

Business entities, including those with foreign investments, whose period of the aforementioned tax facility has expired, are entitled to an income tax exemption of 50% of the initial value of purchased long-term tangible assets (except for vehicles, office furniture and assets used for general business purposes). Such assets include long-term tangible assets acquired under a leasing agreement, but not exceeding the amount of taxable income. In case of purchasing long-term tangible assets under a financial leasing agreement, this facility is applied for the tax period during which the lessee has put fixed assets into operation.

Small enterprises with less than 19 employees and annual sales less than MDL 3 million (USD 230 thousand) are entitled to a 3-year fiscal vacation for the profit tax.

Residents of free economic zones (FEZs)

Currently in Moldova there are 6 FEZs in different regions. The taxation of the residents of the FEZs has a number of particular features. The tax on the residents revenue, obtained from the export of goods (services) originating from the FEZ outside the customs territory of the Republic of Moldova, is levied in amount of 50% of the general tax rate. The income tax for the residents activity within the FEZ, except for that mentioned above, is levied in amount of 75% of the general rate.

The residents investing in fixed assets of their enterprises and/or in the infrastructure of the FEZ a capital equivalent to at least USD 1 million, are entitled to an income tax exemption on revenue from export of goods (services) originating from the FEZ outside the customs territory of the Republic of Moldova for a 3-year period. The residents that have invested in the fixed assets of their enterprises and/or in the infrastructure development of the FEZ a capital equivalent to at least USD 5 million, are entitled to an income tax exemption on revenue from export of goods (services) originating from the FEZ outside the customs territory) of the Republic of Moldova for a 5-year period.

Research and development entities

Entities working in the area of science and innovation technologies are exempted from the income tax providing that they direct the saved amount of the income tax to financing projects in the field of science and innovations.

Software companies

Software companies are entitled to an integral income tax exemption for 5 consecutive tax years.

Agricultural producers

All agricultural producers are exempted from the income tax for 5 consecutive years for income obtained exclusively from agricultural activity.

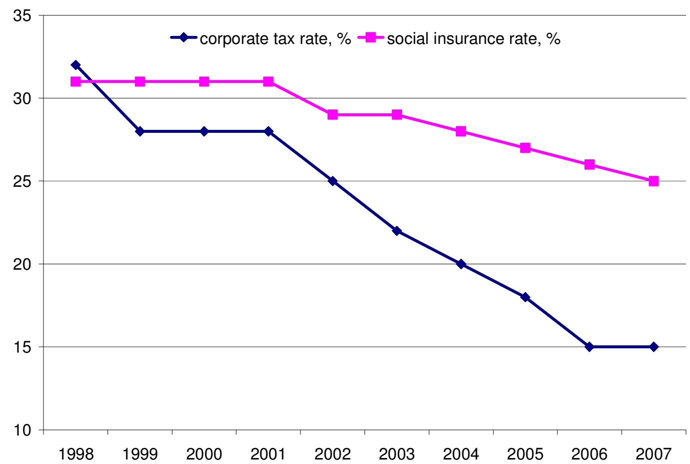
Residents of the International Free Port "Giurgiulesti"

The International Free Port is located on the shore of the Danube, in the southernmost locality of Moldova, the Giurgiulesti village. The activity of the resident companies is regulated by the Investment Agreement on the International Free Port "Giurgiulesti". Companies making capital investments under this Agreement equivalent or exceeding USD 5 million are exempted from the income tax for a period of 5 consecutive years. The companies making supplementary capital investments in an amount equivalent or exceeding USD 5 million, are entitled to

[42] Morover, as part of the „liberalization" initiatives put forward by Moldovan President Vladimir Voronin, the reivested profit will enjoy „0" tax rate.

additional income tax exemption for a period of 2 consecutive years following the tax period in which the mentioned volume of capital investments has been reached.

Figure 9: Dynamics of the income tax and social insurance rate in Republic of Moldova



Source: MTEF, 2006.

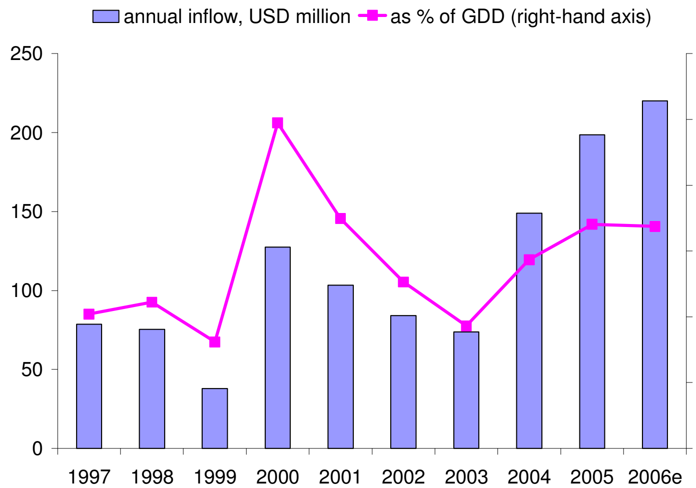
The new Law on investment in entrepreneurship came into effect on April 23, 2004.[43] The law is compatible with European standards in this area providing guarantees for the respect of investors' rights, non-application of expropriation, as well as payment of damages in the event of violation of investors' rights. Whereas the old law on foreign investment required all the foreign companies with capital exceeding USD 5 million to register with the Ministry of Economy and Trade before starting activity in Moldova, the current law does not make the foreign companies subject to any screening from the part of the government. Under the new law the foreign companies can invest in all sectors just like any Moldovan company. There are a number of specific activities, which are closed to any private company. Locally- and foreign-owned private companies are subject to the same treatment as regards regulatory issues (registration, licensing, issuance of construction permits, public tenders etc.).

Since 2005 the structural reforms have been scaled up. The regulatory reform was the key feature of the governmental efforts. Many licenses, authorizations and permits have been eliminated. The law under which the regulatory reform advanced was widely known as “guillotine law” as it was conceived to eliminate the regulations, which are not necessary. Out of the 1000 examined regulatory acts about 100 were eliminated. The Government has adopted a new Strategy for regulatory reform and expects to proceed in 2007-2008 with the “guillotine of the laws” i.e. with an overall assessment of the legal environment as regards its impact on business activity. Also, the Government is expected to develop and implement a system for the regulatory impact analysis.

In 2006 the financial sector was opened to the foreign investors. The Italian Gruppo Veneto Banca and the French Societe Generale have become main owners of two Moldovan commercial banks, the Eximbank and the Mobiasbanca. The new-comers and the ones to come in 2007-2008 will bring about a substantial impetus for the development of domestic financial system. The competition is expected to increase substantially with the reduced loan interest rate being the main outcome of deepening the market. In 2006 the nominal loan interest rate was 18.2% as compared with 18.9 in 2005 and 21.0% in 2004. The real interest rate (average nominal interest rate minus average annual inflation) is about 5.7%, as compared with 7.0% in 2005 and 8.6% in 2004.

[43] Law on investment in entrepreneurship no.81 of March 18, 2004, published in the Official Gazette no.064 of April 23, 2004;

Figure 10: Annual inflow of FDI (total volume in USD and as % of GDP)



Source: NBM data on balance of payments, NBS data on GDP and authors computations.

There are some encouraging trends as regards effectiveness of the measures undertaken to improve the business climate. For instance, as shown in the Figure 10 since 2000 the annual inflow of FDI has followed a U-shaped path. As percent of GDP, the FDI also have decreased in 2000-2003 and then rose again. The most significant investment in 2005-2006 include those of the German Metro Cash & Carry store (opening two large stores in Chisinau and one in Balti), Austrian Grawe insurance company (buying the Moldovan Donaris Life Insurance company), the Azerbaijan AzPetrol petroleum company (investing in the Giurgiulesti oil terminal, subsequently bought by the Dutch Eastern Capital N.V.), The American NCH Capital (investment fund with holdings in banking, real estate and construction) and Western NIS Enterprise Fund (investment in food processing industry), the Italian Veneto Gruppo Banca (buying the Moldovan Eximbank), the French Societe Generale (buying the Moldovan Mobiasbank), the joint Moldovan-American City Development (buying 8000 ha land in Chisinau for building new residential facilities). However, we believe that there is still a very large potential to attract more FDI in Moldova, including from the Czech Republic. For this to happen, a number of the remaining deficiencies of the domestic business climate are still to be overcome.

