

Moldovan exports and the impact of the DCFTA

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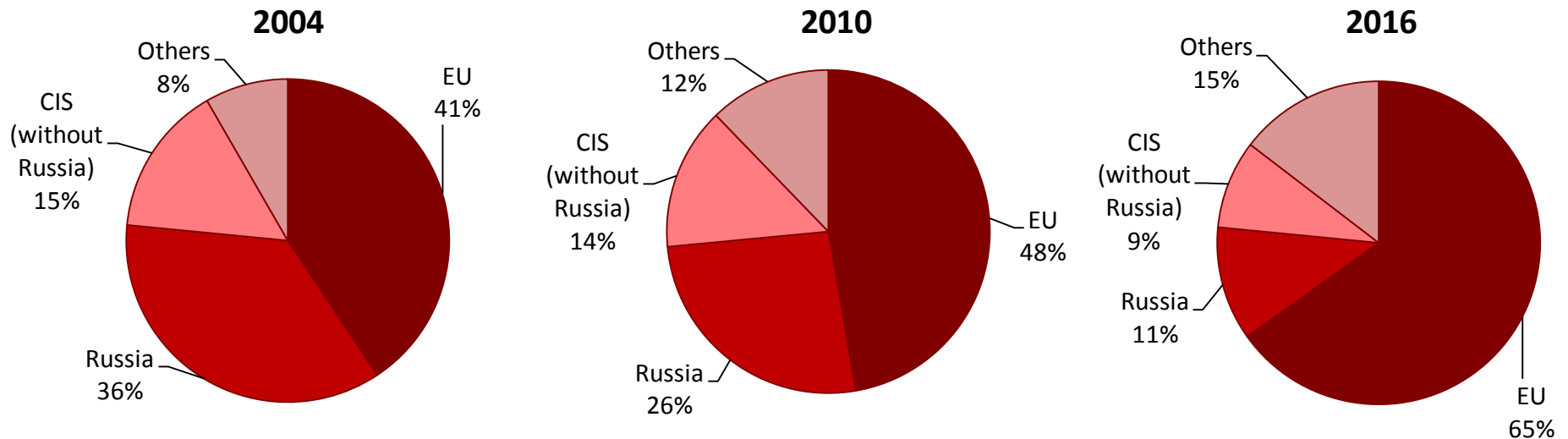
1. Moldovan exports: Aggregate development in USD



Source: National Bureau of Statistics, National Bank of Moldova. Goods and services. * Services 2016: Estimate

- Development not smooth due to external shocks 2009 and 2015/2016
 - But: Clear positive trend; almost 7% average increase per year since 2004 (in USD)
- **Positive trend with periodical interruptions**

Regional trends



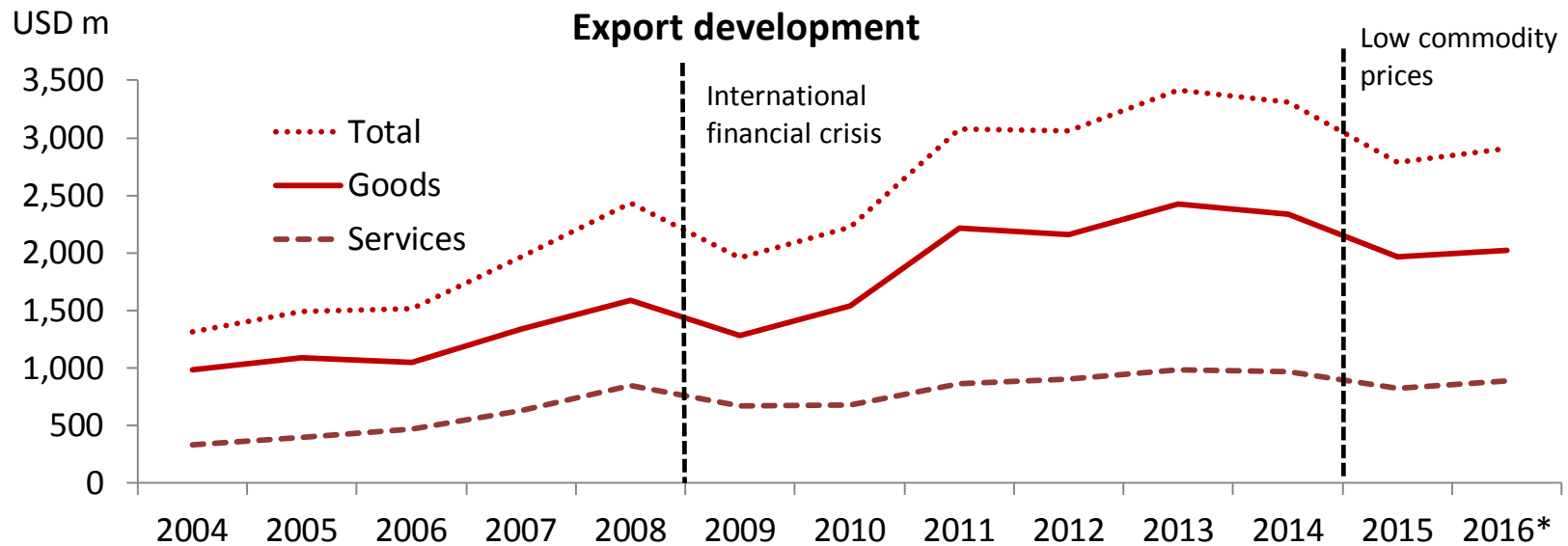
Source: National Bureau of Statistics. Only goods.

