THE PLACE OF THE REPUBLIC OF MOLDOVA IN REGIONAL FOREIGN DIRECT INVESTMENT FLOWS

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Abstract: This paper analyzes the evolution and impact of Foreign Direct Investment (FDI) in the economies of the Eastern Partnership countries of the European Union, with a special focus on the Republic of Moldova. The study highlights Moldova's lagging FDI inflows compared to its regional counterparts due to a slower transition to a market economy, political instability, and dependence on Russia. While Moldova has made progress in attracting investments from the European Union, particularly after signing the Association Agreement in 2014, Russia remains a significant source of FDI for the period of 1991-2019. Key industries, including energy, automotive, and financial services, benefit from these investments, though Moldova's reliance on a narrow set of countries poses challenges. The paper also examines the role of privatization in shaping Moldova's FDI landscape and discusses how political and economic events such as the 2014 banking scandal and geopolitical tensions in Ukraine influenced FDI patterns. The findings suggest that while Moldova's FDI stock has grown, it remains vulnerable to external shocks and heavily influenced by regional dynamics.
Keywords: foreign direct investment, Eastern Partnership countries, Republic of Moldova, economic transition, privatization

Methodology

The complexity of the proposed theme requires a comprehensive research methodology that integrates various research methods. This study employs both qualitative and quantitative data analysis to provide a thorough examination of foreign direct investment (FDI) trends and their impact on economic development. The statistical data for this analysis has been collected from a range of reliable sources, focusing primarily on online databases with high credibility, such as UNCTAD, World Bank, World Investment Report, and World Economic Forum. Additionally, national sources like the National Bureau of Statistics of the Republic of Moldova, the Ministry of Economy and Infrastructure, and the National Bank of Moldova have been consulted to ensure accuracy and relevance to the local context. The timeframe for the FDI data analyzed in this paper covers the period from 1991 to 2019, while data related to economic performance spans the same period. The research methods used align with the study's purpose and objectives. This includes a combination of content analysis and statistical data interpretation. The qualitative research component involved reviewing books, studies, and articles in the fields of foreign direct investment, economic development, and international competitiveness. The statistical data collected was analyzed and interpreted qualitatively, focusing on identifying key trends and patterns, and drawing insights into the geographical distribution and sectoral preferences of FDI flows.

The results of the study are presented in the form of tables, graphs, and figures, which were created to visually depict the main trends and conclusions regarding the dynamics and impact of FDI on the economic development of Moldova and other Eastern Partnership countries.

Introduction and general framework review

Foreign Direct Investment (FDI) plays a pivotal role in the economic development of host countries, especially in transitional and emerging economies. Scholars such as Dunning (1988) and Buckley & Casson (1976) have established the fundamental theories that explain the determinants and motivations behind FDI. According to Dunning's Eclectic Paradigm or the OLI Model (Ownership, Location, and Internalization), a firm’s decision to engage in FDI is influenced by a combination of ownership advantages, location-specific advantages, and the internalization benefits of controlling foreign operations. In the context of Eastern European countries, these location-specific advantages often include low labor costs, access to natural resources, and proximity to European markets (Dunning, 1988).

Buckley and Casson (1976) extended the discussion with their Internalization Theory, which suggests that firms choose FDI to internalize transactions that would otherwise be imperfect or costly through market mechanisms. This theory has been particularly relevant for understanding the presence of multinational companies in Moldova and other Eastern European countries, where the transition to a market economy led to significant transaction costs due to institutional instability (Buckley & Casson, 1976). Building on these foundational theories, Markusen (2002) introduced the Knowledge-Capital Model, which emphasizes the role of human capital and technological capabilities in attracting FDI. This model is especially relevant when discussing the influx of investments in sectors like telecommunications and IT in Moldova, where firms seek to exploit skilled labor and technological assets (Markusen, 2002).

Another important contribution is from Vernon (1966), who proposed the Product Life Cycle Theory, which posits that firms undertake FDI during the maturity phase of a product when seeking new markets and cost efficiencies. In the case of Moldova, this theory can be linked to the presence of mature European firms looking to expand their operations in low-cost economies. Lastly, Hymer (1976) laid the groundwork with his Theory of Market Power, which asserts that firms invest abroad to leverage their competitive advantages and reduce competition in international markets. This theoretical perspective explains why larger economies like Russia and the EU member states dominate the FDI landscape in Eastern Europe, aiming to secure market power and influence (Hymer, 1976).

Over the past 50 years, globalization has accelerated significantly, impacting economies worldwide through increased movement of goods, services, capital, and technology. Economically, globalization has led to an impressive growth in global trade and financial flows. According to the World Bank (2019), global exports of goods and services have increased 64 times since the 1970s, contributing to a substantial rise in global GDP, which reached $87.7 trillion in 2019. Foreign direct investment (FDI) flows have also shown remarkable growth over the last three decades. Between 1991 and 2007, global FDI flows increased by 95%, reaching over $3 trillion in 2007. However, the 2007-2009 financial crisis caused a significant decline, with FDI dropping by more than 55% to $1.5 trillion in 2009. Despite the recovery, global FDI flows have been decreasing since 2016 due to various factors, such as the repatriation of American multinational earnings (UNCTAD, 2019).

