

Evolution of the Moldova-EU Trade Flows after 2 Years of DCFTA Implementation

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Disclaimer

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Executive Summary

The continuous political instability in the Republic of Moldova, together with the less favourable national/regional economic situation (banking crisis, theft of the billion, MDL devaluation, US dollar appreciation, unfavourable climatic conditions, decrease in the international prices for some products, etc.) had a negative impact on the country's trade performance during the first two years of DCFTA implementation¹. The country's performance was already affected by the restrictive tariff and non-tariff measures imposed by the Russian Federation against the Republic of Moldova (with few subjective exceptions for some business entities), as well as by the regional geopolitical tensions (armed conflict in eastern Ukraine, economic sanctions and mutual trade restrictions between the EU and the Russian Federation).

At the same time, we must be aware that most of the tariff benefits existed under the previous unilateral tariff regime ATP (Autonomous Trade Preferences). Thus, the tariffs did not decrease dramatically under DCFTA (except for products subject to quotas falling under entry price and anti-circumvention mechanism), which would have led to a further 'explosion of exports'. On the other hand, all trade benefits obtained over time (GSP, ATP and finally DCFTA) could be fully harnessed with the expansion of commitments, not only in terms of tariffs, but also of all non-tariff components of DCFTA. Nonetheless, adapting to new circumstances needs a longer period of time.

In these circumstances, the official data show a lower value of exports (-2.3%) for 2015 due to the above-mentioned shocks, but after these constraints receded, the exports of the Republic of Moldova to the EU started growing again in 2016, exceeding the level of 2014 by 6.9%.

The agrifood products have benefited the most from DCFTA, as expected from the start. The value of their export increased by about 25% during the reference period, managing to compensate to a certain extent the loss of eastern markets. In addition, about 63% of the agrifood exports to the EU increased in terms of quantity.

Thus, naturally, the most dynamic agrifood exports consist of products subject to quotas falling under the anti-circumvention mechanism, where we note a major use of the allocated quotas (wheat, corn, barley, sugar), which indicates that the export potential is higher than the allowed levels. Also, we draw attention to the spectacular evolution of exports of products included in the category of processed cereals (ethyl alcohol). The evolution of wine export can be also appreciated, the quota for which was cancelled, as well as of the natural honey, which is also part of the few products of animal origin allowed to be exported to the EU. Of all agrifood products subject to quotas and exempted from entry prices, the quotas for grapes and plums were practically fully used. Unfortunately, the quota for apples remains unused.

Exports of non-agricultural products to the EU had a more stable evolution than to other destinations, even though their value decreased by 2.5% during the reference period. However, 68% of the non-agricultural exports to EU increased in terms of quantity. The categories of non-agricultural products that registered the highest

¹ To ensure the comparability of the statistical data available in national/international databases, this analysis was based on data for two whole calendar years (2015-2016), hereinafter referred to as the reference period, which were compared with data for the similar previous period (i.e. 2013-2014).

decrease in exports to the EU are dominated by those related to the textile industry (clothes and shoes), due to the lower demand for such products on the EU market.

In terms of geographic profile, the exports to 7 of the 10 most important EU countries for Moldovan exports registered a positive evolution. Obviously, the most important trade partner in this region, and in general, continues to be Romania, with a share of 25% in the country's total export, followed by Italy and Germany with 9.7% and 6.2%, respectively.

Despite many fears and speculations about the invasion of agrifood products from EU, the general image shows a contrary evolution. Thus, the agrifood imports from EU decreased by 15% during the reference period. Most of the products that dropped are in direct competition with the local products (undenatured ethyl alcohol, potatoes, live birds, concentrated milk and sour cream, cheese and curd). On the other side, the imports of sugar, bear and poultry grew. In addition, the positive evolutions of some imports were determined by the needs to develop the plant-growing and livestock sectors (sunflower and corn seeds for sowing or fertilised birds' eggs). All these show the inconsistency of the existing arguments supporting the theory of invasion by the European products.

The imports of non-agricultural products continue to be dominated by petroleum products. Even though, the value of their import decreased by 25% during the reference period, the quantity of exports increased on the background of low international prices for these categories of products. Meanwhile, the imports of a range of products decreased due to the constant drop in the re-exports to the Russian Federation market, including in the context of restrictions imposed by it against imports from the EU.

In addition, both the structure and the evolution of the main non-agricultural imports reveal the needs of the national industry, particularly of the specialised electric circuits and textile industries (insulated wire, copper wire, equipment for connection, fabrics, leather items, etc.), as well as the agricultural sector development (insecticides, tractors, etc.).

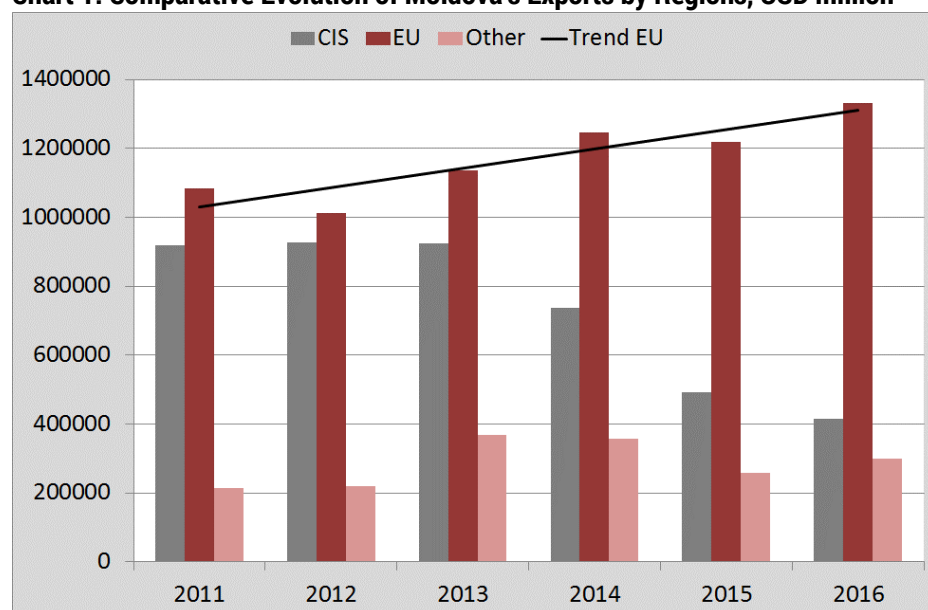
Thus, despite the existence of a range of constraints, the positive impact of the DCFTA on the trade flows registered by the Republic of Moldova in relation to the EU, shows the viability of assumptions supporting the opportunity to negotiate such a document. It is however a fact that its potential continues to be untapped, which shows the need to strengthen the institutional efforts in implementing all the assumed commitments.

I. Reflections on Moldova's Exports of Goods

Official data show that exports decreased in 2015 (-2.3%) due to the many shocks (political crisis, restrictive measures imposed by the Russian Federation for Moldovan products, the armed conflict in eastern Ukraine, mutual sanctions and restrictions between the EU and Russian Federation, banking crisis, theft of the billion, MDL devaluation, US dollar appreciation, unfavourable climatic conditions, decrease in the international prices for some products, etc.) that occurred during this period. But in 2016, once the constraints of 2015 receded, Moldova's exports to the EU registered a new increase, exceeding by 6.9% the level from 2014 (Chart 1).

In addition, the comparative analysis of exports by regions denotes a much more stable evolution of exports to the European Union compared to other destinations. Thus, the value of exports to the EU registered an upward trend for the whole analysed period.

Chart 1. Comparative Evolution of Moldova's Exports by Regions, USD million



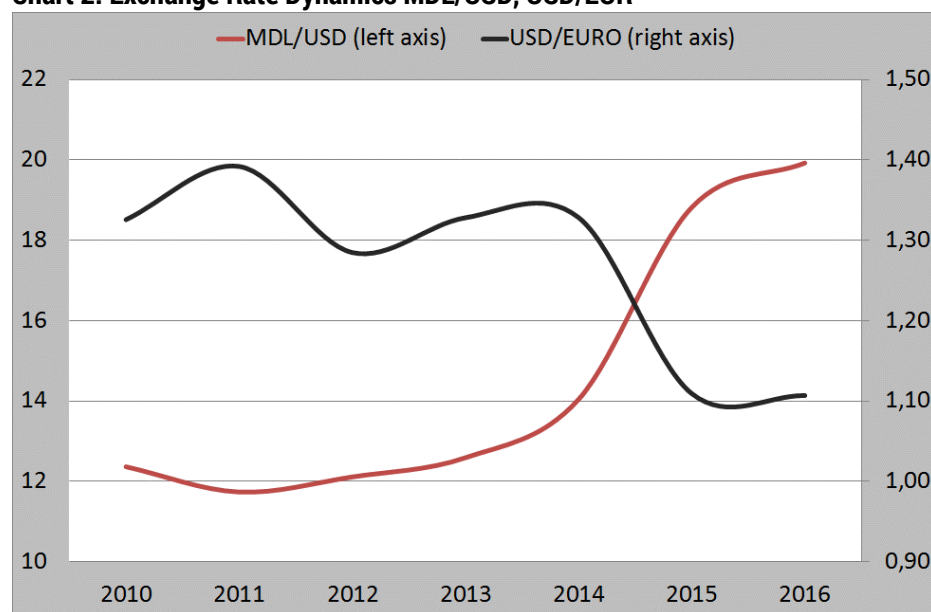
Source: Expert-Grup calculations based on NBS data

Nonetheless, the interpretation of data solely on the basis of value changes is not sufficient under the influence of macroeconomic factors. Among the most important factors are the sharp devaluation of the national currency against the major reference currencies, as well as the appreciation of the US dollar against euro (Chart 2). Last but not least, the decreasing prices for some products on the international markets had a separate influence, which affected the import prices in the EU (particularly the industrial ones)².

