

The Economics Pioneers

The Moldova Brain Drain

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Executive Summary

As of 2021, an estimate of 1 of 4 Moldovans was located in foreign land. Or such is that claim of an article published in the Veaceslav Ionita blog, on July 13, 2021. The findings of the demographic studies carried out by the National Bureau of Statistics (2023) support the claim, indicating the number of people migrating from Moldova is nearing yet another peak, after a short slowdown in the years before the pandemic and during the COVID-19 crisis. Even so, data on demographic trends shows that the number of citizens permanently settled abroad as well as the number of a citizens leaving abroad on a temporary basis for work purposes remains high and maintains a tendency towards increase. Government officials have taken action through developing instruments that can be used to coordinate state policies with the increasing migration trend. Their main goal seems to be facilitating the integration of immigrants coming into the country, rather than coming up with effective solutions to the complete lack of incentives for specific groups of Moldovans to stay pursue relevant economic activities locally.

Introduction

According to the National Bureau of Statistics (2021), the number of the usual resident population of Moldova on January 1st, 2021, has gone down by 46.8 thousand persons, which compared to the year before amounts to a 1.8% decrease in population since 2020. With reference to the same study, this trend has been relatively constant at least since 2014 all the way through 2021, but one look at other studies done on previous periods of time will convince us that the decrease in permanent residents of the country has been going on for the last two decades. There are two main issues causing the constant decrease in permanent resident population of the country, the first one being migration and the second one being the negative natural increase. The latter reached its peak in 2020, meaning that for the first time in history, for 3 consecutive years Moldova has had more deaths than births (Veaceslav, 2021).

A look back in time brings us to the year 1998 and its relevance to this growing migration trend. What happened in 1998, was that Russia was going through a severe financial crisis, that began with the devaluation of the Russian ruble in august that year, with the first effects of that being felt in Moldova in September, showing just how dependent the Moldovan economy was on commerce with Russia at that time. With the jump of the Moldovan leu (MDL) to US dollars (USD) rate from 6.5 to 10 in a day, came a swift increase in oil prices and energy tariffs by 60-70% as well as a long chain of price hikes. As of 2021, roughly 26% of the country's population was permanently settled abroad. This doesn't seem particularly alarming until compared with the period before the economic crisis of 1998, when there were only about 5% of the Moldovan population settled abroad, which leads us to a very logical conclusion that the above-mentioned economic crisis, together with its impact on the standard of living, acted as a main driver of the migratory trend, with people seeking better living conditions, higher salaries, better opportunities for development and more (Veaceslav, 2021).

Highlights

- The migratory trend in the Republic of Moldova is nearing yet another peak, after a short period of slowing down.
- In 2021, roughly 26% of the country's population was permanently settled abroad.
- Data from 2022 show that, the bulk of people who chose to emigrate belong to the age groups between 20-29, with 23% and between 30-39, with as much as 21% of the total. (Situația demografică în anul 2022, 2023)
- Young people choose to leave for study purposes. People of working age choose to leave in search of better paying jobs.
- Crucial fields, such as medicine and education are left with a severe lack of young, trained personnel.

The most common negative consequences of the increase of migratory trends in the recent decades are:

- The brain drain effect, that occurs because migration is becoming more frequent among the highly educated and among students;
- Changes in the demographic structure of the country;
- Ageing of the population, the people most frequently left behind being seniors. This inevitably impacts the workforce, because the moment you have more seniors than young people working, employers are faced with the difficult circumstance of having to look for a replacement very soon.

Unfortunately, of the people who would have been able to replace the soon to be pensioned senior in his working position, most have already gone abroad, looking for better pay, and this is only one façade of the issue. Apart from the increasingly aged workforce, there is also the problem with young professionals that choose to leave. The higher the rate of people with higher education who choose to leave, the less is the local intellectual potential, according to the findings of a paper entitled “The effects of brain drain on Moldovan Innovational Potential”, by drd, Lucia Cavcaliuc (2016).

In light of the complicated geopolitical context the country finds itself in, the post-pandemic economic crisis it is still recovering from as well as the ongoing energy crisis and the subsequent economic difficulties that have been caused by the gruesome war waged on Ukraine, it is hard to believe in a possible reversal of the decreasing population trend. However, if we take a closer look at the toll it is taking on the local economy, as mentioned above, we are reminded of the urgency of the matter.

A certain correlation has been observed between the low-performing Moldovan economy and the migratory crisis. The two main performance indicators that drd Cavcaliuc (2016) refers to are the GDP growth rate, and high technology exports. The increase of Moldovan emigrants with higher education, observed particularly between 2006 and 2015 (8,56% to 13,8% respectively), coincides with a decrease in the GDP growth rate and a lower export of higher technology, the latter meaning that there

is a smaller output of higher technology products in the market because there are less and less highly skilled individuals able to make these products (Cavcaliuc, 2016).

