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## MOLDOVA-UKRAINE – PRIORITIES FOR DEVELOPMENT OF TRADE AND ECONOMIC RELATIONS

**Abstract.** *The aspects of the bilateral relations between the Republic of Moldova and Ukraine constitute an important and specific area, taking into account the common past we have, as well as the future aspirations of our states for integration into the European Union. For the Republic of Moldova, Ukraine is a strategic partner in the development of a sustainable partnership of all dimensions, including through joint participation in some regional and European projects in various fields, especially environment, infrastructure, energy etc.*

**Key words:** trade, bilateral relations, sustainable partnership

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## МОЛДОВА-УКРАЇНА - ПРІОРИТЕТИ РОЗВИТКУ ТОРГОВЕЛЬНО-ЕКОНОМІЧНИХ ВІДНОСИН

**Анотація.** *Аспекти двосторонніх відносин між Республікою Молдова та Україною є важливою та конкретною сферою, з огляду на спільне минуле, яке ми маємо, а також зважаючи на майбутні прагнення наших держав інтегруватися до Європейського Союзу. Для Республіки Молдова Україна є стратегічним партнером для створення сталого партнерства в усіх напрямках, у тому числі шляхом спільної участі у деяких регіональних та європейських проектах, особливо в сферах довкілля, інфраструктури, енергетики тощо.*

**Ключові слова:** торгівля, двосторонні відносини, стале партнерство

In the context of those mentioned in the abstract, we note that the legal framework of the Moldovan-Ukrainian relations is advanced, between the two countries being concluded over 220 bilateral agreements. On October 23, 1992 was signed the Treaty of Good Neighborhood, Friendship and Cooperation between the Republic of Moldova and Ukraine, which entered into force on 5 January 1997.

With reference to the trade-economic relations between the two states, we can see that they have been

constantly on the rise during the post-independence period, and the trade deficit is increasing in favor of Ukraine. For this reason, it is worthwhile to draw attention only to trade over the past two years (Table 1).

Between January and June 2017, the total volume of Moldovan-Ukrainian trade constituted 254.48 and increased by 30.8% compared to the corresponding period of 2016 (USD 194.61 million).

Moldovan exports to the Ukrainian market during the first ten months of 2016 registered the volume of

Table 1

Trade between the Republic of Moldova and Ukraine in the years 2015-2016 (million US dollars)

	2015	2016	Dynamics, %
Total	416,9	433,6	104,0 %
Export	45,8	49,71	108,44 %
Import	371,1	383,89	103,44 %
Trade balance	- 325,3	- 334,18	

Source: National Bureau of Statistics of the Republic of Moldova (NBS)

49.71 mil. USD, increasing by 8.4% and imports from Ukraine - 383.9 mil. USD, showing an increase of 3.4% compared to the same period of 2015.

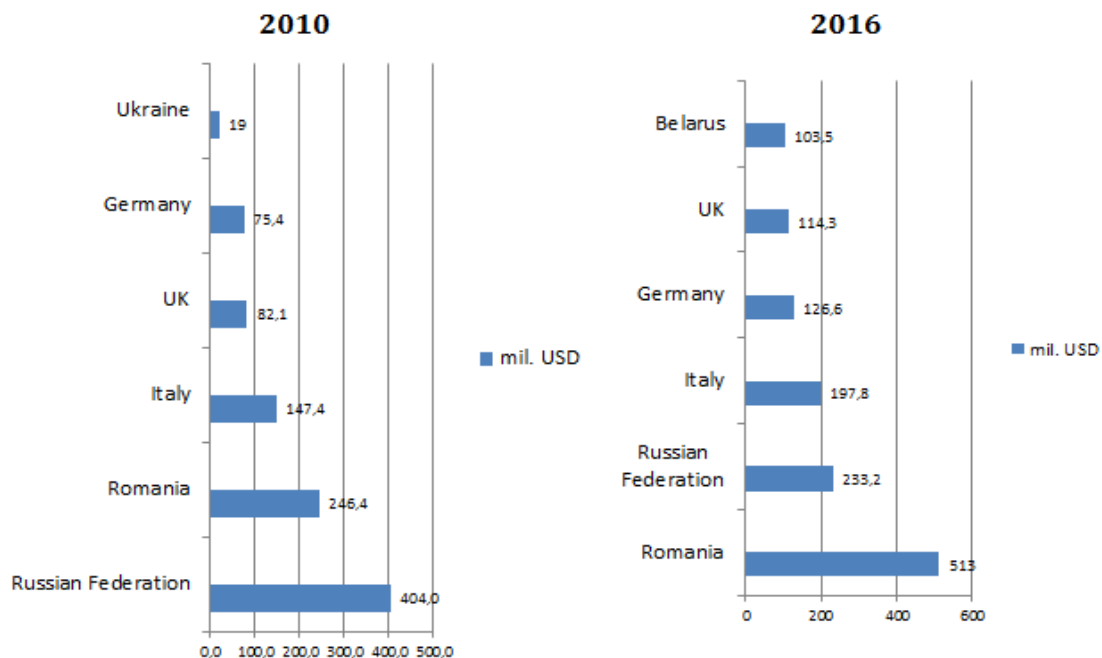
In the reference period the share of Moldovan exports to Ukraine in the trade structure of the Republic of Moldova constituted 2.3% (2.2% in the respective period of 2015), and imports from this country - 9.6% (9.3% ). Trade balance is negative for Moldova and is 334.18 mil. USD.