In addition, though 65% of total exports goes to the EU market, where transactions are performed in euros, the country's official statistics is calculated in US dollars. Thus, the devaluation of EUR against the US dollar (from 1.33 in 2014 to 1.10 in 2016) also contributed to the distortion of foreign trade data.

² Industrial import price index, euro area: [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Industrial_import_price_index_euro_area_\(EA-19\),_2006%E2%80%932016_\(2010_%3D_100\)_YB16-IL.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Industrial_import_price_index_euro_area_(EA-19),_2006%E2%80%932016_(2010_%3D_100)_YB16-IL.png)

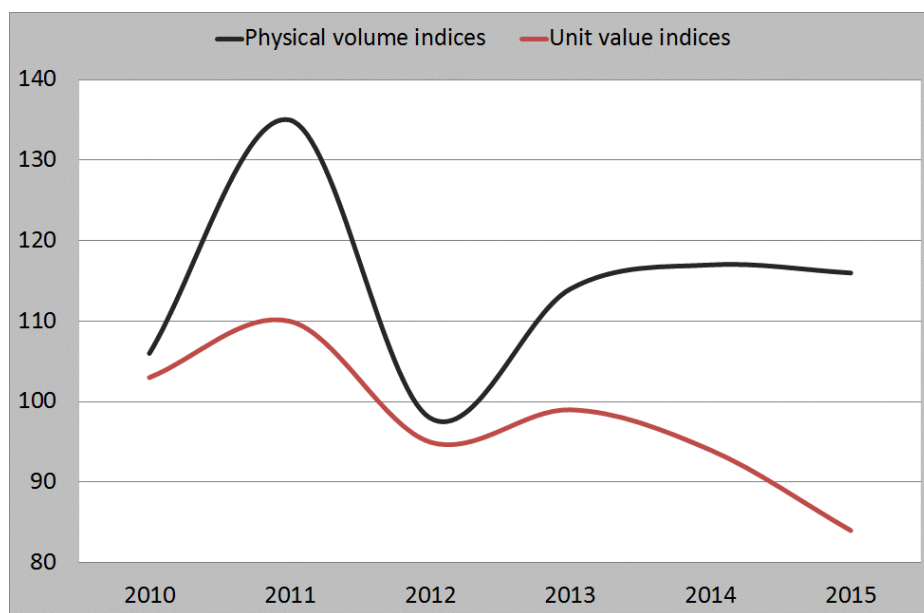
Chart 2. Exchange Rate Dynamics MDL/USD, USD/EUR



Source: Expert-Grup calculations based on NBM data

Hence, during the reference period the value of exports decreased in spite of the fact that 66% of exports to the EU market increased in terms of quantity. This means higher quantities exported at lower prices. This is confirmed by the chart below, which shows the upward trend of the physical volume index, despite the constant reduction in the unit value index (Chart 3).

Chart 3. Unit Value Index and Physical Volume Index for the Goods Exported to EU, y-o-y Change, %



Source: Expert-Grup calculations based on NBS data

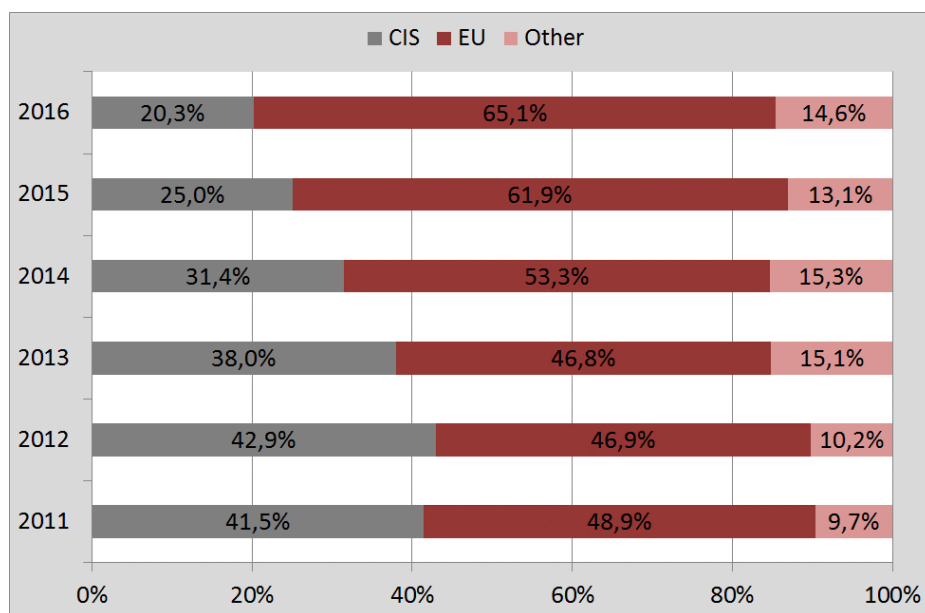
In addition, the structure of exports also suffered cardinal changes. These were determined by the increasing value of exports to EU, on the one hand, and by the harmful influence of the restrictive measures applied by the Russian Federation, on the other hand. Hence, the share of the country's exports to CSI declined by up to 20% (Chart 4). Thus, note that, in absolute terms, the exports to the Russian Federation dropped mainly due to the dramatic reduction of re-exports (which are foreign goods that previously were imported into the country without suffering any major transformations)³.

Moreover, if the re-exports to the Russian Federation are excluded (as the real sector of the economy does not contribute to them at all), then the *actual* exports to EU accounted to 67% in 2015 (much higher than the officially stated figure of 62%)⁴.

Chart 4. Share of Moldova's Exports by Regions, 2011-2016, %

³ In 2015 the re-exports of foreign goods to the Russian Federation reached a value of USD 139 million (USD 400 million in 2013), representing about 58% of total exports to the Russian Federation.

⁴ Data on re-exports of the Republic of Moldova for 2016 are not available yet on public resources.

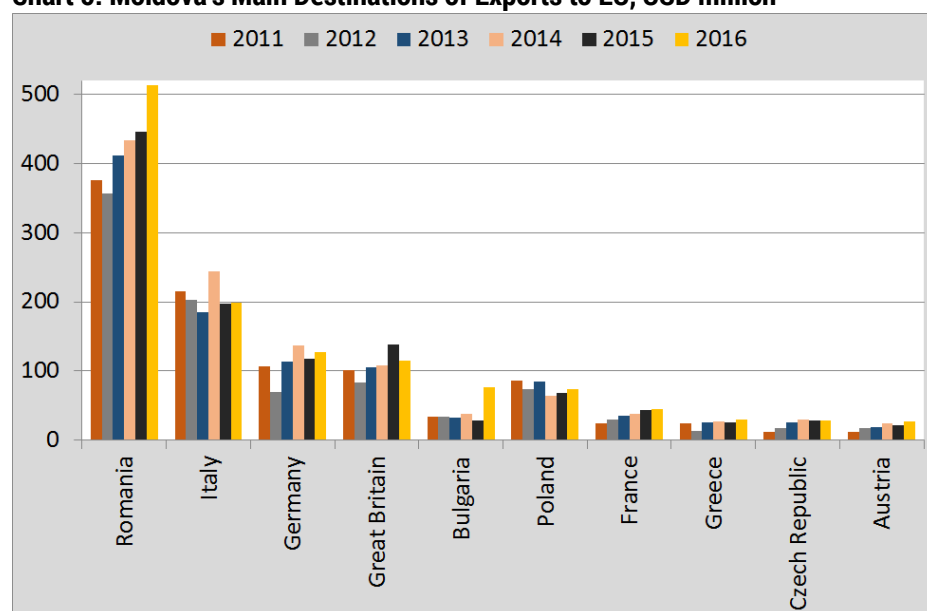


Source: Expert-Grup calculations based on NBS data

The exports to EU broken down by countries show a positive evolution for most of the destinations. Besides, the Moldovan exports to 7 of the 10⁵ most important EU countries for Moldovan exports increased. Obviously, the most important trade partner in this region, and in general, continues to be Romania, with a share of 25% in the country's total export (or about 39% of total export to EU). It is followed by Italy and Germany with 9.7% and 6.2%, respectively (Chart 5).

⁵ The first 10 destinations account for about 93% of the total export to EU.

Chart 5. Moldova's Main Destinations of Exports to EU, USD million



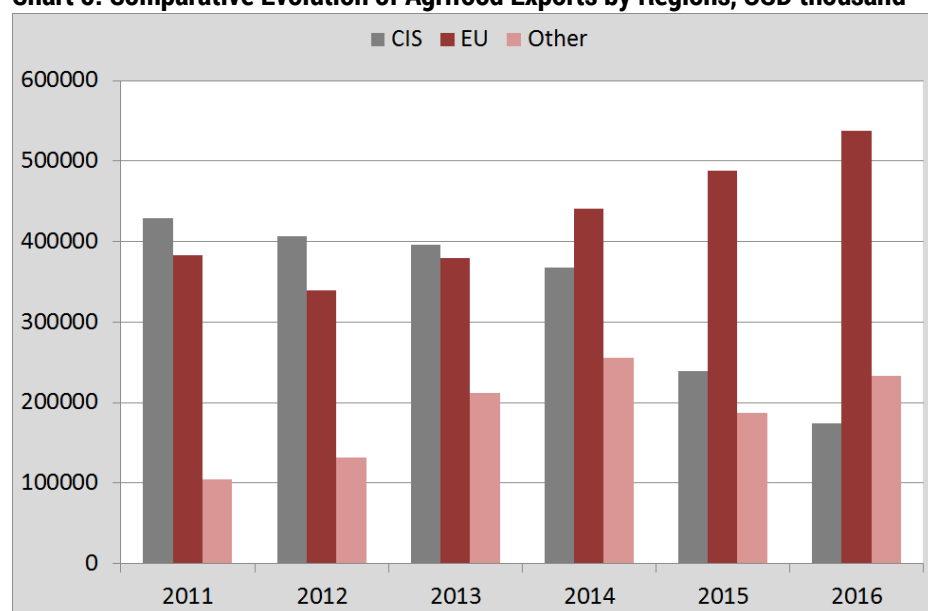
Source: Expert-Grup calculations based on NBS data

During the reference period the exports to Romania (+14%) and the United Kingdom of Great Britain (+18%) increased, mainly due to the higher supplies of sunflower seeds to these markets, which registered a 4-fold and 3-fold increase, respectively. Also, the exports to Bulgaria (+48%) had a positive dynamics thanks to the 7-fold increase in exports of sugar and sunflower seeds. The reduction in exports to other destinations, such as Italy (-8%) and Poland (-5%) was determined by the decrease in exports of sunflower seeds oil (-29%) and clothes (-23%), respectively.

