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## OPPORTUNITIES AND RISKS OF THE INTEGRATION OPTIONS OF THE REPUBLIC OF MOLDOVA IN THE MOLDOVIAN TRADE WITH AGRI-FOOD PRODUCTS

### ABSTRACT

In the period 2010-2013, the Republic of Moldova launched a number of initiatives to develop the trade policy in order to ensure a more facilitating legal framework for the implementation of economic and trade relations with the key foreign partners. An agreement on the creation of a free trade area in the CIS was signed in this period. Similarly, the Republic of Moldova started negotiating the Association Agreement with the European Union, which was initiated in November last year and is part of the Deep and Comprehensive Free Trade Agreement (DCFTA). This article aims to assess the possible main effects of signing the Association Agreement for the Moldovian agricultural sector, while examining its reaction, in case Moldova had opted for its integration into the Customs Union – Russian Federation, Belarus, and Kazakhstan.

**Key words:** free trade agreement, export, import, agri-food trade, customs union.

**JEL Classification:** F 13, F15, Q17.

### 1. INTRODUCTION

In the last years, the situation of the agricultural sector of the Republic of Moldova became a real concern for the public authorities responsible for policy development and monitoring of the sector and for the entrepreneurs and the employed population in the sector. The negotiation, initialling and preparations for signing up the Association Agreement has increased the concerns for this sector, mainly in relation to how the sector will be able to face the challenges of the symmetrical liberalization of the foreign trade with the European countries and Turkey. The significance of these measures is much more important than the facilitation of the trade relations, these having as objective to urge the structural reforms and to surmount the difficult transition stage of the national economy. At the same time, considering the importance of the Association Agreement for the national economy, the responsibility of the national authorities and of the whole civil society for its good implementation is of utmost importance. Together with the intensification of the liberalization process, several sectors of the economy will be confronted with a chain of challenges for the increase of competitiveness and to face foreign competition. One of the most endangered sectors, which was given a particular importance during the negotiations, is agriculture, which still plays a very important role in national economy.

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## 2. STATE OF KNOWLEDGE

Taking into account the object of the present study, it is very important to understand the difference between a Free Trade Agreement (FTA) and a Customs Union (CU).

The free trade agreement is a preferential trade agreement, representing one of the early forms of economic integration. This can involve two or more partners who commit themselves to remove the tariff barriers and a large part of the non-tariff barriers in the mutual trade, while maintaining their autonomy in designing the customs tariff applied in the relation with the third countries (*WTO Glossary*) as well as promoting other trade policy aspects, including the participation in other integration forms.

The trade union presupposes a higher integration level compared to FTA. Besides the full removal of tariff and non-tariff barriers in trade, the participants in the agreement participants, who usually are geographically adjacent countries, also adopt a common customs tariff, reaching a consensus with regard to the degree of all sectors protection. Therefore, the negotiation and implementation of a customs union implies increased efforts as regards time, financial resources, as well as political concessions. Joining a CU, a state largely loses its autonomy in the design of its trade policy (Chauffour, Maur, 2011).

The Republic of Moldova was included on the EU list of the countries benefiting from preferences ever since the mid-1990s, and since 2008 it has enjoyed autonomous trade preferences. At the same time, the opportunities provided by this system are not fully exploited according to the existing potential, and the quotas provided for a great part of the agri-food products are not fully used, except for some tariff positions such as maize, wheat, barley, wines. Moreover, some products such as those of animal origin cannot be exported on this market (Chistruga, Clipa, Fala, 2010).

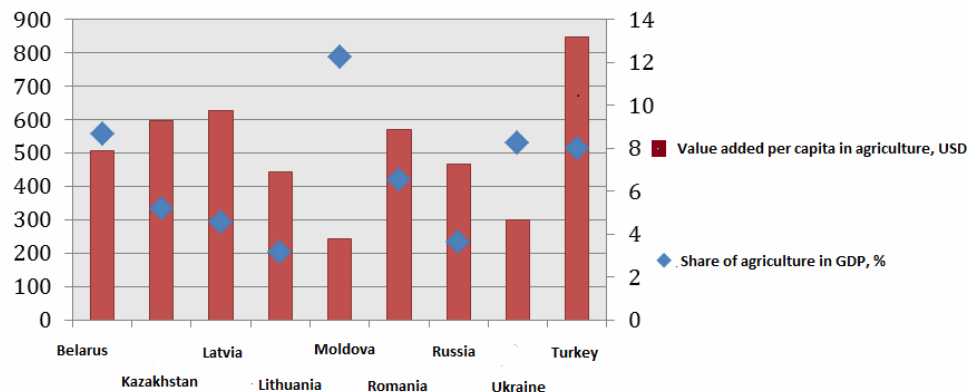
## 3. MATERIAL AND METHOD

The goal of the study consists of the evaluation of the main effects that signing up the Association Agreement would have on the Moldovan agricultural sector, and at the same time it examines its reaction, in the case in which the Republic of Moldova would have opted for its integration into the Customs Union – the Russian Federation, Belarus, and Kazakhstan. In the investigation process the following methods were used: the statistical method, which presupposed the research on a great number of observations; the analysis of the growth rate of the economic indicators; the theoretical synthesis, formulation of rationale. The information was collected from the data sources of the World Bank, World Trade Organization, UNCTAD, WITS, the National Statistics Office of the Republic of Moldova.

