

# **Economic impact of a potential change in Russia's trade regime vis-à-vis Moldova**

**Jörg Radeke, Woldemar Walter and Ricardo Giucci**  
German Economic Team Moldova

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# Structure

1. Background
2. Moldova's exports to Russia
3. Possible tariff increase
4. Aggregated impact on exports and GDP
5. Effect on different product groups
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Contact

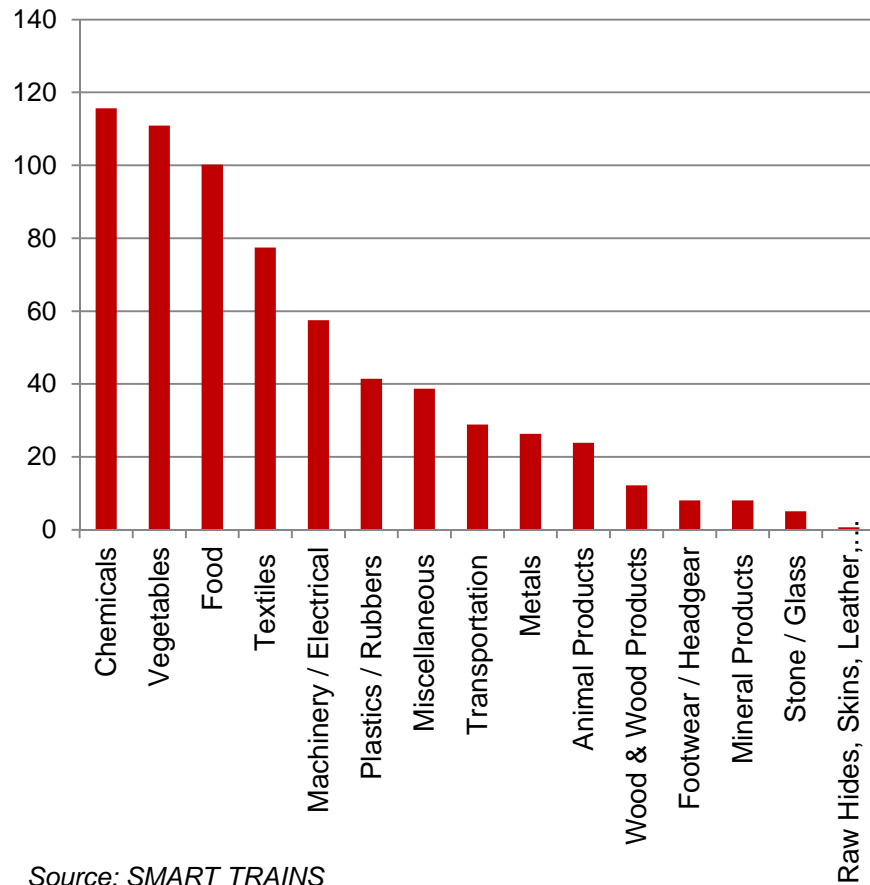
Appendix

# 1. Background

- The Russian Federation might unilaterally change its trade regime with Moldova from the current free trade regime to Most-Favoured-Nation (“MFN”) status
- The likelihood for such a change might increase in case Moldova signs an Association Agreement/DCFTA with the EU as is planned for summer 2014
- In this policy brief we present the results from our estimation of the economic impact (i.e. the short-term effect) of such a change on the Moldovan economy