Developed countries have faced increasing competition from developing nations in attracting FDI. In 2019, the share of FDI flows to developing countries rose to 54% of the global total, driven by large internal markets, abundant natural resources, and competitive labor costs. While countries in transition and less developed regions, such as Africa, struggle to attract significant FDI due to political instability and economic barriers, developing countries in Asia, such as China and India, continue to be major destinations for global FDI, benefiting from favorable economic conditions and policy reforms.
The United Nations has classified countries around the world based on their level of development. According to the 2020 report, there are 17 countries in transition and 46 least developed countries. Of the countries in transition, five are located in Southeast Europe (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia), while the others include Georgia and the 11 member countries of the Commonwealth of Independent States, which also includes the Republic of Moldova. Six of the 17 countries in transition are part of the European Union's Eastern Partnership group, namely the Republic of Moldova, Armenia, Georgia, Azerbaijan, Belarus, and Ukraine.
FDI inflows to transition economies have continued their downward trend, reaching USD 34 billion in 2019, which is 28% less than in the previous year. Meanwhile, FDI flows to least developed countries continue to represent only 3% of total global investment flows (UNCTAD, 2019). I believe that transition countries are unable to attract more FDI due to political factors that have a significant impact on the investment climate. Generally, most transition countries are characterized by high levels of corruption, government inefficiency, and low economic freedom. Therefore, transition and poor countries should be engaged in a continuous process of implementing new reforms and measures to increase their attractiveness in order to become more competitive and, consequently, attract higher amounts of FDI. This competition for FDI helps countries improve their physical and legal infrastructure and encourages the implementation of stable macroeconomic policies. Additionally, fiscal incentives, such as VAT exemptions or other tax benefits offered by host countries, are an advantage in attracting foreign direct investments.

FDI dynamics in the republic of moldova: a comparative perspective with other eastern partnership countries of the European Union

FDI inflows evolution in the Eastern Partnership countries for the period 1991-2019

The Republic of Moldova declared its independence on August 27, 1991, following the adoption of the Declaration of Independence by the country's Parliament. Less than six months later, in 1992, Moldova gained membership in the United Nations. The years 1991-1992 marked the beginning of the country's transition from a planned economy to a market economy. Throughout the 1990s, Moldova underwent a series of structural transformations, including economic liberalization, the elimination of trade barriers, and the privatization of state-owned enterprises and resources, which provided a significant impetus for economic development.

Figure 1. FDI Inflows into the Economies of the Eastern Partnership Countries of the European Union, 1991-2019 (million USD)

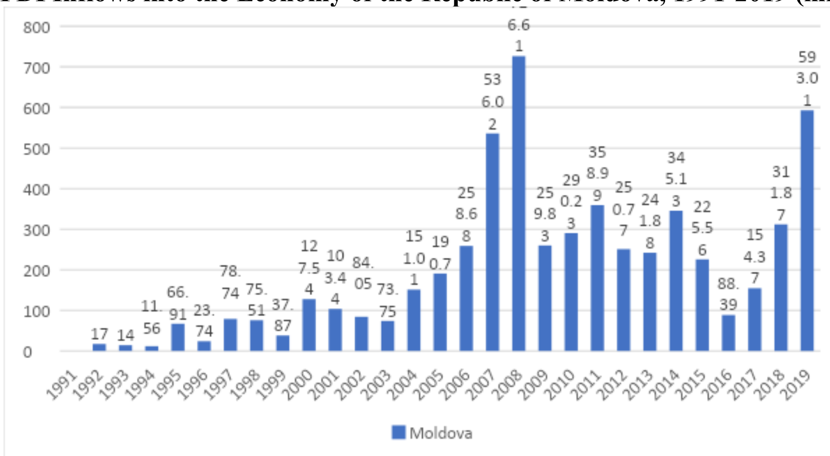
Source: The World Bank, Foreign Direct Investments, net inflows.

The evolution of foreign direct investment (FDI) inflows into the economy of the Republic of Moldova has been relatively slow from 1991 to the present, with FDI entries not consistently showing a steady increase. Following the dissolution of the Soviet Union, the economies of the six Eastern Partnership countries of the European Union underwent a period of comprehensive restructuring, which hindered the immediate attraction of FDI. Moreover, this was further complicated by Russia's efforts to maintain political and economic influence in the region. One tool of political and economic control was the creation of the Commonwealth of Independent States (CIS) in 1991 by Russia, Ukraine, and Belarus, an economic bloc modeled after the European Union, which was later joined by all former Soviet bloc countries. For the Republic of Moldova, the Transnistrian conflict, initiated by Russia in 1992, was another barrier to attracting FDI.