II. Moldova's Agrifood Exports to EU

The evolution of agrifood exports to the EU was influenced both by the climatic conditions and trade restrictions imposed by the Russian Federation with the signature of the EU Association Agreement. The regional tensions also had an indirect negative impact on the evolution of exports of agrifood products, which resulted in economic sanctions and trade restrictions applied mutually between the EU and the Russian Federation. Even under these conditions, the value of exports of these products to EU grew by about 25% during the reference period, succeeding to compensate to a certain extent the loss of eastern markets (Chart 6).

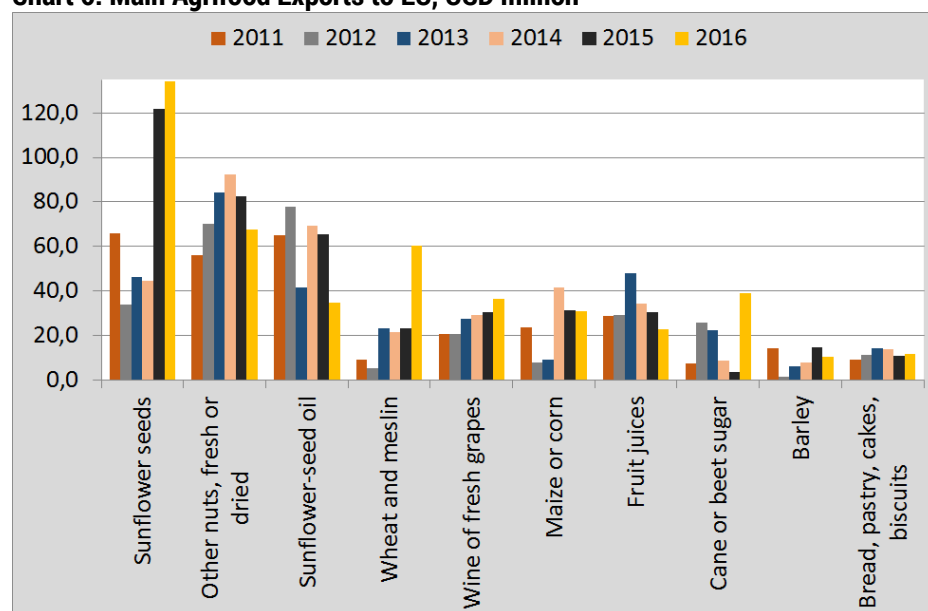
Chart 5. Comparative Evolution of Agrifood Exports by Regions, USD thousand



Source: Expert-Grup calculations based on NBS data

Sunflower seeds are the main agrifood products exported to EU, with a 25% share in exports of agrifood products to EU, of which 44% are exported to Romania and 32% to the United Kingdom. The exports of walnuts account for 15% of agrifood exports to EU, the main destinations being France (37%), followed by Austria and Germany (14% each). The sunflower oil, in its turn, accounts for 10% of agrifood exports to EU, delivered mostly to Spain (45%) and Italy (40%) (Chart 7).

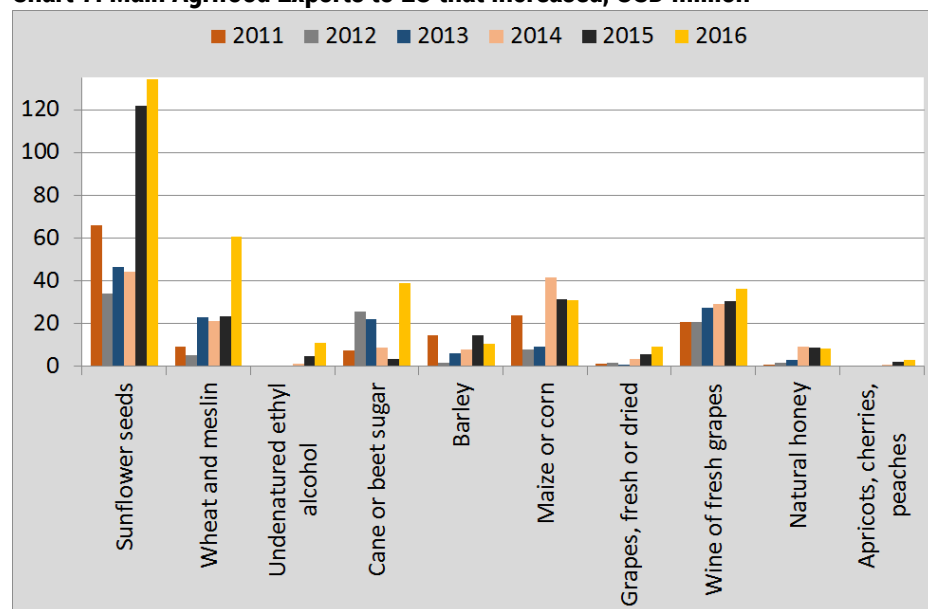
Chart 6. Main Agrifood Exports to EU, USD million



Source: Expert-Grup calculations based on NBS data

As we can see, the exports of sunflower seeds were the most dynamic, registering a spectacular 2.8-fold increase compared to the previous period. In addition, we note that among the most dynamic exports are the products subject to quotas falling under the anti-circumvention mechanism (we will analyse their evolution later). The evolution of wine export can also be appreciated (+18%), the quota for which was cancelled, as well as of the natural honey (+40%) – one of the few products of animal origin allowed to be exported to EU (Chart 8).

Chart 7. Main Agrifood Exports to EU that Increased, USD million

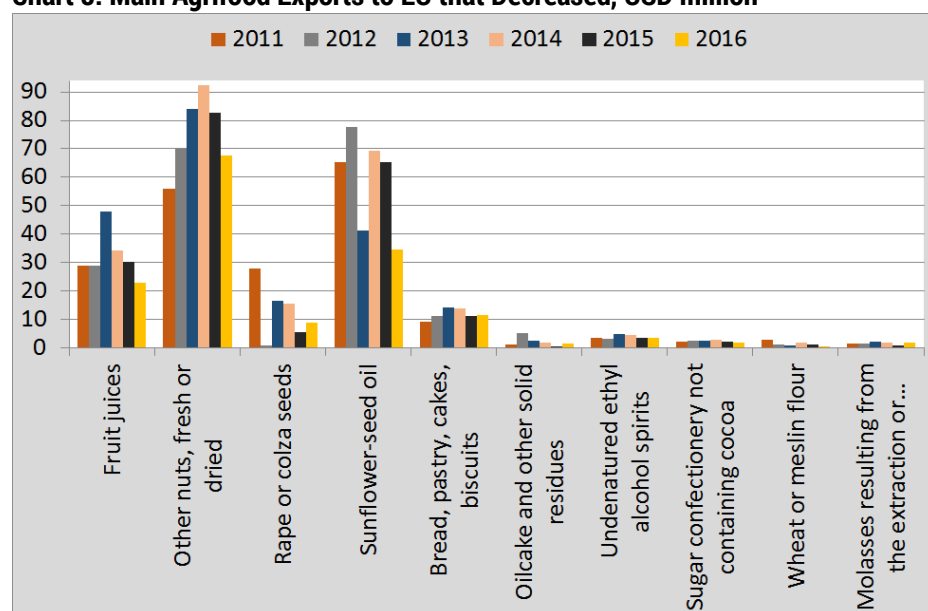


Source: Expert-Grup calculations based on NBS data

At the same time, exports to EU either grew or dropped for a range of agrifood products (Chart 9). Thus, the juice export fell by about 35% during the reference period due to the 62% decrease in exports to Germany. The export of rape seeds diminished by 55% in the context of the lower exports to Romania and United Kingdom, which decreased by 61% and 74%, respectively⁶.

⁶ Though, the data on these countries' imports show a 3.5-fold increase in imports from the Republic of Moldova to Romania and the lack of imports to the United Kingdom.