#### 4. RESULTS AND DISCUSSIONS

The agri-food sector traditionally plays a special role in the negotiation of preferential trade agreements. This fact can be explained by the public authorities' concern for the country's food security, the rural population's welfare and, mainly in the developed countries, the impact that the import of certain agri-food products could have on consumers' security.

In the Republic of Moldova, the situation is quite challenging. Compared to other countries in the region, the agricultural sector contribution to GDP increase is significant. According to the National Statistics Office, in the year 2011<sup>1</sup>, the share of the agricultural sector (the value added) in GDP exceeded 12% of GDP, and the food and beverages industry represented about 4.5% of GDP and more than a quarter of the created value added in the industry. The value added in industry was lower than that in agriculture, at about 11.4% of GDP.



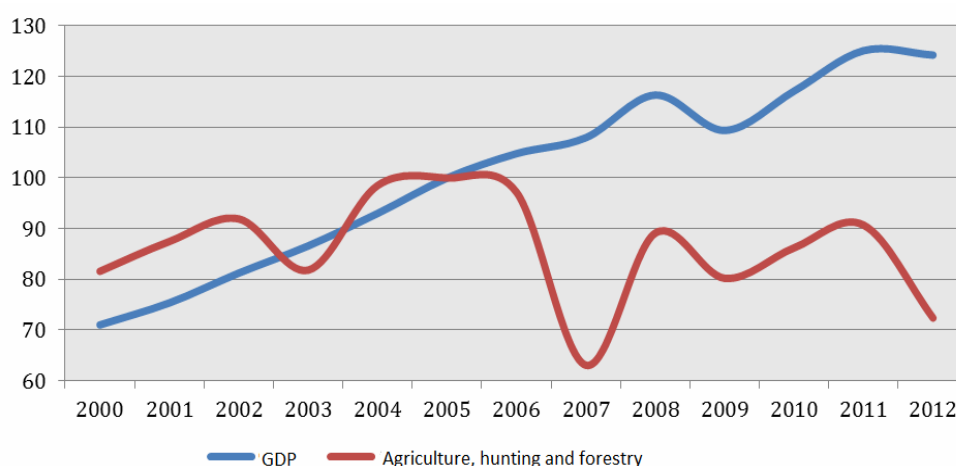
Source: According to UNCTAD data

Figure 1. The share of the agricultural sector in GDP and the value added per capita created in the sector, 2011.

The agricultural sector contribution to GDP increase in the Republic of Moldova is quite significant, although it decreased in the last years. At the same time, as shown by the data in Figure 1, despite the high share in GDP, compared to the Central and Eastern European countries, the value added created in this sector per capita in the Republic of Moldova is obviously lower. Given the still high share of the agricultural sector in GDP, in the Republic of Moldova a moderate, positive correlation between the increase of the value added in agriculture and GDP increase (Figure 2) can be noticed. The correlation coefficient between these two variables was 0.57 in the period 2007-2012.

<sup>1</sup> We took into consideration the last year for which annual data are available on the resources for GDP formation, and the agricultural sector was not affected by natural disasters.

Agriculture represents an important source of existence for the population in the rural area. According to the data of the year 2012, around 18.8% of incomes come from the remunerated individual activity, 20.8% from remittances, 22.5% from social security payments (pensions, child allowances, indemnities and social aid) and around 28.6% from wages. In this context, it must be mentioned that 48% of the active population in the rural area is working in agriculture, which represents more than one quarter of the employed population at country level (26.4%).



Source: According to data of the National Statistics Bureau of the Republic of Moldova

Figure 2. Evolution of the value added in the agricultural sector, 2005 = 100%.

At the same time, the agricultural sector in the Republic of Moldova is facing a series of constraints. In the last years, this experienced a noticeable degradation, while its structural deficiencies make it extremely vulnerable to the sudden changes of the natural and weather conditions, which became quite frequent in this period. According to the World Bank data, by regions, the Republic of Moldova is among the countries with the smallest labour productivity level (Table 1).

Table 1  
Labour productivity in agriculture

	EU	Romania	Turkey	RM	Russian Federation	Kazakhstan	Belarus
Labour productivity, USD (2005 = 100%)	18380.4	8067.8	6597.8	1884.3	5968.6	3532.5	7845.5

Source: According to World Bank data

Quantified as ratio of the value added per worker, expressed into US dollars in 2005 prices, the labour productivity in the sector was of 1884.3 USD, much lower than that of the countries in the region and the European average.

Among the factors that contribute to the low productivity, we can mention the following:

- The structure of the agricultural farms, mainly concentrated into the small household farms. According to the 2012 data, about 50.8% of the agricultural production was obtained on the population's households;
- The poor endowment with technical equipment of the agricultural holdings, the agricultural machinery owned by the agricultural producers being most often obsolete, with a high wear-and-tear degree;
- The low education level of the population employed in the sector, which negatively affects the process of structural transformation and the technological progress.
- Poorly diversified structure of the planted areas, etc.

**The competitiveness of the Moldovan foreign trade with agri-food products on the European Union market and on the Customs Union market – The Russian Federation, Kazakhstan, Belarus.** The agricultural sector is a special branch in many economies, including the developed countries, some of the reasons for this hypothesis being previously mentioned. Mainly in the case of the latter, although agriculture is not necessarily the basic branch for ensuring the economic growth, these countries are important players on the international market of agri-food products.