In the first three years following the dissolution of the USSR, Ukraine was the only country able to attract the highest levels of FDI inflows, amounting to approximately 200 million USD annually. Moldova ranked second, with FDI inflows of 17 million USD in 1992 and 14 million USD in 1993, followed by Belarus in third place, with FDI inflows of 7 million USD in 1992 and 17 million USD in 1993. Ukraine’s success in attracting FDI during the early years can be attributed to its large internal market, abundant and diversified natural resources, and sizable, well-qualified, low-cost labor force. Furthermore, like in Moldova and Belarus, the privatization process in Ukraine began swiftly after the dissolution of the USSR. Another comparative advantage shared by Moldova, Belarus, and Ukraine is their geographical proximity to the developed European countries, although most FDI inflows originated from Russia and other former Soviet bloc countries. In contrast, Georgia and Azerbaijan did not record any FDI inflows during the first three years following the dissolution of the USSR, while Armenia recorded FDI inflows of approximately 2 million USD annually, a relatively small amount compared to the Republic of Moldova.

According to the annual Investing Guide Moldova report by MIEPO and the World Bank’s annual World Investment Report, the Republic of Moldova has recorded the lowest levels of foreign direct investment (FDI) inflows over the 29 years following the dissolution of the USSR compared to the other five Eastern Partnership countries of the European Union. Throughout this period, Moldova registered an average annual FDI inflow of approximately 200 million USD, a relatively small amount in comparison to its regional counterparts. Even Armenia, a country with a similar size and population, has registered an average annual FDI inflow of around 300 million USD—100 million USD more than Moldova.

Figure 2. FDI Inflows into the Economy of the Republic of Moldova, 1991-2019 (million USD)



Source: The World Bank, Foreign Direct Investments, net inflows, Moldova.

As shown in Figure 2, until the year 2000, Moldova attracted modest FDI amounts, with a slow annual growth rate. For instance, in 2000, Moldova registered FDI inflows of 127 million USD, which then decreased over the following years until 2003. While Moldova's economy recorded FDI inflows of 79 million USD and 75 million USD in 1997 and 1998, respectively, other countries in the region were attracting much higher levels. For example, Georgia received FDI inflows of 242 million USD and 265 million USD, Azerbaijan attracted 1,115 million USD and 1,023 million USD, and Belarus registered 351 million USD and 2,013 million USD during the same period. Prior to the 2007-2009 global financial crisis, FDI inflows in Ukraine, Azerbaijan, Georgia, Belarus, and even Armenia increased significantly year by year, whereas Moldova only reached its highest FDI inflows in 2007, amounting to 726 million USD. In contrast, during the same year, Ukraine received 10,700 million USD, Azerbaijan attracted 3,987 million USD, Georgia received 1,602 million USD, Belarus attracted 2,188 million USD, and Armenia registered 943 million USD in FDI inflows.

Moldova struggled to attract significant FDI inflows due to a slower transition process compared to other countries, which was hindered by the slow pace of privatization and ongoing political instability. Although Figure 2 shows steady growth in FDI inflows up to 2007, this growth is insufficient when compared to the levels achieved by neighboring countries. Moldova was significantly influenced by Russia, with the majority of FDI inflows coming from the East—specifically, Russia and other former Soviet countries. Furthermore, the country's political alignment and the persistence of communist leadership prevented the opening of Moldova's economy to the European Union and other international markets. During this period, Moldova's trade relations were primarily concentrated with Russia and other former Soviet states.

During the global financial crisis, Moldova's FDI inflows decreased drastically, becoming three times lower than pre-crisis levels. While other countries managed to recover quickly and attract substantial FDI inflows in the following years, Moldova continued to lag behind. For example, Armenia, which ranked second to last in terms of FDI inflows, recorded at least double the FDI levels of Moldova over the past decade.

FDI inflows into Ukraine's economy were significantly impacted during 2014-2015 due to the war with Russia. In 2015, Ukraine recorded zero FDI inflows as a result of Russia's military intervention, which began in February 2014. The Republic of Moldova, sharing a common border with Ukraine and being in close proximity to the conflict zone, also experienced a decline in FDI inflows. FDI decreased to approximately 225 million USD in 2015, down from around 345 million USD in 2014, and further declined to approximately 88 million USD in 2016. This decrease was compounded by the "billion-dollar bank theft" scandal that occurred in Moldova between 2014 and 2015. The armed conflicts in Ukraine, combined with Moldova's political and economic instability, were the main factors leading to the reduction in FDI during this period. However, in subsequent years, FDI inflows began to recover, reaching approximately 593 million USD in 2019, surpassing the levels recorded in 2007. Additionally, in recent years, Moldova has registered higher FDI inflows than Armenia, indicating that Moldova is becoming more competitive compared to the past. When analyzing the average FDI inflows, Ukraine ranks at the top with an average annual FDI of approximately 3,200 million USD, followed by Azerbaijan with around 2,400 million USD, and Belarus with approximately 1,000 million USD. The higher FDI inflows can also be explained by the investment climate provided by each host country and their attractiveness to foreign investors. FDI motivations vary significantly for less developed and transition countries, such as those in the Eastern Partnership of the European Union. These motivations include access to a low-cost and skilled labor force, access to high-quality and inexpensive resources, and access to new markets. These motivations are complemented by the availability of specific infrastructure and the country's strategic positioning relative to other markets.