Box 5. Deficiencies of the Moldovan business climate

Despite the progress registered lately, Moldova still fares behind the CEE countries as regards attracting the foreign investment. There are a number of issues undermining the attractiveness of the Moldovan economy as destination for foreign investment. The Czech investors have pointed to a number of deficiencies. Some of these deficiencies are such overwhelming that cannot be solved quickly, such as the risks associated with the unsettled Transnistrian problem or upgrading the country's transport and energy infrastructure. However, investors believe that most of the problems affecting the domestic investment climate are in the area of influence of the Moldovan authorities. In order to increase the FDI inflow into the country, the Moldovan officials should effectively:

● Provide transparent and easily accessible information as regards the Moldovan business environment (tax, customs, licenses, permits, labor and other);

● Diminish the governmental interference in the activity of private companies, including through the tax office or the Centre for Combating Economic Crimes and Corruption;

● Refrain from anti-competitive protective treatment of state-owned companies (through tax incentives, formal or informal preferences, public tenders and others);

● Guarantee transparency and equity in the privatization process and eliminate the "sweet deals" which are currently common in the Moldovan privatization;

● Refrain from any political or administrative pressures on judicial system and respect is constitutional independence;

● Solve amiably all disputes involving international investors;

● Further advance the regulatory reform and get rid of burdensome and opaque administrative procedures, particularly for licenses and construction permits;

● Establish independent and strong Agency for Limitation of Monopoly and Development of Competition, in order to provide for a fair and competitive business environment;

● Close the gap between the national and international accounting standards and simplify the tax and statistics reporting procedures.

6.3. Identifying potential investment projects

A number of potential joint Moldovan-Czech investment projects have been identified within this project. The analysis of the most advantageous sectors for Czech investment bases on various criteria. These criteria are the degree of priority of various sectors as seen by the Moldovan government, level of profitability, degree of risks and market growth potential.

In 2005 the Moldovan Government has adopted the Program regarding facilitation of the investment activity "ProInvest" for the period 2005-2006. The goal of the Program was to stabilize the domestic business climate and to increase the trust of the potential and effective investors, as well as to prove the Governmental commitment to advance the business environment reforms. The "ProInvest" Program defined the following sectors priority in attracting investments:

1. Software development;
2. manufacturing of new building materials;
3. production of virus-free vineyard and fruit tree saplings;
4. development of telecommunication and IT infrastructure;
5. pharmaceuticals;
6. manufacture of electric and electronic appliances, equipment and machinery.

In 2007-2008 these priority sectors are likely to be maintained and others (such as food-processing) to be added. The beneficiaries of the Program are the investors starting up a business in one of the priority sectors. Being beneficiary of the ProInvest program and holding the Investors Cards issued by the Ministry of Economy and Trade is advantageous for the reason that the Ministry facilitates directly the registering of the companies and starting of the activity and no bureaucratic delays and red-tape are admitted. We believe that the Czech companies have expertise and resources relevant for many of the six sectors and when combined with advantages of Moldovan companies could result in successful joint investment projects. The projects will be described with more detailed information to be found in the Annex 3.

For instance, let's take the first sector (software development), which is growing constantly thanks to both internal and external demand. Moldova is a country of good IT-professionals and good educational infrastructure. In 2005 about 1,200 IT-specialists graduated colleges and universities and about 2000 were matriculated. Currently there are about 60 actively working software companies based in Moldova. Obviously, this sector is not very capital intensive and may be attractive for the Czech capital.

Another interesting sector for joint investment projects may be the manufacturing of the new building materials. In the Czech exporters' directory there are 113 companies specialized in production of "articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware" among which Moldovan companies can find potential partners.[44] We believe that combining the outstanding technical expertise of the Czech companies in this sector with Moldovan advantages will result in successful joint projects. The advantages that Moldovan companies enjoy are the existing innovative ideas, cheap labor and abundance of mineral raw material, good geographic position and free trade agreements to reach many regional markets. The construction sector is buoyant in Moldova (a 20% growth in 2006) as well as in Romania (18.6%) and Ukraine (9.8%) and will probably preserve a high growing pace in the future. A concrete technical project in this area was proposed by a Moldovan company which looks for resources for implementing in practice an innovative "Quadropress" for manufacturing building materials. More technical information on this project is provided in the Annex 3.1.

[44] http://exporters.czechtrade.cz/en/.

Services and food industry are the fastest growing sectors in Moldovan economy. In these sectors there are a number of potential niches for investment. We have identified the launching of a chain of traditional Czech pubs in Moldova as the most interesting. This project is attractive because the consumption of beer in Moldova has been growing quickly and despite the competitive environment (presence of Moldovan, Romanian, Ukrainian, Russian and other producers on the domestic market) the market still has a large unexploited potential. More information on this potential investment project is provided in the Annex 3.2.

Other very interesting bilateral projects may result from the fact that Moldova is a net importer of energy resources and its energy needs will only grow in the future. As energy prices are going up, any investment in domestic capacities of energy production will be very much welcomed in Moldova. This country is endowed with necessary factors – cheap labor and large plots of land - for producing bio-fuel for both domestic and foreign consumption. In the Annex 3.3 there is a brief description of a potential plant for producing bio-diesel and bio-ethanol in the Republic of Moldova.

Currently a law on private-public partnership is being developed in Moldova and this will allow for starting up projects with both commercial and public purposes. For instance, the provision of safe drinking water is currently a serious problem in many Moldovan villages and towns and this provides a niche for an interesting project. The Czech Republic has good technical expertise in equipment for water filtration while in Moldova there is a demand for water treatment stations. In most of Moldova's cities and villages, groundwater is contaminated as a result of agricultural misuse of mineral fertilizers, pesticides and inefficient treatment of agro-industrial wastes. About 57% of rural wells are polluted with nitrogen compounds, pesticides, hydrogen sulphide and fluorides. Nitrates, ammonium, pesticides, as well as heavy metals, are also detectable in surface waters. The drinking water in a good half of the village wells is estimated to be polluted with agricultural chemicals or their decay products. The public demand for redressing this situation is increasing but the government is not able to respond to it. This is an opportunity for a potential Moldovan-Czech company to be established in order to provide these services. More technical details are provided in the Annex 3.4.

Moldova has significant comparative advantages and traditions in cultivating crops used for extraction of essential oils as well as in cultivation of medical plants. The Annex 3 describes a potential investment project proposed by a Moldovan company specialized in production, procession and commercialization of ethereal-oleaginous and medical plants and production of essential oils for cosmetics and pharmaceuticals industries. The company is currently is looking for a foreign partner in order to increase production scale and explore new markets.

Obviously, Moldova's strongest advantages are in the wine-making sector. However this sector is highly competitive and potential projects Moldovan-Czech will have to produce unique outputs with exceptional consumer features. The project, which meets this condition, is presented in the Annex 3.6. The main idea is to produce for both internal market and for export low-alcoholic carbonated beverages. The project proposal seems to be very attractive in financial terms as well as in terms of long-term market potential.

7. Moldova as a priority country for the Czech official direct assistance

7.1. How and how much the Czech government assists the Moldova's government

The Czech development assistance aims to reduce poverty in less-developed countries and maintain sustainable development. In its policy of development assistance, the Czech Republic adopts a multidimensional approach to the concept of poverty that is accepting that poverty reduction cannot be understood just in terms of economic development. Therefore, poverty is not just a mere lack of income, but rather a consequence of many social and environmental factors.

Development assistance projects focus in general on sectors where the Czech Republic enjoys comparative advantages. The sectors include education (provided in the form of scholarships), environmental protection (hydrology, biodiversity), infrastructure (energy production, transport, nuclear safety), agriculture (rural development), geological survey and other priorities. The sectoral priorities of the Czech official development assistance (ODA) include also basic social services, such as basic education (primary), health care and nutrition, safe water and sanitation. The Czech Republic is especially well placed to support the strengthening of the partner countries' institutional capacities based on its own recent experience with the political and economic transition.

