
MOLDOVA'S FOREIGN TRADE IN THE CONTEXT OF POLITICAL AND ECONOMIC INSTABILITY



Valentina GANCIUCOV

Ph.D. in Economy, Leading Researcher
National Institute for Economic Research
ganciuov.valea@rambler.ru



Tatiana GUTIUM
University Lecturer

Academy of Economic Studies of Moldova
gutium.tatiana1@gmail.com



Alexander CEBAN
Junior Researcher

National Institute for Economic Research
ceban_alexander@yahoo.com

Abstract: *In this article are analyzed the dynamics of foreign trade of the Republic of Moldova, average prices and physical volumes of import and export goods under political and economic instability. Based on the outcomes are elaborated a series of measures to redress the situation in Moldova's economy in condition of a negative trade balance.*

Keywords: *Foreign trade, exports of goods, imports of goods, balance of trade, the Laspeyres index*

Rezumat: *În articolul dat este efectuată analiza dinamicii comerțului exterior al Republicii Moldova, prețurilor medii și a volumelor fizice a mărfurilor de import și export în condițiile instabilității politice și economice. În baza rezultatelor obținute sunt elaborate un șir de măsuri de redresare a situației existente în economia Republicii Moldova, în condițiile unei balanțe comerciale negative.*

Cuvinte cheie: *Comerțul exterior, exportul de mărfuri, importul de mărfuri, soldul balanței comerciale, indicele Laspeyres.*

Аннотация: *В данной статье проводится анализ динамики внешней торговли Республики Молдова, средних цен и физических объемов импорта и экспорта товаров в условиях политической и экономической нестабильности. На основании результатов разработаны ряд мер по улучшению ситуации в экономике Молдовы, учитывая отрицательное сальдо торгового баланса.*

Ключевые слова: *Внешняя торговля, экспорт товаров, импорт товаров, сальдо торгового баланса, индекс Ласпейреса.*

JEL Classification: F130, E310, O100.

Introduction:

In the current period, the largest share in Moldavian exports is the export of raw materials and in imports – finished goods. The predominance of imports of finished goods contributes to the increase in value added in importing countries to the detriment of the national economy. This situation demonstrates the actuality of carrying out this research. Therefore it is appropriate research and study of foreign trade situation, the search for sources of increasing both exports and GDP.

In condition of economic and political instability occurs increasing trade deficit. Therefore the current major task is drafting the measures to revive the economy, especially in foreign trade, taking into account that in recent decades for Moldova's trade balance is characteristic deficit [2, pag.131].

Results and discussions:

The contradictory character of global integration processes in the global economy determines the importance of a balance between exports and imports, and creates favorable conditions to stimulate innovation in the production of export-oriented industries. With the purpose of detailed analysis of foreign trade authors analyzed average prices and physical volume of import and export of goods, using index of physical volume and the price index, which is calculated based on the formulas of Laspeyres [3, pag.29-33].

Analyzing average prices and physical volume of export in 2015 shows a decrease both average prices (7.85%) and physical volumes (3.58%) (Table 1).

Table 1. Index of physical volume and the price index for the main export commodity groups of Republic of Moldova in 2015 year

Section	Product description	% compared with the previous year	The Laspeyres index %	Index of physical volume, %
1	2	3	4	5
I	Live animals; animal products	62.80	62.25	84.27
II	Vegetable products	91.29	91.75	99.96
III	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	92.91	86.60	108.57
IV	Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	80.31	86.99	97.55
V	Mineral products	60.51	72.48	90.64
VI	Products of the chemical or allied industries	70.69	94.47	87.42
VII	Plastics and articles thereof; rubber and articles thereof	88.46	93.87	102.07
VIII	Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut	72.16	85.51	90.27
IX	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	95.92	78.17	98.58
X	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	54.04	61.72	68.47
XI	Textiles and textile articles	82.81	88.20	100.88
XII	Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	70.54	94.81	75.35
XIII	Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	71.24	98.15	84.68
XIV	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin thereof; imitation jewellery; coin	52.93	80.33	66.15
XV	Base metals and articles of base metal	78.45	100.69	93.24