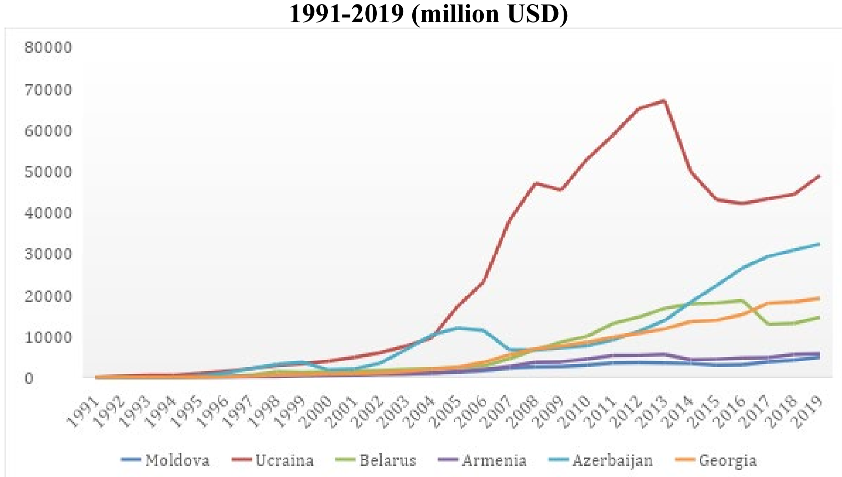
Ukraine, Belarus, and Azerbaijan have a larger population compared to Moldova, providing a greater supply of low-cost and skilled labor, as well as a substantial domestic market for goods and services. For instance, Belarus has recorded a population of approximately 9.5 million people over the last decade, although this represents a decrease of around half a million people in the past 20 years. Azerbaijan has seen its population grow by nearly 20% in the past 20 years, reaching almost 10 million people, thus offering a larger workforce and domestic market. Ukraine is the most populous country, with approximately 41 million people, despite a significant decline of about 20% over the past 20 years. In contrast, the Republic of Moldova has a population of approximately 3.5 million people, which is nearly three times smaller than that of Azerbaijan and Belarus, and about twelve times smaller than Ukraine's population. Although Armenia's population is smaller than Moldova's, and Georgia's is approximately the same, FDI inflows in Moldova remain lower. One reason is that Moldova has the lowest proportion of active population relative to its total population, with an average of 37% from 1991 to the present, and around 35% in the past ten years.

In comparison, Armenia has an average active population rate of 42% from 1991 to the present and 45% in the past ten years. Georgia has the highest active population rate among all Eastern Partnership countries, with an average of 53% from 1991 to the present and 55% in the last ten years. Another critical factor for attracting FDI is access to inexpensive natural resources. Ukraine and Belarus have a comparative advantage in this regard due to their large geographical areas. Ukraine covers approximately 603,000 km², which is 18 times larger than Moldova, while Belarus covers approximately 207,000 km², six times larger than Moldova. This translates to a significantly higher volume of natural resources in both Ukraine and Belarus. Furthermore, Ukraine and Georgia have direct access to the Black Sea, providing an outlet to the Mediterranean Sea, while Azerbaijan has access to the Caspian Sea. Many of these countries also have mountain ranges, which offer valuable natural resources. Nevertheless, the dynamics of FDI inflows in the Eastern Partnership countries are heavily influenced by Russia's presence in the region, which fosters political instability and hinders economic development in these countries.

FDI stocks evolution in the Eastern Partnership countries for the period 1991-2019

Between 1991 and 2019, all six economies of the EU's Eastern Partnership experienced growth in FDI stocks. Until 2007, Ukraine saw the highest increase, followed by Azerbaijan and Belarus, while starting in 2016, Georgia surpassed Belarus in FDI stock levels. FDI stocks in Moldova's economy grew steadily until 2011-2013, reaching approximately 3.5 billion USD. However, in subsequent years, FDI stocks declined due to the political and economic crises of 2014-2015 and the "billion-dollar bank theft." FDI stocks recovered and rose to around 4.8 billion USD by 2019, supported by government policies to attract and retain FDI through fiscal incentives and Free Economic Zones.