Chart 8. Main Agrifood Exports to EU that Decreased, USD million



Source: Expert-Grup calculations based on NBS data

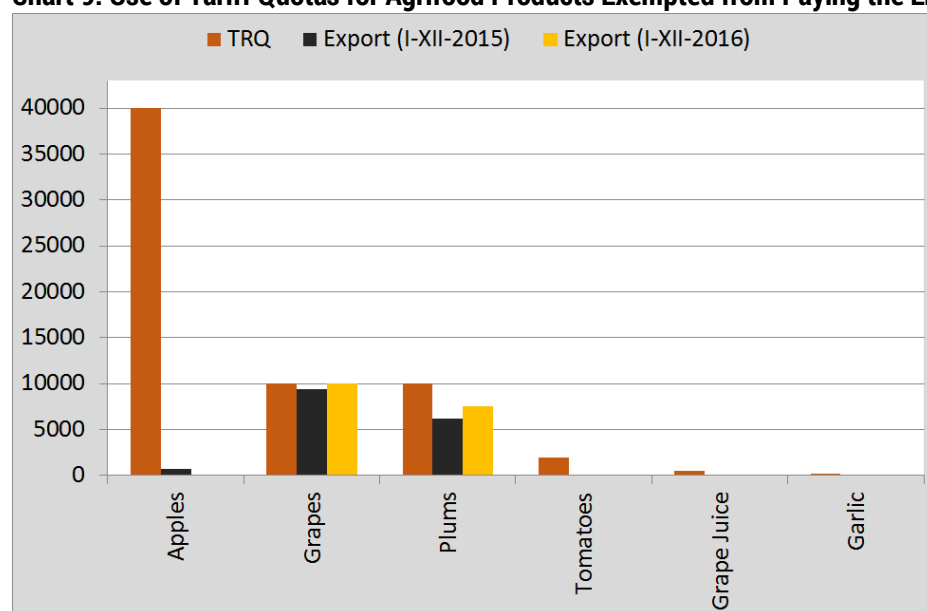
Though the value of exports decreased, the exports of some categories of products increased in terms of quantity. Thus, the value of exports of walnuts and sunflower seeds oil dropped by about 15% and 10%, respectively, while in quantity terms they augmented by 5% and 10%, respectively (during the reference period the exports prices decreased by 19% and 16%, respectively, determined by the evolutions of the international prices for these products).

III. Agrifood Exports Exempted from Annual Fees under the Tariff Quotas

Given that the huge difference between the previous trade regime and the current one under DCFTA impacted the agricultural products subject to quotas, the evolution of these exports is particularly important to analyse. As Moldovan businesses cannot export a range of products subject to quotas (such as citrus fruits or products of animal origin, etc.) due to objective grounds, we will focus only on those products that are eligible for export.

Thus, only two of six products subject to the tariff quotas (exempted from paying the entry price) were used to a certain extent. The tariff quota for grapes was used in a proportion of 94% in 2015 and 100% in 2016, and the one for plums - in proportion of 62% in 2015 and 75% in 2016. Unfortunately, the other tariff quotas remained unused (Chart 10).

Chart 9. Use of Tariff Quotas for Agrifood Products Exempted from Paying the Entry Price⁷, thousand tones



Source: Expert-Grup calculations based on MoE data

Given that the chart below shows only the use/ failure to use the tariff quotas, we decided to analyse below the evolution of exports of these categories of products (at 4 digit level of the Harmonized System⁸). Thus, we can note the same positive evolution only for two categories of products mentioned above (grapes and plums), which shows the usefulness of quotas allocated for these products (Chart 11).

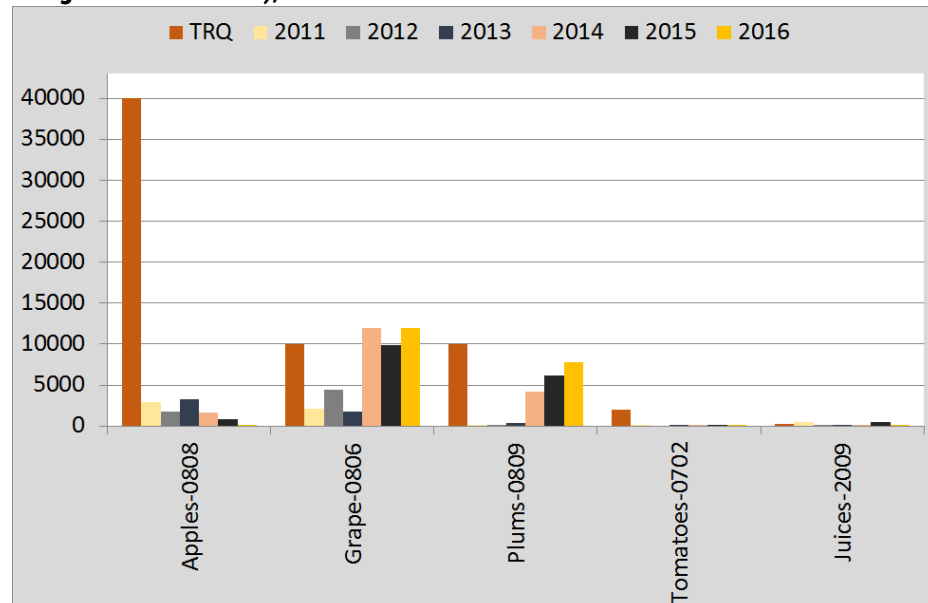
In addition, the evolution of apples exports was not satisfactory, being characterised by a stagnation and even a decrease over time (even though the historical exports were insignificant). Such an evolution could be explained by the occurrence of their surplus on the EU domestic market with the application of restrictions by the Russian Federation when imported from the EU. The tomatoes and garlic are not exported in the same way as other products massively exported by the Republic of Moldova, both to the EU and other destinations⁹.

⁷ TRQ - tariff rate quota

⁸ Statistical data disaggregated (at 9-digit level of the HS) on the basis of public data, which would make the analysis more exact, are not available for 2016 yet. However, considering the uniformity of products concerned, the analysis fully reflects the exports evolutions, except for exports of grape juice (which served as ground for excluding it from the chart).

⁹ 90% of the tomatoes exported to CSI countries (specifically to the Russian Federation and Belarus) are actually re-exports.

Chart 10. Evolution of Agrifood Exports to EU, Subject to Quotas and Exempted from Paying Entry Price (at 4-digit level of the HS), thousand tones

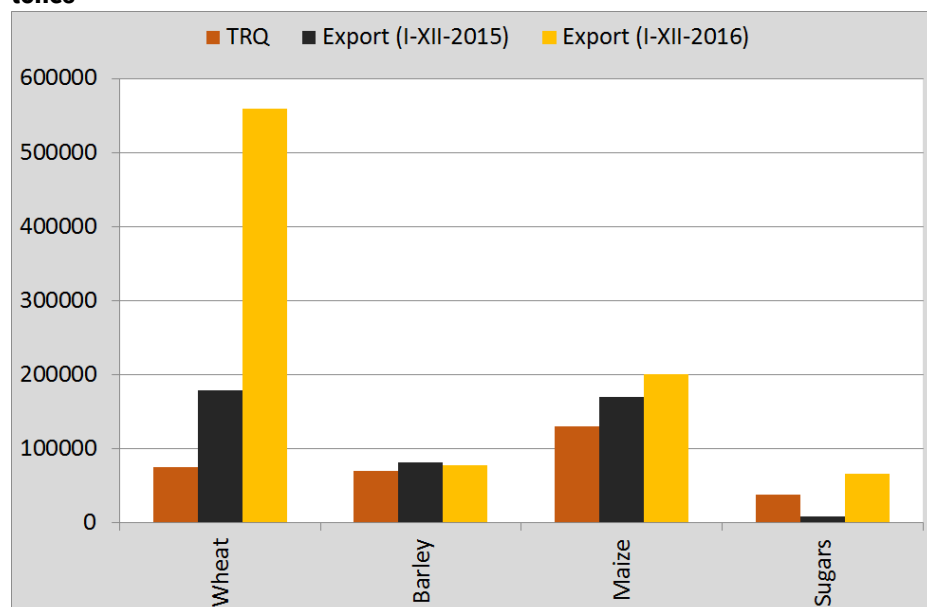


Source: Expert-Grup calculations based on NBS data

Regarding the export of agrifood products falling under the anti-circumvention mechanism, we can note a major use of the allocated quota, which indicates that the export potential is higher than the allowed levels. But, unlike the standard quota system, this one is more conventional, which allowed to exceed the maximum levels if the grounds leading to increases were justified (such as a better harvest or boosting the potential of setting up local business entities). Thus, in 2016 the quota for wheat was used in proportion of 746%, corn - 154%, barley and sugar - 111% and 177%, respectively¹⁰ (Chart 12).

¹⁰ There is a gap between official statistical data on wheat export and data on the use of this tariff quota (430 thousand tones vs. 560 thousand tones)

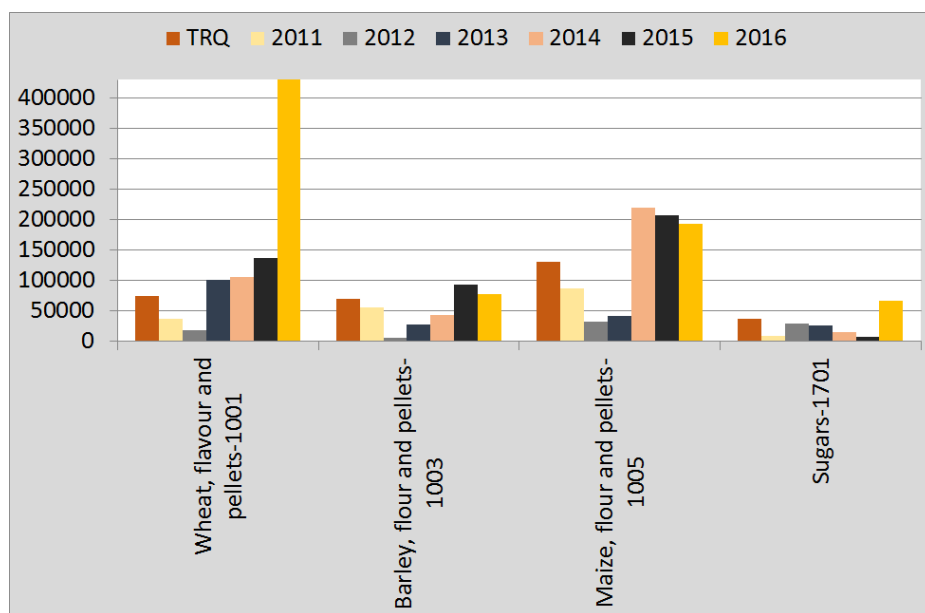
Chart 11. Use of Tariff Quotas for Agrifood Products Subject to Anti-Circumvention Mechanism, thousand tones



Source: Expert-Grup calculations based on MoE data

Given that the chart below shows only the use/ failure to use the tariff quotas, we decided to analyse below the evolution of exports of these categories of products (at the same 4-digit level of the Harmonized System). Thus, analysing the evolution of exports of agrifood products subject to quotas falling under the anti-circumvention mechanism, we can easily find a positive impact on all the categories of exported products (Chart 13).

