

Lobanov, Natalia

## Article

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SPOUDAI - Journal of Economics and Business

## Provided in Cooperation with:

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*Suggested Citation:* Lobanov, Natalia (2020) : Trends in the foreign trade of the Republic of Moldova in connection with the signing of new free trade agreements, SPOUDAI - Journal of Economics and Business, ISSN 2241-424X, University of Piraeus, Piraeus, Vol. 70, Iss. 3/4, pp. 66-82

This Version is available at:

<https://hdl.handle.net/10419/283668>

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## **Trends in the Foreign Trade of the Republic of Moldova In Connection with the Signing of New Free Trade Agreements**

Natalia Lobanov

*Professor in the Department of International Business at the Academy of Economic Studies of Moldova  
Email: lobanov.natalia@ase.md*

### **Abstract**

The purpose of this article is to present the evolution of Moldova's foreign trade and highlight the changes that took place in 2010-2018, including the changes following the signing of free trade agreements with the EU and Turkey. The article identifies the groups of goods in which the Republic of Moldova has revealed comparative advantage in trade with China, Egypt and EFTA countries in the context of free trade negotiations with these countries. The Comparative Advantage Index Bela Balassa RCA (export specialization index) was used for this purpose.

The study is based on the following research methods: study of documents, analysis and synthesis of content, data modeling in Excel. National and international statistical data, publications from specialized editions were used as informational support.

The research results show that free trade agreements contribute to the growth of the country's foreign trade, as well as to the development of economic and trade relations with new partners. At the same time, export flows are not stable in different markets. Agriculture and the agri-food sector remain the most important driving force of Moldova's foreign trade. There is a need for structural diversification of Moldovan exports, the creation of products related to the implementation of new knowledge, inventions and technologies.

**JEL Classification:** F14, F15

**Keywords:** Foreign trade, export, free trade agreement, the Balassa index, revealed comparative advantage

### **1. Introduction**

The Republic of Moldova, a country with a transition economy, is currently on the path of reforms and economic opening. Foreign trade is the most important form of participation of the Republic of Moldova in international economic relations. There are impediments and problems in this area, such as low competitiveness of products, a rather limited range of exported goods, lack of experience and logistics. At the same time there are successes, in particular the Deep and Comprehensive Free Trade Agreement between the Republic of Moldova and the EU. It aims to reform trade and trade policies of the Republic of Moldova in line with the Community *acquis* and has had a major impact on the national economy.

Relations are established with new trading partners, there is a gradual diversification of sales markets in Europe, Asia, the Middle East, etc.

Given the importance of foreign trade for the Republic of Moldova, it is necessary to systematically analyze, take into account the changes underway and propose measures to support and improve the situation in this area. This goal is pursued by the author, who structured the article in three parts.

The first part analyzes the evolution of foreign trade since the country's independence in 1991, and the main indicators of trade in 2010-2018 are calculated. The second part explains the changes in the structure of exports by groups of countries. In the third part the comparative advantages of the Republic of Moldova are identified on groups of products exported to the countries with which negotiations for signing free trade agreements are carried out. The conclusions section covers the main results of the study and provides recommendations for the development of foreign trade of the Republic of Moldova.

## **2. Evolution of the foreign trade of the Republic of Moldova: general aspects**

Moldova is a small country with a transition economy, located in Southeast Europe. Moldova's active participation in international trade began with the proclamation of independence in 1991. The state monopoly on foreign trade was abolished in 1992 and restrictions on exports and imports were gradually lifted.

Already in 1995, trade links were established with 90 states. The value volume of goods exports increased during this time from \$426 million to \$745 million, and import from \$624 million to \$840 million. (Blanovschi, 2010)

In 1992-2000, trade and economic cooperation agreements were signed with Austria, China, the Czech Republic, Slovakia, Bulgaria, Hungary, Latvia, Turkey, Lithuania, Poland, India, the USA, Switzerland, Estonia, Iran, Israel, Vietnam and other countries. In 1993-1998 the Republic of Moldova signed Free Trade Agreements with the Russian Federation (1993), Romania (1994), Belarus (1993), Turkmenistan (1993), Ukraine (1995), Armenia (1993), Uzbekistan (1995), Kazakhstan (1995), Kyrgyzstan (1995), Azerbaijan (1995), Georgia (1998). (Ministerul Economiei, 2002)

Gradually, the Republic of Moldova intensified and diversified relations with other states and organizations. In 2001, the Republic of Moldova became a member of the World Trade Organization (WTO). The Republic of Moldova is also a member of regional organizations: Commonwealth of Independent States (CIS), Central European Free Trade Agreement (CEFTA), Organization of Black Sea Economic Cooperation (BSEC), GUAM Organization for Democracy and Economic Development. There are several free trade agreements in force, including the following: the Treaty on a Free Trade Area between members of the Commonwealth of Independent States, signed in 2012, the Agreement on a Deep and Comprehensive Free Trade Area with the EU, signed in June 2014 and fully entered into force on 1 July 2016, the Free Trade Agreement between the Republic of Turkey and the Republic of Moldova, signed in 2014. Thus, Moldova has free access to trade with a number of countries with a total population of approximately 808 million people, who are potential consumers. Under these agreements, approximately 80% of Moldova's trade is carried out in the free trade regime.