## 2. Moldova's exports to Russia

Exports to Russia by product group, 2012, USD m

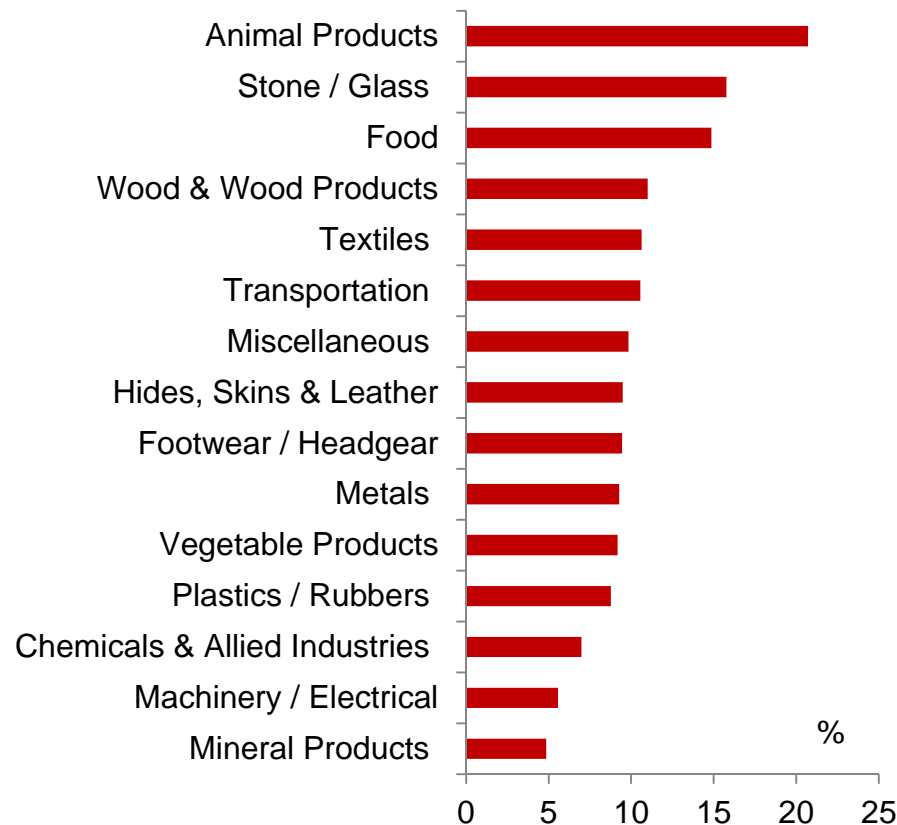


Source: SMART TRAINS

- In 2012, Moldova exported goods worth USD 655 m to Russia
- As such, exports to Russia accounted for about 30% of all exports
- For comparison: Exports to the EU in 2012 amounted to USD 1,013 m
- Structure of exports to Russia is rather diversified (see chart)
- Chemical products: USD 115 m; mostly pharmaceuticals, essential oils and cosmetics
- Vegetables: USD 111 m
- Food and beverages: USD 100 m

### 3. Possible tariff increase

Tariff increase for main product groups



Source: SMART TRAINS

- Russia could cancel the current FTA with Moldova and introduce MFN status for imports from Moldova
- In such a case, import tariffs would increase from currently mostly 0% to an average of around 10%
- Most new tariffs would lie in a range between 5% and 20%
- Highest tariff increase for animal products (average 21%, but 50% for some products) and wine and other alcohol products (on average 35%)

Questions:

- What would be the impact on Moldova’s exports to Russia?
- What would be the aggregated impact on exports and GDP?

## 4. Aggregated impact on exports and GDP

### What would be the magnitude of the trade shock?

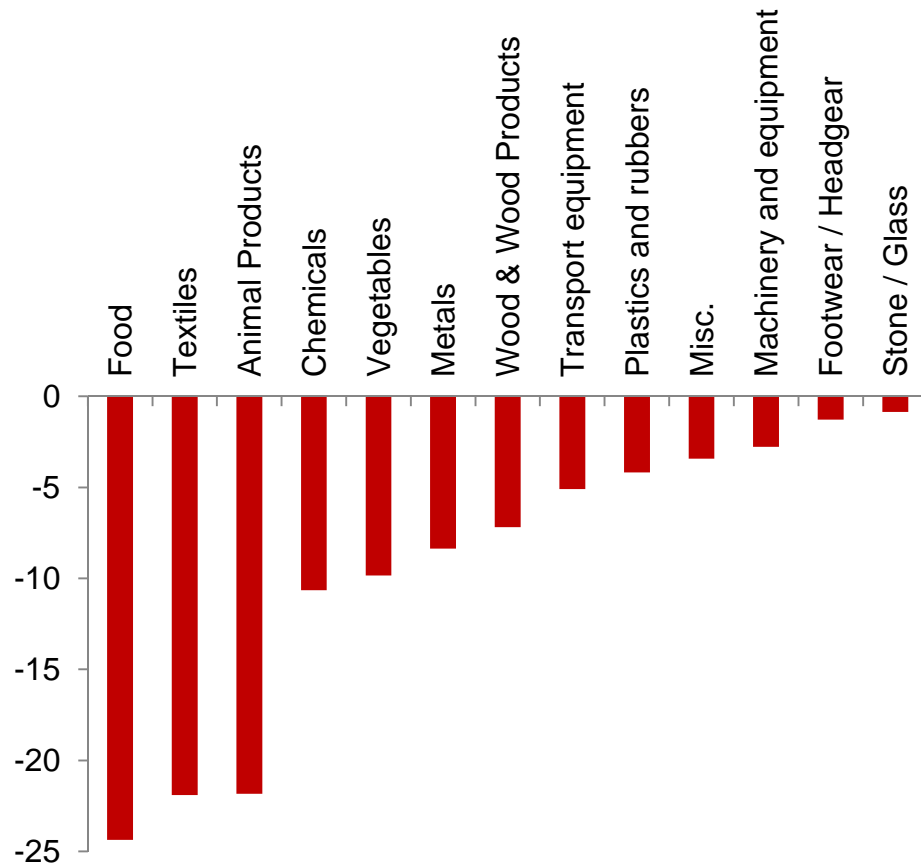
- We estimate that the tariff increase would reduce yearly exports to Russia by USD 122 m
- This would constitute a 19% reduction in exports to Russia compared to 2012 levels
- As a consequence, Moldova's total exports are likely to decline by 5.7%
- The export decline equals 1.7% of Moldova's GDP