Figura 3. FDI Stocks in the Economies of the Eastern Partnership Countries of the European Union, 1991-2019 (million USD)



Source: United Nations, UNCTAD, Foreign Direct Investments, Stocks

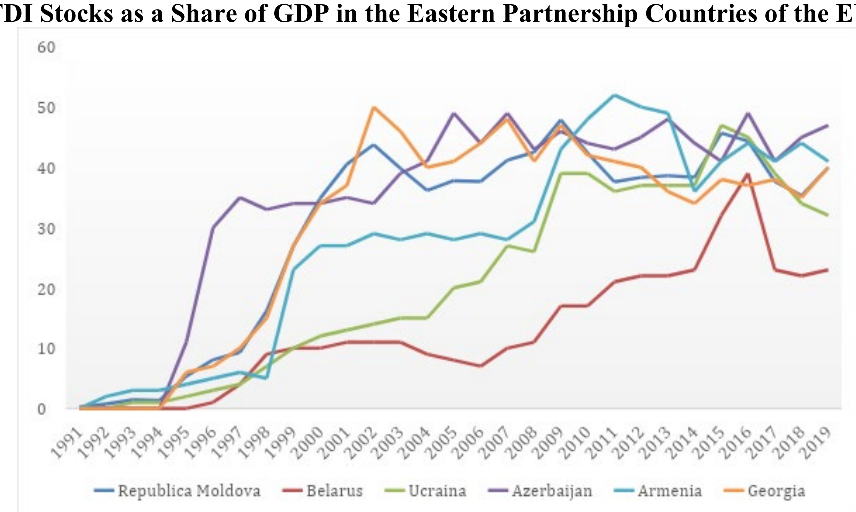
However, Moldova's FDI stocks remain significantly lower compared to the other Eastern Partnership countries. The only country with a similar FDI stock level to Moldova is Armenia. Furthermore, the other countries started with much higher FDI stocks than Moldova due to a faster privatization process. Although privatization can be costly, leading to restructuring and increased unemployment, it also brings benefits such as improved labor productivity and greater FDI inflows (Horobet & Popovici, 2017). Mass privatization in the Republic of Moldova started relatively late and progressed slowly. Although it began right after independence in 1991, it initially targeted only residential properties. By 1996, the focus shifted to selling major state assets, including large enterprises in the energy and telecommunications sectors. Some of the most notable companies privatized before 1996 included a cement factory, a leather processing firm, several textile companies, wineries, and a hotel in the capital (WTO, 2015).

Moreover, the privatization process continued even after 2007, when most other countries had nearly completed their programs. In 2007, the Moldovan Parliament adopted the Law on Public Property Management and Privatization, initiating a new wave of privatizations, with the Public Property Agency becoming responsible for the process. By 2014, only 240 state-owned enterprises remained in Moldova, down from 308 in 2001 (WTO, 2015). The economies of the Eastern Partnership countries remain heavily influenced by Russia, both politically and economically, as Russia is a significant trade partner and FDI source for the region. For Armenia, Georgia, and Azerbaijan, situated in West Asia, Russia is a crucial trading partner given the underdeveloped or closed nature of neighboring countries like Turkmenistan, Kazakhstan, and Iran. Georgia benefits from its access to the Black Sea, facilitating maritime transport. Although Ukraine, Belarus, and Moldova are geographically closer to the EU, they have struggled to attract FDI. Belarus could leverage its proximity to the EU, but political factors have prevented a reorientation. Economic relations between Belarus and Russia are influenced by politics, hindering Belarus's economy from opening up to European and American investors. Ukraine, with its vast market and abundant natural resources, has the highest FDI potential among the Eastern Partnership countries. The growth in FDI stocks until 2013 reflected this, boosted by the EU free trade agreement, which attracted new FDI. However, the 2014-2015 military conflict with Russia significantly reduced FDI stocks, causing a regression to 2008 levels. The conflict created political and economic instability, heightening investor uncertainty. Despite subsequent growth, Ukraine's tense relationship with Russia continues to affect trade, pushing Ukraine closer to the EU.

FDI stocks in the Republic of Moldova grew steadily until 2014 but fell sharply in 2015-2016 due to political and economic factors. Moldova’s FDI likely declined as a result of the military conflict in Ukraine, given Moldova's border proximity and closeness to the conflict zone. Additionally, diplomatic tensions between Moldova and Russia in 2013-2014, triggered by Russia’s embargo on Moldovan imports (wine, fruits, and vegetables) following Moldova's Association Agreement with the EU, hurt exports and impacted FDI. The "billion-dollar theft" from Moldova’s Savings Bank was the primary reason for the reduction in FDI stocks during 2015-2016, which exacerbated political and economic instability, damaging the investment climate and investor confidence.

