

The impact of disrupted exports to Russia on the Moldovan economy

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Summary

- Exports to RUS amounted to USD 276 m in 2021, accounting for 8.8% of total exports and 2.3% of GDP
 - However, in 2022, MDA exports to RUS will most likely be disrupted
 - Due to disruption, MDA exports might decline by **USD 190 m or 1.6% of GDP**; thus, the disruption will have a severe economic impact on MDA
 - The strongest impact will be on **apple growers**; apples account for 35% of exports to RUS and are difficult to sell to other destinations
 - The **pharma industry** will also be hit, as it accounts for 12% of total exports and access to other traditional markets in the CIS might not be viable
 - Reorientation of exports of apples and medicine to UKR might be an option, as food and medicine are badly needed in UKR; possible role of donors here
 - Enlargement of EU's tariff rate quotas ("TRQs") for MDA fruits (grapes, plums and cherries) would help agricultural exporters
- **Severe shock on MDA, especially on apple growers and pharma industry**

Outline

1. Introduction
2. MDA exports to RUS
3. Export reorientation potential for top 10 products
4. Overview of sectoral impact and aggregate effect

Annex: impact on imports and trade balance

1. Introduction

Scenario: no Moldovan exports to RUS during 2022

Reasons for the scenario:

- Transport problems and/or
 - RUS client cannot use banking system to pay and/or
 - MDA joins Western sanctions against RUS and RUS reacts with an embargo on MDA imports
- Whatever the reason: RUS market closed for MDA companies

Aim of the briefing:

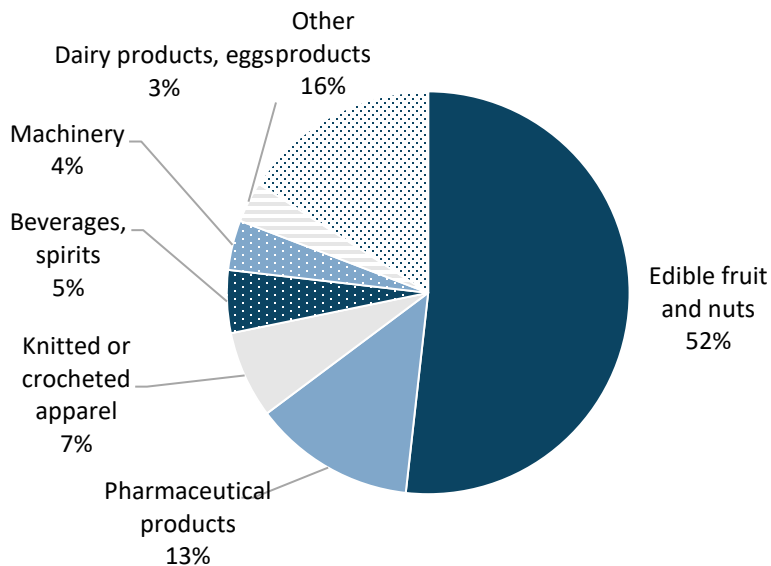
- Identify products most affected by the RUS market closure
- Analyse potential for export reorientation
- Assess short-term trade costs of the RUS market closure

2. MDA exports to RUS

MDA exports of goods to RUS



Structure of MDA exports of goods to RUS



MDA exports of goods to RUS, 2021:

- Value: USD 276 m
- Growth, 2021/2020: +27%
- Share in total goods exports: 8.8%
- Share in GDP: 2.3%

➤ **RUS market important, but not dominant**

Export structure by sectors, 2020*:

- Agriculture & food: 64%
 - Chemicals & pharma: 13%
 - Textile & apparel: 10%
 - Other sectors: 13%
- **Exports of agro-food most exposed**

Source: National Bureau of Statistics of Moldova, own estimates

* No data available for 2021 on the product structure of exports

Top 10 products of MDA exports to RUS

			MDA exports to RUS, 2020	
			USD m	Share in total, %
1	080810	Fresh apples	76.9	35%
2	300490	Medicaments for therapeutic or prophylactic purposes	25.6	12%
3	080610	Fresh grapes	12.2	6%
4	080940	Fresh plums and sloes	10.8	5%
5	040690	Cheese	7.1	3%
6	220421	Wine of fresh grapes, incl. fortified wines	6.6	3%
7	080929	Fresh cherries (excluding sour cherries)	4.9	2%
8	610990	T-shirts and other vests of textile materials, knitted or crocheted (excluding cotton)	4.2	2%
9	610832	Women's or girls' nightdresses and pajamas of man-made fibers, knitted or crocheted	3.0	1%
10	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	2.6	1%
Other products			63.0	29%
Total			216.8	100%

Source: ITC TradeMap, own estimates

Below we analyse export reorientation potential for key products of MDA exports to RUS