	Decline in export to Russia	Relative decline compared to 2012 levels	Relative decline for Moldova's total exports	Export decline in relation to GDP
Estimated effect	USD 122 m	- 19%	-5.7%	1.7% of GDP

Source: Own calculation

## 5. Effect on different product groups

Change in exports by product category, m USD



Source: Own calculation

- Five sector account for almost 90% of trade loss
- Biggest absolute export decline expected for food products and textiles
- Strong effect for animal products due to high tariff increase if MFN tariff regime is introduced

## 6. Conclusions

- A possible change in Russia's trade regime vis-à-vis Moldova from free trade to MFN status would have significant short-term effects on Moldova
- Sectoral impact. This impact would be particularly strong on selected sectors of the economy, such as agriculture and food processing, textiles and chemicals
- Aggregate impact. The aggregate decline of total exports would be 5.7% - the equivalent of 1.7% of GDP
- However, the negative impact could be significantly reduced by redirecting exports to Russia to other destinations and by diversifying the product structure of exports
- Georgian experience in 2005/2006 widely supports this view (see PB/01/2014 by GET Moldova)
- Thus, the nature of the shock would be mainly sectoral and short-term, provided companies are supported with export promotion measures



## Contact

**Jörg Radeke**

radeke@berlin-economics.com

**Dr. Ricardo Giucci**

giucci@berlin-economics.com

BE Berlin Economics GmbH

Schillerstr. 59, D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9



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## Appendix

### Content:

- i. Modelling approach
- ii. Detailed effect by HS 2 digit product groups
- iii. Tariff change by HS 2 digit product groups

## i. Modelling approach

### Scenario

- Russia cancels its current free trade regime with Moldova (2011 CIS FTA) and henceforth treats Moldova like any other WTO country