- 2004: More than 50% of exports destined to CIS (incl. Russia)
- 2010: EU accounted for 48% and CIS for 40% of exports
- 2016: Almost 2/3 of exports sold to the EU

→ Clear regional re-orientation of exports towards the EU

At the same time: CIS and Russia are still important export destinations

Sectoral trends: Goods vs. services



Source: National Bureau of Statistics, National Bank of Moldova. * Services 2016: Estimate

- 2016: Goods account for almost 70% and services for over 30% of total
 - Services: Increase from 25% in 2004 to currently over 30% of total exports
 - Important: Service exports less affected by shocks, especially by price decline 2015
- **Goods prevail, but also important role of services**

Sectoral trends: Overview of main categories of goods

Product	2004, USD m	%	2010, USD m	%	2016, USD m	%
Vegetable products	120	12	341	22	529	26
Prepared foodstuffs	346	35	317	21	322	16
Textile	170	17	268	17	308	15
Machinery and equipment	39	4	172	11	298	15
Chemical products	9	1	74	5	90	4
Fats and oils	41	4	48	3	54	3
Articles of stone	17	2	35	2	44	2
Base metals	30	3	58	4	40	2
Other	213	22	228	15	360	17
Total	985	100	1,541	100	2,045	100

Source: National Bank of Moldova

Major shifts in the sectoral structure of exports of goods

Vegetable products (sunflower seeds, nuts, wheat)

- Main export item with 26% of total exports of goods
- Share more than doubled since 2004; strong increase

Prepared foodstuffs (wine, spirits, fruit juices)

- Share of 16% of total
- Almost half of share in 2004; strong decline

Textile (women's suits, men's suits, T-shirts)

- Share of 15% of total exports; relatively stable share

Machinery and equipment (insulated wire, pumps, heaters)

- 15% of exports share
- Almost fourfold increase since 2004, link to FDI from the EU

→ **The four main categories account for over 70% of total exports of goods**

→ **Strong performance of machinery and equipment**

Sectoral trends: Overview of main categories of services

Product	2004, USD m	%	2010, USD m	%	2015, USD m	%
Transportation	143	43	244	36	308	37
Travel	91	27	163	24	204	25
Communication services	45	14	126	19	106	13
Other business services	28	9	62	9	87	11
Computer and information services	3	1	33	5	70	9
Government services, n.i.e.	12	4	38	6	32	4
Financial services	2	1	3	0	5	1
Royalties and license fees	2	1	5	1	4	1
Construction services	4	1	4	1	4	0
Personal, cultural, and recreational services	1	0	0	0	2	0
Insurance services	1	0	1	0	0	0
Total services	332	100	680	100	822	100

Source: National Bank Moldova

Sectoral structure of exports of services

Three main sectors account for 75% of services

- Transportation 37%
- Travel 25%
- Communication services 13%

Structure did not change much since 2004

- Most sectors feature similar shares as in the past
- Important exemption: Computer and information services (“IT sector”)
 - 2004: 1% of total
 - 2010: 5% of total
 - 2015: 9% of total

→ IT sector is the most dynamic service sector in Moldova; export promotion should take a deeper look into the sector

2. Moldovan exports to the EU and the role of trade policy



Source: National Bureau of Statistics. Only goods.

