

FOREIGN TRADE AND THE PROSPECTS OF REGIONAL INTEGRATION OF THE REPUBLIC OF MOLDOVA

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Abstract

The main purpose of the research is to identify the strategic options of the Republic of Moldova, whereby foreign trade and economic integration could become genuine engines for a sustainable economic development. One of the objectives of the article is to submit to the analysis the current state of the Moldovan external trade; its commercial relations with other countries and economic blocs and to identify the potential alternatives, that Moldova has for a deeper regional economic and political integration. In addition, we are looking to assess Moldova's economic complexity, diversification and competitiveness within the regional and global frameworks. Using statistical data on trade dynamics and layout and observation as a research method, we were able to identify that, there has been a swift shift in Moldova's strategic directions and also, small changes in economic structures that might affect its future development.

Keywords: foreign trade, regional integration, economic integration, economic relations

Introduction

Admittedly, the paper treats Moldova's case from a broad number of perspectives, starting from a trade dynamics dilemma and ending with economic and political integration. Although, these subjects are no novelty for the academic society, it does spark an enough amount of interest when it comes to less developed countries and the problem of their functional economic inclusion into the global and regional frameworks.

The main goal of the research is to identify the strategic options of the Republic of Moldova that would allow foreign trade and economic integration to become the engines of its future development. This would firstly require us to analyze Moldova's trade dynamics and structure, based on its main trading directions and types of goods and services the local economic agents buy and sell abroad. Another objective would be to assess how complex Moldovan economy is and if that shows a great deal of diversification and specialization when it comes to

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producing, trading and being competitive on the external markets. At the same time, we hope to outline how well-integrated the Republic of Moldova is in the global and regional markets, if it had fulfilled any of its trading potential, or, there is still room for improvement in this regard. Last but not least, we consider it appropriate to try and distinguish the main vectors that the Moldovan authorities could opt for when it comes to economic and/or political integration.

In order to be able to achieve all of the objectives above, we structured the research into four distinctive parts. In the first section, we try to outline the general framework of the subject, where does it fit theoretically and practically. This also implies bringing up a literature review of the main concepts of foreign trade, economic integration and competitiveness. We paid special attention to books and other studies that treated these topics in strong correlation with Moldova's case or the cases of other developing countries.

In the second part, we concentrate on the trade dynamics of the past decade and a half. This means collecting data on Moldovan commercial flows and their main directions inward and outward. This is necessary in order to understand the role of the Republic of Moldova within the global economic context, how well its economy functions and which are its main trading partners. This allows us to recognize a great change in Moldova's preferences when it comes to trading goods and services abroad.

In the third section of the research, we tried to pinpoint the economic sectors that proved to be the most competitive for Moldovan producers. At the same time, it is important to identify the areas where they have a comparative advantage in relation to third parties and which are the sectors with a major export orientation. It is also essential to know the partnership agreements that the Moldovan authorities have signed in the field of trade and what are the strengths of the Moldovan economy, as well as the difficulties the country faces on the international trading arena. We consider it appropriate to try and outline how competitive Republic of Moldova might be, based on the analysis of its commercial activity and its economic structure, in order to assess if there is a great deal of economic diversity which could lead to a more competitive economy.

In the last part of the study, the topic gives us the opportunity to identify the choices that Republic of Moldova has when it comes to a deeper economic integration within the regional framework. In essence, Chisinau's policy is at the confluence between the Russia - Kazakhstan - Belarus - Armenia - Kyrgyzstan Economic Union and the European Union. Moldova is part of a Free Trade Agreement as a result of being a member of the Commonwealth of Independent States (CIS), while with the EU, it has already signed an Association Treaty and adopted a special regime through which Moldovan producers have been granted access to the EU market. It is important to be able to determine the effects all of these had on the Moldovan economy and its commercial capabilities and then, maybe to attempt and develop, in future papers, a set of functional strategies for a more consistent economic integration of the Republic of Moldova. However, we



should also be aware that there is a possibility where a country like the Republic of Moldova might develop even better if it opts not to deepen its regional integration process, in order to avoid potential dependencies on its bigger trading partners and external markets.

