

The Premises of the National Economy's Development in the Context of Integration into the European Economic Area

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Abstract

In 2016, there were 194 recognized independent states in the world, members of the United Nations Organization. There are very rich states among these countries, but most of them are comparatively poor and need the help and support of the rich ones. The size of these countries according to geographical area, the population, the size of GDP varies from country to country. Since the economic growth is one of the main indicators of countries' welfare, it has become a challenging issue for the researchers worldwide. What factors influence the development of a national economy in the right way, making the living standards increase and the population wellbeing grow? This article has a goal to identify several competitive sectors of the economy that have potential to lead to sustainable economic growth for Republic of Moldova. The Republic of Moldova is relatively a young independent state, since the dissolution of USSR, and faces some problems that need to be solved in order to increase country's welfare. The results of analysis showed that following industrial sectors: wine; textiles and apparel; information and communication technology; footwear; construction materials and furniture have the most potential for contributing to transformational growth in the Republic of Moldova economy. A big step in achieving this is signing the DCFTA with European Union. The importance of EU trade relations with the Republic of Moldova is of great impact on its national economy. The Republic of Moldova needs all the support and help of its powerful neighbour in order to achieve higher economic growth and to increase the competitiveness of its products on EU market.

Keywords: world economy, economic integration, international integration, European integration, external trade, export, import, absolute advantage, comparative advantage, competitive advantage, global competitiveness index, structural changes, economic growth, industrial development.

Introduction

There were 194 recognized independent states in the world, members of the United Nations Organization in 2016. There are very rich states among these countries, but most of them are comparatively poor and need the help and support of the rich ones. The size of these countries according to geographical area, the population, the size of GDP varies from country to country. There are big countries with resources, still poor with lower HDI like India, China, Russia; and there are big and rich countries like USA, Canada and others. There are also small, but rich countries like Switzerland, Luxemburg, Liechtenstein, and many small and poor countries with a medium to very low HDI like the Albania, Republic of Moldova, Gambia, etc. Since the economic growth is one of the main indicators of countries' welfare, it has become a challenging issue for the researchers worldwide. What factors influence the development of a national economy in the right direction, making the living standards increase and the population wellbeing grow?

In human history, nothing compares to the impact of the industrial revolutions on the national economies and world economy, also on the living conditions of the population. It's amazing how the national economies had changed since then. The continuous growth of the GDP, GDP per capita, foreign trade is the consequence of the Industrial Revolutions. So, there is no doubt, that over the last 250 years, the greatest result of this event had been the change of the regime, as the world economy began to experience a new era, named by the American economist Kuznets S. "the modern economic growth". Another American economist, William Baumol, believed that the modern economic growth and capitalism are synonyms by writing the following "What is obvious to the historians is the fact that the capitalism is unique in registering extraordinary growth, it was able to accomplish periodical industrial revolutions that produced an outpouring of well-being

non-existent so far in human history". The modern era has been characterized by the boom of the birth rate, increasing life durability, rapid urbanization, diversified systems of employment and a steadily increasing income per capita worldwide. However, the industrial revolution and economic growth had not expanded proportionally throughout the world which resulted with a global inequality without precedent. So, nowadays we have about 20% of countries with a very high level of development and about 80% with medium to low level of development. Therefore, these developing countries need all the support and help of the developed ones in order to reduce the gap between them.

Moldova's economic options

Speaking about the Republic of Moldova, it should be mentioned that its development had been influenced by all these events and after gaining its independence, followed by establishing political and economic relations internationally, it still didn't find its place in the world economy. Its geopolitical situation had oriented Moldova toward the decision to restore lost links in the former Soviet Union. This decision was taken on 21 December 1991 in Alma-Ata, Kazakhstan, where the Republic of Moldova signed the Treaty on establishment of the Commonwealth of Independent States (CIS), becoming a full member of this community. The experience of the last fifteen years has demonstrated that this community is not functional and efficient.

Another way to promote international economic relations were the relations with the European Union (EU). After the collapse of the Soviet Union, European Union, at that time European Community had to take a position regarding the New Independent States: Declaration of the European Political Cooperation Extraordinary Ministerial Meeting on the Situation in the Soviet Union, The Hague, 20 August 1991. But the highlight of this statement was completely defined by the document on 16 December 1991, in Brussels, Declaration of the Extraordinary European Political Cooperation Ministerial Meeting on the "Guidelines on the Recognition of New States in Eastern Europe and in the Soviet Union".

According to this document, on 1 January 1992, the European Commission sent a thorough analysis to the European Council regarding relations between the European Community and the new members of the Commonwealth of Independent States. In order to give a legal framework to recent events, European Community proposed to replace the Trade and Cooperation Agreement signed by the European Community with the Soviet Union, with individual agreements signed with each former Soviet republic. Negotiations with the CIS countries were launched on 1 November 1993, with the exception of Moldova, who only replied on 28 January 1994 to the European Commission proposal to define the relations with the European Union. It was the first step taken by the Republic of Moldova in European direction. Still, Moldova had a long and difficult way in the evolution towards the European course.

On 28 November 1994 has been signed the Partnership and Cooperation Agreement between the European Union and the Republic of Moldova. This arrangement provides for a basis of cooperation with the EU in the political, commercial, economic, legal, cultural and scientific areas. Until the entry into force of the Agreement, on 1 July 1998, between the EU and Moldova acted Interim Agreement on trade and trade related measures between the European Communities and Moldova, signed on 2 October 1995. This had encouraged trade exchange between the parties.