The data from Table 1 demonstrate the evolution of the foreign trade of the Republic of Moldova in the period 2010-2018.

**Table 1:** Moldova's foreign trade indicators (billion USD)

	<b>Indicators</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
1	GDP	6.977	8.416	8.709	9.494	9.508	7.746	8.071	9.674	11.457
2	Export	1.541	2.217	2.162	2.428	2.340	1.967	2.045	2.425	2.707
3	Import	3.855	5.191	5.213	5.492	5.317	3.987	4.020	4.831	5.764
4	Volume of external commerce	5.397	7.408	7.375	7.921	7.656	5.954	6.066	7.257	8.471
5	Share of foreign trade in GDP	77.4%	88.0%	84.7%	83.4%	80.5%	76.9%	75.1%	75.0%	73.9%
6	Share of export in GDP	22.1%	26.3%	24.8%	25.6%	24.6%	25.4%	25.3%	25.1%	23.6%
7	Trade balance	-2.314	-2.974	-3.051	-3.064	-2.977	-2.020	-1.975	-2.406	-3.057
8	Degree of coverage of import with export	40.0%	42.7%	41.5%	44.2%	44.0%	49.3%	50.9%	50.2%	47.0%

Source: Calculated by the author according to data from National Bureau of Statistics of the Republic of Moldova

As the data in Table 1 show, the country's economy is open, with high indicators of the share of foreign trade in GDP. In 2010-2018, this ratio oscillates between 88% and 73.9%, and it has been decreasing. The share of exports in GDP remains relatively stable, ranging from 22.1% to 25.6%. The trade deficit is chronic, with the negative balance in 2018 reaching - \$3.057 billion. The degree of coverage of imports with exports ranges between 40.0% and 50.9%.

In the structure of exports, the top 5 export categories were in 2010 as follows: manufactured articles (23.3%), food and live animals (25.1%), machinery and transport equipment (12.5%), inedible raw materials (9.4%), beverages and tobacco (13.3%). The main export positions in 2018 were food and live animals (22.65%), manufactured articles (22.62%), machinery and transport equipment (21.66%), inedible raw materials (10.34%), beverages and tobacco (8.09%).

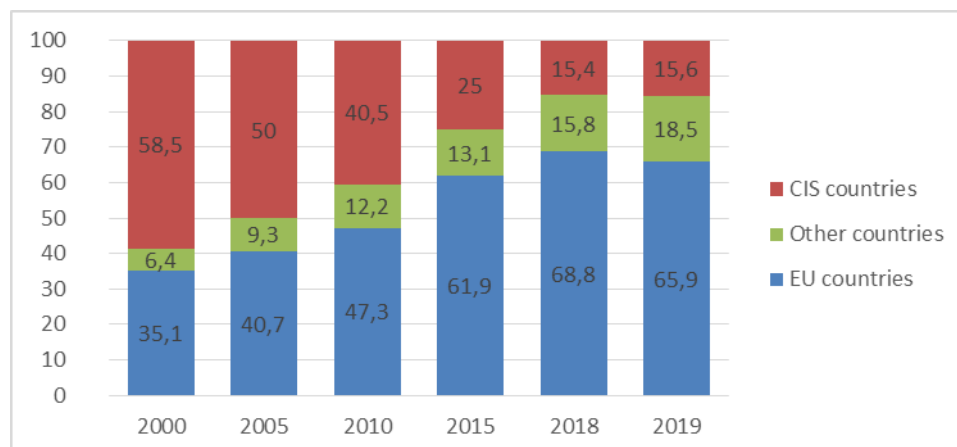
According to the National Bureau of Statistics of the Republic of Moldova (NBS, 2010, 2018) in the structure of imports, the top 5 import categories in 2010 were as follows: transport machinery and equipment (20.9%), manufactured goods classified mainly by raw material (19.2%), mineral fuels (20.5%), chemicals (13.5%), food and live animals (10.6%). In 2018 the situation was as follows: transport machinery and equipment (24.1%), manufactured goods classified mainly by raw material (19.8%), mineral fuels (17.2%), chemicals (14.1%), various manufactured articles (10.2%).

