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TRADE RELATIONSHIPS AND TRENDS WITHIN THE EAST EUROPEAN PARTNERSHIP AGREEMENT – ASSESSMENTS UPON MOLDOVA AND UKRAINE

ABSTRACT

The article presents an investigation on the trade relationships within the East European Partnership, aiming to assess Moldova and Ukraine trade developments with the EU-28 countries. The research outcome provides an evaluation of the importance of EU in the foreign commercial exchanges, focusing on the agri-food market, highlighting opportunities of the products with expressed export potential. The analysis comprises trends of trade flows and structure by products, based on the most recent statistics grouped by sections and chapters of the Harmonized System.

Key words: foreign trade, European Partnership.

JEL Classification: F1, F5.

1. INTRODUCTION

The research aims at assessing the importance of the European Union market for Moldova and Ukraine trade developments with the EU-28 countries, within the East European Partnership Agreement (Eastern Partnership). The paper focuses on the most recent trends of products with expressed export potential, as well as on areas affected by the net imports, by product groups.

The methodology used quantitative and qualitative analysis of trade vertical or horizontal integration, in relation to the agri-food export and import flows. The data source was the Eurostat trade database for products grouped by sections and chapters of the Harmonized System.

2. MATERIAL AND METHOD

Accepting the self-supply as a means to ensure food security, the indicators regarding the *competition effect* and the *cereal import dependency ratio* in the period 2001-2013 will be investigated on a comparative basis in the EU-27 Member States.

3. RESULTS AND DISCUSSIONS

3.1. POLITICAL CONTEXT

The Eastern Partnership was launched in 2009, as component of the EU's Neighborhood Policy Program, as an effort of the EU and its Eastern European partners to help promote political and economic reforms, and support efforts of the countries in the region to approach the EU (EC, 2013). The aim of the agreement was to deepen political exchange and economic integration between the EU and Eastern European partner countries, *i.e.* Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

The Eastern Partnership mechanism implies bilateral and multilateral political dialogue, technical work tracks (EU, 2014). The main tool of the multilateral cooperation comprises four thematic Platforms that meet twice a year. The Multilateral Work Platforms within the current program 2014–2017 are the following:

- ✓ Democracy, good governance & stability;
- ✓ Economic integration & convergence with EU policies (market economy);
- ✓ Energy security (sustainable development);
- ✓ Contacts between people.

Among these, Platform 2 deals with the economic integration between Partner Countries and the EU, as well as with convergence with the EU policies, focusing on smart, sustainable and inclusive development of a free-market economy. The goal of this policy is a modern, social and environment-friendly economy that provides jobs and growth. Under this platform, several dedicated Panels were set up: Transport; Small & Medium-Sized Enterprises (SMEs); Environment & Climate change; Trade & Related Regulatory Cooperation, which focuses on quality control and certification for goods and services, on animal and plant health measures, on customs – facilitation of circulation of legally traded goods; Agriculture & Rural Development – uses the EU countries' experience in the developing and implementing modern, viable, sustainable farming and rural development strategies; Statistics and Harmonization of Digital Markets.

The objectives of the Trade Panel are the intensification of trade flows between partner countries and the EU and the implementation of the Deep and Comprehensive Free Trade Area (DCFTA), a preferential trade regime introduced by the Agreement.

3.2. TRADE REGIME FRAMEWORK

Moldova is a partner country of the Eastern Partnership within the European Neighborhood Policy. EU and Moldova agreed on the priorities for reform in the country: on June 27, 2014, the European Union and Moldova signed an Association Agreement, applied provisionally until September 1, 2014.

The Eastern Partnership agreement introduces a preferential trade regime – the Deep and Comprehensive Free Trade Area (DCFTA), according to which Moldova benefits from autonomous trade preferences granting unlimited duty-free access to the EU market for all its originating products, except for certain agricultural products (until the end of 2015).

Moldova is a WTO member (since 2001) and party to the Central European Free Trade Agreement (CEFTA, since 2007).

Ukraine's trade relationships with the European countries develop under the framework of trade regime, part of the Partnership and Cooperation Agreement (PCA), which was enforced in 1998, and the provisions of the Generalized System of Preferences (GSP) that was further liberalized when Ukraine joined the World Trade Organization in 2008.

The EU and Ukraine have provisionally applied their Deep and Comprehensive Free Trade Agreement (DCFTA) since January 1, 2016, part of the broader Association Agreement (AA) whose political and cooperation provisions have been provisionally applied since November 2014; under this framework, they mutually open their markets for goods and services based on predictable and enforceable trade rules.