The EU Moldova Action Plan (2005) was a political document laying out the strategic objectives of cooperation between Moldova and the EU. It covered a timeframe of three years. Its implementation helped fulfill the provisions in the Partnership and Cooperation Agreement (PCA) and encouraged and supported Moldova's objective of further integration into European economic and social structures. Implementation of the Action Plan significantly advanced the approximation of Moldovan legislation, norms and standards to those of the European Union. In this context, it was built solid foundations for further economic integration based on the adoption and implementation of economic and trade-related rules and regulations with the potential to enhance trade, investment and growth. It furthermore helped to devise and implement policies and measures to promote economic growth and social cohesion, to reduce poverty and to protect the environment, thereby contributing to the long-term objective of sustainable development.

In January 2010, Moldova and the EU began negotiating an Association Agreement (AA), including a Deep and Comprehensive Free Trade Area, to replace the PCA. The EU Association Agreement (AA) was initiated on 29 November 2013 in Brussels. It was signed on 27 June 2014 and was being provisionally applied starting 1 September 2014. On 1 July 2016, the Association Agreement (AA) between the European Union and the Republic of Moldova fully came into force, following ratification by all 31 signatories. The Agreement introduces a preferential trade regime – the Deep and Comprehensive Free Trade Area (DCFTA), which is very important for the development of Moldovan economy and foreign

trade particularly. So, it depends on the Republic of Moldova to take full advantage of this agreement and evolve in the direction of European integration.

Trade competitiveness of Republic of Moldova's main sectors

The Republic of Moldova is relatively a young independent state, since the dissolution of USSR, and faces some problems that need to be solved in order to increase country's welfare. It is a small country with a small economy. Its growth and development prospects are related to the level of performance on both international and regional markets. Moldova represents the poorest and almost the most vulnerable country in the region which has a big dependence on the remittances and the exports of few commodities. Even if there was a noticeable economic growth in the last decade, Moldova's export still remains on the low level.

Talking about the competitive power of Moldova, imports and exports are structured reviewing the most competitive sectors that can help improving the export potential of the country.

The structure of the main export groups of the Republic of Moldova has changed in the last 10 years. Exports were based on machinery and vegetables, food products, like wine, which was 1st export product in 2003 and fell to the 4th place in 2013, mainly due to the trade restrictions imposed by Russia towards the Republic of Moldova's export of wine. In 2013, the top export product represented electric conductors and cables, mainly because of the foreign firms that changed the production structure of the country.

Income per capita has grown very high, reaching an average rate of 5.8 percent. This resulted from the merchandise expansion driven by the imports. From 2006 to 2016 the import rate has been growing at an annual average rate of 16 percent. On the other hand, the exports rate has not shown such dynamics as imports and it has been growing at a slower average rate of 13 percent, experiencing a 20 percent decrease in the year 2009. On the Figure below we can observe the balance of trade of the Republic of Moldova between the years 2006-2016.

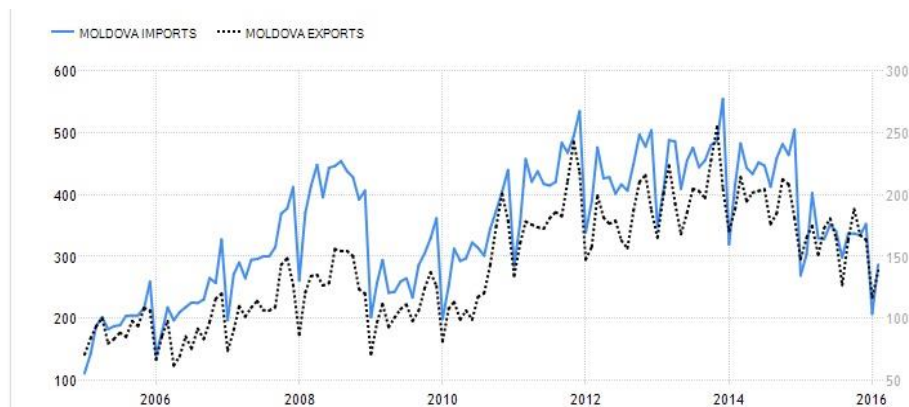


Figure 1.1. Republic of Moldova's imports and exports, 2006-2016, million USD

Source: Trading Economics.

Available under the following link: <http://www.tradingeconomics.com/>

The share of the oil seeds, fruits and nuts as well as cereals and vegetables increased between the 2000 and 2002 and 2010-2013. Machinery and electronic equipment (medical or surgical instruments, vehicle/transport equipment, etc.) also have increased its ration in the export volume. Even if the foodstuff lost a big share in the last years, it still remains the second main export product of the Republic of Moldova. As a result of the process of gradual diversification, its share in the export basket fell to 26.4 percent in 2011-13.

Moldova reached international market share in export of some other products like cables and electric parts. According to the UNCTAD data, the Republic of Moldova has extended a high share in coaxial cables and parts of the seats, but on the

other hand there is a high demand for the traditional export products of Moldova as sunflower seed, wine and apple juices. The lost in the market share of some main export products has been obvious in the last years. Products like wine in bottles, apples, spirits, walnuts and sunflower seed fall in demand reflecting mainly, the imposition of trade sanction by Russia in 2006 and the difficulties of the reorienting exports to other markets.

Market dimension is another great achievement of the Republic of Moldova's economy during the last decade. In 2003, Moldova had 63 export destinations growing to 103 in 2013. The exports destinations shifted from the Commonwealth of Independent States market to the European Union market, mainly due to the new export opportunities resulted from the implementation of the Association Agreement. The percentage of the Republic of Moldova's exports going to Russia decreased from 39.5 percent in 2003 to 9.2 percent in 2015. Markets such as China, Egypt and Turkey have become the top among export destinations in the last decade. Even so, Moldova is still looking for more markets in order to expand trade relations with more distant markets.