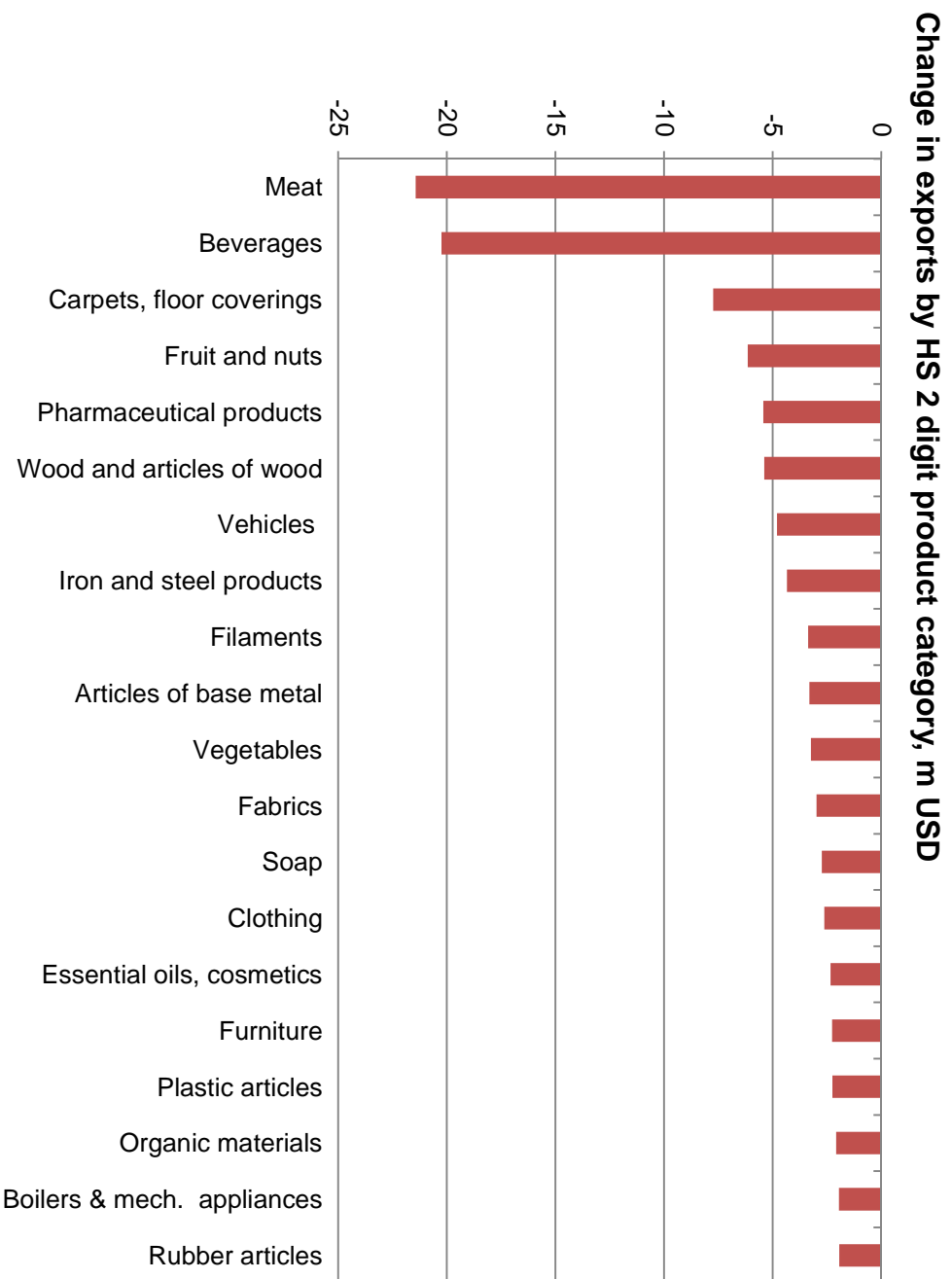
### Modelling approach

- The World Bank WITS online simulation tool provides data on how imports of Russia reacted to changes in the price of goods from Moldova in the past (import elasticities)
- Based on this elasticity we estimate how Russian demand for products from Moldova would change if the tariff of a good increase by X%

### Data used

- Exports data from 2012 reported by Moldova, UN Comtrade database HS 4 digit level
- Tariffs are taken from the TRAINS database
- Import elasticities are provided by the WITS online data base

## ii. Detailed effect by HS 2 digit product groups



Source: Own calculation

### iii. Tariff change by 2 digit product group (1)

HS Product Code	Name	Export value (USD m)	Average tariff increase
1	Live animals	0.0	5%
2	Meat and edible meat offal	21.4	41%
4	Dairy prod; birds' eggs; natural honey; edible pr	2.4	16%
6	Live tree & other plant; bulb, root; cut flowers	0.4	12%
7	Edible vegetables and certain roots and tubers.	15.3	15%
8	Edible fruit and nuts; peel of citrus fruit or me	91.5	7%
10	Cereals	0.1	5%
11	Prod.mill.indust;	0.1	11%
12	Oil seed, oleagi fruits; miscell grain, seed, fru	3.5	4%
15	Animal/veg fats & oils & their cleavage products;	0.1	10%
17	Sugars and sugar confectionery.	4.2	6%
18	Cocoa and cocoa preparations.	0.8	12%
19	Prep.of cereal, flour, starch/milk	0.5	15%
20	Prep of vegetable, fruit, nuts or other parts of	18.5	13%
21	Miscellaneous edible preparations.	1.7	16%
22	Beverages, spirits and vinegar.	61.7	35%
23	Residues & waste from the food indust; prepr ani	7.2	8%
24	Tobacco and manufactured tobacco substitutes	5.8	13%
25	Salt; sulphur; earth & ston; plastering mat; lime	8.0	5%
27	Mineral fuels, oils & product of their distillati	0.1	5%