- Strong trend: Increase by more than 10% in average since 2004 (in USD)
- Reason: Economic drivers supported by trade policy from EU and Moldova
 - 2006: Extension of GSP by the EU
 - 2008: Introduction of autonomous trade preferences (ATP) by the EU
 - 2014/2016: Provisional/permanent implementation of EU-Moldova DCFTA

3. Short-term impact of the DCFTA on exports to the EU

Exports of goods to the EU 2014-2016

Year	Event	Exports to EU	change vs. 2014
2014	DCFTA signed	USD 1,246 m	--
2015	First year of implementation	USD 1,217 m	-2.3%
2016	Second year of implementation	USD 1,332 m	6.9%

- In 2015 (i.e. the first implementation year), exports to EU declined by 2.3%
- In 2016 exports to the EU fully recovered
 - 6.9% increase compared to 2014, i.e. the year of the DCFTA signature
 - 9.4% increase in comparison to 2015
- Despite the full recovery in 2016, it is important to look at why exports to the EU decline in 2015

Two major events in 2015 of relevance for exports to EU

i. DCFTA with EU

- 2015: First year of implementation over 12 months
- Implication: Improved access to EU market
- Thus: In principle positive contribution to exports to the EU

ii. Strong decline in international commodity prices

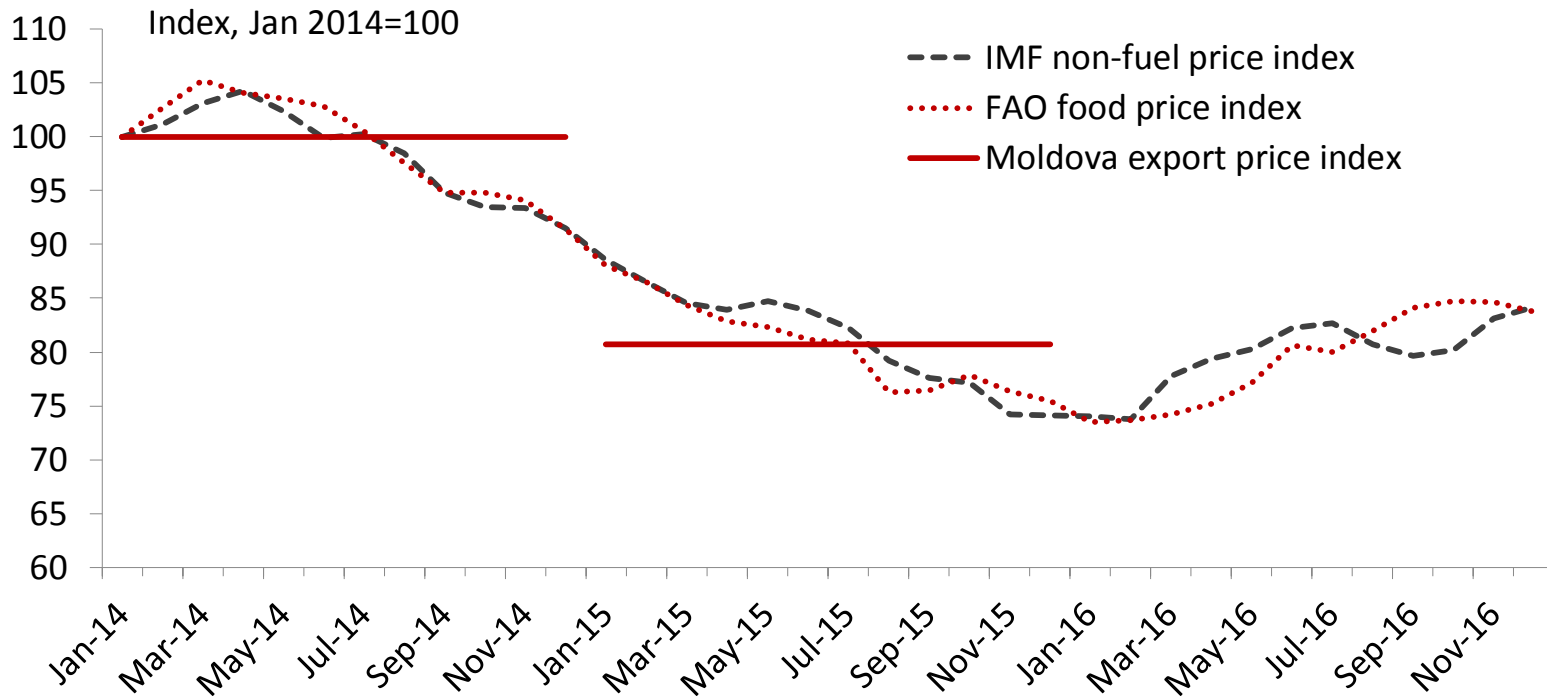
- 2015: Prices for key export products of Moldova strongly declined
- E.g.: Sunflower -12%, nuts -14%, insulated wire -17%
- Implication: Lower USD revenues for the same physical amount of exports
- Thus: Negative contribution to exports to the EU (and elsewhere)

