

Moldova's Economic Shift: Agro-Food Revenues from East to West

Alexandru Ghencea^{*}, Silviu Stanciu^{**}

ARTICLE INFO	ABSTRACT
<p><i>Article history:</i> Accepted December 2024 Available online December 2024</p>	<p>This study examines the agri-food industry in Moldova and stresses the key determinants which have affected its transformation. Moldova has an extensive experience in agri-food-related activities spanning several centuries. Such circumstances came in the 1990s when the country started developing an environment characterized with competition as new businesses came into the scene providing customers with options which had not been available before. However, in the early stages of this period, the market was still concentrated in some sectors or dominated by few players which limited the scope for effective competition. Competition is especially significant in the long-run as concerns economic development and growth as it includes the number of market participants, the range of goods and services available for consumers, the diversity of products, regulators' interventions, and control exercised by consumers and suppliers' interrelationships. As of 2023, the overall figure of the trade entities has reached 63,778. Following the outbreak of armed conflict near Moldova's borders (Ukraine) in 2022, some economic operators leveraged existing stockpiles to achieve revenues of up to \$5,488.28 million, amidst market uncertainty and an absence of regulatory policies for such scenarios. When analyzing revenue trends over time for exports and imports, the European Union consistently holds a leading position compared to the Commonwealth of Independent States (CIS). The study utilized data from national statistics, scientific articles, and specialized press reports.</p>
<p><i>Keywords:</i> Agri-food sector, Moldova, competitiveness, economic development, export-import dynamics</p>	

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1. Introduction

The transformation of agriculture and food production in Moldova during the post-communist period has been marked by significant historical events, key statistics, and policy developments. Agriculture, a cornerstone of Moldova's economy, has played a substantial role in national economic evolution, employing a large segment of the workforce and significantly contributing to GDP.

2. Literature review

Open-access articles from Clarivate, SCOPUS, Google Scholar, and ResearchGate databases were used for bibliographic research. Specific legislation on competitiveness was sourced from entities such as the Ministry of Economy, the National Statistical Institute, European Commission press releases, and public statistical databases. Data were processed using spreadsheets, with results graphically represented and interpreted.

^{*}, ^{**}Dunarea de Jos University of Galati, Romania. E-mail addresses: alexandru.ghencea@ugal.ro (A. Ghencea), silviu.stanciu@ugal.ro (S. Stanciu – Corresponding author).

3. Results

Since its establishment as an independent country, Moldova has developed a sizable track record in the agri-food sector thanks to a combination of fertile lands, an appropriate climate for agriculture, nationally established customs, and competent agricultural labor. Until the dissolution of the Soviet Union in 1991, the agricultural domain was dominated by large enterprises holding significant market shares, which fostered unfair competition. Gradually, the transition from a planned economy to a market-based system succeeded, driven by land privatization and the rise of small and medium-sized enterprises (SMEs). Agriculture remains a cornerstone of Moldova's national economy. However, for EU accession, Moldova requires low-interest grants and loans, which should be provided promptly rather than incrementally, as currently practiced. Such financial support could stimulate the country's economy significantly. Nevertheless, restrictive measures imposed by certain states, competitive pressures from neighboring countries, and state-subsidized new market entrants hinder local entrepreneurs from competing effectively both locally and internationally. During the transition period, Moldova faced numerous challenges influencing its economic development, including climate change, extreme weather events (droughts, floods), labor migration, corruption, and an unstable legislative framework. Additional factors, such as the lack of investors due to instability in Eastern Europe and issues in separatist regions, further impeded progress. Consequently, the country's economic growth continues to encounter persistent obstacles, with a lingering reliance on certain Eastern resources. The 1990s marked the early development of Moldova's competitive landscape, with new enterprises offering previously unavailable opportunities to consumers. However, many sectors were still under the influence of dominant market players, limiting real competition. Additionally, part of the economic activity shifted to the informal sector, creating hurdles and fostering unfair competition. Despite these challenges, progress was evident, as SMEs emerged as key drivers of innovation and dynamism in the national economy.

