

**THE IMPACT OF ECONOMIC CRISIS ON EUROPEAN UNION
RELATIONS WITH ITS EASTERN NEIGHBORHOOD.
THE ANALYSIS OF EU TRADE WITH REPUBLIC OF MOLDOVA.**

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Abstract

The aim of this paperwork is to analyze the impact of the European Neighbourhood Policy and the Eastern Partnership, on neighboring countries of the Eastern European Union and to measure the effects of the economic crisis on trade between European Union and Republic of Moldova. The paperwork presents the provisions of the European Neighbourhood Policy and the Eastern Partnership, the influence that these policies have had on the development of the Republic of Moldova's economy and the impact of financial crisis on trade between Moldova and EU countries.

Key words: *European Neighbourhood Policy, Eastern Partnership, import, export, external economic relations*

JEL classification: F1, F4, F5, G3

1. The analysis of specific economic developments of the EU Eastern Neighborhood

After the end of the Cold War and the division of Soviet Union, the European Union was met with new opportunities, threats and security challenges in its Eastern Neighborhood. In addition, the emerging unipolar order changed global agenda and strategies of the United States. The new comprehensive approach of the US and the prospect of Washington's special bilateral partnerships with the USSR successors, offered EU an additional reason to reformulate the Eastern Neighborhood Policy. In this context, the Eastern

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Neighborhood Policy has gained special relevance. A special relevance also demanded a special policy. Thus was born the European Neighbourhood Policy .

The European Neighborhood Policy (ENP) has been defined by the Communication Commission on an Expanding Europe² in March 2003 and the Strategy for the European Neighbourhood Policy³ in 2004, with a commitment to avoid separation between the enlarged Union and its neighbors , strengthening the security of the Union European stability and prosperity by supporting neighboring countries , signing partnerships on political association, economic integration, financial assistance, institutional and structured dialogue approximation .

The fundamentals of the ENP are the values of democracy, rule of law and respect for human rights. The European Neighborhood Policy is a bilateral policy between the EU and each partner country, enhanced by regional cooperation initiatives . European Neighbourhood Policy encompasses countries with which the EU is in territorial or maritime vicinity such as: Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Republic of Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine.

Under Article 8 of the European Union Treaty, "the Union develop privileged relations with neighboring countries in order to establish an area of prosperity and good neighborliness, founded on the values of the Union and characterized by close and peaceful relations based on cooperation"⁴

² *Commission of the European Communities, Communication from the Commission to the Council and the European Parliament Wider Europe — Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours, COM (2003) 104 final, Brussels, 11 Martie 20034*
http://eeas.europa.eu/enp/pdf/pdf/com03_104_en.pdf access page on 20 April 2016

³ *Commission of the European Communities, Communication from the Commission, European Neighbourhood Policy – STRATEGY PAPER, COM (2004) 373 final, Brussels, 12 May 2004*
<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52004DC0373&from=EN> access page on 20 april 2016

⁴ *Consiliul Uniunii Europene, Versiune Consolidata a Tratatului privind Uniunea Europeana si a Tratatului privind functionarea Uniunii Europene si Carta drepturilor fundamentale a Uniunii Europene, Bruxelles, 28 mai 2010, Titlul 1, art 8, p.20*

Privileged relationship offered by EU states in the vicinity is based on a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). " ENP supports policy coordination and economic integration, increased mobility and contacts between people. The level of ambition of this relationship depends on the extent to which these values are shared. ENP is different from the enlargement process, but is without prejudice to how relations between the Union and neighboring countries may evolve in the future. "5

European Neighborhood Policy was revised in 2010-2011 by the EU6 and is putting a particular focus on deep and sustainable democracy, on free and fair elections, efforts to combat corruption, justice independence, democratic control over the armed forces, and freedom of expression, assembly and association. Within this review, the European Union highlighted the role of civil society in this process and introduced the principle of "more for more", whereby EU develops closer partnerships with neighboring countries, that made larger progress to democratic reform. On the 7 of April 2012 The European Parliament praised the European Neighbourhood Policy review and provided guidelines for European External Action Service and the Commission on the implementation of the European Neighborhood Policy.