In January 2002, the Government agreed on the "Concept of Czech ODA for 2002 — 2007". Its purpose was to define new principles and priorities of development cooperation, building the whole strategy on principles of development partnership, recipient responsibility and improved efficiency and transparency. The first principle means that not only the willingness of the Czech site but also the demand from recipient countries is crucial.

The concept also introduced a two-phase approach to the modernization and reform of the Czech ODA program. While the new strategy underlines that the main responsibility for implementation of ODA projects rests with line ministries, it also deals with the role of the later on established Development Centre. The Centre, as the main supporting expert body for the Ministry of Foreign Affairs, undertakes activities like appraisal of proposals for long term programs and specific development assistance projects, monitoring and evaluation, cooperation with institutions of ODA donor countries, training of experts working in the ODA program, and coordinating research in the area of development assistance. Based on the concept, the Czech Development Agency should be established, subject of the Government decision. The Agency will build upon the institutional and human capacities of the existing Development Centre.

The Czech government has identified eight priority countries for long-term development cooperation: Angola, Zambia, Vietnam, Moldova, Mongolia, Yemen, Bosnia and Herzegovina, Serbia and Montenegro. The priority countries receive 75% of Czech ODA, non-priority countries 25%. Planned financial resources for particular priority countries for the period 2006-2008 are indicated in the Table 20.

Table 20: Planned financial resources (CZK million)

	2006	2007	2008
Angola	14.6	25.9	32
Bosnia and Herzegovina	30.1	67.1	82
Jemen	14.4	29.7	31.7
Moldova	**20.9**	**31.4**	**35.5**
Mongolia	28.4	50.9	63.1
Serbia and Montenegro	42.2	94.6	96.3

Vietnam	21.4	42.6	47.3
Zambia	7.5	21	21
Priority countries total	**179.5**	**363.2**	**408.9**

Source: Institute of International Relations by the Ministry of Foreign Affairs; Foreign Development Cooperation of the Czech Republic; 2006

The Czech - Moldovan cooperation is based on the Principles of International Development Cooperation, approved by the Czech Government in Resolution 302 of March 31, 2004, which established that an essential component of Czech International Development Cooperation (IDC) is comprised of programs of development cooperation with priority countries. The Czech Government has identified the Republic of Moldova as one of the priority countries, primarily due to the following:

- Need for development co-operation
- Czech experience with transition and EU accession
- Successful development co-operation already underway
- Effects of the mass migration of the population of Moldova on other European countries (incl. the Czech Republic)
- Potential for export of Czech products and technology to Moldova

The responsible bodies are:

- Ministry of the Interior
- Ministry of Environment
- Ministry of Foreign Affairs
- Czech Embassy in Bucharest
- Development Centre at the Institute of International Relations in Prague

Within the framework of its development cooperation with Moldova, the Czech Republic will focus on the sectors of environmental protection and human resources development, mainly through efforts aimed at stabilization of the social and economic situation and preventing Moldovan migration. At the same time, cooperation in the area of education will be intensified, primarily by increasing the exchange of experience among scientific and research institutes in both countries. These areas are of great importance for the economic and social development of Moldova and will affect other sectors as well (e.g. manufacturing, agriculture, the food industry, etc.).

Indicative summary of the areas for development intervention in the environmental sector:

- Cooperation in the area of water protection (pollution clean-up, preventative approaches in industry, etc.)
- Cooperation in the hydrometeorology and climatology sector
- Support of biological diversity protection
- Indicative summary of the areas for development intervention in the sectors of human resources, migration prevention, and stabilization of potential emigrants:
- Support of the capacities of the Moldovan public sector (police, border guards, etc.) while establishing effective migration management
- Social stabilization of potential migrants through the creation of alternatives to migration (strengthening human capital, job creation)

Indicative summary of the areas of development intervention in the education, science and research sector:

- Preparation for implementation of the Bologna Declaration at institutions of higher education in Moldova
- Development of curricula in the fields taught at Moldovan universities
- Introduction of environmental aspects within instruction, and improvement of instructors' pedagogical skills

Cross-cutting issues:

- Strengthening the cultural, economic and social ties between the Czech Republic and Moldova, including the promotion of co-operation among education and research institutions
- Strengthening the capacities of the Moldovan public sector and the transfer of experiences in the areas of economic and social transformation, and establishment of the rule of law
- Promotion of the creation of a functioning and stable civil society, strengthening the role of citizens' initiatives and non-governmental organizations
- Promotion of community development
- Active promotion of gender equality in society, support of the Moldovan Government's efforts to eradicate the abuse of women and children

Table 21: Overview of the on-going CR IDC projects in Moldova

Project Name	Responsible Ministry of the CR	Implementation Period
Prevention of Illegal Migration from Moldova to the CR and Assistance in the Creation of Asylum Infrastructure in Moldova	Ministry of the Interior	2001–2005
Support for the Development of Migration Management in Moldova	Ministry of the Interior	2004
Assistance in Stabilizing Potential Migrants and Preventing the Irregular Migration of Minors	Ministry of the Interior	2005–2007 (planned)
Improving the Environment in Moldova by Employing Czech Environmental Techniques and Equipment Manufactured in Joint Czech-Moldovan Enterprises	Ministry of the Environment	2005–2008 (planned)
Training Specialists in Practical Knowledge of the Environmental Sciences	Ministry of Foreign Affairs	2004–2005

Source: Ministry of Foreign Affairs, *www.mzv.cz*

Until 2005 the focus of Czech ODA for Moldova was dominantly on migration and environment (see Table 21). In the future the project of prevention of migration should be reduced and the focus on environment and education should be strengthen (see Table 22).

In mid-2007 an interim evaluation of development cooperation between the Czech Republic and Moldova will take place, which might provide an opportunity to jointly identify preferred fields.

Table 22: Allocated financial resources for development cooperation with Moldova (2006-2008, CZK mil.)

	2006	2007	2008
Education	3.5	6.3	7.8
Social development	1.2	2	3.2
Environment	7	15.6	18.6
Migration and safety	8.7	4.1	2
Agriculture	0	2.4	2.9
Other	0.5	1	1
Total	**20.9**	**31.4**	**35.5**

Source: Institute of International Relations by the Ministry of Foreign Affairs; Foreign Development Cooperation of the Czech Republic; 2006

To summarize, the Czech government selected Moldova as one of the priority countries. Based on this status Moldova has better access to financial means in the form of development aid. The coordinator of ODA is still Ministry of Foreign Affairs with some competencies delegated to particular ministries. These ministries submit projects within Czech ODA program and within the amount of allocated financial resources from the budget. Projects are based on the Czech ODA strategy, which draws from the Moldovan strategy of development and therefore reflects the demand of Moldova to a certain extent. At the beginning projects were targeted to solve migration issues, currently the focus shifts towards protection of environment and education. Financial means are distributed and allocated each year and must be approved by the Czech government decision. Currently, allocation of funds has already been decided for 2007. However, for the year 2008 only preliminary prospect based on planned continuation of already launched projects exists and the distribution can thus be influenced by Moldovan side. Although there might be space for new projects both in terms of financial resources and sectoral changes, until now the Institute of international Relations did not register any remarkable effort from Moldovan side to change targets of Czech development aid for Moldova.

8. Conclusions: Policy and business recommendations

The Czech Republic advanced more rapidly than the Republic of Moldova on the path of transition from a centrally-planned economy to a market one and from a one-party political system to a truly democratic regime. While the Czech experience is not entirely transferable to the Republic of Moldova, there are certainly some basic lessons to be learnt. The recommendations can be divided in two sets: a set of recommendations for the Moldova government and another one for the business community.

Policy recommendations

The achieved macroeconomic stabilization is one of the most important successes of Moldova on its way to market economy, but more efforts should be made further on in order to mitigate the persistent inflationary risks. However this is ultimately linked with the soundness and competitiveness of the Moldovan economy which is overly vulnerable to external shocks and so far unable to diversify qualitatively and structurally its products. This is an overwhelming task which is relevant both for government and the private sector.

