National Institute for Economic Research

Republic of Moldova: challenges and prospects on the accession to the Customs Union Russia - Kazakhstan-Belarus vs. concluding the Deep and Comprehensive Free Trade Agreement with the European Union

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Abbreviations

C.P. – compliant product

CEFTA 2006 - Central European Free Trade Agreement

CIS – Commonwealth of Independent States

CU – Customs Union

DCFTA – Deep and Comprehensive Free Trade Agreement

DCP - Domestic Commercial Preferences

EU - European Union

FDI – Foreign Direct Investments

FTA – Free Trade Agreement

GATT – General Agreement on Tariffs and Trade

GDP – Gross Domestic Product

ITII – Intraregional Trade Intensity Index

PRTA – Preferential Regional Trade Agreement

WTO – World Trade Organization

Introduction

As of its independence, the economy of the Republic of Moldova can be characterized as a long and troublesome process of transition to market economy, which mostly caused the gradual loss of the production potential that once existed and the creation of strong dependence on exogenous growth factors, determined by the evolution of the main economic partners.

The growth pace of the previous decade which, on one hand, represented a hopeful sign of national economy recovery, on the other hand proved as extremely prone to various shocks, both external and internal, and the economic growth reflected a relatively high degree of asymmetry in time, characterized by strong slowdowns in growth.

The reforms implemented during the transition period failed to establish viable institutions required for the operation of the market economy. These and the business environment, accordingly, signal a series of shortcomings. Despite the promoted liberalization policies, the investments are very law, while the economy is in critical need of such investments.

The multiple constraints in the path of the business environment, in the context of the commercial liberalization wave of the past decade, generated related repercussions on the business environment. It can hardly cope with the external competition both on the domestic market and on external markets, but also delays the modifying process of the national economy structure. Currently, the Republic of Moldova is one of the few countries in the region where industry has a relatively low share in the GDP, close to the level held by agriculture. It's contribution to the GDP is significant, that, in conditions of low upgrade of this sector, increases, the vulnerability of economic growth to various shocks.

The circumstances became much more subtle as a result of intensified emigration process of the population, in fact able to work, that caused also a mass brain drain. The negative effects of labor force emigration were somehow compensated by the remittances thereof, which, for many years, represented an important factor of the national economy growth. At the same time, these do not represent a sustainable source of growth, and hide in their shadows a series of other less positive effects on economic development: a constant increase of imports, the delay of certain reforms that would create a sustainable growth basis, the entrepreneurs' bias for activities with low investment intensity, which generally also imply a low added value, the development of re-exports in the detriment of development of own production capacities and even the degeneration of the agricultural sector etc. A recent study evaluated, based on a structural model, that an adjustment of the remittance volume by 10% would generate an increase by 1.4 p.p. compared to the basic scenario of households consumption, by 1.1 p.p. of the imports, and by 1.2 p.p. of the added value under the trade activity, respectively. At the same time, no causality effects were identified between remittances and investments or between remittances and industrial production (Fala A., 2013).

Under these circumstances, emergency actions are required in order to change the growth vector of national economy, where everyone should show a responsible attitude: the public authorities, business environment and civil society. Actions are required in order to expedite the reforms and stimulate investments, to awaken the foreign and local investors' interest for long-term projects in national economy. And because the commercial policy of a state has direct repercussions on an economy, its character and economic integration options play an extremely important role in this respect.

During the period corresponding to the economic recovery after the crisis, in 2010 the Republic of Moldova initiated the negotiations on the execution of an Association Agreement with the EU countries, which could also be considered as a reform program for the completion of the transition process and alignment to international standards. In the same context, the action plan on the implementation of the European Commission's recommendations for the negotiation of the Deep and Exhaustive Free Trade Agreement was implemented, mandatory part of the Association Agreement. The agreements was installed on 29 November this year. Also, during the 2011-2012 years was signed and ratified the Agreement on the establishment of the Free trade zone within CIS, and certain ideas concerning the fathom of the integration process within this area were launched. These initiatives represent few important steps that might contribute to the consolidation of national economy, because the commercial policy is an important leverage for the efficient management of economic relations with external partners.

1. Conceptual issues concerning various economic integration options and quantification of the economic impact thereof

In the context of the existing specialized literature and the experience of the Republic of Moldova, an analysis concerning the feasibility of a preferential trade agreement and the economic impact thereof implies the completion of at least three stages:

1. Understanding the specific form of preferential trade agreement and of the commitments to be undertaken by a country following the execution thereof, respectively;
2. The compatibility thereof with other preferential regimes applicable to a country;
3. The capacity thereof to generate a positive impact on the foreign trade development and generally on the economic growth.

First of all, there should be mentioned that the integration model of a country should be selected based on the political targets pursued by such country (European Central Bank, 2004), as well as based on the structure and specifics of each economy. And, because this process implies significant financial and time costs, the trajectory should be well designed, because certain deviations or a return path might also generate the related consequences.

The complexity of preferential trade regimes may vary. These can take the form of an asymmetric preferential trade agreement, of a bilateral, multilateral free exchange agreement, of a customs union or an even more advanced form. Mentioned in ascending order, according to their complexity, passing through one stage to the next one implies additional efforts of the member countries:

- a clear political will;
- various economic compromises;
- harmonization of laws;
- development of certain common norms and principles on the operation of existing institutions and the set up of new ones etc.

Form of the preferential trade agreement

Taking into consideration the scope of this study, it is critical to understand the distinction between a Free Trade Agreement (FTA) and a Customs Union (CU).

The free trade agreement *is a preferential trade agreement, and represents one of the incipient forms of economic integration. This*[1] *may imply two or more partners that undertake to remove the tariff barriers and, mostly, the non-tariff barriers related to mutual trade, by also maintaining their autonomy concerning the development of the customs tariff applied in its relations with third countries (WTO Glossary), and also by promoting other aspects of the commercial policy, including the participation within other forms of integration.*

The customs union *implies a higher level of integration, compared to FTA. In addition to the maximum removal of tariff and non-tariff trade barriers, the parties to the agreement, which, generally, consist of geographically adjacent countries, also adopt a common customs tariff, and reach to a common denominator concerning the protection degree of all sectors. Consequently, the negotiation and implementation of a CU implies additional time, financial resources efforts, as well as political compromises. Following the accession to a CU, a state loses its autonomy to develop its trade policy to a large extent* (Chauffour J.-P.; Maur J.-C.; 2011).

The form of the agreement, as well as the partners with whom such agreements are concluded, represent another important aspect in the decision-making process related to the states' economic integration. Most times, the primary motivation of a state concerning its integration within a more complex regional formation is of deep political nature, and is characterized by:

- The marked convergence intention of economic policies, beyond the simple facilitation of mutual trade between the member states, as is in the case of a simple Free Trade Agreement. Sometimes these are even used as a political dialog consolidation tool, and aim to ensure the stability of economic and political relations with strategic partners;
- The mostly discriminatory nature thereof, compared to the FTA, which creates more restrictive and rigid requirements with respect to non-member partner countries. Although, according to article XXIV of GATT (GATT 1947, art. XXIV), the FTA also implies the imposition of certain discriminatory requirements regarding the trade with third party countries, but rather aims a stimulating

[1] An extended form of the preferential partial trade agreements, which may be asymmetrical or may only imply the liberalization of trade for certain sectors, where the member parties reserve their rights to protect other sectors, considered as more sensible.

effect on the liberalization process and increase of cross-border trade exchanges.

Compatibility between various preferential trade agreements

Taking into account the above mentioned issues, one can ask the question concerning the compatibility between the various international trade agreements in which a country has the capacity as party. In the case of Free trade agreements, a state has full authority to independently state its commercial policy, and the belonging to various FTAs does not generate certain impediments, due to the fact that the mutual trade-related preferences are granted based on the product's origin principle. Otherwise, within a Customs Union, the commercial policy becomes unique for all members, which implies the adjustment of all member states to the common customs policy, including the implementation of a common tariff. And in this case, the revision of commitments undertaken towards other business partners and the assurance of the compliance therewith are required.

Assessment of the social-economic effects of the agreement

Thus, a first stage of the economic integration process should consist of the clear determination of the target pursued by the relevant country, which determines the form of integration and the group of countries with whom an intensified cooperation is envisaged. By comparing the free trade agreement with the customs union, we can say that, while the former stimulates the trade relations between states and grants a higher flexibility concerning the adoption of commercial policies depending on the short-, medium- and long-term development strategies, the CU also stimulates the cross-border trade and also ensures a deep integration of the economic policies of member states and, consequently, implies more economic and political sacrifices and a higher rigidity towards third party partners.

The initiatives related to the execution of a preferential regional trade agreement (PRTA) are often grounded on economic motivations, namely the stimulation of trade and economic growth:

- to extend the sales area of domestic products to new markets;
- to facilitate the access to raw materials and intermediate materials, competitive from a price and quality point of view;
- the increased competition;
- to stimulate, in case of transitioning countries, the performance of reforms that would enable the creation of a viable market mechanism and the impulsion of investments (Shiff M.; Winters L.A.; 2003);
- to stimulate a more efficient distribution of investments in the economy etc.

Because both the FTA and the CU ensure the removal of commercial barriers in mutual trade, and both shall have a positive impact on the volume of trade between the partner countries. This hypothesis was empirically tested by Vingard V. (2009), who showed that PRTA, irrespective of its form of materialization: partial preferential trade agreement, FTA, CU or common market, has a significant contribution to the increase of member countries' trade.

However, these can have a different impact on the efficiency of trade and, consequently, on the economic growth. Under certain circumstances, to be further mentioned, the preferential agreements can influence the foreign trade of certain states, but mostly generate an increase of massive imports to the detriment of the development of domestic production potential and exports, respectively.

The theory of international trade proposes the review of impact of trade liberalization policies and of integration processes on international trade and economic growth, based on two main categories of effects: *static and dynamic*.

Initially, as stated above, mainly according to Ricardo, Hecksher and Ohlin and Viner, the impact of PRTA is analyzed based on the effects generated on the distribution of resources within an economy and on the specialization of countries, in compliance with the comparative advantages they hold.

In this context, the changes that take place with respect to the distribution of resources in the economy and consumption is analyzed more often, based on the effects of creation and misappropriation of trade and change of the exchange terms – model completed by Viner (1950). The model starts from the assumed existence of two partner countries within a PRTA – A and B, and of a third party country - C, where the export offer of the partner country A and of the third party countries is perfectly elastic. In this context, the execution of a preferential trade agreement may condition:

The creation of trade, generated by the removal of commercial barriers between the member parties of an agreement, which stimulates an increased mutual trade based on the countries' comparative advantage. Thus, due to the removal of customs duties effect, the states shall import such goods for whose production they incur higher costs, and, at the same time, shall export products concerning which they have a comparative advantage.

The misappropriation of trade, whereas the preferential regime determines the reorientation of imports from more efficient non-member countries to the agreement partner, which benefits from an "apparent" price decrease, due to the decrease or removal of customs duties. Under these circumstances, the price non-competitive imports increase at the same time as the loss of customs collections

At the same time, while the imports of a partner country cannot be fully ensured by the other member, the import prices, including from member states, are influenced by the prices charged by third party countries. Thus, the importing country shall have no gain from significant price differences, and shall also face an increase of tax revenues, as a result of removed customs duties.

The higher the customs tariff imposed to third party countries and the price determined for the member states, the more likely trade will be misappropriated, with a potential strong negative effect on national welfare.

The improvement or degradation of the exchange terms, in the context of a faster or more temperate increase of the export prices, compared to the import ones. One of the important requirements for a member country to benefit from the change of exchange terms consists of the decrease of the customs tariff, and the export offer of the member partner from where the production is imported should be as flexible as possible (Burfisher M. E.; Robinson S.; Thierfelder K.; 2004).

The new theories on international trade broadened the analysis scope of trade liberalization effects and creation of commercial blocks beyond the static ones, and focused on the effects on economic growth – meaning the long-term cumulative results, namely:

- To increase the competition on the market, which impedes the companies with dominant positions and prevents the protection of inefficient sectors;

- To increase the productivity through the transfer of technologies, know-how, including in the management and marketing area etc.;
- To increase the opportunities of scale economy operation and to decrease the production costs, respectively;
- To stimulate investments, through the development of an open and more constant environment etc. In particular, under the agreement concluded with more developed partners, the gradual convergence of policies and legal framework with the standards thereof has a material contribution to the improvement of the business environment and attraction of foreign investments. At the same time, there are two important issues that should be considered. Whereas the difference between the preferential tariff in the trade with member countries and the one with third party countries is small, the investors will most likely try to develop certain activities based on higher efficiency, while a large difference between tariffs could determine the increase of investments, in order to penetrate the markets of third party countries.

Another effect of the full liberalization of trade with the primary partners under free trade agreements might consist of a significant decrease of budget revenues, due to the removal of customs duties. At the same time, this decrease can be compensated by higher indirect taxes on products, both from imports and domestic production, as a result of encouraging investments in certain sectors.

The prerequisites related to the execution of an advantageous preferential trade agreement are:

1. The net positive effect of trade creation, which would condition the improvement of the trade terms, the attraction of new technologies, and consequently the increase of domestic products' competitiveness;
2. The agreement execution between natural partners, namely that meet the following requirements:
    - have complementary economies;
    - are located at short distance, in order to avoid the high transport costs (Shiff M.; 1999);
    - the possibility of member countries to export at low prices, compared to the ones of the third party countries, on one hand, and to import products, and in particular raw materials, at lower prices from the member countries, on the other hand;
    - the price advantage of the member countries, compared to third party countries, should be determined by relatively equal or lower prices.

