

## COMPETITIVENESS OF AGRIFOOD PRODUCTION OF THE REPUBLIC OF MOLDOVA THROUGH ITS EXPORT

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### *Abstract*

*Latest developments demonstrate that the constantly imposed barriers to Moldova's agrifood export by the Russian Federation highlighted the most vulnerable points of the foreign economic activity, especially the relatively low share of exports of processed products, low diversification of the markets, the large number of traditional products in traditional markets. Refocusing on the European Union market has a slower pace than the loss of East markets and the prospect of alternative destinations (Middle East, for example) is very difficult. Based on price and non-price competitiveness, the agri-food exports of the country are much less advanced than those of competitors, which further complicates the dynamics of foreign trade.*

**Key words:** agri-food, competitiveness, export, Moldova, trade

### INTRODUCTION

A country can not be considered truly competitive, using such instruments as cheap labor, grant instruments, currency depreciation or economic development based on external borrowing.

At one point, cheap labor can boost the penetration of new markets, devaluation of national currency - to stimulate exports, gaining price relative advantages, borrowing – budget expenditures financing.

But these instruments do not contribute to increasing of production factor total productivity and can not ensure the sustainable development of the economy. Following the assurance of national competitiveness, the tools used must be aimed at increasing productivity that would provide higher real income, in other words, big salaries.

Also, the productivity can only be ensured through the use of skilled labor, implementation of modern technologies and innovations: of process, product, management system etc.

And these are in contradiction with development of performance on external market based on cheap labor.

### MATERIALS AND METHODS

In order to elucidate the agri-food export competitiveness of Moldova, there were used data from international organisations, national statistics and analysis reports. The methodology used allowed the analysis, synthesis and comparison of various indicators related to agri-food export and competitiveness.

### RESULTS AND DISCUSSIONS

National competitiveness can be ensured by exporting products requiring high added value that ensures profits increase, respectively, allow to increase wages. Also, emphasis should be placed not only on aspect - price but on quality parameters that would allow the exported products to maintain sales market even under a strong national currency. Currency appreciation lead to increased prices of exports relative to imports. In those circumstances, the revenue collected from the export may be increased volume of imports, including modern technologies, and thus having a positive effect on the trade balance, even under reduced exports.

Distribution of domestic exports was influenced by a number of factors/events,

most of which we consider to be influential:  
 -numerous embargoes imposed by the traditional and important partner of Moldova - Russian Federation, during the period 2006-2014, to major products in the structure of national export - wine, fruit, vegetables, their products, meat and meat products etc.

-gradual granting by the European Union of various instruments to facilitate trade between Moldova and this entity, namely the Generalized System of Preferences (2006), the Autonomous Trade Preferences (2008), signing the Association Agreement with the EU and hence the creation of the Deep and Comprehensive Free Trade Area (DCFTA) in 2014.

-the accession of Romania, Moldova's important trade partner, to the European Union (2007), which "enhanced" statistics of trade relations with the EU.

Structured according to a top, statistical data [3] argue exposed developments - Russia's position in attracting Moldovan exports decreased significantly in 2014 compared to 2012, from over 655 mln. USD to 312 mln., namely more than 2 times (Fig.1.).

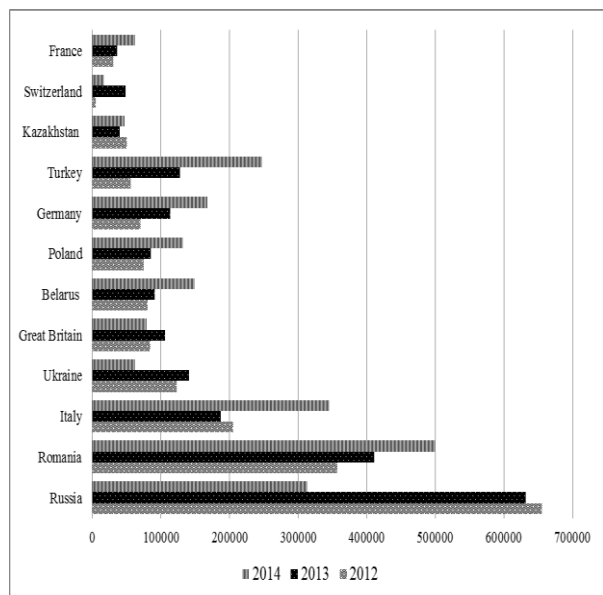


Fig. 1. Top export partners, years 2012-2014, thousand USD

Source: developed by the author based on data from International Trade Centre

Other significant reductions our exports registered in Ukraine (-49%) and Kazakhstan

(-7.5%). Thus, practically all Moldovan exports to CIS partners recorded significant decreases. In synchronism, they increased exports to destinations in Europe, which replaced into the top the traditional partners - Russia and Ukraine. Romania became the main partner in the absorption of our exports in 2014, with a value of 500 mln. 130 thousand USD, defeating Russia and thus registering an increase of 40.2% in 2012-2014. Turkey recorded significant growth (340.5%), also Germany (138.8%), France (102.7%), Belarus (84.9%), Poland (78.8%), Italy (68.3% ).