Therefore, we can see the correlation between the market composition and evolution of export destination. The correlation between exports and economic growth is a vast studied phenomenon which has a positive correlation and cannot be disputed, especially for small economies, such as Moldova, where exports play an important role in ensuring sustainable growth of the national economy.

Development of export potential of the Republic of Moldova is a priority area, which allows analysis of economic reality and potential of the country to integrate into the international economic circuit and face foreign competition. On the other hand, Moldova is trying to increase the competitive level and to refocus directions to other strategic markets, especially towards the European one.

According to the Competitiveness Report, the term competitiveness is associated with characteristics of successful companies that have the goal to provide products at a high level comparing to its competitors, and at the country level, competitiveness is the national institutions, all policies the State performs and the factors that help the development and growth of the economy.

The concept of competitiveness is not yet well defined and unique, being associated with productivity, profitability, management, efficiency at an enterprise, factors of production and the resources of a country that provides increased efficiency based on the availability of resources, competitiveness subsequently being associated with macro-economic indicators of a state.

Competitiveness is addressed in three hierarchical levels: the competitiveness of a country at macro-level and micro level, and the competitiveness of enterprises based on sectorial competitiveness of an industry. The concept of competitiveness cannot be analyzed separately because these three levels are interdependent resulting from one another. But for each level of competitiveness indicators are used distinct analysis to measure competitiveness and different management mechanisms of competitiveness. We can say that the competitiveness of a nation depends on the competitiveness of an industry and on the level of performance of national enterprises.

According to Balassa and Lafay indicators, there were identified the main sectors that the Republic of Moldova is currently specialized in, they are: Alcoholic beverages with Balassa index equal to 20, carpets (18.8), fruits (18.6), vegetables (11, 2), oil seeds (11.1), sugar (10.4), cereals (8.5), clothing (8.1), vegetable and animal oils and fats (7.6).

Balassa index is used to determine the related competitive advantage of a country. On the basis of this index, a country is defined as being specialized in exports of a certain product if its market share in that product is higher than the average or, equivalently, if the weight of the product of the country's exports is higher than its weight of the exports of the reference area. A country reveals comparative advantages in products for which this indicator is higher than 1, showing that its exports of those products are more than expected on the basis of its importance in total exports of the reference area.

We are using the Balassa index to further determinate and analyze the export potential of Republic of Moldova by sections, including the comparison with other countries representing the world market for different types of goods. Therefore, in the next figure below is represented the export of Moldova by sections according to the Nomenclature of Goods, in 2015.

In Figure 1.2. we can observe the strongest sections with the largest share in total exports of the Republic of Moldova:

II Vegetable products – with a share of 25.5 %

IV Food; alcoholic beverages without alcohol vinegar; tobacco - with a share of 15.4 %

XVI Machinery and mechanical appliances, electrical equipment and parts thereof; sound recorders and reproducers and images - with a share of 15%

XI Textiles and articles thereof - with a share of 13.9%

VI Products of the chemical or allied industries - accounting for 6%

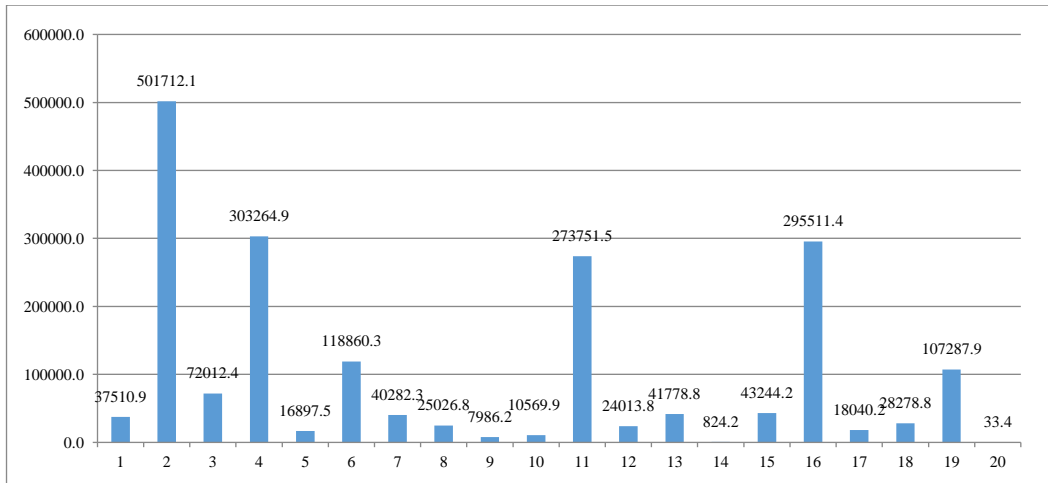


Figure 1.2. Export of the Republic of Moldova by sections, 2015, thousand USD.

Source: Elaborated by the author based on information from National Bureau of Statistics. Available under the following link: <http://www.statistica.md/category.php?!=en&idc=336>

Complementing the weight of these 5 sections we can say that they cover more than 75% of exports of 20 sections. The decrease of this indicator cannot be analyzed as a negative trend. This suggests that the market starts restructuring and begins to develop industries and products that were designated before for certain reasons.

In order to determine the sections that registered some jumps or slowdowns it is recommended to analyze the evolution of total exports in correlation with sections I, II and III. Next we will analyze the export potential of RM by sections according to the Nomenclature of Description and Coding.

Not so long ago, agriculture in the Republic of Moldova was considered ineffective because the sector had registered a low productivity and investments in this area were small and at inflated costs. This was comparable with the sector's productivity in Europe in the years of 70's.

