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Streamlining the Foreign Trade Policy of the Republic of Moldova

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Abstract. The Republic of Moldova faced two shocks in 2020: the drought, which led to a decrease in crop production by more than a third, and the spread of the virus that causes severe acute respiratory syndrome (SARSCoV-2), which led to lockdowns, temporary suspension of the activities of enterprises and organizations. In this situation, the main task facing the state is sustainable economic growth. Thus, the improvement of foreign trade policy is relevant, since the development of economic relations with other countries, an increase in the export potential of the national economy will ensure stable economic growth. The primary goal of this study is to improve the foreign trade policy of the Republic of Moldova. The main methods used are statistical research method, a systematic approach, an abstract-logical research method, etc. As a result of the study, the main and specific objectives were developed that need to be included in government programs and strategies aimed at promoting exports, developing trade and economic relationship.

Keywords: foreign trade, export, import, trade policy, e-commerce.

Совершенствование внешнеторговой политики Республики Молдова

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Аннотация. Республика Молдова столкнулась в 2020 году с двумя потрясениями: засуха, которая привела к снижению продукции растениеводства более чем на треть и распространение вируса, вызывающего тяжелый острый респираторный синдром (SARSCoV-2) повлекший к локдаунам, временной остановке деятельности предприятий и организаций. В создавшейся ситуации, основной задачей, которая стоит перед государством это устойчивый экономический рост. Таким образом, совершенствование внешнеторговой политики актуально, так как развитие экономических отношений с другими странами, повышение экспортного потенциала национальной экономики, обеспечат стабильный рост экономики. Основная цель данного исследования — это совершенствование внешнеторговой политики Республики Молдова. Основные используемые методы — это статистический метод исследования,



системный подход, абстрактно-логический метод исследования и др. В результате проведенного исследования были разработаны основные и специфические задачи, которые необходимо включить в государственные программы и стратегии, направленные на продвижение экспорта, развития торгово-экономических отношений.

Ключевые слова: внешняя торговля, экспорт, импорт, торговая политика, электронная коммерция.

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Introduction

Coronavirus has damaged not only public health but also the national economy. Periodic lockdowns in different countries contributed to the ruin and bankruptcy of some small businesses, especially in tourism, hotel and restaurant business. Even industrial enterprises and organizations were forced to temporarily suspend their activities or start working from home. Any shocks in the economy are reflected in trade, both internal and external, therefore it becomes urgent to improve trade policy. The main goal of this study is to develop the main objectives and actions that need to be included in government programs and strategies aimed at promoting exports, developing trade and economic relations.

Trends of foreign trade activities of the Republic of Moldova

The analysis of the dynamics of exports from the Republic of Moldova showed that for the analysed period 2010-2020 there was a slight decrease in 2012 and a significant one in the period 2014-2015 and in 2020

(Figure 1). Moldova is an agrarian country, and one of the main export items is food and agricultural products. Thus, one of the reasons for the negative trend in exports is natural disasters (drought, hail, etc.), which led, first of all, to a decrease in the volume of agricultural products. Volume of plant production decreased significantly in 2012, 2015, 2020, respectively by 32%, 22%, 35.9%.

Another reason is the decision to reorient export flows to the European market without taking into account the fact that Moldovan goods do not meet European standards. For example, the European consumer prefers all fruits to be the same size, although nature produces fruits of different sizes. European breeders and farmers take this factor into account, and Moldovan crop production has not yet been reoriented. In 2014, an Association Agreement was signed between the Republic of Moldova and the European Union, as a result of which many Moldovan producers were forced to sharply redirect trade flows from east to west (Figure 2).