And the risk is much higher in the case of the countries in which this sector has a determinant role in the structure of its production and exports. In this case, the sector competitiveness, revealed both by the internal performance and by the external performance, is a key factor in the diminution of its volatility to the different modifications of the market or of the natural conditions and consequently in the overall economy stability.

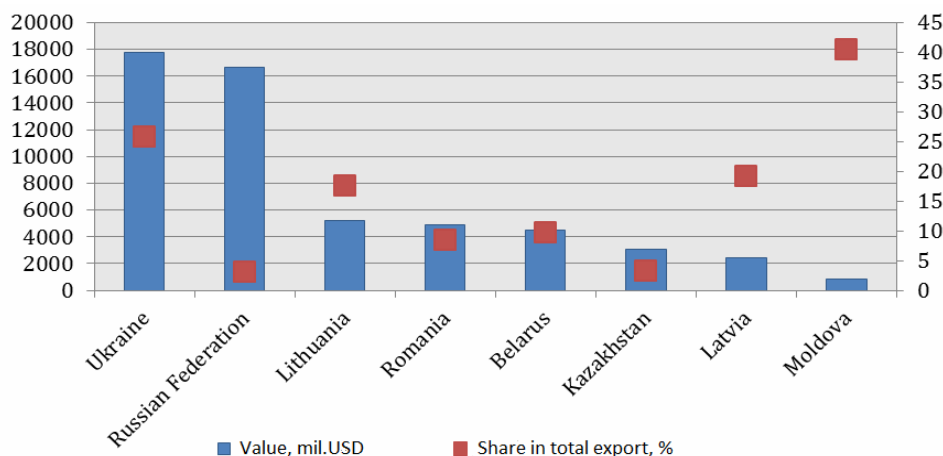
We can speak here about Moldova's case, a small country, with a high opening degree, yet characterized by a high dependence on imports. The sources for ensuring the increase of national incomes are less diversified and unsustainable in time.

The Republic of Moldova suffers from a chronic current account deficit. The small geographical area and the lack of certain special natural resources, inevitably contribute to a high dependence of the economy on imports; however, for several years, together with the facilitation of foreign trade operations, there was a mass import of these products that the country might produce with its own capacities. At the same time, as regards incomes, the receipts obtained from exports are volatile, which reveals the specificity of the domestic production sector, in which agriculture and food industry have a relatively high share; also, the high share of the re-exports, the geographical concentration on high risk markets and others. The inflow of foreign investments is very low. The foreign investments, even though implying the increase of the country's foreign debt, are late to come. The

remittances, which represent an important source for the population's incomes, are not a sustainable source in time, and the experience proved that the correlation between them and the performance of domestic production is quite fragile.

In this context, as the Republic of Moldova is getting ready to establish a deep and comprehensive free trade area with the EU countries, the external competitiveness of the Moldovan agri-food sector was investigated, in order to assess the potential impact of the foreign trade liberalization upon this sector. At the same time, a comparative analysis with the countries of the Customs Union was included, namely with the Russian Federation, Belarus and Kazakhstan, in order to get a picture of the effects that could have been generated by an alternative decision of accessing to this structure.

According to the data of the year 2012, although it is not the most relevant indicator, given the great fluctuations of the agricultural production as a result of the drought in that year, the agri-food production value reached about 875.3 mil. USD, accounting for 40% of total exports (Figure 3). This is quite a high share compared to other countries in the region, which can also serve as an indicator of the country's international specialization in the given sector.



Source: According to the data of the National Statistics Office of the Republic of Moldova

Figure 3. The foreign trade with agri-food products in the region.

The calculations reveal on a moderate concentration level by groups of products in this sector in the Republic of Moldova, the Herfindahl Hirschman Index (HHI), calculated on the basis of export data presented according to the Harmonized System (HS) of Classification disaggregated into 4 digits, taking the value 0.19 in the year 2012. The index calculated at a more disaggregated level indicates lower values, which also fall within the limits of a moderate concentration index (Table 2).

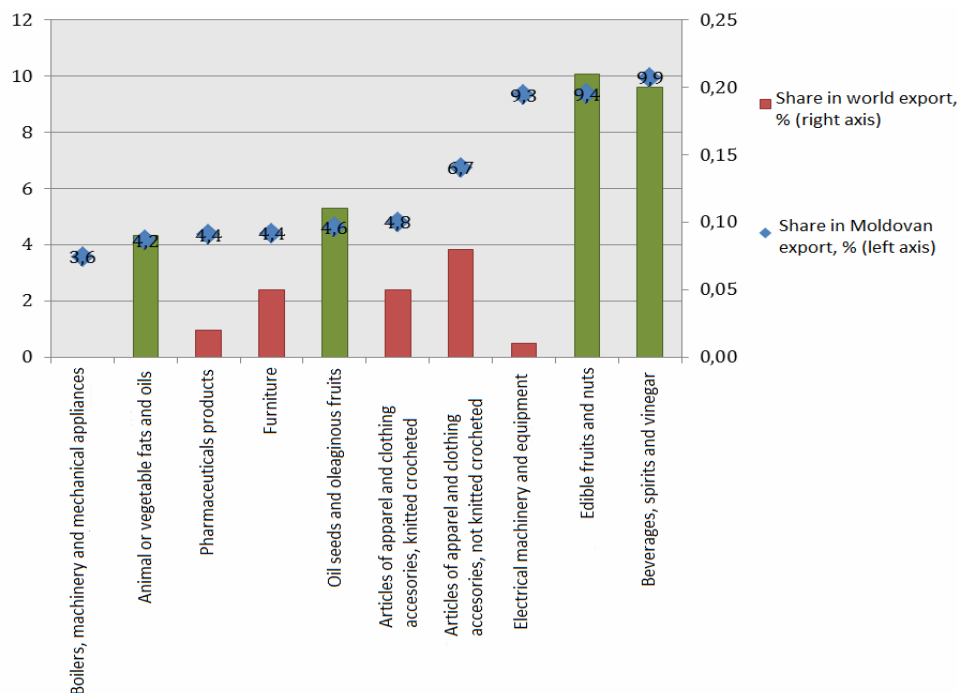
Table 2  
The export concentration degree by product categories