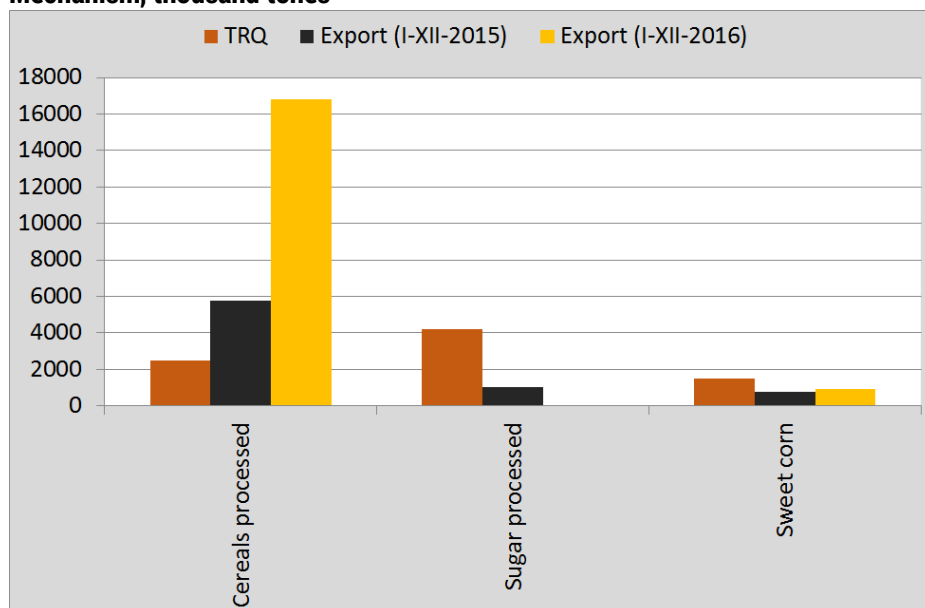
Chart 12. Evolution of Agrifood Exports to EU Subject to Quotas and Falling under the Anti-Circumvention Mechanism (at 4-digit level of the HS), thousand tones



Source: Expert-Grup calculations based on NBS data

As regards the use of quotas allocated for the processed agricultural products, we draw attention to the spectacular evolution of exports of products included in the category of processed cereal, used in proportion of 672%. Actually, this evolution was due exclusively to the ethyl alcohol exports once the facilities of setting up a local business entity increased. Note that this type of product was not exported in the previous years. The quota for sweet corn was used in a smaller proportion of 63%, while the one for processed sugars remains unused (though this category of products is not characteristic of the local food industry) (Chart 14).

Chart 13. Use of Tariff Quotas for Processed Agricultural Products Subject to Anti-Circumvention Mechanism, thousand tonnes

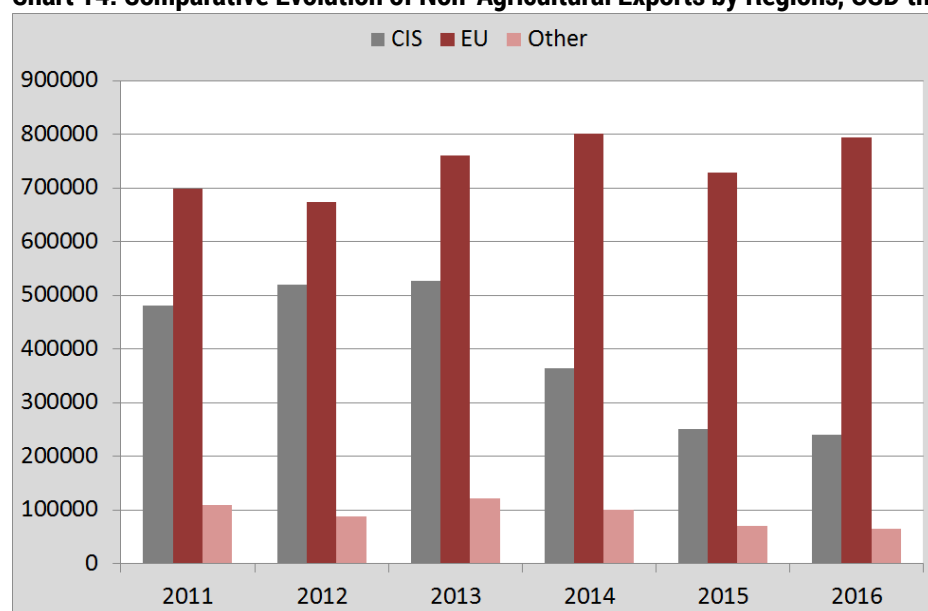


Source: Expert-Grup calculations based on NBS data

IV. Moldova's Non-Agricultural Exports to EU

The non-agricultural products were exported on the background of a slower activity in some EU industry sectors, including of some direct beneficiaries of the main categories of products exported by the Republic of Moldova, in tandem with lower import prices. Even under these conditions, the export of non-agricultural products to EU registered a positive trend, compared to other destinations. Though their value diminished by 2.5% during the reference period, 68% of the exports increased in terms of quantity.

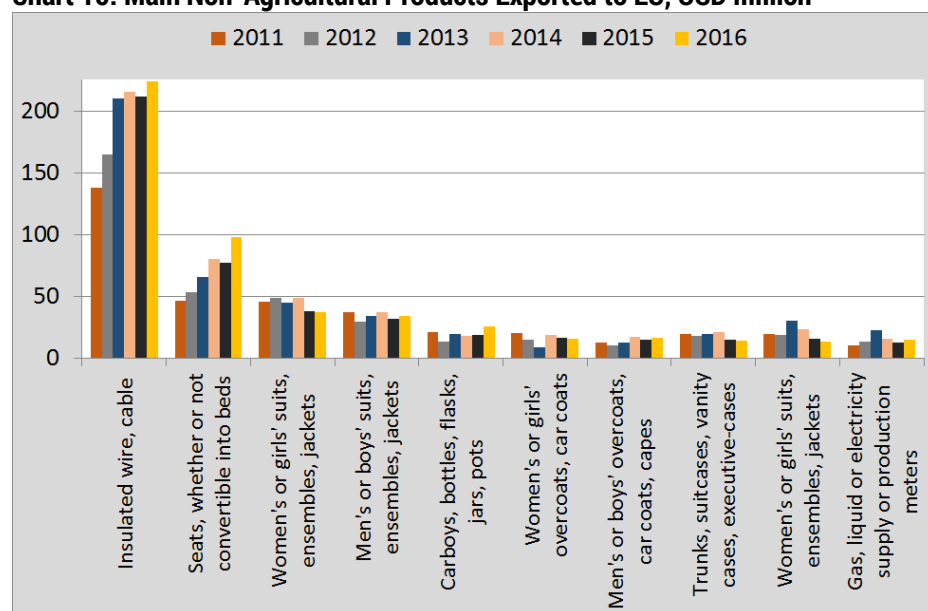
Chart 14. Comparative Evolution of Non-Agricultural Exports by Regions, USD thousand



Source: Expert-Grup calculations based on NBS data

Wires and cables remain among the main non-agricultural products exported to EU, accounting for over 28% of all non-agricultural exports to EU, being exported in a proportion of 92% to Romania. They are followed by the exports of seats (stuffing) that account for 12% of non-agricultural exports to EU, the main destinations being Netherlands and Romania with proportions of 79% and 19%, respectively. For the rest, the textile industry products (clothes and shoes) are the most exported non-agricultural products (Chart 16).

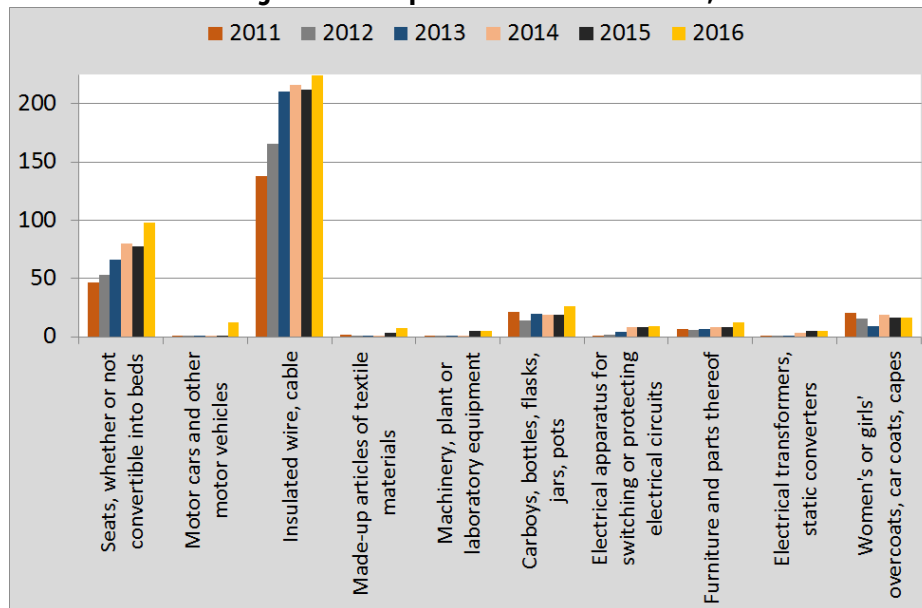
Chart 15. Main Non-Agricultural Products Exported to EU, USD million



Source: Expert-Grup calculations based on NBS data

Analysing the most exported products, we can note that the export of two categories of non-agricultural products registered significant increases in absolute terms. Thus, the exports of seats (stuffing) are leading with a positive dynamics of +20%. Even though the next group with the highest increase includes the cars, this is actually the re-exported vehicles previously under temporary admission, which rather shows the scale of the phenomenon of introducing vehicles and using them inside the country without their registration and without paying the import taxes. The exports of wires and cables also increased significantly (even though in relative terms of only 2%).

