
FOREIGN TRADE POLICY OF THE REPUBLIC OF MOLDOVA: ANALYSIS AND TRENDS

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Abstract

State policy in the field of foreign economic activity aims at developing a system of measures of a legislative, executive and control nature, pointed at regulating imports and exports with foreign countries. There is an acute problem of improving the trade policy of the Republic of Moldova in order to promote exports and expand sales markets. Moldova has not yet accumulated significant experience in this area, which, combined with a weak legal framework, creates difficulties in organizing trade policy to ensure the trade interests of Moldovan businesses. This study is based on a SWOT analysis, and its main purpose is to substantiate the main objectives of strategies, state programs focused on improving foreign trade policy. Author proposed to develop and implement strategies that would include the following four general objectives: supporting the growth of export potential; improving the quality of domestic goods; increasing the quality of infrastructure and logistics efficiency; development of electronic commerce.

Key words: *foreign trade, export, import, SWOT analysis, trade policy.*

JEL: F13, F15, F19.

1. Introduction

Foreign trade policy lies in the development and regulation of trade relations with other countries. The effective promotion of this policy can guarantee the sustainable development of the national economy, and its task is to maintain the external economic balance in the context of ensuring the country's economic security, stimulating exports and attracting foreign capital. Therefore, the analysis of the dynamics of foreign trade and the research of the foreign trade policy promoted by the Republic of Moldova are relevant.

2. Purpose of the study and data sources

The purpose of the study is to identify the main objectives of the strategies, state programs focused on streamlining the trade policy promoted by the Republic of Moldova based on the results of the analysis of foreign trade dynamics and SWOT analysis.

The analysis of the dynamics of foreign trade is carried out on the

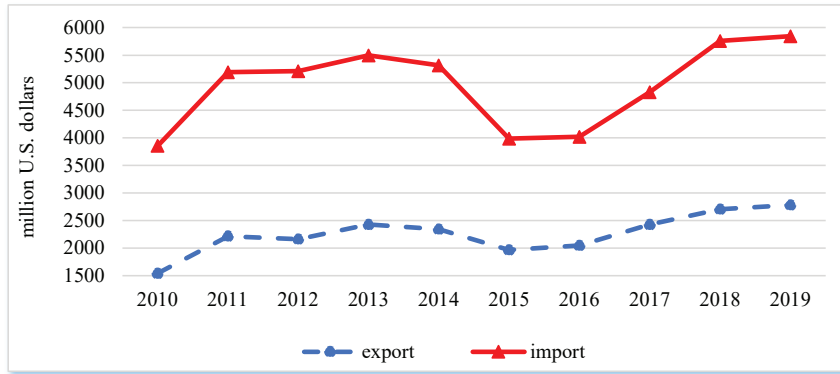
basis of a set of indicators, including the calculation of the share in the gross domestic product (GDP). “In 2018, the National Bureau of Statistics of the Republic of Moldova (NBS) proceeded to estimate the indicators on GDP according to the calculation methodology of the United Nations System of National Accounts (SNA), version 2008 / European System of Accounts, version 2010” (Gutium, 2020, p. 260). There are amendments in almost all SNA compartments, but major changes took place in the methodology of elaboration of goods flow tables and in the calculation of macroeconomic indicators which, according to the SNA methodology, UN-2008 / SEC-2010, primarily affect the size of the Domestic Product Gross. GDP according to the new methodology was recalculated for the previous years 2010-2017. The annual time series of foreign trade for the period from 1997 to 2019 is available on the website of the NBS of the Republic of Moldova (RM). But since the data series should be comparable, the analysis is carried out for the period 2010-2019.

3. Trends in the foreign trade of the Republic of Moldova

Analysis of the dynamics of Moldova’s foreign trade showed that the periods of increase and decrease of the import are identical to those of the export, and the trade balance has been in deficit for the entire analysed period. After the sharp decline in foreign trade in 2009, caused by the financial crisis, both exports and imports increased significantly in the next two years. The next significant decline in value terms was recorded in 2015 (Figure 1) against the backdrop of a geopolitical conflict and the exchange of sanctions between the Russian Federation, of the one part, and the United States, the European Union, Canada, Switzerland, Japan, Australia, New Zealand – of the other part. Following the signing on June 27, 2014 of the Association Agreement between the European Union and the Republic of Moldova, the Russian Federation extended the geographical area of sanctions to goods of Moldovan origin.