At the bases of the Economic Neighborhood Policy are the bilateral action plans, closed between the EU and each country from ENP. The action plans established political and economic reform programs with short and medium term priorities (3-5 years) that reflect the interests, needs and capabilities of each EU and ENP Member State that consolidate democratic society, socially equitable and inclusive growth and to promote economic integration, improving cross-border movement of citizens, financial assistance and technical cooperation to align with EU standards.

⁵ www.europarl.europa.eu Fise Tehnice privind Uniunea Europeana pagina accesata la data de 20 april 2016

⁶ European Commission, High Representative of the European Union for Foreign Affairs and Security Policy -JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS -A new response to a changing Neighbourhood
COM(2011) 303, Brussels, 25 of May 2011

http://eeas.europa.eu/enp/pdf/pdf/com_11_303_en.pdf access page to 20 of April 2016

ENP policy documents emphasizes that " a policy ENP remains distinct from the process of enlargement and does not prejudice the development of relations with the EU Eastern neighbors ." On the other hand, the ENP does not include any relationship with a special tool for single economic space of Russia – Belarus -Kazakhstan, as a single entity.

Reforms are supported through various forms of financial and technical assistance funded by the European Commission , including through instruments that have proved their effectiveness in promoting the reform programs in Central, Eastern and South -Eastern Europe but also new instruments such as the Neighbourhood Investment Facility (NIF). Currently, ENP distinguish between the eastern and southern neighborhoods, and based on their specific characteristics from the (cultural, social, geopolitical, economic, etc.) .

To support the states that are situated in the eastern vicinity, the EU approved in 2008 the Eastern Partnership. This Partnership was inaugurated in Prague in May 2009 and is based on the European Neighbourhood Policy, aiming to " accelerate political association and further economic integration ⁷" between the EU and Armenia , Azerbaijan , Belarus, Georgia , Moldova and Ukraine . The relations between these states and each state relationship not only with the EU, have a significant impact on promoting the security agenda of the EU in its Eastern neighborhood.

This approach has resulted in the conclusion of new treaties of association including free trade agreements extended, gradual integration into the EU economy, policy coordination on major international issues, visa liberalization and measures to reduce illegal immigration.

The business sector has increased notably by boosting security sector reform support economic and social development, promoting good governance and finance projects aimed at reducing socio-economic imbalances.

Eastern Neighbourhood of Europe , the EU has established specific programs, called software integration and cooperation within the Eastern Partnership and

⁷ http://www.europarl.europa.eu/ftu/pdf/ro/FTU_6.5.4.pdf access page on 20 of April 2016

Support for partnership, reforms and inclusive growth, every program with a budget worth 130 mil . EUR , ie 540 million . EUR . The allocation of those budgets was made after the principle "more for more" in order to further assist the partners make progress in the creation of a deep and sustainable democracy .

Through the Eastern Partnership the EU has excluded Russia from this initiative, considering that distancing from Russia common neighborhood is the best solution to support their national emancipation and aspirations. But in these circumstances the Eastern Partnership is threatened by temptations confruntantioniste opposing aspirations of good neighborliness . Russian Foreign Minister Sergey Lavror ⁸, said the Eastern Partnership was founded on the principle " either with us or against us " and represents the EU's interest to seize geopolitical space, is totally ignoring economic interests.

At the same time , how the EU relations with its eastern partners engaged in politically and rhetorically is also a potential character counterproductive . By dividing the political forces national Eastern Partnership states in "pro-European " and " pro - Russian " , the EU adopted a theory dangerous often poisoned political relations and increased distrust, suggesting that those who are oriented towards Europe are automatically against Russia and vice versa.

2. The trade analysis between European Union and Republic of Moldova

Moldova's European course began on December 18, 1989, when the Agreement on Trade and Economic Cooperation was signed between the USSR and the European Communities. Moldova became a party to this Agreement by virtue of succession to treaties. Subsequently, Moldova's European course has evolved in several stages, such as the signing of partnership and cooperation, the EU Action Plan within the European Neighborhood Policy and Eastern Partnership Association Agreement. Relations between Moldova and the EU were officially launched on 28 November 1994 by signing a Partnership and Cooperation Agreement, which entered into force on 1 July 1998. Under this agreement, the EU has offered

⁸ http://www.noi.md/md/news_id/38375#close access page on 20 of April 2016

Moldova a general system of preferences (GSP) for facilitate access of Moldovan goods to the EU market. 2004 was marked by the most important wave of EU enlargement, when 10 European countries have already joined this organization. This has changed the outlook Moldova on the European course, because in that year the EU adopted the European Neighbourhood Policy aims to support the aspirations of countries in Eastern Europe for integration, which meant that moving beyond cooperation to a significant degree integration. EU - Moldova Action Plan in the context of the European Neighbourhood Policy was signed on February 22, 2005. Moreover, on 24 March 2005 approved a unanimous decision of Parliament on the integration of Moldova into the European Union.

