THE CREATION OF THE FREE EXCHANGE ZONE– A STEP TOWARDS INTEGRATION OF THE REPUBLIC OF MOLDOVA TO THE EUROPEAN UNION

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Abstract: *The trade of the Republic of Moldova in a large extent depends on the exports and imports to/from the European Union. The EU enlargement phenomenon is placing the Republic of Moldova on a favorable position, if speaking about the negotiation of the terms and conditions for goods and services export and import. The Free Trade Area between the Republic of Moldova and the EU will constitute an important step towards the integration of the Republic of Moldova into the European economic space and the economic development of the country as well.*

Keywords: *Exchange zone, integration, Generalized System of Preferences, trade diversion.*
JEL Classification: F15, F19, F59.

1. GENERAL ASPECTS OF THE OF TRADE RELATIONS EVOLUTION BEETWEN THE REPUBLIC OF MOLDOVA AND THE EU

The Republic of Moldova has a liberal trade regime. The trade policies promoted by the Republic of Moldova, are oriented towards investment attraction in areas of the national economy that will further provide innovations, know-how exchange and competitive products, both on the internal and external markets, creation of efficient technical and economic infrastructure for the capitalization of the existing economic potential.

The legal framework that regulates the exports of the Republic of Moldova is a wide and well developed one. The Republic of Moldova adherence to the World Trade Organization (WTO) allowed an increase of the trade opportunities i.e. the consolidation of a stable and reliable trade environment that provides more stability for the commercial relations.

Another aspect of a major importance for the Republic of Moldova trade is the Generalized System of Preferences (GSP +) that was enacted beginning with January 1 2006. The Republic of Moldova and Georgia are the only countries of the CIS which are beneficiaries of such commercial preferences. The EU adopted the GSP+ for 15 states. The GSP+ offers free access to the EU market for all the products listed in the directive (about 7200 group of products out of 11000).

The Republic of Moldova gained a more free access on the EU market as a result of signing the Autonomous Trade Preference (ATP) agreement, in accordance with the EC regulation N. 55

from 21st of January 2008, amendments to the EC regulation N. 980/2005 and decision N. 2005/924 of the European Commission. The given agreement represents an advantage of which the Republic of Moldova benefits on the GSP+ base with the broadening of the free exchange facilities of some key products for the Republic of Moldova economy, such as spirits, sugar, wheat, barley, corn, and a series of animal products.

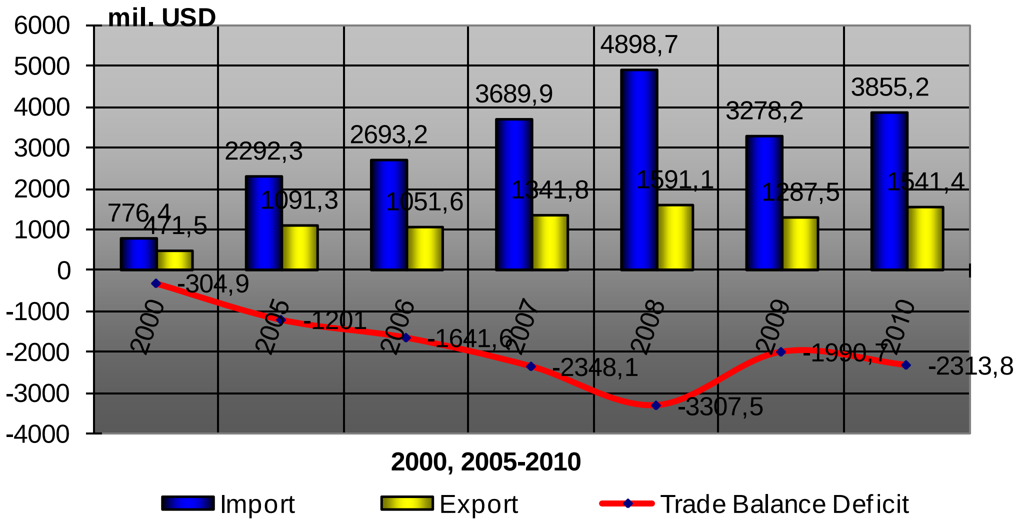
According to the ATP scheme, the EU repeals the trade taxes for all the products from the Republic of Moldova, except those listed in the ATP regulation, for which the tax is repealed to a certain rate. At the same time, The Republic of Moldova was discarded from the list of states that are beneficiaries of the GSP. The ATP scheme runs out in 2012. Within the GSP+ framework, the products spectrum that was exempted of taxes was wide, but it did not include the products of strategic importance as wines or fresh fruits and vegetables. The ATP scheme thus solved the given issue and facilitated the export of the given products to the EU market. Even though certain restrictions were not discarded, for example in 2008 the quota of the tax for free exported wines was of 60000 hectoliters, about 10 million bottles. The wine exporters exploited the biggest part of the given quota within eight months. The EU established in the same way the tax free quotas for the exported sugar from the Republic of Moldova to the EU. In 2008 the level of the given quota for sugar mounted 15000 tones, the main part of the sugar was exported to Romania. Before the Romania adherence to the EU on January 1 2007, the Republic of Moldova had a free exchange regime with Romania. The Romania adherence to the EU had a negative impact on the export of strategic products from the Republic of Moldova.