Evolution of Moldova's foreign trade, 2010-2019

Figure 1

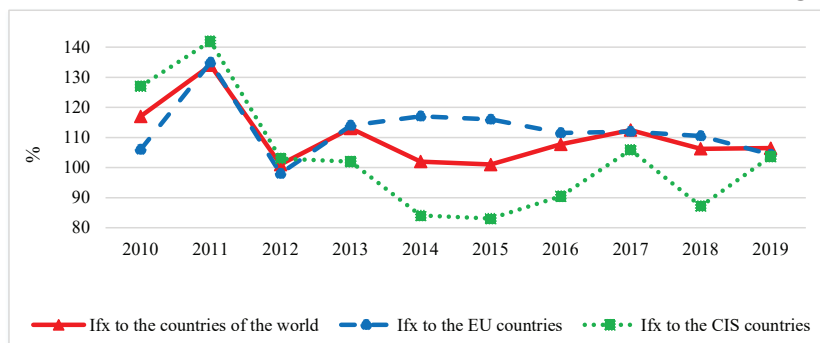


Source: processed according to the data of National Bureau of Statistics of the Republic of Moldova (National Bureau of Statistics, 2020).

A radical reorientation of exports from east to west cannot be achieved in a short time, since many exported goods do not meet European standards and they are not competitive. The index of physical volume of exported goods to the countries of the world in 2015 increased and amounted to 101% (Figure 2), while in terms of value decreased by 15.93%. This situation can be explained by the fact that the export of processed goods to the CIS countries with relatively high added value has been replaced by the export of unprocessed goods with low value added to the EU countries.

Indices of physical volume of exports from the Republic of Moldova, 2010-2019

Figure 2



Source: processed according to the data of National Bureau of Statistics of the Republic of Moldova (National Bureau of Statistics, 2020).

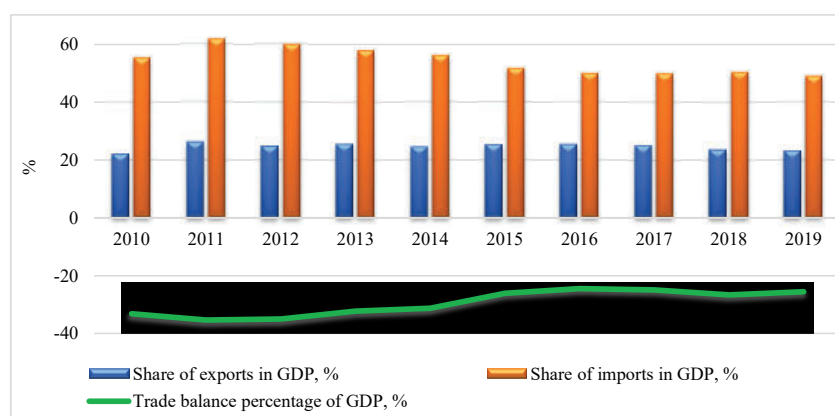
Note: Ifx – index of physical volume of exported goods.

During 2010-2019, the share of exports in GDP reached its highest level in 2011 – 26.3%. But the largest share of the trade deficit in GDP was also recorded this year. The considerable increase in the volume of imports has caused this situation. The share of imports in GDP was 61.7%. In 2019, this indicator showed a lower level compared to other years of the analysed period, and the share of exports in GDP this year was relatively lower than the levels in 2011-2018 and by 1.1 percentage points higher compared with 2010. Throughout the period, the share of the trade deficit in GDP was significant and varied between 20% and 40% (Figure 3).

Therefore, *the first objective of the strategies, state programs focused on streamlining the trade policy promoted by the Republic of Moldova is to support the increase of export potential.*

Share of foreign trade in Gross Domestic Product, Republic of Moldova

Figure 3



Source: processed according to the data of National Bureau of Statistics of the Republic of Moldova (National Bureau of Statistics, 2020).

