

THE DYNAMICS OF THE REPUBLIC OF MOLDOVA'S FOREIGN TRADE IN THE LAST 20 YEARS

Caraman Cristian

Alexandru Ioan Cuza University of Iași
Doctoral School of Economics and Business Administration (SDEAA)
Romania
e-mail: caramancristian22@gmail.com

We suggest you to cite this article as:

Caraman, C. 2020. The dynamics of the republic of Moldova's foreign trade in the last 20 years. *Junior Scientific Researcher*, Vol VI, No. 1, pp. 72-81.

Abstract

The trade dynamics of the Republic of Moldova represents a topic of great interest within the current global and regional frameworks. The main purpose of the paper is to observe the Moldovan foreign trade in order to determine what major changes have taken place in the last two decades and whether they have caused any switch of directions or structures of the economy. For this, I have used the method of scientific observation and analyzed the trade balance, imports and exports. An important aspect was to identify the main trading partners and the goods that are mainly imported and exported. As a result, a brief overview of the Moldovan trade was obtained, which seems to have undergone some changes following a better trade openness, but also due to the evolution of the economic and political relations with the European Union and the Russian Federation. The poor production diversification could become an impediment for Moldova's economic growth, but the implementation of strategic reforms in the field of justice or finance can create new opportunities in the future.

Keywords: *exports, foreign trade, imports, Republic of Moldova, trade balance, trading partners.*
JEL Classification: *F190*

Introduction

The Republic of Moldova is one of the poorest countries in South-East Europe. The structural weaknesses of the Moldovan economy are, in particular, the low degree of production diversification and its dependence on activities with low added value. Agriculture remains an important sector through which the population gains its income, in addition to the remittances coming from those who went to work abroad.

The initial transition phase of the Moldovan economy was one of the most difficult in the region. From an economic point of view, the country suffered a lot as a result of an initial deterioration of trade relations with the Russian Federation and other former Soviet states. At the same time, Moldova remains dependent on the energy supplied by the Kremlin. The conflict on the left bank of the Dniester has affected the territorial integrity of the country, but also led to a drastic decrease of its industrial potential, most of the factories built during the Soviet period being situated in Transnistria.

The lack of economic diversification and the usually inferior quality of the Moldovan products, combined with a lack of reforms, have conditioned a slow transition towards a well-functioning market economy. However, joining the World Trade Organization (WTO) has proved to be an important catalyst for the integration of the Republic of Moldova within the global economic system, as well as deepening the relations within the European regional framework. In the last decade, the Moldovan authorities have undertaken a series of actions that seem to be aimed at strengthening the economic ties with most of the country's strategic partners.

Under these conditions, foreign trade remains a major engine for ensuring the economic development of the Republic of Moldova. At the same time, analyzing the dynamics of the Moldovan trade flows could help us identify the strategic directions towards which the authorities should work in order to increase Moldova's potential on the global and regional arena.

Background

Previous research in the field confirms the ideas presented in the introductory part of the paper, whether we are talking about the poor diversification of the Moldovan production or the underdevelopment of the entire economy as a whole. Among the most important studies, reports from the World Bank or those coming from the Moldovan Export and Investment Promotion Organization (MIEPO) are all worth mentioning.

However, one of the main tendencies of the last two decades is the increase in trade flows of the Republic of Moldova, an increase that happened mainly due to a growth in imports rather than exports, with re-exports going up as well. At the same time, among the sectors with a higher dynamism, some mention the services sector, which could be great news (Mera, 2016, pg. 10-14).

Concerning the geographical concentration, the World Bank studies show a reorientation of both exports and imports towards the EU countries, while the trade with the members of the Commonwealth of Independent States (CIS) is steadily declining. This is happening primarily due to the signing of a series of agreements with the EU, most notably the Free Trade Agreement (DCFTA). At the same time, the relations with the Russian Federation have suffered from the embargos imposed by the Kremlin on a variety of wines, fruits and meats of Moldovan origin (World Bank, 2016a).