Key Reforms Shaping the Market

Moldova's economic trajectory has been shaped by various economic, political, and geopolitical factors. Over the years, the country has implemented reforms to overcome economic regression and structural barriers. In the year 2000, the Competition Law was enacted to oversee the limitations and duties within the national market. Moreover, Moldova's membership in the World Trade Organization (WTO) added new possibilities including the inflow of foreign investments. This milestone marked the emergence of a competitive market environment, which in its turn created an indirect imitation for companies to add innovation and enhance the quality of their products and services (Ghencea and Stanciu, 2024; Munteanu and Stanciu, 2019).

Success Stories

An industry that stands out positively in the changes in the economy of Moldova is the wine industry, which has gained international recognition. This industry has promoted the progress of wineries that have responded well to worldwide market needs, and it is in fact part of the overall improvement of the agrarian sector and agri-food. The leadership of the economy is still owned by the agrarian and cover production sector in Moldova, where a considerable part of the population obtains employment, and which also makes its contribution to the national GDP.

Modernization of the Agri-Food Sector

Although luckily, traditional weather-unfriendly farmers from Moldova have begun to make more and more efforts for the modernization of their activity in response to climate change, although (perhaps) much too slow by integrating into it several contemporary technologies despite presenting very scarce financial resource on its national market. The belt is also the possibility of international market access through its Association Agreement with the EU as a spur to technological modernization and digital transformation that would increase competitiveness.

Therefore, to further boost this competition by digitalizing processes like embedded smart agriculture in climate changes. The ability to provide the essential products needed by a country's population is constrained by financial challenges and a sluggish or weak-growing economy (Porter, 1980). In the fight for survival, all economic operators face intense economic competition, which drives the improvement of product quality across various sectors of the economy.

Factors Directly Influencing Competition

Competition is an essential factor in any market, playing a significant role in sustaining a durable economy. These competitive factors stimulate innovation, diversity, efficiency, and the continuous growth of the economy. The following factors are integral to shaping competition: the number of competitors in the market, the variety of products and services available to consumers, the uniqueness of the product on the market, governmental regulatory policies, and the bargaining power between consumers and suppliers. In this way, we point out in Figure 1 the five powers of competition based on Michael Porter's model which says that in a strong competitive space many businesses battle for market share in the industry they work in (Porter 1980)

This model highlights the way competition works, pointing out how things like new comers, the risk of swaps, the power of buyers, the strength of sellers and the closeness of industry fights mold the competitive scene. These forces together affect how firms work, invent, and change to keep or increase their market spot.

The excessive number of economic competitors in the market can have a negative impact on competition. If this factor is not regulated by law, it may lead to unfair practices among competitors, where the consumer may initially remain unaffected by the situation, benefiting from access to quality products at lower prices. However, on the other hand, the absence of competition would result in higher prices, with economic operators potentially exploiting the situation.

When entering the market, some new entrepreneurs face barriers, including higher startup costs, limited access to resources, stricter government regulations, and bureaucratic challenges from state authorities. If entry barriers are excessive, the market will have fewer entrepreneurs, as some new companies find it difficult to access the market and compete (Baumol et al., 1982).

Product and service differentiation would occur when an economic operator offers products as being distinct in terms of design, quality, or unique features, which would reduce the level of competition. This factor would encourage consumers to make individual choices, and the entrepreneur would compete without relying on price strategies (Kotler & Keller, 2012).

The involvement of the state and government policies with significant impact is another factor. If not monitored, this can cause chaos in the competitive process. The need for economic regulation is essential, but it must also be continually monitored and adjusted to market conditions. Uncontrolled regulations, such as antitrust laws, licensing policies, and economic or political regulations, can negatively affect new entrants, limiting their activities and, in some cases, providing protection for monopolistic firms. The purpose of regulatory acts is to promote competition and counteract monopolies, ultimately protecting the consumer (Schmalensee, 1989).

Regarding the bargaining power of both clients and suppliers, it is important to highlight that clients with access to information have multiple options available.

As a result, they can demand both high quality and low prices from the leading companies in the market. Suppliers with strong bargaining power can set strict terms for the companies that produce their goods (Porter, 1980), further influencing competition in their economic relations.