A country simply cannot thrive without its people, and if the well-educated, highly skilled individuals are more incentivized to leave rather than to stay and pursue economic prosperity locally, any country is doomed to economic collapse.

Research Overview

The factual material referred to in this policy brief was drawn from a number of trustworthy sources, among which are research papers and articles, such as the “Extended Migration Profile of the Republic of Moldova”. The latter has been developed as an instrument of state ownership, with the help of both governmental and non-governmental institutions, and the sole purpose of enabling the authorities to coordinate the development of policies with the ongoing migration crisis. The data was collected via an extensive network of institutions such as the Public Services Agency, the Ministry of Internal Affairs, Ministry of International Affairs and of European Integration, National Bureau of Statistics, Ministry of Labor and Social Protection and others.

According to the “Extended Migration Profile of the Republic of Moldova,” for the years 2017-2021, the number of Moldovan citizens living abroad on the basis of authorized migration continues to rise, having increased in 2021 compared to 2017 by about 10.3 thousand persons. The findings of the report indicate that the main reason for which Moldovans choose to migrate abroad are economical, with most of the migrants seeking better paid jobs (MAI al Republicii Moldova BMA, 2022)

As for the younger population, migrating for study purposes the report indicates that the number of Moldovan citizens studying abroad was increasing continuously until 2017, with an insignificant decrease from 2018 onwards. The main motivation amongst young people migrating for studies is obtaining an internationally recognized diploma that would enable them to beat the competition on the job market.

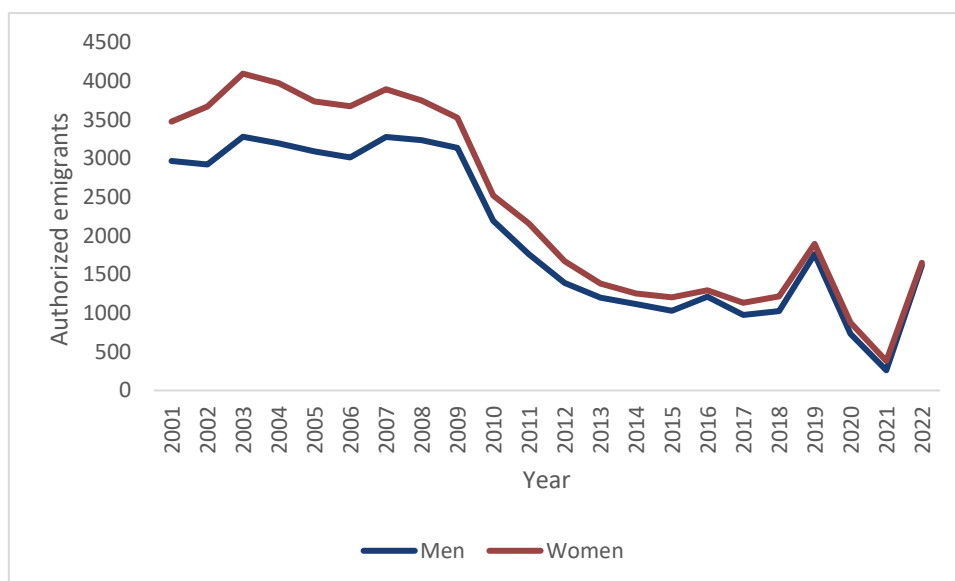


Fig. 1. Authorized emigrants by gender, 2001-2022

Source: National Bureau of Statistics

As reflected in the figure above, Moldova is nearing yet another peak of the emigratory trend, after a clear period of decrease between 2009 and 2015. Although the “Extended Migration Profile of the Republic of Moldova” promptly concludes that the total of emigrants in 2021 has decreased by 5% compared to the year 2017, its findings show that the number of Moldovan citizens living abroad continues to grow.

According to the report, in 2021 approximately 48% of the total of migrants had a medium level of education (that is 4 years of primary school and another 5 years of secondary school), closely followed by the 39% of people with an intermediate vocational level of studies and secondary vocational level of studies. The holders of a higher education diploma (people with a bachelor’s degree) amounted to 12% of the total of migrants. Among the latter, people aged between 25 and 34 amount to a whopping 55% of the total of migrants who hold a diploma of higher studies (MAI al Republicii Moldova BMA, 2022).