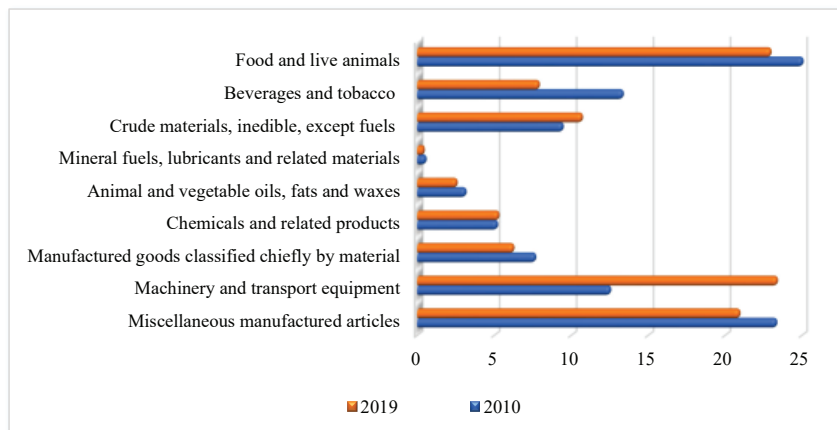
Comparative analysis of the export structure in a.2019 compared to 2010 of the Republic of Moldova by sections according to the Standard Classification of International Trade (CSCI) Rev. 4 showed that the share of exports of following sections decreased: beverages and tobacco decreased by 5.45 percentage points, miscellaneous manufactured articles by 2.40 percentage points, food and live animals by 2.22 percentage points, manufactured goods classified chiefly by material by 1.42 percentage points, and the share of exports of following sections increased: machinery and transport equipment by 10.84 percentage points, crude materials, inedible, except fuels by 1.25 percentage points (Figure 4).

Another feature of the foreign trade of the Republic of Moldova is the high share of re-exports. There are two categories of re-export:

- ▶ the classic re-exports of goods that have not been processed and have not undergone significant transformations;
- ▶ re-exports of goods after processing.

Export structure by sections, the Republic of Moldova, %

Figure 4

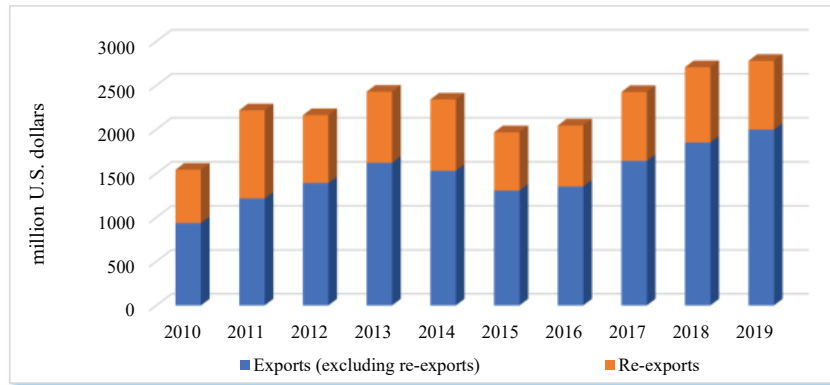


Source: processed according to the data of National Bureau of Statistics of the Republic of Moldova (National Bureau of Statistics, 2020).

The highest level of share of re-exports was registered in 2011 (45.18%). In the following years there was a downward trend of this indicator. The share of re-exports in 2019 was 28.1%, including 8.5% – classic re-exports and 19.6% – re-exports of goods after processing. In terms of value, the largest volume of re-exports was also reached in 2011, and the lowest – in 2015, the year after the signing of the Association Agreement of the Republic of Moldova with the European Union (Figure 5).

