



German Economic Team Moldova - Press release

GET Moldova: DCFTA has a positive impact on Moldova's exports to the EU

Moldova should try to improve trade relations with Russia and the EAEU, but this should not happen at the expense of trade relations with the EU

The German Economic Team, a group of economists who advise the Moldovan government on economic policy issues, have analysed the impact of the DCFTA during the first two years of operation. Their main findings are summarised below.

Main results:

- 1. The DCFTA has a positive impact on Moldova's exports to the EU.** In 2015, international commodity prices declined heavily. For example, the Moldovan export price for sunflower seeds went down by 12%, for nuts by 14% and for insulated wire by 17%. Because of the price shock, export revenues went down in 2015, including those from the EU (by 2.3%). If we filter out this price shock, exports to the EU in real terms increased by 27%. Thus, the DCFTA had a strong positive impact on exports to the EU, but this impact was offset by the massive decline in export prices. In 2016, exports to the EU fully recovered and surpassed both the level of 2014 (+6.9%) and 2015 (+9.4%).
- 2. The intensification of trade with the EU is not new, but a long-term trend, which started more than 10 years ago, long before the DCFTA was signed.** Since 2004, Moldovan exports to the EU increased by more than 10% per year in average (in USD). As a result of this trend, the EU is now by far the No. 1 trading partner of Moldova: 65% of total exports are destined to the EU and 49% of imports are supplied from the EU.
- 3. The intensification of trade with the EU is not based on "artificial" political decisions, but the result of decisions from companies and consumers.** While trade agreements are important for reducing barriers to trade, the main driver for the EU becoming the No. 1 trade partner of Moldova was not politics, but markets. On the one hand, companies in Moldova and the EU recognised opportunities to make business with each other, thus driving up bilateral trade. On the other hand, consumers on both sides increased trade with their decisions to purchase goods from each other.
- 4. The Moldovan intensification of trade with the EU did not take place at the expense of Russia and the EAEU.** Moldovan exports to Russia declined heavily in recent years. This decline was not only due to Russian sanctions on Moldova (wine, fruits, meat, etc.), but to a large extent because of the economic crisis in Russia, which involved a huge devaluation and a deep recession. According to Russian statistics, total imports declined by 43% since 2013, while imports from Moldova went down by 40%. More importantly, the decline of trade with Russia and the EAEU has no direct relationship with the free trade agreement with the EU

("DCFTA"), as the DCFTA is fully compatible with the existing free trade agreement with Russia. Thus, there is no legal or technical justification for the implementation of sanctions by Russia. Moldova has free trade agreements with Belarus, Kazakhstan and Ukraine, and none of these countries even considered to sanction Moldova, just because of establishing free trade with the EU.

- 5. Moldova should try to improve trade relations with Russia and the EAEU, but this should not happen at the expense of trade relations with the EU.** An improvement of trade relations with Russia and the Eurasian Economic Union (EAEU) is a legitimate goal that should be pursued, as the EAEU accounts for 17% of total exports in Moldova. However, this should not take place at the expense of trade with the EU for three simple reasons. First, the EU accounts for almost 2/3 of exports. Second, the EAEU's GDP is less than 9% of the EU and entails thus much less potential for trade expansion. Third, and most importantly, there is no need to decide whether to freely trade with Russia or with the EU, as the DCFTA is fully compatible with the existing free trade with Russia. Moldova should aim to secure free trade with both sides.

- 6. The current questioning of the DCFTA by official representatives is harmful, as it reduces investment and exports, thus lowering the standard of living of Moldovan people.** The Moldovan authorities should continue to implement the DCFTA, as this is in the economic interest of the country and its population. At the same time, it is important to understand that any questioning of the DCFTA by official representatives weakens the effect of the DCFTA and has a negative economic impact on the country. Potential investors interested in producing in Moldova and exporting to the EU might postpone or even cancel investment decisions in view of new perceived risks.

Dr. Ricardo Giucci, Leader of GET Moldova, comments:

"Our analysis has shown clearly, that the DCFTA has already been and continues to be beneficial for the Moldovan economy. It makes much sense to try to improve trade relations with Russia, but there is no need and this should not come at the cost of worsening trade relations with the European Union."

Woldemar Walter, Economist and one of the authors of the analysis adds:

"There is no need to decide whether to freely trade with Russia or with the EU, as the DCFTA is fully compatible with the existing free trade with Russia. Moldova should aim to secure free trade with both sides."

About the German Economic Team Moldova (GET Moldova): GET Moldova maintains a dialogue on economic policy with decision-makers of the Moldovan government since 2010. It is funded by the Federal Ministry of Economic Affairs and Energy.