At the moment we can say that the situation has improved, the investments in this sector has increased, and local farmers are considered quite competitive on foreign markets among certain categories of products. The biggest disadvantages of this sector are: erosion, landslides, natural disasters. The agricultural sector is considered a pillar of the national economy, contributing to the creation of GDP in the last 5 years with about 15 percent, and the sector is training over 33 percent of the workforce of the country. The total area of farmland in 2013 amounted 74.8 percent of the total land area of RM.

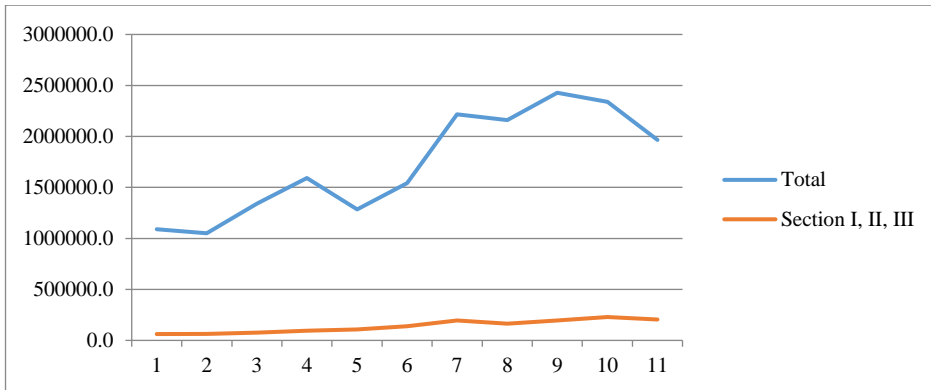


Figure 1.3. Evolution of total exports of the Republic of Moldova and Sections I, II, III in the Nomenclature of Goods, 2005-2015

Source: *Elaborated by the author based on information from National Bureau of Statistics:*

Available under the following link: <http://www.statistica.md/search.php?go=1&l=en&searchfield=evolution+of+exports>

According to Figure 1.3, the exports of Livestock Section I, II animal products and vegetable fats and oils and III Animal or vegetable; edible fats; animal or vegetable waxes are greater than imports. This is very positive for the Moldovan economy, demonstrating not only that the country produces sufficient amounts for the population but for export too.

Even if the Republic of Moldova suffered from an economic crisis in 2008, the first three sections of exports were not negatively influenced, moreover it increased by 621.640 USD. The economic crises from 2008 had significantly affected the total exports of Moldova which fell by 308 132 USD in 2009.

Analyzing the figure below we observe that the imports from Sections I, II, III are very small compared to total imports from the Republic of Moldova which means that the country has potential to produce enough for its consumers. Total imports of Moldova in the last 10 years were characterized by steady growth except for the year 2009 after the global crisis when it fell to 1,620,492.2 thousand USD. This significant decrease is observed in the year 2013 on imports of three sections when they decreased by 64072.5 thousand US dollars.

Total imports and the situation of the first three sections of the nomenclature of the Republic of Moldova's goods are not different, they both constantly evolving with a small decrease in 2009 after the global financial crisis.

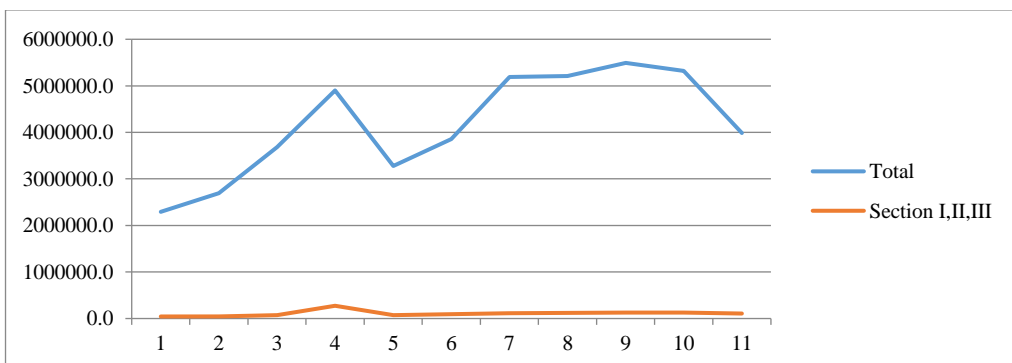


Figure 1.4. Evolution of total imports of the Republic of Moldovan and Sections I, II, III in the Nomenclature of Goods, 2005-2015

Source: *Elaborated by the author based on information from National Bureau of Statistics*

Available under the following link: <http://www.statistica.md/category.php?l=en&idc=336>

According to statistics shown in the figure 1.4 the fluctuation of imports for the last 10 years starting from 2005 tend to increase for the last couple of years. Goods in Sections I, II and III which are live animals and animal products, vegetable products and fats and oils of animal or vegetable origin have very low values.

Table 1.1. Exports of the Republic of Moldova of the categories 0101-0106, 2008-2015

(Thousand USD)

	2008	2010	2011	2012	2013	2014	2015
0101	2446.4	10954.9	21641.4	21655.9	7167,5	33696.8	8927.4
0102	9203.6	7167.2	10750.8	9744.7	2658,1	14353.4	14351.7
0103	6.0	34.5	7.4	96.6	4,4	93.6	63.9
0104	56759.5	78576.3	86045.5	51873.7	44478,6	200820.8	128721.6
0105	140092.1	228848.1	280660.8	279848.1	117197,0	268710.9	253810.8
0106	16079.8	30616.0	15812.8	37345.3	8590,7	65487.3	48043.8

Source: *Elaborated by the author based on information from National Bureau of Statistics.* Available under the following link: <http://www.statistica.md/index.php?l=en>

According to the Table 1.1, there is a major increase in the category 0101, Horses, donkeys which in 2011 reached the rate of 21641.4 USD and which later in 2014 almost doubled reaching 33697 USD. Exports of the subcategory 0102 Live Animals of cattle species reached the maximum value in 2014 equal to 14353.4 USD followed by a big drop in 2015 to 14351 USD.

