

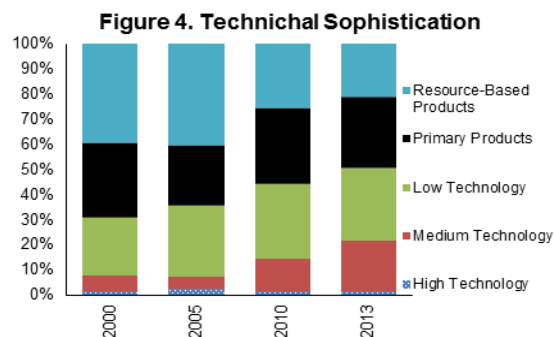
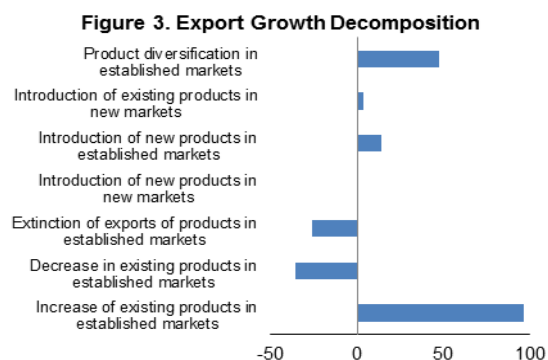
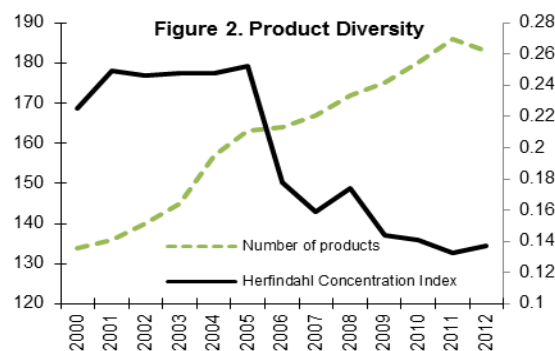
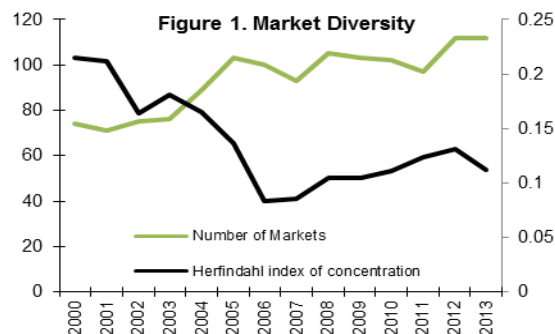
**October 2, 2014**

- *Merchandise exports have grown substantially over the last decade in Moldova.*
- *Exports have become more diversified and more sophisticated...*
- *...but Moldova scores poorly on finding new markets and new products, as well as on export sustainability.*

As a small open economy, Moldova's growth and poverty reduction prospects are closely related to its performance in international markets. Strong export growth is critical for achieving the objectives of the country's development strategy. This note looks at performance of merchandise exports along several dimensions: export growth, diversification, sophistication, and sustainability<sup>1</sup>.

Moldova's merchandise exports have grown substantially in the last decade. Since 2000, nominal annual export growth amounted to 13 percent on average. Moldova is well integrated into international markets and its trade openness – measured as the sum of exports and imports as a ratio of GDP – exceeds the level expected for a country of its income level. Over time, Moldova's trade has grown in parallel with the country's per capita income. As a result, the trade-to-GDP ratio has been virtually unchanged between 2000-02 and 2010-12. Since the trade deficit is high, Moldova remains dependent on remittances and foreign capital to finance its imports. Moldova's exports are concentrated in the EU and the CIS, while dynamically growing regions, such as East Asia and Latin America are just emerging as export destinations. On a sector basis, agro-food products continue to account for a large share of Moldova's exports, even though the relative importance of agriculture-based trade has declined over time. Moldova has a strong Revealed Comparative Advantage<sup>2</sup> in agro-food products, as well as in light manufacturing (textiles and clothing, footwear).

Over the past decade, Moldova has experienced a substantial diversification of its export portfolio. Moldova has over time increased the number of export destinations. In 2013, Moldovan goods were shipped to 111 destination markets, up from less than 80 in 2000 (see Figure 1). In addition, concentration of Moldova's top-three and top-five export markets has dropped noticeably over the past decade. Yet, while substantial geographical diversification was achieved between 2000 and 2006, the trend has since leveled. Market concentration increased between 2006 and 2012 and the share of exports that goes to the top-three or top-five destination markets has been rising again. The number of export product groups, defined as