3.1. Export reorientation potential: fresh apples (HS 080810)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value (USD/unit)
Russia	76.9	98	191.2	402
Romania	0.8	1	1.4	581
Other countries	0.5	1	1.0	490

Source: ITC Trade Map, own estimates

- RUS is a dominant export destination
- PB/09/2021: very limited short-term opportunity for reorientation of fresh apples exports to other markets
- **Estimated decline in exports: USD 76.9 m**

Possible measures to reorientate exports in the short-term:

- Sell apples for processing domestically → export processed products
- Ship to UKR: higher demand due to war-related disruptions, but payment capacity unclear; possible role of donors

3.2. Export reorientation potential: medicine (HS 300490)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Russia	25.6	54	0.63	40,691
Ukraine	9.1	19	0.12	74,106
Kazakhstan	3.4	7	0.03	114,000
Uzbekistan	2.2	5	0.14	15,431
Latvia	1.5	3	0.03	45,438
Belarus	0.9	2	0.02	38,727
Other countries	4.7	10	0.09	50,946

Source: ITC Trade Map, own estimates

- RUS accounts for half of all exports
 - Other main destinations are mostly CIS countries and Baltic states → limited penetration into new markets
 - Access to Central Asia and Belarus can be truncated by the war
 - Reorientation to UKR: strong demand due to war-related disruptions, but payment capacity unclear; possible role of donors
- **Estimated decline in exports: USD 25.6 m**

3.3. Export reorientation potential: fresh grapes (HS 080610)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Russia	12.2	45	20	611
Romania	9.0	34	11	789
Poland	1.7	6	2	954
Ukraine	1.2	5	4	286
Other countries	2.7	10	4	721

Source: ITC Trade Map, own estimates

- RUS is the largest, but not dominant destination
- The EU consumed 55% of MDA fresh grapes' exports in 2020
- The EU is a large importer of table grapes (2019: 694 tt)
- BUT: EU TRQ = 20 tt (2021 utilization rate: 81.5%), ad valorem duty outside TRQ: 11.5%; in case of reorientation → TRQ becomes limiting
- Price differential between EU and RUS market compensate import duty → we assume that full reorientation is possible at prices paid by RUS

➤ **Estimated decline in exports: USD 0 m**

3.4. Export reorientation potential: fresh plums (HS 080940)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Russia	10.8	43	22	481
Romania	4.2	17	10	415
Germany	2.4	10	2	961
Poland	2.1	9	3	673
Austria	1.8	7	2	900
Other countries	3.7	15	7	550

Source: ITC Trade Map, own estimates

- RUS is the largest, but not dominant destination
- The EU consumed 52% of MDA fresh plums in 2020
- High variety of prices of exported plums: Prices DEU > Price RUS > Price ROU
- EU TRQ: 15 tt (2021 utilization rate: 100%), ad valorem duty outside TRQ: 6.4% → TRQ has been already limiting
- We assume that full reorientation is possible at prices paid on ROU market to preserve competitiveness

➤ **Estimated decline in exports: USD 1.5 m**

3.5. Export reorientation potential: cheese (HS 040690)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Russia	7.1	100	2	4,662

Source: ITC Trade Map, own estimates

- RUS is the only destination
- Access to the EU is closed due to food safety issues
- THUS: no short-term opportunity for reorientation of cheese exports to other markets
- **Estimated decline in exports: USD 7.1 m**

Possible measures to promote exports in the short-term:

- Ship to UKR: higher demand due to war-related disruptions, but payment capacity unclear; possible role of donors

3.6. Export reorientation potential: wine (HS 220421)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Romania	17.6	22	7	2,490
Poland	9.2	12	5	1,706
China	8.3	11	4	2,379
Czech Republic	8.1	10	5	1,553
Russian Federation	6.6	8	4	1,513
Other countries	29.9	38	18	1,680

Source: ITC Trade Map, own estimates

- RUS accounts for only 8% of total MDA exports
 - The EU is the largest destination consuming 54% of MDA exports
 - The EU pays higher prices than RUS → better chance to reorient
 - We assume that full reorientation is possible at prices paid on RUS market
- **Estimated decline in exports: USD 0 m**

3.7. Export reorientation potential: fresh cherries (HS 080929)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Russia	4.9	76	5.7	854
Belarus	1.1	18	1.7	675
Latvia	0.2	3	0.1	1,711
Ukraine	0.1	1	0.2	426
Croatia	0.0	1	0.0	3,500
Other countries	0.1	2	0.1	1,378