Exports of subcategories 01 livestock animals have reached a maximum value in 2010 of 9065, 00 thousand USD, but can be characterized by a sudden drop in 2011. In this way, the total value of exports was gaining a sudden increase in 2012, reaching the point of 7577.0 thousand USD.

Exports of such subcategories as 0103 Livestock animals from swine species and 0105 Livestock bird species was not improving, the main cause of this was a slowdown in consumption of swine meat in EU countries and prohibition for consumption in Muslim states. The export of subcategory 0104 is also characterized by slowdowns and insignificant increase, reaching its highest value in 2010 of 2168.0 thousand USD.

As follows, we will try to analyze the foreign trade of the Republic of Moldova and measure its competitive advantage by sections using the Balassa index.

Balassa index can be used to measure revealed competitive advantage of a country. It was defined by Bela Balassa and Mark Noland.

$$RCA_{ij} = (x_{ij} / X_i) / (x_{aj} / X_a)$$

where:

x_{ij} denotes the **export** of products j from country i

X_i denotes the total **export** from country i

x_{aj} denotes the total **export** of product j from reference area

X_a denotes the total **export** from reference area.

On the basis of this index, a country is defined as being specialized in exports of a certain product if its market share in that product is higher than the average or, equivalently, if the weight of the product of the country's exports is higher than its weight of the exports of the reference area. A country reveals comparative advantages in products for which this indicator is higher than 1, showing that its exports of those products are more than expected on the basis of its importance in total exports of the reference area.

The first three sections from the Nomenclature of Goods with the highest exports and imports are represented in Section II, Meat and edible offal. A positive fact for the country is that in all three sections exports are mostly higher than imports.

Table 1.2. Balassa index for I, II, III categories of goods of the Republic of Moldova,

2005-2015

Category of Goods According to NG	2005	2010	2015
01	9.47	24.08	10.49
02	-88.8	-45.87	-49.27
04	10.75	-65.7	-28.39
07	-29.03	-54.96	-47.08
08	54.97	48.57	44.58
10	84.65	75.92	78.03
12	41.94	54.51	70.66
15	58.52	42.31	56.07

Source: *Elaborated by the author based on information from National Bureau of Statistics*

Available under the following link: <http://www.statistica.md/index.php?!=en>

According to the Table 1.2 we can observe that the Republic of Moldova has a significant advantage for subcategory 01, where Balassa index is higher than 1 (one). On the table above we can observe the fluctuations of Balassa index, reaching its highest point in 2010 of 24, 08.

For the last five years among the top countries where the products from subcategory 01 are being exported is Syria. Other countries that currently remain in the top 3 importers of subcategory 01 Live animals are Libya and Jordan.

Subcategory 02 Meat and Edible Meat Offal is least competitive than the first one. We can see that Balassa indicator is not reaching one. Nevertheless, export of subcategory 0201 reaches the total value of 8240.00 thousand USD in 2012, followed by subcategory 0204 with the total value of 6880.00 thousand USD in 2011.

For the last five years among the top exports of subcategory 02 Meat and Edible Meat Offal were made toward Russian Federation, reaching an all-time high of 21438.0 thousand USD in 2012. Among other countries where Meat and Edible Meat Offal from subcategory 02 are exported are Kazakhstan and Iraq. (see Figure 1.5)

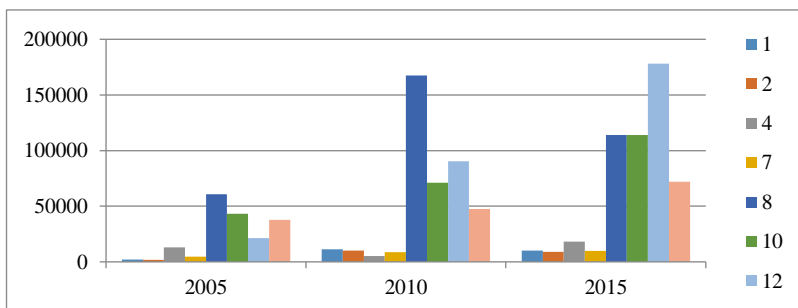


Figure 1.5. Export of I, II, III categories of goods according to the Republic of Moldova Nomenclature of Goods, 2005-2015

Source: *Elaborated by the author based on information from National Bureau of Statistics.* Available under the following link: <http://www.statistica.md/index.php?!=en>

According to Table 1.2, analyzing the subcategory 04 Dairy products; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included are observed significant exports. We can see that the Balassa index has a positive value higher than one equal to 10.75 that points out the competitiveness of this subcategory. The highest export value was reached in 2011 with a total of 4632 thousand USD by subcategory 0406, followed by subcategory 0402 with a total value of 266 thousand USD in 2009. The export of honey is also characterized by constant and significantly high value of exports, registering the highest value in 2012 of 2315 thousand USD.

Analyzing the competitiveness of subcategory 04 Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included, I can conclude that Moldova has a competitive advantage in export of honey that has the highest amount of export from this category.

The main markets for export of honey are: Germany, Russian Federation, Ukraine, the USA, Canada and Uzbekistan. Honey is one of the main Moldovan products where share in the European market is growing continuously. The Republic of Moldova annually produces about 4-5 thousand tons of honey. Experts are convinced that in a short time Moldova can at least double both honey production and exports.

