

Moldova and Russia: between trade relations and economic dependence

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Chisinau, April 2015

Disclaimer

This report has been published with the financial support from Soros-Moldova Foundation / Program for Good Governance, within the joint project “EU-Moldova relations – monitoring progress in the Eastern Partnership” implemented by Independent Think-Tank Expert-Grup and Association ADEPT.



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Key Messages

- Russian Federation has been one of the main export partners of the Republic of Moldova during the whole transition period. However, the share of exports to Russia decreased both as a natural outcome of diversification of trade partners of a country that had recently obtained its independence and as a result of unclear rules of the game displayed by the Russian Federation in trade relations towards some partners. Thus, in 2014 Russia lost to Romania its status of top destination for Moldovan exports. The share of exports to Russia accounted for 18.1% of the total Moldovan exports. At the same time, Moldova is a minor partner for the Russian imports, with only 0.1% of imports coming from our country.
- Taking into account the high share of re-exports in the total exports to the Russian Federation (58% in 2014), the analysis of domestic exports (i.e. total export minus re-export) has a higher relevance. Thus, the domestic export to the Russian Federation accounted for 12% of the total domestic export in 2014 and in such a case Russia lost its leading position back in 2012. The domestic exports to Russia accounted for 2.3% of the GDP in 2014 - a high enough level to have a significant impact on the Moldovan economy, but incomparable to the situation a decade ago, when the share of domestic exports to Russia exceeded 10% of the GDP.
- In 2014 the exports to Russia decreased significantly as a result of two important factors: (i) Russian sanctions, namely the introduction of import duties and import bans on some Moldovan products, following the signature of the Association Agreement between the European Union and Moldova and the establishment of the Deep and Comprehensive Free Trade Agreement and (ii) lower demand from Russia because of more difficult economic condition and economic crisis coming over it. There are currently enough reasons to expect a further period of uncertainty in the trade relations.
- Though after the establishment of DCFTA between Moldova and the EU the export of some categories of products to the EU has increased, particularly the “edible fruits and nuts; peels of citruses and melons” and “vegetables, plants, roots and edible tubercles”, for most groups of exported goods there was not enough counterbalance from EU and other countries to cover the decrease of exports to Russia for several reasons: (i) 2014 was a more difficult economic year for a number of trade partners and the export to these countries decreased because of lower demand; (ii) diversification of the export markets is not an easy thing to do when the demand for some Moldovan products is almost lacking in some European countries because their low competitiveness or existence of other non-tariff barriers.
- The Russian Federation is an important sales market for several major groups of products: “edible fruits and nuts”, “vegetables, plants, roots and edible tubercles”, “meat and edible organs”, “prepared vegetables, fruits or other parts of the plants”, “alcoholic beverages, non-alcoholic beverages and vinegars”, including ones outside the agricultural sector and the food and beverages industry, such as “carpets and textile floor covering”, “tobacco and processed tobacco substitutes”, “various items made of common metals”.
- We could assume that the products that have a high share in Russia’s total imports and the ones that had a steady increase in the export to Russia in the last decade, have a high potential on this market. These are mainly agricultural products: “fresh apples, pears, and quinces”, “fresh and dried grapes”, “fresh apricots, cherries, peaches, plums”, “beef meat”, “sunflower seeds”, but also “wood for cooperage” and “carpets and textile floor covering”. Wine is not included in these categories, because the analyzed period covered years with restrictions on wine import to Russia. For the previous years, their share in the total wine imports of Russia was higher revealing their competitiveness.
- The analysis of domestic exports to Russia in the value of production broken down by economic activities reveals higher exposure of the following industries: “production of road transport means and production

of other means of transport”, “manufacture of machinery and equipment”, “production of textiles”, “production of medical, high-precision, optical devices and tools and clock production”, “production of beverages”, “processing and preservation of fruits and vegetables”.

- The agricultural exports to Russia account for only 3.7% of the total agricultural production. However, the exposure of this sector is also caused by the high number of employed population, which makes it vulnerable to any shocks, but also indirect exposure through the exports of the food and beverages industry. Hence, from the employment perspective, agricultural sector and beverage production industry are exposed the most to exports to Russia.
- At the same time, only several sectors highly exposed to exports to Russia have a significant share in the GDP, namely “production of medical, high-precision, optical devices and tools”, “production of textiles”, and “manufacture of machinery and equipment”. The analysis of the economic sectors’ exposure to the exports to Russia depending on sector productivity, estimated as the share of GVA in total production reveals only four sectors with high productivity and high exports to Russia: “production of medical, high-precision, optical devices and tools”, “production of textiles”, “manufacture of machinery and equipment”, and “production of road transport means and production of other means of transport”.
- The exports to the EU with a significant share in the value of production come from sectors with higher GVA and higher productivity, both compared to exports to Russia and to the CU - RBK as a whole.
- Thus, we find that the exposure of the Moldovan economy to Russia decreased in the past years and the vulnerable industries are not the most productive ones or ones accounting for a significant share of GDP. Still, Russia’s sanctions most often envisaged those specific products from the agricultural sector and food industry that have a significant volume of exports for higher impact on the Moldovan economy and affect a large share of the employed population. This makes the Moldovan economy quite vulnerable to the Russian sanctions, not only in terms of export and GDP decrease, but also of social consequences.
- At the same time, the Russian Federation is a significant import partner for the Republic of Moldova, holding 13.5% of the total imports to the Republic of Moldova. However, the high share is mainly caused by the heavy dependence on the Russian gas, which accounts for 65% of the imports from the Russian Federation. Their share in the total imports from Russia doubled in the last decade not only because of the increase in the physical amount of the imported gas, but also because of the increase in the price for the Russian gas. Should this class be excluded, the share of imports from Russia goes down to 6.5% of total imports. We can expect some changes in the structure of import markets once the DCFTA with the EU comes into force and import duties are gradually decreased and removed.
- Though the trade in services has a lower value than the trade in goods, it also accounts for a significant part of the commercial relations between Moldova and Russia. In the case of trade in services, the Russian Federation is even a more important partner for Moldova than in the trade in goods (if we exclude re-exports from calculation), since 14% of total export and 22.2% of total import of services belong to Russia. The services with a lower value added prevail in the exported services, with transport services accounting for 72.4% of total exported services.

Introduction

Russian Federation has one of the main trade partners of the Republic of Moldova during the whole period of transition, due to common historical past, geographic proximity and its large sales market. However, the share of trade flows between Moldova and Russia in the total trade flows of the Republic of Moldova decreased both as a natural outcome of diversification of trade partners of a country that had recently obtained its independence and as a result of unclear rules of the game displayed by the Russian Federation in trade relations towards some partners. These factors determined the decrease of exports to this destination, or at least the volatility during certain periods of time. Thus, in 2014 Russia lost to Romania its status of top destination for Moldovan exports, but if we exclude re-exports, then it lost its status even since 2012.