XVI	Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	95.51	158.91	96.74
XVII	Vehicles, aircraft, vessels and associated transport equipment	64.96	69.75	97.74
XVIII	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	78.53	93.04	76.21
1	2	3	4	5
XX	Miscellaneous manufactured articles	91.63	104.67	92.36
XXI	Works of art, collectors' pieces and antiques	16700.00	196.01	1989.66
TOTAL		82.87	92.15	96.42

Sources: Developed by the authors based on data of National Bureau of Statistics www.statistica.md

Index of physical volume touched the biggest increase by section „Works of art, collectors' pieces and antiques” (Table 1) followed by section „Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes” (+8.57%) and „Plastics and articles thereof; rubber and articles thereof” (+2.07%).

The most significant reduction was recorded by section „Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin thereof; imitation jewellery; coin” (-33.85%), followed by the groups „Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof” (-31.53%), „Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair” (-24.65%).

The lowest price index commodity groups were registered by commodity groups „Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof” (-38.28%), „Live animals; animal products” (-37.75%), „Vehicles, aircraft, vessels and associated transport equipment” (-30.25%). Meanwhile, the highest increases were observed in sections: „Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles” (+58.91%), „Miscellaneous manufactured articles” (+4.67%).

Looking at the price index and the index of physical volume of goods imports (Table 2) authors noted that the price index was down by 17.56% and the index of physical volume – with 7.72% in 2015.

Table 2. Index of physical volume and the price index for the main import commodity groups of Republic of Moldova in 2015 year

Section	Product description	% compared with the previous year	The Laspeyres index %	Index of physical volume, %
1	2	3	4	5
I	Live animals; animal products	62.95	82.19	74.46
II	Vegetable products	99.37	87.91	118.64
III	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	79.23	87.34	90.76

IV	Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	80.15	83.66	100.70
V	Mineral products	63.59	57.49	86.72
VI	Products of the chemical or allied industries	79.41	95.16	90.57
VII	Plastics and articles thereof; rubber and articles thereof	77.35	85.71	90.76
VIII	Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut	88.70	106.69	118.70
IX	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	82.26	84.32	97.24
1	2	3	4	5
X	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	61.96	70.06	82.83
XI	Textiles and textile articles	80.09	86.72	97.53
XII	Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	62.29	88.24	73.09
XIII	Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	75.82	84.50	91.82
XV	Base metals and articles of base metal	82.68	84.53	98.67
XVI	Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	78.74	90.19	102.07
XVII	Vehicles, aircraft, vessels and associated transport equipment	58.21	98.75	61.88
XVIII	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	83.10	109.94	81.99
XX	Miscellaneous manufactured articles	92.50	95.22	108.57
XXI	Works of art, collectors' pieces and antiques	18237.66	561.82	16.50
TOTAL		75.01	82.44	92.28

Sources: Developed by the authors based on data of National Bureau of Statistics www.statistica.md

The most significant increasing of the index of physical volume was registered by commodity groups „Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut” (+18.7%) followed by groups „Vegetable products” (+18.64%) and „Miscellaneous manufactured articles” (+8.57%). The biggest reductions were in section „Works of art, collectors' pieces and antiques” (-83.5%), followed by sections „Vehicles, aircraft, vessels and associated transport equipment” (-38.12%), „Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair” (-26.91%).

Following sections had the lowest price index: „Mineral products” (-42.51%), „Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof” (-29.94%), „Live animals; animal products” (-17.81%). The largest price index was registered by commodity group „Works of art, collectors' pieces and antiques”

(+461.82%), followed by commodity groups: „Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof” (+9.94%), „ Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut” (+6.69%).

Comparison of export with import (Figure 1) shows that imports exceeds exports by 2.03 times. This situation leads to negative value of net exports and also to decrease GDP. Analyzing foreign trade of commodity groups we note that only a few groups exports a greater value than it imports. Thus, following groups recorded a positive net exports in 2015: „Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes” (exports exceed imports by 3.55 times), „Vegetable products” (by 2.58 times), „Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair” (by 1.28 times), „Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes” (by 1.11 times). However net exports of the rest commodity groups recorded a negative value.

