2.15. EXPORT COMPETITIVENESS: A POTENTIAL DRIVER OF DEVELOPMENT OF REPUBLIC OF MOLDOVA

COMPETITIVITATEA EXPORTULUI – POTENȚIAL VECTOR DE PROGRESS ÎN REPUBLICA MOLDOVA

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Abstract

Deşi Republica Moldova a reuşit să realizeze rate de creştere economică relativ bune în ultimul deceniu, modelul său economic întemeiat pe consum, pe fondul unor capacităţi de producţie internă scăzute, a făcut-o foarte vulnerabilă în faţa şocurilor externe. În acest context, competitivitatea exporturilor, care ar putea genera efecte pozitive multiple asupra creşterii economice, ar trebui să devină o componentă a viitoarei căi de dezvoltare a ţării. Articolul se axează pe analizarea competitivităţii exporturilor Moldovei şi pe cele mai importante pîrghii de îmbunătăţire a acestei competitivităţi.

Cuvinte cheie: *model de dezvoltare, creştere economică, competitivitate, produse exportate*

Introduction

The recent world crisis, which effects are still felt in many countries, revealed the deficiencies in their economic systems and emphasized one more time the importance of decision makers to focus on national competitiveness in view to reduce their volatility to external shocks and to ensure a sustainable development. This is not an easy task, especially in the countries that are deeply integrated into the world economic system and are very dependent on development trends of the other states. But to survive and to follow a stable development path that will produce a high and rising standard of living for its citizens [8] it is essential to identify the gaps in the development model they have adopted, to find out new drivers of GDP growth and the levers of influence on the factors that could determine the economy to become more productive.

In spite of the fact that Republic of Moldova has managed to achieve relatively good growth rates during the last decade that can indicate on the country's progresses to implement market-oriented reforms, its per capita output remains to be among the lowest compared to other countries in the region. The crisis that hit the Moldovan economy in 2008 and culminated in 2009 pointed out on a strong dependence of the country on the external factors and on the modest inland production capacities to sustain a qualitative growth.

Table 1.

Economic growth –regional outlook

	GDP growth rate, %		GDP per capita, USD	
	Average 2000-2005	Average 2006-2010	Average 2000-2005	Average 2006-2010
Armenia	11.2	4.4	917.1	2785.8
Belarus	7.3	7.3	1830.8	5162.7
Georgia	6.5	5.3	963.6	2422.6
Republic of Moldova	6.3	3.3	552.8	1405.6
Tajikistan	9.2	6.6	230.7	600.7
Turkmenistan	16.6	10.4	2167.0	4088.4
Ukraine	7.5	1.3	1090.3	2967.8

Source: International Monetary Fund data

Why worry about export competitiveness?

Looking at the GDP expenditure structure since 2000, can be seen a high and a general increasing level of consumption, particularly of personal consumption expenditures, which share amounted to about 95% of GDP, on the background of a deterioration in trade balance. This trend points on the Moldova's consumption led growth during this period that was fueled by the remittances' progressive increase generated by intensive migration outflows.

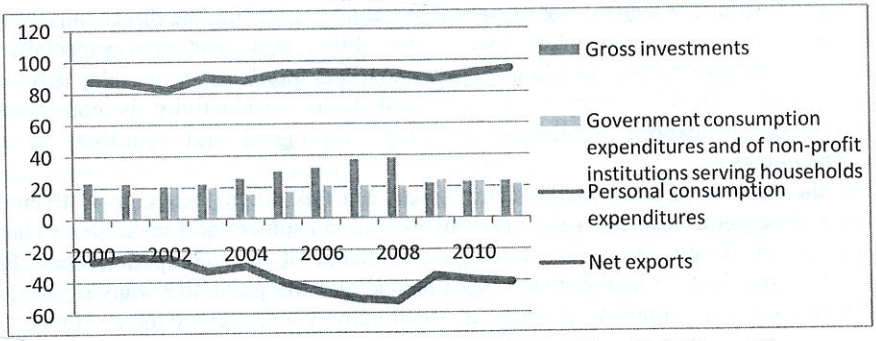

Chart 1. *GDP expenditure structure f Republic of Moldova, %*
Source: Moldova's National Bureau of Statistics