Pedo-climatic conditions and economic history of the Republic of Moldova relies on the argument that, traditionally, Moldovan exports are dominated of agrifood products. Although over the last decade (2005-2014), agrifood products decreased their share gradually in the country's export, from 53.4% in 2005 to 45.5% in 2014, they continue to be an important category, taking into consideration the real potential of export, related industries but also that the Compound Annual Growth Rate (CAGR) of these is quite high: 15.3% for the vegetable products and 13.2% for the animal products. However, amid the situation in the region [9], the share of agrifood products in total exports is much higher in Moldova (figure 2), and in the case of the analyzed countries, it is much smaller, but growing in the years 2000-2014, due modernizing in the agrifood industry.

Detailing the sections of agrifood commodities [1], we can note that during 2012-2014 years only item "Livestock and animal products" records negative trade balance (Fig. 3), which causes that trade balance of agrifood products to be positive as a whole, increasing ( USD 135.5 million in 2012, USD 231.7 million in 2013, USD 346.0 million in 2014).

The most constant trend, but also the highest value is observed, traditionally, in "Vegetable products", with a trade balance of USD 354,265 thousand in 2014, followed by "Food, beverages and tobacco", with an export of USD 378435 thousand in 2014.

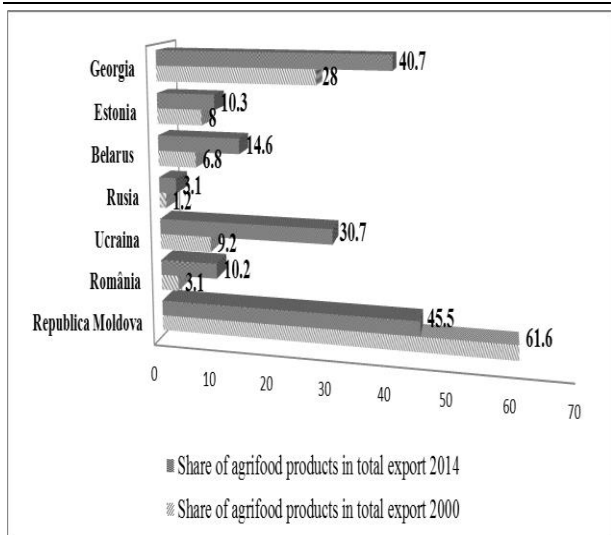


Fig. 2. The share of agrifood export in total exports, compared with countries in the region, the years 2000-2014, %

Source: developed by the author based on data from World Bank. World Development Indicators: Structure of merchandise exports

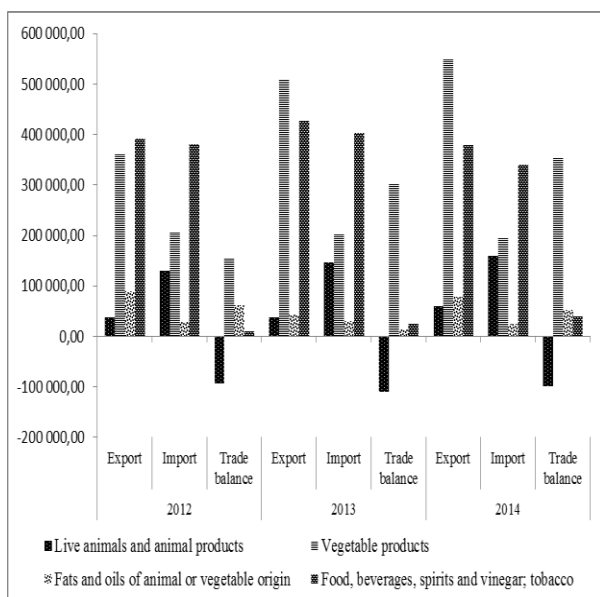


Fig. 3. Export, import and trade balance of agrifood sections, period 2012-2014, thousand USD

Source: developed by the author based on data from National Bureau of Statistics

Agrifood exports structure suffered major changes in period 2005:2014 (Fig.4), especially focusing on the export of processed products – "Food, beverages and tobacco", which has declined from 68% of total exports of agrifood goods in 2005 to 35% in 2014, which attests significant shortcomings of adapting the industry to various shocks/ external embargoes, but also the lack of significant processing capacities. Thus

"vegetable products" increased their share from 23% (2005) to 52% (2014), "animal products" - from 3% to 6%, and "fats and oils" had the most constant trend of the share - around 6-7% in both periods.