2. TRENDS IN THE REPUBLIC OF MOLDOVA TRADE

According the data from the Ministry of Economy and Reforms, namely the Department of Statistic and Sociologic Analysis of the Republic of Moldova, the exports and imports value and the trade balance in the 2006-2010 period stated the following changes: in the 2006-2010 time frame the total value of the external trade of the Republic of Moldova increased by 1.44 percent, or by 1624.9 millionn USD (see Figure 1 and Table 1).

Beginning with 2006 the EU market has the priority when speaking of exports and imports, the EU rate mounts 51.12 % of the total exports and 45.24% of the total imports. In 2010 there is state a decrease of the given values: 47.28% of the exports and 44.2% of the total imports.

Figure 1 Tendencies of the external trade of the Republic of Moldova



Source: own processing, based on the data from the National Statistics Bureau of the Republic of Moldova data www.bns.md

Table 1 The External Trade of the Republic of Moldova (thousand USD)

Year	2006	2007	2008	2009	2010
Total Export	**1051621.1**	**1341735.1**	**1591184.7**	**1287536.3**	**1541486.6**
Out of which					
CIS Countries	424142.6	550244.5	623047.0	490454.1	624003.2
EU Countries	537666.6	679256.4	820090.4	668441.0	728938.9
Other countries	89811.9	112234.2	148047.3	128641.2	188544,5
Total Import	**2693183.7**	**3689524.4**	**4898762.0**	**3278269.8**	**3855288.6**
Out of which					
CIS Countries	1020780.7	1333698.1	1737261.3	1140434.7	1256851.6
EU Countries	1218506.8	1680982.6	2105264.0	1422533.8	1704239.6
Other Countries	453896.2	674843.7	1056236.7	715301.3	894197.4
Total Trade Balance	**-1641562.6**	**-2347789.3**	**-3307577.3**	**-1990733.5**	**-2313802.0**
Out of which					
CIS Countries	-596638.1	-783453.6	-1114214.3	-649980.6	-632848.4
EU Countries	-680840.2	-1001726.2	-1285173.6	-754092.8	-975300.7
Other Countries	-364084.3	-562609.5	-908189.4	-586660.1	-705625.9
The coverage level of the imports with exports – total %	**39.0**	**36.4**	**32.5**	**39.3**	**39.9**
Out of which					
CIS Countries	41.6	41.3	35.9	43.0	49.64
EU Countries	44.1	40.4	39.0	47.0	42.7
Other Countries	19.8	16.6	14.0	18.0	21.0

Source: own processing, based on the data from the National Statistics Bureau of the Republic of Moldova data www.bns.md

Since the Republic of Moldova quota of the external trade of the EU mounts 0.1%, the trade relations with the Republic of Moldova were not attractive for the EU during the past decade. As a result of an increase of the trade rates, the EU pays more attention to the given aspect and encourages the strengthening of the economic and trade relations with the Republic of Moldova. Because of the fact that the impact of a liberal trade regime with Moldova on the EU market is insignificant, this may serve as an argument and a negotiation tool with the EU. It is obvious that for the Republic of Moldova the trade with the EU has a major importance, for a half of the exports and imports represent the share of the EU. For the Republic of Moldova are especially important both the goods trade and the services trade as well.

