

The effect of the DCFTA on Moldovan exports to the EU

Moldova signed a deep and comprehensive free trade agreement (DCFTA) with the EU in 2014, which came into force in the same year. After almost five years of implementation, we analyse the impact of the DCFTA on Moldovan exports to the EU.

The data show that exports to the EU, measured in US dollars, increased strongly by 60% between 2013 and 2018. In real terms, i.e. at constant prices of 2013, the increase is with 73% even larger. At the same time, the share of Moldovan exports (excluding re-exports) going to the EU increased by 18 percentage points to 74%. In this respect, the DCFTA had a very strong positive effect.

The effect on the commodity composition of exports is much smaller. In 2018, significantly more categories of goods were exported to the EU than in 2013. However, new goods account for only 3% of the total value. At the same time, the concentration has somewhat increased by 4% and the share of processed products has declined slightly from 73% in 2013 to 70% in 2018, but remains very high.

We expect the overall positive trend to continue. The ongoing adaption of standards should lead to further goods being exported to the EU. In addition, investments in automotive parts sector in Moldova, whose production is primarily destined for the EU market, are currently increasing.

The DCFTA comes into force

Moldova, like Ukraine and Georgia, has concluded a deep and comprehensive free trade agreement (DCFTA) with the EU, which entered into force in 2014. The aim of these agreements is to eliminate customs duties - which were already very low for Moldova - and to align standards to those of the EU. This should further open the EU market for Moldovan products and lead to an increase in Moldovan exports to the EU. After almost five years of implementation of the DCFTA, we analyse the extent of the economic effect to date. The focus is on the development of exports of goods to the EU as well as on the structure of exports. We compare 2013, the last year before DCFTA, with 2018, the last full year after DCFTA.

Correction of data for re-exports

Before performing the analysis, it is important to ensure that the data are relevant. Our focus is on domestically produced exports, i.e. we only look at exports of goods that are important for value added and job creation. This implies that so-called re-exports must be excluded from the statistics. Re-exports are

exports that were previously imported and are re-exported without any essential transformation. Re-exports are not subject of trade agreements.

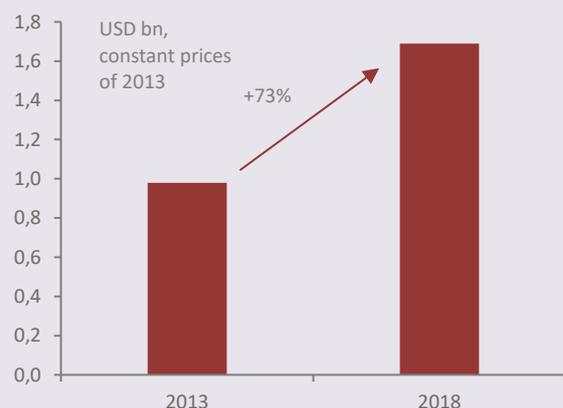
To exclude these goods, we use the approach of the National Bureau of Statistics of Moldova, which uses a narrower definition of re-exports than e.g. UN Comtrade. Through this approach, goods that are relevant for value added, such as cable harnesses, are preserved, while goods that are not or only insignificantly transformed are excluded. Excluded goods are, for example, medicines that are only repackaged or cars that are resold.

The effect on exports to the EU

The first indicator we look at is the development of exports to the EU in US dollars. The value of exports to EU amounted to USD 1.0 bn in 2013 and rose to USD 1.6 bn in 2018. This corresponds to an increase of 60%. The main reasons for this strong increase were rising exports of automotive parts, especially cable harnesses, and rising exports of plant products, especially sunflower seeds, maize, and wheat.

Since international commodity prices fell in the same period, we also calculate the change in exports at constant prices. This approach shows that exports increased by 73% in real terms.

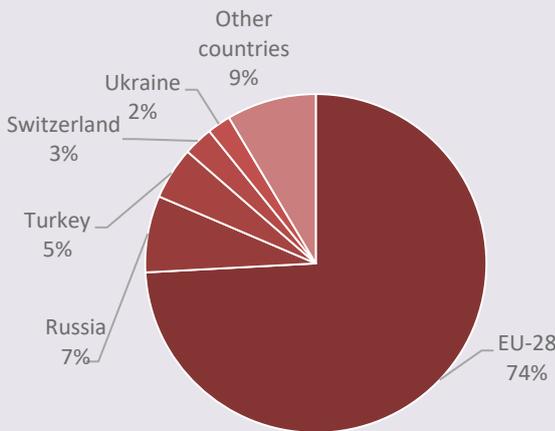
Exports to the EU in constant prices, 2018 vs 2013



Source: WITS, authors' estimates; exports of goods, excluding re-exports as defined by the NBS

We next look at the share of the EU as an export destination. This is another indicator which shows a strong increase. The EU share rose from 56% in 2013 to 74% in 2018 - an increase of 18 percentage points. However, the decline of exports to Russia also contributed indirectly to this development.

Exports by countries, 2018



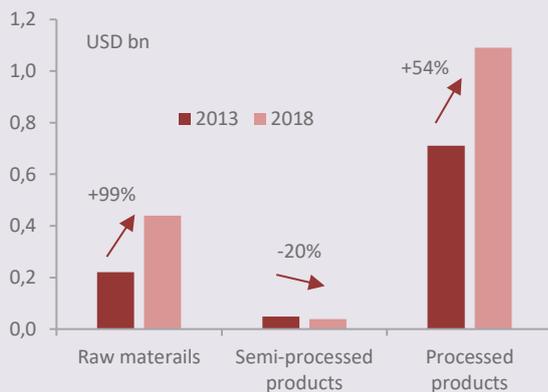
Source: WITS, authors' estimates; exports of goods, excluding re-exports as defined by the NBS

Overall, the three indicators show a very clear picture. There is a very strong positive effect of the DCFTA on Moldovan exports to the EU.

The effect on the commodity composition of exports

Additional information on the effect of the DCFTA can be obtained by analysing the composition of exports. In 2013 Moldova exported 927 different goods to the EU; in 2018 it was 1,084 goods. The net increase corresponds to 157 product categories. However, the share of new products in total exports is with 3% relatively low. Despite exports of new products, our analysis shows that the concentration of exports has increased by 4%. Therefore, the DCFTA did not contribute to the diversification of exports.

Exports to EU by level of processing



Source: WITS, authors' estimates based on WTO classification, excluding re-exports as defined by the NBS

At the same time, as shown in the chart above, the DCFTA had no strong effect on the degree of processing of the products. In particular, exports of raw materials increased stronger than exports of processed goods.

As a result, the share of processed products in total exports saw a small decline from 73% in 2013 to 70% in 2018; a decline at a very high level. Overall, the DCFTA has had no significant effect on the commodity composition of exports so far.

Conclusion and outlook

Moldova was already strongly integrated with the EU before the DCFTA. However, the DCFTA has significantly strengthened this integration, which is reflected in the strong increase in exports and the rise in the importance of the EU market as an export destination.

We expect this positive trend to continue. By adopting EU standards, it should be possible to export further goods to the EU, e.g. animal products. In addition, there is currently a strong investment activity in automotive parts sector in Moldova, whose products are primarily destined for the EU market. It is therefore likely that exports will continue to rise strongly. It remains to be seen, however, whether trade can be diversified.

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A more comprehensive analysis is provided by the Policy Study [“The economic effect of the DCFTA on Ukraine, Moldova and Georgia - A comparative analysis”](#)

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