Remittances accounted for 24% of Moldova's GDP in 2010, reaching about the same level as exports -26.5%, while FDI inflows remain to be much lower – almost 3.4%. These trends make Moldova highly sensitive to changes producing in external markets that consequently lead to significant exposure of the national economy to external shocks from the main economic partners. A recent study which aim was to measure the extent of Moldova's vulnerability to recessions produced in the main economic partners – Russia and European Union, that are as well the main sources of remittances, confirms this hypothesis, and states about the immediate impact of the remittances inflows on the internal consumption and hence on economic growth. [1]

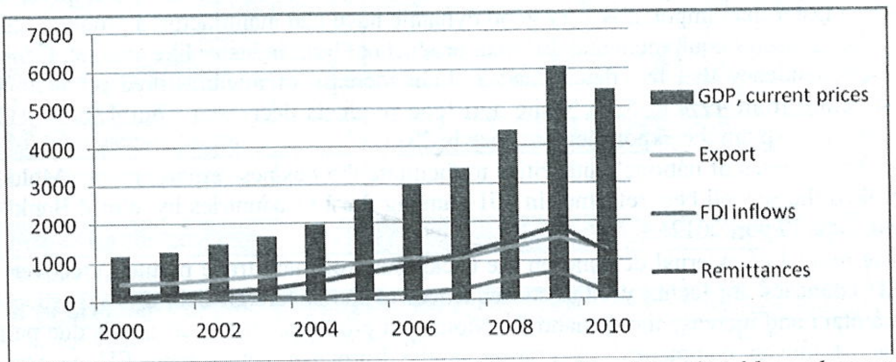

Chart 2. *GDP and the main international financial flows in Republic of Moldova, thousand USD*
Source: Moldova's National Bureau of Statistics, National Bank of Republic of Moldova

It is well known the assumption that consumption is an important stimulator of economic growth. But, the observation is rather valid in conditions when consumption is oriented to sustain national production, than the import of consumer goods, stimulated by remittances inflows. For the case of Republic of Moldova consumption led growth make the national budget dependent on import duties and the country's economy development - on emigrant workers money transfers that are expected to follow a downward trend in a medium and long-run period. This estimation lay on the fact that emigrants are gradually fetching their families to join them and cease to send many home as well as on the rapid ageing of the country's population [7].

In this context identifying alternative development drivers becomes indispensable and the focus on exports developments may become an important catalyst in this sense. There is no a consensus in the existing theoretical and empirical literature concerning the direct causality between exports and economic growth, however exports externalities on development, especially in small economies are undeniable; by acceding exports markets producer may take advantages of economies of scale; in the export sector marginal factor productivity is considered to be significantly higher [4];exports accelerate technological progress and contribute to a better allocation of resources etc.

Also, the success of firms on foreign markets can talk about their competitiveness. Their capacity to produce goods that meet the tastes of foreign consumers and make them choose their products over those of competitors can be a good indicator of their competitiveness. The fierce competition they should face in the most open markets and the gains they may obtain selling in these markets boost them to improve permanently their activity and become more efficient.

How competitive are Moldovan exports?

Despite grate Moldova's progresses to liberalize its external trade the last decade and multiple opportunities offered by the main trade partners to penetrate their markets – CIS and EU countries, being practically exempt to pay any customs duties, exports effects on economic growth remain enough modest. A study made to evaluate the correlation between exports and GDP for the case of Republic of Moldova shows that there is a direct correlation between exports and economic growth, but it's very small. Thus a 1% increase in exports determines an economic growth of 0,13-0,2% [1].