	2009	2010	2011	2012
HHI (HS dis. 4)	0.214	0.189	0.183	0.191
HHI (HS dis. 6)	0.178	0.162	0.171	0.167

Source: Author's calculations according to WITS data

The main goods that contribute to the increase of agri-food exports are wine and grape must, wine distillate, shelled nuts, sunflower seeds and sunflower oil, apples and apple juice, sugar and other.

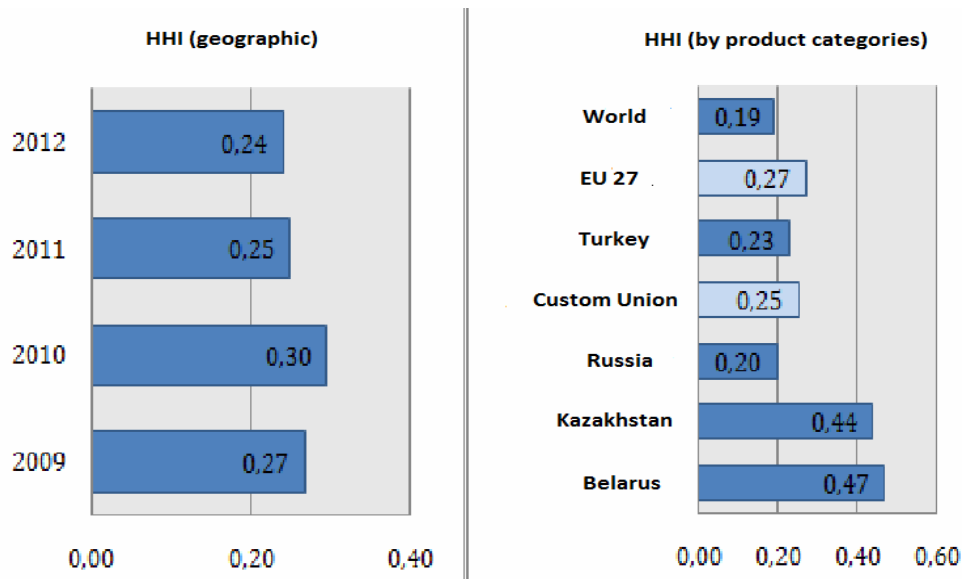
These goods are largely found on the list of the top 10 products exported by the Republic of Moldova, for which the world market share, although small, is higher compared to other exported products (Figure 4). In the year 2012, in spite of agricultural production diminution by 22.3% compared to the year 2011, the Moldovan exports of agricultural products accounted for about 0.07% of the world exports on this market. At the same time, fruit gained a market share of 0.21%, alcoholic beverages 0.2%. At the same time, we have to mention that except for wines, their production does not make it possible to create high value added, and the agri-food sector is mainly has low capacities to increase the value added compared to other sectors.



Source: According to the data of the National Statistics Office of the Republic of Moldova

Figure 4. Top 10 products in the Moldovan exports (2012).

A major constraint for the sector, which had critical impact upon the sector and upon wine production in particular in the year 2006, is the relatively high geographic concentration of agri-food exports. In the year 2012, the geographic HHI was at the lowest level of passing from high to moderate concentration (Figure 5).



Source: Author's calculations according to WITS data

Figure 5. The geographic concentration of agri-food exports.

About 27% of the exports from the given category of products go to the Russian Federation. The 9 main markets where three quarters of the Moldovan agri-food deliveries are concentrated are the following: the Russian Federation, Romania, Belarus, Ukraine, Italy, Poland, Kazakhstan, France, United States of America and New Zealand.

For the assessment of the agri-food exports competitiveness on the Western market and on the market of the Customs Union in the Eastern space, we calculated the concentration index and the diversity of exported products through the number of categories of exported products disaggregated into 4 digits according to HS on both markets, Turkey inclusively (Table 3).

78.4% of total exports of agri-food products were exported to the Customs Union, the European Union and Turkey in the year 2012, with a total value of 688.9 mil. USD. 37.9% of the exports of this category of products were delivered to the Customs Union, 38.6% to EU and 1.8% to Turkey.