Evolution of export and re-export of the Republic of Moldova, 2010-2019

Figure 5

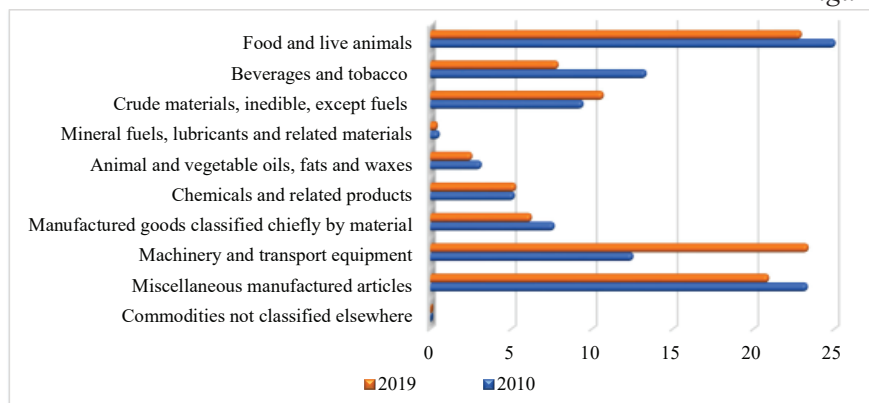


Source: author's estimates based on UN Comtrade data (UN Comtrade, 2020).

An analysis of re-export by sections according to CSCI Rev. 4 for 2019 showed that the largest volume was accounted for by re-exports of miscellaneous manufactured articles, followed by machinery and transport equipment, chemicals and related products. The largest volume of exports (excluding re-exports) falls on food and live animals (Figure 6). This trend hinders the development of a competitive economy.

Export and re-export of the Republic of Moldova by sections, 2019

Figure 6



Source: author's estimates based on UN Comtrade data (UN Comtrade, 2020).

4. SWOT analysis of the foreign trade policy promoted by the Republic of Moldova

In Table 3 there are the results of the analysis of three trade agreements signed by the Republic of Moldova: the first with the Commonwealth of Independent States (CIS), the second with the European Union and the European Atomic Energy Community, the third with Turkey. In the context of assessing the results of the promotion of the mentioned agreements, the evolution of foreign trade was analysed using the *ceteris paribus* principle. The first year of the analysed period is the year of signing the corresponding agreement.

“Agreement establishing a Deep and Comprehensive Free Trade Areas (DCFTA) between the EU and Moldova” was signed on November 29, 2013. That’s why, in order to avoid overlapping the validity of the two agreements, in the case of the first one, the analysed time interval is 2011-2012. The identical rule was used to determine the period for studying the results of promote the other two agreements.

Analysis of three Trade Agreements signed by the Republic of Moldova

Table 1

Agreements	Distinctive features	Results	Signing date
„Agreement on the Trade Area”	„The facilitation of regional trade between RM and the CIS countries by maintaining the zero customs tax for over 10 thousand groups of goods, reducing and gradually cancelling taxes for products that represent an exception from the free trade regime and non-enforcing the new restrictions in trade” (Acord, 2011).	Changes in trade between Moldova and the CIS during 2011-2012 (situation in 2012 compared to 2011): Trade deficit decreased by 12.4%; Moldova’s exports to the CIS and imports to Moldova from the CIS countries of both unprocessed and processed goods had increased.	October 18, 2011
„Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and the Republic of Moldova, of the other part”	Moldova undertakes to „eliminate all customs duties on goods originating in the EU, except for goods in Annex XV-D, in this case the duties will be eliminated in 3, 4, 5, 6, 10 stages” (finally, the duties will be eliminated for all goods). Meanwhile, the EU will not eliminate taxes on all goods: „Goods of Annex XV-A will be imported from Moldova to the EU without customs duties within the established tariff quotas; the goods listed in Annex XV-B are subject to EU import duty, excluding the ad valorem component of the import duty; imports of products from Moldova listed in Appendix XV-C are quota” (Acord, 2014a).	Changes in trade between Moldova and the EU during 2014-2019 (situation in 2019 compared to 2014): Moldova’s exports of unprocessed goods to the EU increased: vegetables – 5.9 times, oil seeds and oleaginous fruits – 2.1 times, milk, poultry eggs, natural honey – by 22.1%, etc.; Moldova’s exports of processed goods to the EU decreased: sugar and sugar products – by 39.8%, knitted clothes – by 25.9%, etc.; Imports of processed goods to Moldova from the EU increased: foodstuffs, alcoholic beverages, non-alcoholic, vinegar, tobacco – by 45.2%, electrical machinery and appliances – 40.9%, footwear – by 33.4%, etc.	June 27, 2014