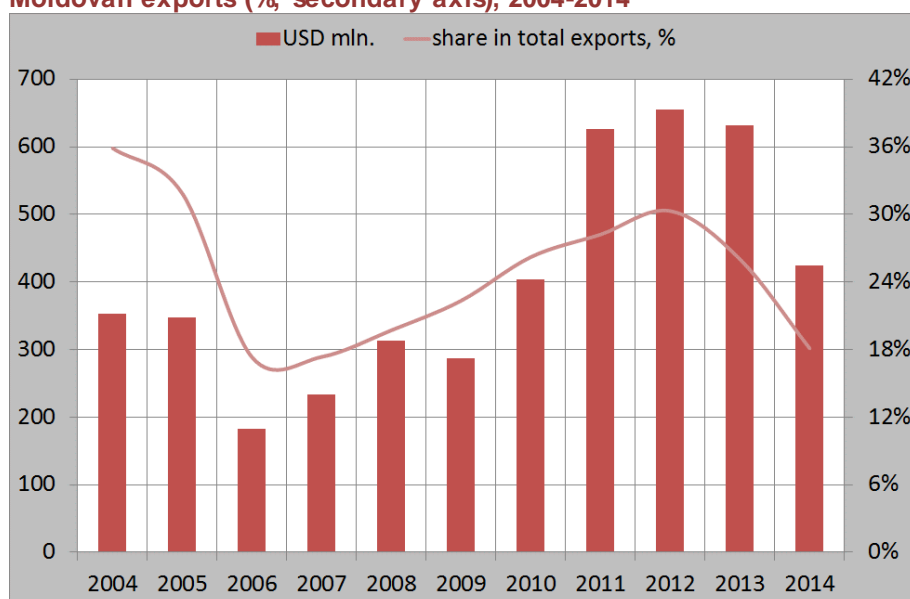
At the same time, the share of imports from the Russian Federation in the total Moldovan imports did not change significantly due to high dependence on fossil fuels that accounts for 65% of the Russian imports. With regard to imports, in 2014 Romania also became the main trade partner of Moldova.

Signing of the Association Agreement (AA) with the European Union (EU) and establishment of the Deep and Comprehensive Free Trade Area (DCFTA) with EU in 2014 generated even more dissatisfactions from the Russian Federation's part. The sanctions were applied almost immediately by setting import duties and banning the import of some products originating from Moldova. Thus, the trade relations between Moldova and Russia are still expected to be unclear, especially with regards to the Moldovan exports. The study analyses the exposure of Moldovan economy and economic sectors to the exports to Russian Federation and its evolution in the last decade, when the first important sanctions were imposed against Moldovan products.

Trade in goods. Moldovan exports to the Russian Federation

The share of Moldovan exports to the Russian Federation has always had a negative trend, but their volume dropped substantially in 2006, when the most significant and long-lasting embargo on Moldovan products was imposed. The wine embargo, which had lasted for almost 2 years, had a strong negative impact on the Moldovan economy. The exports to Russia dropped twice during that year, and their share in the total Moldovan exports reached their lowest level - 17.3%.

Even after the removal of import restrictions, the share of exports to the Russian Federation has not returned to the level prior to embargo due to a number of reasons: (i) many wine producers have learned a tough, but valuable lesson and they diversified their export markets; (ii) some producers did not cope with that situation and went bankrupt; (iii) the Russian Federation imposed many other bans on products of plant and animal origin and wine products, both formally and verbally, halting the exports for short periods of time; (iv) and due to improvement of EU relations and enforcement of a number of favorable trade regimes with Moldova (GSP, GSP+, ATP and finally DCFTA) that allowed increasing the exports to this destination. However, the Russian Federation kept its position of the main partner for the Moldovan exports until 2013 inclusively, when Romania took the leadership, and the share of exports to Russia fell to 18.1% (Chart 1).

Chart 1. Exports to the Russian Federation (USD million, primary axis) and their share in the total Moldovan exports (% , secondary axis), 2004-2014

Source: UN Comtrade and NBS data (for 2014);

Moreover, peculiar for the exports to the Russian Federation is the high share of re-exports, i.e. of those products that were exported in the same state as previously imported. The share of re-exports in the total exports to Russia reached 58% in 2014 (the highest level was 63% during 2012-2013), twice higher than the share of re-exports in the total exports to other destinations but Russia (29% in 2014). Since, as a rule, the re-exports do not obtain the national origin by processing, it is considered that they do not contribute to the value added, have a minor impact on the production and employment in the sectors from which they are originating.

Thus, even if the Russian Federation is considered to be the main export destination for several classes of products, a more detailed analysis shows that most of them have a significant share of re-exports. As a result, the vulnerability to potential trade shocks in the relation with Russia is lower than it seems to be at the first glance. Although, there are groups of products for which the share of re-exports is lower, or the level of domestic exports (i.e. total exports minus re-exports) to Russia is still high, regardless of the share of re-exports, that makes some economic sectors more dependent on the quality of relations between Moldova and Russia.

The significant increase of re-exports to the Russian Federation started in 2011, mainly due to the re-exports of some groups of products (see Table 1). A more detailed analysis reveals that for these groups of products and other several groups with lower export value that were not included in the table, both the domestic and total exports to the Russian Federation (including their physical amount, not only their value), remained to be relatively stable or have increased in some cases. This could indicate that these products are re-exports indeed, i.e. goods that were not produced in the country and are not contributing to the value added, if we consider that the production capacities for some goods, including agricultural goods, have not increased to an extent that would explain the increase in total exports.

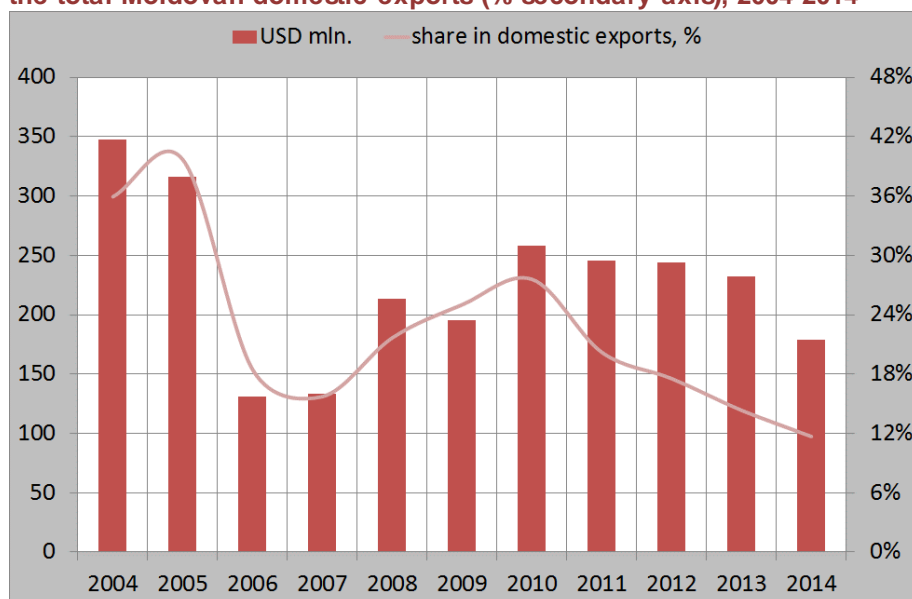
Table 1. Groups of products with a significant increase in the share of re-exports to the Russian Federation since 2011

HS02 Code	Description	Share of re-exports in 2014
07	Edible vegetables and certain roots and tubers	78.3%
30	Pharmaceutical products	97.5%
39	Plastics and articles thereof	70.7%
61	Articles of apparel and clothing accessories, not knitted or crocheted	58.3%
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	60.6%
64	Footwear, gaiters and the like; parts of such articles	48.1%
72	Cast-iron, iron and steel	99.6%
83	Miscellaneous articles of base metal	27.0%
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	88.9%

Note: The table comprises only groups of products exported to Russian Federation in 2013 that exceeded USD 1 million.

Source: Author's calculations based on UN Comtrade and Ministry of Economy data;

Thus, the study will refer further to domestic exports (i.e. total exports domestic re-exports) for a more objective analysis of foreign trade of the Republic of Moldova and its impact on the overall economy and particular economic sectors. In this case, the exports to Russian Federation have been falling since 2011, and already in 2012 Romania was the main destination for Moldovan exports. In 2014, the domestic exports to the Russian Federation accounted for 12% of the total Moldovan exports and this share decreased three times during the last decade (Chart 2).