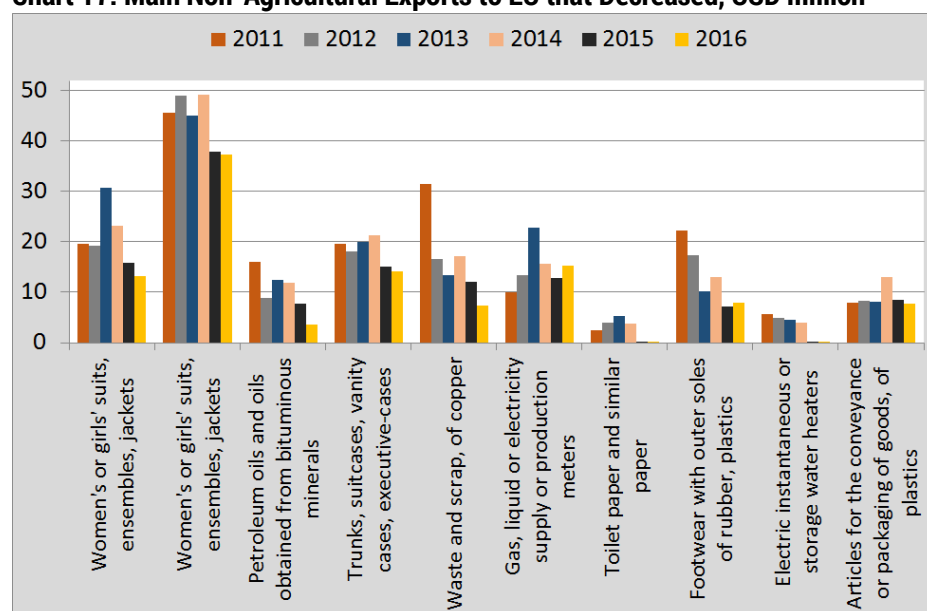
Chart 16. Main Non-Agricultural Exports to EU that Increased, USD million



Source: Expert-Grup calculations based on NBS data

On the other side, the categories of non-agricultural products that registered export reductions to the EU are dominated by those related to the textile industry (clothes and shoes, travelling bags). In addition, the reduced exports of petroleum oils and copper scrap can be explained by the reduced re-exports. Unfortunately, the export of electricity meters dropped by 27% following the reduction in deliveries to Latvia. The export of water heaters also diminished dramatically by about 100% following the reduction in deliveries to Romania. But the export of toilet paper dropped to zero due to reduction in re-exports to the Lithuania.

Chart 17. Main Non-Agricultural Exports to EU that Decreased, USD million

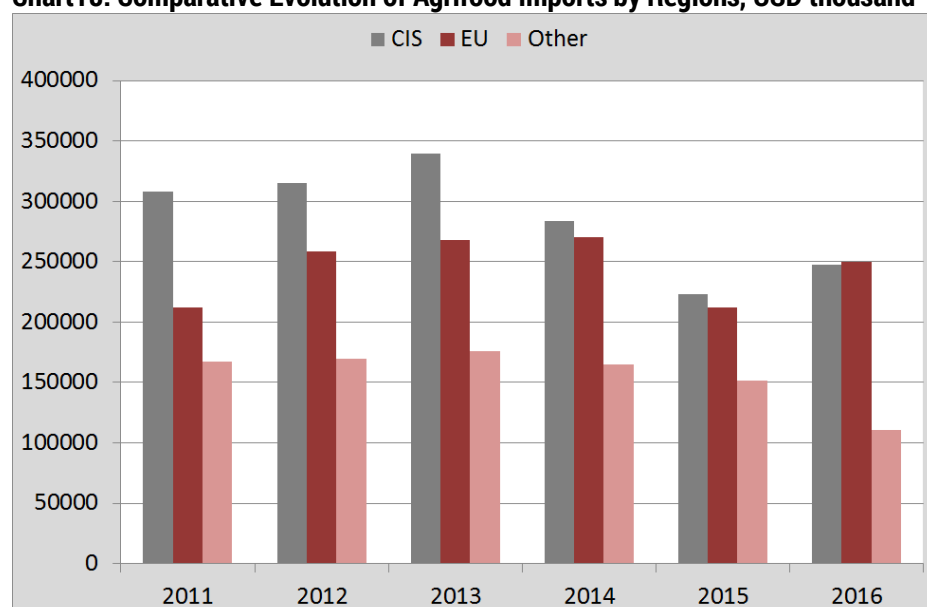


Source: Expert-Grup calculations based on NBS data

V. Moldova's Imports of Agrifood Products from EU

Despite many fears and speculations about the invasion of agrifood products from EU, the general image shows a contrary evolution. Thus, the agrifood imports from EU registered a negative trend during the analysed period, and during the reference period it shrank by 15% (Chart 19).

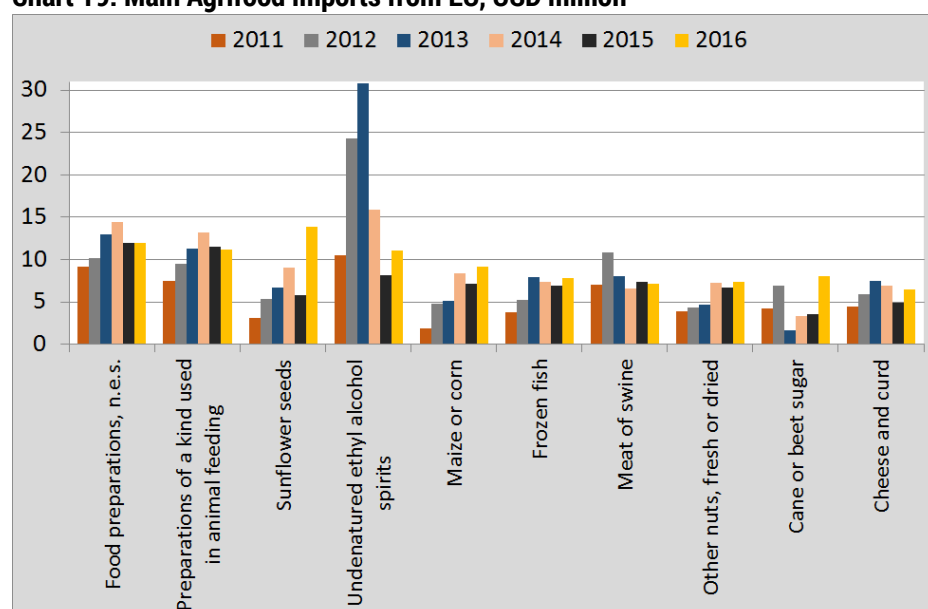
Chart18. Comparative Evolution of Agrifood Imports by Regions, USD thousand



Source: Expert-Grup calculations based on NBS data

The imports of the main agrifood products from EU had a mixed evolution. Thus, the evolution of imports of food preparations not included anywhere else denotes the decrease in the demand for these import products due to their higher prices (disaggregation does not allow to understand the content of this tariff group). The import of preparations used to feed animals ranks the second. The evolutions of imports of other categories of products will be analysed below.

Chart 19. Main Agrifood Imports from EU, USD million



Source: Expert-Grup calculations based on NBS data

We will analyse in details the agrifood imports that grew the most during the reference period (Chart 21). Thus, the most exported products were the residues resulting from the extraction of soya-bean oil that increased 9.6 times during the reference period, originating from Romania (even though the imports of these products were insignificant before). The import of sugar also increased 2.3 times during the reference period due to the increased deliveries from Poland (reaching thus the level of imports from CSI).

While the 27% increase in the imports of poultry during the reference period can be attributed to the indirect effect of the surplus of these products on the domestic market caused by the trade restrictions imposed by the Russian Federation against these products imported from the EU, especially considering the origin of these products (Poland).

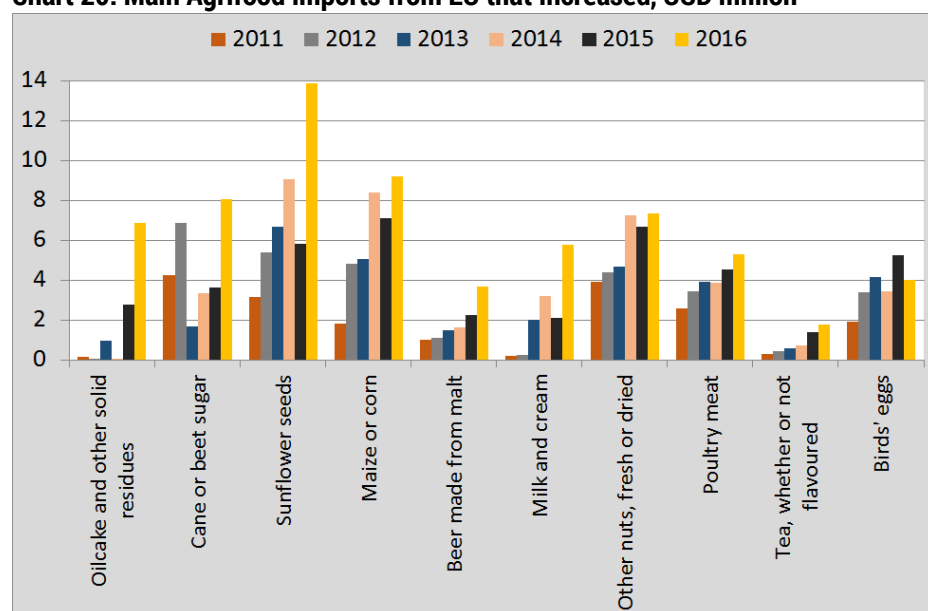
The positive evolutions of imports of sunflower seeds and corn (25% and 21% respectively) were determined by the imports of seeds for planting to improve the plant-growing sector. Similarly, the increase in the imports of birds' eggs (+23%) consisted exclusively of fertilised eggs for hatching, and this evolution was triggered by the revitalisation of the poultry sector.

