

THE TRADE POLICY OF THE REPUBLIC OF MOLDOVA IN THE CONTEXT OF DCFTA

POLITICA COMERCIALĂ A REPUBLICII MOLDOVA ÎN CONTEXTUL ZLSAC

¹**TOMȘA Cristina, studentă, Specialitatea: EMREI**
e-mail autor: cristinatomsa.tomsa@gmail.com

²**TROFIM Daniel, student, Specialitatea: EMREI**
e-mail autor: danny.trofim.03@gmail.com

^{1,2}Academia de Studii Economice din Moldova
Republica Moldova, Chișinău, str. Bănulescu-Bodoni 61, www.ase.md

Abstract: *Operațiunile de export și import ajută la creșterea competitivității și scăderii prețurilor, deoarece contribuie la creșterea puterii de cumpărare și distrugerea monopolurilor locale. Republica Moldova este o țară dependentă de importuri, ceea ce determină existența unei balanțe comerciale negative. Acordul de Liber Schimb Aprofundat și Cuprinzător reprezintă un acord între Uniunea Europeană (UE) și Republica Moldova care prevede o relație comercială preferențială, bazată pe un tratament reciproc avantajos, oferindu-se reciproc acces mai bun la piețele lor, comparativ cu alți parteneri comerciali. Scopul aceste cercetări este studierea fluxurilor comerciale cu Uniunea Europeană și modificările care au avut loc după implementarea ZLSAC. La fel, este analizată politica comercială a Republicii Moldova în contextul ZLSAC înainte și după implementare și obstacolele pe care le întrunește economia națională.*

Cuvinte cheie : DCFTA/ZLSAC, export, import, Uniunea Europeană.

JEL CLASSIFICATION: F13, F15

INTRODUCTION. European integration is one of the goals that the Republic of Moldova is striving during the last decade. Unfortunately, Moldova does not meet the necessary requirements that allow it access as an official EU member, but through various agreements it benefits of access to the European market. A major contribution to Moldova's economic development has the Deep and Comprehensive Free Trade Agreement (DCFTA). Through this research we propose achieving the following objectives: to analyze the DCFTA and its long-term goal; to study its effects during 2014-2019; to analyze the non-tariff barriers in the context of DCFTA. In order to carry out this research, the following methods were used: The research is based on the analysis of secondary data provided by the National Bureau of Statistics. The time series examined refers to 2010-2019. Also, scientific materials, publications, scientific articles were used. The methods applied are quantitative and qualitative analysis.

BASE CONTENT. Between 2005 and 2014, the importance of the European Union as a destination market for Moldovan exports has grown remarkably, partly at the expense of exports to the Commonwealth of Independent States (CIS). The reorientation of Moldovan exports from the CIS to the EU market was mainly due to increasing exports to the same trading partners in the EU rather than to new destinations. While some new products exported to the EU replaced traditional ones, the overall level of product concentration has not changed dramatically. Through the Association Agreement, the Deep and Comprehensive Free Trade Area took effect. The DCFTA was signed between Moldova and EU in 2014, with the purpose to give to the Republic of Moldova a preparation period by implementing specific reforms which will lead to the creation of this special zone. Moreover, Moldova is WTO member since [2], fact which had a key role in the creation of this area. The DCFTA represents an arrangement between the EU and the Republic of Moldova that foresees a preferential trade relationship, based on mutual advantageous treatment, giving each other better access to their markets compared to other trade partners.[3] Also, one of the purposes of this agreement is the modernization of the local economy, and this takes place by complying with technical regulations, accreditation and evaluation of products, technical standards, etc. in accordance with EU standards. During the time series examined, both Moldova's exports and imports

experienced changes. Moldova's trade balance continues to remain negative, due to the high dependence of imports. In 2019, Moldova had a total export of 2,779,164.47 US dollars and total imports of 5,842,484.34 US dollars leading to a negative trade balance of -3,063,319.87 US dollars.