We note that over the course of eight years, there has been no major change in the structure of both exports and imports. The groups of goods are the same on the first five export categories and the first four import categories; there are only changes in their share.

### 3. Export structure of the Republic of Moldova per country groups

Over the past 20 years, significant changes have taken place in the geographic orientation of Moldova's exports. The share of the CIS countries as an export market decreased from 58.5% in 2000 to 15.6% in 2019, while the share of the EU countries increased from 35.1% to 65.9%. The share of other countries increased over the same period from 6.4% to 18.5%. (Fig. 1)

**Figure 1:** The export structure per country groups



Source: Developed by the author according to data from National Bureau of Statistics of the Republic of Moldova

As early as 1994, the CIS members signed a document providing for the creation of a free trade area within the Commonwealth of Independent States. However, the document did not enter into force because it was not ratified by the CIS members. Meanwhile, Moldova has signed a number of bilateral free trade agreements with CIS member states, which, however, provided for multiple exceptions to the free trade regime. A new Agreement on the Free Trade Area of the CIS was signed in St. Petersburg on 18 October 2011, was ratified by the Parliament of the Republic of Moldova on 27 September 2012 and entered into force on 9 December 2012. (Ministerul Afacerilor Externe și Integrării Europene, 2011)

The signatory countries to the CIS Free Trade Area Agreement are the following: Armenia, Belarus, Kazakhstan, Kyrgyzstan, the Republic of Moldova, the Russian Federation, Tajikistan and Uzbekistan.

This agreement provides for the maintenance of a zero percent customs duty on more than 10000 groups of goods, the reduction and phasing out of duties for products that are exempt from the free trade procedure, as well as the non-application of new restrictions on trade. In this context, the parties agreed not to impose quantitative restrictions on the import and export of goods. The Agreement also provides for mechanisms of settling of trade disputes within the framework of the WTO platform and within the limits of the mechanisms and procedures agreed by the parties.

In order to benefit from the preferential free trade procedure within the CIS, domestic exporters must comply with the rules of origin of goods (thus the products intended for export must meet the criteria for sufficient processing that are established for each item). Their establishment takes place on the basis of special rules for determining the country of origin, while goods that do not meet the conditions of origin will be exported to CIS countries without benefiting from the preferential regime, i.e. the customs duties in force will be applied to them. (Invest Moldova, 2020)

Strong trade relations within the CIS reflect, first and foremost, close historical relations, especially strong economic integration and the specialization of all Soviet republics. Moreover, trade is supported by geographical proximity and low or non-existent language barriers. It could also be argued that non-trade barriers are lower and quality standards are less demanding than those required by the EU. However, the share of exports to the CIS has been declining, reflecting a number of factors such as the increased role of trade with the EU, but also increased trade with other countries such as Turkey and China.

The main trading partners of the Republic of Moldova within the CIS countries are Russia, Ukraine and Belarus. The Russian Federation, the most important trading partner among the CIS countries, attracts 11.1% of Moldova's foreign trade volume. The decrease in bilateral trade with this country has influenced the general trade with the CIS countries.

Starting with 2005, the EU became the main trading partner of the Republic of Moldova, according to the value of trade.

As of January 1, 2006, the Republic of Moldova benefits from the Generalized System of Preferences Plus (GSP +). Based on this, 7200 products originating from the Republic of Moldova benefited from free access to the EU market, being exempted from paying customs duties.

From March 1, 2008, the Republic of Moldova became beneficiary of the EU's Autonomous Trade Preferences System, which allowed free access to all products originating in the Republic of Moldova, except for certain agricultural products, for which limited concessions are granted (either in the form of tax exemptions within the limits of tariff quotas, or by reduction of customs duties).

On June 27, 2014, the Republic of Moldova signed the Association Agreement with the European Union. This agreement also contains the provisions on the Deep and Comprehensive Free Trade Area (DCFTA) between the Republic of Moldova and the European Union. It provides for the gradual liberalization of all industrial products and many agricultural and animal products, the removal of barriers to trade in services and better access for companies to those markets. Trade is no longer decoupled from domestic policies on procurement, competition, intellectual property or sustainable development. (Ministry of Economy and Infrastructure, 2020)

It should be noted that the Association Agreement between the EU and the Republic of Moldova has resulted in deep and comprehensive free trade between the two partners. Moldova enjoys reduced or zero export tariffs to the EU, as well as a large service market and improved conditions for attracting foreign investment. The main Moldovan products exported to the EU are the following: machines and devices, including electrical cables; textiles, including clothing, knitwear and footwear; agricultural products and drinks, including fruits, nuts, corn, wheat, sunflower seeds, oils; iron and steel.