Finally, using a qualitative research design, we will try to establish if there is a relationship between the collected statistical data and scientific observation on the matter and see if the numbers correspond to the reality of Moldovan economy. Also, we would like to be able to answer some of the questions, which concern both academia and public opinion. Is Moldova's economy diversified enough? And if not, what are the main difficulties it faces? How high is its degree of integration within the global and regional economic frameworks? What are the prospects for economic growth in the context of the latest events and what are the opportunities it has for regional economic integration?

Methodology

The methods to be used in the research correspond to the purpose and objectives set. These include the previously written works on the subject and statistical data analysis. The statistical data is the most important part of the research and comes from several sources, however, we have mainly opted for online databases with specific economic and trade related information, such as the World Bank, the World Trade Organization and, last but not least, the National Bureau of Statistics of the Republic of Moldova and the National Bank. In order to treat the subject of economic structure's diversity we used The Atlas of Economic Complexity reports. We chose these sources in particular for the veracity of the data. It is noteworthy that most databases do not provide statistical data on the Transnistrian region.

Within this paper, we will concentrate on the 2005-2017 timeframe, since this period of time seems to provide the most relevant data on Moldova's actual economic situation - starting a few years after the recession of the 1990s, but before the 2008-2009 financial crisis. The main focus regarding the data was on trade dynamics and structure. Apart from the values of Moldovan imports and exports, we also calculated the EU and CIS shares, in order to identify the main trading directions. At the same time, we compared Russia's and Romania's shares in Moldova's trade, to determine if the tendencies are similar when it comes to trading with particular countries that are members of the two distinctive economic blocs. Strong commercial ties with one partner or another could also mean a higher possibility for a more extensive economic or/and political integration in the future within that specific union.

Ultimately, we conducted an observation on the imports and exports structures, hoping to get an idea on how complex and diverse Moldovan economy is and also, which are the main goods that make up its commercial flows. A high share of a specific type of goods could denote a lower economic complexity, but at

the same time, we have to take into consideration if those goods are lower or higher on the production chains. That could be the difference between a well-developed economy and a vulnerable one, with an inferior level of income.

1. General framework

Nowadays, no country, no matter the size or riches, can provide all the products it needs from its own production only. As a result, each country has to use foreign trade as a tool, in order to obtain what it needs. The process of globalization has given rise to the development of international production chains. The global markets' integration around the world have strengthen the international trade and its importance for the countries that seek economic growth and development. Even if the developed countries are still dominating the global arena, the consolidation of the new regional unions like EU or NAFTA, lead to an increasing relevance of the developing economies and undeniably created wealth. But in order to efficiently participate in the global trading framework, countries need to specialize in producing the goods they are better at.

Looking at the structure of the exports and imports, we can definitely discover a strong correlation between the development level of a country and the goods and services which it trades in and out. Countries with big exports of raw materials, cereals, fruits and vegetables, clothing and other low manufacturing technology products tend to be less developed. The added value on the chain of production is rather low, and therefore the economy grows slower (Stamule, 2017). At the same time, the more developed countries, usually import and export goods and services with a higher degree of processing as a result of a greater use of high technology. Another factor that influences the degree of trade development is how well a country is integrated within the regional and global economic frameworks. Through a process of trade creation, small, developing countries can drastically change their economic structures and growth potential (Moser, 1997).