The import of beer experienced a positive dynamics, increasing twice with the abolition of customs duties on imports. Note, however, that these imports are significantly lower than the imports from other regions, with a share of 34% (to compare CSI - 65%).

The imports of milk and sour cream from EU increased by 52% during the reference period. However, the upward trend was due exclusively to the import of bulk milk, performed by a local company specialised in processing milk and producing dairy products. Thus, this company has expanded its production facilities in Romania to meet the needs of raw material, given the constant reduction of the herd of cattle in our country.

The 18% increase in the import of walnuts is in fact the re-export of products imported under suspension arrangements to be lately shelled and delivered to the commissioner, using cheap labor force.

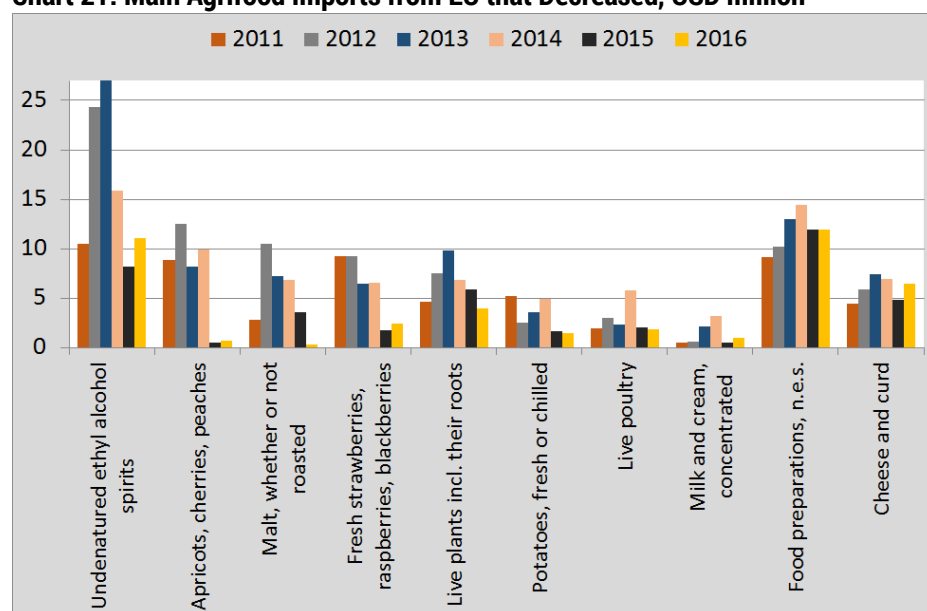
Chart 20. Main Agrifood Imports from EU that Increased, USD million



Source: Expert-Grup calculations based on NBS data

At the same time, a range of imports diminished, such as the import of undenatured ethyl alcohol (strong alcoholic beverages), the import of which decreased by 59% during the reference period, but these were actually re-exports (Duty free). Other decreases were in the imports of apricots, cherry, peaches, etc., and other fresh products (berries) that practically dropped to zero and that were actually products characteristic to the re-export to the Russian Federation (decrease caused by the import restrictions applied by the Russian Federation against the EU). The import of some products directly competitive with the local products, such as potatoes, concentrated milk and sour cream, cheese and curd, also dropped (Chart 22).

Chart 21. Main Agrifood Imports from EU that Decreased, USD million

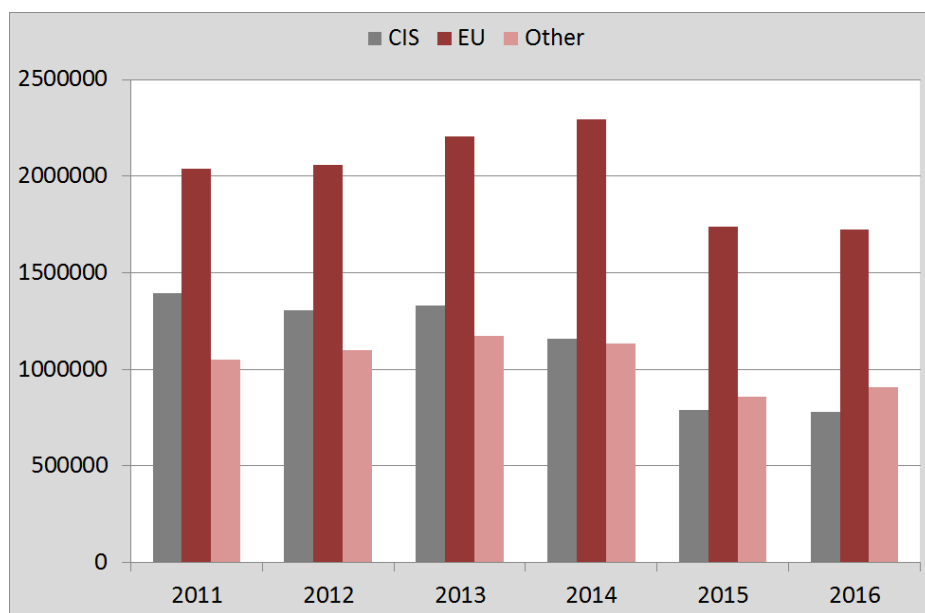


Source: Expert-Grup calculations based on NBS data

VI. Non-Agricultural Imports from EU

On the one hand, the evolution of non-agricultural imports from EU was impacted by the national industry's needs, and on the other hand by the lower re-exports due to the import restrictions applied by the Russian Federation against EU. The low international prices for petroleum products also had the major impact. Under these conditions, the non-agricultural imports from EU declined by 23%, affecting about 81% of the total non-agricultural imports from EU (Chart 23).

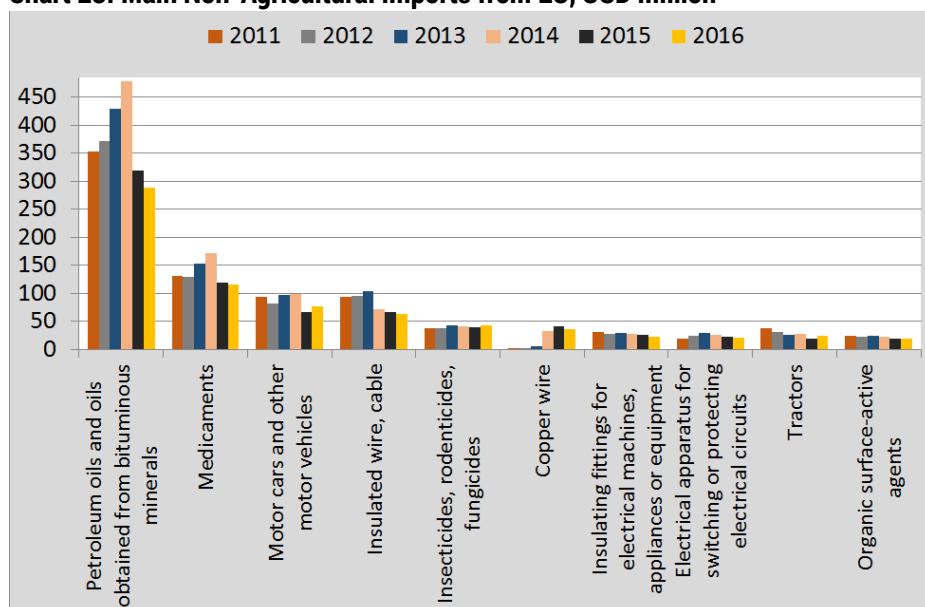
Chart 22. Comparative Evolution of Non-Agricultural Imports by Regions, USD thousand



Source: Expert-Grup calculations based on NBS data

The non-agricultural imports continue to be dominated by the petroleum oils that account for 17% of all non-agricultural imports from EU, mainly from Romania (88%). These, followed by the imports of medicine, that account for 7% of all non-agricultural imports from EU, are imported from Italy, Germany, Hungary, France, Slovenia (22%, 14%, 11%, 10%). Another important share of 5% is held by cars imported from Germany (40%), United Kingdom of Great Britain (22%) and the Czech Republic (16%). In addition, the structure of the main non-agricultural imports denotes the needs of the national industry, particularly the production of electric circuits from wires (insulated wire, copper wire, insulating fittings equipment for connection, etc.), as well as the agricultural sector development (insecticides, tractors, etc.) (Chart 24).