For the macroeconomic stabilization to bring expected welfare results, a number of structural and institutional reforms have to be completed. Moldova has progressed significantly with the transformation of its legal framework. However, it is clear that the law has also to be adequately enforced. Strong law enforcement capacities should be created as early in transition period as possible in order to guaranty the private property rights and thus stimulating more domestic and international direct investment in productive capacities. As both Czech and Moldovan experience, politically dependent judiciary may undermine significantly the business climate of a country. Civil society and NGOs can definitely play a role in pointing out the irregularities. Politics need to be transparent and democratic but political tensions with ethnic underpinnings are notoriously difficult to manage even in relatively developed countries.

Another important lesson to be learnt from the Czech Republic is the necessity of building an efficient business- and trade-support institutional infrastructure. The range of provided services may vary from Internet trade opportunities to organization of trade fairs, exhibitions and direct representations and negotiations and to directly supporting exports with credits and insurance services. This would allow the Moldovan exporters to compete on international markets under conditions comparable to those enjoyed by their main foreign competitors. The institutional capacities should be solid enough to provide the foreign investors up-to-date information on business climate and investment opportunities in Moldova as well as to inform the local exporters on opportunities of developing trade relations with foreign partners.

An interesting experience that can be taken from the Czech Republic is offering to investing companies such opportunities as support for the creation of new jobs in regions with high unemployment, help to foreign companies in their search for suitable domestic suppliers, and support for the development of industrial zones. The objective is to improve conditions for capital construction projects in the processing industry, strategic services and technology centers sector, mainly by regenerating old disused industrial zone, preparing new ones, and by constructing and restoring rented buildings.

Economic policy should be simple and straightforward. It is necessary to maintain fiscal and monetary stability since macroeconomic chaos has never brought economic development anywhere, anytime in history. It is very useful to communicate with foreign donors and creditors including IFIs to win their support and debt service relief (if necessary). The economy performance benefits from low and simple tax framework and very low corporate and personal tax rates. In this respect and also in other aspect of entrepreneurial environment, a significant progress has been achieved in Moldova in the recent years. The same thing concerns deductibles for small businesses and self-employed, which should be flat as in this structure it is easy to administer. Social security taxes should be kept at low levels and revenues should predominantly come through indirect taxes (excise tax on luxury goods, cars, fuels, tobacco, alcohol, VAT on goods and services (one rate, few if any exceptions)). On the expenditure side of the budget recommendation should be to consider public expenditure review to eliminate wasteful projects and expenditure line items, eliminate subsidies to industrial sector and subsidies to transportation and utilities (should be covered by user charges).

Crucial point is that bureaucracy is one of the major impediments to economic development. The whole body of regulations with an aim to radically limit the impediments to development and legitimate business activity and initiative should be reviewed.

Free entry into the marketplace should be promoted. Failing business ventures should be dealt with through an up-to-date insolvency law that upholds the rights of creditors. State enterprises should have limited role in the economy. Bankrupt enterprises should not be tried to rescue using state funds, but focus should be directed towards transparent auctions to experienced private investors.

Foreign investments are critical for country development. Incentives should be transparent and non-discriminatory (with respect to both foreign and domestic investors) and focused on projects with high sustainable development potential using local resource base (bio-farming and food processing, wine and beverages industry). Financial sector should not be forced to provide subsidized or policy based credit (bank failures are very expensive - see the Czech experience). For SMEs and agriculture communally based microcredit can be considered. Leasing is often a good tool as long as the title is retained by the leasing institution until full repayment.

Moldovan officials have long time boasted the fact that Moldova lies at the crossroads between Europe and Asia in a fashion that presumed that Moldova's geographical position is a value itself. However, advantages of Moldova's geographical position are often overestimated and not properly assessed to make use of. For a country to become a bridge between one region and another geographical position is not the sole condition. What it needs also is high quality physical infrastructure enabling the transportation of goods and technically-educated labor force. The trade regime and customs procedures should be as streamlined as possible.

Business recommendations

Nowadays Moldova's specialization is to a significant degree related to agriculture, food and beverages sectors. These sectors are the main contributors to the country's GDP and exports; and will likely remain the main sectors in the near future. As for the Czech Republic, its specialization is more advanced and concentrated on manufactured articles, machinery and transport. Paradoxically as it may seem, these dissimilarities are propitious for advancing the trade between the two countries. Moldova is experiencing a rather strong economic growth and its investment needs will only increase in the future, including the needs for machinery, equipment and transport. This is a real opportunity for the Czech producers of machinery and equipment to increase their sales to Moldovan companies.

Analysis of Moldovan exports to the Central and Western Europe shows that the exports to the Czech Republic are very small. Gravitational trade theory suggest that there is high potential for a substantial increase of the Moldovan exports to the Czech Republic. For the government to achieve this goal the formal or informal trade barriers should be identified and removed. As for the Moldovan companies, they should pay more attention to establishment of the business contacts. This will enable Moldova companies to benefit from the fact that the Czech Republic is emerging as a new economic hub in Europe. From this point of view the Czech Republic could become an interesting partner for Moldova consequently with the CR´s strengthening position in Europe and its expected EU presidency.

Business culture is one of the factors influencing decision by a company of whether to look for a partner in another country with the purpose to invest or trade. Analysis of the Moldovan and Czech business culture indicates that there might be potential for establishing new business contacts and working together in joint projects since some important aspects of the business culture are quite similar in the two countries. However the strong involvement of the Moldovan government in the business activities influences quite adversely business culture in Moldova. It makes companies more prone to corruption and cozy relations with government officials in order to grease business operations, and precludes consolidation of honest competition among companies. In the future the ongoing legal reform aiming to cut red-tape will certainly reduce the room for government involvement in business operations.

Finally, Moldovan government and businesses should joint their efforts in promoting better image of the country, provide information and practical help in exploring together with Czech counterparts business opportunities in Moldova, and use more business-to-business contact to lure Czech investors in the country. Often, eye-to-eye contacts and best cooperated practices promotion can make wonders. Ultimately, the critical mass of success-stories may be needed.

Annex 1: Useful macroeconomic and trade statistics

Moldovan indicators

	2000	2001	2002	2003	2004	2005	2006
GDP growth rate, %	2.1	6.1	7.8	6.6	7.4	7.5	4.0
GDP per capita, USD, PPP	2112	2300	2533	2785	3046	3360	3700e
Industrial output growth rate, %	7.7	13.7	10.8	15.6	8.2	6.3	-7.0
Agricultural output growth rate, %	-3.3	6.4	3.4	-13.6	20.8	1.0	1.2
General government balance, % of GDP	-1.0	0.0	-0.5	0.3	0.0	0.6	0.0
Public foreign debt, % of GDP	67	55	44	36	26	23	22e
Public internal debt	13	13	13	11	12	10	9e
Exports of goods and services, million USD	641.3	735.5	876.4	1058.7	1348.6	1528.3	1616.0e
Imports of goods and services, million USD	971.9	1088.5	1294.5	1728.6	2124.6	2743.1	3165.0e
Trade balance, % of GDP	-22.9	-21.3	-22.7	-31.5	-29.0	-39.1	-46.0
Average inflation rate, %	31.2	9.6	5.2	11.6	12.4	11.9	12.7
Unemployment rate, % (ILO definition)	8.5	7.3	6.8	7.9	8.1	7.3	6.8e
Real wage growth rate, %	2.2	21.6	20.9	15.4	10.1	6.8	15.0
Average wage per economy, USD	33	42	51	64	90	105	130
Labor productivity growth rate, %	0.8	36.5	20.3	29.9	27.1	15.4	14.5
Exchange rate MDL/USD, yearly average	12.43	12.87	13.57	13.94	12.33	12.60	13.13
Net FDI inflow, % of GDP	9.8	6.9	8.0	4.0	5.7	7.7	6.6
Work remittances, % of GDP	13.8	16.4	19.4	24.4	27.0	30.5	31.9

Sources: NBS, NBM

Czech indicators

Geographic position of the Czech Republic in Europe

Privatized Enterprises Overview

	Category	Number of enterprises

		31.12.1996	31.12.2000	31.12.2005
1	Bankrupted or receiver shipped enterprises without being privatised	201	204	208
2	Completed privatization	1 002	1 347	1 446
3	Enterprises within MIT scope with unfinished or not launched privatization	439	121	23
4	Public liability companies assigned to National Property Fund of CR with unfinished stock privatization	79	49	24