The reasons behind the regionalization process vary from one region to another. The lack of a unique model of integration is due to the various circumstances which the states of different regions of the world find themselves in. For this reason, the way in which regional integration is approached varies. The inclusion of the developing countries in the regional economic structures has a great effect on the policy-makers. For example, the members of the EU or the potential EU candidates are most likely to be required to adopt a free-trade agenda and to reform their economic and justice structure, in order to converge with the European norms and values. The less developed countries also may use regional partnerships to get help from other countries. Over the years, many governments and international organizations have encouraged regional economic integration among developing countries and set up special budgets to promote regional projects. The best example is the European Union, which, through numerous projects, has shown itself enthusiastic in supporting regionalism in other countries



around the globe. Thus, the business environment in these countries is gaining not only from the improved power ratios, but also from the possibility of obtaining financial support. Regional trade agreements can improve the credibility of national economic, legal and normative reforms and thereby increase the attractiveness to foreign investors (Rodrik, 1997). Even if some states have a range of natural resources, some might not have the necessary infrastructure or the necessary capital to put them to better use. Free circulation of production factors may also lead to externalization of production by large companies, which would again attract investment (Ethier, 1998).

At the same time, specialization and free-trade are not the only factors that can change economic structures. It is important for countries, especially developing ones to try and diversify their output. Being dependent on a small number of products and services is quite risky. Price changes may make certain economies very vulnerable and also reduce their competitiveness long-term. We do not have to look too far to see examples of countries that suffered as a result of falling prices. Russia and Venezuela are just two of them, where the gains have reduced after the shrink in oil prices.

Another issue is that of the economic dependencies between small and big countries. The main risk is associated with the fact that the bigger country may use its economic power in order to achieve its geopolitical objectives. The imposing of sanctions on states, because of political problems has been often used as a tool to put pressure on smaller economies, and it shows the risks of high economic dependencies. In the case of Moldova, Russia regularly imposed sanctions on strategic goods imported by the Moldovan companies. Good examples are the wine embargos from 2008 and the wine, meat and fruits embargos from 2013, prior to the EU Treaty signing (Ciochină, 2018).

The situation of Moldova is quite unique, although still part of the Commonwealth of Independent States, its economic focus is more on the European Union (Stamule, 2017). The signing on the 27th of June 2014 of the Moldova - European Union Association Treaty was a clear sign of the direction the country was trying to adopt and has greatly improved the trade relations with the EU. This might be seen as a strategic change regarding the development of the Moldovan economy, which now focuses more on developing trade routes to the West rather than to the East. The access to the European funds, together with the implementation of some European-like norms and reforms come to strengthen the relations between Moldova and the EU. Even if, its market is rather small and the level of industrial development is low, Republic of Moldova has great potential that bridge between the East and the West, as a result of its cultural similarities to Romania and to the CIS countries.

2. A comparative analysis between the overall trade of Moldova with the EU and CIS.

As a result of the deepening economic relations of Moldova with the other countries, including the two main European poles (the EU and the CIS), a lot has changed in terms of trade directions and economic structures. If we analyze the evolution of the exports from Moldova towards the two unions, we see a very strong improvement of the EU position. Contrary to the popular opinion, the EU was always an important trading partner for Moldova and the share has only increased between 2005 and 2017. We could argue that the output grew in general, looking at the fact that now Moldovan exports are 2,5 times greater in value than they were in 2005. But if we take a look at the exports towards the CIS countries, the value actually decreased and the share now is more than 2 times lower in comparison to the EU's share that increased by around 25%. At the same time, we can observe a slight shift towards the other countries of the world as well. The reasons for this might vary. At the time, Russia's embargos on meat, fruits and wine, determined Moldovan entrepreneurs to seek other routes for their products, while the access to the global market was facilitated by the growing relations with the EU and other countries like China and the United States of America.

If we analyze the imports, the situation is similar, although, the change is not so drastic in the case of the EU countries, while the imports from the CIS countries seem to fall continuously. Besides the reasons we presented previously, we could draw the conclusion that Moldovan people are looking for more sophisticated products, ones they can usually find in the EU, rather than in the East. It's important to notice that almost half of the imports are coming from the European Union and even if the total value of the incoming products decreased as a result of the 2008-2009 global crisis, the trends in terms of presence on the Moldovan market remained the same.