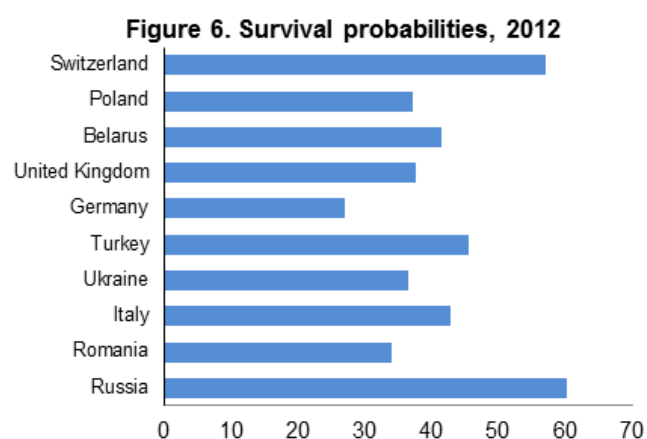
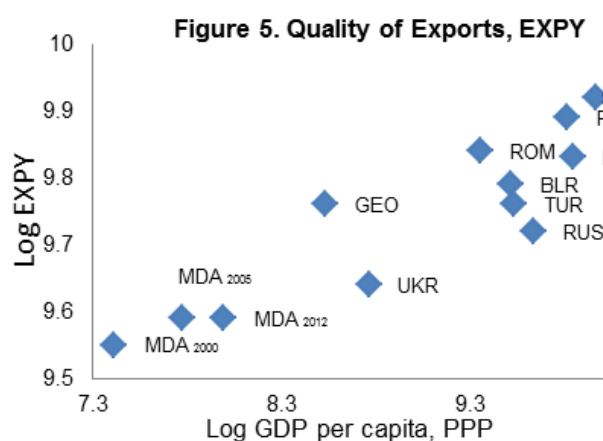
<sup>1</sup> This short note is based on a draft background paper for the *Moldova Trade Study*, currently under preparation.

<sup>2</sup> Measured by the relative weight of a percentage of total export of commodity's in a nation over the percentage of world export in that commodity.

exports worth more than USD100,000, increased from less than 140 to more than 180 between 2000 and 2012 (see Figure 2). Similarly, product concentration shows a reduction from an indicator value of more than 0.25 to a value of less than 0.15. Moldova's exports have become less reliant on its core product groups, as the top-three and top-five exports account for a substantially smaller share of total export revenue now than a decade ago. Yet, similar to the geographical diversification, the move into a broader export product portfolio took place mainly in the middle of the previous decade and on product diversification has emerged since the global economic crisis of 2008-09. Nevertheless, Moldova's diversity in its exports exceeds the level expected for a country of its size. Moldova ranks above the predicted value for its country size in terms of the number of products exported and is placed below the predicted value with respect to the share that the top-five products in total exports.

**The trade decomposition analysis between 2005 and 2012 shows that export growth has been mainly driven by an intensive margin, i.e., increase of existing products in established markets** (see Figure 3). Overall, growth at the intensive margin accounted for about 82 percent of total export growth between 2005 and 2012. The remaining 18 percent were due to growth at the extensive margin, with the introduction of new products in established markets being more than three times as important as the introduction of existing products in new markets. The growth effect from the introduction of new products in new markets was negligible.

**Moldova's exports show a shift in technological sophistication over time.** In particular, the share of medium-technology exports increased substantially over the past decade, while resource-based exports lost in importance (see Figure 4). The sophistication of Moldova's exports (as measured by EXPY) is lower than that of regional comparators, but not by much even though Moldova has a relatively low per capita income (see Figure 5). Indeed, the quality of exports measured by EXPY value has increased for Moldova over time, and this dynamic upgrading in the sophistication of the export bundle has made it possible for the country to gradually catch up with regional peers. However, most of the increase of the sophistication took place between 2000 and 2005, while progress during 2005-2012 was marginal. This is consistent with the findings from the decomposition analysis above and implies that it is more difficult to upgrade the sophistication of exports without introducing new products.



**Moldova scores poorly on export sustainability.** Many exports are short-lived and Moldova has one of the lowest first year survival rates in the region, underlying an opportunistic approach rather than a systematic integration in regional export chains. Hence, effort and investment to venture into new markets or introduce new products in existing markets often yield a short-term return. For example, from 2011 to 2012 - a relatively stable exporting environment for Moldova - the first-year merchandise exports survival rate was lower than in all regional comparators, except Georgia and Russia (Figure 6). The first-year survival analysis at the sectoral level reveals a wide dispersion of survival probabilities. They are below average for sectors that comprise many medium-technology products, such as machinery and chemicals, and that Moldova has shifted into during recent years. On a geographical basis, there is a substantial diversity with respect to first-year survival rates, too. Below average values are found for some partners in the EU, such as Germany, Poland, Romania and the United Kingdom, which might reflect the demanding and competitive nature of these markets.