FTA vs. CU options for small and large economies

In international experience, one can see more often the practice of countries' participation in more regional economic integration agreements. In case of execution of asymmetrical or symmetrical free trade agreements, this takes place relatively simple, due to the freedom reserved by the partners with respect to the independent development and promotion of their commercial policies. But the participation of a state in several regional formations, of various integration levels, is not excluded. However, the combination of these partnerships is more difficult, due to the requirement to agree on these with all members of the agreement (e.g., under the CU or other, more complex integration formations).

The economies, mostly the small ones, can benefit in several ways from the execution of several free trade agreements that mostly cover the trade with the primary partners:

1. If an economy has preferential trade regime with countries that maintain a high tariff between them, it can become an attractive location for the investments of economic partners, in order to acquire free access on other markets. But, in this case, the risk consists of the potential high diversion of the investments;
2. Streamlining the production costs as a result of decreased import duties for the imported raw materials;
3. The participation in several FTAs enables the improvement of the trading terms, by importing cheaper products for domestic consumption and exporting the domestic production (Shiff M.; Winters L.A.; 2003).

On the other hand, the adhesion of a small economy to a Customs Union that implies the increase of customs tariffs, might cause the trade misappropriation, and the strong protection of the market might impede the pricing based on the global ones, and consequently the reassignment of resources in compliance with the competitive advantage (Michalopoulos C.; Tarr D.; 1997). Thus, the adhesion of a small economy to a Customs Union could generate several negative effects – trade misappropriation, negative trading terms, decrease of the budgetary collections and decrease of the consumer's purchasing power.

However, the creation of customs unions is a more favorable option for large economies, because these enable:

1. The removal of the above mentioned effects;
2. The creation of a safe export market. Generally, large economies are less dependent on import; instead, the large dimensions and higher availability of natural resources, characteristic for large geographical areas, which enable the exploitation of scale economies, require a large sales market.

Also, due to the fact that large emergent economies generally apply a higher medium tariff, the creation of CU will enable them to intensify the trade relations with potential partners, and thus are subject to a lower trade misappropriation risk.

Table 1. Comparative issues related to the level of customs tariff in large economies

Large emergent economies	*MFN average tariff*	*Developed large economies*	*MFN average tariff*
Brazil	13.5	EU	5.5
China	9.6		
India	13.7	Canada	4.3
Turkey	9.6	USA	3.4

Source: WTO Statistics Database (http://stat.wto.org)

2. Opportunities and risks related to the execution of the DCFTA with the EU and to the accession of the Republic of Moldova to the customs union Russia - Kazakhstan - Belarus

2.1 Development challenges of Moldovan trade

The Republic of Moldova can be characterized as an economy with high opening degree. The annual average of the dependence degree for the period of time starting from 1994 was of 101.2%. At the same time, the median is of 106%, which reflects the exposure of foreign trade to strong regular decreases. In the case of the Republic of Moldova, the high opening degree is determined by the small size of the geographical area, demography and population incomes, but also by a commercial policy of liberal orientation, promoted from the beginning of the transition.

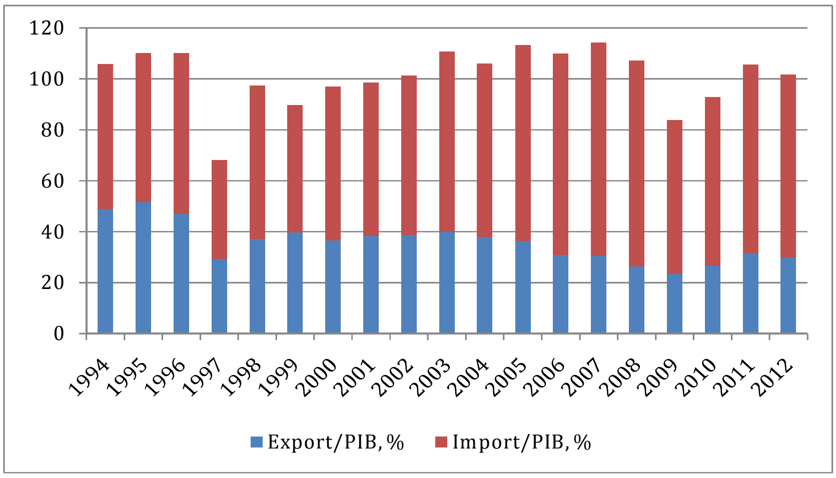


Figure 1. Evolution of the opening degree of the Republic of Moldova

Source: Drafted based on the data available on WITS

In order to expedite the reforms and facilitate trade, during the last 2 decades, the Republic of Moldova became member of the World Trade Organization and signed a series of bilateral and regional preferential trade agreements:

- The agreement on the creation of the free trade zone within CIS, which became effective at the end of 2012, and was ratified by 6 states - the Russian Federation, Belarus, Ukraine, Armenia, Kazakhstan and the Republic of Moldova, while other two states - Kyrgyzstan, Tajikistan, only signed the agreement. This agreement was preceded by a series of bilateral agreements executed between the member states as of the beginning of the '90s;
- The Agreement on the Free Trade Zone with GUAM member states (Georgia, Ukraine, Azerbaijan and the Republic of Moldova);
- The free trade agreement with the Central European countries (CEFTA 2006), non-EU members - Albania, Bosnia and Herzegovina, Macedonia,

Montenegro, Croatia, Serbia, UNMIK Kosovo. In July 2013, Croatia became the 28th member of the EU;

- The asymmetrical free trade agreement with the EU – autonomous trade preferences (ATP).

Despite the establishment of certain preferential relations with tens of states and the promotion of a general liberalization policy within WTO, which generated a high opening degree, the analysis of some indicators shows (2012), that the performance of the foreign trade remains relatively low, and faces a series of competitiveness-related challenges:

a. The low level of:
   - Export per capita – USD 614.3;
   - Coverage degree of imports through exports – 41.5%;
   - Weight of exports in the GDP, compared to imports – 29.8% and 71.9%, respectively;
b. High pressure of commercial deficit on the GDP – (-) 41.3%;
c. Low weight of exports in worldwide export – 0.01%;
d. The relatively high volume of re-exportations –37.9%;
e. High geographical concentration of the foreign trade:
   - High HHI geographical concentration index of exports – 0.31 for EU[2] and 0.60 for the CIS countries[3] ;
   - A relatively moderate concentration of imports from the EU countries – 0.22 and a high concentration in CIS area. Furthermore, the gas demand of the national economy is fully covered by the import from only one country;
f. The relatively low concentration of exports per group of products – 0.14, but slightly diversified as number of tariff positions (out of the 1241 tariff positions of the Harmonized System broken down at the level of 4 digits, we only export 64%, out of which only 20% represent an amount higher than USD 100 K);
g. The extremely low level of products with medium and high technology intensity in the overall volume of Moldovan exports and even lower in the value of exported domestic products – 20%;
h. Narrow specialization, mainly in the export of food, agricultural, clothing and furniture products. Except for furniture, the global exports of the other sectors saw a more modest growth during the last years, and developed more slowly than the global average. Although, should be mentioned that in the last years the production of electrical equipments began to develop;
i. However, this indicator should be treated cautiously, where the exports per capita of agricultural-food and textile products in most European countries is higher, compared to the Moldovan ones, which shows that, despite the low weight in the overall value of exports related to certain categories of products, the revenues per capita obtained from such exports remain higher to those registered in the Republic of Moldova.

[2] The index is determined by the high concentration on 6 primary markets – Romania, Italy, Germany, Poland, UK.
[3] The index is determined by the high concentration on 3 primary markets – the Federation, Ukraine, Belarus.

Table 2. Trade of the Republic of Moldova under the preferential trade regimes

	Export						Import					
	Mil. USD			%			Mil. USD			%		
	1995	2000	2012	1995	2000	2012	1995	2000	2012	1995	2000	2012
Total	**745.5**	**471.5**	**2161.9**	**100**	**100**	**100**	**839.4**	**776.8**	**5212.9**	**100**	**100**	**100**
Armenia	2.6	0.2	1.4	0.3	0.0	0.1	0.0	0.1	0.4	0.0	0.0	0.0
Azerbaijan	5.4	0.4	5.4	0.7	0.1	0.2	5.5	0.0	0.5	0.7	0	0.0
Belarus	26.5	21.8	80.7	3.6	4.6	3.7	50.7	31.8	172.2	6	4.1	3.3
Kazakhstan	8.6	4.7	50.3	1.2	1.0	2.3	2.5	2.8	26.5	0.3	0.4	0.5
Kyrgyzstan	0.2	0	2.8	0.0	0.0	0.1	0.7	0.4	0.3	0.1	0.1	0.0
Russian Federation	360.1	209.5	655.1	48.3	44.4	30.3	277.9	119.6	816.9	33.1	15.4	15.7
Tajikistan	0.1	0.1	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ukraine	58.9	35.5	122.4	7.9	7.5	5.7	228.4	105.5	594.3	27.2	13.6	11.4
Uzbekistan	2.8	1.8	8.2	0.4	0.4	0.4	2.1	0.2	8.6	0.2	0.0	0.2
Turkmenistan	1.5	1.5	0.8	0.2	0.3	0.0	0.8	0.2	4.1	0.1	0.0	0.1
CIS	**466.7**	**275.4**	**928.1**	**62.6**	**58.4**	**42.9**	**568.7**	**260.7**	**1713.4**	**67.8**	**33.6**	**32.9**
Georgia	0.1	0.2	0.0	0.0	0.0	0.0	0.1	0.1	1.4	0.0	0.0	0.0
Members of the Customs Union	**395.2**	**236**	**708.3**	**53.0**	**50.1**	**32.8**	**331.1**	**154.2**	**843.7**	**39.4**	**19.8**	**16.2**
Members of the Free Trade Zone Agreement	**457.0**	**271.8**	**913.7**	**61.3**	**57.6**	**42.3**	**560.2**	**260.2**	**1610.6**	**66.8**	**33.5**	**30.9**
GUAM members	**64.4**	**36.1**	**127.8**	**8.6**	**7.7**	**5.9**	**234.1**	**105.6**	**596.1**	**27.9**	**13.6**	**11.4**
EU-27	**240.4**	**165.6**	**1013.4**	**32.2**	**35.1**	**46.9**	**223.6**	**413.7**	**2318.6**	**26.6**	**53.3**	**44.5**
CEFTA	**1.4**	**0.3**	**6.0**	**0.2**	**0.1**	**0.3**	**0.7**	**3.2**	**18.3**	**0.1**	**0.4**	**0.4**

Source: Drafted based on the data available on WITS

Already being mentioned, the opening degree of the economy is high. But the largest liberalization wave that took place upon the accession of the Republic of Moldova to WTO, in the context of a still extremely vulnerable business environment, not prepared to compete in an open market, conditioned the expedition of imports, whose weight reached a level higher than 80% of the GDP, while the exports showed an extremely modest evolution. By analyzing the evolution of this indicator in the Eastern Europe and Central Asia region, we can notice that the countries with a high level of revenues per capita, including the Baltic countries, not only show an extremely high level of the commercial dependence degree, but the values of exports and imports in the GDP, considered separately, are very close (Table 3)

Table 3. Regional issues on the opening degree and revenues per capita (2012)

	Opening degree, %	Export/GDP , %	Import/GDP , %	Export per capita, USD	Import per capita, USD	GDP per capita, USD
Tajikistan	67.6	17.9	49.8	191.8	533.7	1072.6
Kyrgyzstan	117.5	30.6	86.9	347.6	986.4	1134.9

Uzbekistan	43.1	21.8	21.3	398.9	388.2	1825.7
Republic of Moldova	100.4	29.4	71.0	614.3	1481.3	2086.7
Armenia	57.5	14.4	43.1	459.3	1372.4	3185.2
Georgia	64.7	15.1	49.7	552.3	1821.9	3668.8
Albania	54.7	15.7	38.9	609.7	1512.4	3883.1
Ukraine	85.9	38.4	47.5	1524.9	1883.4	3968.9
Serbia	73.3	27.4	45.9	1153.0	1931.0	4206.5
Bosnia and Herzegovina	87.9	29.9	58.0	1378.6	2677.1	4614.6
Turkmenistan	83.1	51.7	31.4	3095.0	1876.3	5983.5
Belarus	158.2	78.8	79.5	4827.2	4870.5	6128.5
Bulgaria	116.7	52.4	64.2	3610.5	4422.5	6886.2
Azerbaijan	62.9	47.6	15.3	3396.6	1093.3	7138.7
Romania	72.7	32.8	39.8	2702.7	3276.6	8228.4
Turkey	49.2	19.3	29.9	2047.2	3174.7	10621.0
Kazakhstan	68.4	46.2	22.3	5633.6	2718.9	12202.9
Latvia	109.1	49.4	59.7	6278.4	7586.1	12703.2
Poland	77.8	37.6	40.2	4787.2	5115.8	12723.5
Hungary	157.0	82.0	75.0	10444.6	9563.1	12742.7
Lithuania	146.3	70.3	76.0	8993.1	9726.8	12795.6
Croatia	57.9	21.6	36.3	2813.4	4732.2	13023.4
Russian Federation	43.7	26.8	17.0	3708.8	2350.7	13860.9
Estonia	154.8	73.9	80.9	12036.3	13187.5	16297.9
Slovakia	173.6	88.5	85.1	14816.0	14242.1	16737.9
Czech Republic	151.6	79.9	71.8	14813.5	13311.6	18547.9
Slovenia	140.4	70.5	69.8	15762.0	15608.0	22345.6

Source: Drafted based on the data available on WITS

In the case of the Republic of Moldova, the export competitiveness shortcomings are mainly determined by the low potential of national economy, conditioned by the synergistic action of several factors: the general business environment; the high pressure of tax and customs policy; bureaucracy and corruption; the underdeveloped financial system; the low infrastructure of quality and transport; underdeveloped educational and scientific system etc.