Analyzing the evolution of the trading relations between Moldova and the two main partners (Romania and Russia) is another good way to understand that Chisinau's strategic direction have changed in the last decade or so. In terms of export, Romania has become the main destination for the Moldovan products and services with a share of around 25%, while Russia's importance as a partner has decreased drastically. Once again, we can easily observe that 2013 was a turnaround point, because of the economic sanctions imposed by the Kremlin on Moldovan goods, while the relations with the West were rapidly evolving.



Table 1. Evolution of exports from Moldova towards different groups of countries (2005-2017)

Year	Exports (thousands \$USD)			Share (%)		
	CIS	EU	Others	CIS	EU	Others
2005	551,227	443,184	96,507	50.53	40.62	8.85
2006	423,647	536,910	89,805	40.33	51.12	8.55
2007	548,889	678,930	112,232	40.96	50.66	8.38
2008	622,994	820,072	148,047	39.15	51.54	9.30
2009	490,415	667,339	125,227	38.22	52.01	9.76
2010	624,003	728,939	188,545	40.48	47.29	12.23
2011	919,265	1,083,006	214,544	41.47	48.85	9.68
2012	928,120	1,013,418	220,342	42.93	46.88	10.19
2013	923,220	1,137,286	367,797	38.02	46.83	15.15
2014	735,648	1,245,980	357,902	31.44	53.26	15.30
2015	492,295	1,217,587	256,956	25.03	61.91	13.06
2016	414,185	1,331,898	298,527	20.26	65.14	14.60
2017	462,820	1,596,840	365,312	19.09	65.85	15.06

Source: Authors' own computations, based on data from the National Bureau of Statistics, Moldova

Table 2. Evolution of imports towards Moldova from different groups of countries (2005-2017)

Year	Imports (thousands \$USD)			Share (%)		
	CIS	EU	Others	CIS	EU	Others
2005	905,208	1,038,777	348,307	39.49	45.32	15.19
2006	1,020,781	1,218,507	453,896	37.90	45.24	16.85
2007	1,333,698	1,680,983	674,844	36.15	45.56	18.29
2008	1,737,261	2,105,264	1,056,237	35.46	42.98	21.56
2009	1,141,783	1,421,186	715,301	34.83	43.35	21.82
2010	1,256,852	1,704,240	894,197	32.60	44.21	23.19
2011	1,713,416	2,256,292	1,221,563	33.01	43.46	23.53
2012	1,623,721	2,318,614	1,270,594	31.15	44.48	24.37
2013	1,672,308	2,472,112	1,347,974	30.45	45.01	24.54
2014	1,449,246	2,567,695	1,300,018	27.26	48.29	24.45
2015	1,018,111	1,954,251	1,014,459	25.54	49.02	25.45
2016	1,027,442	1,973,712	1,019,203	25.56	49.09	25.35
2017	1,206,052	2,389,160	1,236,124	24.96	49.45	25.59

Source: Authors' own computations, based on data from the National Bureau of Statistics, Moldova

Table 3. Evolution of exports from Moldova towards Romania and Russia (2005-2017)

Year	Exports (thousands \$USD)		Share (%)	
	Russia	Romania	Russia	Romania
2005	347,361	111,607	31.84	10.23
2006	181,932	154,940	17.32	14.75
2007	232,707	210,899	17.37	15.74
2008	313,692	335,810	19.72	21.11
2009	286,492	239,626	22.33	18.68
2010	403,978	246,409	26.21	15.99
2011	625,509	376,397	28.22	16.98
2012	655,132	356,717	30.30	16.50
2013	631,932	411,090	26.02	16.93
2014	423,718	434,042	18.11	18.55
2015	240,649	446,370	12.24	22.69
2016	233,177	513,035	11.40	25.09
2017	254,535	600,608	10.50	24.77

Source: Authors' own computations, based on data from the National Bureau of Statistics, Moldova