As shown in Figure 4, the share of FDI stocks in Moldova’s GDP increased rapidly from 1991 to 2000, rising from 0.23% of GDP to 34.86%, driven by the privatization process and the opening of the economy to external markets. After 2000, the share of FDI stocks in GDP continued to grow moderately, reaching its highest value of 47.87% in 2009. Subsequently, due to the global financial crisis and internal political turmoil, the share of FDI stocks in GDP started to decline. However, by 2014, the share of FDI stocks in GDP nearly returned to 2009 levels, driven by a change in government and new FDI inflows into the Moldovan economy. Over the past ten years, the average share of FDI stocks in GDP has been around 40%, which is a relatively good indicator, demonstrating that FDI is an effective catalyst for economic growth in Moldova. A similar pattern can be observed in other countries regarding the share of FDI stocks in GDP. For example, in Ukraine, which has proven to be the most attractive country for FDI, the share of FDI stocks in GDP reached 47.2% in 2015. This was the highest value recorded in the past 29 years and is comparable to Moldova's share in 2009. The share of FDI stocks in GDP in Ukraine has decreased in recent years due to the armed conflict on its territory during 2014-2015. In the case of Armenia, which is one of the least attractive countries for FDI among the Eastern Partnership countries, the situation is similar to that of Moldova. The share of FDI stocks in GDP has been over 40% in recent years and has increased at a similar rate to Ukraine and Moldova.

Figura 4. FDI Stocks as a Share of GDP in the Eastern Partnership Countries of the EU, 1991-2019



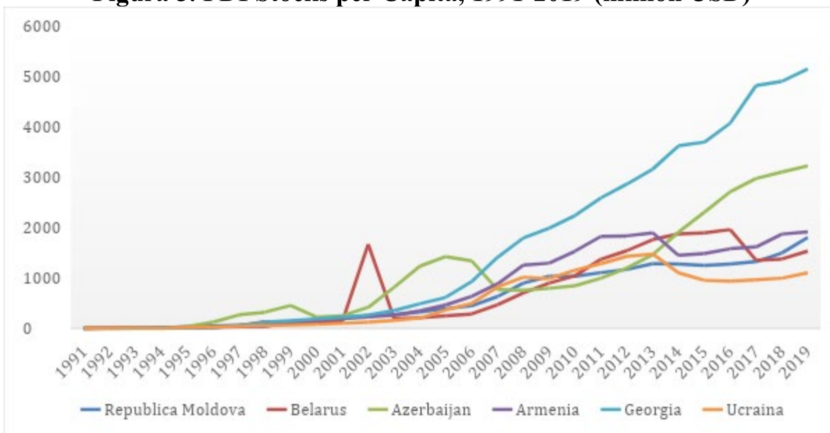
Source: own processing based on data provided by United Nations, UNCTAD, Foreign Direct Investments, Stocks

Although the share of FDI in GDP across the Eastern Partnership countries is relatively similar, ranging between 35% and 50% of GDP, the difference lies in the absolute value of each country's GDP. For instance, in 2019, Moldova's GDP was the smallest among the Eastern Partnership countries, amounting to approximately 11 billion USD, similar to Armenia's GDP of around 13 billion USD, and 35% lower than Georgia's GDP. Additionally, Moldova's GDP was nearly five times smaller than that of Azerbaijan and almost six times smaller than Belarus's GDP. Ukraine recorded the highest GDP in 2019, reaching 153 billion USD, which is almost 14 times greater than Moldova's GDP.

Based on the data above, I believe that foreign direct investments influence the economic growth of Eastern Partnership countries almost equally, considering that the share of FDI in GDP is relatively similar, despite the large differences in GDP size and the volume of FDI attracted.

Based on Figure 5, we observe that Moldova's FDI stocks per capita increased consistently from 1991 to 2019, reaching their highest level in 2019 at 1,803 USD per capita. Although the growth was steady, it was largely due to a decline in Moldova's population in recent years caused by massive emigration.

Figura 5. FDI Stocks per Capita, 1991-2019 (million USD)



Source: own processing based on data provided by United Nations, UNCTAD, Foreign Direct Investments, Stocks

To accurately compare Moldova with the other Eastern Partnership countries, market size should be considered. Thus, it would be appropriate to divide the countries into two comparable clusters based on the number of inhabitants, which varies significantly, from approximately 2.6 million inhabitants in Moldova's case to over 40 million in Ukraine's case. The first cluster would include Ukraine, with over 40 million inhabitants, and Belarus and Azerbaijan, with approximately 10 million inhabitants each. The second cluster would include Moldova, Armenia, and Georgia.

For example, Armenia, which ranks second-to-last, recorded FDI stocks per capita of 1,914 USD in 2019, compared to 1,482 USD per capita in 2015, which is higher than Moldova's result. On the other hand, Georgia's FDI stocks per capita have a much higher value than those of Moldova and Armenia, reaching a maximum of 5,146 USD per capita in 2019, which is nearly double the amount in 2010, when Georgia's FDI stocks per capita were 2,238 USD.