During 2010, Moldova started negotiations on visa liberalization and the signing of Association Agreements . At the Third Summit of the Eastern Partnership held in Vilnius on 28 and 29 November 2013 in which they discussed other provisions of the association agreement with Moldova mentioned, and creating a deep and comprehensive free trade area (DCFTA) and liberalization of visa regime with the EU, which was signed . Since April 28, 2014 , Moldovan citizens have the right to travel freely in the EU.

Association Agreement with the EU opens new opportunities for Moldovan economy. As an associate member, Moldova will have opportunities, especially for developing trade relations with the EU. During 2000-2013, Moldova's trade relations with states which are part of the CIS, especially the Russian Federation, have become unpredictable. Because of this, local producers, especially those in the food industry, have suffered huge losses. Thus, on June 27, 2014, EU sign Association Agreement with Georgia and Moldova and Ukraine completed the signing process. The agreement puts a strong emphasis on democracy and the rule of law, human rights and fundamental freedoms, good governance, market economy that works well and sustainable development. In this context, it is necessary to review the broader foreign trade policy of Moldova in order to ensure economic security and independence of the country. Analyzing the geography of exports, we find that, compared with 2000, in 2013 the structure of Moldova's commercial relations underwent a radical qualitative change.

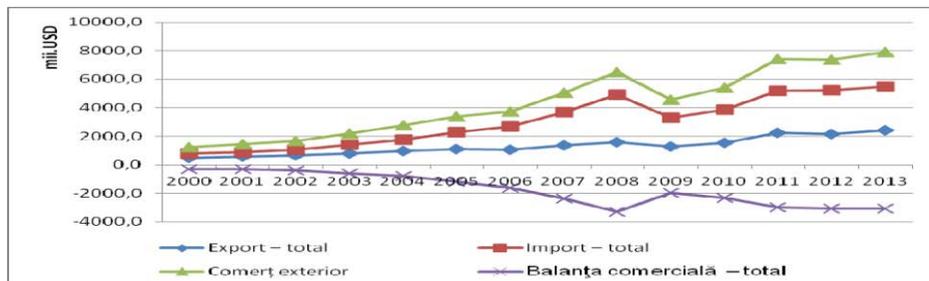


Fig.1.Moldova trade’s evolution between 2000-2013. Source:Elaborat by author based on www.statistica.md (accessat on 20 April 2016)

According to data presented in Figure 1, during the period analyzed the value of Moldovan foreign trade had a progressive increase in 2013 compared to 2000, about 6.3 times, except only in 2009, which coincided with the global crisis when there was a sharp decrease of 29.72% of foreign trade, both exports (by 19.37%) and imports (by 33.08%) compared to the previous year. Since 2010, Moldova takes revenge on external trade, so in 2011 amounted to 7,408,085.6 million. USD or 37.27% more than the previous year 2010. Also, increases are found and during 2012, the value of commercial transactions recorded 7,374,808.3 million. USD, ie 0.45% less than in 2011 and more with 545.8 mln. USD compared to 2013. the increase trade exterior was influenced largely by higher flows than those of export import. Thus, in 2013 exports increased compared to 2000, about 6.3 times the actual value of 6672.8 mln. USD, reaching in 2013 the value of 7920.7 mln. USD. Negative oscillations are observed only in 2009, when exports declined from the previous year by about -308.1 mln. USD. This reduction is explained by the authorities, by failing Moldovan products are low quality, but by the global crisis has had an impact on revenues Moldova. Revitalization in exports after 2009 was largely due to prompt recovery of demand in the main export markets, driven by intensive growth rates after the crisis.