Despite the rising evolution of our trade, it can be noticed that compared to 2010 Ukraine is no longer included in Moldova's top 5 export destinations (Figure 1). Analyzing the evolution of exports by country, compared to 2010, indicates an increase in exports to Romania of (2.8 times), UK by (39.2%), Italy by (34.2%), Germany by (68% ). At the same time, we notice a reduction in exports to the Russian Federation (42.3%).

and determinants being vast and capable of bearing certain changes at various stages of analysis, we shall present only some basic indicators that should be the core of research. There are distinguished by us two large categories of indicators that need to be quantified in the competitiveness assessment process:

- *Endpoints.* According to generally accepted theoretical and empirical approaches, the primary indicators of competitiveness are to ensure sustained growth and increase the welfare of the population. At the same time, under the conditions of the Republic of Moldova, this group is to be complemented with the export and investment performance indicators, or according to the Moldova 2020 NDS, the economic growth rate of the country can be sustained and accelerated only under a structural change of the national economy, which involves changing the growth

## Top 5 export destinations of Moldovan goods, 2010 vs 2016 (mil. USD)



**Figure 1. Moldova's top 5 export destinations**

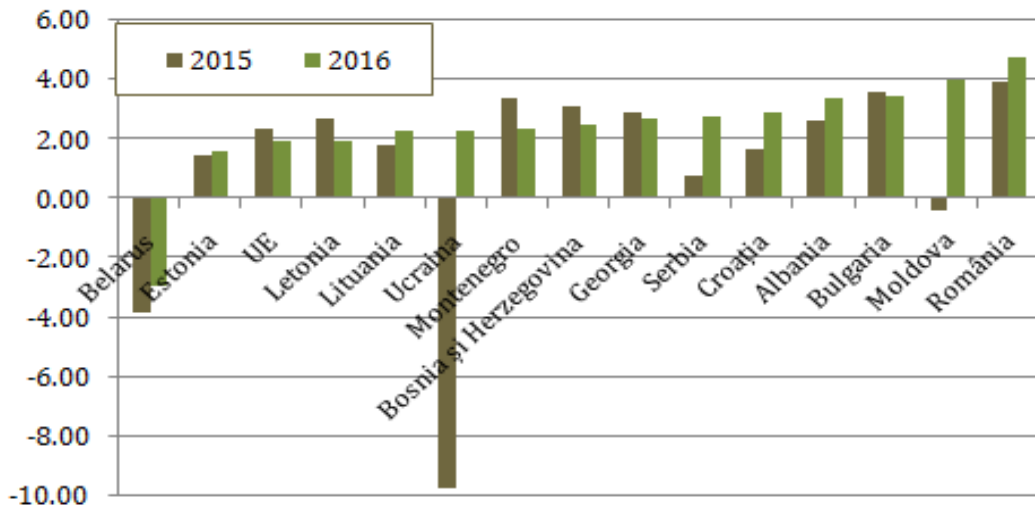
Source: elaborated by authors based on NBS data

For the year 2016, at the level of countries, the most important partner as an export destination remains Romania, where Moldova exports 38.5% of total exports to the EU and about 25.1% of total exports. Germany (6.2%), Italy (9.8%) and the United Kingdom (5.6%) of the total exports are second. For the CIS member states, the main export leader is the Russian Federation, where 56.3% of the volume is exported to the CIS, but it represents only 11.4% of the total export volume.

**However, a much more interesting fact in line with the evolution of our trade relations would be the analysis of the competitiveness of our trade goods and services.** Since the process of competitiveness analysis is by nature complex, the spectrum of indicators

model based on remittance-fueled consumption in favor of a dynamic model based on attracting foreign and local investment, as well as the development of goods and services exporting industries.