The results of the report show that, in 2021, the number of people migrating on temporary basis (also known as temporary circular migrants) that hold a higher education diploma, was 9.3 thousand, roughly half the amount identified in 2017. This

should be good news, but it is important to note that, as of 2019, the Labor Force Survey carried out the study according to a new sample of households and a new rotation scheme. Hence the results are extended to the number of people with permanent residence, which was not the case before 2018. This means that the findings for 2021 and the findings for 2017 are not entirely comparable (MAI al Republicii Moldova BMA, 2022).

In 2021, the economically active population of the Republic of Moldova amounted to 871.6 thousand people, 128.1 thousand less than 2017, which is reflected in the decrease in the activity rate, from 45.9% in 2017 to 41.1% in 2021. The same sort of alarming decrease has been found amongst the working age population of the country. In 2017, the working age population constituted 65.6% of the total and in 2021 it went down to 59.5%. It follows that there has also been a significant increase in the number of people aged above the working age, from 17.3% to 21.1% of the total. It is expected that in the light of the growing migratory trend, the number of people of working age that live in Moldova will continue to decrease. (MAI al Republicii Moldova BMA, 2022)

The main impacts on the workforce

The data on the country's negative natural increase clearly shows that there have constantly been more deaths than births for at least the last couple of years. This, coupled with the increasing trend among young people to go and study abroad, some, if not most of them, with no intention to return, can lead to a considerable increase in population ageing. Moreover, it is clear that, ever since the beginning of the migratory trend in the early 2000s, the bulk of the migrants have constantly been young people and people of working age. This leaves the local labour market with an ever-decreasing number able-bodied, skilled individuals that would be a perfect fit for a large number of jobs. The most severe deficits are currently faced amongst medical staff, teaching staff and more recently amongst construction professionals.

Most alarmingly, the deficit of teaching staff is taking a toll on students enrolled in schools and other educational programs. The lack of a trained math teacher, or language teacher, can lead to a whole class of students being unable to get a proper training in that subject, according to the curriculum. Ironically, especially in rural areas, most of the students are likely to have at least one member of the family moved abroad for work. Unless their working parents are studently overtaken by a strong patriotic feeling, the child is most likely expected to join their parents, hence migrate out of their country of birth. This is a vicious cycle.

Suggestions

In regards to the deficits in the work force in domains referred to as "key" for economic development the report proposes a series of actions, ranging from the simplification of the procedures required to obtain a work permit, a permanent residence permit, all the way through facilitating entrance to interested investors. The recommendations of the report are more focused on the management of existing migration trends, both out and into the country and on making the entrance and integration of foreigners interested in living in Moldova more bureaucracy-free.

Given that, the findings of the report clearly state that for the last two decades in which migration has

been a problem, the main incentives for people to emigrate have been of economic nature, shifting the approach of the report from the plain and simple bureaucracy management to creating actual economic incentives for specific groups of people to choose to live in Moldova, would be a better strategy.

Instead of sticking to setting a higher minimum wage, which is likely to disturb the already troubled job market and has widely been proven to create not so favourable precedents for state interventionism, implementing a negative income tax for high-risk groups, that are likely to choose to move abroad in search of better pay may be a better policy. A negative income tax is a system in which earners above a certain level are taxed accordingly, while earners below that level are exempt from taxation and receive a governmental support on the basis of insufficient income per household or any other criteria. This includes the under-paid teachers and medical staff, but should not be limited to that. The only criteria on the basis of which people should be able to qualify for a negative income tax is their low level of income.

A special category of beneficiaries of a lower income tax could be the young professional choosing to start a business in Moldova. Facilitating the beginnings of young entrepreneurs not only incentivizes people to choose to become entrepreneurs over the not so pleasant prospects of emigration but also provides a non-inflationary way of reviving the local economy.

As for the students, choosing to complete their degrees outside of Moldova, the government should aim at meaningful improvement in terms of higher education, meaning more targeted investment in research and development activities carried out by universities, as well as investment in state-of-the-art research facilities and resources. In 2021, Moldova spent 23% of its GDP on research and development (R&D), according to the data provided by the World Bank. (UNESCO Institute for Statistics, 2023). The R&D Expenditure indicator includes both capital and current expenditures in the four main sectors: Business Enterprise, Government, Higher Education and Private Non-Profit. An increase in R&D Expenditure with a special focus on higher education will increase the quality of the studies offered by

local universities, as well as the research capabilities of each institution. This will, in turn, make a degree from any other European university. Students will be faced with the reality that studies at home are more easily obtainable from a logistical and economical point of view, and will be able to gain a competitive diploma without having to leave the country.

The suggested policy directions do not exclude the implementation of the immigration policies recommended by the report. Rather, they are meant to provide an additional focus for local policy makers. A focus on how to incentivize Moldovans to stay and seek economic prosperity locally.

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