In order to export to EU there is a need to fulfill a number of requirements for product quality. The main export partners for milk products are Russian Federation, CIS and Muslim countries. With the entrance of Romania into the EU have appeared certain difficulties with the export of milk products. Due to the large quantities of milk products of national producers and its invasion, the import of milk products was banned in 2009, which shows a negative Balassa index between the years of 2009-2015.

According to the Figure above, the total exports of subcategory 07 Edible vegetables and certain roots and tubers is in a constant growth, even though it has registered negative Balassa index for the years of 2005-2015. Total imports of edible vegetables are higher than exports. The most of products from this category are exported to Russian Federation, Belorussia, Italy and Romania. In 2012, it was registered a significant value of exports towards Russia, which constituted over 90% from total exports. In the last couple of years, the situation had changed due to the restrictions imposed by Russia.

Subcategory 08 Edible fruit and nuts; peel of citrus fruit or melons has registered a positive Balassa index equal to 44.58 in 2015. Such high value of Balassa index points out the potential of the Republic of Moldova toward the export of this subcategory. Edible fruit and nuts; peel of citrus fruit or melons are exported to Russian Federation and France which are at the first 2 placed among top importers. Significant exports of this category are performed to Belorussia, Greece, Germany and Iraq. The highest exports of all times were registered in 2015 towards Russia, with a total value of 194.658.7 thousand USD.

Subcategory 10 Cereals is highly competitive registering a positive and stable Balassa index for the years of 2005-2015. Among the countries where cereals were exported are Sweden, Italy and England. On the Figure 1.5 we can see a constant growth of category 10.

Subcategory 12 Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder has registered an export potential with a positive Balassa index that is in a constant increase. We can observe that the total export of category 12 is increasing, registering the all-time high in 2015 of 178181.7 thousand USD. This category represents a great potential for the Republic of Moldova. Among the countries where these goods are exported are Sweden, Ukraine and Romania. In 2011 were registered the highest exports of this category of goods with the total value of 181522 thousand USD.

Subcategory 15 represents another competitive category of exported goods with a big potential, registering a significant growth in total exports throughout the years of 2005 – 2015 and a positive Balassa index, it reached its highest value in 2010 with a total of 668 thousand USD. The top importers of this category of goods are Romania, Ukraine and Italy.

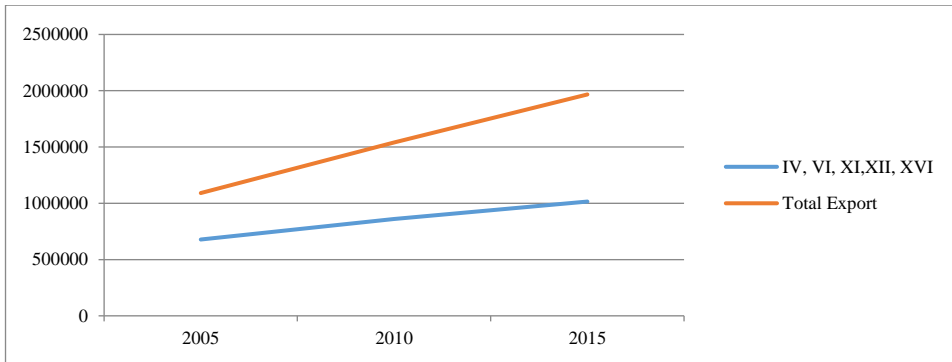


Figure 1.6 Evolution of total exports of the Republic of Moldova and Sectors IV, VI, XI, XII, XVI, 2005-2015

Source: Elaborated by the author based on information from National Bureau of Statistics. Available under the following link: <http://www.statistica.md/index.php?l=en>

In the past 12 years, we can see an impressive positive trend in section II, XI, VI and XVI. (See Figure 1.6) However, the evolution of Section IV, although it maintains that position with the largest share of national exports can be analyzed as largely stagnated. Mostly we see that growing value of exports for this section can be divided into two parts.

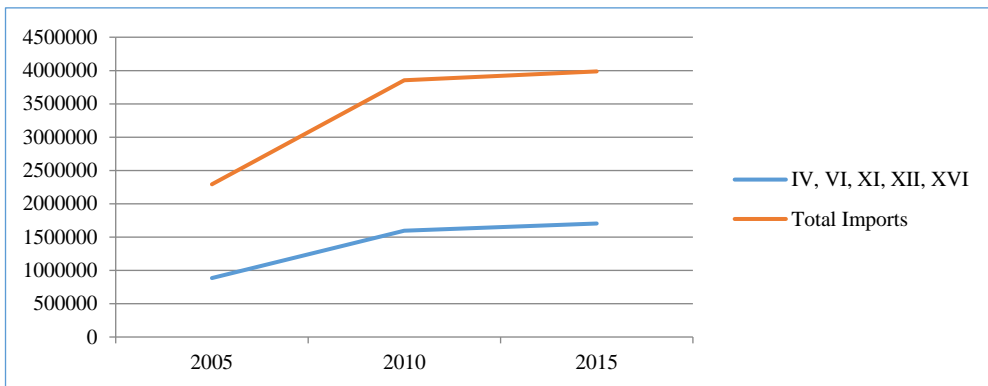


Figure 1.7 Evolution of total imports of the Republic of Moldova and Sectors IV, VI, XI, XII, XVI, 2005-2015

Source: Elaborated by the author based on information from National Bureau of Statistics. Available under the following link: <http://www.statistica.md/index.php?l=en>

On the figure above we can observe a constant increase in total value of imports of categories IV, VI, XI, XII, XVI and its movement comparing to total imports of Moldova.