- *Intermediate indicators,* represented by productivity, price and cost indicators. Although they cannot be considered as independent indicators of competitiveness, they are also essential conditions that, in a system with a set of other determinants and macroeconomic policies of the state, contribute to increasing competitiveness.



**Figure 2. Economic growth in regional profile, previous year = 100%**

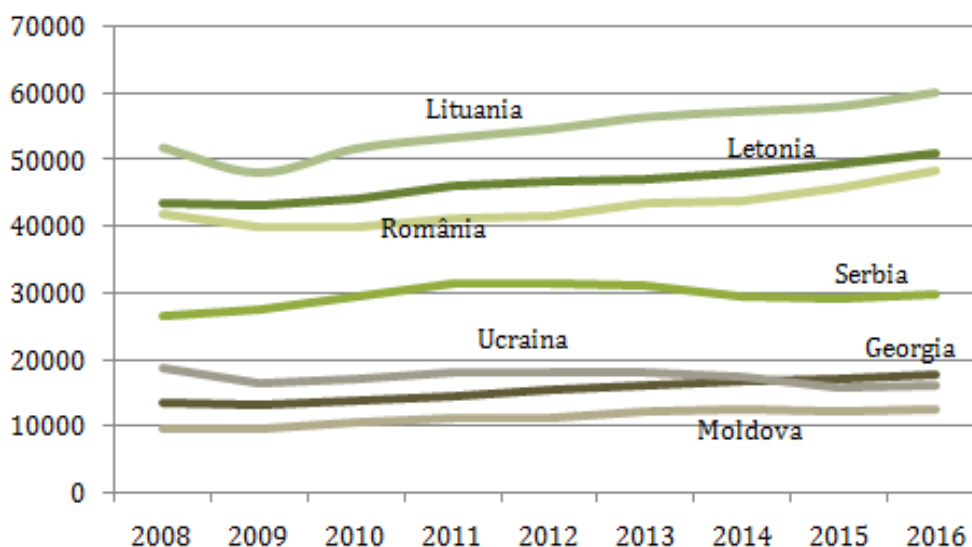
Source: IMF, World Economic Outlook Database, April 2016

So, the endpoints were not quite auspicious both for Ukraine and Moldova in 2015 (Figure 2).

In 2016, the Republic of Moldova marked a relatively high economic growth compared to other states in the region - by 4.1% in real terms compared to previous year. Among the reference countries, only Romania advanced faster - by 4.8%. The western neighbor is among the EU countries that have more easily surpassed the crisis in 2009 and, since 2011, has managed to maintain a positive growth trend with rising pace. As a matter of fact, the economies of the Baltic countries continued to grow during this period, but the pace is moderate, taking into account the strong economic decline registered in 2009 by them (-14.7% in Estonia, -14.8 in Lithuania, -14, 3% in Latvia). Ukraine

is slowly recovering after its deep 2015 recession influenced by the conflict with Russia (Figure 2).

Labor productivity as an intermediate indicator, in nominal terms, in total economy in the year 2016 constituted for Moldova - 93.9 thousand lei per employed person, being 10% higher than in 2015. At the same time, the productivity of labor revaluated at the prices of 2010 (real) is much lower - 62.4 thousand lei, with an increase compared to the previous year by 3.5%. In the regional profile, both Moldova and Ukraine are surprisingly surprised by the level of labor productivity compared to all the reference countries (Figure 3). And although the average annual growth rate of this indicator in Moldova over the last 5 years is superior to the comparison countries, except for Georgia, Romania and