Table 4. Evolution of imports towards Moldova from Russia and Romania (2005-2017)

Year	Imports (thousands \$USD)		Share (%)	
	Russia	Romania	Russia	Romania
2005	267,835	257,330	11.68	11.23
2006	417,020	345,952	15.48	12.85
2007	498,632	449,050	13.51	12.17
2008	666,137	590,781	13.60	12.06
2009	374,513	311,739	11.42	9.51
2010	586,477	386,720	15.21	10.03
2011	822,961	574,273	15.85	11.06
2012	816,882	620,571	15.67	11.90
2013	788,041	722,129	14.35	13.15
2014	717,221	803,088	13.49	15.10
2015	535,691	555,137	13.44	13.92
2016	535,201	551,499	13.31	13.72
2017	571,704	694,523	11.83	14.38

Source: Authors' own computations, based on data from the National Bureau of Statistics, Moldova



In terms of imports, the fluctuations are quite mild and are similar to the situation we saw, analyzing the imports from the EU and the CIS as a whole. While the importance of Romania has still increased as a source of goods for the Moldovan people, Russia holds strong positions as well, but has been slightly decreasing in the last five years.

Another interesting aspect of this particular data is that the Romanians seems to have little interest in accessing the Moldovan market, but are eager to buy goods that are coming from the former soviet republic. The ever-present discourse about the West that is damaging the local entrepreneurs, by dominating the market seems to be more of an exaggeration. Moldova's economic dependence on Russia found little proof in the collected data and represents more of a Moldovan collective psyche of the 90s, as a result of the rich soviet past. In the economic realities of the last decade Russia remains an important partner, but we see a great shift towards the EU, export and import-wise as well.

3. Moldova's economic complexity and trade competitiveness

Moldova's economic complexity and the lack of diversity seem to be a real issue. The World Bank reports on the matter, state that the economic structure of the Moldovan system is not sufficiently developed for several reasons, which would slow down the economic growth process quite a bit.

Normally, an increase in the industrialization of the economy could easily lead to increased living standards due to new jobs, but at the same time competition from the international market may be too much for the producers in Moldova, which could lead to a social decline due to low wages or lower paid jobs at home than abroad, which has already brought Moldova to the brink of a social crisis and lack of acute skilled labor who chooses to emigrate in the search of a better life.

Secondly, a more complex structure of exports often denotes a higher level of education and training for the workforce, but also a higher degree of know-how and the ability to produce more sophisticated products, than in the economies based on simplistic products with low added value (Hidalgo, 2015).

Last but not least, because of the latest developments in which economic power often feeds political power, states such as the Republic of Moldova, which generally relies on a reduced range of resources, are easily exposed to the risk of becoming captive states, both economically and politically. Since 2014, the "captive country" status is increasingly attributed to Moldova in the local and international press after the disappearance of one billion euros from the banking system, made possible by the political circumstances and corruption.

According the World Bank, the performances of this small state depend very much on the trade relations it has and the competitive capacity it demonstrates. The recent developments of the bilateral relations with the Russian Federation and with the European Union, due to the signing of the Association Treaty and the Deep Free Trade Agreement (DCFTA), have had a substantial impact. At the same time,



according to the data, it seems that the Republic of Moldova is a better integrated state compared to similar states whose GDP per capita is relatively the same, such as Georgia or Albania (World Bank, 2015). Moldova's main issue remains the fact that it did not fully exploit the commercial potential it had more than a decade ago. Although, Moldova has witnessed a major integration into the global trading system, mainly due to intensified relations with third parties through the vast increase in imports a considerable part of its trade deficit was mainly funded by remittances and, to a lesser extent, by foreign direct investment (FDI). Moldova's export performance was comparatively weaker than that of its regional colleagues.