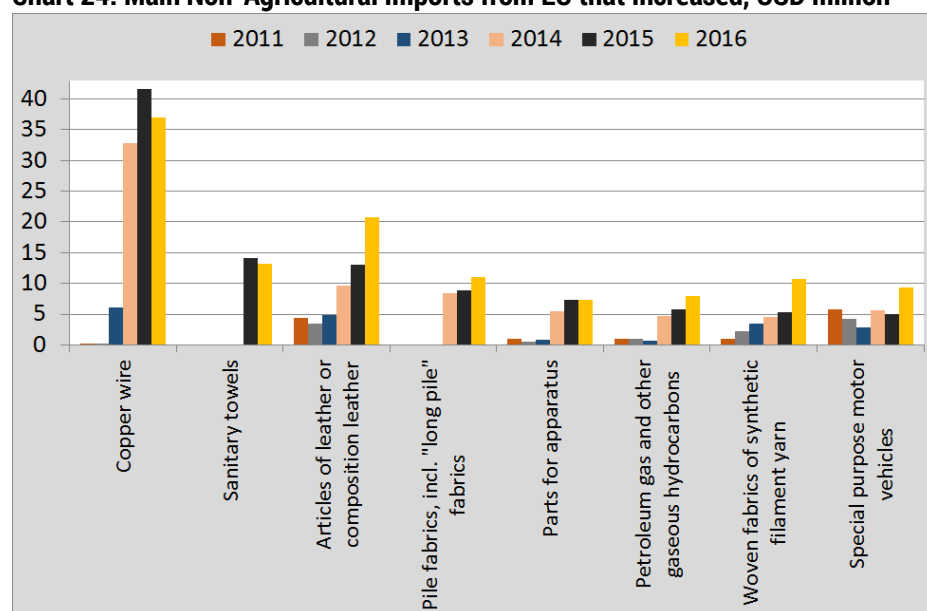
Chart 23. Main Non-Agricultural Imports from EU, USD million



Source: Expert-Grup calculations based on NBS data

The imports of copper wire are the most dynamic, increasing 2 times, being used exclusively in the electric circuits industry. We also could mention the 2.4-fold increase in the import of leather items during the reference period, products used in the auto upholstery industry. The substantial leap (from zero) of imports of hygienic items was due to the approval of the new Combined Nomenclature and to the introduction of a new tariff position, which didn't exist before. Last but not least, we can mention the higher imports of products used in the textile industry (velvet, synthetic fabrics, clothing accessories).

Chart 24. Main Non-Agricultural Imports from EU that Increased, USD million

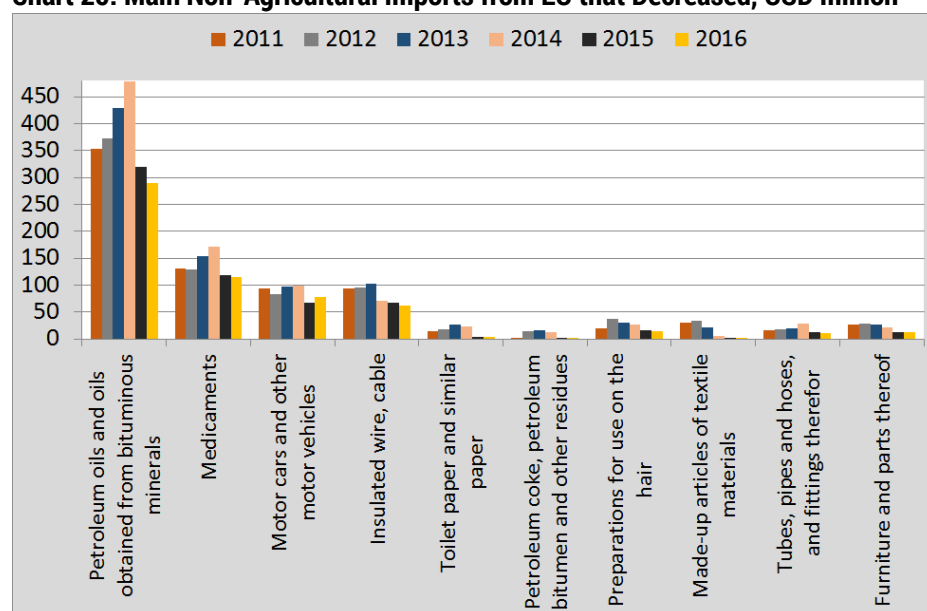


Source: Expert-Grup calculations based on NBS data

The imports of a range of non-agricultural products declined in terms of value, but some of them increased in terms of quantity. Thus, the value of petroleum oils import decreased by 33% during the reference period, while its quantity increased in the context of low international prices for these categories of products.

Meanwhile, the imports of a range of products decreased due to the constant drop in the re-exports to the Russian Federation market, including in the context of restrictions imposed by it against imports from EU. Thus, the imports of medicine (-28%), hygienic papers (-87%), hair care products (-46%) and furniture (-48%) reduced during the reference period due to the lower re-exports to this destination.

Chart 25. Main Non-Agricultural Imports from EU that Decreased, USD million



Source: Expert-Grup calculations based on NBS data

The imports of raw materials for the textile industry, such as the dress patterns (-90%), also stagnated due to the low demand for these categories of products on the EU market (which implicitly determined the lower re-exports). At the same time, the import of plastic pipes declined (-50%) probably due to the decrease in constructions during the reference period.

VII. Conclusions

The first two years of DCFTA implementation were marked by serious internal and external economic and political issues that affected the country's trade performances and generated some speculations about the benefits and opportunities of this agreement. But, even under these conditions, both the viability and the potential of this agreement was proven successfully, and the above analysis of statistical data supports the sustainability of these arguments:

- Official data show that in 2015 the exports decreased (-2.3%) due to many constraints (political crisis, restrictive measures imposed by the Russian Federation for Moldovan products, the armed conflict in the eastern Ukraine, mutual sanctions and restrictions between the EU and Russian Federation, banking crisis, theft of the billion, MDL devaluation, US dollar appreciation, unfavourable climatic conditions, decrease in the international prices for some products, etc.). But in 2016, once the constraints of 2015 receded, Moldova's exports to the EU registered a new increase, exceeding by 6.9% the level from 2014. Though, in terms of value, their evolution was modest, 66% of exports to the EU market grew in terms of quantity.

- In addition, the evolution of agrifood exports to EU was influenced both by the climatic conditions and trade restrictions imposed by the Russian Federation with the signature of the EU Association Agreement. The regional tensions also had an indirect negative impact on the evolution of exports of agrifood products, which resulted in economic sanctions and trade restrictions applied mutually between the EU and the Russian Federation. Even under these conditions, the value of exports of these products grew by about 25% during the reference period, succeeding to compensate to a certain extent the loss of eastern markets.
- The most dynamic agrifood exports consist of products subject to quotas falling under the anti-circumvention mechanism, where we note a major use of the allocated quotas (wheat, corn, barley, sugar), which indicates that the export potential is higher than the allowed levels. Of all agrifood products subject to quotas and exempted from entry prices, the quotas for grapes and plums were practically fully used. Unfortunately, the quota for apples remains unused.
- The non-agricultural products were exported on the background of a slower activity in some EU industry sectors, including of some direct beneficiaries of the main categories of products exported by the Republic of Moldova, in tandem with lower import prices. Even under these conditions, the export of industrial products to the EU registered a positive trend, compared to other destinations. Though their value diminished by 2.5% during the reference period, 68% of the exports increased in terms of quantity.
- Despite many fears and speculations about the invasion of agrifood products from EU, the general image shows a contrary evolution. Thus, the agrifood imports from EU registered a negative trend during the analysed period, and during the reference period it shrank by 15%.
- On the one hand, the evolution of non-agricultural imports from EU was impacted by the national industry's needs, and on the other hand by the lower re-exports due to the import restrictions applied by the Russian Federation against EU. The low international prices for petroleum products also had the major impact. Under these conditions, the non-agricultural imports from EU declined by 23%, affecting about 81% of total imports from EU.

In addition, to extend the benefits and use all opportunities offered by DCFTA, a number of actions should be taken in order to strengthen the bilateral trade relations under the new agreement and obtain positive long-term economic effects:

- Expedite the economic reforms stated in the Association Agreement, strictly meeting the commitments assumed under it (according to the National Plan implementing the RM-EU Association Agreement).
- Enforce the efforts targeting the inclusion of the Republic of Moldova in the group of third countries with the right to export products of animal origin to the EU market.
- Renegotiate the volume of the existing quotas to increase them for the categories of products that proved a higher export potential.
- Assess constantly the economic sectors that could be damaged and then apply the trade protective measures provided for in the agreement.

- Provide the necessary support to local manufacturers to facilitate the entry on new markets or enhance their competitiveness on the domestic market.
- Support and encourage the deep structural transformations to raise the competitiveness of the national economy.
- Continue raising the business environment's/society's awareness of the opportunities and advantages offered by DCFTA, particularly in the context of the anti-EU propaganda.
- Institute a communication mechanism securing a coherent information flow on the degree of DCFTA implementation, and present the steps made and the benefits for the economy.

About Expert-Grup

WHO WE ARE

Expert-Grup is a Moldovan non-governmental and not-for-profit organization specialized in economic and policy research. Expert-Grup does not represent any economic, corporate or political interests. As an independent organization, Expert-Grup reflects the ideals of young intellectuals from Moldova, who set up the institution with the purpose of contributing to the country's development. Among other types of organizations in the Moldovan civil society, Expert-Grup positions itself as a politically and ideologically neutral think-tank.

OUR ACTIVITIES

Our core activities are economic analysis and forecasts, and public policy research. In this area, we offer a wide range of analytical products and services helping our beneficiaries to take decisions supporting the development path of Moldova. Our key competence consists in the ability to provide professional, objective and high-quality research in such areas as:

- Macroeconomic analyses and forecasts;
- Political economy;
- Public finance;
- Human development and poverty reduction;
- Labor market and consumers' behavior;
- Foreign trade;
- Financial markets;
- Economy of European integration;
- Economic analysis by sectors;
- Regional and local economic development;
- Energy and economy of environment.

PARTNERS AND DONORS

During 2006–2015, Expert-Grup implemented over 80 research and advocacy projects in various areas related to economic researches and public policies. Over 100 experts, both affiliated and not affiliated to the institution, from Moldova and abroad, were involved in these projects. We have worked with such international institutions as the World Bank, Soros Foundation Moldova, East Europe Foundation, Konrad Adenauer Foundation, Balkan Trust for Democracy, Black Sea Trust, Friedrich Ebert Foundation, UNDP Moldova, UNICEF, European Commission, Council of Europe, Open Society Foundation, Swiss Agency for Development and Cooperation, UK Department for International Development, Organisation for Economic Co-operation and Development. Since 2008, Expert-Grup has been member of the Policy Association for an Open Society - an international network consisting of 56 think-tanks from various European countries.