Source: www.mpo.cz

Privatized Assets Overview

	Category	Value in CZK bn		
		31.12.1996	31.12.2000	31.12.2005
1	Assets assigned to NPF of CR	615	621	662
	Out of which:			
2	Privatised Assets	453	488	618
3	Stock being in possession of NPF of CR (par value)	162	121	83
4	Assets left in MIT sector	16	52	6

Source: www.mpo.cz

The list of the Czech export supporting insitutions

CzechTrade – Czech Trade Promotion Agency	CzechTrade is a government Trade Promotion Agency of the Ministry of Industry and Trade. The main task is to assist companies in development of mutual trade and cooperation. Through its foreign as well as local offices the agency provides trade information, practical assistance to exporters and foreign buyers, consultancy, educational programs, assists companies throughout trade fairs. The website can also publish adverts of foreign companies willing to enter the Czech market or searching for a partner. CzechTrade agency has 30 International Offices in 27 countries of the world.
CzechInvest - Investment and Business Development Agency	CzechInvest, the Investment and Business Development Agency, is an agency of the Ministry of Industry and Trade. Established in 1992, the agency contributes to attracting foreign investment and developing domestic companies through its services and development programs. CzechInvest also promotes the Czech Republic abroad and acts as an intermediary between the EU and small and medium-sized enterprises in implementing structural funds in the Czech Republic. All CzechInvest’s services are free of charge.
Economic Chamber of Commerce	The Economic Chamber is an association of large, medium and small businesses in regional chambers and trade associations. Currently the Chamber has 60 regional economic chambers. It is also a part of the WTC network - World Trade Center Prague. A subscriber service enables to accept request (sales leads) from abroad if someone is looking for products or suppliers. There is also a specialized Chamber of Commercial Relations with the CIS – focused on the Commonwealth of Independent States (Russia and other former Soviet countries) providing information and advisory services to its members.
Confederation of Industry of the Czech Republic	The Confederation is a voluntary organization associating employers and entrepreneurs in the field of industry and transportation. The web site provides a database of members that can be

	searched according to various criteria. The Confederation is also involved in organizing trade missions and match-making of business partners.
Association for Foreign Investments	The Association for Foreign Investments represents a group of service companies with local experience that support the entry of foreign investors to the Czech Republic and offer a wide range of professional services to foreign investors entering the local market. The chief aim of AFI is to ensure that foreign investors' entry into Czech market is as smooth and easy as possible. Consultants from the AFI group are experts in the fields of advisory services, consultancy, project services and inspection, with specific specializations.
International Chamber of Commerce – Czech Republic	An essential service provided by ICC is the ICC International Court of Arbitration. ICC represents its members in international disputes. ICC offers important publications on rules, codes and other standards which govern the conduct of international business – some have been translated into the Czech language (eg. INCOTERMS, ICC model of trade contract).

Source: www.businessinfo.cz

List of CzechTrade´s successes

Aqua Impex s r. o.	a Czech company has succeeded in finding a customer for specific receptacles for hazardous waste, filters and mixing devices of a total value exceeding CZK 120,000 (EUR 4,030). The potential of future supplies is estimated at up to CZK 6 mil. (approx. EUR 201,450).
ČZ Strakonice	The specific object of demand from Russia, which ČZ a.s. has prospered from, were turbo-compressors.
PREMOT Františkovy Lázně a. s.	Serbian market
Grafitec	among the world's leading manufacturers of sheet offset machines; Turkey - the volume of contracted trade for 2004 exceeded the 60 mil. mark.
Techfloor	Russia - the initial one hundred thousand crown contract with a local partner was followed by larger contracts
Story Design	a contract with German concern TCHIBO to a total amount of CZK 10 mil.
TR Antoš	American customer; the export of goods to the United States for more than CZK 600 thousand
Contia	a customer in Sweden
Grios	a position in the Apennine peninsula; the first contract volume exceeded CZK 3 mil.
Racio	succeeded on Latvian market
AXIS	met the required criteria best and won a mil.-Crown contract of a German company dealing with the manufacture of stage technology
Svitap J.H.J.	a position in the Italian market

Source: www.czechtrade.cz

Electronic Trade Opportunities Projects

Your Czech Supplier	Web site with sales leads system established by CzechTrade. Foreign companies looking for a Czech supplier/product can put their inquiry and specification there.
Czech Exporters Directory	Directory of more than 4,500 Czech exporting companies, which are successful both on the Czech market either in case of their export, production and business cooperation with foreign partners. The database is for easy orientation divided due to branches, regions and alphabetically.

Allytrade	A system of offers and inquiries enables the user to search for suppliers or companies that demand specific products or services. Companies can put their specifications (offer or inquiry) and make it visible/searchable for other potential partners. It is also a Czech eMarketplace for various products and services. Users can buy or purchase goods within the B2B Internet environment. AllyTrade B2B is a general eMarket for producs: Paper storage, office tools, repairing and adhesive agents, office appliances and accessories, color ribbons, toners, cartridges, furniture, cleaning and hygienic agents, refreshment goods, gift ware. Registration is required.
WLW	The site provides search for companies that are ready to sell/export products and services and also search for companies ready to buy/import products and services. One can use a personalized user environment (free) - my WLW bookmark. The quick search criteria are: product/service name, company name or translation of product name (all languages). It´s necessary to specify the search by choosing the country. Countries: Austria, Belgium, Switzerland, Czech Republic, Germany, France, Finland, Denmark, Italy, Croatia, Luxembourg, Sweden, Slovenia, Slovakia, UK. WLW eMarket offers a B2B facility with a broad variety of products with focus on Europe, particulary Germany. Countries and languages covered: Czech, Dutch, English, Finnish, French, German, Italian, Slovak, Spanish, Swedish. One can search catalogues with on-line order forms. The site provides users with Events calendar, Industry directory, Industry statistics, News/news letters, Search engine, travel resources and CD-ROM business directory.
NetBid	NetBid is an eMarket entity coming originally from Germany; it has a sale office in the Czech Republic. NetBid is a general eMarket for used machinery and machine plant in all industries including construction, office & IT, printing, electronics, vehicles, wood processing, food, textile processing etc. Users are usually buyers and sellers of industrial machinery. Languages: Czech, English, German, Polish. The site offers eMarket trading functions: Auction, Exchange. With the premium service, Netbid helps the client evaluate the product value, uses pictures of the product and announces an auction in trade press. Registration is required. Fees: the purchaser pays a commission to Netbid upon completion of sale.

Source: www.businessinfo.cz

Information about Czech companies

ARES (Access to Registers of Economic Subjects)	http://wwwinfo.mfcr.cz/ares/ares.html.en
Electronic version of Business Registry provided by Ministry of Justice	http://www.justice.cz/
Trade and Craft Register	http://rzp.mpo.cz/
Inform Net database	http://www.inform.cz/
Czech Exporters database	http://www.ce.inform.cz/
Kompass	http://www.kompass.cz/
EDB - European Databank	http://www.edb.cz/
Quality System Certification	http://www.iso.cz/

Companies that have received investment incentives

MANUFACTURING SECTOR	
Number of companies	209
Amount of investment pledged	EUR 9.8 bn

Number of new jobs created	59,985
BUSINESS SERVICES AND TECHNOLOGY CENTERS	
Number of companies	49
Amount of investment pledged	EUR 340 mil.
Number of new jobs created	8,747
JOB CREATION SUPPORT PROGRAM FOR REGIONS WORST AFFECTED BY UNEMPLOYMENT	
Number of companies	30
Amount of investment pledged	EUR 50 mil.
Number of new jobs created	4,131

Source: CzechInvest, June 30, 2006

The most important new or amended legislation due to the CR´s accession to the EU

