

Liberalisation of Competition and Stimulation of the Economy by Granting State Aid in the Republic of Moldova

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Abstract

The European integration process has fostered the continuous advancement of economic relations with the EU, necessitating the modernization of domestic legislation through alignment with EU regulations, particularly in the realm of competition within the agro-food sector. The liberalization of competition is a positive catalyst for product diversification, consumer welfare, economic growth, and overall quality of life. The paper aims to assess the level of harmonization between national regulations governing the agri-food market and European regulations. The research entails the analysis of local legislation in the food sector, relevant scholarly works, and reports from the Competition Office. The findings indicate that the food industry and retail food trade are economic activities that require the elimination of anti-competitive barriers and the promotion of free competition. Furthermore, the provision of state aid to public companies must adhere to competition rules and avoid detrimental effects on the functioning of the market's supply and demand mechanism. In addition, the study aims to provide valuable insights into the challenges and opportunities associated with the harmonization process. By examining the effectiveness of existing regulatory frameworks and identifying areas for improvement, this research contributes to the ongoing discussions on promoting fair competition and enhancing market efficiency in the agri-food sector. The findings of this study will inform policymakers, industry stakeholders, and researchers, enabling them to make informed decisions and develop strategies that foster a competitive and sustainable agri-food market in line with European standards. It is important to note that this research represents a preliminary analysis of competition in the agro-food chain, with further exploration planned as part of the doctoral training program.

Keywords:

Competition, Republic of Moldova, State aid, European Union, Association Agreement.

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Introduction

The increase in economic relations between the European Union and the Republic of Moldova has a beneficial effect on the prosperity of the national economy. The implementation of the provisions outlined in the association agreement will foster a transformative environment in both domestic and international trade, leading to the advancement of the national economy and encouraging competition among economic entities in the local and global markets, particularly in terms of economic relations within the neighbouring regions.

The essential feature of the market economy is competition, which, together with supply and demand, is a defining variable of the market. In general, competition is both a confrontation and a cooperation between economic agents to obtain better conditions for producing, selling, and purchasing services and consumer goods. Critical incidents in the food chain, such as COVID-19 or the Russia-Ukraine war, should not disrupt the proper functioning of the market and fair competition, without state intervention (Stanciu, 2022).

In his work, the economist Gabriel I. Nastase notes competition as a phenomenon between economic agents participating in the market, changing their behavior to some extent under the conditions of exchange (Nastase, 2021).

With the liberalization of the exchange market, the role of the free market mechanism in regulating competitive economic processes has increased, contributing to the development of the national economy and eradicating the shadow economy in specific sectors. Competition generally ensures that producers, profits, and consumers meet their needs. By competing, the autonomous producers specialized in producing materials, goods, and services aim for increased profit. At the same time, the consumers choose for their quality and utility at an affordable price.

Therefore, both external and internal competition play a crucial role in the economy, but it is essential to have well-defined rules and policies in place that are guided by the government at both national and international levels to ensure its proper functioning.

Material and methods

Clarivate, SCOPUS and ResearchGate, Reports of the Competition Council, European Commission Communications, Government of Republic of Moldova, Constitution of the Republic of Moldova regulations, as well as other official institutions at both the European and national levels were used for documentation.

Public information from statistical databases and scientific information from the Google Scholar platform were also utilized. The collected data were processed using tabular methods and statistical indicators.

The results were compared with scientific papers for validation.

Regulatory competition rules

The free exercise of competition generates competitiveness, encompassing the competitive environment, which consists of various elements such as the number of market producers/suppliers and consumers, the variety of goods and services, market organization, state intervention in the economy, and the presence of a legislative framework that plays a crucial role in a market economy (European Union EU, 2012). Competition policy is influenced by multiple factors that can alter the behavior of market participants, including consumers and producers (figure 1).



Figure no. 1. Factors of competition influence
Source: Author, by using Competition Council (2023)

In the context of industry globalization, market participants are compelled to adopt contemporary and inventive strategies to sustain their financial interactions between producers and consumers, while upholding the principle of fair competition, thereby minimizing the need for intervention by the competition authority in the Republic of Moldova (Munteanu Pila and Stanciu, 2019).

The role and objectives of the Competition Authority are intricately interconnected and governed by the regulatory framework of the Republic of Moldova (figure 2).