The data show that 1672 Moldovan companies exported to the EU in 2018, thus representing over 70% of the total number of exporting companies. Romania is in the top of the countries in which the domestic companies carry out export activities (1066 companies), followed by Germany (258), Italy (253), Poland (190) and Bulgaria (130). (Jaman, 2019)

After the signing of the Free Trade Agreement with the EU, the economic agents from the Republic of Moldova started to benefit from annual tax exemptions for the tariff quotas for the export of certain types of goods. Thus, starting with September 1, 2014, exporters of fruits and vegetables such as apples, plums, table grapes, tomatoes and garlic, but also grape juice have access to the European market on a duty-free basis, i.e. without paying customs duties.

At the same time, the official data reveal that the volumes were fully capitalized in 2018 only in the case of one type of goods out of the six – table grapes – 10000 tons out of 10000 tons arrived on the EU market, without taxes. For fresh plums, the quota of 10000 tons was capitalized in proportion of 99% (9881 tons). (European Commission Moldova | Brussels 2019)

Starting with 2020, Moldovan farmers can export larger quantities of grapes, plums and cherries to the EU without paying customs duties. Farmers will benefit from additional preferential quotas, with a 50% increase over the current volume for plums, a double increase for grapes and a new duty-free quota for cherries of 1500 tonnes.

Delivery volumes also increased for the export of wheat, barley, maize, sugar and ethyl alcohol to the markets of EU Member States. At the same time, the Republic of Moldova will gradually increase the volume of tariff quotas for goods originating in the EU in the case of pork and poultry, dairy products and sugar.

This agreement between the parties demonstrates the EU's commitment to Moldovan citizens and businesses, as well as the benefits offered by DCFTA, in terms of stimulating trade and economic growth.

The increase of tariff quotas will increase the export of Moldovan products on the European Union market and will offer the possibility for Moldovan companies to expand their access market for products that can be exported, which implies financial advantages, experience, increased competitiveness and application of the development potential of domestic enterprises.

Due to the implementation of the Deep and Comprehensive Free Trade Areas with the EU, about 70% of Moldovan goods are currently exported to the European Union market. However, the Republic of Moldova has some backlogs on several issues, such as food safety, lack of laboratories that would certify products, primarily of animal origin. (AGORA, 2020)

Turkey is another trading partner with which Moldova has signed a free trade agreement. This Agreement, signed on September 11, 2014, aims to promote mutual trade, develop economic relations and create the conditions for further investment, especially for the development of mixed investments in the two states.

According to the provisions of the Agreement, the Republic of Moldova and Turkey will eliminate 99.5% and 100% respectively of the taxes with commercial value. The agreement entails a gradual liberalization for the most sensitive sectors of the economy, while also providing a range of trade protection instruments in line with international practices.

Starting on 1 November 2016, all import duties, as well as any charges with equivalent effect, applied to industrial products have been abolished, except for certain industrial goods originating in Turkey, such as footwear, furniture, plastics, etc., for which The Republic of Moldova has requested the establishment of transition periods from 3 to 5 years. (Ministerul Economiei și Infrastructurii, 2016)

Following the signing of the Free Trade Agreement between the Republic of Moldova and Turkey, foreign trade has increased, both in terms of imports and exports. According to the National Bureau of Statistics, the volume of foreign trade of the Republic of Moldova with the Republic of Turkey amounted to \$447.529 million in 2018 (+ 9.6% compared to 2017).

#### **4. Revealed comparative advantage of the Republic of Moldova in trade with China, Egypt, EFTA countries in the context of free trade negotiations**

Currently, Moldova is negotiating the signing of bilateral free trade agreements with China, Egypt and the EFTA countries (Iceland, Liechtenstein, Norway, Switzerland). This will further expand access to many sales markets and provide new export opportunities for Moldovan producers.

The identification of commodity groups with comparative advantages in the markets of countries with which negotiations on the creation of free trade zones are being conducted is of interest from the point of view of assessing export flows, promoting goods, supporting producers/exporters.

To quantify the comparative advantages, we will use the Index of comparative advantage Bela Balassa RCA. (Balassa, 1965)

The index is calculated by the formula:

$$RCA_{ij} = \frac{X_{ij} / X_{it}}{X_{wj} / X_{wt}}$$

where  $X_{ij}$  – export of commodity  $j$  from country  $i$ ,  $X_{it}$  – total export from country  $i$ ,  $X_{wj}$  – world export of commodity  $j$ ,  $X_{wt}$  – total world export.

If the coefficient is greater than 1, it means that the industry is export-specialized. The higher the value of the coefficient, the greater the comparative advantage that the country has in this commodity (group of products).

When calculated for specific markets or partners, it is often referred to as the Export Specialization index.