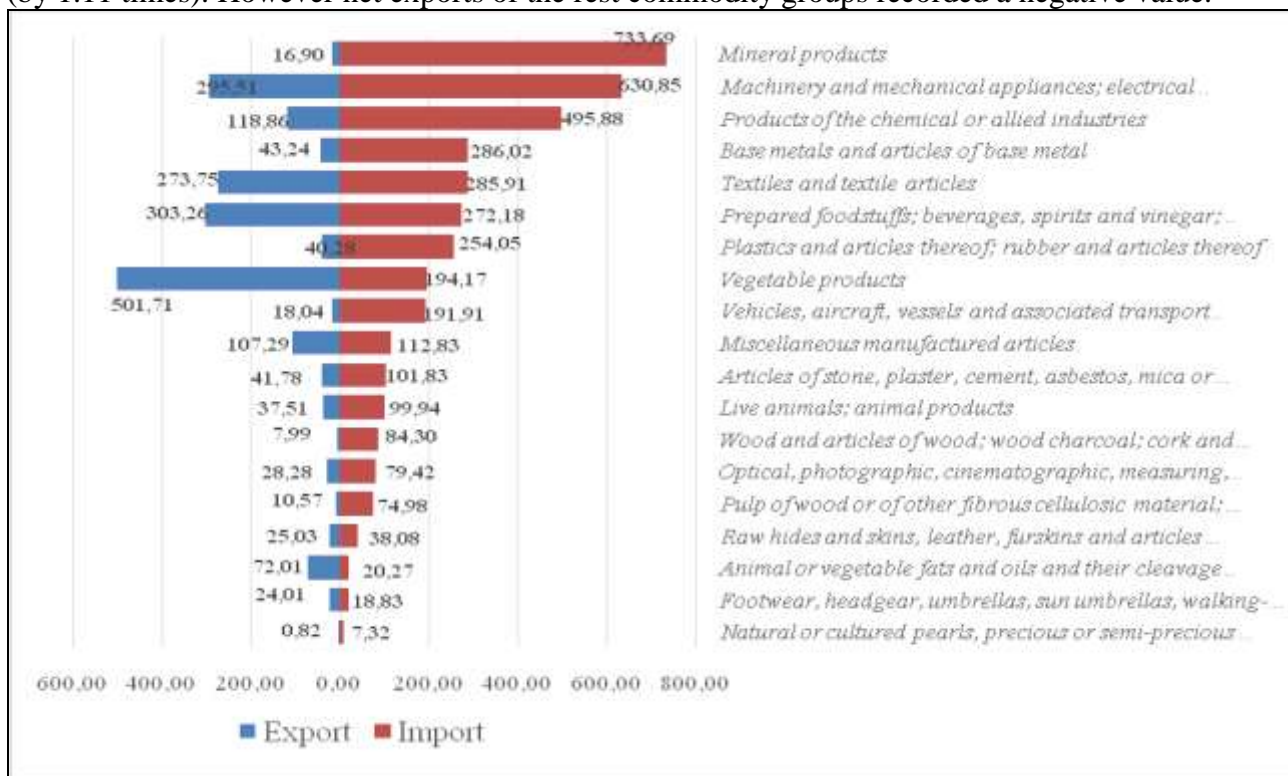


Figure 1. Exports and imports of goods by commodity group in the year 2015 in million \$

Sources: Developed by the authors based on data of National Bureau of Statistics www.statistica.md [1]

In Figure 2 is presented evolution of foreign trade of Republic of Moldova in the years 2011 to 2015. In the years 2011-2013, there is a slight increase in imports. Since 2014, their value is decreased mainly due to reduction in the unit value and due to the high yields in agriculture and food processing industry that favored soon export, contributing to reducing imports of food and agriculture goods.

During the period 2011-2014, the value of exports has changed little and value reached 2339.5 million \$ in 2014. The decrease in 2014 was due in particular to lower prices for agricultural

products in international markets and to reducing of demand from Eastern Partners (Russia's embargo and unfavorable political and economic situation in Ukraine).