Figure 1. Five competition forces (by Michael Porter)

Source: Authors' contribution

Fundamental aspect influencing the development of the national economy also include the export and import sectors. According to statistical data, in table no. 1, it has specified the evolution of revenues, over various periods of time, in the export and import chapter, the compartment to the countries of the European Union (EU) and the Commonwealth of Independent States (CIS).

Table 1. Total revenues generated by export and import activities 2015-2023 (mil. of US\$)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Export									
<i>Total</i>	1966,84	2044,54	2424,97	2706,17	2779,16	2467,11	3144,50	4332,15	4048,60
<i>CIS</i>	492,29	414,19	462,82	415,92	434,95	376,96	466,21	1043,04	897,01
<i>EU</i>	1217,59	1331,90	1596,84	1861,86	1830,55	1640,37	1919,53	2537,51	2646,66
<i>Other country</i>	256,96	298,45	365,31	428,39	513,67	449,78	758,77	751,59	504,94
Import									
<i>Total</i>	3986,82	4020,36	4831,34	5760,06	5842,48	5415,99	7176,76	9218,98	8675,45
<i>CIS</i>	1018,11	1027,44	1206,05	1449,08	1417,22	1317,72	1905,60	2185,55	1610,34
<i>EU</i>	1954,25	1973,71	2389,16	2850,80	2889,98	2470,75	3148,99	4364,83	4188,00
<i>Other country</i>	1014,46	1019,20	1236,12	1460,18	1535,28	1627,52	2122,17	2668,60	2877,11

Source: Authors, by National Bureau of Statistics (2015-2023)

Overall, it can be observed that the Republic of Moldova is dependent on the import of products. A total calculation shows that the share of import revenues in 2023 was 8675.45 mln. dollars or 200% higher than from export.

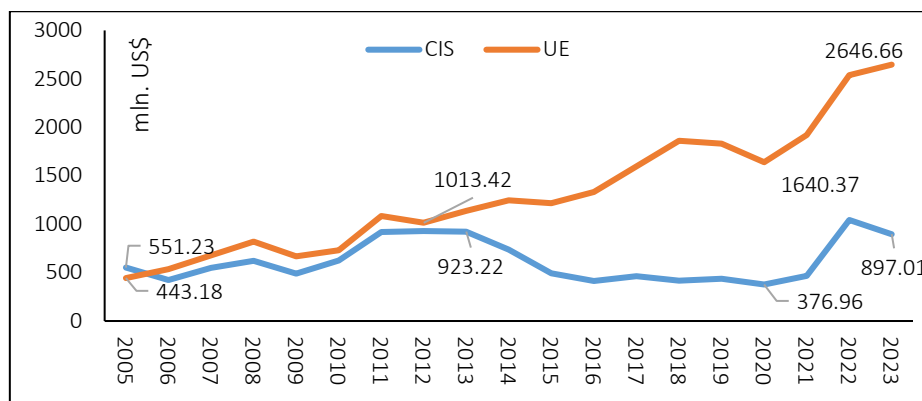


Figure 2: International Trade of the Republic of Moldova: EU vs. CIS

Source: Authors, by using National Bureau of Statistics (2005-2023)

In the graph in figure no. 2, the progress of exporting products outside the country is illustrated. Thus, we notice an overview of the fluctuation of values on the two markets, namely the CIS and the EU, with which the Republic of Moldova has economic collaboration agreements. According to the illustrated graph, we notice that in the period 2005-2008 the growth is constant due to the fact that the production of raw and agricultural materials was requested on the international markets. The year 2008-2013, the export was in decline influenced by the domestic problems and the global crisis.

Thanks to the Association Agreement, 2014-2019, the stage of economic recovery has begun, thus production has diversified to be able to increase exports to other markets as well. The year 2020-2023, the Pandemic of COVID-19, and the armed conflict at the border, marked a decrease from a financial point of view of income, towards the end of 2023, the export market took shape towards the EU market. However, the Republic of Moldova continues to diversify its markets to adapt to the global market.

This period of growth reflects the global economic recovery and changes in demand patterns.