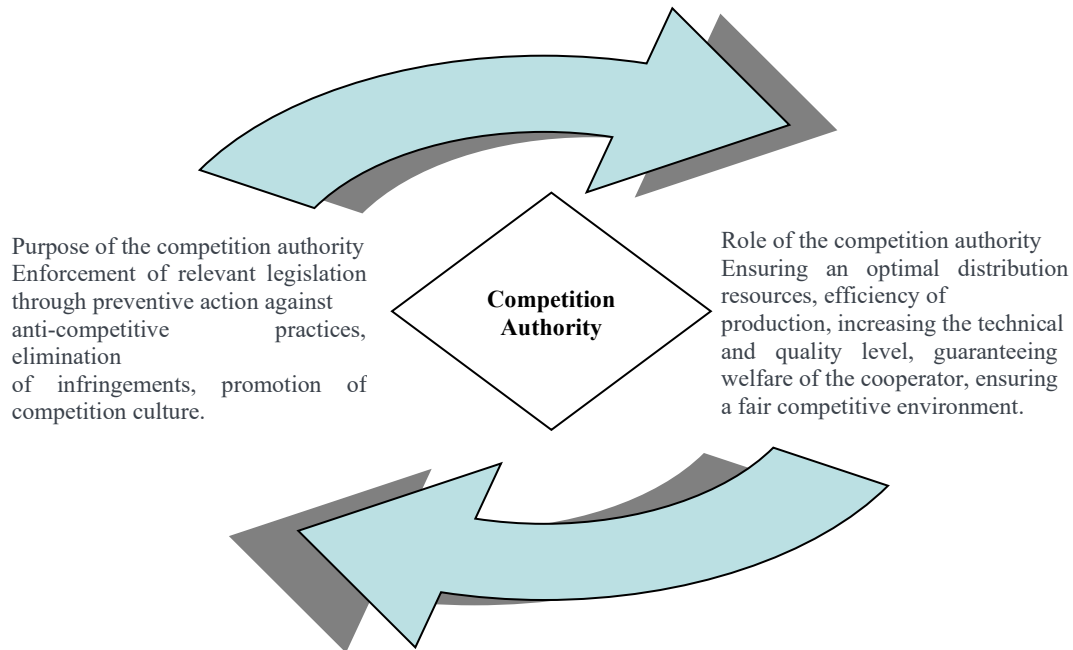


Figure no. 2. Role and Purpose of the Competition Authority

Source: Author, by using Competition Council (2023)

The functions of competition as a whole include several factors such as stimulating the creative spirit, encouraging initiatives in production, practice, and modernization of outdated industries, promoting the development of innovative products and new services, favouring price and cost reduction, and contributing to the improvement of services and products.

Competition regulates the correlation between supply and demand and is only possible if economic operators have the freedom to determine prices within an appropriate legal framework that regulates market activity between consumers and producers/suppliers (Smith, 1776; Treinin, 1908).

Maxim (2010) deduces three main tasks that underpin excellent economic governance, namely sustainable economic growth, which, according to the author, can occur without state intervention. However, for a more effective and risk-free result, direct or indirect intervention is necessary. The second task highlighted is the transformation of the country's economic system in the context of globalization, which involves implementing concrete measures in the economic field to create an efficient market economy and stimulate competition.

The third main task, according to the author, is to defend national interests in free trade relations at the international level. The need to regulate competitive activity has directly and indirectly influenced the development of a country's economy. In the Republic of Moldova, after declaring independence, the first notions directly related to a competitive economy appeared in normative acts such as the Constitution of the Republic of Moldova, which mentions the idea of the market as the place where supply and demand intersect, and fair competition. These factors are fundamental to the national economy (Government of Republic of Moldova, 1994). Similarly, Article 126 states that the market economy in the Republic of Moldova is based on free economic competition, and it imposes obligations on the state to regulate economic activity by issuing normative acts to protect fair competition. Assuming responsibility for creating conditions for a free market economy and sustainable development has paved the way for the ratification of the National Development Strategy "Moldova 2020" by the Parliament of the Republic of Moldova through Law 112 of 02.07.2014 (Government of Republic of Moldova, 1994).

This strategy aims to improve the business climate, optimize the legal framework for market growth, promote a culture of competition at the national and international levels, and build a new economic system based on fair market principles (Ghencea, Zanet and Stanciu, 2022).

The development of the principles of competition with globalization has also undergone some changes in the normative acts, thus in the period 2012-2014, the process of reforming the competitive actions in the legislative and institutional field took place in the Republic of Moldova, the reform denoting in the

continuous monitoring of the legislation on advertising, state aid, competition as a result of the application of the European Union's practice models, to liberalize on critical areas and sectors of the economy (Zanet and Stanciu, 2021).