However, despite obtaining facilitated access to the European Union market, Moldovan products are not all competitive enough yet to compete with the most Western producers. As a result, the economic agents from the agri-food industry seem to be the most affected by the low level of structural diversification and development of the Moldovan economy (World Bank, 2016b).

Therefore, the most common recommendations refer to the development of the entrepreneurial environment, the increase of transparency between the private sector and the authorities, but also the implementation of investment programs (MIEPO, 2015). According to some reports, more attention should be paid to the activities within the free economic zones (World Bank, 2016c), while among the main strengths of the Moldovan economy is still believed to be the high grade of trade openness (Mera, 2016, pg. 14-28).

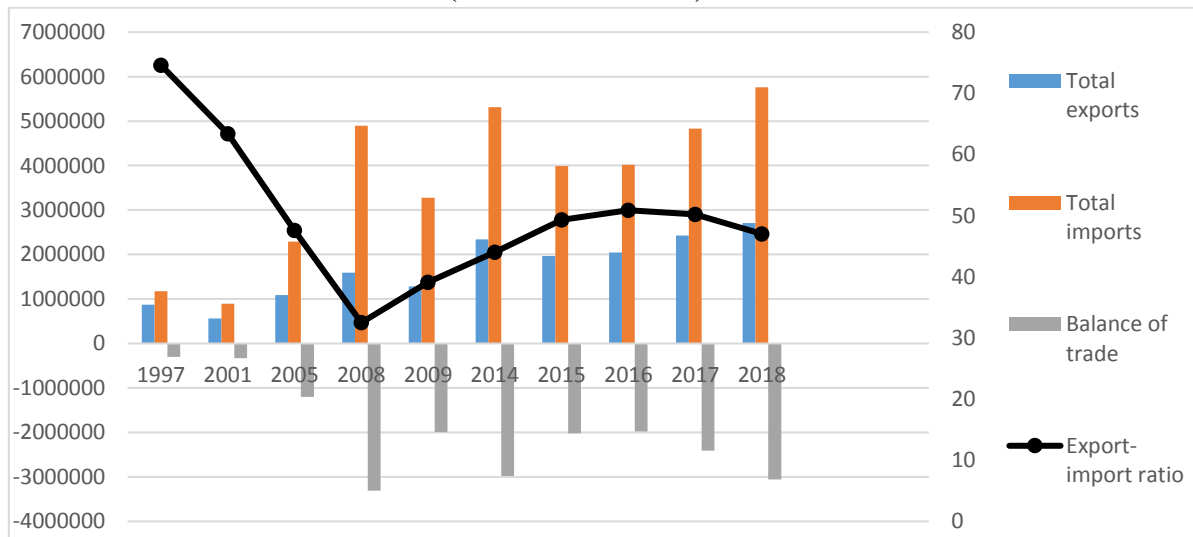
Methods

The main goal of the paper derives from the desire to present in an updated state of the Moldovan trade dynamics. For this, I have opted to use online databases that have a high degree of reliability. Among the main chosen sources are the National Bureau of Statistics of the Republic of Moldova (NBS), the National Bank of Moldova (NBM) and the World Bank. As a reference period, I have opted for 1997-2018 period to be able and observe more easily the directions which were taken by the Republic of Moldova over the years in relation to the main economic events: accession to the WTO, the 2008-2009 economic crisis or the signing of the Association Agreement with the EU. The data on imports/exports and the main trading partners will be presented in the form of tables and graphs to deliver the information as efficiently as possible and to facilitate their interpretation.

Moldova's balance of trade

The trade balance of the Republic of Moldova seems to follow the main events that took place within the global context in the last 20 years. The economic crisis has affected the business sector as a whole. The external demand for Moldovan goods had decreased considerably after 2008. The bankruptcy of some local companies led directly to a decrease in domestic production, which led to a need to satisfy the domestic demand with foreign products. However, both exports and imports tended to decrease, with imports slowing down quicker than exports in some instances, suggesting a weak purchasing power (figure 1).