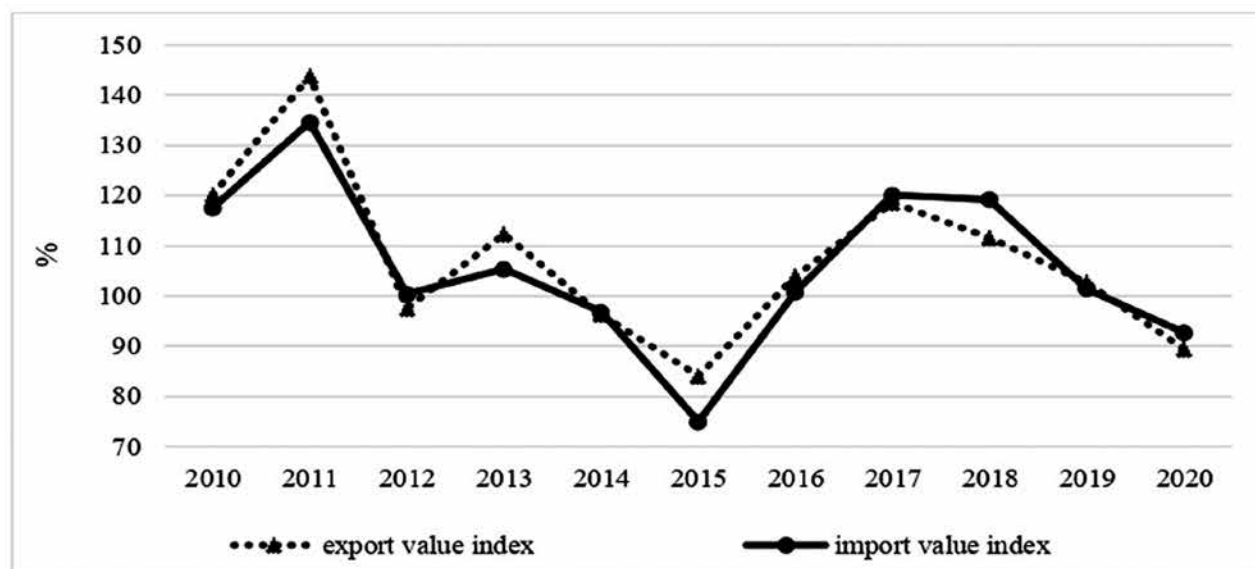


Figure 1. Export and import value indices (previous year = 100%)

Source: National Bureau of Statistics of the Republic of Moldova, data as of April 26, 2021

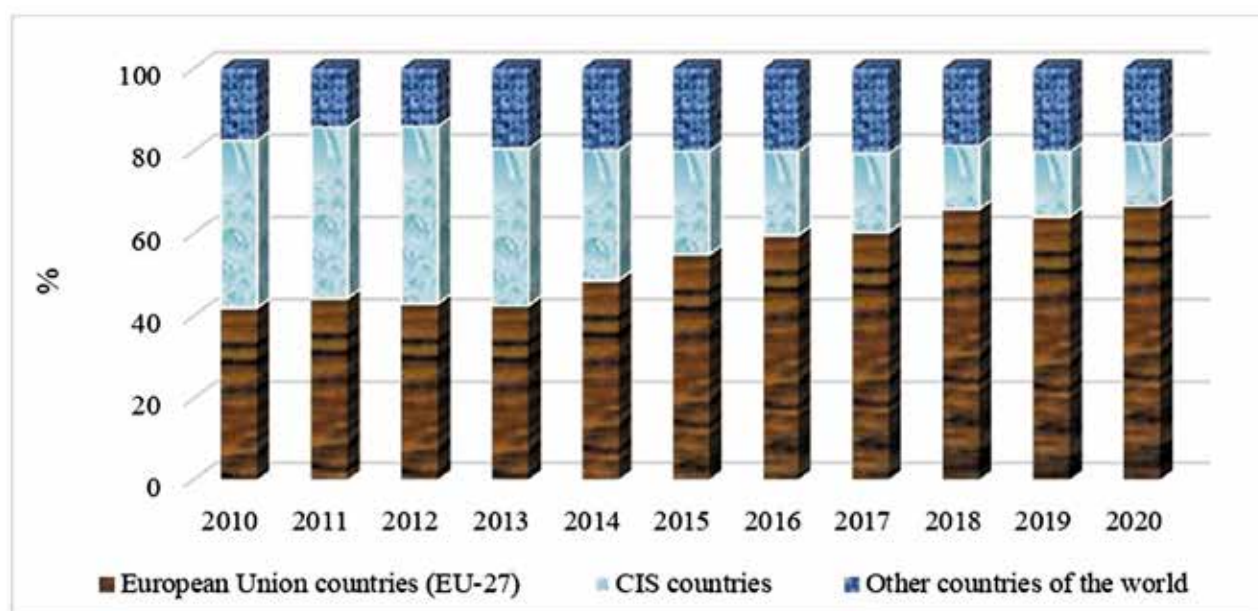


Figure 2. The structure of exports by groups of countries

Source: National Bureau of Statistics of the Republic of Moldova, data as of April 26, 2021

Since there was a sanctions war between the Russian Federation and the European Union at the time of signing this agreement, therefore Moldova also came under sanctions.