In this context, the commercial policy should be mainly oriented towards the achievement of the following targets:

1. To increase the competitiveness of national production by widening the access to competitive raw materials, from price, quality and advanced technology point of view, on one hand, and by providing, at the same time, the tools that might be implemented in order to protect certain sectors with growth potential;
2. To stimulate the internationalization or companies and diversification of export markets by means of various export promotion and stimulation actions, as well as actions related to an increased efficiency of the customs administration;
3. To intensify the commercial relations with economic partners that might serve as source of modern technology import.

2.2 Deep and comprehensive free trade agreement with the European Union: opportunities, risks and challenges for the Republic of Moldova

The existing commercial regime between the Republic of Moldova and the EU

The Republic of Moldova was included on the EU list of beneficiary countries of autonomous preferences even since the mid '90s. Until now, the preferential regime granted to the Republic of Moldova by the EU was extended, and nowadays the domestic manufacturers benefit from tax-free access for most products exported on this market, except for:

- products of animal origin, grain, white sugar and grape wine, which are allowed for export within the limits of the agreed tariff quotas;
- fruits and vegetables, exempted from the ad-valorem duty for import. At the same time, most of these products are subject to either a minimal market incoming price (e.g., tomatoes – tariff code 0702000090– Euro 62.60/100 kg, other apples than those for cider – tariff code 0808108090 - Euro 45.70/100 kg, table grapes – tariff code 0806101099 - Euro 47.60/100kg etc.), so that upon the statement of an import price lower than the determined one, an additional duty is charged in order to ensure the compliance with the minimum level of prices, or a fixed duty (e.g., apples for cider, in bulk, between September 16 - December 15 – tariff code 08081010– Euro 0.36/100 kg, garlic –tariff code 070320 -Euro 120/100 kg).

At the same time, the opportunities of this regime are not exploited according to the existing potential, and the quotas provided for most of the agricultural-food products remain uncapitalized, except for some tariff positions, such as: corn, wheat, barley, wine. Furthermore, certain products, such as those of animal origin, cannot be exported on this market due to stringent quality requirements (Chistruga M., Clipa V., Fala A. 2010).

The attempt to quantify the effects of the preferential regime on the increase of exports volume to the EU, by comparing the increase of the actual export volume, with the selected year of reference 2001 and the volume that could have been registered if the increasing trend registered prior to 2006 would have continued, failed to provide the envisaged results.

The exported volume did not register significant evolutions and the structure of exports showed no material changes, and the main reasons can be explained by:

- The crisis of European states;
- The comparative advantages of RM, mainly held with respect to agricultural-food products and intensive industries related to the labor force, which operate under Lohn processing agreements. These products are also highly exposed to weather risk, in case of the first, and to economic-financial conditions of the European contractors, in the latter case;
- The gap between the technical regulatory systems and the slow adjustment of national quality infrastructure to European standards.

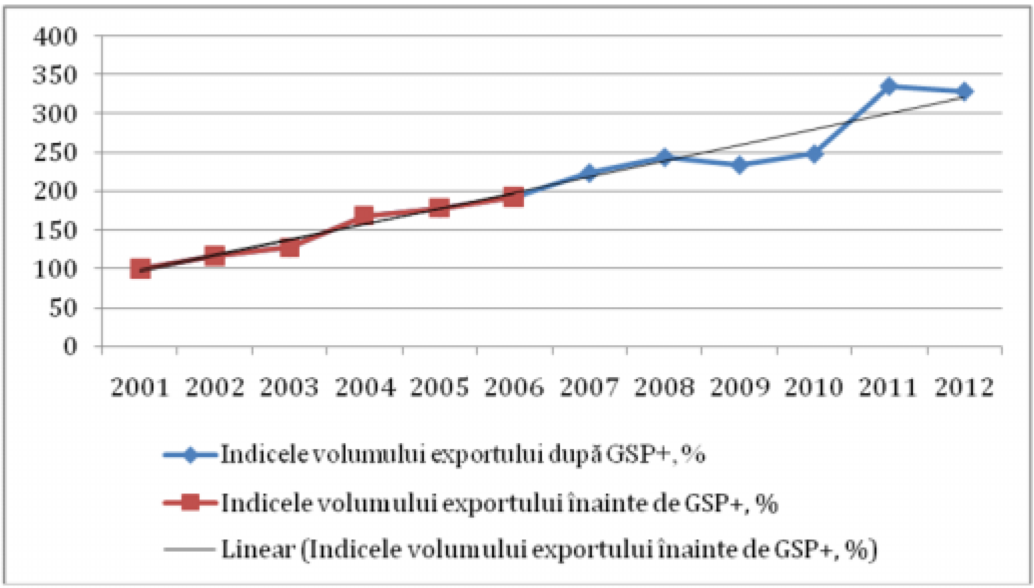


Figure 2. Trend of the volume of exports to the EU 2001=100

Source: Authors' calculations according to the data of the National Statistics Office

Commercial relations between the Republic of Moldova and the EU: current status

Although the commercial relations between the Republic of Moldova and the European Union became extremely fragile during the last years, due to the economic and financial instability of the Western partners, which hardly recover after the 2009 crisis, the European Union remains the main commercial partner of the Republic of Moldova.

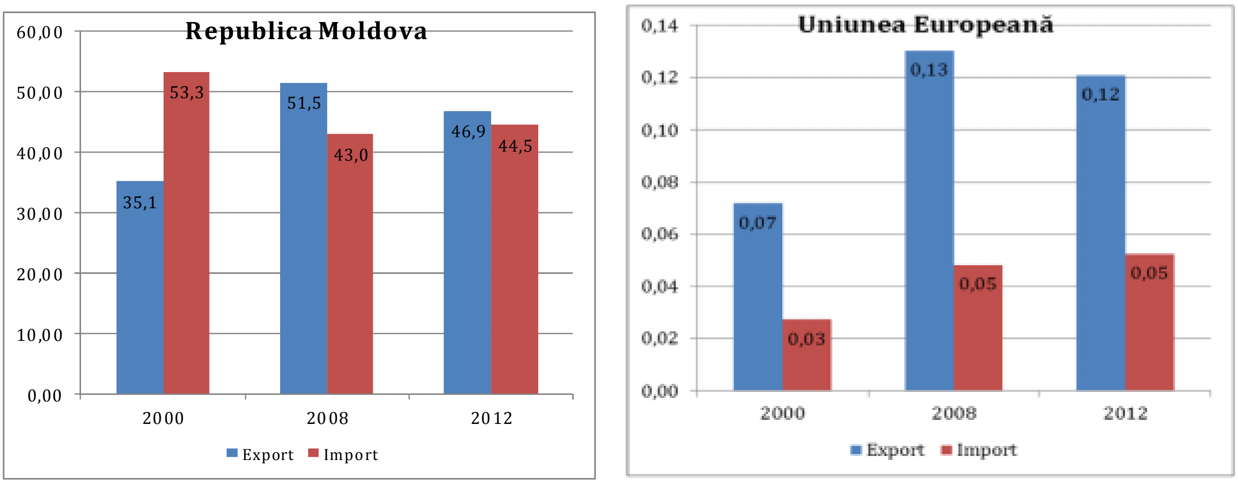


Figure 3. Weight of the Republic of Moldova and European Union in the mutual trade

Source: Drafted based on the data available on WITS

The trade between the RM and the EU registered a boost, mainly during the last decade. Between 2001-2012, the exports in EU recorded an average annual increasing pace of 17.7%, above the general average of export increase, and imports showed an annual increasing average of 17.3%. Also, the trade between the EU and the RM increased by an annual average higher than the general average

Table 4. Annual average increasing pace of the trade between the Republic of Moldova and the European Union member states (2001-2012),%

Export RM-EU	17.7%	***Export EU-RM***	14.6%
RM overall export	14.7%	***EU overall export***	7.3%
Import RM-EU	17.3%	***Import EU-RM***	16.0%
RM overall import	19.1%	***EU overall import***	7.4%

Source: Drafted based on the data available on WITS

These trends had a positive impact on the intraregional trade between both partners. At the same time, this remains insignificant, due to the low weight of the Republic of Moldova in the foreign trade of the European Union. The data is confirmed by the value of the Intraregional Trade Intensity Index (IITI), which had an ascending trend during this period of time, but continued to reflect a value lower than 1.

IITI is an indicator used in order to determine the importance of trade within a region and represents the ratio between the weight of intraregional trade in the overall trade of the region and the weight of the given region's trade in the world trade.

$$\textit{Intraregional Trade Intensity Index} = C_{ii}/C_i \div C_i/C_M \ (1)$$

Where:

C_{ii} = mutual trade between the countries of a certain region;

C_i = trade of the given region with the rest of the world;

C_M = global trade;

An index higher than the unit shows the high intensity of the mutual trade between the member states, in the context of the weight thereof in the world trade; on the other hand, an index lower than 1 shows the partners' trend to trade with third party countries. At the same time, the positive evolution of the index in time shows the faster growth of intraregional trade, compared to the weight of that region in the world trade (Asian Development Bank; 2010).

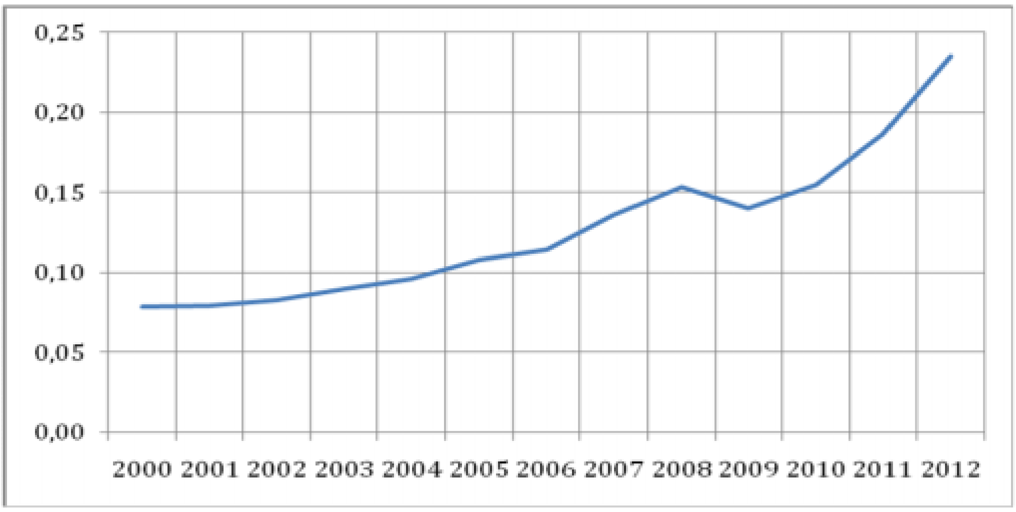
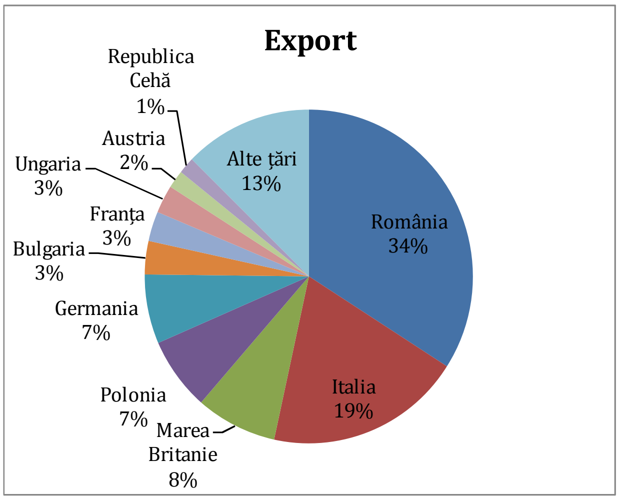


Figure 4. Index of intraregional trade with EU member states

Source: Developed based on the author's computations

At the same time, although RM has commercial relations with most states of the EU area, both the exports and imports are concentrated in few main states: Romania, Italy, Poland, Germany, UK, and the geographical diversification thereof has not evolved much during the last years etc.