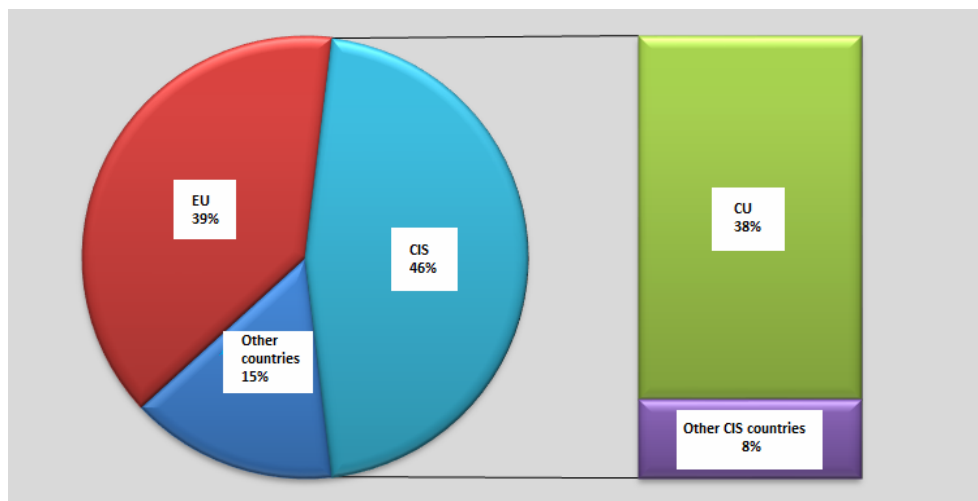
*Table 3*  
Number of exported products according to 4-digit HS (2012)

	<b>Customs Union</b>	<b>Belarus</b>	<b>Kazakhstan</b>	<b>Russia</b>	<b>Turkey</b>	<b>EU-27</b>	<b>World</b>
Total no. of exported products	121	121	121	121	121	121	121
Number of positions to the respective destination	71	37	36	62	15	76	121

*Source:* Author's calculations according to WITS data

First of all, we must mention that the value of exports was more or less equally distributed between East and West. At the same time, while out of the three member countries of the Customs Union about 71% of the agri-food products go towards the Russian Federation, in the European Union, in the year 2012, half of the exports with this destination went to Romania, Italy and Poland.

At the same time, a high concentration by groups of products can be noticed on these markets. In the Customs Union HHI represented 0.25 in 2012, mainly due to the high concentration of exports in Belarus and Kazakhstan, and further on, the range of exported products was very limited in these markets. According to 4-digit HS, out of the 121 categories for which exports were registered in the year 2012, Belarus and Kazakhstan covered only about 30-31% of their number.



*Source:* Author's calculations according to WITS data

Figure 6. The geographic distribution of the agri-food exports (2012).

Among the main categories of exported products to the Customs Union's market we can find the following: grape wine; apples; wine distillates; apricots, cherries and peaches; grapes; tomatoes; fresh or refrigerated beef, some of these

being exported in 90% or even 100% to this destination (Clipa, 2013). Around 66% and 61% respectively of the exports to Belarus and Kazakhstan were represented by wines and wine distillates.

The concentration degree of products exported to the European Union shows relatively higher values by comparison with the situation in the Customs Union. In the year 2012, around 43.5% of the agri-food products exported to this market consisted of oils from sunflower seeds and nuts. At the same time, overall, the range of products exported to this destination is less diversified as compared to that exported to the Eastern markets. Other products delivered to the European market in great quantities are the following: sunflower seeds; fruit juice; sugar from sugarcane or sugar beet and the chemically pure saccharose, in solid state; wine, soybeans and soybean oils; bakery, pastry products and biscuits that can also contain cocoa; maize, etc.

As regards Turkey, although in the year 2013 this country was in the top 5 main markets, the agri-food exports shows a concentration degree from moderate to high, and their range was very narrow – 15 denominations from the 4-digit HS, represented by products exported under raw form. Among the first 5 exported agri-food products that represented about 84.1% of total were the nuts, the sunflower seeds, the barley, the rape seeds, wheat and meslin.

As a result, it can be noticed that the top products exported to the Customs Union and EU are differentiated, with certain exceptions. Except for wine, which is found in the top 10 main products exported both to Eastern and Western markets, in the Customs Union mainly agricultural products under fresh form are delivered: different fruits and vegetables, meat that is exported in very small amounts or whose import is even restricted in the European Union. On the other hand, both industrial and cereal crops are exported to the EU, under both raw and processed form, as well as other products of the food industry. At the same time, it must be mentioned that the number of categories of products for which the Republic of Moldova has revealed comparative advantage (RCA) at export versus the European Union and Turkey, 58 and 62 tariff categories, is significantly lower compared to the Customs Union – 86 tariff categories.

Table 4 reveals the results of the calculation of the trade specialization index made on the basis of 4-digit HS using the Bella Balassa formula. The index is calculated by relating the share of the sectors of a given country to total trade, on one hand, and of the share of world exports from the corresponding sectors in total world export, on the other hand (International Trade Center).

This indicator is to be interpreted with caution, as it does not exclude the effect of different non-tariff barriers that might contribute to the creation of the comparative advantage in certain sectors; in this context, the most relevant example is represented by the subsidies provided for this purpose by different countries. At the same time the indicator creates a general picture of the sectors in which certain countries have potential to compete on the international market.