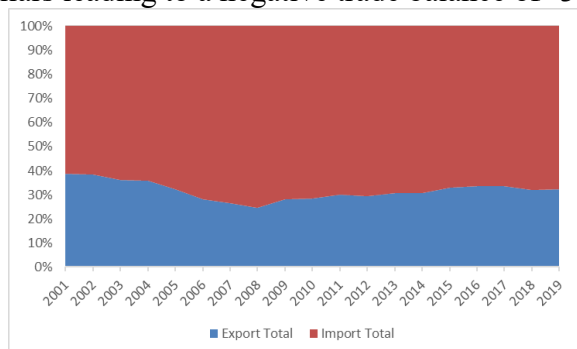


Figure 1: Dynamics of Moldova trade flows

Source: based on data from National Bureau of Statistics, 2001-2019

DCFTA had a positive impact on the economic development of the Republic of Moldova, and has also been an effective stimulator of trade between Moldova and EU countries. While in 2014 exports to EU member states amounted to US dollars 1.246 billion (which accounted for 53% of total exports), in 2019 it increased by 61% to US dollars 1.831 billion (66% of total exports). On the other side, the value of goods imported from the EU in 2014 equalled US dollars 2.568 billion (48.3% of total imports), in 2019 it rose by 12.5% to as much as US dollars 2.890 billion (49.5% of total imports) (see figure 2 and 3 [6]). It is important to be remarked that the trade balance of Moldova also improved. Therefore, if during 2008-2013 imports exceeded exports by an average of 2.5 times, in 2014-2019 this indicator dropped to 2.08 [9]. According to preliminary data from the first half of 2020, total trade has substantially decreased by approximately 12%, due to the impact of the pandemic, but it showed signs of recovery towards the second half of the year.

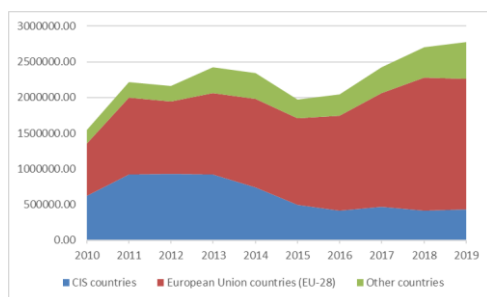


Figure 2: Export destination

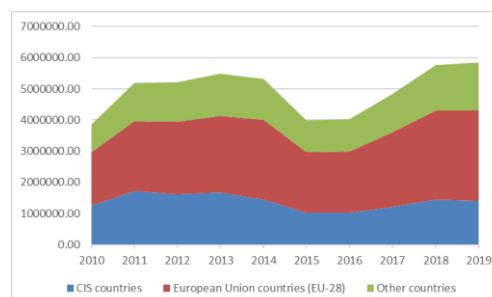


Figure 3: Import destination

Source: based on data from National Bureau of Statistics, 2010-2019

According to some experts, the major contribution in exports is due to the agri-food products. In 2015-2018, the value of exports was about US dollars 820 million higher than in 2011-2014, recording an impressive increase of 52%. As a result, the share of agri-food exports in total exports increased from 35% in 2011-2014 to 39% in 2015-2018. This performance is particularly remarkable in the context in which the agri-food sector was considered the most vulnerable to trade liberalization with the EU, removing one of the biggest fears about the negative competitive shock that the DCFTA could have on domestic producers of agri-food products [5]. The re-orientation of the Moldova's exports, determined a decrease in CIS exports, even though it is still representing an important destination for the agri-food products, which accounts 15% in 2019 of the total exports of Moldova.

The most relevant trade partner for the agri-food products is Russia Federation, and it imports mostly vegetable products, beverages and different types of alcoholic drinks. In comparison with the pre-DCFTA (year 2014), the total exports within the CSI countries decreased by approximately 40% by the year 2019 (Figure 2 [6]). The sharp decrease, started in 2014, when Russia banned the wine imports, after signing the DCFTA agreement with EU. The exports to the other countries register a slight increase by 43% in the period of 2014-2019, and accounting for 18% of the total exports in

2019. The major trading partners, in 2018 are: Turkey (4% from total exports), Switzerland (2.3%), US (0.82%), China (0.71%) and Lebanon (0.53%).

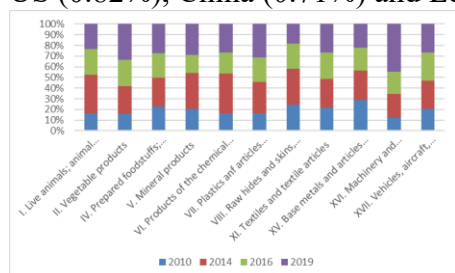


Figure 4: Moldova's exports by group of products

Source: based on data from National Bureau of Statistics, 2010-2019



Figure 5: Moldova's imports by group of products

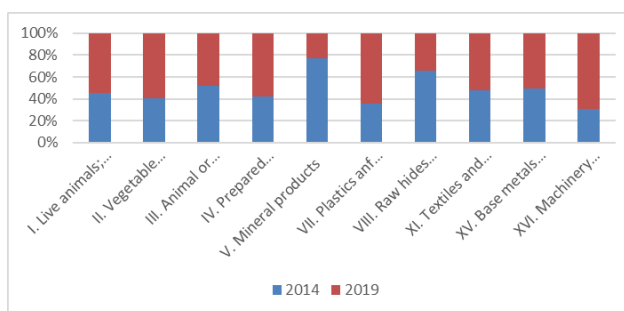


Figure 6: Top 10 exports to EU countries, (by group of products)