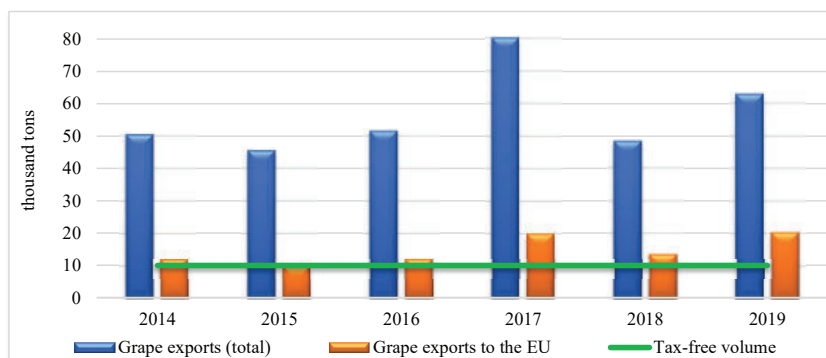
<p>„Free Trade Agreement between the Republic of Moldova and the Republic of Turkey”</p>	<p>„For goods originating in Turkey (Annex II) Moldova will grant favourable tariff conditions, similar to those granted to products originating in the EU” (article 23 (4)) (Acord, 2014b). The Agreement does not mention that Moldovan goods will obtain preferences similar to those granted to products originating in the EU.</p>	<p>Changes in trade between Moldova and Turkey during 2014-2019 (situation in 2019 compared to 2014): Trade deficit increased by 14.7%; Exports from Moldova to Turkey of unprocessed goods increased: meat and edible organs – 2.9 times; cereals – 2.1 times; etc.; Moldova’s exports of processed goods to Turkey decreased: glass and glassware – by 88.9%; etc.; Imports of processed goods to Moldova from Turkey increased: footwear - by 2.3 times; electrical machinery and appliances - 71.0%; glass and glassware - by 52.9%; textiles and articles thereof - by 46.2%; etc.</p>	<p>September 11, 2014</p>
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Source: (Gutium, 2021).

In 2014, the export potential of fresh grapes of the Republic of Moldova is 5.0 times higher than the volume exempted from taxes, and in 2017 – 8.0 times, and in 2019 – 6.3 times (Figure 7). So, the regional diversification of exports remains relevant.

Export of grapes from the Republic of Moldova and the duty-free volume

Figure 7

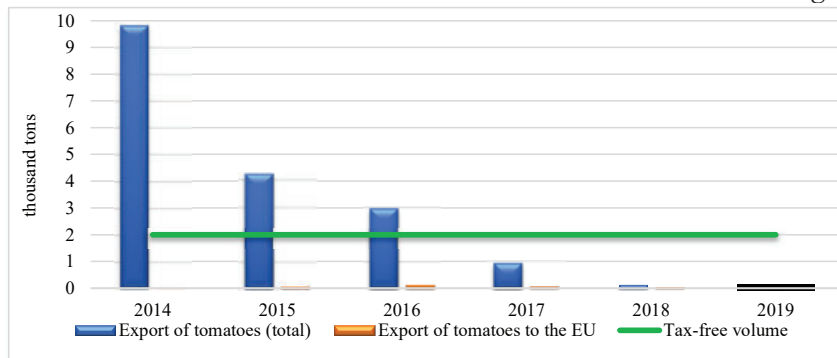


Source: author’s estimates based on UN Comtrade data (UN Comtrade, 2020).

In the year of signing the EU Association Agreement, the export potential of Moldovan tomatoes was 9.8 thousand tons, and the duty-free volume was 2 thousand tons (4.9 times lower). The export of this goods was influenced not only by the mentioned Agreement, but also by the “Free Trade Agreement between the Republic of Moldova and the Republic of Turkey”. As a result, in 2019, the volume of tomato exports from the Republic of Moldova was equal to zero (Figure 8).