Further analysis

- Separation of these two effects
- Goal: Isolation of the effect of the DCFTA, without falling prices

Decline of international commodity prices in 2015

Global price indices



Source: IMF, FAO, own calculation

Note: Export price index calculated using simple average prices in USD/kg and HS-4-digit codes

Nominal vs. real exports to the EU in 2015

Method of analysis

- Use of constant export prices in USD from 2014
- On this basis: Calculation of changes of physical volumes in 2015 vs. 2014

Results of our research

- In physical terms, exports to the EU in 2015 increased by 27%

Interpretation of results

- Strong positive short-term effect of DCFTA on exports to the EU
- However: Positive effect was clouded by the strong negative impact of lower international commodity prices, which took place in parallel

→ **Strong positive short-term impact of the DCFTA on exports to the EU**

4. Expected long-term effect of the DCFTA

- 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 that will contribute to higher exports to the EU
 - Lower costs for many Moldovan companies to comply with EU regulation and thus better access to EU market
 - Gaining of access to the EU market (especially for animal products)
 - Attraction of real investment (both domestic and foreign) in order to produce in Moldova and export to the EU

→ Moldovan exports to the EU are very likely to continue growing and thus supporting the economic development of the country

5. Implications for Moldovan trade policy

- The sizeable regional re-orientation of Moldovan exports towards the EU is the result of market forces, which will further intensify on the back of the DCFTA
- Despite this: The merits of the DCFTA are openly questioned, favouring instead closer ties with Russia and the Eurasian Economic Union (EAEU)

Our view

- It makes a lot of sense to intensify trade relations with Russia and the EAEU
 - But: Not at the expense of trade with the EU, for three simple reasons
 - EU accounts for 65% of Moldovan exports; EAEU for 17%
 - The combined GDP of the EAEU is less than 9% of the EU-GDP
 - No need for choosing; Moldova can freely trade with the EU and the EAEU
 - On top: Current debate can have a negative effect on export-linked investment
- Moldovan authorities are well advised to continue the DCFTA implementation; at the same time, public officials should refrain from casting doubts on the DCFTA**

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Annex: Overview of main categories of goods

Product	2015, USD m
Vegetable products	502
Sunflower seeds, whether or not broken	144
Other nuts, fresh or dried, whether or not shelled or peeled	101
Wheat and meslin	52
Prepared foodstuffs	303
Wine of fresh grapes	98
Undenatured ethyl alcohol of an alcoholic	48
Fruit juices	35
Textile	274
Women's or girls' suits	38
Men's or boys' suits	33
T-shirts	18
Machinery and equipment	296
Insulated (including enamelled or anodised) wire	213
Pumps for liquids	11
Heaters	9

Source: UN Comtrade

Annex: Market size of selected trading partners

Region	GDP 2016, USD bn	Share of EU-GDP
European Union	16,353	100%
Russian Federation	1,268	7.8%
Commonwealth of Independent States (CIS)	1,715	10.5%
Eurasian Economic Union (EAEU)	1,461	8.9%

Source: IMF; Note: all numbers are estimates