A new act, no 441/2003, on trademarks	The act created prerequisites for linking the Czech and European trademark systems and responded to the fact that after the Czech Republic joined the EU, Community trademarks would also be valid in the Czech Republic.
The Insurance Act Amendment, act no 39/2004, amending act no. 363/1999 on insurance	The Act adjusted legislation concerning private insurance to the third generation of EC directives concerning life insurance and non-life insurance.
Act no 40/2004 on awarding public orders	The new act was based on EC directives governing the awarding of public orders.
Act no. 19/2004, amending Act no. 72/2000 on Investment Incentives	The amendment defines the criteria for granting investment incentives more accurately, in response to the transfer of the powers of the Anti-monopoly Office in assessing public support to the EC.
Abolition of the Individual Exemption System in the Area of Cartels	The Czech Anti-monopoly Office and Czech courts, in addition to the EC, have the obligation to apply the basic provisions of the Treaty establishing the European Community directly, banning contracts that violate competition (cartel agreements) or abuse a dominant position.
The enactment of the new Value Added Act	The Czech Republic was entitled to retain the reduced 5 % VAT rate until the end of 2007 in the case of heat deliveries for households and small enterprises and for construction work on housing.
The act on trading on the capital market, the act on collective investment, the bonds act and the so-called exchange act	New arrangements in the area of securities and the capital market
The Foreign Exchange Act Amendment	It introduced a new system for the acquisition of domestic real estate by foreigners. Unlike the previous legislation, the opportunity for nationals of EU member states to acquire farmland and forestland was extended in the case of nationals of an EU member state who held a residence permit certificate, who were registered as a farming entity and who had permanent residence in the Czech Republic for at least three years.
The act on the residence of foreigners applying to EU citizens and their dependants	Permanent residence permits can be obtained more easily

An amendment to the Trades Licensing Act	Entrepreneurs with their headquarters in another EU member state may provide services on the territory of the Czech Republic solely on the basis of a trade licence obtained in any EU member state.
The Act on the Recognition of Professional Qualifications (Act No. 18/2004)	The act is based on the principle of mutual recognition of professional qualifications gained in any EU member state.
The Customs Administration Act Amendment and the Customs Act Amendment	EC customs regulations, including the Common Customs Tariff, are directly applicable in the Czech Republic

Source: www.doingbusiness.cz

Exports to Moldova, 1.1.1999 – 31.1.2006 (USD th.)

Code	Goods	1 999	2000	2001	2002	2003	2004	2005
00	Live animals			3		13	2	
01	Meat and meat preparations	3	6	162	1	2	203	155
02	Dairy products and birds eggs	164	40	37	66	67	51	
03	Fish, crustaceans and molluscs				1			
04	Cereals and cereal proparations	444	1 770	1 071	151	2 823	3 638	2 068
05	Vegetables and fruit	55	24	49	115	75	81	27
06	Sugar, sugar preparations and honey	17	598	3 154	365	2	6	2 855
07	Coffee, tea, coca, spices and manufactures thereof	49	29	25	37	11	11	10
08	Feeding stuff for animals (excluding unmilled cereals)			2	6		1	
09	Miscellaneous edible products and preparations	393	193	79	41	95	307	261
11	Beverages	16	34	34	47	229	282	472
21	Hides, skins and furskins, raw						4	
22	Oil-seeds and oleaginous fruits	52	1		9	22		303
26	Textile fibres and their wastes	45	37	14	8	7	3	6
27	Crude fertilizers and crude minerals (exl. coal, petroleum)	19	1			16	15	19
28	Metalliferous ores and metal scrap							12
29	Crude animal and vegetable materials	25	17	1				8
33	Petroleum, petroleum products and related materials		1	3	54	116	163	231
41	Animal oils and fats					71		
42	Fixed vegetable fats and oils, crude, refined	7	5	4	13	1	30	
43	Animal or vegetable fats and oils, processed; waxes	61			3		1	
51	Organic chemicals	8	20	23	31	27	52	33
52	Inorganic chemicals	29	41	64	99	52	22	70
53	Dyeing, tanning and coloring materials	92	70	85	117	92	146	190
54	Medicinal and pharmaceutical products	231	116	255	383	402	584	959
55	Essential oils and resinoids and perfume materials	119	11	14	15	62	154	126
57	Plastics in primary forms	66	100	255	72	57	1 229	1 141
58	Plastics in non-primary forms	467	458	664	660	878	1 038	2 182
59	Chemical materials and products, n.e.s.	29	36	24	20	121	29	118
61	Leather, leather manufactures, n.e.s., dressed furskins						1	
62	Rubber manufactures, n.e.s.	21	146	113	144	399	125	1 058
63	Cork and wood manufactures (excluding furniture)	36	1	17	4	21	4	317
64	Paper, paperboard and articles thereof	416	724	468	329	583	505	645
65	Textile yarn, fabrics, made-up articles	1 137	1 328	184	36	47	145	817
66	Non-metallic mineral manufactures	805	683	1 568	1 216	1 400	2 067	1 418
67	Iron and steel	1	29	168	151	104	63	192
68	Non-ferrous metals	12	36	39	45	62	149	48
69	Manufactures of metals	390	278	518	579	1 132	975	1 562
71	Power-generating machinery and equipment	43	7	2	3	31	97	19
72	Machinery specialized for particular industries	171	158	197	184	298	360	1 885
73	Metalworking machinery	3	3	3	5	5	43	182
74	General industrial machinery and equipment	266	393	600	730	683	924	1 276
75	Office machines and automatic data-processing machines	8	18	256	203	257	460	1 384
76	Telecommunications and sound-recording, equipment	3	300	342	77	722	3 944	3 443
77	Electrical machinery, apparatus and appliances	169	170	763	424	683	975	1 352
78	Road vehicles (including air-cushion vehicles)	921	838	2 869	3 354	588	3 372	6 693
79	Other transport equipment					23	68	
81	Prefabricate buildings; sanitary, etc., fixtures, n.e.s.	222	335	473	789	757	971	814
82	Furniture and parts thereof	109	106	84	95	80	81	30
83	Travel goods, handbags and similar containers	2	1	2	3	3	4	8
84	Articles of apparel and clothing accessories	38	97	17	35	15	56	55
85	Footwear	10	1				16	
87	Professional, scientific and controlling instruments, n.e.s.	339	103	377	20	51	47	42
88	Photographic apparatus, optical goods, watches and clocks	4	3	93			21	12
89	Miscellaneous manufactured articles	1 568	283	298	390	528	592	529
96	Coin (other than gold coin), not being legal tender		247	36			51	269
97	Gold, non-monetary (excluding gold ores and concentrates)					106		315

Source: Czech Statistical Office, recalculated by average exchange rate CZK/USD in relevant year

Imports from Moldova, 1.1.1999 – 31.1.2006 (USD th.)

Code	Goods	1999	2000	2001	2002	2003	2004	2005
00	Live animals					1	14	7
04	Cereals and cereal proparations	3	7					230
05	Vegetables and fruit	634	176	339	548	507	360	661
06	Sugar, sugar preparations and honey		8	18		56	111	17
07	Coffee, tea, coca, spices and manufactures thereof		1	2	1			
09	Other food						2	
11	Beverages	151	245	275	268	399	561	1 294
21	Hides, skins and furskins, raw	32				25		
24	Cork and wood						5	6
27	Raw fertilizers and raw materials (excluding oil and coal)		3	16				
28	Metalliferous ores and metal scrap	8	106	18				
29	Crude animal and vegetable materials	17						
51	Organic chemicals	4	4		1	1	2	2
55	Essential oils							1
57	Plastics in primary forms	1						
58	Plastics in non-primary forms							11
59	Chemicals			2				
63	Cork and wood products				7	1	3	1
64	Paper, paperboard and articles thereof			2		18	19	1
65	Textile yarn, fabrics, made-up articles	7	20	6	16	81	16	37
66	Non-metallic mineral manufactures		36				16	2
67	Iron and steel	157		6	145	485	17 605	5 434
68	Non-iron metals			20				
69	Manufactures of metals			1			5	3
71	Power-generating machinery and equipment		7			13	25	
72	Machinery specialized for particular industries	26				12		171
74	General industrial machinery and equipment	8		9		6		11
75	Office machines and equipments for automatic data processing		38	2				4
76	Equipment for telecommunications and voice recording and reproduction							
77	Electrical machinery, apparatus and appliances	52			1		17	2
78	Road vehicles				2			
81	Pre-fabricated structures							152
82	Furniture and parts thereof	1		3	1			
83	Travel fancy goods, hand bags etc.							
84	Articles of apparel and clothing accessories	1 202	1 623	274	111	170	543	497
85	Footwear	9			60	226	457	794
87	Scientific and managing appliances			18				15
88	Cameras, optical products, clocks		1				3	
89	Miscellaneous manufactured articles	1	2	6	24	11	98	12
96	Coins (not means of payment)			1				

Source: Czech Statistical Office, recalculated by average exchange rate CZK/USD in relevant year

Selected quotas for the Czech Republic according to the Accession Treaty

Commodity	Quota (t)	2001 production
Potato starch	33,660	29,600
Milk	2,682,143	2,655,587
Processed tomatoes	12,000	25,014 (non-processed)
Processed peaches	1,287	4,764 (non-processed)
Processed pears	11	16,339 (non-processed)
Cows without milk production	90,300 pieces	100,300 pieces
Sheep	66,733 p.	70,101 p.