It's true that the post-crisis period, represented a new stage in the Moldova's trade development, mainly for its export performances. For the first time since 2001, year that corresponds to Moldova's accession to WTO and was followed by spectacular imports increase, exports grew faster than imports. A very good dynamic have had manufactured products, especially machines and transport equipment and different products of light industry like apparel, furniture and textile fibers, tendency that has determined a slight increase of manufactured products share in exports structure from 49% to 53%, while agri-food products decreased from 47% to 41%. Two main factors can explain the export performance in 2011:

- The progresses of national authorities to facilitate the business environment. Moldova was ranked the second best reformer in 2011 among the 183 countries by World Bank's Doing Business Report 2012;
- The revival of external demand on the background of main trade partners' recovery. Even, EU countries are facing yet the consequences of the sovereign debt crisis, it succeeded to maintain and increase the demand for Moldovan products. However, this is due partially to the Moldovan companies' integration in the European value-chains.EU countries have delocalized light industry products, as well as cables production in Moldova in search of lower labor costs -products that Moldova are supplying the most in EU.

Despite these trends in Moldovan exports in the last year, it's hard to qualify them as being competitive. According to the statistic data, almost 45% of Moldovan exports represent the re-exports. The results of a recent study carried out to assess the methodological aspects of re-exports evaluation in Moldova, shows that 47 % of statistically evaluated re-exports or 21,3% of total value of exports represent classic re-exports or the re-export of products that have no supported any changes, or otherwise said have been exported in the same state as imported. This refers mainly to chemical and machinery products. The other 53% or, respectively, 24% are re-exports of products after having supported some processing procedures. This category of re-exports include – apparel, furniture, carpets, furniture. As for the first category of products the situation seems to be more or less clear, for the last, it remain at some extent unclear whether these products should be attributed to re-exports or to exports as no strict evidence of origin of exported products is made. The single principle taken into account at the moment when products receive their custom destination are customs procedures. However the attempt to evaluate the tradable sector capacities to ensure exports growth shows that the value of re-exports may really represent an important share from total exports [3].

In the above context a question appears "can be the exports structure's shift toward manufactured products only an illusion?" The evidence of industrial production evolutions since 2005 shows that it had very modest performances, even excluding the 2009 year, when the volume of industrial production dropped dramatically (by 21%). There was registered a gradual recovery of industrial production in 2010 and 2011, including in the production of different machines and equipment; but the good growth rates may be due also to the low basis of growth.

Table 2.

Top 10 group of products according SITC that have influenced most exports in 2011

		Value, mil. USD	Contribution on exports growth, 2011/2010, %	Structure, %		RCA index	Lafay index
		2011		2010	2011	2010	
Total		*2222*	*44*	*100*	*100*	-	-
22	Oil seeds/oil fruits	180	5.9	5.8	8.1	9.1	2.4
77	Electrical equipment	164	3.9	6.7	7.4	1.0	0.4
05	Vegetables and fruit	281	3.4	14.8	12.6	13.7	4.8
84	Apparel/clothing/access	284	3.3	15.1	12.8	13.5	5.3
82	Furniture/furnishings	83	2.9	2.5	3.7	4.5	0.4
65	Textile yarn/fabric/art.	78	2.6	2.5	3.5	2.5	-1.2
28	Metal ores/metal scrap	70	2.4	2.2	3.2	0.7	0.8
74	Industrial equipment nes	60	1.9	1.9	2.7	0.6	-0.4
42	Fixed veg oils/fats	77	1.9	3.1	3.5	4.5	1.2
78	Road vehicles	37	1.6	0.9	1.7	0.1	-1.6
Sum of 10 products		1316	29.9	55.5	59.2	-	-

Source: author's calculations based on Moldova's National Bureau of Statistics and UN Comtrade database data

The indices of international specialization calculated for the Moldovan trade highlight its narrow specialization. Moldova's main comparative advantages, even taken into account the high re-exports of machines and transport equipment lay mainly on agri-food and light industry products, especially drinks, apparel, fruits and vegetables, oilseeds, cereals, footwear, floor coverings. Since, 2007 it has gained an increasing comparative advantage in the export of electrical distributional equipment, what can be explained by the grate foreign investments made in this sector by the

German company Draexlmaier. Although the exported cables are produced almost entirely from foreign raw materials in a free economic zone, as in the case of the light industry products exports, they have an important economic impact, spurring investments and employment.