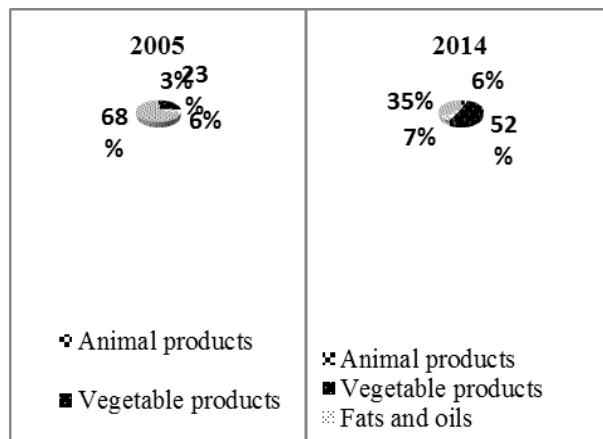


Fig. 4. Structure of Moldova's agrifood exports on sections, years 2005, 2014

Sursa: developed by the author based on data from National Bureau of Statistics

Moreover, a detailed analysis reveals that first 6 positions exported in 2014, of the total agrifood export value that equals to USD 1,065,357 thousand: oilseeds, cereals, fruits, beverages, oils and fats, fruit preparations and vegetables, sum up more than 95.96% of the total agrifood export, and of these, 4 positions are products that have a degree of processing. A breakdown at 4 digits (HS) of tariff headings in the last 2 years - 2013 and 2014 elucidates the actual structure of agrifood exports (table 1). Animal products are steadily declining in export ranking, except natural honey (0409). Tomatoes (0702) have greatly diminished their share in export in favor of potatoes (which increases in ranking from 67 to 38) and in particular due to the significant increase in the share of frozen vegetables (0710), which recorded exports of USD 5.673 million and occupied position 22, for the first time. Nuts (0802) were traditionally kept in third position, and apples, pears and quince lost a position (from 7 to 8). Exports of grapes (0806) has advanced significantly, from USD 17,028 thousand in 2013 to USD 31799 thousand in 2014, i.e. 1.8 times. Among cereals, maize (1005) recorded the most significant increases (from 9 to 2), worth over 111 million USD in 2014, exceeding in value

the sum of exports of major fruits and vegetables and ranking on second position. Position 1 was occupied in 2014 by sunflower, which had a positive continuous development, with export value of over 192.5 million USD. Sugar (1701) also had a rising trend (from 12th place to 9th). A modest but positive dynamic had pastries (1905), as well as canned vegetables (2005). At the same time, significantly decreased, with 4 positions, the exports of fruit and vegetable juices (2009), with 3 positions the wine exports (in 2204), up to USD 105.7 million as well as tobacco (2401), with nine positions in the ranking.

Table 1. Breakdown of agrifood exports of the Republic of Moldova, period 2013-2014

Indicator s	Product				
	Beef	Wine	Apple	Nuts	Sunflower
2013					
Export value, thousand USD	11,875	149,590	48,015	97,522	136,153
The trade balance, thousand USD	11,674	147,651	46,668	88,644	123,218
% of total export	0.49	6.16	1.98	4.02	5.61
Rank in the sector export	18	1	7	3	2
2014					
Export value, thousand USD	5,066	105,717	47,620	109,686	192,541
The trade balance, thousand USD	4,671	103,768	47,126	100,727	176,758
% of total export	0.19	3.88	1.75	4.02	7.06
Rank in the sector export	24	4	8	3	1

Source: developed by the author based on data from International Trade Centre

Sparling and Thompson [7] explains the agrifood sector competitiveness as being an indicator influenced by the costs, while some authors [5] and [4] explain the importance of the quality framework.

Also, there are studies that link competitiveness to sustainable development [8] and the literature indicates the existence of a multitude of factors that determine the competitiveness.

At the same time, the understanding of the complexity of the factors that push this process took scientists a long time - comparative advantage over other countries is explained by the provision of inputs on classical theory, investment in fixed capital and infrastructure at neoclassical approach. Already talking about competitive advantage, M. Porter [6] highlights five fundamental factors, which he structured into National Diamond - factors of production, domestic demand, related industries, business strategy and competitors, government policies.