At the same time, Moldova has experienced a significant diversification of its export range, but much of it remains dominated by only a few products, especially in the agri-food sector. Although the number of countries exported to the Moldovan state has increased practically twice in the last 15 years, such an exports' structure leaves indigenous exporters very vulnerable to economic and financial shocks similar to those of 2008-2009, but also in the face of economic sanctions from other states or groups of states. According to the data, the need for diversification of exports and markets shows that the economy has grown more on exports of new products in new markets than the quantitative increase of traditional exports to existing markets.

Table 5. Moldova's exports, by groups of goods (2017)

	(%)
I. Live animals; animal products	1.94
II. Vegetable products	27.32
III. Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes	2.22
IV. Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	15.16
V. Mineral products	1.18
VI. Products of the chemical or allied industries	4.07
VII. Plastics and articles thereof; rubber and articles thereof	1.38
VIII. Raw hides and skins, leather, fur, skins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	0.86
IX. Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basket ware and wickerwork	0.43
X. Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	0.54
XI. Textiles and textile articles	14.30



	(%)
XII. Footwear, headgear, umbrellas, walking sticks, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	1.40
XIII. Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	1.74
XIV. Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewelry; coin	0.05
XV. Base metals and articles of base metal	1.99
XVI. Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers	16.07
XVII. Vehicles, aircraft, vessels and associated transport equipment	1.71
XVIII. Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; musical instruments; parts and accessories thereof	1.27
XX. Miscellaneous manufactured articles	6.37
XXI. Works of art, collectors' pieces and antiques	0.00

Source: Authors' own computations, based on data from the National Bureau of Statistics, Moldova

Analyzing the trade structure that Moldova has is a challenging thing. Apart from all the positives, the lack of diversity is worrying. Moldova exports are mainly focused on agricultural production, which represent a third of the country's exports. Oil seeds, cereals, grapes and nuts are the main components from this branch. Putting so much pressure on the primary sector, involves many risks, such as the climate change and the weather variation. At the same time, having tight relations with the EU, might not be enough to cover the partial loss of the CIS market, because of the quota system of the EU, which prevents the non-member countries from exporting too much. The emphasis that Moldovan economy has put on the agricultural exports, denotes a less developed economy. Even if, there are more sophisticated products that may come from the primary sector, like tobacco, wine or spirits, the added value is still low. Having a high share of the exports covered by textiles and textile articles is also very typical for a developing country.

4. Regional integration perspectives

It is also attractive for the foreign brands of clothing because of low wages and the close proximity to the external markets. This industry will remain high, as long as the wages are low. Even if it contributes to a lower unemployment rate, the added value in the production chain is not great. When it comes to machinery and equipment, Moldova has a similar problem, as the main objective of exports from this group of goods is consisted of wires. A more optimistic overview comes from the fact that the ICT market is rapidly growing and evolving. It does provide a lot of working opportunities and, even if, the wage levels are still lower than in other countries, the people working in this sector are paid relatively good money. Tourism on the other hand has a supply issue. Moldova has no shortage of historical and cultural sites, despite its small size, but a lot of the potential remain unexploited, as a result of bad governing and slow growing private sector.

When it comes to imports, the situation is a little bit different. It is quite normal for a developing country to bring in more sophisticated goods with a higher added value. Although, there is nothing wrong with that, the long-term effects of this practice should be balanced by capital investment and imports of high technology and “know-how”. Looking at the structure from above we can see a lack of such goods, but a great share of consumables.

In essence, the Republic of Moldova has two better-known opportunities for an eventual regional economic integration. On one hand, we have the Economic Union between Russia, Kazakhstan, Belarus, Armenia and Kyrgyzstan. On the other hand, Moldova has already signed the Association Agreement Treaty with the European Union and enjoys preferential treatment from its member countries. However, taking into account the latest developments in the region, like the conflict in Ukraine and the never-ending Transnistrian dilemma, the economic and strategic priorities of the Republic of Moldova may change from one day to another.

The basis for a successful regional cooperation exploits the comparative advantages of all member countries, which enables them to present themselves globally as part of a whole, thereby protecting their common interests. At the same time, regional integration facilitates the transfer of capital between members in order to improve their economic productivity. It can be said that without a functional regional integration, neither the globalization paradigm would work.