Table 4

The products for which the Republic of Moldova has positive revealed comparative advantage at world level and compared to its partners in the Customs Union, European Union and Turkey (2012)<sup>2</sup>

	World	Customs Union	Belarus	Kazakhstan	Russian Federation	EU-27	Turkey
1206	13.0	165.8	1747.0	212.9	148.2	82.7	50.7
2307	5.6	+	+	+	+	45.3	201.1
0802	5.2	1180.4	2197.6	1130.3	1142.9	129.0	5.7
1512	4.6	14.5	385.7	85.8	11.8	68.9	13.6
0809	3.6	2094.6	147.7	39983.2	215273.2	28.9	8.4
2204	2.7	10101.5	1826.8	145838.1	13185.6	15.8	1081.6
0808	2.7	291.2	20.8	23170.4	9602.9	24.8	60.0
0205	1.7	766.9	+	+	606.9	14.1	+
2001	1.7	78.2	7.2	1817.6	253.4	16.6	1.6
2208	1.4	75.7	37.5	1834.5	70.2	8.4	161.5
2009	1.4	210.5	222.1	1219.1	183.0	12.6	11.3
2206	1.3	435.2	55.2	+	762.1	9.4	814.1
2306	1.3	7.5	22.7	11.7	6.6	16.1	214.3
1703	1.1	7.7	10.6	18.9	6.8	20.0	2818.2
0806	1.1	1020.5	135.5	496.6	4232.9	16.6	1.5
2105	1.0	30.1	9.9	582.9	30.5	5.4	9.4
2005	1.0	71.2	30.4	1074.9	68.1	7.4	5.5

Source: Author's calculations according to WITS data

Note: those positions were marked with "+" for which the comparative advantage of the Republic of Moldova versus the mentioned partners mainly results from the absence of exports on these tariff positions of the given countries.

According to the RCA index, the number of the tariff positions for which the country has revealed comparative advantage in the world trade is limited – 17 categories out of 121 categories exported by the Republic of Moldova and 196 at world level by the countries of the world in the year 2012. At the same time,

<sup>2</sup> The codes correspond to the Harmonized System of Classification, to the following products: 1206 – Sunflower seeds, whether or not broken; 2307 – wine lees, argol; 0802 – other fruits nesoi in shell, fresh or dry, even without shell or decorticated; 1502 – Oils from sunflower seeds, safflower oil, cotton and their fractions, even refined, but not chemically modified; 0809 – Apricots, cherries, morello cherries, peaches (including nectarines), plums&sloes, fresh; 2204 – Wine of fresh grapes, grape must; 0808 – Apples, pears and quinces, fresh; 0205 – Meat of horses, asses, mules, fresh, refrigerated or frozen; 2001 – Vegetables, fruits and other edible roots, prepared or preserved by vinegar; 2208 – Wine distillates, brandies, liqueurs and other alcoholic drinks; 2209 – Fruit juice (including must from grapes); 2206 – Other fermented beverages (for example: cider from apples or pears, mead, etc.); blends of fermented beverages and non-alcoholic drinks; 2306 – oilcake etc nesoi, from vegetable fats & oils nesoi; 1703 – Molasses from the extraction or refining of sugar; 0806 – Grapes, fresh or dry; 2105 – Icecream and other edible ice, with cocoa or not; 2005 – Vegetables nesoi prepared or preserved other than in vinegar, not frozen, other than the products on the position 2006.

these are those products for which the Moldovan exporters have comparative advantage compared to all the investigated partners.

Summarizing the main performances of the agri-food export to these three destinations, a few general tendencies could be highlighted. The Customs Union is the traditional market that permits the sale of more than one-third of the Moldovan export of agri-food products, and the reduced imports from this destination makes it possible to maintain a positive trade balance, which exceeded 200 mil. USD in the years 2010-2012. At the same time, the bilateral trade with these states was noticeably tempered in the last years, and the average annual growth rate in the period 2006-2012 was much under the general level. The high geographic concentration also determines an increased volatility of exports to the Customs Union.

The agri-food exports had a relatively high dynamics in this period (Table 5). It is a relevant fact that the Republic of Moldova also exports products with a higher value added to the Western countries. At the same time, the exports remain highly concentrated, certain products being even restricted on this market, because of domestic producers' non-respecting the European quality standards. A pressure from imports was also felt, which are also on the rise, the coverage of imports by exports being higher than 100%.

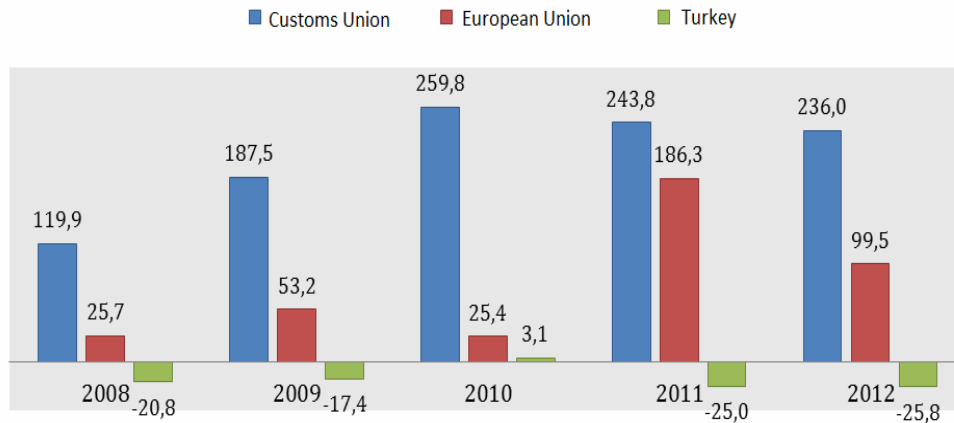
*Table 5*  
Moldova's foreign trade growth rate, (annual average, 2006-2012), %

<b>Trade flow direction</b>	<b>Exports</b>	<b>Imports</b>
MD total	7.1	17.0
MD – EU	18.8	15.6
MD – Turkey	100.1	28.1
MD – CU	2.7	11.7

*Source:* Author's calculations according to WITS data

As regards Turkey, the Republic of Moldova seems to be disadvantaged on the agri-food market in competition with this partner, attesting a negative trade deficit in the bilateral trade. Exports are relatively small, the concentration is moderate, yet with a weak diversification, consisting mainly of non-processed agricultural products (Figure 7).