Currently, there are studies on the comparing the performance of business environment in different countries and national competitiveness, analyzed under a variety of drivers. National competitiveness is directly determined by the domestic economic environment. Therefore a first exercise in determining the level of national competitiveness is related to internal economic environmental quality analysis. The following is a brief analysis of the national economic circumstances.

The long process of transition and the high vulnerability of the national economy to shocks, both internal and external, reveal the deficient model of development of the Republic of Moldova and indicates the low level of national competitiveness.

The unfavorable circumstances of the factors influencing the competitiveness of Moldovan economy is confirmed by the results of studies prepared by international organizations, Global Competitiveness Report (World Economic Forum) [10] and Doing Business Report (World Bank) [2] which focus on assessing the global competitiveness and performance of business environment in different countries.

**Doing Business Report** is an annual study conducted by the World Bank since 2003 and aims the comparison of regulatory framework for business in different countries, in other words, the cost of doing business. In this

report, all countries are categorized in a rating according to the degree of ease of doing business. The first report was published in 2003, analyzing the business environment in 133 countries after 5 criteria. In its latest report, Doing Business 2011, there are summarized regulations of 11 important stages of the business environment in 183 countries:

1. *Starting a business;*
2. *Obtaining building permits;*
3. *Property registration;*
4. *Obtaining credits;*
5. *Protecting investors;*
6. *Payment of fees;*
7. *Foreign trade;*
8. *Signing contracts;*
9. *Business contracting;*
10. *Access to electricity;*
11. *Employing workers.*

Ranking of countries in Report 2011 opposed to the previous one was based on first 9 criteria and supporting for two changes:

- Category "Employing workers" was analyzed in the report, but was not included as a performance criterion in ranking;
- In study there was also included the analysis of regulatory reforms in the field of energy access, considered a very important factor in doing business, but which also was not included as a performance criterion in the ranking.

According to the report, the most favorable climate for business development is in high-income OECD countries, followed by countries in Eastern Europe and Central Asia, and at the bottom of the ranking there are South and sub-Saharan African countries. The ranking is opened two consecutive years by such countries as Singapore, Hong Kong, New Zealand, UK, USA and Denmark and is closed by Chad, Central African Republic and Burundi.

In list of countries that registered the greatest performances in facilitating doing business in the previous year and that introduced policy changes in three or more areas are: Kazakhstan, Rwanda, Peru, Vietnam, Cape Verde, Tajikistan, Zambia, Hungary, Brunei. And finally, an important role for local business development and national

competitiveness is the regulation of foreign trade operations. Facilitating international trade transactions has become an imperative condition for business development. In terms of external transactions, Moldova records the worst performances on building permits - position 141. This is a characteristic problem for most countries in post-Soviet space.

For handling export (import) operations an economic agent from Moldova needs a file consisting of 6 (7) acts, 1765 (1960) USD for the export of a cargo container, of which 1300 USD are required only to ensure expenses for domestic transport and the operation is conducted in at least 32 (35) days of which 20 days are required only to prepare the necessary documents.

Taking into account the best examples of conducting export/import operations in international practice, Moldova is still very far from such performance:

- Documents needed - 2 days - France;
- Days needed - 5 at export in Denmark and 4 at import in Singapore;
- Cost to export a container with goods - 450 USD at export in Malaysia and 439 USD at import in Singapore.

At the same time Republic of Moldova could at least tend to the example of the Baltic States - Estonia, Latvia.

## CONCLUSIONS

To achieve the primary endpoint - **ensuring national competitiveness** - the efforts of all actors of the economy should be aimed at creating a favorable climate for business development. A favorable climate would mean acting and improving all the factors - economic, political, social - that in some way influence the environment in which the economic entities operate and support within a nation the competitive advantages. These factors are very diverse and one of the most complex calculation methodology of the national competitiveness of the world's countries that tried to include most of them, is considered IGC (index of global competitiveness), developed by the World Economic Forum in Global Competitiveness Report. This indicator takes into account

many factors of competitiveness, classified into 12 categories - called "pillars of competitiveness". These pillars form the basis of development of any economy, but at different stages of development they have a different role. Depending on their importance to the economic development levels these pillars can be divided into three categories:

- essential factors: institutional system, infrastructure, macroeconomic stability, health and primary education;
- efficiency factors: higher education, goods market efficiency, labor market efficiency, financial market sophistication, technological degree of readiness, market potential;
- innovation and sophistication factors: business sophistication and innovation.

For example, the leverages used to increase national competitiveness in a developed country won't be the same as in a poor country. Also, the tools used to increase the efficiency of foreign trade, labor market etc. won't bring the expected results as long as there is not ensured the proper functioning of institutional system, developed infrastructure, basic conditions for a satisfactory level of health and primary education of the population of this nation.

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