Narrow specialization in traditional sectors, small progress to move along the value chain to increase de value added of production and the reduced capacities to develop new comparative advantages, make Moldova's exports very volatile to external shocks in conditions of a high geographic concentration, especially in Russia.

These tendencies that allow to do an overall picture on exports performances of Republic of Moldova, speaks about the national firms modest capacities to produce products that can compete as cost and quality with that foreign one, even in conditions they can enter external markets without facing any tariff barriers. Of course there exist non-tariff barriers that are an important instrument of developed countries to protect their markets, but usually the incapacity of local producers to abolish them, points on the law quality of national products. Thus, low competitiveness of inland products may lay on incapacity to allocate efficiently resources and low productivity on the one hand and inappropriate business environment that create new costs and discourages investments, on the other hand.

What are the levers that could improve Moldova's export competitiveness?

As already mentioned, the crisis highlighted once again the deficiencies of the existing consumption lead growth model in Moldova and the necessity to amplify efforts toward exports and investments development. In the above context, the focus on export competitiveness should be an important component of national long run development strategy in Moldova. Exports competitiveness is usually viewed as the ability of a country or rather of its firms to compete internationally and to sell goods and services in foreign markets at prices and quality that ensure long-term sustainability. Exports growth depends on two main factors: external markets receptiveness and the supply capacity of the exporting country. There does not exist yet an assessment of the measure these factors influence the export growth of Moldova, further study in this regard being necessary. However the need to develop them is indisputable and the Government should have a key role, by finding the necessary levers to favor a propitious environment for business and to facilitate through friendly relationships with economic partners the access of national producers on external markets.

External demand and international markets access factors. Concerning external demand it is difficult to control it, as it depends strongly on the economic situation of importing countries, and it's hard to anticipate eventual perturbations these countries may be exposed. However what may be done in this regard is to reduce the country risks to be affected by these perturbations by diversifying export markets and the commodity structure of the supply. Also, the Government has a key role in improving the market access by negotiating preferential trade regimes with trade partners. It concern both tariff and non-tariff barriers. As non-tariff barriers, particularly those related to technical regulations, sanitary and phytosanitary measures represent the main obstacles that national producers face in accessing international markets, especially the EU markets that have very high safety and quality regulations, are very important national authorities continuous actions to create a quality infrastructure harmonized to that international and to negotiate mutual recognition agreement for conformity assessment. To note that Republic of Moldova face yet a lot of exports barriers in EU for agri-food products, a proof in this regard being the performances achieved in fulfilling duty-free quotas for most of the products that are subject to such trade barriers, except some products like barley, maize, wheat, wine. Despite enough good supply of wheat and wine last years, in 2011 the quotas for these products remained uncovered. The worst situation is registered for the exports of products of animal origin which because of unsatisfactory quality cannot penetrate the EU market.

Table 3.

Moldovan exports of products subject to duty-free tariff quotas under ATP

		2010		2011	
		Duty free tariff quotas	**Exported**	**Duty free tariff quotas**	**Exported**
0201-0204	**Fresh, chilled and frozen meat of bovine animals, swine and sheep and goats, tons (net weight)**	**4000**	-	**4000**	0.304 (0.008%)
ex0207	**Meat and edible offal of the poultry of heading 0105, fresh, chilled or frozen, other than fatty livers of subheading 0207 34, tons (net weight)**	**500**	-	**500**	0.105 (0.021%)
ex0208	**Bird's eggs, not in shell and egg yolks, other than unfit for human consumption, tons (net weight)**	**500**	-	**500**	-
0401-0406	**Dairy products, tons (net weight)**	**1500**	-	**1500**	0.209 (0.014%)
0407	**Birds' eggs, in shell, million units**	**100**	-	**110**	0.001 (0.0009%)
ex 0408	**Bird's eggs, not in shell and egg yolks, other than unfit for human consumption, million units**	**300**	-	**300**	-
1001	**Wheat and meslin, tons (net weight)**	**35000**	38726 (110.65%)	**40000**	36382.6 (91%)
1003	**Barley, tons (net weight)**	**30000**	36190.500 (120.63%)	**35000**	56207.3 (161%)
1005	**Maize, tons (net weight)**	**25000**	34220.4 (136.88%)	**30000**	86309.3 (288%)
1601	**Sausages and similar products, of meat, meat offal or blood; food preparations based on these products, tons (net weight)**	**600**	-	**600**	0.061 (0.01%)
1701	**White Sugar, tons (net weight)**	**22,000**	5.8 (0.03%)	**26000**	8240 (32%)
2204	**Wine of fresh grapes other than sparkling wine, hectoliters**	**80000**	112243.6 (140%)	**150000**	146998 (98%)