The decline in exports in 2020 was caused not only by the drought, but also by the

COVID-19 pandemic, which caused a recession not only in the economy of the Republic of Moldova, but also in the economies of other countries of the world.

Import trends are similar to export trends. A decrease in imports was recorded in 2014,

2015 and 2020, respectively by 3.2%, 25.0% and 7.3%. "In 2020, in the top countries of origin of imported goods were: China (11.9% of total imports), Romania (11.7%), Russian Federation (11.1%), Ukraine (9.7%), Germany (8.4%), Turkey (7.2%), Italy (6.4%), Poland (4.0%), France (2.2%), Belarus (2.1%), etc." [7].

According to the National Bureau of Statistics of the Republic of Moldova "in 2020, in the structure of exports six sections of goods of the Standard International Trade Classification Revision 4 (SITC Rev.4) held 90.1% of total exports (Figure 3)" [7].

The analysis of the structure of the export in the division of the goods sections showed that in the last years the share of

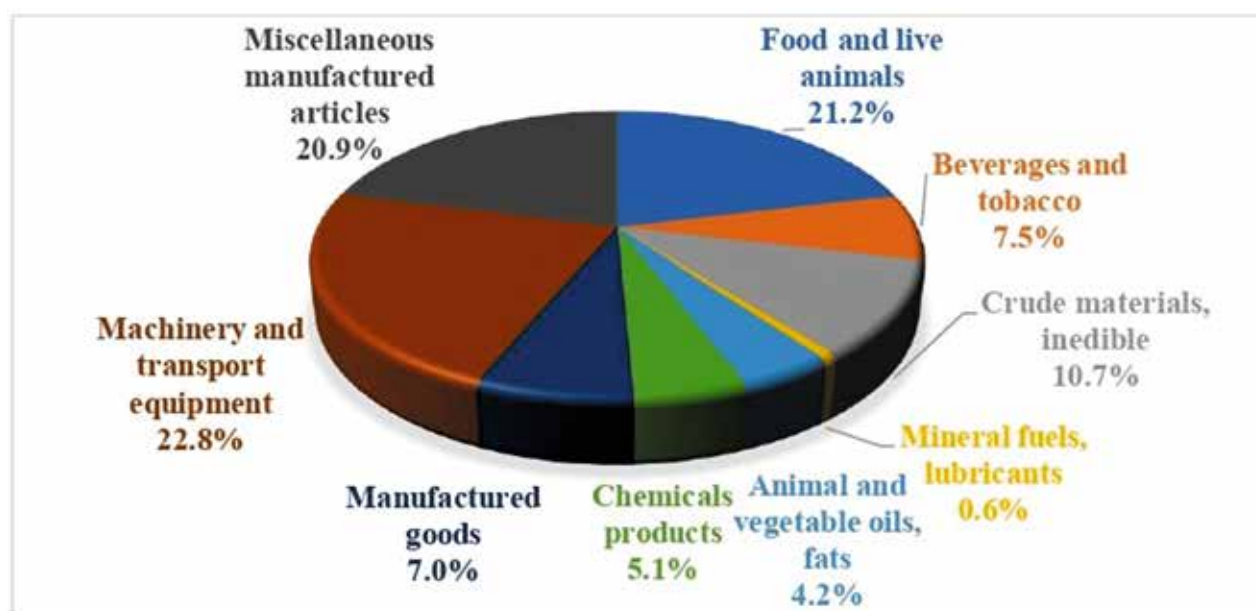


Figure 3. The structure of exports by sections of goods, 2020

Source: National Bureau of Statistics of the Republic of Moldova, data as of April 26, 2021

the machinery and transport equipment increased considerably. In 2010 this index reached the level of 12.5%, while in 2020 — 22.8% (Figure 4) [10].

A more detailed analysis showed that if we exclude re-export from exports, then the largest share of export falls on food and live animals — 28.7% [2]. Re-exports of foreign goods in 2020 accounted for 23.3% of total exports (580.0 million US dollars) (Figure 5). Re-exports of goods after processing accounted for 16.8% of total exports, and traditional re-exports of goods — 6.5% (Figure 5).

Analysis of the trends in foreign trade of the Republic of Moldova showed that the share

of exports of unprocessed or low-processed goods is increasing. It is impossible to ensure sustainable growth of the national economy by developing the production and export of these categories of goods. Promoting this trade policy will not lead to a reduction in the trade deficit.