Integration into the Eurasian Economic Union is closely linked to the collapse of the bipolar world and the collapse of the Soviet Union. At the same time, many authors point out that in the first years after the former Socialist Republics gained independence, economic integration tendencies were very volatile, with some states, such as the Baltic ones, whose ties to Russia have never been very tight, oriented towards integration into the European Union and the others, which ended up forming the Commonwealth of Independent States



(Hartwell, 2013), which is mainly sought by Russia and the Central Asian countries.

At the same time, the fall of the USSR was a clear sign for the European Union to change its strategy of maintaining the status quo into an expansion. At the end of the 1980s, after a period of stagnation, the process of European economic integration restarted, and besides the idea of creating a monetary union, the idea of extending to Central and Eastern Europe appeared, given that the regimes in the former soviet countries went through changes and the European values became increasingly more attractive to them.

A particular advantage for countries in the former Soviet space, such as Moldova, is the common past and the common knowledge of a unifying language (Russian). Besides, there is a high level of economic interdependence between Moldova and its soviet „sister” regarding the development of GDP. Their economies are still closely linked through very intense relations, despite the collapse of the USSR, although political and economic relations between them are not exactly ideal (Benešová and Smutka, 2016).

The main geostrategic feature of the Republic of Moldova is the role of a buffer zone between two the political-military groups: NATO and the CIS military alliance. With the wave of NATO enlargements in the last period, the conflict between them has intensified, and the interest in the space between the Prut and the Dniester rivers has increased. This further divided civil society on geopolitical criteria and led to the interloping of the political class in Chisinau. It is obvious that Moldova started its new phase of state independence very poorly and the future seems momentarily uncertain.

From an economic point of view, the advantages of regional integration are obvious. On the one hand, the European integration of the Republic of Moldova would open up new markets and would urgently increase the implementation of reforms in the tariff and non-tariff areas. The intensification of trade with the EU has helped Moldova practically reduce the effect of economic sanctions imposed by the Russian Federation, and some economic agents have even given up completely on the Russian market and redirected their efforts mostly towards the Western market. On the other hand, the disadvantages claimed by some belong to the cultural side. Many Moldovans consider the cultural difference as an impediment, as the young generation advocates for an intensifying interaction with the so-called „civilized world” of the West, while the elder one is quite resistant to changes like that. As far as economic risks concern us, a lot is being said about the costs that various economic agents, will have to pay in order to comply with the environmental standards required by the European Commission. Usually, the disadvantages of the European integration are related to the costs that both, the state and its citizens will incur. These are the public costs that will be covered from the state budget, the private costs that will be borne by private companies, but also individual costs of the citizens. At the same time, the idea of a possible labor force exodus towards the West is widespread in the public space and, last but not least,



the idea of monopolizing the local market by foreign economic agents, which could lead to a price increase, although the data proves otherwise. Apart from this, the civil society often criticizes the exclusivity dialogue between the European authorities and the Moldovan government and is denouncing the weak relations with the NGOs, especially when it comes to supervising the use of European funds as corruption remains one of the main issues (Rouet, 2016). This also brings up the need for more relevant, technical assistance from the EU, not only in terms of volume. In case of Moldova, Romania might prove to be a valuable asset in order to ensure a more transparent reform process (Drăgan, 2015).