Chart 2. Domestic exports to the Russian Federation (USD million, primary axis) and their share in the total Moldovan domestic exports (% secondary axis), 2004-2014

Source: Author's calculations based on UN Comtrade and Ministry of Economy data;

Under these conditions, the Russian Federation is an important market for several groups of product (Table 2). At the same time, in 2013 and 2014 the domestic exports to Russia experienced significant changes as a result of several important factors: (i) Russian sanctions imposed in 2014, namely the introduction of import duties and import bans on some Moldovan products, (ii) lower demand from Russia because of the a more difficult economic condition and economic crisis coming over it, (iii) as well as signing of the Association Agreement with EU and the entry into force of DCFTA with EU since September 2014, which allowed increasing some categories of Moldovan exports to the markets of some European countries.

Table 2. Groups of products with a high share of domestic exports to the Russian Federation in the total domestic exports, 2013-2014

HS02 Code	Description	2013 %	2014 %	Volume of exports to Russia	Total volume of exports
08	Edible fruit and nuts; peel of citrus fruit and melons	37.6	15.6	↘	↘
22	Beverages, spirits and vinegar	19.6	6.1	↘	↘
57	Carpets and other textile floorcoverings	64.1	56.4	↘	↘
02	Meat and edible meat offal	92.1	32.2	↘	↗
20	Preparations of vegetables, fruit, nuts or other parts of plants	21.6	14.1	↘	↘
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	52.0	58.2	↗	↘
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	18.1	21.6	↗	↘
24	Tobacco and manufactured tobacco substitutes	24.3	16.9	↘	↘
83	Miscellaneous articles of base metal	69.6	61.5	↗	↘
54	Ma-made filaments	60.6	24.6	↘	↗
86	Railway or tramway locomotives, rolling-stock and parts thereat railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment of all kinds	53.1	85.5	↘	↘
07	Edible vegetables and certain roots and tubers	31.8	43.6	↗	↗
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	79.1	91.8	↗	↗
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter; paints and varnishes; putty and other mastics; inks	80.8	56.1	↘	↗
79	Zinc and articles thereof	89.0	24.4	↘	↘
45	Cork and articles of cork	34.9	66.7	↗	↗
81	Other base metals; cermets; articles thereof	54.9	73.4	↗	↗
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	36.8	0.3	↘	↗

Note: The table contains only the groups of products with domestic exports exceeding USD 5 million to the Russian Federation and with a relatively high share of exports in the Russian Federation (starting with class 83).

Source: Author's calculations based on UN Comtrade and Ministry of Economy data;

Thus, for certain groups of products EU countries have managed to offset the reduction in exports to Russia, or to reduce the negative impact, for example “edible fruits and nuts; peels of citrus and melons” “tobacco and manufactured tobacco substitutes”, “synthetic filaments”. However, for most of the products for which the exports to Russia decreased, the contra-balance from the EU or other countries was not strong enough, so that the total exports shrank quite considerably. This is also the result of the following two major aspects:

- 2014 was a difficult year from the economic point of view for several trade partners of the Republic of Moldova. Thus, the exports to these countries fell down due to the lower demand.
- Diversification of trade partners for some products is not an easy task. Thus, the demand for some Moldovan products almost does not exist in some European countries, because of their low competitiveness or other non-tariff barriers to imports, for example failure to comply with sanitary and phytosanitary standards.

At a higher level of disaggregation, there are a number of products that are exported almost entirely to the Russian Federation (Table 3). Among them there are some products with a significant volume of exports, of over USD 10 million: “fresh apples, pears and quinces”, “meat of bovines, fresh or chilled” and “other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen”. The sanctions imposed by Russia in 2014 targeted namely these products, for a stronger impact. Thus, while the overall dependence on Russia is declining, targeting the products with high export volumes to Russia makes the Moldovan economy vulnerable to the sanctions.

Table 3. Groups of products with high share of domestic exports to the Russian Federation in the total domestic exports, 2013-2014

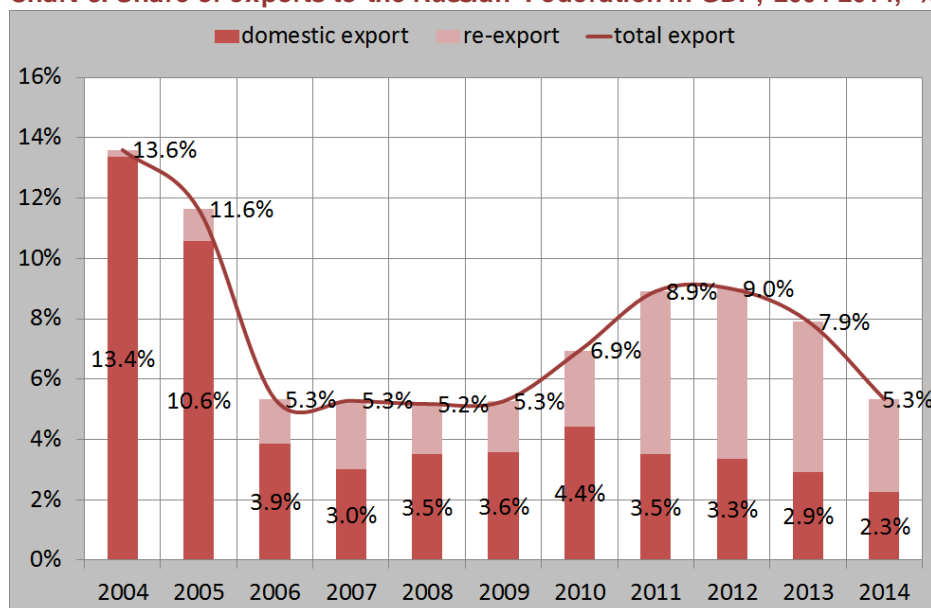
HS02 Code	Description	2013	2014
0205	Meat of horses, asses, mules or hinnies, fresh, chilled or frozen	100%	100%
8411	Turbo-jets, turbo-propellers and other gas turbines	100%	99.3%
0201	Meat of bovine animals, fresh or chilled	100%	91.7%
6402	Other footwear with outer soles and uppers of rubber or plastics	96.4%	25.8%
0808	Apples, pears and quinces, fresh	90.8%	35.2%
2002	Tomatoes prepared or preserved otherwise than by vinegar or acetic acid	84.1%	61.0%
2001	Vegetables, fruit, nuts and other edible parts of plants, prepared or preserved by vinegar or acetic acid	82.1%	34.9%
0405	Butter and other fats and oils derived from milk; dairy spreads	81.3%	93.2%
8413	Pumps for liquids, whether or not fitted with a measuring device; liquid elevators	78.3%	95.4%
2005	Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen, other than products of heading No. 20.06.	77.2%	52.4%
0204	Meat of sheep or goats, fresh, chilled or frozen	77.0%	98.0%
8309	Stoppers, caps and lids (including crown corks, screw caps and pouring stoppers), capsules for bottles, threaded bungs, bung covers, seals and other packing accessories, of base metal.	71.9%	63.1%

Note: The table contains only the groups of products exported to the Russian Federation that exceeded USD 1 million.