Improving the trade policy of the Republic of Moldova

In the context of identifying priority directions for export promotion, the author recommends to use the integral index [4, p.18]:

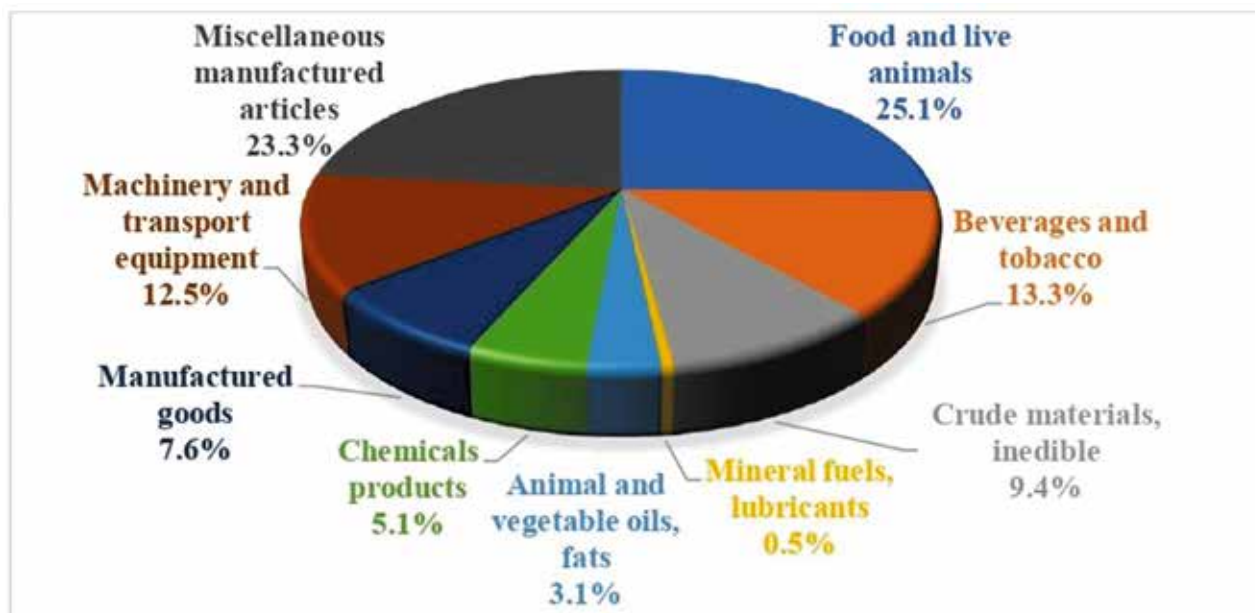


Figure 4. The structure of exports by sections of goods, 2010

Source: National Bureau of Statistics of the Republic of Moldova, data as of April 26, 2021