Overall, the main development indicators of the sector indicate the existence of a series of background constraints limiting the domestic supply of agri-food products, together with other factors that reduce the competition capacity of domestic agricultural producers. We could mention here the low quality infrastructure development, the poor development of agricultural infrastructure, the excessive agricultural land fragmentation, the low business expertise and the lack of cooperation between producers, etc.



Source: Author's calculations according to WITS data

Figure 7. Evolution of Moldova's trade balance deficit with agricultural products (2012).

**Summing up the risks and opportunities of the integration options of the Republic of Moldova with regard to the agricultural sector.** In the month of November of the previous year, the Republic of Moldova initialled the Association Agreement with the European Union, which provides for the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) between the parts; in the next part we shall try to assess the main risks, and also the opportunities for the domestic agri-food sector. In this context, we shall evaluate the potential effects of deepening the economic integration process in the CIS area – the accession to the Customs Union – Russia, Belarus, Kazakhstan.

**Impact of the DCFTA with the European Union.** The foreign trade between the Republic of Moldova and the European Union currently takes place within the asymmetrical preferential trade regime, which means “0” tariffs for the agri-food products exported to this destination, with certain exceptions:

- the products of animal origin, the cereals, the white sugar and the grape wine that are permitted at export in the limits of the established tariff quotas;
  - fruit and vegetables, which are exempted from the *ad-valorem* import tax.
- At the same time, a great part of these products are subject to minimum import entry prices (Council Regulation, 2008).

Several previous studies indicate that even under the present conditions the domestic exporters cannot fully benefit from the existing preferential regime. The greatest constraint in this respect is their low capacity to adjust to the European quality standards. Although several years ago the Republic of Moldova started the modernization of the quality infrastructure, this process involves high costs and takes time.

Taking this into consideration, the agri-food sector was given a special role in the negotiation of the agreement, both as regards the imports in the Republic of

Moldova and in the EU. Thus, according to the Association Agreement, title V – dedicated to the trade and trade-related aspects and the annexes related to this title, with the signing of the Agreement the parties will grant mutual free access on the market for the products originating from the Republic of Moldova and EU, with certain exceptions.

The European Union will maintain certain tariff and non-tariff barriers for certain products:

- a) Tariff quotas – tomatoes, garlic, table grapes, apples, plums, grape juice;
- b) Customs taxes with the exclusion of the *ad-valorem* tax – artichokes, cucumbers, courgettes, oranges, clementines, mandarines, pears, apricots, cherries, nectarines, peaches, grape must, etc.

The Republic of Moldova will reserve its right to gradually liberalize the import of products according to some pre-defined schemes, in different terms, depending on the sector's sensitiveness. Thus, certain instruments in this respect can be distinguished:

1. Diminution of tariffs in 3 annual stages, starting with January 1 of the year immediately following the enforcement of the Agreement – process cheeses, other than grated cheese or cheese powder;

2. Diminution of tariffs in 5 annual steps, starting with January 1 of the year following the enforcement of the Agreement – fresh cheeses (from whey inclusively) unfermented cheese and curds, tomatoes, onions, courgettes, carrots, cucumbers, sweet peppers, nectarines, strawberries, sparkling wines and grape must, etc.;

3. Diminution of tariffs in 10 annual steps, starting with January 1 of the year following the enforcement of the Agreement – milk and cream from milk, concentrates, with sugar or other sweeteners, cherries, canned meat and meat preparations, turkey and bovine offal, unboiled;

4. Diminution of tariffs, starting with January 1 of the fifth year following the enforcement of the Agreement – fresh edible pork offal, refrigerated or frozen, grapes, apples, peaches, plums (*Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and the Republic of Moldova, of the other part*).

Besides these particular aspects, by the present Agreement “The parts will commit themselves to intensify the cooperation and good neighbourhood relations, including cooperation for the development of projects of common interest, mainly those that have in view the prevention and fight against corruption and crime. These commitments represent a key factor in the development of the good relations and cooperation between Parts and contribute to the regional stability and peace.

In fact, this agreement represents, for the Republic of Moldova, a complex agenda of reforms in domains that are fundamental for the functioning of the economy according to the market economy principles. The document will constrain

the local authorities to promote the necessary reforms in several fields, such as: justice, public administration, competition, consumer protection, statistics, public finance administration, industrial policy, corporate governance, energy, transport, quality infrastructure, social policy.

In the case when these reforms are not promoted by the public authorities, by the business environment and society as a whole, the agreement might have a deeply negative impact upon the agri-food sector, which would produce effects in series upon other fields, such as labour employment, the population's living standard, public finance etc.

The liberalization of the agri-food imports from the European Union and Turkey would mean the removal of the customs tariffs at import, which would correspond to a diminution of the prices of imported products by about 10% in 10 years at most. According to the World Trade Organization, in the year 2012, the simple mean most favoured nation tariff rate in the Republic of Moldova for this category of products represented 10.5%. By each category, the simple mean tariff was: 14.7% for animal products, 12.8% for fruit and vegetables, 10.2% for cereals and cereal products, 13% for beverages and tobacco. For wines in particular, there is a customs duty of 0.5 euro for one litre of imported wine.