Figure 1. The value of Moldovan exports, imports and the export-import coverage ratio (thousands USD /%)



Source: Author's computations, based on data from the NBS Moldova

Since 2008 the balance of trade of the Republic of Moldova has almost never dropped below 2 billion \$USD, except for 2009 (1.99 billion) and 2016 (1.97 billion), otherwise, it has fluctuated between two and three billion US dollars. The figures are worrying and denote an economy that could fail to recover long-term. The export-import

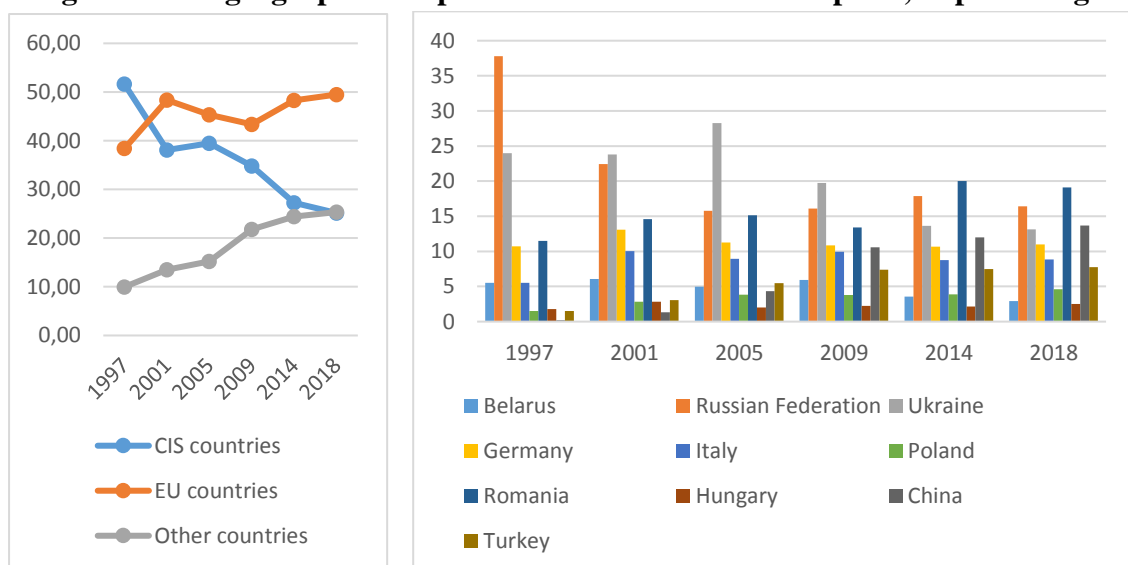
coverage ratio had increased between 2009 and 2016, but in 2017 it had resumed its downward trend, with a value of 46.98% in 2018, while for the post-crisis period, the maximum value was recorded in 2016 (50.86%).

The economy seems to suffer from a chronic trade deficit, which is difficult to reverse under the current conditions of underdeveloped infrastructure, political instability and dependence on external energy sources. Efforts are also made difficult by the political crises, both internally and externally, the unstable situation in Ukraine being just one of them. At the same time, some producers are constantly pressured by the changing market conditions and the growing risk of being hit with new embargos by the Kremlin. The need to diversify exports is also evident. Efforts in this regard should be directed to both the primary sector and the industry.

The dynamics of Moldovan imports

As it was mentioned earlier, Moldova has undergone a vast process of integration into the world economy over the last two decades, a process that began in the early 2000s after the agreement with the World Trade Organization was signed. Therefore, the trade with the member states have intensified considerably, but this growth happened mostly due to imports. This is not necessarily a negative aspect, even though, we have observed before, that the external balance is a chronically deficient one in the case of the Republic of Moldova. It is, of course, desirable to export more than you import, but it also important what is being imported and what kind of goods are being exported. Deficits can create structural distortions when they are not rectified over a long period. However, foreign inflows can be significant for the economy of a state, especially in case of an underdeveloped or still-developing one. Imports can very often be a method of applying new technology or new organizational or management models at both micro and macro levels.