Source: based on data from National Bureau of Statistics, 2014 and 2019

According to figure 4 and 5, we can conclude that despite the implementation of the DCFTA, Moldova is still an import dependent country. The reason for importing more animal products is because the Sanitary and Phytosanitary measures (SPS) and it represents one of the future goals for Moldova, which is to expand the list of products of animal origin with export right on the EU market, obtaining the right of export for eggs and subsequently for poultry meat. Actions in this area should aim at two directions: the regulatory part and the support given to the producers. Other interesting point to remark is the high exports of machinery and mechanical appliances which is bigger than vegetable products, this means a reorientation of exports over other product groups that may be more profitable for the national economy (see figure 5 [6]). These groups, presented in figure 6 [6], represents ones of the most sensitive groups, due to the highly change over a period of 5 years.

The increase of exports toward European Union, in the context of DCFTA foresees several clauses, such as "Technical Barriers to Trade (TBT)". Moldova is obliged to comply with: Horizontal Directives (by the means of the "New legislative framework"), Sectorial Directives, as well as European Standards. The required processes are to be thoroughly verified by an Institutional Framework for Supervision and Compliance. The TBT will furtherly give the following benefits for businesses: EU Market entry facilitation; economy modernization by the means of fair and effective practices; market entry opportunities for other markets.

The export prospective is also fueled by compliance with Sanitary and Phytosanitary Measures (SPS), which are mandatory for European Union as it provides traceability of products and protection of consumer's health. The commercial conditions in the SPS foresee such subjects as: Food Safety, Animal Diseases and Infections, Safeguarding Measures. The compliance with all measures stated before will give us possibilities on exporting animal products (due to no traceability, EU has refused the import of meat and meat products from Moldova). The safety and transparency of the sanitary domain will give us a great competitive advantage and sufficient flexibility for our businesses on the internal and external markets.

The Customs subject have also been negotiated in the DCFTA framework, as being the most important factor at import-export operations, as well as for the national budget accumulation. The outcome of the process is being considered the new Union Custom Code (UCC) (EU Regulation, nr

952/2013), from which businesses will benefit of: commercial transactions facilitation and customs corruption diminishing. The following benefits are deducted from the fact that the new UCC provides an electronic customs environment, adjusted with new procedures.

All in all, by compliance with the previously mentioned requirements of EU legislation, the Republic of Moldova will benefit of a substantial inflow in foreign direct investments. This trend has been already noticed, by the increase of FDI Inflow from US dollars 157 million in 2017, to US dollars 589 million. The FDI stock has also increased by 30% in the same period from US dollars 3,68 billion to US dollars 4,8 billion [7].

CONCLUSIONS. In conclusion, we can say that the implementation of the Deep and comprehensive Free Trade Agreement has managed to achieve remarkable results, by bringing positive effects, which are felt after the increase in exports of products, especially food. Even though it managed to reduce the trade balance until its entry into force in 2016, it doubled until 2019, reaching the value of \$ - 3,063,319.87. Economic growth in terms of the GDP indicator, even if it is not significant enough, is still a relevant consequence for the Moldovan economy. Exports to the European Union increased from 53% in 2014 to 66% in 2019. This also led to a reorientation of exports to other sectors such as: machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers (for example wiring). However, the major contribution in exports is due to the agri-food products, by registering an impressive increase of 52% after the implementation of DCFTA. The application of sanitary and phytosanitary measures on the exported products increases their competitiveness in the European market. It is important to remark that all the possibilities for sustainable economic growth are analyzed and implemented every year by setting priorities and achieving them in the shortest possible time. Their realization being efficient, sustainable, and qualitative.

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Coordonator științific: CIMPOIEȘ Liliana, dr., conf. univ.
Academia de Studii Economice din Moldova
Republica Moldova, Chișinău, str. Bănulescu-Bodoni 61, www.ase.md
e-mail: lcimpoies@ase.md