Although the competition pressure will benefit the local consumers, this could as well influence the level of their incomes, given the high level of the population employed in the agricultural sector. The elimination of instruments for the sector protection, without increasing its immunity could cause unemployment growth and the relatively weak qualification and the low vocational training of the available workers could create problems in their re-orientation towards other sectors.

At the same time, the rightful and responsible promotion of the program of reforms could generate multiple opportunities for the sector:

1. creation of an equitable business environment and a functional market, with fair competition rules;
2. increase of foreign investments in the sector and sector modernization;
3. diminution of the technical barriers and the diversification of the range of exported products to this market;
4. increase of the export activity of the domestic entrepreneurs, consolidated by a regulating framework for the trade relations foreseeable on long term;
5. development of the entrepreneurial culture as a result of the intensification of trade relations with economic partners in a more advanced development stage.

***The impact of a potential Customs Union membership.*** As an alternative for the creation of DCFTA with the European Union, we considered it opportune to evaluate the effects that could have been generated by the accession of the Republic of Moldova to the Customs Union – Russia, Kazakhstan, Belarus. However, even at present, this is a subject leading to multiple debates.

The trade regime with the present members of the Customs Union has enjoyed a preferential treatment under CIS, since the obtaining of the country's independence. Since 2013, the trade relations with these states have developed under the multilateral agreement on the creation of the Free Trade Area in the CIS region, which was signed up in 2011.

The present agreement replaced the multitude of bilateral free trade agreements between the states, establishing a single regulatory framework for all the member states. This largely provides for the removal of barriers of any kind to reciprocal trade, although certain tariff barriers have been maintained under this framework, the customs tariffs at export being the most relevant in this respect.

Unlike the trade relations with the Western partners, the preferential trade regime with the member countries of the Customs Union is a symmetrical one, which means free access on the reciprocal markets.

In this context, according to the existing empirical evidence, it is unlikely that Moldova's accession to this structure could create new trade flows in the reciprocal trade – term defined in the specialty literature as trade creation effect.

It is true that the Republic of Moldova has a relatively higher specialization in the agricultural sector versus the Eastern partners compared to the Western partners, but those advantages that a preferential trade regime could provide for the intensification of the bilateral trade flows have been most probably used so far.

About 38% of the agri-food products exported by the Republic of Moldova go to the Customs Union market. This is the exclusive market for the sale of certain vegetable and meat products. The accession to the Customs Union, which directly involves the removal of controls at the internal frontiers, could contribute to the facilitation of trade with these categories of products. Similarly, the removal of export taxes of the member countries for different fuels, mainly for the Russian natural gas, could reduce the farmers' costs.

In the case when the Republic of Moldova had joined the Customs Union, certain costs that this process would have generated should be taken into consideration.

1. First of all, considering that the accession to the Customs Union would mean a common customs tariff and a common trade regime, the Customs Union membership is incompatible with DCFTA that the Republic of Moldova intends to sign with the European Union. Most probably, this also might have as effect the non-prolongation of the autonomous Trade Preferences granted by it, which could considerably affect the exports of agri-food products on the Western market. Thus, while at present, with certain exceptions, within the autonomous trade preferences, the exports of agri-food products benefit from free access on the EU market, the annulment of the autonomous trade preferences would mean imposing an average tariff of about 13.2% on the Moldovan products at the entry to the EU market (Table 6);



*Table 6*  
Comparative aspects of the MFN tariff by regions, %

Country	All products	Agro-industrial products	Industrial, non-agricultural products
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%
European Union	5.5%	13.2%	4.2%

*Source:* According to the World Trade Organization data

2. The exports of agri-food products to the CU reflect a high geographic concentration level, this increasing the exports volatility, and also the sector's activity response to different shocks coming from the exterior. And, as shown by the experience of the year 2006, such shocks could sometimes have fatal consequences on certain sub-sectors of agriculture and food industry;

3. Productivity decrease in the sector, as a result of the customs tariff increase for the industrial products, including the capital imported from the third countries, which is so necessary for the technical endowment of the sector. We should also mention here the poor entrepreneurial culture and production organization, and at the same time the technical endowment of the agricultural enterprises and peasant household farms, which are reflected in the low productivity;

4. The risk of delaying some reforms necessary for the overall business environment development.

## 5. CONCLUSIONS

The dilemma between East and West for the Republic of Moldova is an issue that has been highly debated in recent years. At present, the Republic of Moldova is to sign up a Deep and Comprehensive Free Trade Agreement with the European Union, which will put two important economic partners at the same level, having the possibility to best use the opportunities provided by the preferential trade regimes and by a tight cooperation.

At the same time, we approached this subject in the context of the agri-food sector development perspectives, considering it as being still of actuality; on the contrary, its neglect might have very bad effects upon the branch, in case there is a lack of awareness of potential existing risks.

Agriculture is one of the sectors that still largely contribute to the national economy growth. At the same time, in the last years, its evolution showed a relatively high volatility which also determined great oscillations in the economic growth rates.

Out of this reason, and also having in view the sector importance in the development of rural regions and in food security, agriculture development must have a special role in the economic policy of the state.

The sector regeneration and the increase of its competitiveness on the foreign markets need radical measures which might bring about fundamental modifications in its structure. The signing up of the Association Agreement with the EU could represent an instrument for this process stimulation, yet the creation of the DCFTA will mean certain challenges for the sector, which should be properly approached, so as not to turn them into risks.

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