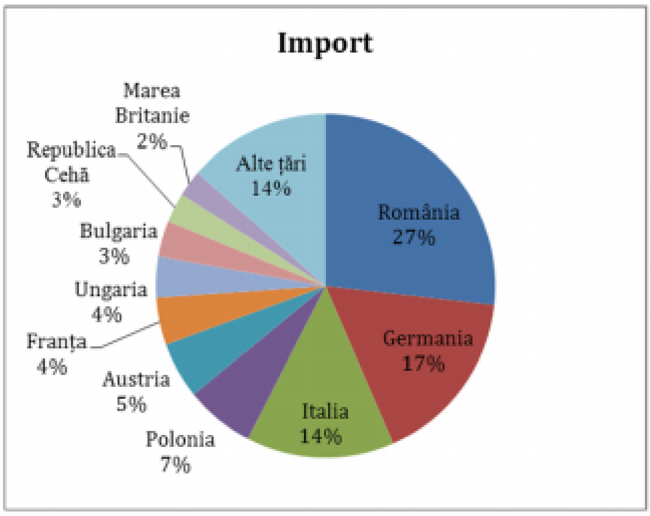


Figure 5. Main economic partner countries within the EU
Source: Based on the data of the National Statistics Bureau

With regard to the structure of trade per groups of products, the EU represents an important sales market for Moldovan products, mainly:

- for the light industry, mainly related to the processing of raw materials imported under active improvement customs regime – the garment, furniture, footwear, electric equipment industry;
- for agricultural-food origin, in particular vegetable and animal oils and fats, fruits, seeds and oleaginous fruits, grain and sugar, and also manage to maintain a positive commercial balance for these products;

An important factor consists of the fact that, although the products of light industry continue to have a significant weight in the exports to the said destination, during the last decade we could notice a diversification of exported products that belong to this category: the decreased weight of garments and the increase of furniture products and electric distribution equipment. Also, even though especially the light industry branches are often considered as generators of low value within the country, we should note that their social-economic contribution is important. Development of garment industry ensures an increased number of occupied population in the economy. The entry of important foreign players in the light industry - mainly the DraDraxlmaier case - means new investments in the country. And the cooperation with more developed economic partners also enables the acquisition of new business management competences and skills. At this stage, it already depends on the national authorities to create an environment appropriate for the stimulation of existing businesses extension and for the creation of new ones, and on the local entrepreneurs to assimilate such abilities and to move forward through the value chain.

On the other hand, the imports from the EU mainly consist of manufactured products: both intermediate products intended for processing within the country, and finished products – various electric machines and equipment etc.

Table 5. Structure of the trade with the EU, by groups of products

Export					Import				
CSCI code	Description of product	Value, million USD	Structure, %	Commercial deficit, mil. USD	CSCI code	Description of product	Value, million USD	Structure, %	Commercial deficit, mil. USD
Total		1013.4	100.0	-1305.2	**Total**		2318.6	100.0	-1305.2
773	Electric distribution equipment	165.7	16.3	41.2	334	Petrol, heavy oils	372.1	16.05	-363.27
421	Vegetable oils and fats	86.2	8.5	85.6	542	Drugs	129.6	5.59	-126.51
842	Weaved clothing for women	79.1	7.8	76.9	773	Electric distribution equipment	124.5	5.37	41.21
057	Fruits, nuts	73.2	7.2	40.9	781	Passenger vehicles	82.7	3.57	-82.42
821	Furniture and parts thereof	62.7	6.2	19.4	553	Perfumes, cosmetic products	63.4	2.74	-61.38
222	Sunflower seeds	49.8	4.9	43.9	821	Furniture and parts thereof	43.3	1.87	19.42
841	Weaved clothing for men	48.4	4.8	47.2	591	Chemical products for house, gardening	38.3	1.65	-38.18
844	Knitted clothing for women	41.7	4.1	40.8	772	Electric circuits switching or protection electric equipment	34.3	1.48	-29.26
845	Other clothing items	38.0	3.8	34.5	658	Textile garments	34.0	1.47	-32.73
851	Footwear	29.5	2.9	22.7	653	Weaved garments	33.8	1.46	-33.18
059	Fruit and vegetable juices	29.0	2.9	26.6	721	Agricultural machines	32.8	1.42	-30.78
061	Sugar	28.7	2.8	21.7	784	Parts for vehicles	32.4	1.40	-32.10
112	Alcoholic beverages	24.1	2.4	-3.0	057	Fruits, nuts	32.3	1.39	40.88
288	Waste materials from non-ferrous metals	18.4	1.8	18.4	741	Cooling and heating industrial equipment	31.3	1.35	-31.19

831	Suitcases	18.1	1.8	17.3	893	Other items made of plastic	29.5	1.27	-20.67
665	Glass	13.7	1.4	4.7	634	Veneers, plywoods	27.6	1.19	-27.14
873	Other meters	13.5	1.3	7.3	112	Alcoholic beverages	27.1	1.17	-2.96
048	Products made of grain and flour	12.1	1.2	-6.6	554	Soaps, cleaning and polishing products	26.7	1.15	-26.70
894	Toys for kids	9.1	0.9	-2.1	783	Motor vehicles	26.6	1.15	-24.49
893	Other items made of plastic	8.9	0.9	-20.7	642	Cut paper, plates	23.6	1.02	-19.43

Source: Prepared based on Comtrade data

The deep and comprehensive free trade agreement – a new cooperation stage between the Republic of Moldova and the European Union

The preferential regimes granted so far by the EU to the Republic of Moldova represent an important incentive instrument of Moldovan exports, while the basic problems faced by domestic manufacturers in order to penetrate this market, at this stage, are not generated by demand, but by supply, including by the reduced capacity thereof to comply with the quality standards. In this context, there is a critical requirement for actions that would stimulate the domestic offer: reformation of the regulatory framework, creation of efficient institutions compliant with the market economy, investments in order to cover the shortage of resources available in the country in order to finance investment projects for the development of the physical and business infrastructure, development of science and innovative spirit of both the business environment and public institutions.

An important step in this respect would be the signing of the Association Agreement with the EU and of the Deep and Comprehensive Free Trade Agreement, integral part thereof. The negotiations on the completion of DCFTA wording ended in June, 2013, after 7 rounds of negotiation that took place as of February, 2012. The agreements was initialed on November 29, this year, during the Vilnius summit.

DCFTA is considered a new stage in the fathom of commercial relations between the partner states, required for the implementation of the European Association Agreement, considered as an instrument intended for the capitalization of the economic cooperation potential between the EU - Republic of Moldova and for the support of basic reforms, for the economic recovery of the country and completion of its transition to market economy. The agreement is fully compatible with the existing preferential trade regimes of the Republic of Moldova with the other states and provides a series of benefits, compared to the Autonomous Commercial Preferences:

- harmonization of the legislation of the Republic of Moldova with the Community Acquis ;
- practically unrestricted access to the EU market;
- free circulation of the labor force;

At the same time, this agreement implies the liberalization of import in the Republic of Moldova of goods and services that originate from the EU, which shall take place gradually, for 10 years after the agreement execution. Part of the manufactured products – various transport machinery, machines and equipment shall not be subject to significant changes because the current tariffs are either null or relatively low. Also, part of the intermediate materials intended for industrial processing are already imported under suspensive customs regimes that generate the suspension of customs duties. At the same time, the liberalization of imports represents a major risk for the agricultural sector, which is poorly prepared to face the competition of European and Turkish products (Fala A., 2012). This does not mean, under any circumstances, the unconditional protection of certain non-competitive sectors, but agriculture is the field of business that includes 26.4% of the occupied population, and in the rural environment this indicator represents as much as 48%. This is a sector that, even in the developed countries, represents a field that needs to be supported in order to guarantee the stability or farmers' revenues and the food security of the country.

For short-term, the risks are major, but for long-term, the execution of the agreement is a decisive step towards the completion of the transition process towards a viable market economy, but this requires a firm attitude to the challenges, both from the public authorities and from the business environment and from the entire civil society.

Based on the above, but also on the existing analyses related to this topic, DCFTA shows a series of opportunities, but also challenges:

Opportunities:

1. Extension of the sales market, following the removal of any commercial barriers whatsoever According to the performed computations, the complementarity index of Moldovan trade to the European one is relatively high, and this ensures the prerequisites for the intensification of commercial relations (Annex 1);
2. The increase of the export activity of domestic entrepreneurs, consolidated by a predictable long-term commercial relations regulatory framework;
3. The extension of access to high quality raw materials, at lower prices, which might have a positive impact on the increase of productivity and improvement of the trading terms;
4. Demonopolization of certain important sectors of the economy. The increase of competition and, consequently, of the competitiveness of domestic enterprises;
5. The increase of innovative activity of enterprises, which generates positive externalities on science and innovation fields, education system etc.;
6. The increased import of new technologies;
7. The increase of efficiency and transparency of public institutions' activity;
8. The upgrade of quality infrastructure shall open new doors not only to European markets, but also to other larger markets;
9. The increase of foreign investors' interest concerning Moldovan economy;
10. The impulsion of the reforming process related to the energetic sector;
11. The consolidation of external partners' trust in Moldovan entrepreneurs, as suppliers of high quality products and providers of high quality services;
12. The development of the service sector, including the professional services;
13. The decrease of price pressure on the consumers' budgets.

Challenges:

1) The inability of domestic manufacturers from sectors of economic and social importance to cope with the invasion of imports from the EU and Turkey (in particular the agricultural sector and the light industry), which might generate:
   - the weakening of certain sectors, or even the disappearance thereof;
   - an increased pressure on the labor market;
   - a degradation of the balance of payments;
2) The decrease of collections to the State budget as a result of removed customs duties, which might also be damped by the increase of indirect taxes;

Risks:

1. The increased hostility of Eastern partners with respect to the economic relations with the Republic of Moldova, which might generate:
   - the enforcement of interdictions on the import of Moldovan products;
   - the establishment of unfavorable terms for the gas deliveries.
2. The political instability and failure to implement the actions required for the increase of national sectors' competitiveness;
3. The slow pace of quality infrastructure-related reform;

In the absence of appropriate actions related to the preparation of the business environment for the full border opening for two important players of the world trade, the above mentioned challenges might turn into risks and severe consequences for national economy.

Under these circumstances, the important action directions consist of:

1. The intensification of efforts towards the consistency of national quality infrastructure with European and international standards;
2. The performance of harmonization of the legal framework with the Community Acquis and the scrupulous implementation thereof, in particular in the field of competition, legal system, customs and tax administration regulation etc.;
3. The preparation of the agricultural and industrial sector for the liberalization of trade, with regular assessment and removal of the main constraints of the relevant economic operators;
4. The implementation of actions set out for the implementation of strategic horizontal development documents (Log book for the increase of national competitiveness, Log book on the Government's actions concerning the removal of critical constraints in the way of the business environment, Action plan for the implementation of the Strategy concerning the reform of the regulatory framework of the entrepreneur business for 2013-2020) and structural;
5. The monitoring of implementation of strategic development documents, with the identification of adjustment and correction requirements of the action plan.

We should mention that the multiple performed studies whose scope of review consisted of the impact of DCFTA with the EU on national economy (Ciucu C., Chivriga V., Toderiță A.,Tornea I; 2011; Ecorys; 2012; GET Moldova; 2012), reached the conclusion that, despite the existing challenges, the potential benefits of the Republic of Moldova, following the execution of a deep and comprehensive free trade agreement with the EU, exceed the associated risks.

2.3 The Customs Union - deepening alternative of the process of economic integration in the CIS area

The period of time during which the Republic of Moldova started its preparations for the negotiation of the Association Agreement and DCFTA coincided with an increased interest of the CIS area states to deepen the economic integration process under multilateral basis. The agreement on the Free trade zone within CIS area was signed in 2011, and replaced the multitude of bilateral free trade agreements.

Due to the more or less common background, the economic, political relations of the Republic of Moldova with the countries of the Customs Union are still relatively close. This is the sales market for one third of Moldovan products. It also hosts approximately one third of the emigrants, who account for more than half of the remittances annually transferred in the country. Also, this region, but mostly the Russian Federation, represents the exclusive origin of gas imports in the Republic of Moldova. Overall, the imports from the Customs Union and the investments performed by these states generally have a more modest weight, where the last years even registered a disinvestment process and, at the same time, the intensity of economic relations with the CU countries are mainly due to the relations established with the Russian Federation (which holds approximately 20% of the foreign trade, 36.9% of the stock of emigrants that originate from the RM and 21% of the stock of DFI (Stratan A.; Perciun R.; Clipa V.; 2012).

Table 6. Economic and social relations of the Republic of Moldova with the CIS and CU countries

	CIS	Customs Union	Russian Federation
Foreign trade			
Exports, mil. USD (2012)	928.1	*786.2*	655.1
Exports, %. in the total (2012)	42.9	*36.4*	30.3
Re-exportations, mil. USD (2012)	959.3	*427.1*	411.3
Re-exportations, %. in the total re-exportations (2012)	59.5	*55.3*	53.3
Re-exportations, % in the total exports to this destination (2012)	49.5	*54.3*	62.8
Imports, mil. USD (2012)	1623.7	*1015.6*	816.9
Exports, %. in the total (2012)	31.1	*19.5*	15.7
Direct Foreign Investments			
Stock of DFI in share capital, mil.	764	*724*	725

USD (January 31, 2011)			
Stock of DFI, % in the total stock (January 31, 2011)	22.4	*21.3*	21.3
Inflow of net DFI, mil. MDL (2012)	-13.3	*-16.3*	-16.0
Inflow of net DFI, % in the total DFI (2012)	-7.6	*-9.3*	-9.1
Migration and Remittances			
Total number of emigrants, thousand persons (2010)	464.9	*296.6*	284.3
Total number of emigrants, % in the total (2010)	60.3	*38.5*	36.9
Volume of remittances, mil. USD (2012)	1220.8	*1120.6*	1114.7
Volume of remittances, %. in the total (2012)	67.7	*62.2*	61.9

Source: According to the data of the National Statistics Office, National Bank of Moldova, statistical database on international trade Comtrade, IMF (Coordinated Direct Investment Survey), World Bank (Bilateral Migration and Remittances)

Current commercial regime of the Republic of Moldova with the Customs Union countries

The commercial regime with the current members of the Customs Union benefited from a preferential treatment within the CIS, as of the beginning of the country's independence. In order to mitigate the shock incurred during the said period of time, including caused by the specialization of the Moldovan Soviet Socialist Republic in sectors less characteristic for the specifics of the economy, free trade agreements were signed between the former Soviet countries. At the same time, by the end of 2012, these operated under bilateral agreements, although the idea of establishing a multilateral free trade regime was conceptualized from the very early '90s.