In 2015 exports of goods continued the trend of decreasing (-15.93%). This is due to a number of negative influences such as reducing the exports of food products following a drought, decreasing contracting with the Russian Federation, MDL depreciation, etc. This entails reducing transport services, especially those for export and import.

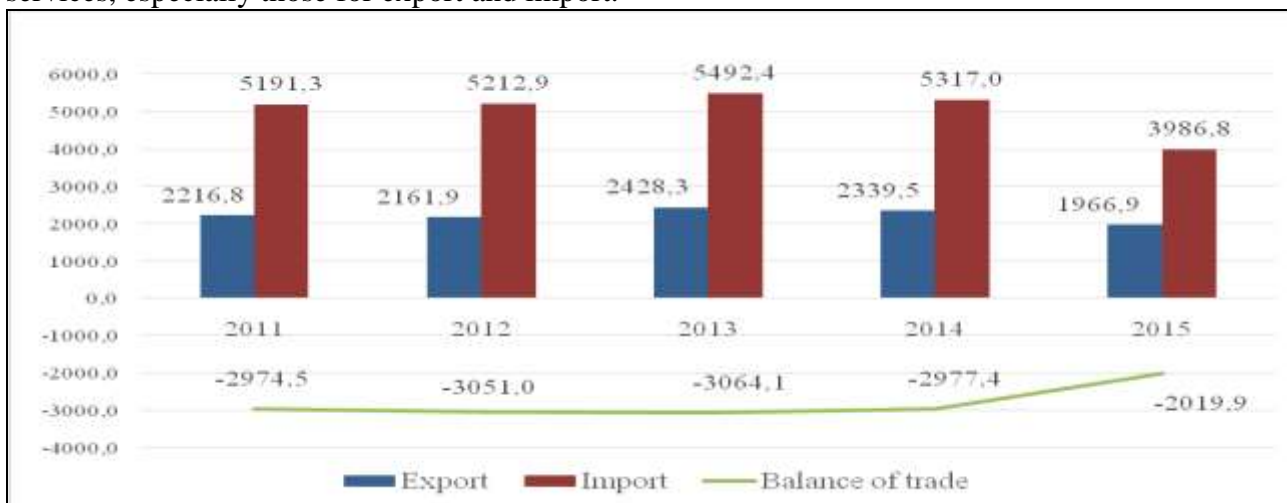


Figure 2. Foreign trade of Republic of Moldova during the period 2011 - 2015 in million \$

Sources: Developed by the authors based on data of National Bureau of Statistics www.statistica.md [2]

In 2015 year there were decreasing in the main categories of imports such as gas and industrial products from natural gas, fuel, etc. which finally reduced import volumes with 25.02%. Because of this phenomenon, the trade balance recorded a deficit of 2019.9 million \$ which is with 32.16% lower than in previous year.

Exports of Republic of Moldova to most foreign partners recorded lower values in 2015 compared to the previous year (Figure 3).

