

Moldovan exports and the impact of the DCFTA

Exports play an important economic role in Moldova, as they account for 44% of GDP. Over the years, a significant re-orientation of exports away from the CIS and towards the EU took place. Since 2004, exports to the EU increased in average by more than 10% per year in USD-terms. As of today, almost ⅔ of Moldovan exports are destined to the EU. This development was supported by a series of trade measures, which culminated in the signing of a free trade agreement (“DCFTA”) in June 2014. Against this background, it is quite surprising that the DCFTA has come under attack, with calls for stronger ties with the Russian-led Eurasian Economic Union (“EAEU”) and a revision of the DCFTA.

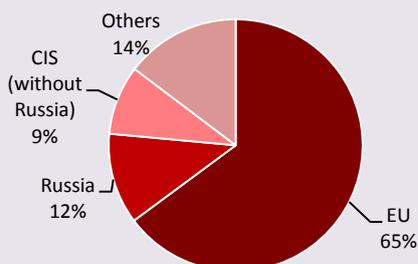
In our view, an intensification of trade with the EAEU makes sense, since it accounts for 17% of exports. However, this should not take place at the expense of trade with the EU, for three simple reasons. First, it is not advisable to cast doubts on an agreement with a trading partner who buys ⅔ of your exports. Second, the EAEU’s GDP is only 9% of the EU’s and offers thus much less potential. Third, and most importantly, there is no need to choose between the EU and the EAEU. Thus, in our view, Moldova should continue the DCFTA implementation, discontinue the harmful debate on its trade orientation, which has a negative impact on investment and on the wellbeing of its people.

Economic importance and re-orientation of exports

Exports of goods and services totalled USD 2.9 bn in 2016, which is equivalent to 44% of GDP. This makes clear that exports are economically important for the country.

Since 2004, a major regional re-orientation took place. While in 2004 more than 50% of exports were shipped to the CIS, in 2016 almost ⅔ of exports were destined to the EU.

Regional structure of Moldovan exports, 2016

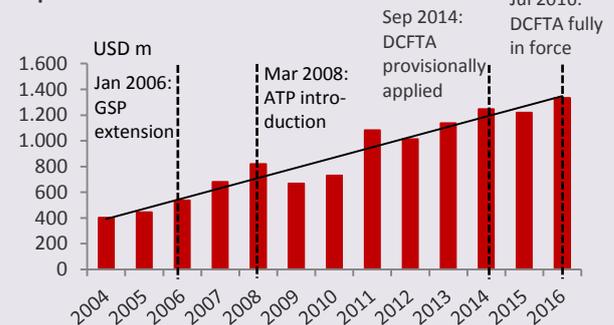


Source: National Bureau of Statistics

Exports to the EU

A fast increase in exports to the EU took place, driven by market forces and supported by a clever trade policy. Indeed, trade liberalisation with the EU started a long time ago. As a result, exports to the EU have been rising on average by more than 10% per year in USD terms since 2004.

Exports to the EU

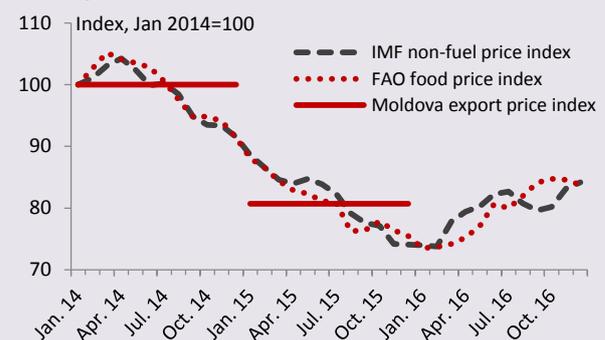


Source: National Bureau of Statistics, Note: only goods

Short-term impact of the DCFTA

In 2015, i.e. in the first complete year of DCFTA implementation, exports to the EU slightly decreased by 2.3%, thus raising questions about the effectiveness of the new treaty. However, the decline of export revenues was caused by a huge reduction of international commodity prices, which dominate Moldovan exports.

Global price indices



Source: IMF, FAO, own calculations

If we filter out this price effect, which has no relationship whatsoever to the DCFTA, exports to the EU (i.e. exports in physical terms) increased by an impressive 27%. Thus, the DCFTA seems to have had a strong positive impact on exports in 2015. But this impact was not perceived by most commentators, because it was offset by the decline of international commodity prices. In 2016, exports to the EU fully recovered and surpassed the pre-DCFTA level.

Long-term effect of the DCFTA

The DCFTA implementation is an on-going process of harmonisation with EU-norms, which lasts for up to 10 years. During this long-term process, additional factors will appear and contribute to higher exports to the EU, such as:

- Lower costs for many Moldovan companies to comply with EU regulation and thus better access to EU market
- For some goods: Gaining access to the EU market, especially for animal products
- Attraction of both domestic and foreign investment in order to produce in Moldova and export to the EU

Thus, Moldovan exports to the EU are very likely to continue growing and supporting the economic development of the country.

The current debate on Moldova's orientation

Under these circumstances, one would not expect that the importance of the EU as a trading partner is put into question. But this is exactly what is currently happening, with calls for closer ties with Russia and the EAEU.

In our view, there are good reasons for the intensification of trade relations with Russia, which suffered in the last years. The EAEU accounts for 17% of Moldova's exports and there is certainly some potential for higher exports.

However, this intensification should not take place at the expense of trade relations with the EU, for three simple reasons. First, the EU accounts for almost ⅔ of Moldovan exports and it is not useful to question relations with your largest trading partner. Second, the potential for trade expansion with the EAEU is rather limited, since its member countries account for less than 9% of the EU's GDP. Third, and this is clearly the most important point, there is no need to decide between the EU and the EAEU. The DCFTA is fully compatible with existing free trade agreements with the EAEU -members. Thus, Moldova should try to secure free trade with the EU and the EAEU.

Implications for trade policy

The implications for trade policy are quite straightforward. Moldova should continue the harmonisation of regulations with the EU in the context of the DCFTA, since this implies improving the access of Moldovan companies to the large and reliable EU market.

Action is also needed regarding the current debate on trade orientation. Many firms – both domestic and foreign – are interested in investing in Moldova, in

order to take advantage of low wages, a skilled labour force and free access to the EU market. Confronted with the perceived risk of a DCFTA revision, some companies might postpone or even cancel investment plans in Moldova.

As such, the current debate is detrimental to investment and the wellbeing of Moldova's people. Consequently, we think it would be very important for public officials to discontinue the harmful debate on the trade orientation of the Republic of Moldova.

Authors

Dr Ricardo Giucci, giucci@berlin-economics.com
Woldemar Walter, walter@berlin-economics.com

Note: A more comprehensive analysis of the topic is provided by the Policy Briefing PB/01/2017 "Moldovan exports and the impact of the DCFTA"

Available at: www.get-moldau.de

German Economic Team Moldova (GET Moldova)

GET Moldova maintains a dialogue on economic policy with decision-makers of the Moldovan government since 2010. It is funded by the Federal Ministry of Economic Affairs and Energy.

Editors

Dr Ricardo Giucci, Jörg Radeke

Contact

German Economic Team Moldova
c/o Berlin Economics
Schillerstraße 59
D-10627 Berlin
Tel: +49 30 / 20 61 34 64 0
Fax: +49 30 / 20 61 34 64 9
info@get-moldau.de
www.get-moldau.de