The normative act that regulates competition activity in the Republic of Moldova is Competition Law no. 183 of 11.07.2012, which is guided by the principles of the European Union and harmonized with the rules in this field (European Parliament, 2014). This law facilitates the investigation of Competition Law violations, including the identification of cartel agreements.

In addition to the Competition Law, market regulation is also guided by Law 139/2012, which regulates state aid as a support measure and is an essential tool in state involvement to preserve competitive economic value. The state support defined by this law aims to maintain price competition in the typical environment. However, the granting of state aid can also have negative effects, as disparities created when granting state aid from public resources to certain entities may differ from the requirements of the European Union. Therefore, in specific sectors of the economy where support measures are granted, the activity of entities may be negatively affected, reducing their motivation to increase efficiency.

State aid can also affect supply and demand in the market, leading to trade conflicts and the disappearance of market entities that can no longer compete. These consequences arise when state aid is granted under suspicious conditions or is not regulated by law.

Table no.1 provides for state aid reported by the authorities as an amount explaining the State intervention to support different entities by adjusting for each objective to maintain fair competition on the market. This process is governed by Article 342 of the Association Agreement. From 2014 to 2015, there is an increase in State aid from 2,914,071 MDL to 4,968,921 MDL, indicating a significant growth in the amount of aid granted.

However, from 2015 to 2016, there is a decrease in State aid from 4,968,921 MDL to 2,693,170 MDL, showing a reduction in the amount of aid provided. In 2017, there is a further decline in State aid to 670,773 MDL, indicating a significant decrease compared to the previous years but in 2018, there is a slight increase in State aid to 968,346 MDL, showing a partial recovery from the low amount in 2017. These fluctuations in the amounts of State aid suggest variations in the allocation and distribution of aid over the years. There is a complex correlation between all the elements showed in table 1. For example, subsidies can directly impact the level of state aid, and they can lead to exemptions, reductions, or deferrals of taxes and duties. At the same time, grants and interest-bearing loans can contribute to stimulating supplier investments. Price reductions on goods and services can be a result of state aid or can be offered within specific contractual arrangements. Thus, all these aspects are interconnected and can influence how state aid is granted and utilized in the economy.

Table no. 1. State Aid (excluding SGED) (thousands, MDL)

Value and structure of State aid by form of a grant (except SGED)	Year				
	2014	2015	2016	2017	2018
<i>Grants or subsidies</i>	778030	524695	320438	426239	530601
<i>Cancellation or assumption of debts/budgetary allocations</i>	0	0	0	0	48917
<i>Exemptions, reductions, deferrals of taxes and duties</i>	2053516	3658068	2360521	230807	318182
<i>Granting of interest-bearing loans</i>	61338	755051	881	562	440
<i>Granting of guarantees on preferential terms</i>	5191	6568	6556	6365	1377
<i>Supplier's investments, if the rate of return on these investments</i>	0	0	0	0	30926
<i>Price reductions on goods and services provided</i>	15996	24539	4774	6800	37903
Total	2914071	4968921	2693170	670773	968346

Source: Author, by using Competition Council (2023)

There is a complex correlation between state aid, the GDP ratio in percentages, and state aid per capita. These measures are interconnected and can provide information about the effectiveness and distribution of state aid in the economy. The GDP ratio in percentages reflects the degree of dependence of the economy on state aid, while state aid per capita indicates the level of economic benefits that each individual receives as a result of receiving state subvention.

Table no. 2 provides the evolution of GDP growth from State aid intervention, including per capita growth. The decrease in GDP ratio in the years 2016, 2017, and 2018 may suggest a reduction in the economy's dependence on state aid and an increase in other sources of financing.

Table no. 2. State Aid (SGEI) (thousands, MDL)

State aid (SGEI)	Year				
	2014	2015	2016	2017	2018
<i>Thousands, MDL</i>	4484932	6052541	2904415	835836	1184201
<i>Thousands, euro</i>	240737	289595	131720	40127	59688
<i>GDP ratio, %</i>	4	4,94	1,81	0,47	0,62
<i>State aid per head by inhabitant (MDL)</i>	1261	1702	817	235	434
<i>State aid per head by inhabitant, euro</i>	68	81	37	11	22

Source: Author, by using Competition Council (2023)

It is important to note that a decrease in the GDP ratio does not necessarily indicate an absolute decline in GDP value or overall economic performance. It merely indicates a change in the proportion of state aid relative to GDP. From the given data, there is a significant variation in state aid per capita over the mentioned period. In 2015, the state aid per head was 81 euros, indicating a higher amount allocated to each individual in that year. However, in the following years, the state aid per capita decreased significantly, reaching 37 euros in 2016, only 11 euros in 2017, and returning to 22 euros in 2018.