This free trade agreement within CIS sets out several actions intended for the facilitation of trade between the signatory countries:

1. The removal of tariff barriers. At the same time, some of the member states reserved the right to maintain certain customs duties related to import and export, and the term thereof is determined or shall be determined by bilateral agreements. According to annexes 1 and 2 of the Agreement on the establishment of the free trade zone, the main partners of the Republic of Moldova in this area – Ukraine, Belarus, Kazakhstan and the Russian Federation maintain export customs duties for a series of products.

Exceptions of the free trade concerning products imported from the Republic of Moldova:

- Armenia – filter and filter-free cigarettes (January 1, 2014);
- Ukraine – sugar beet seeds and sugar (January 1, 2015).

Exceptions of the free trade concerning exported products (maintained export duties):

- Belarus – rape seeds, crude oil and oil products, fertilizers, raw leather and wood;

- Kazakhstan – seeds and oleaginous fruits, mineral fuels, raw leather, wool, fine or raw animal hair, stainless steels and other steels, vehicle parts for railways or others;
- Kyrgyzstan – dairy products, paper and renewable carton;
- Russian Federation – tuna fish, crustaceans and related products, frozen fish, seeds and oleaginous fruits, ethyl alcohol, various mineral products, mineral or chemical fertilizers, mineral or chemical fertilizers, polymers, raw leather, wood, wood paste, various alloy steels etc.
- Ukraine – sun flower seeds, raw leather, common metals and other alloy steels etc.

2. The removal of non-tariff barriers in compliance with WTO norms;
3. Grant of the national treatment;
4. Enforcement of certain safeguard, anti-dumping and compensatory actions, to the extent required, and all these without breaching the WTO provisions etc.

An important element of the commercial relations with these countries consists of the fact that the Agreement on the establishment of the free trade zone within CIS ensures a clear mechanism related to dispute settlement. These can be settled by means of several methods:

- by the economic Tribunal of the CIS countries, in case of countries member of the Agreement on the status of the Economic Tribunal of CIS area, as of July 6, 1992[4];
- by the expert committee, in compliance with the procedures set out in Annex 4 to the agreement;
- in compliance with the WTO procedures, in case of disputes related to issues covered by this agreement, by means of reference to the provisions of WTO agreements between parties that are WTO members.

In this context, the Republic of Moldova cannot refer to the first option due to the disclaimer of the Republic of Moldova concerning the Agreement on the status of the Economic Tribunal of the Community of Independent States in 2010, through Law no. 126 of December 23, 2009, but may use the possibility of dispute settlement by means of the Expert committee for the dispute settlement as soon as the latter becomes operational, and the mechanisms set out by the WTO in its commercial relations with the Russian Federation, which became WTO member in August, 2012. However, most of the times, the occurrence of certain disputes in this field took place particularly with this economic partner, and, due to its large weight in the Moldovan foreign trade, also had a more resonant impact on certain sectors, and even on the economy growth, globally (Poisic M., Clipa V.).

The Customs Union Russia –Kazakhstan-Belarus: content and essence

The Customs Union *Russia –Kazakhstan-Belarus* became effective in 2010. As of 2010, the common import tariff was implemented, and in July, 2011 were also removed the borders between the union participating countries – first between the Russian Federation and Belarus, and afterwards between the Russian Federation and Kazakhstan (EBRD, 2012).

[4] Decree No. 168 of 16.01.2010 on the promulgation of the Law on the denunciation of the Agreement on the status of the Economic Tribunal of the Community of Independent States

In addition to the requirements set out in the agreement on the establishment of the free trade zone, which mention the decrease of trade tariff and non-tariff barriers, the Customs Union also implies:

- the removal of customs clearance for mutual trade;
- the transfer of customs clearance at the external border of the customs union;
- the cancellation of customs clearance for the products subject to free circulation within a member state;
- the enforcement of a sole customs code (sole import tariff, unique customs regulations etc.);

The current common tariff of the Customs Union is mainly based (approximately 80%) on the tariff of the Russian Federation. Considering that the import customs duties of the Russian Federation and Belarus were, at that moment, more or less similar, these did not undergo material changes, and, furthermore, relatively high tariffs were negotiated for a series of heavy industry products. However, with respect to Kazakhstan, approximately 60% of the tariff positions were affected, and the country was granted a 5-year term in order to adjust its customs tariff with the one of the Customs Union. Consequently, in order to adjust the national tariffs to the new common customs tariff, the Russian Federation increased the tariffs for 1500 positions, and decreased the tariffs for 2000 positions; Belarus - 500 vs. 2000, while Kazakhstan increased the tariffs for more than 5000 tariff positions (Bychkov A.; 2011).

The import of certain products (Annex 2) from emergent and underdeveloped countries benefit from a preferential regime. Thus, for the emergent countries, which benefit from the sole tariff preferences system, a customs tariff of 75% of the one set out by the Sole Customs Tariff applies, and for the underdeveloped countries rate "0" of the customs tariff applies.

The customs duties related to imported goods are charged solely based on the affiant's place of residence, and the revenues charged at the customs are distributed between the partners, according to the following limits: Russian Federation – 87.97%, Kazakhstan – 7.33%, Belarus – 4.7%. Also, certain aspects of the foreign trade of member states, such as the payment of indirect taxes and the performance of exports continue to be regulated by the domestic norms of each separate country.

Compatibility of the Republic of Moldova with the requirements on the accession of third party countries to the Customs Union and with the commitments of the country undertaken under other international Agreements

Prior to the beginning of the *de facto* analysis of the potential effects of the Republic of Moldova's accession to the Customs Union on foreign trade and economic growth of the country, we considered as important the review of two issues: consistency between the Customs Union adhesion requirements and the compatibility of the potential title as member of the Customs Union with the commitments under other international agreements.

Compliance of the Republic of Moldova with the adhesion requirements of the Customs Union. Starting from the first issue, considering that, within the Customs Union, the customs clearance is performed at the external borders of the union's customs territory, a requirement related to the accession of a country would consist of the existence of a common border. In most cases this requirement is complied with within the existing customs unions – Andean Community, East African Community, Mercosur, the Customs Union of South Africa etc. In this context, the accession of the Republic of Moldova to RKB Customs Union would only be possible following the accession of Ukraine. Ukraine should sign the agreements on November, at Vilnius summit, although it suspended its decision.

Compatibility of the potential title as member of the Customs Union with the commitments taken within WTO. As of July, 2001, the Republic of Moldova, by becoming WTO member, undertook to promote a foreign trade liberalization policy, which was supposed to materialize, first of all, in the decrease of the average tariff for the imported products and non-tariff barriers in the trade. At the same time, the accession to the Customs Union would imply the two times increase of the average customs tariff of the Republic of Moldova, on one hand, and the economic integration with 2 non-WTO member states (Belarus and Kazakhstan), on the other hand.

Although even the set up and operation of the WTO ensures the facilitation of trade between the member states, the provisions of the underlying agreements do not impede the execution of certain preferential trade agreements between the partners. It is considered that these can stimulate trade and cooperation between economies, although, to a certain extent, they imply certain discriminatory elements towards the other partners. In this context, according to p. 5 of article XXIV of GATT 1994, the establishment of a free trade zone or of a customs union is only permitted with the requirement that neither party to the agreement imposes to third party countries (WTO members) tariffs or trade conditions more restrictive than the ones prior to the execution of this agreement (WTO, 1994). Otherwise, according to p. 6 of the same article of GATT, the affected members are entitled to draw substantially equivalent concessions, in compliance with article XXVIII.

Table 7. Profile of the average customs tariff of the Republic of Moldova and Customs Union member states

Country	MFN average tariff, all products	MFN average tariff, agricultural-industrial products	MFN average tariff, non-agricultural-industrial products
2012			
Republic of Moldova	4.6	10.5	3.7
Belarus	9.7	13.4	9.1
Kazakhstan	9.5	13.4	8.8
Russian Federation	10.0	13.3	9.4
2009			
Republic of Moldova	4.6	10.7	3.7

Belarus	10.6	12.2	10.4
Kazakhstan	5.9	12.2	4.9
Russian Federation	10.5	13.2	10.1

Source: WTO statistics database (http://stat.wto.org/TariffProfile/WSDBTariffPFHome.aspx?Language=E)

According to the data set out in table 7, the MFN average customs tariff[5] of the Republic of Moldova is currently two times lower than the one of the Customs Union member states. According to the most recent data, the MFN average tariff of the Republic of Moldova represented 4.6% in 2012, out of which 10.5% for agricultural-food products and 3.7% for manufactured products. The maximum ceilings related to the tariffs of these categories represent 7%, 13,9%, and 5.9%, respectively In other Customs Union member states these are significantly higher. Upon the Russian Federation's accession to the WTO, in compliance with the commitments thereof, the ceiling of charged tariff shall decrease to 7.8% by the end of the implementation term, including 10.8% for agricultural-food products and 7.3 % for non-food manufactured products. The changes shall decrease during the next 7 years, where the longest implementation term is determined for pork and transport machines and equipment (WTO, 2011). Whereas the tariff ceiling of the Russian Federation set out for 2020 is higher than the current one of the Republic of Moldova, and that it is unlikely for the MFN average tariff to significantly decrease below the set out ceiling (due to national interests, but also to the requirement concerning the consent of the Republic of Belarus, which has a commercial policy with relatively high protection degree). The MFN average tariff of Moldovan economy is below 5%, the accession of the Republic of Moldova to the Customs Union might generate countermeasures adopted by the other WTO member states.

The Memorandum of Understanding on the Interpretation of Art. XXIV of GATT (1994) – customs unions and free trade zones sets out the procedure to be implemented whenever a Member that sets up a customs union recommends an increase of the consolidated customs duties level. Thus, as mentioned at paragraph 6 of art. XXIV, the Member that sets up the customs union should initiate negotiations with the Members affected by the adjustment or withdrawal of concessions upon the set up of the customs union, in order to determine satisfactory compensations. Such negotiations will be performed in good faith, in order to reach to mutually satisfactory compensations. During these negotiations, as required by paragraph 6 of Article XXIV, the parties shall appropriately consider the decrease of customs duties related to the same tariff position, enforced by other constitutive entities of the customs union upon the set up of such union. If such decreases are not sufficient in order to represent the required compensations, the customs union shall provide compensations that might materialize in decreases of the customs duties related to other tariff positions. Such offer shall be considered by the Members with negotiating rights for the amended or withdrawn consolidation. If the compensations remain unacceptable, the negotiations must continue. If, despite these efforts, no consent can be reached during the negotiations on the compensations set out at Article XXVIII, as mentioned in the Memorandum of Understanding on the Interpretation of Article XXVIII of GATT 1994, within

[5] Represents the simple average of MFN ad-valorem taxes charged at the level of tariff positions broken down at 6 digits. For the computation of the average tariff, all products are granted with the same weight, irrespective of the export weight thereof.

a reasonable period of time determined as of the beginning of such negotiations, the customs union shall nevertheless be free to amend or withdraw the concessions; at that moment the affected Members shall be free to withdraw substantially equivalent concessions in compliance with Article XXVIII (Memorandum of Understanding on the Interpretation of Art. XXIV of GATT (1994) – customs unions and free trade zones).

Similarly, with respect to the establishment of the Customs Union with 2 WTO non-member states - Belarus and Kazakhstan - no express provisions were identified in GATT 1947 with respect to the creation of preferential trade agreements between the WTO member states and third party countries. At the same time, a note of the WTO Secretariat tabled during a meeting of the Committee on Regional Trade Agreements refers to the possibility to enter preferential trade agreements with WTO non-member states (WTO, 1997). Furthermore, according to the statements of the General Manager of WTO – Pascal Lami, both Kazakhstan and Belarus undergo the negotiation process concerning the accession to WTO. Practically, Kazakhstan is in the home stretch; for Belarus, the negotiations are at a less advanced stage (WTO, 2013), but, according to certain sources, the Russian Federation undertook to support its Customs Union partners with respect to their accession process to WTO (Belarussian Telegraph Agency, 2012);

Compatibility with other preferential trade agreements in which the Republic of Moldova is party. Currently, the Republic of Moldova, in addition to the CIS countries, has signed preferential trade agreements with CEFTA and EU member states – under the Agreement on the Autonomous Trade Preferences. Although the weight of signatory countries of the Free trade agreement with Central European countries is low in the foreign trade of the Republic of Moldova (0.3% of the export and 0.4% of the import, respectively) the Republic of Moldova's accession to the Customs Union would imply the revision of its commitments to such countries. The title as CU member would imply the revision of the commercial policy of our country and the preservation of the previous preferential agreements and the execution of new ones, respectively, such as the execution of a Free trade agreement with the EU solely with the consent of the other partners. To the extent the capacity as member of the Agreement on the Free trade zone within CIS enables the Republic of Moldova to independently determine its commercial policy, the accession to the CU will most likely limit the opportunities of a preferential regime with the other partners, unless the other members of the Customs Union will consider such agreements. Similarly, the accession to the Customs Union raises a question mark concerning the extension prospects by the European Union of the Autonomous Commercial Preferences that expire in 2015.