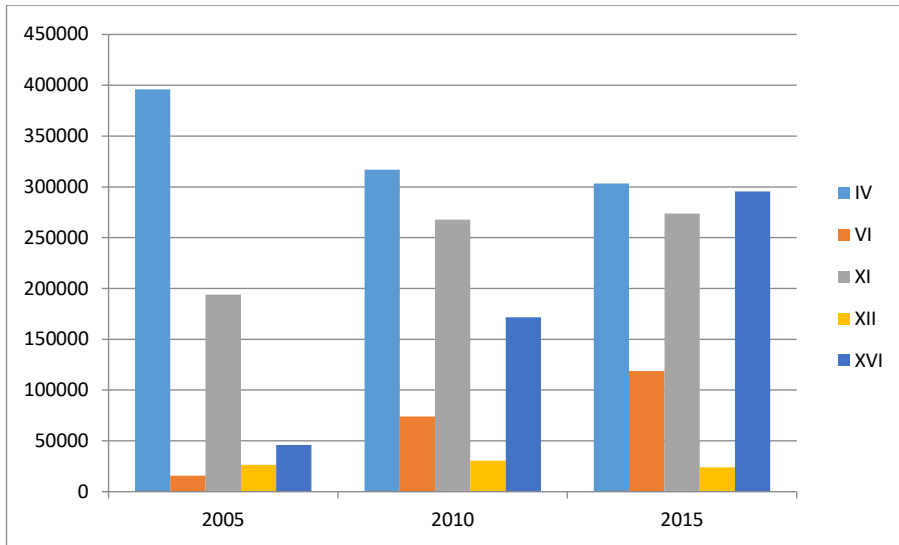


Figure 1.8 Export of IV, VI, XI, XII, XVI categories of goods of the Republic of Moldova according to the Nomenclature of Goods, 2005-2015

Source: *Elaborated by the author based on information from National Bureau of Statistics.* Available under the following link: <http://www.statistica.md/index.php?!=en>

Analyzing each category separately, the largest one is IV Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes that throughout the years have been registering the constant increase followed by the sudden drop due to the embargo placed by Russia. On the Figure above we can see an increase in total exports of group IV followed by an increase in Balassa index with an all-time high of 45.72 in 2005.

The evolution of total export value of Section IV observed in the Figure 1.8 also can tell a lot about the competitiveness of products and their importance to the economy of Moldova. One of the most surprising information is that from 2001 until 2005 Moldova has grown very substantial in export of group 22 Wine products from 69% to 79%. Subsequently, in 2006 and later in 2007 the same indicator fell to 49% with rapid growth in 2008. Over the years 2009 to 2012 the share of exports products of group 22 was stable at the level of 55%.

Currently, there are significant disparities between agricultural production systems of Moldova and the European countries, occupying key positions in the production of agricultural products and trade in food products and wine products. Moldovan farming sector dominates the small farms that practice subsistence agriculture. The slowdown in the development of this sector influences the development of Moldovan economy. Analyzing the Balassa index for this category we can conclude that group IV has a big potential for future development of Moldova.

Analyzing the industrial sector, it can be noticed that the industrial production of rubber and plastics currently has 187 small and medium sized enterprises, but they provide only 10-15% of consumption required. The trade balance deficit for this subgroup has always been common for our country, the deficit increasing every year. The share of processed rubber and raw rubber weight exceeds both the export and import.

Table 1.3 Balassa index for IV, VI, XI, XII, XV category of goods of the Republic of Moldova, 2005-2015

Chapter According to NG	2005	2010	2015
IV	45.72 %	1.33 %	5.40 %
VI	-87.41 %	-69.00 %	-61.32 %
XI	3.76 %	-2.66 %	-2.17 %

XII	37.09 %	16.00 %	12.10 %
XVI	-74.32 %	-54.12 %	-79.50 %

Source: *Elaborated by the author based on information from National Bureau of Statistics*

Available under the following link: <http://www.statistica.md/index.php?l=en>

Regarding the chemical industry, according to the latest statistics, it registered a decline of -30% in late 2013. The research undertaken by the National Profile on Chemicals Management in Moldova reveals that our country produces a limited range of chemicals, facing mostly for the domestic market, namely pharmaceuticals, dyes, paints and varnishes, cosmetics and perfumery. At present we have 69 companies operating in the chemical industry including 19 para-pharmaceutical factories for products and medicines, 12 factories of soaps, detergents and comets. However main use of chemicals is covered by imported products. This way we can see a negative Balassa index for the group VI and a slowdown in total exports of plastic.

Light industry is one of the oldest branches of the national economy. This sector is represented by three types of activities: manufacture of textiles (knitted and carpets); clothing; production of leather, leather goods and footwear (including manufacture of luggage and handbags) that fits all product groups from Section XI and XII of the Commodity Nomenclature of RM.

According to the Strategy of industrial development during 2015, light industry has become a priority branch of the national economy, as it has significant advantages, such as the ability to fit the activity for a large number of manpower, cycle relatively fast rotation of working capital, investments needs are not too large, the existence teacher training system at all levels. Currently nominated branch includes over 278 companies, including limited companies, from businesses and joint ventures, with more than 15 thousand people working in the sector.

Capacities of the country in the textile industry are limited. It gives domestic producers the vast majority of products and services in outsourcing production, who have a minimum contribution. Dependence on foreign markets in terms of import of raw materials and advanced manufacturing with a help of Art Technologies, as well as fierce competition hinder technological progress and productivity in this industry.

Furthermore, the internal factors that hamper the development of textile sector and competitiveness of the textile products are low technological potential and scarcity of FDI in light industry, labor migration and the absence of labor and human capital specialist poor infrastructure, inefficient public administration, and other.