However, Exports to the CIS region display more volatility over time (e.g. extreme drop in 2018-2020 and outward bounce back from that during 2021-22). Frequent large price movements may be due to geopolitical considerations, changing regional requirements or disturbances in the CIS trade agreements.

Exports to the EU show steady growth, rising from USD 1,217.59 million in 2015 to USD 2,646.66 million in 2023. This trend is particularly significant as the EU represents a stable and high-demand market for exports. The increase reflects increased economic integration, trade agreements and possible changes in the structure of the export base, where the EU maintains a dominant share of total export destinations. Exports to other countries show a general upward trend, especially between 2017 and 2019.

However, there are marked declines in recent years (2022-2023). In 2015, exports to other countries totaled USD 256.96 million, reaching a peak of USD 758.77 million in 2021, before falling to USD 504.94 million in 2023. This could indicate a shift in global demand or supply chain disruptions.

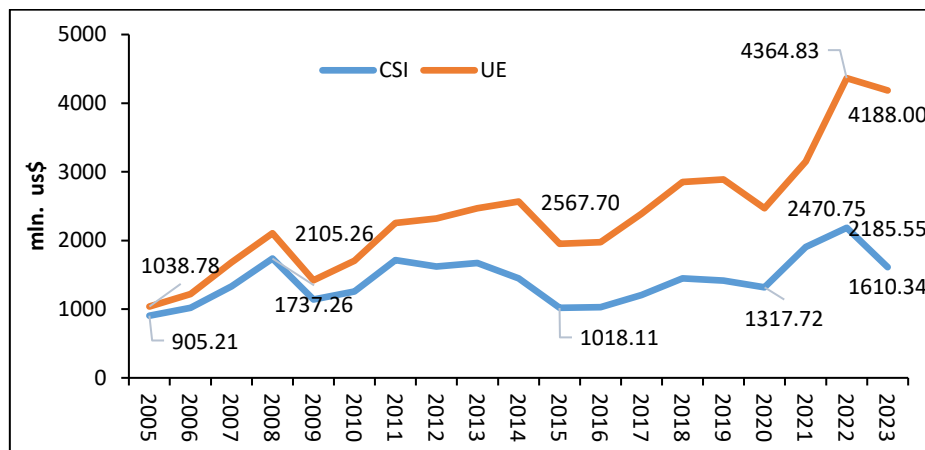


Figure 3. Import of products for the CIS countries vs the EU

Source: Authors, by National Bureau of Statistics (2005-2023)

The crises of this period, the COVID-19 pandemic, the border war, negatively influenced the local market. The creation of economic stagnation due to the fact that the volume of raw materials or products required for the processing of finished products was limited. To minimize the dependence on the necessary resources from the CIS states, Moldova sought new import markets, but continuously these states remain important players in the domestic market, due to the low price.

4. Conclusion

Even if sales to other countries have gone up, the gap between what we sell and what we buy from others stays big, with buying being way more than selling in the time looked at. This shows a long-lasting trade loss that matters for trade rules and economic steadiness. Especially, the extra money made from trading with Europe has helped the economy a lot; however, trading with places like CIS and some other areas has changed often showing ups and downs in these markets.

From the year 2015 till 2023, the considerable increase in exports can be explained with the help of the specific features of recovery of the global economy together with the specified regional markets. The

export dynamics of the Commonwealth of Independent states depicts drastic declines from the years 2018 up to 2020 and subsequently growth in the years 2021 and 2022. Compositions of these movements demonstrate that there are other variables which influence the course of exports such as regional changes and trade disruptions.

With the Association Agreement now in effect, it became easier to increase EU-imports which in turn enlarged the product range in the domestic market of Moldova, as well as improved the country's security by decreasing dependence on a narrow marketplace. Still, the Republic of Moldova's economy faced even greater difficulties in these crises because of the problem with important raw materials and goods needed for production in the crisis period, such as the COVID-19 pandemic and the conflict in the region.

Even though endeavors have been made to diversify sources of imports, lessen reliance on CIS trading markets, these markets have become important for most of the countries because the products are readily available. Looking into the future, however, Moldova will face the issue of keeping strong trading relations with European countries and other regions and at the same time the issues of interdependence with the CIS to ensure economic resilience and long-term growth.

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