Economic effects of the Republic of Moldova's accession to the Customs Union

As it results from the approaches used in the theoretical and empirical studies on the evaluation of the effects of preferential trade agreements, we will further attempt to capture the impact of the Republic of Moldova's accession to the Customs Union, in the context of influence on: the creation of new commercial flows, the potential trade misappropriation possibilities and on the trading terms, but also of other issues that might influence the long-term economic growth.

Due to the fact that the Republic of Moldova benefits from free trade with the Russian Federation, Belarus and Kazakhstan for several years, regime that sets out the practically full removal of import tariff barriers in mutual trade, a significant change compared to the existing trends is unlikely.

At the same time, a major existing constraint of the mutual trade consists of non-tariff barriers and customs duties maintained by the customs union members for export, and the accession of the Republic of Moldova to the Customs Union might contribute to the decrease thereof. The removal of administrative barriers following the removal of customs clearance at internal borders could indeed have a positive impact in this respect, taking into consideration that most perishable products are mainly exported on these markets, in particular to the Russian Federation – tomatoes, apples, apricots, meat and dairy products. At the same time, the agricultural-food products are most often subject to the embargoes imposed to the republic of Moldova on this market, and the accession to the Customs Union does not guarantee the removal of this risk.

Table 8. Agricultural products exported mainly on the CU market

SA code	Description of product	Export value, million USD			Weight of exports to the CU in the total, %	Unit value of exports to the CU	Unit value of imports
		Russian Federation	Customs Union	Total			
0808	Apples, pears and quinces, fresh	37.8	40.0	40.4	99.1	0.27	0.76
0809	Apricots, cherries, sour cherries, peaches (including nectarines), plums and sloes, fresh	27.2	28.9	28.9	99.8	0.7	1.0
0806	Grapes, fresh or dried (raisins)	10.9	13.0	14.5	89.7	0.5	1.1
0810	Other fruits, fresh (strawberries, raspberries, cranberries)	11.3	11.4	11.5	99.2	1.48	1.18
0702	Tomatoes, fresh or refrigerated	9.9	10.8	10.8	100.0	0.93	0.89
0201	Beef	8.2	8.2	8.2	100.0	4.26	3.66
0204	Sheep or goat's meat	6.8	6.8	6.8	100.0	4.55	4.8
0202	Frozen beef	5.0	5.0	5.0	100.0	3.99	3.72
0406	Cheeses and ewe-cheesed products	2.4	4.6	4.6	100.0	5.55	4.1
0709	Other vegetables, fresh or refrigerated	2.8	2.9	2.9	100.0	0.93	1.11
0805	Citrus fruits, fresh or dried	2.0	2.1	2.1	98.5	0.88	0.88
0205	Horse meat	1.4	1.4	1.4	100.0	3.24	-
0707	Cucumbers and gherkins, fresh or refrigerated	1.0	1.0	1.0	100.0	0.95	0.94
0710	Vegetables, prepared or not by means of boiling in water or steam, frozen	0.3	0.3	0.4	84.3	0.7	1.25
0704	Cabbage, cauliflower, cohlrabi, savoy and vegetables etc.	0.2	0.2	0.2	97.4	0.12	0.45

0807	Melons (including water melons) and papaya, fresh	0.1	0.1	0.1	100.0	0.45	0.34

Source: Developed by the author, based on the data of the National Statistics Office

At the same time, the following might represent prerequisites for the stimulation of bilateral commercial relations: the decrease of the unit value of imports of certain product categories from the Customs Union, as a result of the removed export customs duties by the Union members. The natural gas exported by the Russian Federation in the Republic of Moldova is also subject to the export customs duty, and the removal thereof would enable the saving of approximately USD 100 mil. per year. At the same time, although it seems a relevant factor, including for the support of the industrial sector, the preservation of energetic dependency on a single market could cost us even more in the long run. In additional to natural gas, the export customs duties for a series of other products shall be removed: energetic products, chemical fertilizers, metals etc., which could propel the import of such products. At the same time, the weight thereof in the overall import, except for energetic resources, is less significant.

Table 9. Main products imported from the CU countries, whose acquisitions might increase as a result of removed export taxes

HS code	Description of product	Value, RON million	% in the total imports of the compliant product	Observation concerning the existence of the export customs duty
Total	Total imports	1015.6	19.5	
2711	Oil gas and other gaseous hydrocarbons	496.4	98.9	30% to the natural gas imported from the Russian federation. According to the data related to 2012, the removal of the export duty related to the import of natural gas could generate savings of around USD 100 mil.
2710	Oils from crude oil or oils from bituminous minerals (oil products), others than raw	166.6	28.5	Duty charged by all countries, determined based on a special formula
3102	Mineral or azotated chemical fertilizers	13.4	59.5	No export duty exists. At the same time, there is a customs duty for mineral, chemical or potassic fertilizers in Belarus (Euro 75/ton) and Russian Federation (5%)
2713	Oil coke, petroleum asphalt and other petroleum oil or bituminous material residues	10.2	32.0	Duty charged by all countries, determined based on a special formula
3105	Mineral or chemical fertilizers that contain two or three fertilizing elements: nitrogen, phosphor and potassium	8.0	45.8	The Russian federation maintains a 5% duty. The import of this product from the Russian Federation represented approximately USD 7,3 mil. in 2012

4802	Uncoated paper and cartons, such as those used for writing, printing or other graphic purposes; manually manufactured paper and cartons	5.6	56.1	The Russian federation maintains a 10% duty. The import of this product from the Russian Federation represented approximately USD 5.6 mil. in 2012

Source: Developed by the author, based on the data of the National Statistics Office

Despite the above mentioned factors, which might condition the creation of new commercial flows between the partners, certain risks darken the growing prospects thereof.

The foreign trade of the Republic of Moldova with this block is highly concentrated from a geographical point of view. The Russian Federation holds more than 80% of the foreign trade of the Republic of Moldova with the Customs Union members, while Belarus and Kazakhstan, despite our preferential regime, maintained a relatively low share. Also, the weight of the Republic of Moldova in the trade of the Russian Federation (0.07-export, 0.15-import), Belarus (0.55-export, 0.18-import) and Kazakhstan (0.05-export, 0.09-export) is extremely low, below 1%.

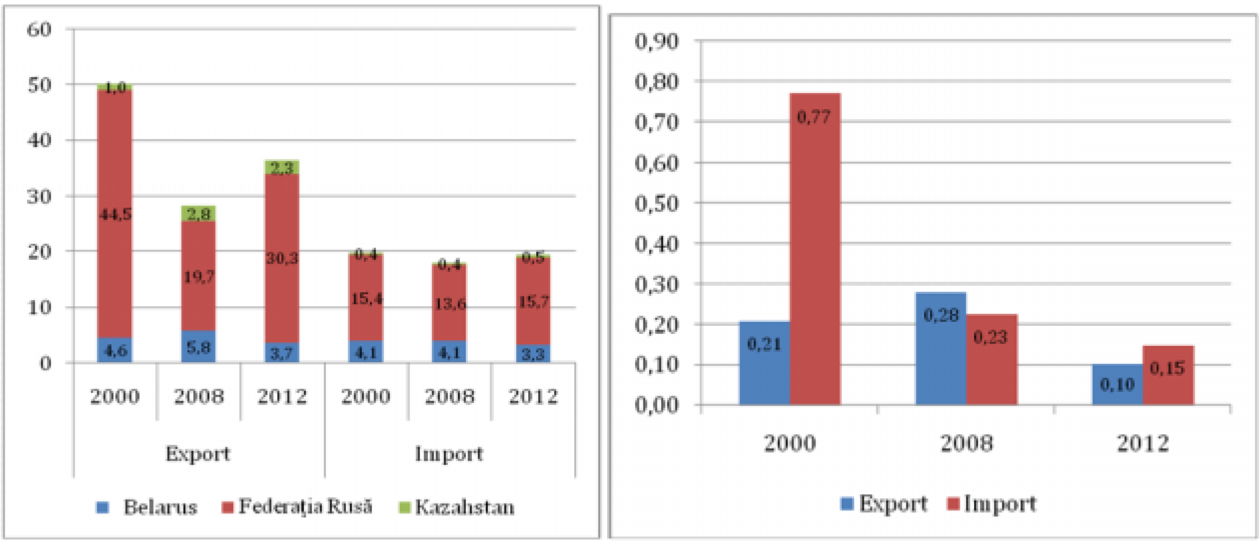


Figure 6. Weight of CU countries in the foreign trade of the Republic of Moldova (1) and of the Republic of Moldova in the foreign trade of the CU (2)

Source: Drafted based on the data available on WITS

With respect to the geographical concentration of Moldovan trade on the relevant market, we should mention that this represents an important issue to be considered as regard to the economic security of the country and the mitigation of economic volatility to external shocks. However, the dependence on a certain market is associated to major risks. The results of the foregoing studies highlighted an extremely high volatility of Moldovan exports in the Russian Federation. The variation coefficient – used as indicator of export volatility, reflect an extremely high variation of exports to the Russian market (Chistruga M., Clipa V., Fala A. 2010), compared to exports to the European Union.

The time evolution of mutual commercial relations takes place at a slower pace, in the context of the general registered dynamics. As of 2011, both for the Republic of Moldova, and for the block of Customs Union countries, contrary to the trend recorded in the relations with the EU member states, the foreign trade increased at an annual pace lower than the overall growing pace of CU imports from the Republic of Moldova, in particular.

Table 10. Annual average increasing pace of the trade between the Republic of Moldova and the Customs Union member states (2001-2012),%

RM-CU Exports	12.8	***CU-RM Exports***	15.8
RM overall exports	14.7	***CU overall exports***	17.6
RM-CU Imports	18.7	***CU-RM Imports***	7.6
RM overall imports	19.1	***CU overall imports***	21.7

Source: Drafted based on the data available on WITS

These trends are also reflected in the descending evolution of the Intraregional Trade Intensity Index (ITII). This also shows an over-unity value, which reflects the relatively high importance of intraregional trade between these states, compared to the weight held in the world trade. A relevant explanation of the high value of the given indicator is the large weight held by the Russian Federation in the foreign trade of the Republic of Belarus (35.1% - export, 58.8% - import) and of the Republic of Moldova (30.3% - export, 15.6% - import). With respect to Kazakhstan, approximately 38.4% of its imports originate from the Russian Federation, while the exports oriented towards this destination only account for 7.3%.

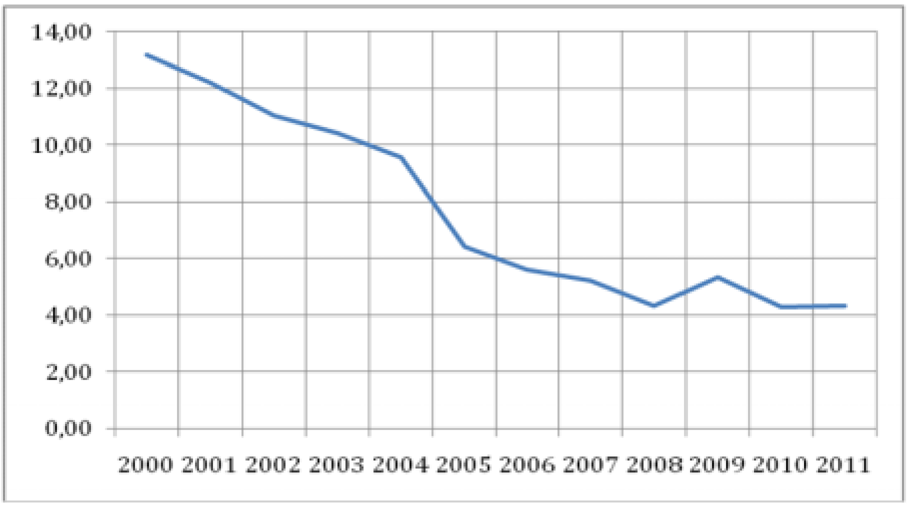


Figure 7. Intraregional Trade Intensity Index with EU and Customs Union member states

Source: Developed based on the author's computations

The accession of the Republic of Moldova to the Customs Union also raises other challenges concerning the global growth of exports of the Republic of Moldova, due to the uncertain evolution of re-exportations – a significant component of current Moldovan exports, but also of domestic exports as a result of the risks to the national production sector.