During the period 2005-2015, the highest export value has been registered by group 62: accessories and clothing, other than knitted or crocheted; followed by group 61: clothing and clothing accessories, knitted or crocheted; 57: carpets and other textile floor coverings. In the last two years was a significant increase in exports of groups 60 and 63, which shows an increase in total value of exports of groups XI and XVII. Positive Balassa index for the group XII Footwear points out the potential of Moldova in light industry sector.

Foreign trade with Section XII continues to experience a positive growth with the exception of the global crisis that affected both imports and exports. The highest value export in Section XII has 64 group: Footwear, gaiters and the like as well as parts of these articles. Top 10 destinations export product sections XI and XII are Italy, Germany, US, Ukraine, Belgium, Romania, Russia, Netherlands, UK, Poland.

Analyzing the last group with the high exports XVI Machinery and mechanical appliances; electrical equipment; parts thereof: sound recorders and reproducers, television image and sound records and reproducers, and parts and accessories of such articles it has registered an increase in both total exports and imports.

Exports of electrical machinery and apparatus of Moldova have been changing since 1997. In 1997 the value of exports amounted to 45.7 mln. USD was followed by a steady increase until 2008, when exports recorded a value of 167.5 mln. USD. After the global crisis, exports have slowed down for Moldova, including exports of machinery and electrical appliances, which reached the total of 139.25 mln. USD. In 2009 was common for a drop of 17%. Since 2012, Moldova's main partners for exports of electrical machinery and apparatus are EU countries. Exports to these countries amounted to 195 mln. USD, and represent 70% of the total exports. The share of CIS countries decreased,

reaching the value of 27 %. The main partners of Moldova regarding export of machinery, electrical equipment, are Romania, Russia and Ukraine, Kazakhstan and other CIS and EU countries.

Republic of Moldova revealed comparative advantage in terms of competitiveness in the production and marketing of nuclear reactors, boilers, machinery. The group XVI recorded a higher value throughout the years 2005-2015 in export of wires and cable toward EU states. Republic of Moldova holds great commercial potential in producing these goods. Even though group XV has registered negative Balassa value between the years 2005-2015 the development of industry and especially of wires and cable production holds a great importance for Moldova, especially since it is one of the most popular sectors for attraction of FDI.

We believe that only the synergy of qualitative economic growth coupled with an ongoing process of human development would allow Moldova to become more competitive internationally. A paradox, despite economic growth, competitiveness indicators of Moldova are getting worse because the human resources are not developing fast enough. If the Republic of Moldova won't try to become more competitive, it will not succeed in attracting external resources, ideas and technologies necessary for a faster and more qualitative economic growth in the future and strengthen its achievements in human development. The global dimension of economic, political and cultural processes becomes more visible. If it succeeds in building up a strong economy and overcome mediocre human development phase, Moldova will be able both to integrate harmoniously into the "global system" of nations and to participate advantageous to global competition.

4. Conclusion

The Government of the Republic of Moldova is trying to stimulate export of the country and improve the position of it on international arena as a country in transition due to the dependence on trade fluctuations worldwide.

Since the year 2006 when first barriers were implemented by Russia, Moldova started to move towards European market increasing both imports and exports every year. Today European Union is the main trade partner of the Republic of Moldova and the development of these relations brings positive trends in country's economy: GDP growth, increase in exports, free movement of goods and citizens between the borders.

The main barriers to the increase of export volumes in the world market include: discrepancies in regulation, non-compliance to national infrastructure of quality assurance requirements or lack of capacity to implement international and European standards, especially sanitary and phyto-sanitary.

Identifying competitive advantage of categories of goods is very important in developing Moldovan foreign trade. The main sectors in which Republic of Moldova currently specializes according to the Balassa index are: Beverages, where the Balassa index equals 17.1, carpets (18.4), nuts (18), vegetable dishes (9.3), oilseeds (9.2), tobacco (7.5), oils and fats of animal or vegetable origin (7.3), clothing (6.6), sugar (6), knitted textile materials (5.6), furniture, stuffed furnishings; lamps and lighting; etc.

Comparative advantage of the Republic of Moldova in certain economic branches such as agricultural sector, industrial sector, machinery, textiles, brings country a possibility to attract more FDI and to increase total export of goods. The development of those is a necessary way to become a full member of European market and improve Republic of Moldova's position on international arena.

Moldova should exploit the advantages arising from increased prices for agricultural products in the international market. There is also an urgent need to adopt and implement EU sanitary and phyto-sanitary measures for the production of animal origin in order to export these products to the EU market in order to increase export of goods from this sector.

Also Moldovan authorities should implement measures to encourage exports to increase their competitiveness, particularly those ecologically pure that are demanded on both European and international markets.

DCFTA agreement signed by the Republic of Moldova in 2014 has offered a unique chance to reach a more sustainable economic growth. The key components of DCFTA agreement are trade liberalization that stimulates exports of goods and services that the Republic of Moldova longs for.

If DCFTA is fully implemented in the last 10 years, it is promised to gain additional 7.6 points to current GDP rate of Moldova. Moreover, if Republic of Moldova makes a favorable climate for foreign direct investments attraction, the GDP expects to grow even higher, around 9.8 points compared to base line.

According to the study the Republic of Moldova should concentrate on DCFTA implementation as being the most credible development strategy. Its implementation will help to find the solutions for economic clauses. The dependence of the Republic of Moldova on European Union as number one trading partner guides it toward correct DCFTA implementation. Of course, the Republic of Moldova has to invest all its efforts to derive the highest possible benefits from DCFTA. Liberalization of trade between Republic of Moldova and European Union is important not only for economic stability and development of the country, but to ensure consumer surplus. Implementation of these general parts of DCFTA can fasten the process of trade liberalization and bring economic prosperity to the country.

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