The calculations were made on the basis of statistical data of the International Trade Center (ITC) on the commodity structure of exports of the Republic of Moldova the level of 2 signs of the classification of the Harmonized Commodity Description and Coding System (HS). (International Trade Statistics, 2020)

##### *China*

The volume of foreign trade (without taking into account the commercial activity of economic agents from the eastern districts) of the Republic of Moldova with China in 2018 was equal to \$619.064 million (+18% compared to 2017). Compared to 2010, there is a 92% increase in foreign trade; Moldova's exports to China increased 8-fold.

China's share in Moldova's foreign trade is 7.3%. The trade balance with China is clearly in deficit. In 2018, the deficit was \$581.503 million. (National Bureau of Statistics of the Republic of Moldova, 2019)

According to statistical data, there are 85 companies with Chinese capital in Moldova.

Based on the assessment of the study, as a result of the signing of the agreement, Moldova's exports to China will increase by 39.85%, and the Gross Domestic Product of the Republic of Moldova will increase by 0.42%. (IPN, 2017)

Wines and grapes, optical instruments and furniture account for the largest share of Moldovan exports to the People's Republic of China. Some Moldovan wine producers have warehouses there so they can work easier with local dealers. China was, in 2017, the main market (in 2018 the second, after Romania) for bottled Moldovan wine, being declared by Wine of Moldova as a strategic destination for Moldovan wine. (Cibotaru, 2018)



At the same time, our country ranks 13th in the export of wines to China. (Camera de Comerț și Industrie a Republicii Moldova, 2019).

Chemicals and metal articles predominate in the structure of imports.

Analyzing the data from Table 2, we find that the Republic of Moldova has the highest revealed comparative advantage in the following groups of goods: 22 Beverages, spirits and vinegar, 63 Other made-up textile articles; sets; worn clothing and worn textile articles; rags and 94 Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings. The Balassa index is higher than 1 since 2015 also in the case of sporadically delivered products, such as 07 Edible vegetables and certain roots and tubers, 20 Preparations of vegetables, fruit, nuts or other parts of plants, 57 Carpets and other textiles floor coverings, 65 Headgear and parts thereof, 79 Zinc and articles thereof.

**Table 2:** The Balassa index by groups of goods exported to China

Product code	Product label	2001	2005	2010	2015	2016	2017	2018
07	Edible vegetables and certain roots and tubers	0	0	0	0	0	19.55	0
20	Preparations of vegetables, fruit, nuts or other parts of plants	0	0	1.31	0	0	1.68	1.38
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	0	0	0	0	1.63	0.87	0.03
22	Beverages, spirits and vinegar	0	0	773.84	288.60	228.03	297.39	261.07
38	Miscellaneous chemical products	0	0	0	1.61	0.11	0.16	0.01
57	Carpets and other textile floor coverings	0	0	0	2.7	0	12.34	0
61	Articles of apparel and clothing accessories, knitted or crocheted	0	0	0	8.6	0.74	0.35	0.2
62	Articles of apparel and clothing accessories, not knitted or crocheted	0	0	0	3.14	0.46	0.03	0
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	0	0	9.26	200.67	42.02	36.07	55.93
65	Headgear and parts thereof	0	0	0	18.0	0	0	0
79	Zinc and articles thereof	0	0	0	3.13	0	0	0
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or	0	12.77	0.51	0	2.65	0.03	0.01

	surgical instruments and apparatus							
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings	0	0	0	56.01	43.03	37.90	88.10

Source: Calculated by the author based on International Trade Center (ITC) data.

At the same time, the calculations show that the Republic of Moldova lost revealed comparative advantage on 5 groups of goods: 15 Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes, 38 Miscellaneous chemical products, 61 Articles of apparel and clothing accessories, knitted or crocheted, 62 Articles of apparel and clothing accessories, not knitted or crocheted, 90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus.

### *Egypt*

The share of trade with Egypt does not exceed 1% in the foreign trade of the Republic of Moldova.

In 2018 it reached \$9.739 million (minus 7.9% compared to 2017). There is a certain decrease, as the highest value was reached in 2014 with \$21.692 million. Exports in 2018 amounted to \$1.825 million, while imports amounted to \$7.914 million. Trade deficit was \$6.089 million.

According to the feasibility study prepared by the experts of the German Agency for International Cooperation (GIZ), the signing of the Agreement with Egypt is an advantage for Moldova, as it will be possible to achieve full liberalization for almost all its products with export potential, except for alcoholic beverages and tobacco products. Access to the Egyptian market is quite complicated precisely because of the taxes which are up to 40%, especially for textiles. (IPN, 2017)

Analyzing the export to Egypt, we find that the Republic of Moldova has the largest revealed comparative advantage in the following groups of goods: 01 Live animals, 02 Meat and edible meat offal, 08 Edible fruit and nuts; peel of citrus fruit or melons, 10 Cereals, 90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus (except for 2010).