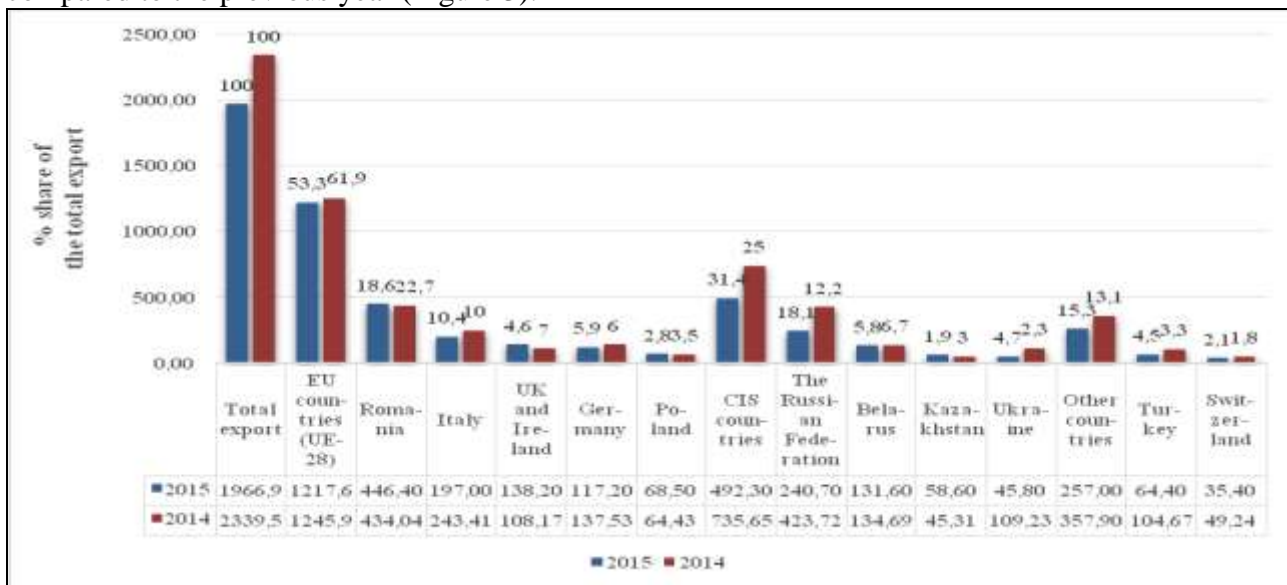


Figure 3. The main destination of Moldova exports in 2014-2015

Sources: Developed by the authors based on data of National Bureau of Statistics www.statistica.md

Thus, reductions of exports occurred both in trade with CIS countries (-243.53 million \$) and with EU countries (-28.38 million \$). Because the reducing of exports to EU countries was smaller than the reducing of exports to CIS, % share of the total exports increased (61.9% in 2015). Significant decreases were recorded in exports to the Russian Federation (-183.02 million \$), Ukraine (-63.43 million \$), Italy (-46.41 million \$). On the other hand, there is slight increase of exports to the UK (+30.03 million \$), Kazakhstan (+13.29 million \$) and Romania (+12.36 million \$).