Arable land	2,253,598 ha	2,381,749 ha
Reference yield	4.20 t/ha	4.52 t/ha
Sugar (production quota A)	441,209	434,200 (produced sugar in total)
Sugar (production quota B)	13,653	

Source: Vít Dočkal, Petr Fiala, Petr Kaniok, Markéta Pitrová (eds.) 2006. Česká politika v Evropské unii, Evropský integrační proces a zájmy České republiky (Czech policy in European Union, European Integration process and Czech Republic´s interests). Masaryk University, International Politology Institute, 2006

Agreements concluded between Moldovan and Czech parties

Contract	Type	Place of signature	Date of signature	Effective since	Note
Protocol to the Convention between the Czech Republic and the Republic of Moldova for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Property	Bilateral	Prague	14.10.2004	13.7.2005	
Air Transport Agreement between the Government of the Czech Republic and the Government of the Republic of Moldova	Bilateral	Chisinau	24.2.2004	4.10.2004	
Agreement between the Government of the Czech Republic and the Government of the Republic of Moldova on Readmission of Persons at the State Borders	Bilateral	Prague	7.8.2003	9.9.2004	
Agreement between the Government of the Czech Republic and the Government of the Republic of Moldova on cooperation in combating organized crime, illicit trafficking in narcotic drugs and psychotropic substances, terrorism as well as other kinds of serious crime	Bilateral	Prague	7.8.2003	9.9.2004	
Arrangement between the Ministry of the Interior of the Czech Republic and the Ministry of Internal Affairs of the Republic of Moldova implementing the Agreement between the Government of the Czech Republic and the Government of the Republic of Moldova on Readmission of Persons at the State Borders	Bilateral	Prague	7.8.2003	9.9.2004	
Agreement between the Czech Republic and the Republic of Moldova for the Promotion and Reciprocal Protection of Investments	Bilateral	Prague	12.5.1999	21.6.2000	
Convention between the Czech Republic and the Republic of Moldova for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Property	Bilateral	Prague	12.5.1999	26.4.2000	
Agreement between the Government of the Czech Republic and the Government of the Republic of Moldova on the International Road Transport	Bilateral	Copenhagen	26.5.1998	11.11.1999	

Smlouva mezi Československou socialistickou republikou a Svazem sovětských socialistických republik o právní pomoci a právních vztazích ve věcech občanských, rodinných a trestních **Dogovor meždu Čechoslovackoj Socialističeskoj Respublikoj i Sojuzom Sovetskich Socialističeskich Respublik o pravovoj pomošči i pravovych otnošenijach po graždanskim, semejnym i ugolovnym delam**	Bilateral	Moscow	12.8.1982	4.6.1983	Valid for the CR since 1.1.1993
Dohoda mezi vládou Československé socialistické republiky a vládou Svazu sovětských socialistických republik o spolupráci v oblasti cestovního ruchu **Soglašenie meždu Pravitelstvom Čechoslovackoj Socialističeskoj Respubliki i Pravitelstvom Sojuza Sovetskich Socialističeskich Respublik o sotrudničestve v oblasti turizma**	Bilateral	Moscow	8.6.1972	9.2.1973	Valid for the CR since 1.1.1993
Konzulární úmluva mezi Československou socialistickou republikou a Svazem sovětských socialistických republik **Konsulskaja konvencija meždu Čechoslovackoj Socialističeskoj Respublikoj o Sojuzom Sovetskich Socialističeskich Respublik**	Bilateral	Moscow	27.4.1972	7.9.1973	Valid for the CR since 1.1.1993

Source: Ministry of Foreign Affairs, www.mzv.cz

Annex 2: Useful contacts in Republic of Moldova and Czech Republic

The Republic of Moldova

Ministry of Economy and Trade
Address: 1 Piata Marii Adunari Nationale, Republic of Moldova, Chisinau
Tel/fax: (37322) 23- 40-66
E-mail: mecpresa@moldova.md
Web: www.mec.gov.md

Investment Policies and Public Property Management Department of the Ministry of Economy and Trade
Crivciun Vladimir, head of department
Tel: (37322) 23-42-50
E-mail: crivciun@moldova.md

Ministry of Foreign Affairs and European Integration
Address: str. 31 August, 80 Chişinău MD2012, Republica Moldova
Telefon: (+373 22) 57-82-07, 57-82-06, 57-82-05
Fax: (+373 22) 23-23-02
E-mail: secdep@mfa.md
Web: www.mfa.md

Ministry of Finance
Address: Cosmonautilor, str., Republic of Moldova, Chisinau, 7
Tel.: (+373 22) 226629
Fax: (+373 22)240055
E-mail: cancelaria@minfin.moldova.md
Web: www.mf.gov.md

Ministry of Culture and Tourism
Address: 1 Piata Marii Adunari Nationale, Republic of Moldova, Chisinau
Tel: + (373 22) 22 76 20
Fax: + (373 22) 23 23 88
E-mail: culture@turism.md – info on culture
E-mail: promo@turism.md – info on tourism

Ministry of Agriculture and Food Industry
Address: 160 Stefan cel Mare Av., Republic of Moldova, Chisinau,
Tel: +(373 22) 21 04 08
E-mail: adm_maia@moldova.md
Web: www.maia.gov.md

Ministry of Transports and Roads
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Annex 3: Brief description of potential Moldovan-Czech investment projects

“Quadropress”: an invention for manufacturing building materials

A Moldovan company is looking for partners in order to implement its project called “Quadropress”. The company has invented and registered a special technology of building materials manufacturing: brick, stone, block, pavement tile, tile and other building materials of high quality. Manufactured building materials are of much higher durability and long-lasting in comparison with existing analogues.

The method of manufacture - ***moist pressing*** - is well known and widely applied by manufacturers. But in our case, manufacturing of building materials does not require large expenses for the organization of manufacture itself, which reduces significantly the production costs.

The technical properties that moist pressed products acquire using our method correspond to all technical requirements for manufacture of building materials used in construction. The necessary building material (a brick, a block, a tile, a pavement tile) is formed as result of influence of a high pressure directed on the moist mix, placed in the chamber or a matrix of the pressing machine.

Presently two methods of pressing are widely used in manufacture of building materials in the world. The first method is ***hyperpressing*** when pressing of a moist mix occurs on the one hand (from above). The second method is ***triplepressing*** when bilaterial pressing simultaneously occurs from above and from below. All bricks producers use the method of pressing from two parties simultaneously under influence of vertically directed external loading press, both by the top part, and by its bottom part. The brick thus possesses more durability and is widely used in Europe.