Source: ITC Trade Map, own estimates

- RUS is a dominant export destination
- The role of the EU is currently small: 5% of total exports
- The EU is a large importer of fresh cherries (2019: 53 tt), mostly from TUR
- BUT: EU TRQ = 1.5 tt (2021 utilization rate: 4.3%), ad valorem duty outside TRQ: 12%; in case of reorientation → TRQ becomes limiting
- We assume that full reorientation is possible at prices paid on RUS market, allowing to preserve competitiveness

➤ **Estimated decline in exports: USD 0 m**

3.8. Export reorientation potential: non-cotton T-shirts (HS 610990)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Russia	4.2	61	0.2	18,241
Italy	2.4	35	0.0	84,207
Turkey	0.2	3	0.0	15,727
Other countries	0.0	1	n/a	n/a

Source: ITC Trade Map, own estimates

- RUS is a dominant export destination
- The role of the EU is considerable (36%), but exports are concentrated on one destination (ITA)
- Short-term reorientation is complicated by non-homogeneity of product
- We assume no short-term reorientation
- **Estimated decline in exports: USD 4.2 m**

3.9. Export reorientation potential: women pyjamas (HS 610832)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Russia	3.0	97	0.2	16,702
Italy	0.1	3	0.0	22,500

Source: ITC Trade Map, own estimates

- RUS is a dominant export destination
- The role of the EU is small (3%), concentrated on shipments to ITA
- Short-term reorientation is complicated by non-homogeneity of product
- We assume no short-term reorientation
- **Estimated decline in exports: USD 3.0 m**

3.10. Export reorientation potential: cotton T-shirts (HS 610910)

	Export value, 2020, USD m	Share in MDA exports, %	Quantity, 2020, tt	Unit value, USD/t
Turkey	12.0	73	0.8	15,746
Russia	2.6	16	0.2	16,890
Italy	1.4	9	0.0	41,257
Germany	0.2	1	0.0	47,500
Romania	0.1	1	0.0	25,667
Other countries	0.1	1	n/a	n/a

Source: ITC Trade Map, own estimates

- RUS is a large, but not dominant export destination
 - Main export destinations: TUR (73%) and the EU (11%) → established links give chance for reorientation despite potential non-homogeneity of products
 - We assume that full reorientation is possible at prices paid on TUR market
- **Estimated decline in exports: USD 0.2 m**

Possible measures to promote exports in the short-term:

- Ship to UKR: higher demand due to war-related disruptions, but payment capacity unclear; possible role of donors

4. Overview of sectoral impact and aggregate effect

			Exports loss to RUS, USD m	Loss in total exports, USD m
1	080810	Fresh apples	-76.9	-76.9
2	300490	Medicaments for therapeutic purposes	-25.6	-25.6
3	080610	Fresh grapes	-12.2	0.0
4	080940	Fresh plums and sloes	-10.8	-1.5
5	040690	Cheese	-7.1	-7.1
6	220421	Wine of fresh grapes, incl. fortified wines	-6.6	0.0
7	080929	Fresh cherries (excluding sour cherries)	-4.9	0.0
8	610990	T-shirts and other vests of textile materials, knitted or crocheted (excluding cotton)	-4.2	-4.2
9	610832	Women's or girls' nightdresses and pajamas of man-made fibers, knitted or crocheted	-3.0	-3.0
10	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	-2.6	-0.2
		Other products (assumption: 50% loss)	-63.0	-31.5
		Total	-216.8	-150.0

Source: ITC TradeMap, own estimates, based on 2020 data

- Based on 2020 data: estimated losses in exports account for USD 150 m
- However: exports in 2021 (product structure not available) 27% higher than in 2020
- Rough estimation using 2021 export data: losses of **USD 190 m or 1.6% of GDP**

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

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Annex: impact on imports and trade balance

Question: What is the impact of the reduced exports on related imported inputs and thus on the net exports?

Methodology: Interviews with business to get an estimate of the imported inputs' share

Estimated impact on imports and trade balance

	Estimated decline in MDA exports, USD m, 2021	The share of imports, %	Estimated decline in MDA imports, USD m	Estimated decline in net exports, USD m
Fresh apples	85.2	64%*	54.5	30.7
Medicine	49.2	85%**	41.8	7.4
Cheese	6.7	10%***	0.7	6.0
Total	141.1		97.0	44.1
% of GDP	1.2%		0.8%	0.4%

Sources: ITC trade map, results of interviews with business, own estimates

Notes: * Imported inputs include fertilizers, crop protection, packaging, fuel and electric energy, services of storage and sorting etc. ** All inputs are imported. *** Imported inputs include shrink bags, flow packs, and bacterial cultures, as well as fuel and electricity

- Estimated decline in imports associated with the drop in MDA exports of fresh apples, medicine and cheese is **USD 97.0 m or 0.8% of GDP**
- The decline in net exports for these three products is **USD 44.1 m or 0.4% of GDP**