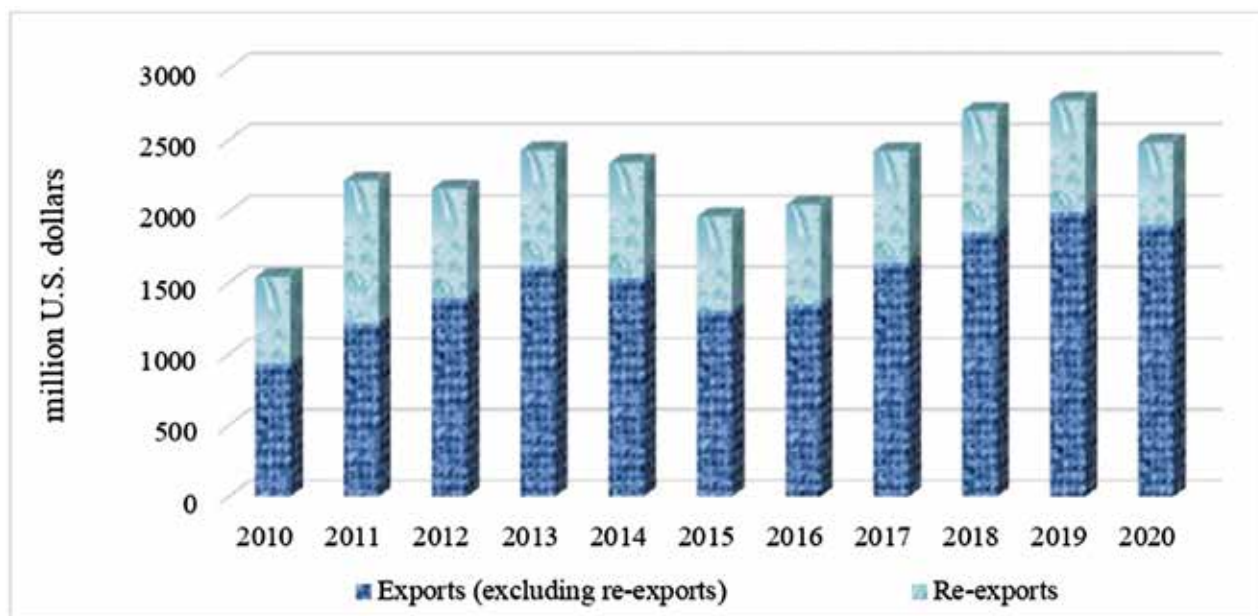


Figure 5. Evolution of export and re-export of the Republic of Moldova, 2010-2020

Source: author's estimates based on UN Comtrade, data as of April 26, 2021

$$I_c^* = \frac{b_1}{C_p^x} + b_2 \times C_q^x + b_3 \times C_s^x + b_4 \times C_e^x + b_5 \times C_f^x + G_t, \quad (1)$$

$$C_p^x = \frac{p^x}{p^m}; \quad C_q^x = \frac{q^x}{q^m}; \quad C_s^x = \frac{s^x}{s^m}; \quad C_e^x = \frac{e^x}{e^m}; \quad C_f^x = \frac{f^x}{f^m}, \quad (2)$$

where: $C_p^x, C_q^x, C_s^x, C_e^x, C_f^x$ — competitiveness of the exported goods, in relation to the imported goods, by price (p), by the quality of the goods (q), by after-sales service (s), by marketing elements (e), by psychological factors (f);

G_t — the degree of technological intensity of the manufacture of the analysed goods;

p^x, q^x, s^x, e^x, f^x — indicators of the exported goods [5, p.83].

The use of this index made it possible to determine the types of economic activities that have export potential (Table 1). It should be noted that to fully realize the potential of these types of activities, investment and financial support from the state are required.

Table 1

Types of economic activities that have export potential

Types of economic activities that have export potential	Target markets (largest)
Manufacture of sugar	The Russian Federation; Kazakhstan (lost markets) Romania (taking into account the import quota of this product from the Republic of Moldova on the EU market)
Manufacture of vegetable oils	Spain; Italy; Portugal; Romania; Syria; Cyprus; Greece; Ethiopia
Manufacture of fruit and vegetable juices	Poland; Germany; Austria; The Russian Federation; Belarus
Manufacture of grape wines	Belarus; The Russian Federation; Georgia; Romania; Czech Republic; Poland; United Kingdom of Great Britain and Northern Ireland; China
Manufacture of other basic organic chemicals	Poland; Ukraine; Romania
Manufacture of furniture	Romania; Germany; Belarus; Slovakia; France; Netherlands; The Russian Federation; Poland; Czech Republic; Hungary; Italy; United States of America; South Africa; Sweden
Manufacture of essential oils	Germany; Netherlands; Bulgaria; France; Switzerland; United Kingdom of Great Britain and Northern Ireland

Source: elaborated by the author.

The list of types of export-oriented economic activities also includes activities that have potential but have lost target markets. Moldova lost the sugar market in the Commonwealth of Independent States (CIS) countries after the signing of the

Association Agreement with the EU. At the same time, the import of sugar from Moldova on the European market is quoted according to Annex XV-C of the Association Agreement. In 2014, the Republic of Moldova exports to the CIS countries amounted to 62.705

thousand tons (88.3% of total exports), and in 2019, exports to EU countries reached the level of 6.555 thousand tons (100.0% of total exports). This case demonstrates that the concentration of trade flows only in one direction leads to a decrease in export volumes and an increase in the trade deficit. Therefore, the author recommends, in order to improve the trade policy of the Republic of Moldova: to increase the degree of geographical diversification of exports; to recover the lost sales markets.

In addition, it is important to develop effective ways to promote foreign trade policy.

The objectives of improving this policy are systematized in Figure 6.

