The impact of FDI on the economy, people and government. The case of Moldova

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Introduction

**Question:** What is the impact of FDI?

- Impact on the economy
- Impact on people
- Impact on the government
• Data interesting for international comparison

• But does not answer our question: importance for economy, people and government

➢ Use of company based data to find an answer

Source: Own calculations based on IMF WEO and IMF CDIS data, 2016
FDI impact on economy: Value added

- Companies with FDI capital amount to 7% of total companies, but for 23% of total value added

Value added of companies with FDI by sectors

- Even higher importance of FDI in manufacturing (41% of total sector value added) and information & communication (46%)

→ Companies with FDI are essential part of MD economy

FDI impact on economy: Exports in manufacturing

- High share FDI companies’ production destined for export
- Positive effects like technology transfers can be expected from integration into international value-added chains
- Close connection of FDI growth and export growth in recent years

→ Companies with FDI have a high and growing importance for export

Result 1: Companies with FDI significantly positively contribute to MD economy

**FDI impact on people: Employment**

Employment of companies with FDI by sectors

- Total employment
- Manufacturing
- Wholesale and retail trade
- Information and communication
- Professional and technical activities
- Agriculture
- Construction
- Transportation and storage
- Real estate activities

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share in employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment</td>
<td>15%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>35%</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>15%</td>
</tr>
<tr>
<td>Information and communication</td>
<td>31%</td>
</tr>
<tr>
<td>Professional and technical activities</td>
<td>20%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6%</td>
</tr>
<tr>
<td>Construction</td>
<td>7%</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>5%</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>12%</td>
</tr>
</tbody>
</table>

*Source: NBS, 2015.*

- Companies with FDI account for **15%** of total employment
- Companies with FDI on average bigger than domestic companies and employ more people
- FDI plays a significant role for employment, especially in manufacturing and information & communication

→ **Companies with FDI create many jobs and therefore provide a livelihood for a big part of the population**
FDI impact on people: productivity and wages

Average wages by sectors

- Companies with FDI are 71% more productive than domestic companies
- Companies with FDI are able to pay higher wages than domestic companies
- Higher wages increase wellbeing of the population and potentially reduce emigration

→ Companies with FDI increase through higher wages the wellbeing of people

Result 2: FDI is good for MD people they provide jobs and higher wages

Source: NBS, 2015. Note: NBS concept is used
FDI impact on government: Taxes and social security contributions

• Companies with FDI account for 34% of CIT revenues
• Tax revenues on average higher than from local companies
• FDI companies they contribute to other taxes through higher wages and stabilise the social system through higher social security contributions

→ Government directly benefits from FDI companies through higher revenues

Result 3: FDI is good for the government

Overview of analysis in Moldova

**Question:** What is the FDI impact on Moldova?

**Impact on the economy**
- Companies with FDI significantly contribute to MD economy, account for 23% of value added and a high and growing share of exports

**Impact on people**
- FDI is good for MD people they provide jobs (15% of total) and higher wages

**Impact on the government**
- FDI is good for the government, it benefits directly and indirectly from through higher revenues
Experience in other countries

- Are the results in Moldova special or are other countries comparable?
  - Similar analysis performed for Ukraine

Impact on UA economy
- FDI companies make up below 5% of companies but produce 35% of value added

Impact on UA people
- Companies with FDI account to more than 20% of employment, are on average 2 times higher labour productivity and pay higher wages
  - Moldova is not a special case, FDI positively contributes to the development of economy, the wellbeing of the population and also through revenues to the government
  - Governments not only in MD well advised to strengthen FDI attraction
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