In certain periods the Balassa index is higher than 1 in the following product groups: 12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants, 30 Pharmaceutical products, 39 Plastics and articles thereof.

### *European Free Trade Association (EFTA) countries*

The Republic of Moldova is one of the partners with which the EFTA States cooperate on the basis of the Joint Declaration on Cooperation, signed on 24 November 2017 in Geneva, Switzerland. This Joint Declaration addresses cooperation on trade-related issues, such as the exchange of information on trade in goods and services, origin-related issues, technical barriers to trade, intellectual property rights, public procurement markets, competition, trade and sustainable development. In addition, the Joint Declaration on Cooperation aims to promote trade and cooperation in the field of private sector investment. It also provides that the EFTA States and the Republic of Moldova examine together the actions to be taken in order to establish a free trade area among them when the conditions allow for it.

**Table 3:** The Balassa index by groups of goods exported to Egypt

Product code	Product label	2001	2005	2010	2015	2016	2017	2018
01	Live animals	0	256.52	0	367.41	199.85	379.51	0
02	Meat and edible meat offal	0	0	0	0	1.31	6.26	11.3
08	Edible fruit and nuts; peel of citrus fruit or melons	0	14.67	0	8.41	2.04	0	0
10	Cereals	0	0	13.2	0	0	0	5.56
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants	0	0	0	0.41	0.15	0.09	2.82
23	Residues and waste from the food industries; prepared animal fodder	0	0.09	0	0.13	26.30	0.25	0
30	Pharmaceutical products	0	0	0	1.85	0	0	0
39	Plastics and articles thereof	0	0	0	0.43	0.20	0.91	1.21
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus	0	9.02	0.16	0	1.02	0	22.56

Source: Calculated by the author based on International Trade Center (ITC) data.

The current trade exchanges between Switzerland, Norway and the Republic of Moldova take place in a unilateral preferential regime offered under the Generalized Scheme of Preferences (GSP), while the trade regime with Iceland is based on Most-Favored-Nation treatment as regards duties under the WTO agreements. Both regimes are characterized by high taxes for most agricultural products. The potential agreement with EFTA countries will give Moldovan producers access to their market with some exceptions for agricultural products, for which EFTA does not grant concessions or their liberalization may be possible only to a very limited extent. For the Republic of Moldova, EFTA is a potential market of about 14.3 million consumers, with a total GDP of about €1,183 billion euros, with a high purchasing power.

According to official data of the European Free Trade Association, the volume of trade of the Republic of Moldova with the EFTA countries was €55 million in 2018, which is 19.6% higher than in 2017 (€46 million) and 3 times greater than in 2010 (€18 million), (EFTA, 2010, 2018). In 2018, the exports of EFTA countries to the Republic of Moldova amounted to €26 million (+ 24% compared to 2017), of which: HS 87 Vehicles (not railway), 6.7 million; HS 30 Pharmaceutical products, 6.1 million; HS 85 Electrical machinery, 3.5 million; HS 03 Fish, crustaceans, 2.5 million; HS 84 Machinery, mechanical appliances, 2.2 million; Others, 4.5 million.

Total EFTA imports from Moldova reached €29 million in 2018, (16% more than in 2017), including: HS 62 Woven apparel or clothing accessories, 8.2 million; HS 08 Fruit and nuts, 5.9 million; HS 85 Electrical machinery, 5.1 million; HS 61 Knitted apparel or clothing accessories, 2.5 million; HS 94 Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated nameplates and the like; prefabricated buildings, 2.5 million; Others, 4.9 million. (EFTA, 2010, 2018)

Examining each EFTA member country separately, we find that Norway's main imports from the Republic of Moldova are furniture, bed linen, mattresses, woven clothing accessories, fruits and nuts, footwear. Switzerland imports from Moldova mainly products such as woven clothing, fruits and nuts, electric cars, knitted clothing and footwear. The main categories of products imported by Iceland from Moldova are woven clothing and accessories, fruits and nuts, vehicles. Liechtenstein's imports and exports to Moldova are included in the figures for Switzerland due to the customs union between Switzerland and Liechtenstein.

Analyzing the export to *Switzerland*, we find that the Republic of Moldova has the largest revealed comparative advantage in the following groups of goods: 08 Edible fruit and nuts; peel of citrus fruit or melons, 10 Cereals, 12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants, 23 Residues and waste from the food industries; prepared animal fodder, 85 Electrical machinery and equipment and parts thereof; 90 Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus.