Although the registration method of re-exportations in the Republic of Moldova changed last year, and also had an impact on the level thereof, the value of the given flow of goods is relatively significant – 35.7% (USD 772.3 mil.), according to the data related to 2012. More than half, 55.3% (USD 427.05 mil.) of the re-exportations are oriented towards CU countries, out of which 53.3% (411.3) to the Russian Federation. Thus, 62.8% of the exports went to the Russian Federation market consist of re-exportations. In Kazakhstan and Belarus the weight thereof is significantly lower - 28% and 2%, respectively. The motivation of domestic entrepreneurs to initiate such businesses is not clear, because the argument of removed customs duties in the trade between West and East is unlikely, due to the enforcement of rules of origin in the trade between the Republic of Moldova and the Customs Union countries, but approximately half of the exports to the Customs Union (approximately 20% of the total exports) could be affected in case of the Republic of Moldova's accession to the Customs Union. The establishment of a common customs area, the implementation of a common customs tariff and common customs procedures could act against the argument based on the profitability of re-exportations (Stratan A., Fala A.. Clipa V. 2012). This reasoning does not support re-exportations, because the main purpose of the national economic policy is to support the competitiveness of domestic production, while re-exportations represent an important component of the export of several states and, to in a certain manner, a materialization of the entrepreneurial spirit and, consequently, has the right to exist.

Table 11. Main products exported by the Republic of Moldova to the CU

No.	CSCI code	Description of product	Exports, USD mil.	Commercial balance, mil. USD	% in the exports to the CU	% in the total exports of c.p.	Re-exports, %	% in the total imports of c.p.
1.	112	Alcoholic beverages	126.6	121.5	16.1	60.1	0.9	10.4
2.	057	Fruits and nuts	98.3	98.3	12.5	48.6	38.8	0.0
3.	542	Drugs	73.7	67.0	9.4	78.9	92.0	3.3
4.	553	Perfumes and cosmetic products	28.5	20.8	3.6	92.2	98.8	9.5
5.	821	Furniture and parts thereof	25.9	24.8	3.3	28.2	95.4	1.5
6.	784	Vehicle parts and accessories	25.5	22.2	3.2	98.3	99.5	5.5
7.	659	Rugs and other floor coverings etc.	23.9	23.1	3.0	75.3	89.3	11.3
8.	655	Knitted or weaved textiles	19.9	19.4	2.5	96.5	99.7	0.9
9.	056	Edible roots and tubers	19.6	19.4	2.5	94.1	0.0	2.3
10.	054	Vegetables	16.3	13.6	2.1	95.4	84.1	7.7
11.	554	Soaps, cleaning products	14.6	13.1	1.9	99.1	99.7	2.9
12.	011	Beef	13.3	13.3	1.7	100.0	0.0	0.0
13.	081	Pet food	12.7	11.1	1.6	59.1	0.0	7.4
14.	699	Items made of	11.8	9.2	1.5	71.3	59.3	5.6

		common metals						
15.	742	Pumps for liquids	11.2	10.4	1.4	84.5	5.9	7.6
16.	273	Stones, sand, gravel	10.8	10.8	1.4	65.5	0.1	0.0
17.	743	Fans, filters, gas pumps	10.0	8.6	1.3	95.8	95.8	4.0
18.	621	Rubber materials	9.9	9.3	1.3	98.6	99.9	4.0
19.	874	Other measurement and control devices	9.5	8.2	1.2	66.9	7.7	5.9
20.	893	Other items made of plastic	9.5	3.8	1.2	39.3	72.1	8.4
Total 20 products			571.5	527.8	72.7	-	67.8	-
Total CU			786.2	-229.4				
Total			2161.9	-3051				

Source: Developed based on UNComtrade data

As mentioned above, an important task of the economic policy is to support the competitiveness of national production, which refers to a broader access of domestic manufacturers to high quality raw materials, stimulation of inflow of high performance capital.

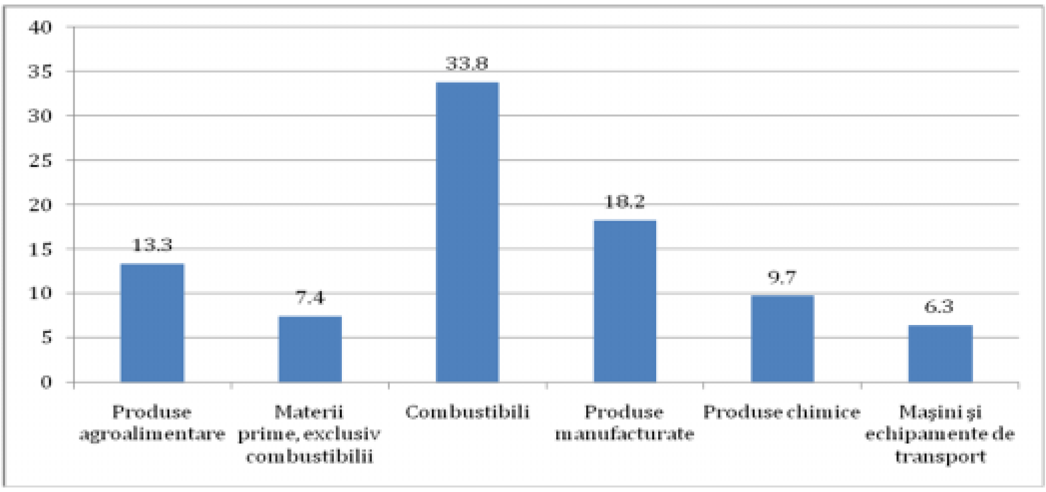


Figure 8. Weight of the Customs Union as origin of the goods imported in the Republic of Moldova

Source: Developed based on UNComtrade data

Currently, most manufactured products intended for industrial processing, including of capital, are imported from other states than the Customs Union member states, despite the non-preferential regime, compared to the one that applies within the union Also, the industrial products within the Customs Union benefit from a high protection, compared to the current tariff of the Republic of Moldova – 8.7-9% vs. 3.7%. Thus, in case of an accession to the said formation, the customs tariff of the Republic of Moldova for industrial goods increases by more than two times. As shown in table 13, where few of the most important import tariff positions were analyzed, the customs tariffs could increase from 0% - the current tariff to 5% for petroleum, up to 15% for drugs, up to 30% for various vehicles, tractors up to 30%, knitted or weaved materials up to 10% etc.

For many of these products a reorientation of imports towards Eastern manufacturers is unlikely to occur, due to the large volumes imported from other countries, in spite of a much higher unit value. Or, in this case, the reorientation might take place towards goods of lower quality from the Eastern area, or relatively large volumes will be maintained from the same markets, with an inflation pressure, and consequently with a degrading impact on the trading terms.

Table 12. Impact of the change of the customs tariff in case of a potential accession of the Republic of Moldova, on the imports from other countries

HS code	Description of product	Imports from other countries, USD mil.	% in the total imports of the compliant product	Customs tariff of the Customs Union	Customs tariff of the Republic of Moldova	Unit value prior to the accession			Unit value following the accession
						CU	Other states	Measurement unit	Other states
2710	Crude oil	243.0	59.3	5.0	0.0	0.81	0.8	USD/liter	0.9
3004	Drugs	188.4	93.5	0-15	0.0	24.2	37.0	USD/Kg	-
300490190	Other drugs	127.95	92.8	10.0	0.0	26.7	33.4	USD/Kg	36.7
8544	Wires, cables and insulated electrical conductors, with or without connectors	101.7	88.2	0-20	0-10	5.8	9.5	USD/Kg	-
854449930	With a voltage of maximum 80 v	71.407	100.0	10	10	8.8	9.1	USD/Kg	Might not be influenced or negatively influenced, following the decrease of investments
8703	Motor cars and other motor vehicles for the transport of passengers	109.2	98.5	0-30	0.0	11583.8	18528.3	USD/pc.	-
870333199	Other vehicles with piston engines, with compression ignition (displacement higher than 2500 cm3)	21.9	99.9	30	0.0	22400.0	65288.0	USD/pc.	84874.4
870332199	Other vehicles with piston engines, with compression ignition (displacement between 1500cm^3 and 2500 cm^3)	20.0	98.6	30	0.0	279900.0	35189.8	USD/pc.	45746.7
870322109	Other vehicles with alternative piston engine, with spark ignition, new (displacement	14.3	98.8	30	0.0	10223.5	10904.3	USD/pc.	14175.6

	1000-1500 cm3)								
8517	Telephones	74.7	99.7	0-10	0.0	331.6	69.3	USD/pc.	69.3-76.2
851712000	Telephones for the mobile telephony network	23.7	100	5	0.0	-	70.1	USD/pc.	73.6
851762000	Devices for the reception, conversion and transmission	22.8	99.4	0-5	0.0	334.0	61.6	USD/pc.	61.6-64.7
8708	Parts and accessories of motor vehicles set out at positions 8701 through 8705	54.6	93.1	0-5	5.0	4.7	7.8	USD/Kg	7.8-8.2
3808 (except for 380850000)	Insecticides, rats bane, fungicide, herbicides, germination inhibitors and plant growing regulators, disinfectants and similar products	51.2	95.1	5.0	0.0	14.9	11.0	USD/Kg	11.6
9403	Other furniture and parts thereof	36.0	75.1	Euro 0.75/kg or 15%	10.0	3.4	5.2	USD/Kg	5.98
8701	Tractors	41.2	75.6	0-30	0.0	18592.3	6204.9	USD/pc.	-
870120901	Second hand traction motor vehicles	18.7	100.0	30	0.0	-	30554.3	USD/pc.	39720.6
870190390	New agricultural or forestry tractors with an engine capacity of more than 90 kw	9.4	90.6	5-15	0.0	35160.9	137617.6	USD/pc.	144498.5-158260.3
3305	Haircare products	38.3	39.8	15.0	6.5	2.9	4.4	USD/Kg	5.1
6006	Other knitted or weaved materials	36.5	99.9	10.0	0.0	10.6	4.5	USD/Kg	4.95

Source: The author's computations

Similarly, an important factor for the Republic of Moldova consists of the impulsion of investments in national economy, both by domestic and foreign investors, and this would mean to urgent the structural reforms initiated during the last years –improvement of the quality, justice, public administration system infrastructure etc. At the same time, the international experience shows that such reforms are accelerated in the case of intensified cooperation of the countries with a good performance in this field.

Table 13. Comparative aspects concerning the trade facilitation index

	Lithuania	Romania	Republic of Moldova	Russian Federation	Kazakhstan
Trade facilitation index	***45***	***69***	***76***	***105***	***112***
Efficiency of the customs administration	44	53	95	89	107
Efficiency of import-export procedures	34	65	102	114	130
Transparency of border administration	41	60	95	113	76
Availability and quality of the transport infrastructure	62	98	88	56	48
Regulating environment	74	100	112	117	99
Physical security	42	72	74	107	88

Source: Drafted based on the Global Enabling Trade Report 2012 (http://www3.weforum.org/docs/GETR/2012/GlobalEnablingTrade_Report.pdf)

As it results from the features of the Customs Union and the current growing conditions of national economy, the accession to this organization would entail the following opportunities and risks for the Republic of Moldova:

Opportunities:

- Removal of administrative barriers in the mutual trade as a result of removed customs clearance at internal borders;
- The possibility to decrease the import unit value for a series of important products of national economy: energetic resources, fertilizers, metal-bearing products;
- Lower odds of embargoes imposed by the Russian Federation for Moldovan products;
- The expansion of Moldovan exports on the intensive margin. The complementarity index of Moldovan export with the CU imports is relatively high and, theoretically, could enable the increase of exports to such markets.

Challenges:

- The actually twofold increase of the average customs tariff of the Republic of Moldova, contrary to the commitments taken within the WTO;

- The possibility of partial withdrawing of the concessions from WTO member commercial partners, including by the EU;
- The increase of the geographical concentration of exports and, consequently, the vulnerability of trade to external shock;
- The misappropriation of trade for certain products;
- The increase of prices of imported raw materials and intermediate materials for production;
- Degradation of the trading terms;
- Limitation of access to new technologies and capital assets. Currently, even under the circumstances of existing import customs duties, approximately half of the imports originate from the EU, including most capital assets and intermediate materials (Annex 3);
- The postponement of the upgrading process related to the domestic energetic infrastructure;
- The delay of structural reforms and upgrade of national economy because the other CU states pursue the same process, and the likelihood of their contribution to the transfer of technologies required for the economy, of know-how, including in the management and marketing area etc. is extremely low, compared to those that might originate from developed European countries.

Conclusions

At the end of November, was initialed the Deep and comprehensive free trade agreement between the Republic of Moldova and the European Union. This stage was preceded by at least three years of intensive preparations of the Moldovan authorities and by not less than two years of negotiations. And the conclusion and execution of this and of the Association Agreement, respectively, could expedite the implementation of reforms within national economy, in order to institute a viable market economy.

DCFTA implies the establishment of a preferential, symmetrical trade framework with the EU countries that will ensure the removal of remaining barriers in the way of domestic exporters on the EU and Turkish market and the liberalization of European and Turkish imports, respectively, on the local market. The execution of the agreement represents a major challenge for certain production sectors, mainly for the agricultural-food sector, and that is why such sector was granted a special place during the agreement negotiations. Also, the execution thereof could generate tension in the political and economic relations with certain Eastern partners, which might generate crisis circumstances in other sectors, in particular in the gas-related one. And the highest risks originate from the poorly prepared production sector, from the shortcomings of the operating system of several public institutions, directly or indirectly responsible for providing a facilitating business environment, the moderate process of quality and physical infrastructure upgrade and the instability of policies etc. The agreement will broaden the access to two large markets, both based on population and revenue per capita, the related access requirements are stringent.