3. THE IMPACT OF A FREE TRADE AGREEMENT ESTABLISHMENT

The Free Exchange Agreement between the Republic of Moldova and the EU would influence the economy in two ways. First of all, the EU would discard the import taxes from Moldova, thus increasing the exports competitiveness from the Republic of Moldova to the EU. In practice, the given fact would have small immediate effects, because of the fact that the import taxes from the Republic of Moldova were already suspended within the current regime of the ATP of the EU for the imports from the Republic of Moldova. The benefits would be concentrated in sectors where the exports to the EU are limited by the export quota. Secondly, the Republic of Moldova would discard its' own taxes to the imports from the EU. Even though it would place the imports from the EU on the same level with the imports from the CIS countries, it would diminish the incomes from the customs taxes, unless there would be adopted compensating regulations.

In order to appreciate the impact of the Free Exchange Agreement between the EU and the Republic of Moldova three simulations were elaborated:

(i) the increase of the FOB taxes for the exports to the EU by 5% in order to simulate the discard of the imports from the Republic of Moldova taxation. The given simulation showed an increase of the total exports value by 3 % and an increase of the imports value by 2%, it also resulted into a real appreciation of the Moldovan currency.

(ii) the discard of all the import taxes from the EU - the imports will increase insignificantly, that will result into a replacement of the imports from EU non member states with imports from the EU member states (effect called trade diversion)

(iii) the combination of the both scenarios – usually equal to the sum of the effects of the (i) and (ii) scenarios.

The (i) variant reflects the current situation of the EU ATP system, that discards the taxes for the majority of products imported from the Republic of Moldova, keeping just a few taxes for the agricultural products, that are considered to be susceptible by the EU. The (ii) scenario reflects the main step that the Republic of Moldova will have to undertake in order to implement the FEZ agreement with the EU.

The economic simulations show that the majority of the structural and trade reforms that would represent an FEZ between the EU and the Republic of Moldova were already enacted by the ATP offered by the EU to Moldova in march 2008. That means that the most significant effect of the FEZ between the EU and the Republic of Moldova would touch upon the political area rather than the economic one – it will place the EU on the same level with the CIS states when speaking of external trade of the Republic of Moldova. By signing an FEZ agreement with Moldova, the EU will not be able to ignore the given commitments. The Government of the Republic of Moldova shall aspire to a more profound economic integration with the EU, that would overcome the trade area. In that regard the FEZ agreement is the first necessary step that shall be undertaken.

On the 2nd of December 2010, the Ministry of Economy of the Republic of Moldova elaborated and approved a plan regarding the creation of the Free Exchange Zone between the EU and the Republic of Moldova, on the European Commission recommendations.

The Free Trade Agreement RM-UE includes the gradual goods and services trade liberalization (up to 10 years from the date it was signed), the free circulation of the labour force, abatement of the customs taxes, technical and non-taxes barriers, the quantitative restriction abolishment and the Republic of Moldova legislation harmonization to the EU Acquis. Thus the (DCFTA *Deep and Comprehensive Free Trade Area* between *Moldova* and *EU*) is part of the European Union Association Agreement that will result into additional benefits for the Republic of Moldova. Unlike the current EU-RM trade regime (ATP) that is a single sided regime accorded by the EU for a limited timeframe – the DCFTA will be a multilateral agreement that will be valid for an unlimited period of time. The given agreement will bring more benefices for the exports of the country than ATP, it will also provide a long term predictability for the business area and investments.

The objectives of the DCFTA are: longstanding non inflationist economic growth, increase of the goods quality and their competitiveness, both sides trade stimulation, offering preferential access to the EU market, creation of a joint market, insurance of a loyal competition on the internal market.

The advantages that can be gained as a result of the DCFTA creation may be: a) unlimited access with no tax restrictions to the imports of the agricultural and industrial goods to the EU market, b) customs taxes discard, clear perspectives for business stimulation and development,

c) taking over the European standards and afferent norms to the quality infrastructure, d) the development of the national legal framework in the competition area, e) the possibility to benefit of technical and financial assistance from the EU, f) access to distribution and business launching international networks, g) the increase of the direct foreign investments, h) access to a wider range of products, i) as a result of the competition increase – lower prices.

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