On the other side of the barricades, the Eurasian Union comes with far more “varied” advantages. The Republic of Moldova is often lured with the idea of cheaper gas, Moldovan products that would again invade the Russian market and, last but not least, a solution to the Transnistrian problem. All of these seem to be enough for a lot of Moldovans. However, the risks of adopting the Eastern vector are obvious. The constituent states of this Union are spreading alarming signs when it comes to freedom of expression or freedom of the press, since they all have leaders with dictatorial ambitions, officially or unofficially. At the same time, based on the example of Belarus, we can see that more gas will be obtained at a certain price, in the case of Lukashenko, it was the control over the pipelines, while in the case of Moldova, the national supplier is already under the control of Gazprom, following the acquisition of the majority stake of shares from MoldovaGaz. The Kremlin avoided speaking publicly about the solution to the Transnistrian problem. The reintegration of the left bank of the Dniester river might be expensive, and the majority may not want it anymore. Last but not least, the reopening of the Russian market for Moldovan products is very good news for Moldovan producers, but many of them have lost confidence in the Russian authorities and are cautious in resuming negotiations with former Russian partners, because a new wave of sanctions could always reinstate if Russia’s geopolitical influence in the region is to be threatened in the future.

Even if European integration is an economically attractive perspective, the risk of deteriorating relations with the Russian Federation may be too high. The definitive integration of the country into any of the two blocks will probably take place very late or will never actually happen, because the Republic of Moldova is essentially forced to choose between the economic advantages of the European market and national security and the settlement of the Transnistrian problem.

It is equally important to know if the EU is actually interested in a deeper regional integration with Moldova or not, because Russia had always had great geopolitical interest in the region. The EU, most likely, wants stability and security in the area. Being an economic power and not so much a military one, security at its borders seems to be a very important factor. The financial and political assistance given to some states like the Republic of Moldova actually comes to ensure the two factors. The problem of the former Soviet socialist republics in the East is that, right after independence, they were seriously behind when it comes to



economic development and political reforms. Perhaps a much stronger economic and judicial system in Moldova would be the first step in solving the Transnistrian conflict and assure security.

Surprisingly, but today we find ourselves in a situation where the European Union does not seem to be interested in its prospects for enlargement to the East, but countries like Moldova continue to see European integration as the most obvious and perfect way to ensure an internal long-term development. The Ukrainian conflict brought Russia and the EU very close to a direct conflict and plagued the region with insecurities again (Alexandrova-Arbatova, 2016), adding the Brexit and the migration problem to the mix, might very much change the integration objectives or at least put them on hold. Thus, the EU is not concerned about the membership of these countries in an economic bloc or another, but considers that its normative policy and its core values such as democracy, respect for human rights, free economy and equality of opportunities assured by a good governance are the right way that would provide these countries with a lasting internal development and with it would bring stability and prosperity throughout the European space.

Conclusions

It is safe to say that Moldova has taken some huge steps towards a better economic integration in the new global production chains, and the trade with the rest of the world increases. Being a developing country, it is generally attractive for the potential investors as well, because of the cheap factors of production. The fact that Moldova is a part of the Commonwealth of Independent States and also has a common border with the European Union is a great advantage when it comes to trading easy with the West and with the East. This is further assured by the signing of the Association Treaty with the EU and the Free Trade Agreement. Furthermore, the data proves that the EU, and in particular, Romania are the direction of choice for Moldovan exports and also are the origin of at least half of the imports. The CIS, led by Russia, remains one of the main trading partners for Chisinau, but its importance has drastically diminished in the last decade. From the perspective of economic complexity and export diversification, the economic structure is still weak and mostly uncompetitive, with no high added value products, and a high dependency on agricultural goods. This is risky for the economy, because the output can be affected by uncontrollable factors. On the other hand, the textiles branch and the ICT sector show great potential for an eventual inflow of foreign investment. While Russia's importance for Moldova is decreasing, it seems that Chisinau is interested to adopt the Western vector more than it used to, at least economically. Besides that, a full economic and political integration within the EU seems almost impossible in the current situation. The Kremlin still applies great pressure, by using the Transnistrian issue and Europe's dependence on its energy, in order to consolidate its positions in the Eastern European region. At the same



time, the EU seems completely uninterested in expending its territory to the East and prefers to use soft-power just to assure stability and peace at the border. It does however try to help countries like Moldova develop economically and judiciary, this way promoting the European norms and values even further.

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