Sources of foreign direct investments

The sources of foreign direct investments in the Eastern Partnership countries of the European Union are diverse and have significantly evolved over time. Russia has consistently been one of the most important sources of FDI for these countries, followed by several European Union member states. As shown in Table 1, the largest share of FDI in the Republic of Moldova comes from EU countries, accounting for over 60% of the total FDI stock, peaking at 66.50% in 2019, a 5% increase compared to the 2016 levels. However, almost one-third of Moldova's FDI stock still originates from Russia. This distribution highlights Moldova's strategic position as an investment destination for both EU and Russian investors, while emphasizing its continued dependence on Russian capital. During the period 2009-2019, Moldova recorded FDI stocks from all 28 EU member states, reflecting the country's orientation towards European integration, particularly between 2009 and 2016. The signing of the Association Agreement with the EU in 2014 further boosted FDI inflows from European countries. The primary FDI sources include the Netherlands, Cyprus, Romania, Germany, France, Italy, and the United Kingdom, which together account for over 50% of total FDI stocks. The significant FDI from Romania, in particular, can be explained by the elimination of trade barriers, the free movement of goods and people, and the strong social, educational, and economic ties between the two countries. Additional EU sources of FDI include Bulgaria, Hungary, and Austria, contributing mainly to sectors such as manufacturing, finance, and energy.

Table 1. Share of Foreign Direct Investments by Country of Origin, Republic of Moldova, 2009-2019

Year	Country of origin						
	Russia	EU	USA	Ukraine	Switzerland	Turkey	Others
2009	23,20%	60,00%	3,80%	0,90%	1,40%	0,90%	9,80%
2010	22,40%	62,50%	3,00%	1,00%	1,50%	1,20%	8,40%
2011	22,00%	63,50%	2,60%	1,20%	1,70%	1,00%	8,00%
2012	23,00%	62,50%	2,60%	1,20%	1,50%	0,80%	8,40%
2013	24,00%	63,50%	1,80%	0,60%	1,70%	1,00%	7,40%
2014	26,00%	63,00%	1,80%	1,00%	1,40%	0,90%	5,90%
2015	28,50%	61,50%	1,60%	1,50%	0,90%	1,00%	5,00%
2016	27,50%	63,00%	1,60%	1,50%	1,80%	1,00%	3,60%
2017	24,00%	66,00%	2,00%	1,00%	1,70%	1,30%	4,00%
2018	22,60%	66,50%	1,90%	1,20%	1,70%	1,30%	4,80%
2019	20,50%	70,50%	2,20%	1,20%	1,30%	1,40%	2,80%

Source: own processing based on data provided by National Bank of Moldova, 2009-2019

The United States, with an average share of 3% of total FDI stocks from 2009 to 2019, is another important source, though its potential remains underutilized. This is largely due to Moldova's geopolitical orientation towards Russia in recent years, which has hindered the development of a stronger partnership with the US. American investments include Lear Corporation in the automotive industry and Microsoft in the IT sector. Turkey has also emerged as a key FDI source, almost doubling its investments from 2009 to 2019, particularly after the signing of the Free Trade Agreement in 2014. Switzerland plays a significant role, especially in financial services, with a steady presence since 1992. Israel and Liechtenstein are other notable FDI contributors, with investments entering Moldova over the past decade.

In the broader context of the Eastern Partnership countries, Russia remains the dominant FDI source due to historical ties and geographical proximity. For Belarus, Russian FDI accounts for approximately 50% of total FDI over the past decade, focusing on the machinery and industrial equipment sectors. For Armenia, Russia contributes around 45% of FDI stocks, while EU countries account for over 30%, with Germany, the United Kingdom, and France being the primary sources. Ukraine's largest FDI stocks originate from Cyprus, the Netherlands, and Germany, together accounting for over 75%. Investments from Cyprus alone exceed 60%, largely due to its status as a tax haven for Russian investors using Special Purpose Entities (SPEs) to reduce tax obligations. In contrast, the share of direct FDI from Russia has been below 3% in recent years due to the ongoing conflict between the two countries. Other notable European sources include the United Kingdom, Austria, France, Switzerland, and Italy, although their combined share does not exceed 10% of total FDI in Ukraine's economy.

Germany's FDI in Ukraine is mainly from ArcelorMittal, which, through its German subsidiaries, has invested in a steel plant in Ukraine. Similarly, the Netherlands is used as a "capital conduit," with companies like Kyivstar, Ukraine's largest telecommunications firm, being owned by a Dutch company through Russian investments.

Georgia is unique among Eastern Partnership countries as its main FDI source is Azerbaijan, which accounts for over 30% of total FDI. This is followed by Russia, Armenia, and other CIS countries. The low share of Russian FDI can be attributed to strained relations over Abkhazia and South Ossetia. EU countries rank third in terms of FDI share, with European investments growing significantly over the past three years due to the EU's openness to Georgia and the special visa regime granted to Georgian citizens. Another significant partner is China, whose investments have been increasing in recent years, supported by Georgia's favorable investment climate.
Azerbaijan has managed to attract substantial FDI stocks from the United Arab Emirates, Russia, and the United States due to its rich oil resources. In non-oil sectors, Turkey is the leading FDI source, followed by the United Kingdom and the Netherlands. Russia ranks fourth in terms of FDI stocks in other sectors, as most Russian investments in Azerbaijan are concentrated in the oil industry. This pattern reflects the diverse geopolitical and economic factors shaping FDI dynamics in the Eastern Partnership region. In summary, Moldova's FDI sources are diverse, with a strong European presence complemented by investments from the US, Turkey, and Switzerland. Political stability, economic reforms, and geopolitical orientations will continue to play a critical role in shaping FDI trends across Moldova and the broader Eastern Partnership region.