A Moldovan company has developed a method of pressing of a moist mix from four directions that has received the name ***quadropressing*** and the equipment - QUADROPRESS. Pressing occurs by influence of horizontally directed external loading walls press from four parties simultaneously on a mix placed in a matrix or the chamber. This method possesses significant advantages:

- ***Durability***. As a result of quadrilateral pressing we receive identical density throughout the product. Using unilateral pressing the brick receives its maximal density on the top section. Using the bilateral pressing the least dense part occurs in the middle of the brick.
- ***Universal size.*** The quadropress developed by the Moldovan company can manufacture building materials of any desirable sizes from a brick up to a stone or a construction block.
- ***Multi-purpose use***. The quadropress is capable to make any building material of any desirable form: bricks, blocks, stones with from-side-to-side horizontal emptiness (up to 60 %) or half-through horizontal emptiness (for an angular brick), as well as bricks with vertical emptiness.
- ***Uniqueness***. Only using the "QUADROPRESS" method manufacturing of bricks and blocks with color and especially strong environment is possible:
- ***Cost-efficiency***. 1.5 times less cement is spent for the preparation of the moist mix due to the most effective pressing of the product.

The potential partner is supposed to invest about USD 20.000 for finishing up product experimentation and about USD 150.000 for launching large-scale production of quadropresses.

Czech pubs chain in Republic of Moldova

The Czech Republic has a deeply-rooted beer culture that consists of far more than just a handful of well-known pubs. The Czech pubs universally offer decent beer as well as a diverse array of environments in which to appreciate the Czech brewing skills. Opening a chain of Czech pubs in Moldova will spread Czech beer consuming and brewing culture. The profile of the chain would generally be the following:

- The chain will gather between 6 and 10 pubs each of them hosting approximately 80 persons.
- The pubs will be located in Chisinau city (7-8) and Balti city (2-3).
- Beer selection of the pubs will be strictly limited to the Czech beer of 5 to 8 brands.

- Required investment is of about 100.000$/1 pub, the return on investment being no more than 4 years.
- The potential Czech partner will provide the necessary investment funds; the Moldovan partner will offer the location facilities and will be responsible for the operational management and the development of the chain.

Ideally, it would be to open a mini-brewery, which would provide fresh Czech beer to the pubs. The Czech Pisner Urquell would be the perfect partner, as it can provide whole technology and promote its image and products in Moldova.

Bio-diesel and bio-ethanol plant

The consumption of bio-fuels in the EU market is in a contiguous growth. Growing demand for this product will, in the medium to long term, present major opportunities for Moldovan farmers. The legal framework for bio-fuels production and licensing in Moldova is in elaboration now and will be out in near future.

- The project supposes a total investment amounting to USD 10 million.
- The plant will be located in the north of Moldova, near the Balti city, where climate conditions are most favorable to the row material cultivation.
- Bio-fuels can be manufactured from sugar beet, grain and other available agricultural products.
- The local partner will assure the land for row material cultivation.
- The local partner will find land for building infrastructure facilities of the plant.
- Return on investment is of about 7 years.

Ground water filtration stations

Phreatic waters in Moldova have been polluted mainly from nitrates (in some places up to 1 000-2 000 mg/l), the main sources being livestock complexes and farms, rural settlements not equipped with sewage systems, uncontrolled waste disposal and excess use of mineral fertilizers. By contrast, the artesian groundwater has so far not been seriously polluted by anthropogenic sources thanks to their insulation with protecting layers.

In this context, a Moldovan-Czech company can provide Czech equipment for filtering the ground water and then provide it to the consumers. Also, the company can sell filtration equipment to different enterprises from food-processing industry.

- The local partner will identify the potential customers/groups of customers and will present a feasibility study, which will be the core element for the business plan.
- The Czech partner will evaluate the amount of needed investment and the possibilities to lease the water filtration equipment.
- Both partners will assess the possibilities to make use of the funds offered by Czech Government through Czech Embassy in Chisinau
- The investment amount is between USD 1 million and USD 10 million, depending on the market size.
- Return on investment is of about 7-10 years.

Essential oils[45] production and medicinal plants cultivation

In 1994 there has been established a Moldovan agricultural cooperative specialized in production, processing and commercialization of ethereal-oleaginous and medical plants as well as essential oils for cosmetics and pharmaceutical industries. The cooperative has 100 founders and a social capital of USD 50.000. At present the enterprise manages 1550 ha of land, including 1170 ha rented from the nearby villagers. The company owns an essential oils mini-plant (capacity of 10.000 tones of row material) for processing ethereal-oleaginous plants. The agricultural activities of the enterprise involve about 180 temporary workers and 15 permanent staff members.

Main products of the company are essential oils but various medicinal plants are also produced. Following plants are cultivated and processed by the cooperative:

- ***Salvia*** grows on 550 ha and can be used for various medical, perfumery and recreational purposes.
- ***Fennel*** grows on 155 ha and has many usages. It is used for manufacturing drugs to treat chill, stomach, asthma, and bronchitis. The fennel essential oil is used in production of soaps and some perfumes. Besides, the fennel base can be used in cuisine.
- ***Lavender*** occupies about 142 ha. This plant has always been extensively used as medicine (soothe and heal insect bites, soothe headaches, aid to sleep and relax, heal acnes, skin burns and various inflammatory conditions).
- ***Rose*** shrubs grow on about 17 ha. The rose and rose oils have unique properties to be used in perfumery. Rose-hips syrups are used in treatment for they contain vitamin C. Roses are also used to make unique herbal teas, jams, jellys and marmalades.
- ***Artemisia absinthium*** is a member of the sunflower family and grows on 32 ha. Common English names for *artemisia absinthium* are Absinthe, Oldman, Green Ginger and Wormwood. This is a very precious plant with many valuable constituents. The dried and powdered herb is used as a vermifuge. The tea is used to help alleviate the pain of childbirth. The plant has been used to treat anemia, anxiety, cancer (liver), childbirth pain, and many others.

The company's markets are not much diversified at present. The domestic market share is of about 30% and consists of enterprises from pharmaceutical and cosmetics industry. The foreign markets are shared by Austria and Liechtenstein. All deliveries of essential oils are made on ex-works conditions. Package consists of either 200 liters barrels or 0.7 liters bottles. Annual production of the cooperative is of 20 tones of essential oils. Total investment needed is of about 500.000USD, as in new equipment and advanced technologies of essential oils processing. Also, the Czech partner is expected to help receiving R&D grants for the development of bio-products used in pharmaceutical industry.

Low-alcohol carbonated beverages

The goal of the investment is adopt technology of manufacturing low-alcohol carbonated beverages on the basis of existing enterprise. These goals will be achieved by:

- Acquisition of new modern production equipment and efficient utilization;
- Technical re-equipment of existing manufactory;
- Progressive growth of production volume;

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[45] An essential oil is a concentrated, hydrophobic liquid containing volatile aromatic compounds from various plants. It is produced by distillation by other extraction processes to obtain aromatic plant compounds may include expression or solvent extraction. Essential oils are used in perfumery, aromatherapy, pharmaceuticals, cosmetics, incense, for flavoring food and drink, and - to a somewhat lesser extent – for health care purposes and for manufacturing cleaning products. They are valuable commodities to the fragrance and flavorant industries. Essential oil is also known as volatile oil and ethereal oil. It may also be referred to as "oil of" the raw plant material from which it was extracted. The term "essential" is intended to indicate that the oil is the fragrant essence of the plant from which it is extracted and not in the more common grammatical sense of being indispensable.

- Regular and stable sale of end products on domestic and new markets;
- Decrease of manufacture costs because of volume of output increase and procurement of raw materials directly from manufacturers excluding intermediaries.

Analyzed period of this investment plan is 4 years – from December 2007 till December 2011. Total investment for the enterprise development for the period of 2007-2011 amounts to USD 882 thousand. It includes investments in working capital of USD 181 thousand, investment in repair works of USD 20 thousand and investment in fixed assets of USD 700 thousand. The latter include:

- acquisition of production equipment – USD 500 thousand;
- acquisition of laboratory equipment – USD 25 thousand;
- purchase of 10 tanks for wine storage – USD 100 thousand;
- purchase of other equipment – USD 40 thousand;
- purchase of license– USD 10 thousand;

The net present value of the invested capital is USD 879 thousand. Discount rate for invested capital for this project equals 16.15%. Internal rate of return for this project is estimated at 42% and the pay-off period is 3.2 year. All these are parameters of a very attractive investment project.

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- www.mpo.cz - website of the Ministry of Industry and Trade of the Czech Republic
- www.mzv.cz - website of the Ministry of Foreign Affairs of the Czech Republic
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