**Figure 3. GDP per person employed (USD in constant PPP prices of 2011)**

Source: elaborated by authors based on World Bank data

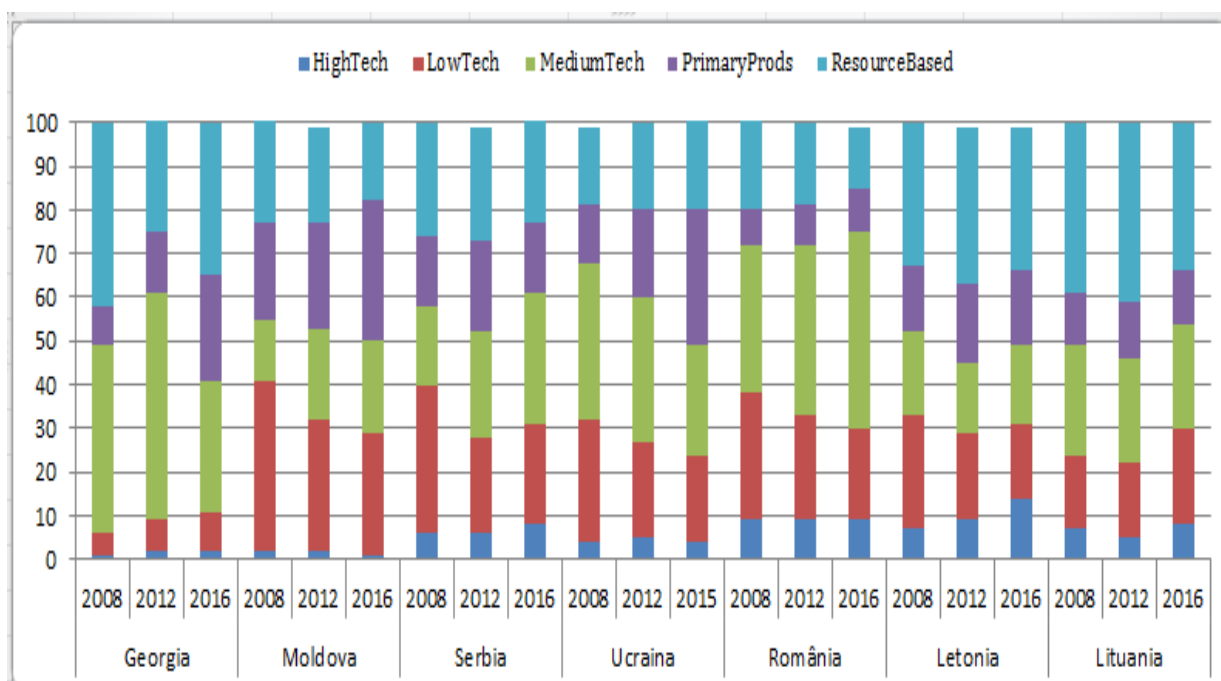


Figure 4. Technological structure of Moldovan exports in regional profile, %

Source: According to WITS data

Lithuania, the country's situation in this area to date remains to be deplorable.

Despite, these weak evolutions characteristic for both countries (Moldova and Ukraine), compared at the regional level, we can state that Ukrainian agri-food and other products proved to be more competitive in time towards Moldovan ones. That is why, from mid to late 2016, customs duties were applied to imports of milk and milk products, meat and cement from Ukraine. At the same time, Moldova has established quotas on imports of these products into the free trade regime with the CIS countries. The introduction of customs duties has attempted to protect the domestic market from massive dairy imports from Ukraine. In the given context, we note that the volume of imported dairy products in Ukraine registered a significant increase in 2015. Thus, the import of sour milk, milk and cream, yoghurt, kefir rose 1.5 times, cheeses by 33 percent, and salami and similar products 14 times. The amount of customs duty applied to milk and dairy products, meat and imported cement from Ukraine was 10-15 percent. Temporary application of internal market protection measures has been requested several times by the domestic producers of these products, who have indicated that they have to operate under unfair competition conditions, given that dairy and Ukrainian meat is sold at a lower price, because fodder in the neighboring country is cheaper.

Higher competitiveness of Ukrainian products can also be seen in the context of analyzing the technological structure of exports in our countries. Despite the fact that compared to other countries in the region, Ukraine has

big reserves; however, its degree of technology is much higher than the one of Moldovan products (Figure 4).

#### Conclusions:

The second decade of this millennium has forced a review of development policies from several states of the world. The factor that caused the changes was the 2008-2009 crisis. The global financial system is fragile; investors more cautious; more fierce competitive conditions. Although most countries seem to have managed to overcome the crisis, and partly its consequences, post-crisis economic growth has moderated significantly.

Thus, in both developed and emerging EU states as well as those outside the bloc, including Moldova and Ukraine, there was a decrease in the average annual growth rate in the given period.

Although the Republic of Moldova experienced, in the medium term, a higher economic growth than Ukraine, during this period, including in 2016, the pace is too small to reduce the development gaps. The Agenda for ambitious actions to increase the country's competitiveness reflects a low degree of performance from year to year and the indicators analyzed in this paper to some extent characterize the low level of competitiveness of Moldova's economy.

In particular, Moldovan and Ukrainian competitiveness problems have become a reality after the signing of the Association Agreement with the European Union. In order to be compatible and strengthen its positions on foreign markets, it is strictly necessary to impose an increase in labor productivity and, accordingly, wages that will eventually lead to a rise in the standard of living of society.