The Balassa index became less than 1 on commodity group 62 Meat and edible meat offal.

Analyzing the export to *Norway*, we find that the Republic of Moldova has the largest Revealed comparative advantage, since 2015, in the following groups of goods: 08 Edible fruit and nuts; peel of citrus fruit or melons, 11 Products of the milling industry; malt; starches; inulin; wheat gluten, 19 Preparations of cereals, flour, starch or milk; pastrycooks' products, 20 Preparations of vegetables, fruit, nuts or other parts of plants, 22 Preparations of vegetables, fruit, nuts or other parts of plants, 62 Articles of apparel and clothing accessories, not knitted or crocheted (excepted for 2015), 63 Other made-up textile articles; sets; worn clothing and worn textile articles; rags.

The Balassa index is also higher than 1 per product group in the case of certain sporadic deliveries: 04 Dairy produces; birds' eggs; natural honey; edible products of animal origin, not elsewhere, 40 Rubber and articles thereof, 42 Articles of leather; saddlery and harness; travel goods, handbags and similar containers, 57 Carpets and other textile floor coverings.

Republic of Moldova lost revealed comparative advantage in group 61 Articles of apparel and clothing accessories, knitted or crocheted.

Trade with Iceland amounted to \$7.209 million in 2018 (minus 89.7% compared to 2017). While imports are registered annually (\$7.203 million in 2018), exports were registered only in four years within the last ten years, namely in 2008, 2016, 2017, 2018. It is worth mentioning that only 5 product groups were exported, while the Balassa index is high.

**Table 4:** The Balassa index by groups of goods exported to Switzerland

Product code	Product tabel	2001	2005	2010	2015	2016	2017	2018
08	Edible fruit and nuts; peel of citrus fruit or melons	0	2.45	13.93	16.32	16.04	9.40	11.14
10	Cereals	132.05	738.34	195.82	174.53	229.80	361.66	379.07
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants	0	0	429.05	267.08	466.24	38.17	77.34
23	Residues and waste from the food industries; prepared animal fodder	315.97	29.75	0	190.01	91.40	126.45	119.37
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	0	0	0	0	0	0	1.21
62	Articles of apparel and clothing accessories, not knitted or crocheted	0	3.03	1.77	1.07	1.06	0.78	0.58
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders	0	0.05	0.02	0	0	2.42	2.03
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus	0	0	0	1.91	1.70	2.49	1.63
91	Clocks and watches and parts thereof	1.92	1.49	0.13	0.78	0.52	1.17	1.76

Source: Calculated by the author based on International Trade Center (ITC) data.

**Table 5:** The Balassa index by groups of goods exported to Norway

Product code	Product label	2001	2005	2010	2015	2016	2017	2018
04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	0	0	0	99.83	0	0	0
07	Edible vegetables and certain roots and tubers	0	0	0	0	0.34	2.71	0
08	Edible fruit and nuts; peel of citrus fruit or melons	0	0	0	45.61	77.99	66.70	58.02
11	Products of the milling industry; malt; starches; inulin; wheat gluten	0	0	0	1.85	2.98	7.92	2.46
17	Sugars and sugar confectionery	0	0	0	0	0.71	3.71	3.53
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	0	0	0	2.26	4.72	15.52	8.08
20	Preparations of vegetables, fruit, nuts or other parts of plants	0	0	0	0	6.55	8.28	2.93
22	Beverages, spirits and vinegar	7.96	0	0	0	1.86	4.19	1.91
39	Plastics and articles thereof	0	32.44	3.96	0.16	0.68	2.44	2.24
40	Rubber and articles thereof	0	0	0	0	0	0	21.47
42	Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut	0	0	105.29	0	0	1.27	0
57	Carpets and other textile floor coverings	0	0	0	0	0	3.93	0
61	Articles of apparel and clothing accessories, knitted or crocheted	0	0	7.77	16.02	0.93	0	0.53
62	Articles of apparel and clothing accessories, not knitted or crocheted	0	0	22.33	0.53	1.74	1.24	2.80
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	0	0	23.54	2.72	7.40	10.80	15.47

Source: Calculated by the author based on International Trade Center (ITC) data.

**Table 6:** The Balassa index by groups of goods exported to Iceland

Product code	Product label	2001	2005	2010	2015	2016	2017	2018
22	Beverages, spirits and vinegar	0	0	0	0	35.72	0	0
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0	0	0	0	0	6.95	0
39	Plastics and articles thereof	0	0	0	0	0	8.70	27.52
70	Glass and glassware	0	0	0	0	144.21	0	0
95	Toys, games and sports requisites; parts and accessories thereof	0	0	0	0	0	0	24.32

Source: Calculated by the author based on International Trade Center (ITC) data.