Thus, it depends to a large extent on the national authorities, business environment and on the entire civil society whether this agreement will represent, for the Republic of Moldova, a factor that will condition the invasion of import products on the local market, which discourages domestic production, or a catalyst of long-term economic growth, with multiple opportunities: free access to one of the largest sales markets, broadened access to a wider range of high quality raw materials, new investments, more efficient institutions, intense and equitable competition etc. These opportunities could also generate a series of positive externalities in other areas.

However, with respect to the deepening of integration processes in the Eastern area, the existing estimates show that the accession to the Customs Union Russia-Belarus-Kazakhstan is currently associated with a series of risks for the development of the Republic of Moldova's trade, but also to the overall economy growth prospects. Although this process might condition the removal of remaining barriers in mutual trade – the export duties of the commercial partners in this area and of certain non-tariff barriers, the risks remain significant – high market concentration, the high volatility of exports towards such market, the misappropriation of trade for a series of imported products, and successive increase of prices for others, which might generate inflation pressure and the degradation of trading terms, the location or even suspension of certain important reforms etc. At the same time, the CU remains an important economic partner for the Republic of Moldova, and at this stage the efforts are oriented including towards the consolidation of economic relations within the existing cooperation formula - the Multilateral agreement on the Free trade zone with the CIS countries and towards the assurance of an appropriate operation thereof.

Annexes

Annex 1. Complementarity index of the trade of the Republic of Moldova with the one of the Customs Union and European Union

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Complementarity of Moldovan exports with imports from the EU and CU												
EU	27.9	27.4	26.8	28.7	30.2	29.6	35.9	40.4	42.8	40.8	42.2	47.5
CU	33.1	31.3	31.5	33.2	31.8	30.0	35.6	38.9	41.3	41.4	46.2	48.4
Russian Federation	35.6	33.6	33.6	34.9	34.0	31.6	36.5	40.1	41.6	43.5	47.8	49.3
Belarus	25.9	24.8	25.7	26.6	25.7	25.3	30.5	33.2	34.7	28.1	32.9	36.1
Kazakhstan	21.0	20.6	20.6	21.9	22.6	23.0	29.4	33.5	36.2	32.3	37.6	43.1
Complementarity of exports to the EU and CU with the Moldovan imports												
EU	53.1	57.1	62.0	64.7	62.8	65.1	67.0	70.0	72.1	69.2	70.1	74.9
CU	57.1	53.6	47.1	44.5	44.1	42.7	51.2	43.3	43.3	42.6	40.3	40.1
Russian Federation	54.8	51.4	44.9	42.1	42.0	41.4	51.2	42.0	42.3	42.1	39.5	39.9
Belarus	61.6	65.1	69.3	69.9	67.5	64.2	66.3	65.9	65.3	61.6	64.3	59.1
Kazakhstan	41.7	36.0	30.9	31.2	30.8	30.4	33.3	30.2	32.2	29.0	27.3	25.2

Source: Developed based on the data of WITS database

Annex 2. List of products imported in the Customs Union, which originate from emergent and underdeveloped countries, regarding which tariff preferences are granted

HS code	Description of product *
02	Meat and edible organs
03 (except for 0305)	Fish and crustaceans, mollusks and other aquatic spineless animals (except for Russian sturgeon and salmon and eggs thereof)
04	Milk and dairy products; poultry eggs; natural honey; edible products of animal origin, unmentioned and not included elsewhere
05	Other products of animal origin, unmentioned and not included elsewhere
06	Living plants and flower growing products; tubers, roots and other similar parts of the plants, cut flowers and other decorative herbs
07	Vegetables, plants, roots and food tubers
08	Edible fruits and nuts; citrus or melon peels
09	Coffee, tea, intestines and spices
1006	Rice
11	Products of the milling industry; malt; starch; wheat gluten
12	Seeds and oleaginous fruits; various seeds and fruits; industrial and medicinal plants; straws and fodder
13	Laquer, gum, resins and other saps and plant extracts
14	Weaving materials and other products of plant origin, unmentioned and not included elsewhere
15 1509 – 1522 00	Fats and oils of animal or plant origin and dissociated products thereof; processed food fats; wax of animal or plant origin
16	Food products, alcoholic, non-alcoholic beverages and vinegar; tobacco
1801 00 000 0	Cocoa beans, whole or crushed, crude or roasted
1802 00 000 0	Cocoa beans peels, membranes and other cocoa remains
20 (except for 2001 10 000 0, 2009 50, 2009 71, 2009 79)	Products made from vegetables, fruits or the parts of plants
2103	Sauces and related products; mixtures made of spices and seasoning products; mustard flour and prepared mustard
2104	Mixtures for soups, sour soups and broths; prepared soups, sour soups and broths; food products made of homogenized compositions
2401	Raw or unprocessed tobacco; tobacco remains
25 (except for 2501 00 91, 2529 21 000 0, 2529 22 000 0)	Salt, sulphur, soils and stone, plaster, lime and cement
26	Ores, cinder and ash
3003	Drugs (except for the products at positions 3002, 3005 or 3006), made following the mixture of products, prepared for therapeutic or prophylactic use, but not presented in the form of dosage
32	Tanning or coloring extracts; tannin and derivatives thereof; pigments and other coloring substances, dyes and varnishes; mastic; inks
3301, 3302	Essential oils; resinoids; mixtures of odoriferous substances

3402	Surface organic agents (others than soap); surfactant mixtures, washing products (including the auxiliary washing products) and cleaning products, even which contain soap, others than those mentioned at position 3401
35	Protean substances, modified starch, glues, enzymes
3923	Transport or packaging items made of plastic materials; plugs, corks, capsules and other closing devices, made of plastic
4001	Natural rubber, balata, gutta-percha, guazu, chicle and similar natural gums, in primary or form or in the form of plates, foils or bands
4403 41 000 0, 4403 49	Other types of wood in raw condition, from tropical wood
4407 21 – 4407 29	Longitudinally cut or carved wood, ..., made of tropical wood
4420	Inlaid wood and encrusted wood; coffers, jewelry boxes and holders or silver work and similar items, made of wood; statues and other decorative items, made of wood; furniture items made of wood, not mentioned at Chapter 94
4421	Other wood items
45	Cork and cork items
46	Products made of straws, alpha or other woven plant materials, woven baskets
50	Silk
5101	Wool, unprocessed, non-combed
5201 00	Cotton, unprocessed and non-combed
53	Other plant textile fibers, paper fibers and fabrics made of paper staples
56	Cotton wool, felt and non-woven materials, special filaments, ropes, cords, cables made of these
5701	Rugs and other floor coverings made of textile materials, with knotted or twined points, even manufactured
5702 10 000 0	"Kelem", "Schumacks", "Karamanie" rugs and similar manually woven rugs
5705 00 100 0	Other rugs and floor coverings made of textile materials, even made of wool or animal hair
5808	Stripes in the form of pieces; lace working items and similar decorative items, in the form of pieces, with no embroidery, others than the knitted or woven ones; tassels, buffers and similar items
6702 90 000 0	Artificial flowers, leaves and fruits and parts thereof; items made of artificial flowers, leaves or fruits, from other materials than plastic
68	Items made of stone, plaster, cement, asbestos, mica or similar materials
6913	Statues and other decorative items made of ceramics
6914	Other ceramic items
7018 10	Glass beads, replica of natural or culture pearls, replica of precious or semiprecious stones and similar items made of glass
7117	Jewelry
9401 51 000 0, 9401 59 000 0	Furniture for chairs made of reed, willow, bamboo or similar materials
9403 81 000 0,	Furniture made of other materials, including reed, willow, bamboo or similar materials

9403 89 000 0	
9403 90 900 0	Components of furniture made of other materials
9601	Ivory, bones, turtle shell, animal horns, coral, nacre and other materials of animal origin prepared for fashioning (sculpture), processed, and items made of these materials (including the products manufactured by means of casting)
9602 00 000 0	Plant or mineral materials, processed for fashioning purposes and items made of these materials; items molded or fashioned from wax, din paraffin, stearin, gum or natural resins or paste for molds and other molded or fashioned items
9603	Paint brushes and brushes, even that represent parts pf machines, equipment or vehicles, mechanical brooms for manual use, others than the engine provided ones, dust absorbing or cleaning items; wires and swabs for brushes; buffers and rollers for painting purposes
9604 00 000 0	Sieves and screens, for manual use
9606	Buttons, naps and press buttons; forms for buttons and other parts thereof; button blanks
9609	Pencils (others than the pencils mentioned at position 9608), refills, pastel pencils, drawing coal, writing or drawing chalk and tailoring chalk
9614 00	Pipes (including pipe ends), cigars, cigarettes boxes and parts thereof
9615 11 000 0	Hairdressing combs, ornamental combs, hair clips and similar items made of hardened rubber or plastic
9617 00	Thermos bottles and other fitted thermal insulating recipients, where the insulation is ensured by vacuum; the parts thereof (others than the interior glass recipient)
97	Art items, collection items and antiques

Source: http://www.ved.gov.ru/vnesheconom/tarif_pref/

Annex 3. Imports of the Republic of Moldova according to the final destination of products

	Total	EU	CU	Russian Federation	Kazakhstan	Belarus
Consumer goods	27.3	36.9	9.8	8.0	0.0	1.8
Agricultural	8.9	30.4	16.0	13.4	0.0	2.5
Non-agricultural	18.5	40.0	6.8	5.4	0.0	1.4
Intermediate materials	50.1	48.0	17.5	11.1	1.2	5.2
Agricultural	1.7	36.0	10.3	6.0	0.4	3.9
Non-agricultural	48.4	48.4	17.8	11.3	1.2	5.3
Capital goods	11.5	63.1	9.7	4.0	0.1	5.7
Other goods	11.1	33.1	69.0	69.0	0.0	0.0
Vehicles intended for passenger transport	2.6	6.9	0.4	0.6	0.0	0.0

Source: Developed based on UN Comtrade data

Annex 4. Structure of CU and EU imports according to the main products in Moldovan export

SA code	Description of product	R. of Moldova	EU-27	CU	Russian F.	Belarus	Kazakhstan
08	Edible fruits and nuts;	8.4	0.7	1.9	2.2	0.5	1.1
12	Oleaginous grains and fruits	8.2	0.4	0.3	0.4	0.2	0.1
22	Alcoholic beverages, alcohol-free beverages and vinegars	8.2	0.7	0.9	1.0	0.4	0.7
85	Electrical machines, devices and equipment and parts thereof	8.1	9.6	10.0	11.0	4.1	10.0
62	Clothing items and accessories, others than knitted or weaved ones	7.1	1.5	1.0	1.2	0.1	0.4
61	Clothing and clothing accessories, knitted or weaved	5.2	1.4	0.9	1.1	0.2	0.3
84	Nuclear reactors, boilers, mechanical machines, equipment and devices	4.7	10.9	16.6	18.0	9.4	14.7
94	Furniture	4.0	1.3	1.3	1.3	0.4	2.1
15	Animal or vegetable fats and oils and dissociated products	3.5	0.6	0.5	0.6	0.4	0.6
30	Pharmaceutical products	3.5	3.9	4.0	4.6	1.3	2.6
10	Grains	3.2	0.4	0.1	0.1	0.2	0.1
20	Products made from vegetables, fruits or the parts of plants	3.1	0.4	0.5	0.5	0.2	0.5

64	Footwear	2.2	0.8	1.2	1.5	0.4	0.5
70	Glass and glass items	1.7	0.5	0.4	0.4	0.4	0.9
87	Road vehicles, others than the railway and tramway rolling stock	1.7	8.3	11.2	13.3	3.0	4.9

Source: Developed based on the data of WITS database

Annex 5. Structure of CU and EU exports (except for mineral fuels) according to the main products of Moldovan import

SA code	Description of product	R. of Moldova	EU-27	CU	Russian F.	Belarus	Kazakhstan
85	Electrical machines, devices and equipment and parts thereof;	9.4	9.8	2.3	2.2	3.5	0.5
84	Nuclear reactors, boilers, mechanical machines, equipment and devices	9.2	15.1	5.7	4.9	7.0	1.5
87	Road vehicles, others than the railway and tramway rolling stock	7.3	11.6	3.6	3.6	13.8	0.2
39	Plastic materials and items made of plastic materials	4.9	4.3	1.1	1.0	3.3	0.3
30	Pharmaceutical products	4.8	5.5	0.3	0.2	0.5	0.1
73	Products made of cast iron, iron or steel	2.7	2.4	1.9	2.0	3.5	0.8
48	Paper and cardboard	2.5	1.9	1.5	1.3	0.9	0.1
72	Cast iron, iron and steel	2.2	3.4	14.1	18.9	4.7	24.8
24	Tobacco and processed tobacco replacements	2.1	0.4	0.2	0.2	0.0	0.2
40	Rubber and rubber items	1.9	1.4	1.4	1.3	2.7	0.1
44	Wood, wood coal and wooden items	1.9	0.9	5.1	5.0	2.1	0.0
94	Furniture	1.9	1.5	0.6	0.6	1.7	0.0
38	Various products of chemical industry	1.7	1.5	0.3	0.3	6.4	0.0
90	Optic, photographic or cinematographic, medical-surgical instruments and devices	1.6	3.5	1.1	0.8	1.2	0.2
08	Edible fruits and nuts	1.5	0.5	0.1	0.1	0.4	0.0

Source: Developed based on the data of WITS database

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