So, there is growth in the export chain since 2010, when their value was 1541.5 mln. USD, increasing by 2428.3 mln. USD in 2013, or more 886.8 mil. The evolution of imports from Moldova also suffered structural quality changes during the years 2000-2013, when there is an increasing trend in imports, which in 2013 increased by 5492.4 mln. USD compared to 2000,

while imports made up 776.4 mln. USD, or a growth rate more than 7.1 times. As with exports, influenced and 2009 on imports, the goods imported were reduced dynamic about -1,620.5 million. USD compared to the same period of 2008. Therefore, the increase in imports accelerated pace, national export performance while being very modest, a deteriorating trade balance, generating a negative balance of foreign trade throughout evolution: from 304.9 mln. USD in 2000 to 3064.1 mln. USD in 2013 or more than 10.05 times compared to the base period of 2000. As a result of changes in the international market in crisis conditions and considerable reduction of imports into the Moldovan economy in the years 2009- 2013 period occurred a few oscillations, which helped to reduce the negative balance of sensitive commercial from 3307.6 mln. USD in 2008 to 1995.3 mln. USD in 2009, about 1.0 times less in 2013 compared to 2012. These losses are very significant and harsh consequences for Moldova's economy, resulting in a negative trade balance.

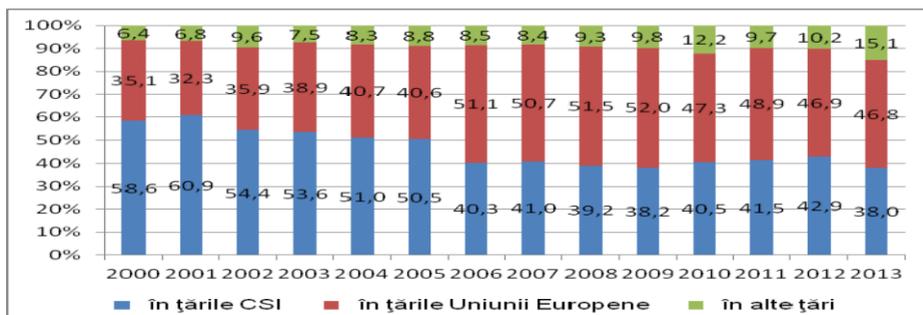


Fig.2. Share of exports R.Moldova, geographic structure in 2000-2013.

Source: Elaborat by author based on www.statistica.md (accessat on 20 April 2016)

During a regular checkup there were slight changes in the structure of exports by groups of countries, by relaunching weak exports to the EU market, diminishing the accelerated pace of exports to CIS and a significant increase in Chapter other countries. Reflecting this trend, exports to the EU were increases of 35.1% in 2000 to 46.8% at the end of 2013. The presence of Moldovan goods to the EU market knowledge and significant increases over the years 2004- 2006, when they experienced an increase from 40.7% in 2004 to 51.1% in 2006. also positive oscillation, however insignificant, is observed

during the years 2008, when exports to the EU reached 51 share, 5%, with 0.8% more yoy. In 2009-2013 the share of income earned by Moldova on this market began to experience a slight decrease from 52% in 2009 to 46.8% in 2013, registering only exception in 2011, when he experienced an increase compared to the previous year and a decrease of 1.6% compared to 2012 by about 2 percentage points. When amending the regulations on the conclusion of an Association Agreement with the EU, Moldova has made significant efforts to enter the European market, so exports during 2013 were registered share of 46.8%, a decrease of 0.1% knowing comparativ with 2012.

The analysis results allow us to conclude that Moldova is trying to strive to turn to other market niches, that gives more preferably from the EU market. So we can say with certainty that it is dependent on this market and the CIS market. Therefore, these developments were translated by an increase in the share of other countries in Moldovan exports from 6.4% in 2000 to 15.1% in 2013. During development, we find that the Moldovan exports to other countries recorded oscillations that influenced the geographical structure of exports. Thus, analyzing the evolution of exports to other countries, we see that they grew during 2000-2005, increasing from 6.4% in 2000 to 8.8% in 2005. Price increases and attesting during the period 2008-2010, when the growth rate of exports to other countries market , which lately has proved to be a more receptive market , exceeding the growth rate of exports to the CIS countries.