Source: Author's calculations based on UN Comtrade and Ministry of Economy data;

Sector exposure to Moldovan exports to Russia

The information presented in the previous section on exports by groups is very valuable, but it does not provide a comprehensive image on the economic dependence of the Republic of Moldova in relation to exports to the Russian Federation. The share of exports in GDP and economic sector disaggregation is more relevant for this purpose. Thus, the exports to Russia accounted for 5.3% of the GDP, while the domestic exports - only 2.3% of GDP in 2014 (Chart 3). Although this level can be considered high enough to have significant impact on Moldova's GDP, the situation cannot be compared with that of a decade ago, when the share of domestic exports to Russia exceeded 10% of GDP.

Chart 3. Share of exports to the Russian Federation in GDP, 2004-2014, %

Note: Preliminary data for 2014;

Source: Author's calculations based on UN Comtrade, NBS and Ministry of Economy data;

The share of exports in GDP and GVA at the sectoral level shows their economic importance, but it is more useful to analyze the share of exports in the volume of production, by economic activities, that shows the vulnerability of economic sectors to exports to Russia. Further calculations refer to 2013, due to data availability. In this event, one must identify some economic sectors heavily exposed to exports to the Russian Federation, as revealed in Table 4.

Table 4. Economic sectors with the highest share of exports to Russia in the value of production, 2013

NACE Code	Description	Share of domestic exports to Russia in the value of production	Share of domestic exports to Russia in the total domestic exports
D34-35	Production of road transport means and production of other means of transport	31.4%	38%
D29	Manufacture of machinery and equipment	22.2%	49%
D17	Production of textiles	15.8%	40%
D33	Production of medical, high-precision, optical devices and tools and clock production	11.6%	18%
D15.9	Production of beverages	9.3%	20%
D15.3	Processing and preservation of fruits and vegetables	9.2%	22%
D15.1	Production, processing and preservation of meat and meat products	7.1%	71%
D28	Manufacture of metal finished products, except for machinery and equipment	6.8%	43%
A	Agriculture, hunting and forestry	3.7%	15%

Source: Author's calculations based on UN Comtrade and NBS data;

Even if in most of the economic sectors less than 50% of exports are oriented towards the Russian Federation, their high share in the volume of production makes them quite vulnerable. Moreover, within sectors there are enterprises that have diversified their exports, as well as enterprises with a single sales market, namely the Russian Federation. According this criterion, production, processing and preservation of meat and meat products is the most vulnerable industry, which exports mainly to Russia. The consequences of this dependence were already felt in the Republic of Moldova after the most recent embargo against the Moldovan meat products, imposed in October 2014.

It is worth mentioning that the agricultural exports to Russia account for only 3.7% of the volume of agricultural production. However, the exposure of this sector derives from the high number of population it employs, which becomes vulnerable to all shocks, as it is further analyzed, but also indirect exposure through the exports in the food and beverages industry.

If the share of exports to Russia in the total volume of production by economic sectors is applied for the employment level, we can identify the sectors exposed the most from a labor market and, respectively, social perspective. In this event, agriculture and beverages industry are the most vulnerable sectors, i.e. the sectors that were subject to the highest number of import restrictions (**Error! Reference source not found.**).

Table 5. Number of employed people exposed to exports to Russia by economic sectors, 2013

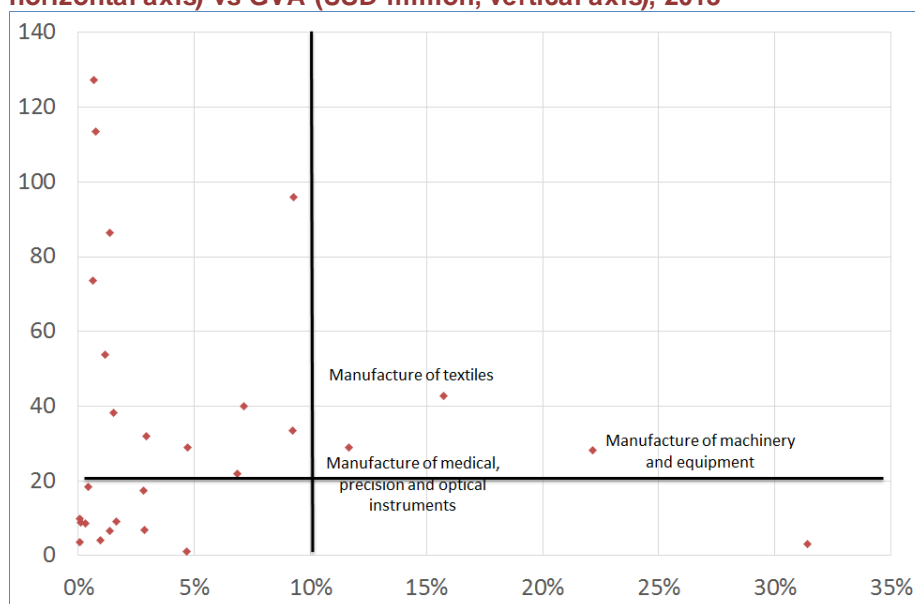
NACE Code	Description	Number of affected employed population
A	Agriculture, hunting and forestry	12555
D15.9	Production of beverages	1046
D17	Production of textiles	573
D15.3	Processing and preservation of fruits and vegetables	463
D28	Manufacture of metal finished products, except for machinery and equipment	410
D29	Manufacture of machinery and equipment	359
D33	Production of medical, high-precision, optical devices and tools and clock production	293
D15.1	Production, processing and preservation of meat and meat products	292
D36	Manufacture of furniture and other industrial activities	222
D15.7-15.8	Manufacture of ready-made animal feed and other food products	130
D18	Manufacture of apparel; preparation and dyeing of fur	121
D23-24	Coal coking, crude oil distillation and chemical industry	116

Note: The data from the table must be used with caution, as they provide information about the affected sectors and extent of the impact, rather than the exact number of affected employed people.

Source: Author's calculations based on UN Comtrade and NBS data;

Moreover, even if they have a higher share in the value of production, exports of some sectors are not yet so influent to have a strong impact on the economy due to the low share of these sectors in the GDP. Thus, only several sectors highly exposed to exports to Russia have a significant share in the GDP (as GVA), namely "production of medical, high-precision, optical devices and tools", "production of textiles", and "manufacture of machinery and equipment" (Chart 4)

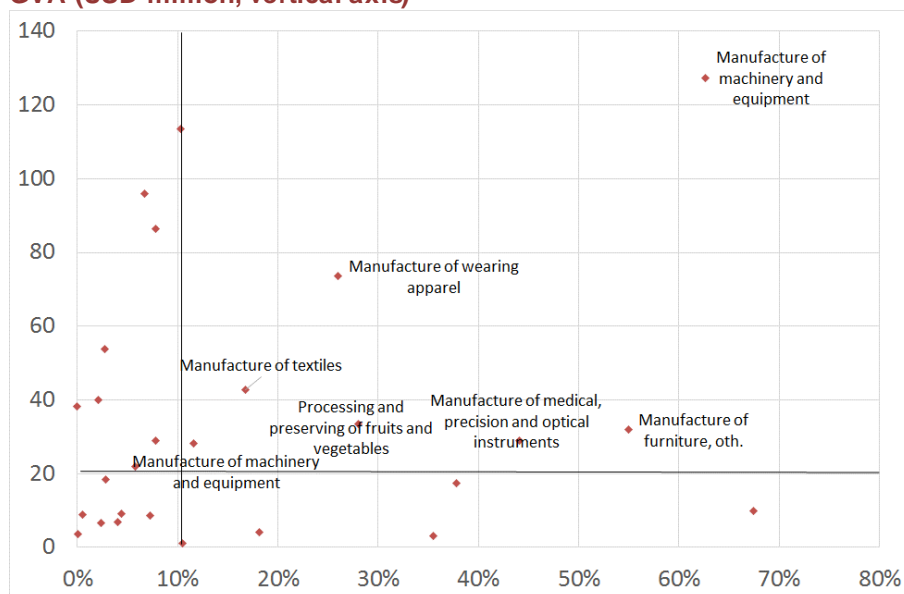
Chart 4. The share of domestic exports to the Russian Federation in the value of production (% horizontal axis) vs GVA (USD million, vertical axis), 2013



Source: Author's calculations based on UN Comtrade and NBS data;

At the same time, the domestic exports to EU have a much stronger impact on the Moldovan economy in much more economic sectors (Chart 5).