Export of tomatoes from the Republic of Moldova and the duty-free volume

Figure 8



Source: author's estimates based on UN Comtrade data (UN Comtrade, 2020).

The generalization of the results of the SWOT analysis of the trade policy promoted by Moldova is reflected in Table 2.

SWOT analysis of trade policy pursued by the Republic of Moldova

Table 2

Strengths	Weaknesses
<p>Continuous improvement of the legal framework governing to pursue the commercial policy.</p> <p>Development and implementation of export promotion strategies (SNAIPE 2016-2020 etc.).</p> <p>Signing of agreements (DCFTA, Association Agreement, etc.), which ensured access of domestic goods to the EU market (the physical volume of goods exported to the EU countries increased by an average of 11% annually, 2014-2019).</p>	<p>Not all of domestic goods meet European quality standards and are competitiveness, so they cannot take advantage of access to the EU market.</p> <p>Exports of lohn products and unprocessed goods have been increased.</p> <p>Low degree of export diversification.</p> <p>According to signed agreements, the Republic of Moldova did not obtain fully identical facilities (Table 1).</p>
Opportunities	Threats
<p>Creating the premises for the development of digitization of documentation and customs clearance of export and import transactions.</p> <p>Penetration of new markets.</p> <p>Opportunities for the promotion of ecological goods.</p> <p>Access to the European market, where the requirements for goods are high, would be served as an impetus for the domestic producer to increase the quality and competitiveness of goods.</p>	<p>The restrictions caused by the COVID-19 pandemic would be prolonged, which will create impediments to the development of foreign trade.</p> <p>The competitiveness of domestic goods on the foreign market will decrease due to the acceleration of scientific and technological progress in foreign countries.</p> <p>The emergence of unfair competition in some markets.</p>

Source: (Gutium, 2021).

The results of the analysis of foreign trade evolution and SWOT analysis of trade policy have showed that *the second objective of strategies, state programs focused on streamlining trade policy promoted by Moldova is to improve the quality of domestic goods, and the third objective - to increase the quality of infrastructure and logistics efficiency.*

5. Conclusions and recommendations

In the scientific studies on the analysis of the Association Agreement between the Republic of Moldova and the EU is described the strengths of this Agreement, but the weaknesses are not sufficiently highlighted. According to the Agreement, Moldova undertakes to abolish all customs duties on goods originating from the EU at the time of entry into force of the Agreement, with the exception of the goods specified in Appendix XV-D, for which duties will be phased out in 3, 4, 5, 6, 10 stage. However, some goods originating from Moldova could be imported from Moldova to the EU without customs duties within the established tariff quotas (Appendix XV-C), the goods listed in Appendix XV-B are subject to EU import duty, with the exception of the ad valorem component of the import duty, and another list of goods is imported from Moldova to the European Union without customs duties within the established tariff quotas (Appendix XV-A).

The analysis of goods in Annex XV-A showed that the duty-free volume is lower than the export potential, so the Republic of Moldova is forced to look for other markets for these products. In this regard, giving up the Eastern market is not convenient for the Republic of Moldova.

The analysis of foreign trade dynamics showed that the economy of the Republic of Moldova is vulnerable to neighbouring countries and major trading partners. The Republic of Moldova faces technological and economic gaps compared to developed countries.

It is essential to establish effective ways to promote trade policy, but also to develop strategies to expand trade relations. The author has set the following objectives for improving trade policy:

- ▶ supporting the growth of export potential;
- ▶ improving the quality of domestic goods;
- ▶ increasing the quality of infrastructure and logistics efficiency;
- ▶ development of electronic commerce.

One of the causes of the need to develop e-commerce (Objective 4) is the COVID-19 pandemic, which has affected economic activity, especially trade. At the same time, worldwide, the volume of e-commerce transactions is growing. Therefore, it is proposed to implement the following specific

objectives: the use of international online e-commerce platforms for export promotion and e-commerce development.

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