Figure 2. The geographical representation of Moldovan imports, in percentages



Source: Author's computations, based on data from the NBS Moldova

As a result of the deepening economic relations of Moldova with most of the states of the world, the changes have taken place regarding the direction of the commercial flows. If we analyze the evolution of the imports, we can see that the European Union has always been a very important partner for the Republic of Moldova. Romania growth in importance, as a country of origin for Moldovan imports, is also surprising, with a share that is double the numbers from 20 years ago (19% in 2018). Other EU Member States that have proven to be important partners of Moldova are: Germany, with a relatively stable share in total imports: 10-11% and Italy, with a share of almost 9% in 2018 (figure 2). However, the imports from Russia and Ukraine seems to have decreased substantially, from 37.79% to 16.41% in the case of Russia and from 24% to 13.14% for Ukraine in the same period of time. Among the largest importers from outside the EU or CIS, we have China, with an increase from almost 0% to over 13.6% and Turkey, whose share increased from 1.53% to 7.75% from 1997 to 2018. The data indicates a clear reorientation towards products from the EU and China, but a share decrease in CIS imports.

Table 1. The structure of Moldovan imports according to the Combined Nomenclature of Goods (Top 10)

	1997	2001	2005	2009	2013	2016	2017	2018
XVI. Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers	12.86	13.89	13.65	14.26	15.29	16	16.58	17.74
V. Mineral products	35.34	27.19	22.02	21.91	22.88	15.67	16.02	17.5
VI. Products of the chemical or allied industries	9.63	9.01	10.13	11.16	11.42	12.5	11.86	11.26
XI. Textiles and textile articles	5.26	10.32	7.85	7.45	7.04	8.6	8.24	7.4
XV. Base metals and articles of base metal	4.42	4.22	7.01	5.61	5.86	6.81	7.12	7.27
XVII. Vehicles, aircraft, vessels and associated transport equipment	2.98	2.45	5.69	4.8	5.47	5.78	6.1	6.45
IV. Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	7.55	8.84	6.43	8.84	7.35	7.59	7.3	6.13
VII. Plastics and articles thereof; rubber and articles thereof	3.12	3.83	6.1	5.69	5.84	6.41	6.05	5.99
II. Vegetable products	3.18	4.22	2.84	4.04	3.71	4.27	4.04	4.45
XX. Miscellaneous manufactured articles	1.15	1.29	1.91	2.71	2.39	2.86	2.86	2.76

Source: Author's computations, based on data from the NBS Moldova

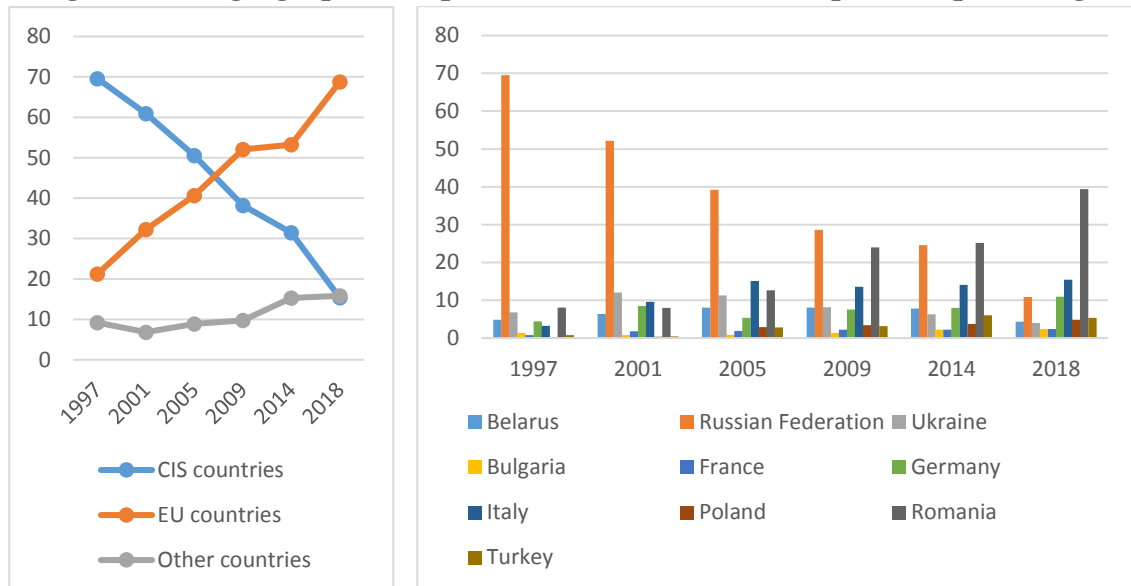
Regarding the structure of imports, there is a diversity issue, with a high concentration on energy products, which denotes the relatively high dependence on imports of natural gas from Russia (table 1). Moldova buys almost all its energy from Russia and Ukraine. In order to reduce this dependency, Moldova and Romania inaugurated the Ungheni-Iași natural gas interconnection project in August 2014. The 43 km pipeline between Moldova and Romania allows both imports and exports of natural