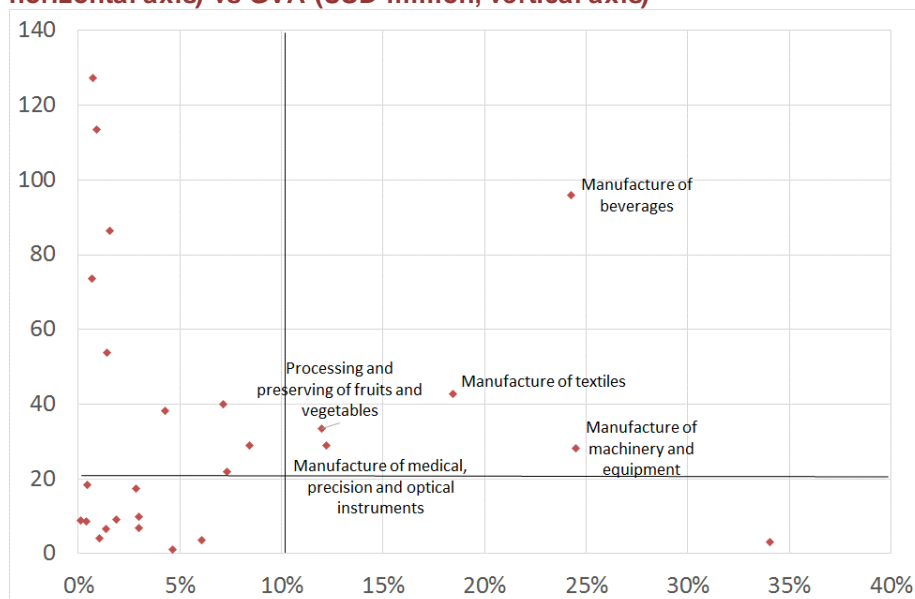
Chart 5. The share of domestic exports to EU in the value of production (% horizontal axis) vs GVA (USD million, vertical axis)



Source: Author's calculations based on UN Comtrade and NBS data;

The EU market is definitely much bigger, with 28 export partners and it seems natural to have a much stronger impact on the Moldovan economy. However, if we include for comparison Kazakhstan and Belarus in our estimations, the situation does not improve significantly and will underline the importance of exports to EU versus Customs Union RBK (CU-RBK) and Russia (Chart 6).

Chart 6. The share of domestic exports to CU-RBK in the value of production (%) horizontal axis) vs GVA (USD million, vertical axis)



Source: Author's calculations based on UN Comtrade and NBS data;

However, some economic sectors with lower level of GVA and a lower impact on GDP could be more productive, but which are still developing and should be upheld. Thus, the analysis of the economic sectors' exposure to the exports to Russia depending on sector productivity, estimated as the share of GVA in the total production, reveals only four sectors with high productivity and high exports to Russia: "production of medical, high-precision, optical devices and tools", "production of textiles", "manufacture of machinery and equipment", and "production of road transport means and production of other means of transport" (Chart 7).

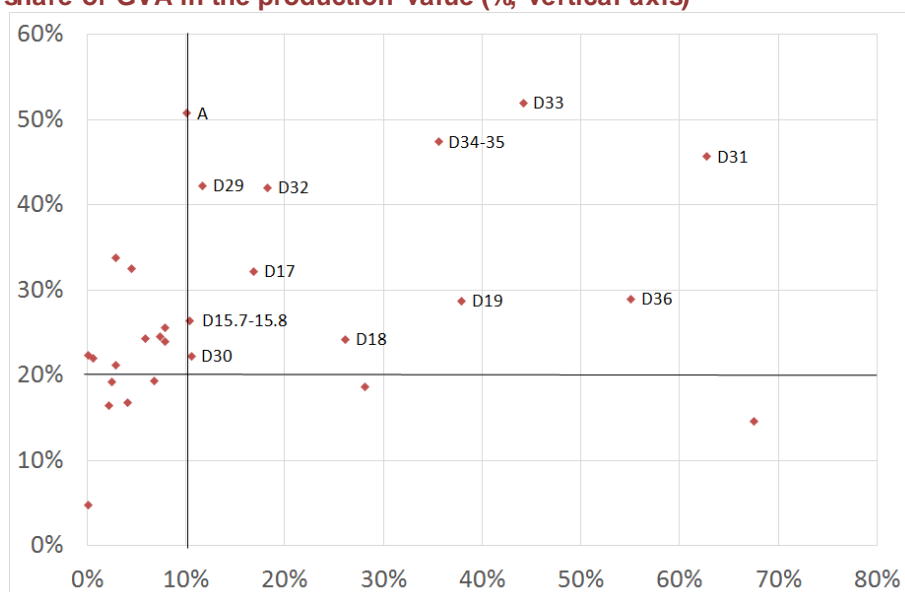
Chart 7. The share of domestic exports to Russia in the value of production (% horizontal axis) vs. GVA's share in the production value (% vertical axis)



Source: Author's calculations based on UN Comtrade and NBS data;

In this event, the situation is also more positive for exports to EU, with significant exports originating from a number of economic sectors with high productivity level (Chart 8). Estimations for CU-RBK do not alter this conclusion (Chart 9).

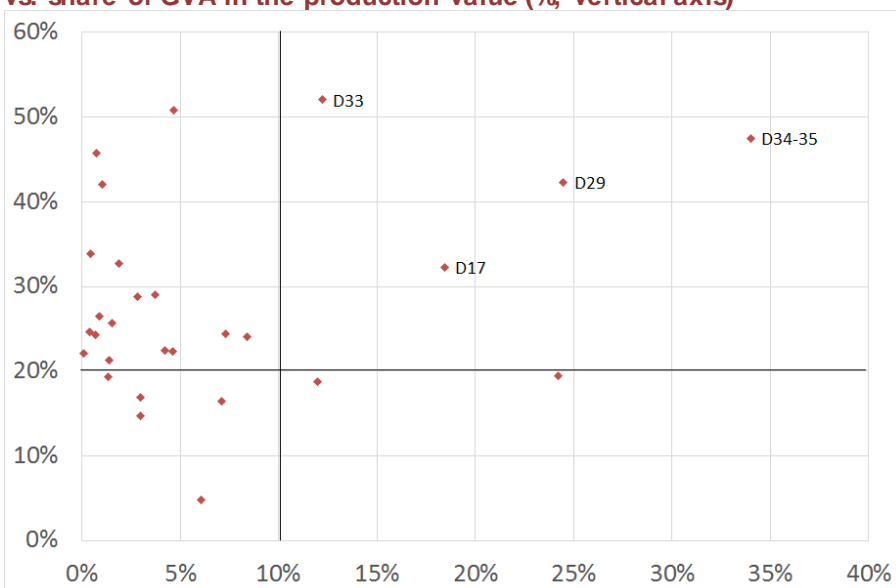
Chart 8. The share of domestic exports to EU in the value of production (% , horizontal axis) vs. share of GVA in the production value (% , vertical axis)



Note: **A** - Agriculture, hunting and forestry; **D15.7-15.8** - Manufacture of read-made animal feed and other food products; **D17** - Production of textiles; **D18** - Manufacture of apparel; preparation and dyeing of fur; **D19** - Production of leathers, leather garments and shoes; **D29** - Manufacture of machinery and equipment; **D30** - Manufacture of office machinery and computers; **D31** - Production of electric machinery and devices; **D32** - Production of equipment and radio, television and communication devices; **D33** - Production of medical, high-precision, optical devices and tools; **D34-35** - Production of road transport means and production of other means of transport; **D36** - Manufacture of furniture and other industrial activities.