3.3. TRADE ASSESSMENTS

Agri-food exports accounted for a significant share of Moldova's total exports, *i.e.* 45%, while 13% share in imports. The most export-oriented products were wine and spirits, as well as fresh and processed fruit and vegetables. These two categories alone account for nearly 40% of exports.

The European Union is Moldova's main trade partner: 62% of Moldova's exports and 49% of imports were destined to the EU, of which Romania shared a significant part, of 22.7% in exports and 13.9% in imports. The second Moldova's main partner is Russia, with 12% share in exports and 13.4% in imports (Table 1).

Table 1
Top 5 trading partners of Moldova and Ukraine

	Export		Import	
	Market	%	Supplier	%
Moldova, Rep. of	EU-28 (Romania)	61.8 (22.7)	EU-28 (Romania)	49 (13.9)
	Russian Fed. + Belarus	12 + 6	Russian Fed.	13.4
	Turkey	3.3	Ukraine	9.3
	Kazakhstan	3	China	9.2
	Ukraine	2.3	Turkey	7.2
Ukraine	EU-28 (Romania)	34 (4.4)	EU-28 (Romania)	41 (2.3)
	Russia	12.7	Russia	20
	Turkey	7.3	China	10
	China	6.3	Belarus	6.3
	Egypt	5.5	USA	4

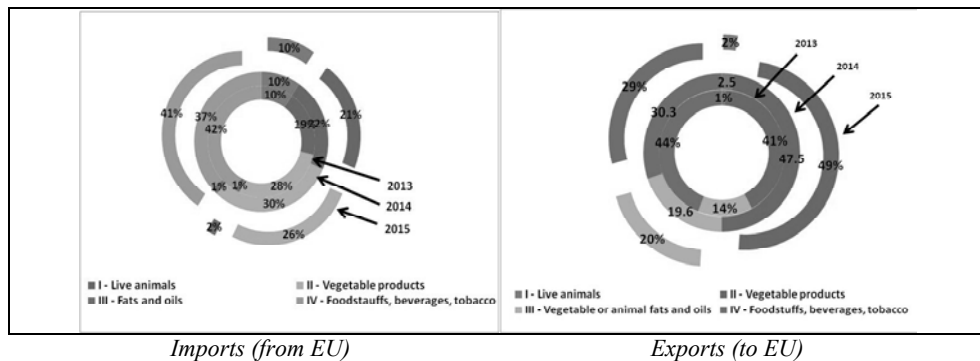
Source: Author's processing of Eurostat trade statistics.

The trade with Moldova accounted for 0.1% of extra-EU trade; Moldova ranks 68th among the EU's trade partners, with a total turnover of € 3.3 billion in 2015, a decrease of 6% since 2014 (FAO, 2012a).

In 2015, EU exports to Moldova amounted to € 2.1 billion, down by 11% since 2014, while the EU imports from Moldova continued to grow, by 5% compared to the previous year, to € 1.2 billion (Figure 1).

Among the main goods exported from Moldova to EU were textiles and textile articles, machinery and appliances, vegetable products and other foodstuffs and beverages.

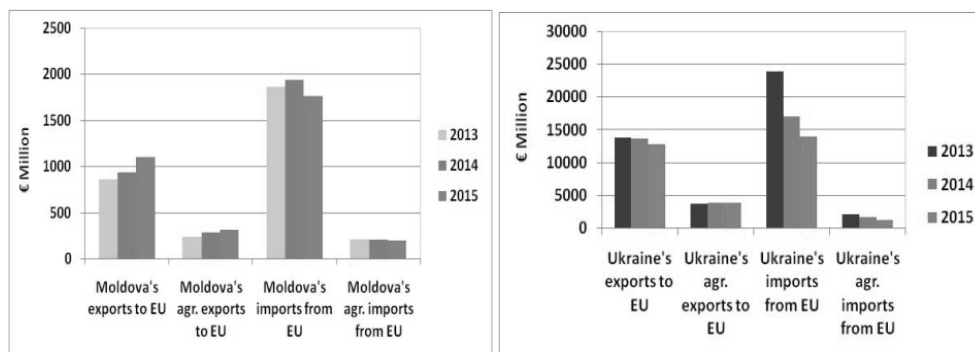
The European Union is Ukraine's largest trading partner, accounting for 34% of its exports and 41% share of imports, in 2015. Ukraine accounts for 0.8% of EU's total trade, with a turnover of €1.16 billion in 2015 (FAO, 2012b).



Source: Author's processing of Eurostat trade statistics.

Figure 1. Share of EU products in Moldova's agri-food trade flows.