gas. However, gas imports from Romania are insignificant. Also, Moldova is trying to connect to the European electricity network until 2022. The increase of imports of cars and equipment denotes a change of preference towards more sophisticated goods. However, the changes are still happening relatively slow and are insignificant for such a long period of time.

The dynamics of Moldovan exports

The exports tendencies of the Republic of Moldova seem to emulate the ones we could observe regarding the imports. We observe the same periods of growth and reduction. A period of political and economic crisis in the late 1990s, followed by a period of modest but steady growth until 2008. The 2009 crisis, followed by a rising trend until 2014, which was succeeded by an increase in productivity within the last 4 years, with a slight slump in 2018 (figure 3).

Figure 3. The geographical representation of Moldovan exports, in percentages



Source: Author's own computations, based on data from the NBS Moldova

The stated desire of the Moldovan government to strengthen its ties with the EU has led to some progress towards a more open market economy. Moldova registered a higher than expected economic growth in 2017-2018, mainly due to increased consumption and export revenues. The signing of the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the EU, which connected the Moldovan products to the largest market in the world, contributed to the significant increase of Moldova's exports to the Member States of the Union.

In 2018, the EU was the beneficiary of just under 69% of Moldova's exports, a significant change from 20 years ago, when CIS countries were the destination of over 69% of Moldova's exports, with Russia covering the overwhelming majority of them.

Romania has become the main destination for Moldovan products and services with a share of about 40% of the total. In comparison, the importance of Russia as a partner has dropped drastically from almost 70% in 1997 to 39.25% in 2005 and to just under 11% in 2018. The change of direction comes as a clear reaction to the instability of the trade relations with the Russian Federation apart from the also deepening relations with the European Union. Among other countries to which Moldovan producers choose to export are Germany with almost 11% in 2018 and Italy, whose share increased from 3.26% in 1997 to 15.41% in 2018.

Table 2. The structure of Moldovan exports according to the Combined Nomenclature of Goods (Top 10)

	1997	2001	2005	2009	2013	2016	2017	2018
II. Vegetable products	8.61	13.93	12.08	20.57	20.88	25.9	27.32	25.38
XVI. Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers	5.23	5.39	4.23	10.85	13.01	14.55	16.07	20.86
XI. Textiles and textile articles	6.66	18.41	17.78	20.09	13.61	15.03	14.3	13.63
IV. Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	54.78	44.49	36.3	21.9	17.6	15.73	15.16	13.61
XX. Miscellaneous manufactured articles	1.43	0.71	1.59	3.02	4.9	6.55	6.37	6.65
VI. Products of the chemical or allied industries	1.53	1.44	1.43	4.49	6.91	4.42	4.07	3.76
III. Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	0.95	1.46	3.46	3.95	1.81	2.66	2.22	2.47
XIII. Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	1.38	2.42	1.72	2.01	2.39	2.17	1.74	2.08
XV. Base metals and articles of base metal	0.98	0.54	4.47	2.29	5.08	2.13	1.99	1.74
I. Live animals; animal products	8.63	3.23	1.58	0.71	1.53	1.96	1.94	1.68

Source: Author's computations, based on data from the NBS Moldova

Moldovan exports are composed mainly of agricultural products, which account for about one-third of the country's exports. The most exported products include: electric machines and equipment; sunflower seeds; fruits and nuts; soft drinks, spirits and vinegar; cereals; clothing and accessories; furniture, bed linens; knitted or crocheted clothing and accessories; vegetables; pharmaceutical products – all of which made up almost 75% of the total value of Moldovan exports in 2018 (table 2). This aspect can be both a positive and a negative. On the one hand, there is a strong specialization in the primary sector and the textile industry. Still, on the other hand, the reduced diversification makes the economy vulnerable to shocks and external factors.