Source: Author's calculations based on UN Comtrade and NBS data;

Chart 9. The share of domestic exports to CU-RBK in the value of production (% , horizontal axis) vs. share of GVA in the production value (% , vertical axis)



Note: **D17** - Manufacture of textiles, **D29** - Manufacture of machine and equipment, **D33** - Production of medical, high-precision, optical devices and tools, **D34-35** - Production of road transport means and production of other means of transport.

Source: Author's calculations based on UN Comtrade and NBS data;

At the same time, even if EU is a strategic partner in terms of both volume of export and value added, the estimations for Romania (that became the main export partner for Moldova) show a more disadvantageous situation compared to Russia both as size and productivity of sectors with high exports to these destination.

Thus, even if there are several groups of goods for which the Russian market is the most important export destination, at the sectoral level a lower level of dependency is registered, as well as potentially lower

impact on the economy in the event of eventual shocks from the Russian Federation. However, we should consider the situation of sectors with high level of exposure to Russia and their size and productivity are important from an economic perspective.

Moldova – import partner for Russia

Although the Russian Federation is an important partner for the Moldovan exports, Moldova is a minor import partner for Russia. Thus, overall, only 0.1% of the Russian imports come from Moldova. These data are based on the data reported by the Russian Federation, and also include exports from Transnistria. The level of imports originating from Moldova dropped during the years, as stated in the previous sections, and their share decreased from 0.7% in 2004.

If at first glance there are many products that make Moldova an important import partner for the Russian Federation, then a more detailed analysis shows that the majority of them are re-exports or are originating from the Transnistrian region, considering the differences between data reported by the Russian Federation and Moldova (Table 6).

Table 6. The share of Moldovan imports in the total imports of the Russian Federation, %, 2013

HS02 Code	Description	The share of Moldovan imports in the total imports of Russia*	The share of Moldovan domestic exports in the total imports of Russia*
4404	Hoopwood; split poles; piles, pickets and stakes of wood, pointed but not sawn lengthwise; wooden sticks, roughly trimmed but not turned, bent or otherwise worked, suitable for the manufacture of walking-sticks, umbrellas, tool handles	91.9%	91.6%
7410	Copper foil of a thickness (excluding any backing) not exceeding 0.15 mm	28.6%	0.0%
5702	Carpets and other textile floor coverings, woven, not tufted or flocked, whether or not made up, including “Kelem”, “Schumacks”, “Karamanie”	23.0%	22.6%
5208	Woven fabrics of cotton, containing 85 % or more by weight of cotton, weighing not more than 200 g/m2	21.2%	0.0%
7228	Other bars and rods of other alloy steel; angles, shapes and sections, of other alloy steel; hollow drill bars and rods, of alloy or non-alloy steel:	9.2%	0.0%
2520	Gypsum; anhydrite; plasters (consisting of calcined gypsum or calcium sulphate) even coloured, with or without small quantities of accelerators or retarders	7.1%	7.2%
0808	Apples, pears and quinces, fresh	5.9%	3.6%
6304	Other furnishing articles, excluding No. 94.04.	4.5%	0.0%
0204	Meat of sheep or goats, fresh, chilled or frozen	4.1%	0.0%
0813	Fruit, dried, other than that of headings Nos. 08.01 to 08.06; mixtures of nuts or dried fruits of this Chapter	4.1%	2.0%
0809	Apricots, cherries, peaches, plums and sloes, fresh	4.1%	1.4%
2204	Wine of fresh grapes, including fortified wines; grape must other than that of heading No. 20.09.	3.0%	2.8%
2208	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 % vol; spirits, liqueurs and other spirituous beverages	0.8%	0.7%

Note: *According to data on imports originating from the Republic of Moldova, reported by the Russian Federation; ** According to data on domestic imports to the Russian Federation, reported by the Republic of Moldova.

Source: Author's calculations based on UN Comtrade data;

The last two products: “wine and grapes must” and “wine distillate, spirits, liqueurs and other beverages” were included in the table, although they no longer have a significant share in the total imports of Russia. The data from table refer to 2013, when Russia imposed an embargo on the Moldovan wines. For the previous years, their share in total wine imports of Russia was higher, revealing their competitiveness on the Russian market. However, many import restrictions imposed over the past decade determined these products to lose their importance on the Russian market due to both exports reorientation towards other markets and lower production of some companies from this sector, or even bankruptcy of the most non-competitive companies.

We believe that the goods that registered a constant growth over the past decade have an increased potential on the Russian market. Even if most of them are not important imports for the Russian Federation, some are important exports for Moldova (Table 7)

Table 7. Moldovan domestic exports to the Russian Federation with constant growth during 2004-2013

HS02 Code	Description	The share of domestic exports to Russia in the total domestic exports	
		2013	2014
0808	Apples, pears and quinces, fresh	18.4%	4.0%
0201	Meat of bovine animals, fresh or chilled	5.1%	2.7%
0806	Grapes, fresh or dried	3.8%	6.4%
0809	Apricots, cherries, peaches (including nectarines), plums and sloes, fresh	3.6%	1.0%
8309	Stoppers, caps and lids (including crown corks, screw caps and pouring stoppers), capsules for bottles, threaded bungs, bung covers, seals and other packing accessories, of base metal	1.3%	1.4%
1206	Sunflower seeds, whether or not broken.	1.2%	1.3%
3004	Medicaments (except goods of heading 3002, 3005 or 3006) consisting of mixed or unmixed products for therapeutic or prophylactic uses, put up in measured doses (including those in the form of transdermal administration systems) or in forms or packings for retail sale	1.2%	1.2%
9603	Brooms, brushes (including brushes constituting parts of machines, appliances or vehicles), hand-operated mechanical floor sweepers, not motorised, mops and feather dusters; prepared knots and tufts for broom or brush making; paint pads	0.7%	0.6%
6402	Other footwear with outer soles and uppers of rubber or plastics	0.5%	0.7%
1806	Chocolate and other food preparations containing cocoa	0.5%	0.3%
8411	Turbo-jets, turbo-propellers and other gas turbines	0.4%	0.6%

Note: the table contains only the domestic exports having a value over USD 1 million in 2013.