However, it is important to conduct further analysis and consider additional factors to draw comprehensive conclusions. Factors such as the overall economic performance, specific sectors receiving state aid, and the effectiveness of the utilization of state aid can provide a more detailed understanding of the relationship between state aid, GDP ratio, and state aid per capita. In this context, state intervention through state aid, as reported for the period 2014-2018, is set out in the figure 3.

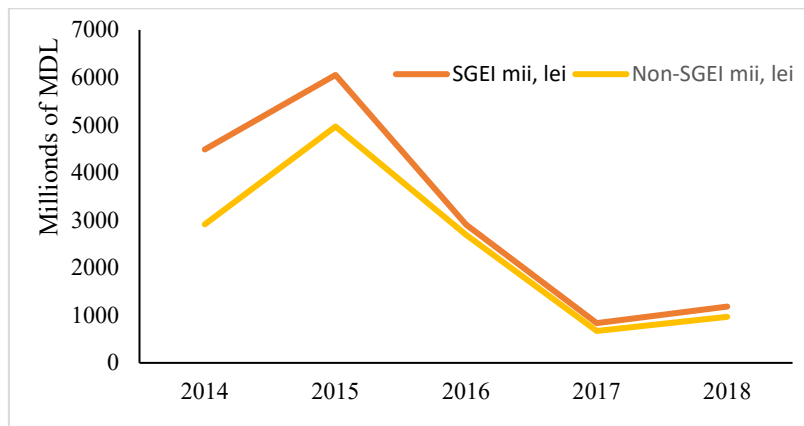


Figure no. 3. State aid in Republic of Moldova (2014-2018)

Source: Author, by using Competition Council (2023).

According to the data in Chart no.1, the state aid granted to entities under the State Aid Law noticed an increase in 2015 but decreased until 2018. In 2015, the state intervened massively in support of the business environment, boosting the large-scale development of the economy.

Services of General Economic Interest (SGEI) are essential public services that contribute to meeting the general needs of society and are considered to be of strategic importance for the well-being of citizens. These include services such as energy, transportation, water and sanitation, telecommunications, postal services. These services benefit from certain forms of state aid to ensure their adequate and accessible provision. Non-SGEI refers to sectors and services that are not considered Services of General Economic Interest and, therefore, are not eligible for specific forms of state aid intended for SGEIs. These include sectors and services such as trade, tourism, industry, financial services, which are based on competition and do not require the same level of state intervention as SGEIs.

The normative provisions stipulated in the National Development Program expressly define the form of granting support measures, monitoring and counteracting certain forms of state aid given abusively or illegally. State aid is given to economic entities required to be given according to priorities established for the common interest of society, a factor that would continuously stimulate the development of all key sectors of the economy such as energy, water and sewerage, public transport, etc., in all five regions of development of the Republic of Moldova.

Conclusions

Finally, competition plays a crucial role in the market as it fosters an environment of innovation, development, and product diversification, thereby contributing to the overall growth of the economy in present circumstances. Free and fair prices manifest the competitive form, the entities that practice economic activity having access to the free initiative being numerous; from a legal point of view, competition dictates the rules of the game in the agri-food market. Competition, a crucial instrument for regulating economic forces on the market, enables the consumer, the primary beneficiary of competition, to gain by giving economic operators competitive games on the market access to diversified products at low and qualitative prices. In the same vein, the granting and monitoring of State aid are beneficial for correcting market failure in specific economic development sectors, creating momentum in the economy's growth and increasing the population's well-being. In addition to its impact on the economy, competition has positive effects on innovation, product and service quality, operational efficiency, and technological advancement. Through competition, companies are motivated to constantly improve their offerings, leading to more efficient satisfaction of consumers' needs and preferences. Furthermore, competition stimulates investment and economic growth by creating a favourable environment for innovation and development. Through competition, companies are encouraged to invest in research and development, improve production processes, and adopt advanced technologies, resulting in increased productivity and the creation of new jobs. In conclusion, promoting and supporting healthy and fair competition in the market is a priority for government authorities. By adopting and implementing appropriate policies and regulations, a fair competitive environment can be ensured, benefiting both producers and consumers. This, in turn, can lead to sustainable economic development and an overall improvement in societal well-being. The study can be utilized by a diverse range of individuals and entities with an interest in the analyzed field. This may include researchers, academics, professionals in the economic sector, policymakers, governmental and non-governmental organizations, as well as other stakeholders in economic development and competition regulation in the Republic of Moldova.

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