One of the specific objectives, the achievement of which would ensure the sustainable growth of foreign trade, is the diversification of sales markets, which reduces the risk of a considerable reduction in deliveries in the event of a significant change in market conditions and trading rules. However, diversification requires great skill, reliable and timely information, as one market differs from another in terms of price, quality requirements, tax system, trade policy, etc. Selecting target markets requires a variety of information that the platform can provide.

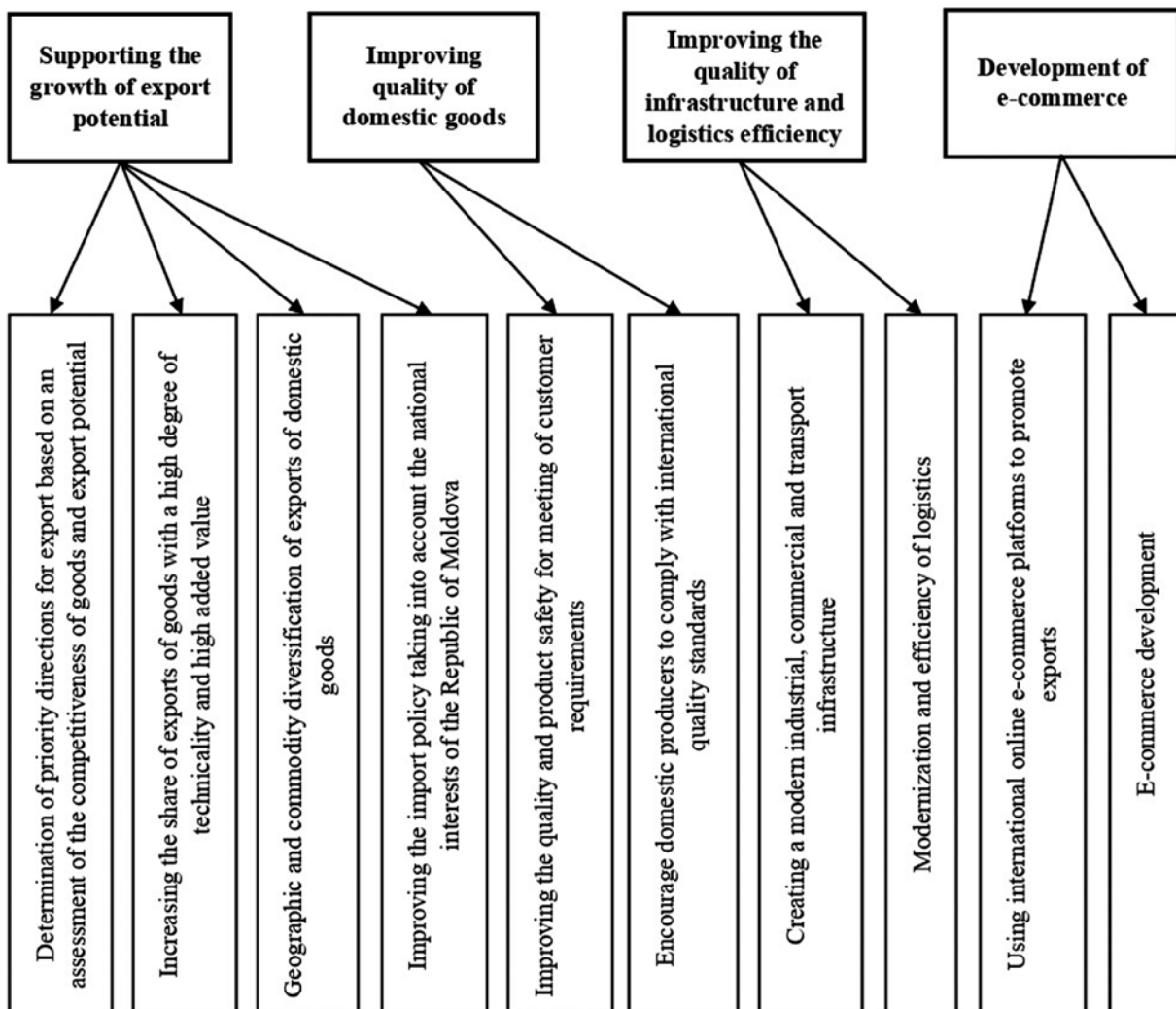


Figure 6. General and specific objectives of improving foreign trade policy

Source: [4, p.23].