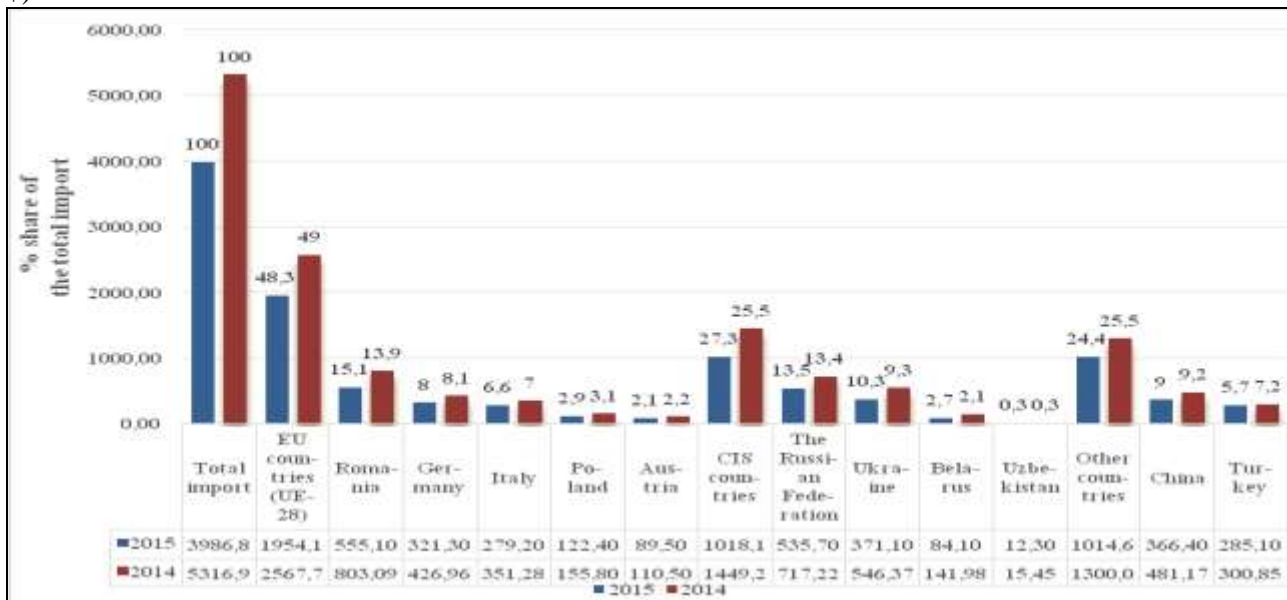


Figure 4. The main destination of Moldova imports in 2014-2015

Sources: Developed by the authors based on data of National Bureau of Statistics www.statistica.md

Meanwhile, value of imports also fell in 2015 compared to the previous year (Figure 4). Thus, the analysis of imports to countries and groups of countries shows a significant decrease in both the EU countries (-613.60 million \$), mainly due to lower imports from Romania (-247.99 million \$) and Germany (- 105.66 million \$) and CIS countries (-431.15 million \$) where low index were registered with major trading partners Russian Federation (-181.52 million \$) and Ukraine (-175.27 million \$).

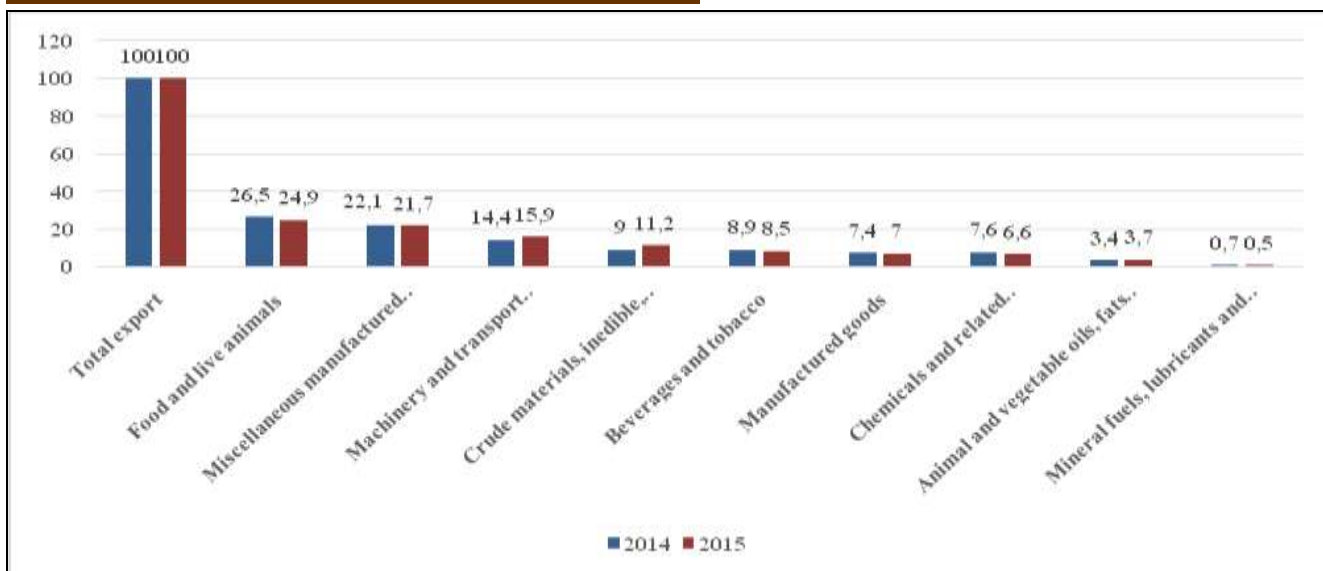


Figure 5. Moldova exports divided by goods' groups according to the Standard International Trade Classification, %

Sources: Developed by the authors based on data of National Bureau of Statistics www.statistica.md