Table 2. Foreign Direct Investment Stocks by Country of Origin, Republic of Moldova, 2009-2019 (mil. USD)

Year	Country of origin						
	Russia	EU	USA	Ukraine	Switzerland	Turkey	Others
2009	602,64	1552,94	97,99	22,40	36,16	21,65	250,15
2010	656,24	1830,28	88,76	27,64	43,87	34,08	245,8
2011	738,03	2167,38	88,85	38,85	56,80	34,16	282,23
2012	785,79	2143,80	89,97	40,60	50,65	25,06	287,62
2013	795,99	2103,17	60,02	19,48	54,69	32,16	247,82
2014	790,81	1905,29	53,06	30,67	42,45	25,96	190,79
2015	746,52	1623,01	42,21	38,70	22,30	28,12	132,44
2016	716,49	1640,65	41,31	39,26	47,14	26,53	99,93
2017	791,11	2197,56	67,82	33,93	55,74	41,84	145,2
2018	838,51	2463,50	70,34	42,35	63,29	48,39	182,58
2019	869,40	3015,43	91,61	48,01	56,33	57,82	130,15

Source: own processing based on data provided by National Bank of Moldova, 2009-2019

Russia remains the largest source of FDI in Moldova, primarily through Lukoil, which has operated in the country since the 1990s and has expanded investments to include natural gas, electricity, and water supply. The European Union collectively represents the main source of FDI stocks in Moldova, with the Netherlands, Romania, Germany, and Cyprus accounting for over 50% of EU-origin FDI. Between 2009 and 2019, FDI stocks from EU countries increased from $1,552 million to $3,015 million, reflecting a 50% growth. Dutch investments are concentrated in communications, transport, and financial services, with Rompetrol operating 85 petrol stations nationwide. Romania has become a significant investor in Moldova, focusing on the financial and energy sectors. BCR and Procredit Bank lead the financial sector, while OMV Petrom, with 81 petrol stations and 78 stores, is a major player in the oil industry.

Germany is another key origin country, with the most significant FDI stocks in the automotive, construction, agriculture, and retail sectors. Draxlmaier's $70 million investment positions it as a leader in the automotive industry, supplying companies like Audi and BMW. Knauf, a prominent player in the construction sector, has been operating in Moldova since 2002 and is the largest producer of drywall sheets in the country. Metro and Südzucker also contribute significantly to Moldova's economy, alongside other European companies such as LaFarge, Orange, Group Societe Generale, Gebauer and Griller, Telia Sonera, Ericsson, Gruppo Veneto Banca, and Endava.
The United States, although not a major source of FDI, reached $91.61 million in 2019, with notable investors such as Lear Corporation in the automotive industry and Microsoft in the IT sector. FDI stocks from Ukraine, although relatively small, doubled to $48 million by 2019, mainly in construction and retail. Swiss investments peaked at $63 million in 2018, focusing on financial services, but decreased to $56 million in 2019. Turkish FDI stocks grew steadily over the decade, from $21 million in 2009 to $57 million in 2019, led by the brewery company Efes. Other key investors include major European firms such as Südzucker, Metro, and Endava.

Conclusions

The analysis of foreign direct investment (FDI) stocks in the Republic of Moldova and other countries within the EU Eastern Partnership reveals both opportunities and challenges for the region's economic development. Despite a steady increase in FDI stocks, Moldova lags behind its counterparts due to a slower privatization process, ongoing political instability, and limited economic openness. Moreover, the country's heavy reliance on investments from Russia and a small group of EU countries indicates a need for greater diversification of investment sources to mitigate potential geopolitical and economic risks. Compared to other Eastern Partnership countries, Moldova's FDI per capita is relatively low, while the share of FDI in GDP is closer to that of its peers. This suggests that although FDI contributes significantly to the country's economic growth, the absolute value remains limited due to Moldova's smaller market size and declining population. Countries like Georgia and Azerbaijan, benefiting from more substantial resource endowments and a more favorable investment climate, have attracted higher FDI levels, which have spurred their economic development more robustly. To remain competitive and foster sustainable growth, Moldova needs to strengthen its investment climate by implementing consistent policies that attract new investors and encourage the expansion of existing ones. This could be achieved by addressing political instability, enhancing legal and institutional frameworks, and promoting sectors with high investment potential, such as IT and manufacturing. Enhanced cooperation with EU countries and more proactive policies toward non-traditional partners, such as the United States and Turkey, could further contribute to achieving a balanced and resilient economic growth trajectory through diversified FDI sources.

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