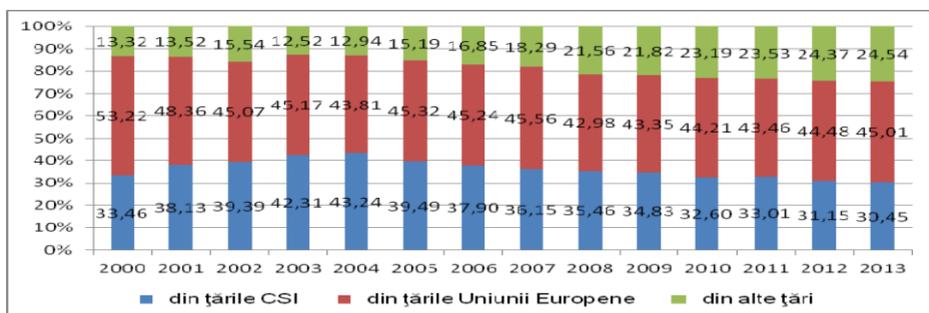


Fig.3 Evolution Republic of Moldova's import share in 2000-2013.
 Source:Elaborat by author based on www.statistica.md (accessat on 20 April 2016)

In terms of geographical structure of imports in the period 2000-2013 Moldova felt a slight shift to other countries, from 13.32% in 2000-24, 54% in 2013. By examining in particular, we find that imports from other countries had an increasing trend, with small oscillations during 2003, when they began to experience a significant reduction of 3.02% compared to the year 2002. Analyzing each category, we can mention that Moldova collaborates with most EU countries, whose share remains predominant over the years. Slight changes in the structure of imports by groups of countries is noticed in relations with the EU. However, although this trend plays a certain note of optimism, however, on the one hand, imports from this market based on products with a high degree of processing, adjusted to EU requirements. From the above data we see that the evolution of the structure of imports by groups of countries had an oscillatory trend throughout the period under review. The share of imports from EU countries in 2013 constituted 45.01% of the total Moldovan imports, by 8.21 p.p. lower than in 2000. The amount of imports from this region for 2013 was 2472.1 mln. USD and was reduced by 6.9 times compared to year 2000.

In 2013 Moldova imported from the CIS market goods and services totaling 1672.3 mln . USD, while exports amounted to 923.2 mil . USD. Deficit's trade of Moldova with these groups of countries constituted 749.1 mln . USD , an increase of 12.8 times in 2013 compared to the same period of 2002. Imports Moldovan market them a share of CIS countries of 30.45 % of the geographical structure of imports for 2013 compared to 33.46 % in 2000.

At the same time , imports from the CIS have a decreasing trend throughout the period considered , with some significant oscillations . The highest share recorded in 2003, while the share of imports from CIS countries made up 43.24 percent of total imports, up 1.03 p.p. compared to the same period last year , and later to record a downward trend until 2012 , reaching 31.12 % .

This reduction was influenced largely because of Russian embargo on wine since 2006. As a result, Moldova, the Russian response to the government's actions, began to look for alternatives, taking into consideration some markets in other countries. As a result, foreign trade situation of the Republic of Moldova experienced a worsening overall, despite the fact that exports recorded increases during the review period. So any country, developed or

developing, it is interested in expanding this important spheres of the economy. This sphere stimulate economic growth, enables the use of new technological achievements of other nations, stimulates the activity of foreign companies capital investment, contribute to goods not produced in the country, raises consumer requirements and, ultimately, contribute to raising the living the native population.

Republic of Moldova is interested , like other states, the growth of foreign trade. The country's goal is to find the place International division of labor and to become a real participant in the global market. Interest in foreign trade is evident , given the role that it plays in the national economy , but also in Moldova tend to penetrate the EU market.

A retrospective on the development of Moldova 's foreign trade highlights the dominant trend of growth of imports, with a much greater intensity than export growth . The unfavorable evolution of this trend on foreign trade signals the level of coverage of imports by exports , which in 2000 no longer meets the minimum limits (60 %) for ensuring economic security of the state, is steadily falling - from 60.7 % in 2000 to 32.5 % in 2008 , and later to record an upward trend until the end of 2013 , with a share of 44.21% . Hence the fact that Moldova has an inadequate structure of import -export operations.

According to the Standard International Trade Classification , the structure of imports of goods still indicates dominance of products necessary for the functioning of the economy and those for consumption. Following these results highlight not just beneficial , the fact is that most organizations argue honestly and well argued European integration as a strategic perspective for Moldova's development. Which is why civil society and state authorities in the field, used all legal mechanisms available to promote European course of the country and to assist , as far as capacity , any government willing to implement modernization and structural reforms as norms and standards Europe.