Conclusions

The trade flows of the Republic of Moldova have undergone some substantial changes over the last two decades. The importance of foreign trade as an engine of economic growth is obviously on an upward trend. The main events that drove these changes were the accession to the WTO in 2001 and the signings of a series of trade agreements with the European Union and the CIS countries. This has allowed the gradual integration of the Republic of Moldova into the global and regional economic frameworks and has led to an increased trade with the rest of the world. At the same time, the dynamics of the Moldovan trade flows went through a process of reorientation from East to West. Moldovan consumers seem to prefer imports from China or the EU, mainly from Romania, Germany or Italy. Similarly, local producers have started to export more to the countries of the European Union while abandoning to some extent the traditional CIS market, amid the evolution of the political relations.

It should be noted, however, that Moldova's foreign trade increased more based on imports rather than exports, a phenomenon that is common for small and less developed economies. Among the weaknesses of the Moldovan economy are the poor organization and the poorly diversified structures of production, which increase the vulnerability of the entire system. Solving these deficiencies can be done by implementing good policies to streamline the relationship between the state and economic agents or increase spending to ensure development in infrastructure and also increase investment in education and disruptive type of businesses.

Acknowledgement

This work was co-financed from the European Social Fund through Operational Programme Human Capital 2014-2020, project number POCU/380/6/13/125015 "Development of entrepreneurial skills for doctoral students and postdoctoral researchers in the field of economic sciences"

Bibliography

1. Mera, V. (2016). Moldova - Analysis of trade competitiveness (English). Washington D.C. [Online] World Bank. Available from: <http://documents.worldbank.org/curated/en/266831467999092058/pdf/103995-REPF-Moldova-Trade-Study-Note-1-Analysis-of-Trade-Competitiveness.pdf>. [Accessed: 31st March 2020].
2. MIEPO. (2015). Programul de Dezvoltare Strategică a Organizației de Atragere a Investițiilor și Promovare a Exporturilor din Moldova (MIEPO) 2016-2020. Chișinău. [Online] Ministerul Economiei al Republicii Moldova. Available from: https://mei.gov.md/sites/default/files/miepo_pds_2016-2020.pdf. [Accessed: 3rd April 2020].

3. World Bank. (2016a). Is the DCFTA good for Moldova? : analysis of Moldova's trade options using a dynamic computable general equilibrium model (English). Washington D.C. [Online] World Bank Group. Available from: <http://documents.worldbank.org/curated/en/281771467991921364/pdf/103996-REPF-Moldova-Trade-Study-Note-2-Is-the-DCFTA-Good-for-Moldova.pdf>. [Accessed: 31st March 2020].
4. World Bank. (2016b). Competitiveness in Moldova's agricultural sector (English). Washington D.C. [Online] World Bank Group. Available from: <http://documents.worldbank.org/curated/en/778601467989461212/pdf/103997-REPF-Moldova-Trade-Study-Competitiveness-in-Moldovas-Agricultural-Sector.pdf>. [Accessed: 31st March 2020].
5. World Bank. (2016c). The performance of free economic zones in Moldova (English). Washington D.C. [Online] World Bank Group. Available from: <http://documents.worldbank.org/curated/en/697401467999092957/pdf/103998-REPF-Moldova-Trade-Study-Note-4-Performance-of-Free-Economic-Zones-in-Moldova.pdf>. [Accessed: 4th April 2020].
6. National Bureau of Statistics of the Republic of Moldova. Economic statistics – external trade. Available from: <https://statbank.statistica.md/pxweb/pxweb/en/40%20Statistica%20economica/?rxid=d9df8066-c4cb-4bf2-85e9-788916abd0e8>. [Accessed: 31st March 2020].