HS Product Code	Name	Export value (USD m)	Average tariff increase
28	Inorgn chem; compds of prec mtl, radioact element	0.2	5%
29	Organic chemicals.	0.5	5%
30	Pharmaceutical products.	70.5	8%
32	Tanning/dyeing extract; tannins & derivs; pigm et	1.3	4%
33	Essential oils & resinoids; perf, cosmetic/toilet	28.3	9%
34	Soap, organic surface-active agents, washing prep	14.6	13%
35	Albuminoidal subs; modified starches; glues; enzy	0.0	6%
38	Miscellaneous chemical products.	0.2	6%
39	Plastics and articles thereof.	17.8	10%
40	Rubber and articles thereof.	23.6	7%
41	Raw hides and skins (other than furskins) and lea	0.5	3%
42	Articles of leather; saddlery/harness; travel goo	0.2	16%
43	Furskins and artificial fur	0.1	9%
44	Wood and articles of wood; wood charcoal.	5.4	15%
45	Cork and articles of cork.	0.2	5%
46	Manufactures of straw, esparto/other plaiting mat	0.0	15%
48	Paper & paperboard; art of paper pulp, paper/pape	6.3	13%
49	Printed books, newspapers, pictures & other produ	0.3	7%
50	Silk.	0.0	5%
51	Wool, fine/coarse animal hair, horsehair yarn & f	0.3	8%

### iii. Tariff change by 2 digit product group (2)

HS Product Code	Name	Export value (USD m)	Average tariff increase
52	Cotton.	2.9	11%
53	Other vegetable textile fibres; paper yarn & wove	0.2	8%
54	Man-made filaments.	3.4	9%
55	Man-made staple fibres.	6.7	8%
56	Wadding, felt & nonwoven; yarns; twine, cordage,	3.9	8%
57	Carpets and other textile floor coverings.	21.0	20%
58	Special woven fab; tufted tex fab; lace; tapestri	2.3	15%
59	Impregnated, coated, cover/laminated textile fabr	0.6	7%
60	Knitted or crocheted fabrics.	19.9	10%
61	Art of apparel & clothing access, knitted or croc	9.8	11%
62	Art of apparel & clothing access, not knitted/cro	2.5	10%
63	Other made up textile articles; sets; worn clothi	4.1	19%
64	Footwear, gaiters and the like; parts of such art	8.1	9%
65	Headgear and parts thereof.	0.0	10%
68	Art of stone, plaster, cement, asbestos, mica/sim	0.2	15%
69	Ceramic products.	2.6	17%
70	Glass and glassware.	2.3	14%
71	Natural/cultured pearls, prec stones & metals, co	0.0	18%
72	Iron and steel.	4.0	5%
73	Articles of iron or steel.	10.3	14%

HS Product Code	Name	Export value (USD m)	Average tariff increase
74	Copper and articles thereof.	1.0	5%
76	Aluminium and articles thereof.	1.8	12%
79	Zinc and articles thereof.	0.1	5%
81	Other base metals; cermets; articles thereof.	0.1	11%
82	Tool, implement, cutlery, spoon & fork, of base m	0.4	8%
83	Miscellaneous articles of base metal.	8.7	14%
84	Nuclear reactors, boilers, mchy & mech appliance;	49.3	3%
85	Electrical mchy equip parts thereof; sound record	8.3	8%
86	Railw/tramw locom, rolling-stock & parts thereof;	2.6	7%
87	Vehicles o/t railw/tramw roll-stock, pts & access	26.2	12%
88	Aircraft, spacecraft, and parts thereof.	0.1	12%
90	Optical, photo, cine, meas, checking, precision,	10.1	5%
91	Clocks and watches and parts thereof.	0.1	15%
92	Musical instruments; parts and access of such art	0.0	8%
94	Furniture; bedding, mattress, matt support, cushi	25.9	13%
95	Toys, games & sports requisites; parts & access t	0.0	13%
96	Miscellaneous manufactured articles.	2.6	13%
97	Works of art, collectors' pieces and antiques.	0.0	1%