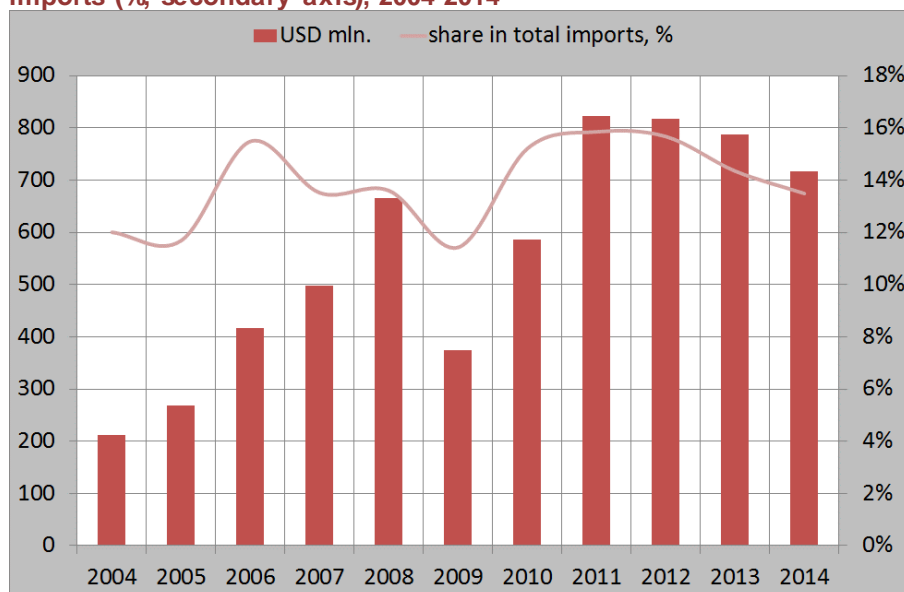
Source: Author's calculations based on UN Comtrade and Ministry of Economy data;

Thus, we can consider these products as being competitive, and Moldova would have potential to export them to the Russian market, even if some of them have a low share in the total exports to Russia and total exports. Again, they also include some important exports, which are used by Russia to sanction Moldova.

Import of goods from the Russian Federation

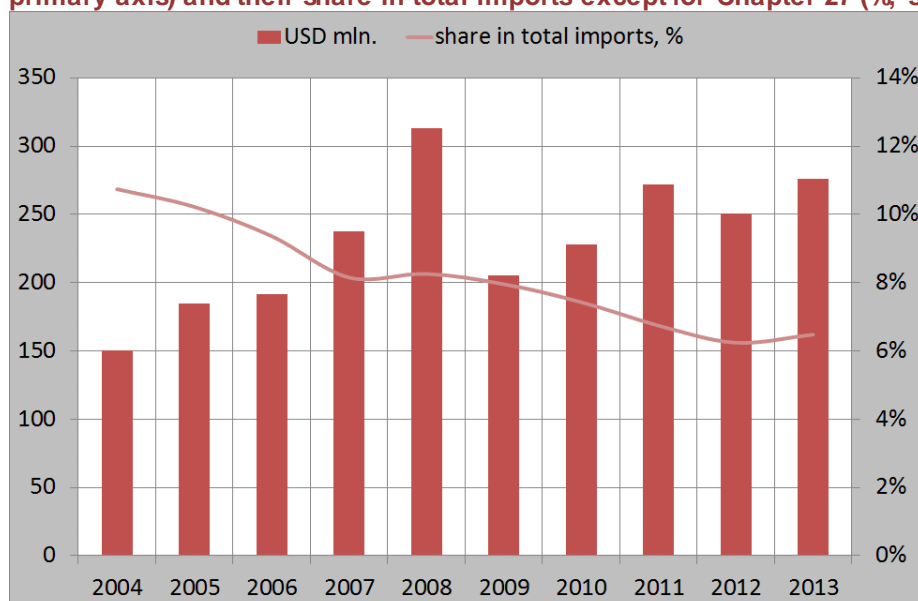
At the same time, the Russian Federation is a significant import partner for the Republic of Moldova. Actually, Russia was the main trade partner until 2013, while in 2014 Romania overtook this position. Thus, in 2014 the imports from the Russian Federation accounted for 13.5% of total imports of the Republic of Moldova (Chart 10). The value of imports from the Russian Federation increased faster than the value of exports to this destination, so that the trade balance has been negative for Moldova since 2005.

Chart 10. Imports from the Russian Federation (USD million, primary axis) and their share in total imports (% , secondary axis), 2004-2014



Source: Author's calculations based on UN Comtrade and NBS data;

However, the high share of imports originating from the Russian Federation is mainly caused by the heavy dependence on the Russian gas. Thus, in 2013, 65% of imports originating from the Russian Federation were imports from “mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes” category. At the same time, 41% of imports of this category are originating from the Russian Federation. Their share in the total imports from Russia doubled in the past decade not only because of the increase in the quantity of the imported gas, but also because of the increase in the price for the Russian gas. Should this class be excluded from the analysis, the share of imports from Russia goes down to 6.5% of total imports (Chart 11). However, Moldova’s energetic dependency on Russia is a well known problem, and this study does not aim to analyze this aspect, which requires a complex approach.

Chart 11. Imports from the Russian Federation, except for Chapter 27 of CoG (USD million, primary axis) and their share in total imports except for Chapter 27 (% , secondary axis), 2004-2014

Note: Chapter 27 of Classification of Goods - mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral wax.

Source: Author's calculations based on UN Comtrade data;

Other major import categories originating from the Russian Federation are included in Table 8. Major imports originating from the Russian Federation, 2013, but in their case, the diversification of import partners is not an important factor, the determinant role is played by the import price. However, we can expect some changes in the share of Russian imports for some product categories once the DCFTA with the EU comes into force and the decrease and/or gradual removal of the import fees.

Table 8. Major imports originating from the Russian Federation, 2013

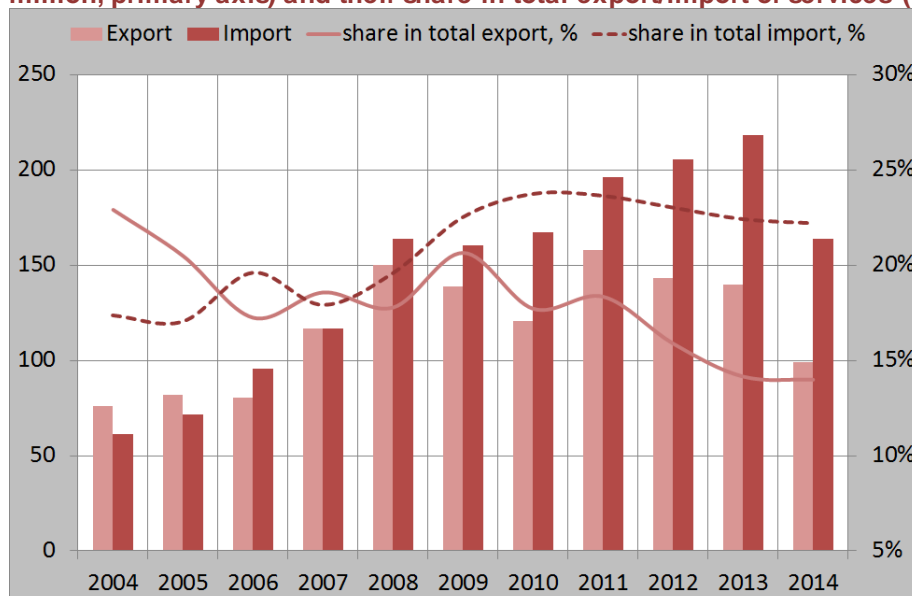
HS02 Code	Description	Share in total imports originating from Russia	Share in total imports of the category
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral wax	65.0%	41.5%
31	Fertilisers	4.4%	65.4%
21	Miscellaneous edible preparations	2.6%	28.6%
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	2.0%	3.9%
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	1.7%	12.4%
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories	1.7%	3.0%
40	Rubber and articles thereof	1.4%	13.6%
30	Pharmaceutical products	1.2%	3.8%
39	Plastics and articles thereof	1.2%	3.9%
68	Articles of stone, plaster, cement, asbestos, mica or similar materials	1.2%	19.2%
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	1.0%	9.7%
61	Articles of apparel and clothing accessories, not knitted or crocheted	1.0%	13.0%

Source: Author's calculations based on NBS data;

Trade in services

Though the trade in services has a lower value than the trade in goods, it also accounts for a significant part of the commercial relations between Moldova and Russia. Thus, exports of services account for 22% of total exports of goods and services to the Russian Federation, while the imports of services constitute 26.2% of total imports from the Russian Federation. In the case of trade in services, the Russian Federation is even a more important partner for Moldova compared to trade in goods (if we exclude re-exports from the calculation), since 14% of total exports and 22.2% of total imports of services belong to Russia. With respect to trade in services, Moldova has a negative trade balance with Russia, imports exceeding the exports during the past years (Chart 12).