Source: author's calculations based on Moldova's National Bureau of Statistics

At the present time Moldova has signed multiple free trade agreements, including CEFTA, bilateral trade agreement with CIS countries and since 2008 it benefits from asymmetric trade preferences with EU countries. An important step that will favor a further trade liberalization and the removal of non-tariff barriers is the ratification of the Free Trade Zone Agreement within CIS that have been signed in October 2011 and the initiation of negotiations on DCFTA (Deep and Comprehensive Free Trade Agreement) with EU.

Supply factors. Besides the market access factors, very important in stimulating exports growth, and probably the most important is the exporters capacity to produce that products that are demanded by external customers, the use and management of inputs in an efficient way in view to increase productivity and hereby, produce cost competitive products, the possibility to make or attract investments in order to implement quality management system and produce quality competitive goods.

There exist many factors that can spur export supply and should be tackled by both producers and Government. Usually, the export performance of countries is associated to their factors endowment. In fact not simply factors endowment determines to country export supply success but the capacity of firm to use them efficiently to produce high value products. In this context very important is the access of firms to:

- ***Skilled labor force*** - It concerns all employees from simply workers to top management representatives. Thus, it's very important that the country's education system should respond to the labor market needs and that the learning programs should be constantly adapted to changes that occur in the economic and international practice;
- ***Infrastructure*** - This is an important factor for national business development and for attracting FDI. It could also allow business dislocation throughout the country, from big urban centers where it is currently concentrated to rural localities near to suppliers and usually cheaper labor force. A good infrastructure favor a better intra-nation and extra-nation inter-firms communication;
- ***Institutions*** - Moldova being yet a transition country building efficient market institutions represents an essential factor for enhancing exports performances. It is important that business feel free to action and create value in a friendly and fair legal framework for which elaboration are responsible public institutions;
- ***Finances*** - In Moldova, despite relatively good climate conditions and soil fertility, farmers and food processing companies – that represent the main export sector, face grate difficulties on producing high value products that are also more profitable. In this case, as for other businesses there exists financial constraints due to expansive loans, on the one side, and to limited FDI inflows;

However, according to the Global Competitiveness Report 2011-2012 elaborated by the World economic Forum, that represent a ranking of economic competitiveness of 139 nations measured based on many indicators, as shown in the table below, Moldova register very poor performances.

Table 4.

Moldova's position in the Global competitiveness ranking

	Rank	***Number of countries***
Institutions	***106***	
Infrastructure	***96***	
Quality of roads	***142***	
Health and primary education	***86***	***139***
Higher education training	***83***	
Financial market development	***122***	
Ease of access to loans	***109***	

Source: Global Competitiveness Report 2011-2012 [5]

Besides these factors, there can be mentioned many others that cat represent a constraint to business development and therefore exports competitiveness, like the lack of an efficient private-public dialogue, that make difficult to identify the complexity of problems the private sector face, the complexity of business regulation, including international trade regulation that make it many times difficult and creates additional costs for national producers, political instability etc. However, the above mentioned factors – infrastructure, institutions, educational system represents at this stage an imperative to build a platform for exports competitiveness improvement. Thus, policies focusing on improving exports competitiveness require both private sector and government efforts that must go beyond simple exports promotion actions that would stimulate some sectors or firms international activities. It should encompass the management of many other determinant factors of exports competitiveness, including: macroeconomic environment, economic infrastructure, educational system, government institutions efficiency, business regulation framework etc.

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