Summarizing the above, the author proposes the implementation of the following measures:

➤ *Improving the institutional framework for the development and promotion of the export of domestic goods. In this context, it is recommended to launch a single window to afford assistance and guidance to active and new exporters on the support provided by public institutions, and to give the following analytical information:*

- The results of the assessment of the export potential, the calculation of the integral index of competitiveness and the composite index of the comparative advantage of the goods;

- The capacity of the target market, the position of competitors on this market and the competitiveness of the goods offered by competitors;

- Results of a study of trade barriers (tariff and non-tariff) for entering foreign markets and recommendations for their elimination (selection of another target market; introduction of technological changes that would ensure bypassing non-tariff barriers);

- Instructions for promoting the export of goods through electronic platforms such as the business-to-consumer (B2C) e-commerce.

➤ *Launch of a single portal for exporters that need to contain:*

- Export statistics by product and country breakdown (based on 8-digit Combined Nomenclature);

- Information about the most attractive foreign markets;

- Each exporter, both active and new, can open a personal account on this portal;

- Logistic route calculator to optimize the route and reduce transport costs;

- Search and selection of a carrier;

- A search engine that offers foreign buyers the opportunity to find the desired product and manufacturer;

- Chat for interaction with potential clients from other countries; etc.

Achieving of the second specific objective of "Increasing the share of exports of goods with a high degree of technicality and high added value" can be achieved as a result of scientific and technological progress, technical and technological renewal of production processes, which requires significant investment and donations.

Assessment of the share of research and development expenditures in the Gross Domestic Product (GDP) showed that in 2008 in Moldova this indicator was 0.54% of GDP, in 2018 — 0.25%, and in 2019 — 0.24% [8]. For comparison, in the case of Ukraine, this indicator is 0.19 percentage points higher in 2019, reaching the level of 0.43% of GDP [11], and in Romania — 0.5% [9]. So, the Republic of Moldova should double the research and development expenditure.

Innovation is extremely important for the Republic of Moldova. The author proposes the implementation of the following measure:

➤ *Attracting exporters to introduce innovations by subsidizing by the state a part of the research and development costs.*

One of the main obstacles for agricultural and food products from Moldova on the European market is the competitiveness of products from the EU in terms of price. Agricultural subsidies in the European Union amount to around € 60 billion per year (2019). "Every EU farmer, if he meets all the requirements of sustainability and environmental protection, gets subsidies

of 260 euros per hectare. And those farmers who fulfil additional conditions (biodiversity, greening) receive 375 euros per hectare" [6].

For comparison, the Agency for Interventions and Payment for Agriculture (AIPA) of the Republic of Moldova "received 7505 applications for grants worth 1182 million lei. However, the National Fund for the Development of Agriculture and the Rural Environment (FNDAMR) amounted to only 900 million lei, of which 352.0 million lei were spent on debt repayment from 2018 due to the exhaustion of the fund" [12]. So, in 2019, only a part of applications was paid, of the remaining amount 60.9%. This situation is repeated from year to year. The Agency, due to the deficit of the Fund for Subsidizing of Agricultural Producers, since it cannot satisfy all applications within one year, annually transfers the payment of arrears. Some farmers are disadvantaged because they receive subsidies one year late and the national currency is depreciating.

The development of foreign trade can be facilitated by the renewal of the production process, the use of new advanced technologies that improve the quality of domestic goods. In order to encourage domestic manufacturers to comply with national and international quality standards and to combat counterfeiting, the author suggests:

- *Application of trade barriers to imports of substandard raw materials;*
- *Increasing fines for counterfeiting, non-compliance with national and international quality standards, non-compliance with labelling and packaging requirements.*

The implementation of the first measure will lead to an increase in the price of goods for the manufacture of which low-quality raw materials were used, which will be equivalent to the price of qualitative analogue goods. When two goods identical in price but different in quality are offered to the potential

buyer, the latter will prefer to purchase the quality goods.

The comparative analysis of tariffs (excluding VAT) showed that in the first half of 2020, the electricity price for the industry in the Republic of Moldova was 0.0795 EUR / kWh. Comparatively low tariffs were recorded:

- Ukraine (0.0595 EUR / kWh),
- Georgia (0.0505 EUR / kWh),
- Estonia (0.0675 EUR / kWh),
- Serbia (0.0748 EUR / kWh),
- Macedonia (0.0778 EUR / kWh), etc. [1].

In order to minimize the costs of energy consumption and to increase the competitiveness of domestic goods in terms of price, the author proposes:

- *The use of smart technologies, especially in export-oriented enterprises.*

The last general objective proposed by the author in the context of improving trade policy is "Development of e-commerce". The overall volume of B2C e-commerce transactions showed an upward trend (Figure 7).