Chart 12. Trade in service: exports and imports originating from the Russian Federation (USD million, primary axis) and their share in total export/import of services (% , secondary axis)



Source: Author's calculations based on NBS data;

The structure of exported services is presented in Table 9. Transport services are the most important and represent 72.4% of total exported services, including pipeline transport accounting for 28.2% of them.

Table 9. Structure of exports of services to the Russian Federation

Categories of services	Share in exports to the Russian Federation, %	Share in total exports, %
Transportation	72.4%	25.7%
Communication services	9.0%	8.9%
Other business services	5.7%	8.1%
Travels	4.5%	2.7%
Government services not included elsewhere	3.3%	12.7%
Services of royalty and licence fees	1.6%	29.6%
Services of computer science and information	1.6%	3.1%
Financial services	1.1%	26.9%

Source: Author's calculations based on NBS data;

Russia's difficult economic situation in 2014 has also affected exports of services to this destination. Thus, exports of services to the Russian Federation shrank by 29.3% compared to the previous year, decreasing for most types of exported services. Only the export of IT services registered a growth, but these types of services have a relatively low share in the exports to Russia, if compared to the share in total exports of goods and services of the Republic of Moldova (2.1% - very high level if compared with other countries from the region).

With respect to import of services from the Russian Federation, they are represented almost entirely by imports of travel services (48.3%) and transport services (42%, of which 36.2% are represented by pipeline transport).

Recommendations

Trade relations between the Republic of Moldova and the Russian Federation entered an uncertain path in the last decade. The recent political and economic development at the level of Moldova - EU, as well as Russia - EU will encourage this uncertainty further on. Thus, Moldova should be more prepared to moderate the potential shocks from Russia. Given negative trade balance, Moldova's main purpose would be not to reduce the exports to Russia, but rather to enlarge the total exports in parallel with diversification of exported products and markets, so that such shocks would have a moderate impact on the economy. Obviously this needs a very favorable business climate, which would help to attract investors and raise the competitiveness of companies. However, this is a general recommendation not related to the goal of the study.

When it comes directly to the trade relations with Russia and exposure of the Moldovan economy, especially of some particular sectors and exports to the Russian Federation, the main recommendations envisage three major action areas.

1. Actions related directly to the trade relations between Moldova and Russia:

- Continue efforts to normalize and depoliticize the trade relations with Russia. Though this is a major effort for Moldova, negotiations must continue because Russia also is interested in becoming closer to the EU in commercial terms and the Moldovan market, with which is has free trade, can serve as a bridge for this.
- Though joining the CU-RBK is not on the political agenda, the trade relations with this block are important for Moldova. It is necessary to establish an efficient communication platform in the area of technical and customs procedures of the CU, in order to prevent any barriers to the Moldovan exports and extension of sanctions from Russia to the other members of the CU-RBK. Its role is to complement and not to substitute the information mechanisms existing in the WTO (TBT, SPS notification procedure).
- It is necessary to ensure a higher and constant quality of the Moldovan products exported to Russia. Though most embargoes imposed on Moldovan products were political decisions and cannot be directly solved by this measure, the maximum elimination of factors that can be a source for import restrictions is needed and can enhance the trustworthiness of some companies/branches even in the eyes of other countries.
- Both the Government and businesses should take into account the vulnerability of the trade relations with Russia and potential shocks, so that measures for export reorientation would be taken right from the planning stage.
- In this context, it is important for the Government to provide reliable information to the domestic businesses and support the companies' efforts to diversify their sales markets. Thus, it would be good to present the real situation related to the structure and exposure of economy and economic sectors to the exports towards Russia and other sales markets of higher importance for Moldova.

- Support actions should be thought through for the sectors with a higher exposure to the Russian market and a higher contribution to the GDP or with a bigger social impact: agriculture and food and beverages industry.
 - Efforts should be made to diversify the services exported to Russia, since they are of poor variety and with low added value.
2. Make use of the advantages provided by the AA and DCFTA with EU. EU is the most important export market for Moldova and the DCFTA provides opportunities to increase the exports in this direction. However they are not given for granted, but require some reforms. Consequently, it is important to:
- Extend the applicability of DCFTA to the animal origin products by implementing the recommendations of DG SANCO, provisions of DCFTA and completing the institutional reform in the area of food safety in order to obtain the status of country eligible for export to the EU market.
 - Improve the quality system in order to raise the competitiveness of products on foreign markets.
 - Implement and ensure a reliable system in the area of metrology, standardization and compliance evaluation.
 - Moldova's accession to COSME program (EU program for the Competitiveness of Enterprises and Small and Medium-sized Enterprises 2014-2020) provides possibilities to Moldovan entrepreneurs to benefit of support in the facilitation of access to new markets, particularly on EU territory; promotion of entrepreneurship and entrepreneurial culture and establishment of favorable conditions for business start-up and development; access to finance. Thus it is necessary to implement as quickly as possible the activities related to the participation in this program, in order to benefit of the support, taking into account that most often the SMEs have more difficulties in entering the EU market, but they account for a significant share of enterprises and employed population.
 - New export markets should be explored even within the EU. Traditionally Moldova has several important trade partners in the EU (Romania, Italy, Germany, United Kingdom, and Poland). But the establishment of DCFTA particularly provides the possibility to find new markets.
3. Finding other markets besides Russia and EU. These two destinations are Moldova's main partners with 63% of domestic exports in 2014. The economic vector chosen by Moldova determined most recent discussions to focus on these two partners specifically, but it is equally important to maintain or extend trade relations with other countries:
- Considering the difficult nature of the relations with the Russian Federation, as well as the non-tariff barriers for some categories of exports to the EU, some producers should change their economic orientation in the post-Soviet region, given our common past with these countries. Ukraine, Belarus and Kazakhstan have already become important partners for the Republic of Moldova, but there is room for more.
 - Improvement of the quality system in order to enhance the products' competitiveness on foreign sales markets and implementation and assurance of a reliable system in the area of standardization, metrology and compliance evaluation in line with EU requirements could increase the demand for Moldovan products in other countries that trust the EU standards.

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WHO WE ARE

Expert-Grup is a Moldovan non-governmental and not-for-profit organisation that specializes in economic and policy research. Expert-Grup does not represent any economic, corporate or political interests. An independent organisation, Expert-Grup reflects the ideals of young Moldovan intellectuals who have created the institution with the purpose of contributing to Moldova's development. Among other types of organisations in Moldovan civil society, Expert-Grup positions itself as a politically and ideologically neutral think-tank.

OUR ACTIVITIES

Our core activity is economic analysis, forecast and policy research. In this area, we offer a wide range of analytical products and services helping our beneficiaries to take decisions that will support Moldova's development path. Our key competence consists in the ability to provide professional, high-quality and objective research in such broad areas as:

- Macroeconomic analysis and forecasts;
- Political economy;
- Public finance;
- Human development and poverty reduction;
- Labour market and consumer behavior;
- Foreign trade;
- Financial markets;
- The economy of European integration;
- Economic analysis by sectors;
- Regional and local economic development;
- Energy and the economy of the environment.

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