The development of trade relations with partners from different countries is particularly important for the Republic of Moldova. It offers many opportunities for the diversification of sales and supply markets, cooperation of small and medium enterprises with new partners, promotion of domestic products.

Foreign trade does not only expand the borders of domestic trade, but it is also an additional source of capital increase, it influences the domestic economy, production, social relations, etc. Commercial transactions are an incentive for the intensification of the national economy and the development of the national business. Moldova ranked 47<sup>th</sup> out of 190 countries in the Doing Business 2019 ranking, which evaluates the ease of doing business. At the same time, Moldova maintained its position in the category of international trade – 35<sup>th</sup> place. The cost of preparation of export documents is \$44 (it lasts 48 hours), and the cost of border and customs control is another \$76 (lasting 3 hours). On import, the documents' preparation costs \$41 and takes 2 hours, with another \$83 for border and customs control (and 4 hours). (DOING BUSINESS, 2019)

Foreign trade also creates opportunities for the exchange of achievements in technical and scientific progress and enhances the orientation towards the knowledge economy. In this context we note that the European Bank for Reconstruction and Development (EBRD) has constructed the EBRD Knowledge Economy Index to measure KE development, spanning 46 economies – 38 where the EBRD invests and eight comparators. According to the EBRD 2018 Knowledge Economy Index, from the point of view of the knowledge and innovation economy, the Republic of Moldova ranks 26<sup>th</sup> out of 38 (with a score of 4.32). Pillar score: Institutions for innovation – 5.03, Skills for innovation – 4.57, Innovation system – 2.77, ICT infrastructure - 4.95. These modest results reflect the real capacity of the Republic of Moldova to compete effectively in the regional and global market. But each exporter can capitalize on its resources and production potential, gradually gaining experience in trade with partners in other countries. (European Bank for Reconstruction and Development, 2019.)

## **5. Conclusions**

Following the research of trends in foreign trade of the Republic of Moldova, including with the countries with which free trade agreements are being negotiated, we can draw the following conclusions:

1. There are positive trends in the evolution of foreign trade of the Republic of Moldova. Free trade agreements contribute to the growth of the country's exports and the development of economic and trade relations with new partners. At the same time, export flows are not stable in different markets. Agriculture and the agro-food sector are an important driving factor in Moldova's international trade and export competitiveness. In the meantime, the indicators of the agricultural sector in Moldova are heterogeneous and not always predictable: its growth is slow and highly variable, mainly due to the vulnerability of this sector to meteorological events (drought, spring frosts, etc.), which is especially acute in recent years.

At the same time, there are problems such as insufficient knowledge of the market situation, opportunities to enter and consolidate positions in new markets, lack of logistics structures and experience with international competition.

2. Since the Republic of Moldova is a small open economy, the country's economic growth prospects largely depend on its export potential.

To increase exports, it is necessary to carefully study the consumer market in each partner country, including those with which negotiations are underway on the creation of free trade zones and analyze the demand and possible supply. At the same time, a structural diversification of Moldovan exports is needed, with an implementation not only of the supply of products related to agriculture, but also other industries in which Moldova has the potential for development and revealed comparative advantage, such as light industry, automotive sector. Today, Moldovan products are not competitive enough and do not always meet the requirements of foreign markets.

An export-oriented development model would allow for the full exploitation of both the country's natural advantages and the new opportunities offered by the bilateral and multilateral trade agreements to which the Republic of Moldova is a member.

3. In order to further develop production and foreign trade, it is necessary to attract investment in export-oriented sectors of the national economy and support the innovative business associated with the implementation of new knowledge, inventions, technologies. To support activities capable of generating innovation, knowledge transfer, high added value, we consider it appropriate to develop products with a high share of knowledge, use consulting and outsourcing services, which have a significant upward trend in the development of the knowledge-based economy.

4. Supporting the exporters is necessary. Various methods of supporting exporters are used in world practice. The combination of different elements is quite flexible, which gives suppleness to the whole system, which reacts and changes depending on the economic situation, the role of the state, the conjuncture of world markets, etc. Of course, the dynamism and character of supporting export activity in different countries differs depending on the degree of involvement in the international division of labor, the structure of the economy, participation in international organizations and other factors. The state is the one that organizes the establishment of the export strategy, contributes to the promotion and realization of its basic provisions through the instruments of economic policy, and especially, the means of stimulating the national exporters. In the Republic of Moldova, it would be beneficial to strengthen the support of domestic exporters by providing the necessary



information, advice, legal and other assistance in conducting transactions with external partners.

## **Acknowledgements**

The author expresses her gratitude for the financing of the article from the resources of the Project 20.800020807.42 “Setting up the innovative business in the context of regional competition”, within the State Program.

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