The COVID-19 pandemic has affected both domestic and foreign trade. The economic crisis caused by the pandemic demonstrates the need to develop e-commerce and use international e-commerce platforms to promote exports. In the author's opinion, it is necessary to implement the following measures for the development of e-commerce:

- *Development of the e-commerce ecosystem;*
- *Involvement of small and medium-sized enterprises (SMEs) in e-commerce;*
- *Creating a favourable environment for regulating e-commerce;*
- *Development of electronic markets (marketplace) B2C and B2B (Business to Business).*

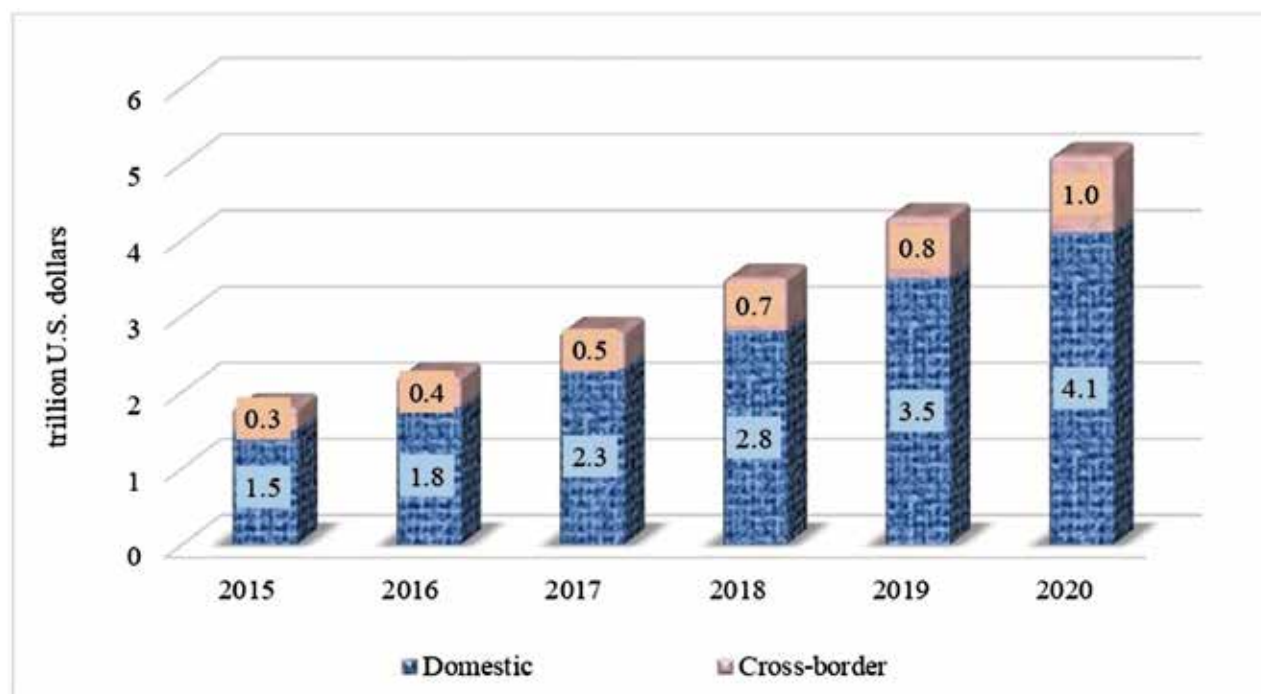


Figure 7. The overall volume of B2C e-commerce

Source: author's estimates based on the Global Ecommerce Report [3], data as of April 26, 2021

Conclusions

Based on the research carried out, the following general objectives are proposed that need to be included in government programs and strategies to promote exports and improve the efficiency of foreign trade policy: supporting the growth of export potential, improving quality of domestic goods, improving the quality of infrastructure and logistics efficiency, development of e-commerce. The achievement of the general and specific objectives proposed in this study can be monitored using the following indicators: the degree of diversification of goods, the degree of geographical diversification, the share of exports of goods with a high degree of technicality and high added value in the total volume of exports.

The results obtained can be used by the relevant bodies to achieve the target level of export and the level of development of international economic relations. The implementation of the developed measures

will ensure both the improvement of the foreign trade policy and the sustainable economic growth of the national economy.

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