The exports from Moldova and Ukraine to the EU developed with a growing trend in the last years (Figure 2). This led to a positive balance of Moldova and Ukraine trade in the EU-28 agri-food trade in the period 2013-2015, accounting for €122 million, respectively, of € 2.6 billion in 2015 (Table 2).



Source: Author's processing of Eurostat trade statistics.

Figure 2. Trends of Moldova's and Ukraine's agri-food trade flows with EU.

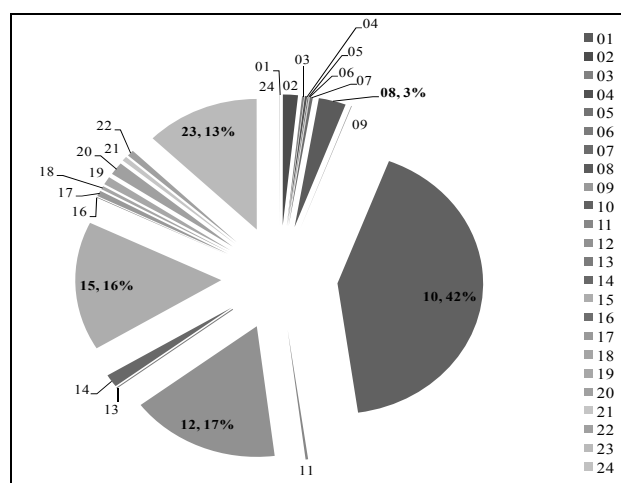
Table 2
Trends of trade balance between Moldova, Ukraine and EU

	Trade balance Moldova & EU-28 (€ million)			Trade balance Ukraine & EU-28 (€ million)		
	2013	2014	2015	2013	2014	2015
Total commodities	-1004	-995	-664	-10017	-3255	-1158
Agri-food products:	30	74	122	1585	2144	2558
I – Live animals	-40	-42	-38	-386	-235	-136
II – Vegetable products	33	64	97	1999	1962	2057
III – Fats and oils	29	51	57	395	570	586
IV – Foodstuffs, beverages, tobacco	8	1	6	-423	-152	51

Source: Author's processing of Eurostat trade statistics.

Ukraine's total exports to the EU amounted to €12.7 billion in 2015. The main Ukraine exports were raw materials e.g. iron, steel, mining products, agricultural products, chemical products and machinery. As well, Ukraine's imports from EU accounted for €13.9 billion in 2015. The main absorbed products on the Ukraine's market were: machinery and transport equipment, chemicals and manufactured goods (FAO, 2012b).

EU shared over 28% in Ukraine's exports of agri-food products, accounting for €3.9 billion value of the absorbed products. The top 5 exported products (share 90%), grouped by the 01-24 chapters of the HS, were: cereals; oil seeds; animal, vegetable fats & oils; residues, wastes of food industry, animal fodder; edible fruits (Figure 3).



Source: Author's processing of Eurostat trade statistics.

Figure 3. Breakdown of Ukraine's agri-food¹ exports to EU (2015).

¹ Denomination of HS codes: 01 – Live animals; 02 – Meat and edible meat offal; 03 – Fish, crustaceans, mollusks, aquatic invertebrates nes.; 04 – Dairy products, eggs, honey, edible animal

4. CONCLUSIONS

The European Union is the top trade partner both for Moldova and Ukraine. The exports from Moldova and Ukraine to the EU Member States developed within the last years by a growing trend. Despite the deficit accounted in the total trade balance between Moldova and Ukraine with the EU-28, a positive balance was achieved in the trade with agri-food products, while the most important absorptions on the EU market were the vegetable products.

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product nes.; 05 – Products of animal origin, nes.; 06 – Live trees, plants, bulbs, roots, cut flowers etc.; 07 – Edible vegetables and certain roots and tubers; 08 – Edible fruit, nuts, peel of citrus fruit, melons; 09 – Coffee, tea, mate and spices; 10 – Cereals; 11 – Milling products, malt, starches, inulin, wheat gluten; 12 – Oil seed, oleagic fruits, grain, seed, fruit, etc., nes.; 13 – Lac, gums, resins, vegetable saps and extracts nes.; 14 – Vegetable plaiting materials, vegetable products nes.; 15 – Animal, vegetable fats and oils, cleavage products etc.; 16 – Meat, fish and seafood food preparations nes.; 17 – Sugars and sugar confectionery; 18 – Cocoa and cocoa preparations; 19 – Cereal, flour, starch, milk preparations and products; 20 – Vegetable, fruit, nut etc., food preparations; 21 – Miscellaneous edible preparations; 22 – Beverages, spirits and vinegar; 23 – Residues, wastes of food industry, animal fodder; 24 – Tobacco and manufactured tobacco substitutes.