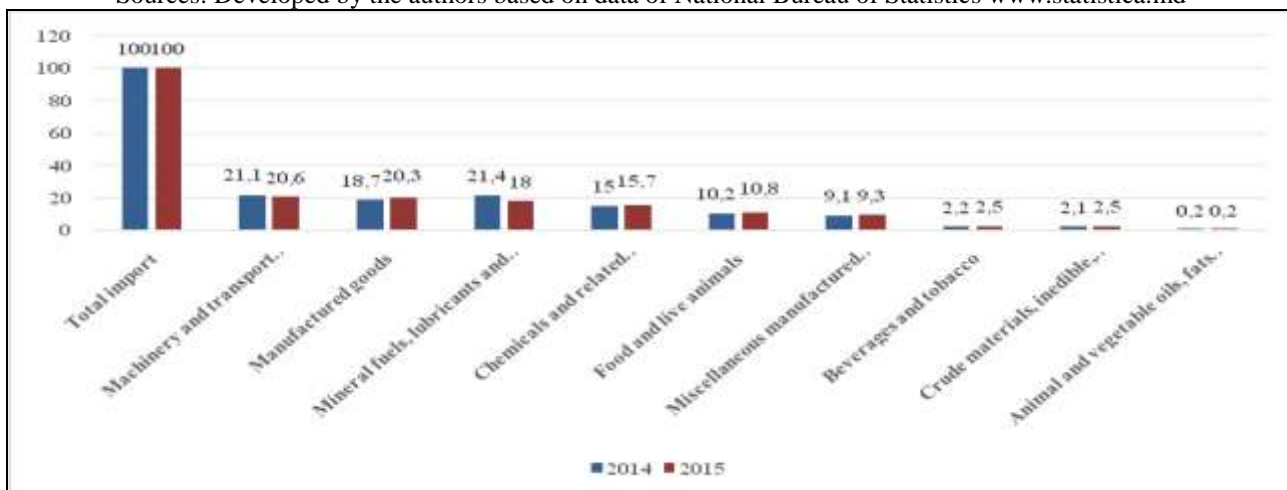


Figure 6. Moldova imports divided by goods' groups according to the Standard International Trade Classification, %

Sources: Developed by the authors based on data of National Bureau of Statistics www.statistica.md

Analysis on export commodity groups shows that most groups share in total exports decreased in 2015 compared to 2014: „Food and live animals” (-1.6 points percents), „Chemicals and related products, n.e.s.” (-1 points percents), „Miscellaneous manufactured articles” (-0.4 points percents), „Beverages and tobacco” (-0.4 points percents), „Manufactured goods” (-0.4 points percents). Increasing values was registered by following goods' groups: „Crude materials, inedible, except fuels” (+2.2 points percents), „Machinery and transport equipment” (+1.5 points percents), „Animal and vegetable oils, fats and waxes” (+0.3 points percents) (Figure 5).

Analyzing imports by groups of goods noted that there share in total imports is decreasing in 2015 compared to 2014 in the following commodity groups: „Mineral fuels, lubricants and related materials” (-3.4 points percents), „Machinery and transport equipment” (-0.5 points percents).

Increasing values were registered by following commodity groups: „Chemicals and related products, n.e.s.” (+0.7 points percents), „Food and live animals” (+0.6 points percents), „Crude materials, inedible, except fuels” (+0.4 points percents) (Figure 6).

Conclusion:

Decreasing of foreign trade of Moldova was caused by political and economic instability, corruption, poverty, population exodus, inflation, crisis in the banking system, real salary reduction, the gap between the dynamics of fuel prices and the price on the world market. Detailed Study of foreign trade showed that exports and imports decrease was caused not only by economic and political instability in Moldova, but also political and economic instability in the partner countries, for example, in Ukraine.

Generalizing the above, we can mention that at present it is necessary to implement a number of measures to redress the situation in Moldova's economy, in terms of a negative trade balance. The authors propose the following measures:

- improving quality (including adjustments to existing international standards) and promotion of domestic products;
- export diversification;
- development and diversification domestic market;
- highlighting, emphasizing and supporting goods' groups with a high added value;
- support, protect and stimulate domestic producers through subsidies, training, continuous information about new technologies and development trends, wide access to various sources of funding (grants, preferential lending programs, etc.).

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